“The Great Eastern Shipping Company Limited Q3 FY-24 Earnings Conference Call”

January 31, 2024

MANAGEMENT: MR. G. SHIVKUMAR – EXECUTIVE DIRECTOR AND CFO, THE GREAT EASTERN SHIPPING COMPANY LIMITED

Moderator: Good evening, ladies and gentlemen. Welcome to the GE Shipping Earnings Call on declaration of its Financial Results for the quarter ended December 31st, 2023.

At this moment, all participants are in the listen only mode. Later we will conduct a question-and-answer session.

I now hand over the conference to Mr. G. Shivakumar – Executive Director and CFO at the Great Eastern Shipping Company Limited to start the proceedings. Thank you and over to you, sir.

G. Shivakumar: Thank you. Good evening, everyone and welcome to the conference call to discuss the results for the quarter and nine months ended 31st December 2023. Thank you for joining us today.

We'll run through the presentation quickly and then we'll throw the floor open for questions and as always, we'll be happy to discuss any questions you may have on our business. Customary disclaimers apply, we don't know what the market is going to do. We are not giving earnings guidance. So please keep that in mind.

Highlights:

We had a net profit of 538 crores on a consolidated basis. Our consolidated NAV has moved up past Rs. 1,300 per share as of 31st December, 2023. We declared the third interim dividend of Rs. 6.30 paisa per share for Q3, therefore taking the total dividend for nine months to Rs. 25.5 per share. This is the 8th consecutive quarter of dividend payments that we are doing.

Looking at the Results and let's go to the normalized numbers and you know what the normalized means, where we strip out the effect of derivatives and currency. So, we had a standalone net profit of 514 crores in the quarter as opposed to 605 crores in the corresponding quarter of the previous year. Tanker markets were significantly weaker than in the previous year and therefore the results were a little bit worse. This was offset by higher treasury income etc. But the main story is that tanker markets were not as strong as they were in the previous year October to December, that's October to December 2022.

Coming to Consolidated:

Again, the same thing is translated more or less into the consolidated numbers as well. We have a drop from 640 crores of last year to 552 crores of this year. And you can see for the nine months as well that we are a little bit weaker than in the previous year. Again, we've seen, I mentioned the net asset value on a consolidated basis, on a standalone basis net asset value was assessed at Rs. 1,068 per share. These are the key ratios. I won't dwell too much on them. This is what I was mentioning.

So, we had $60,000 a day average earnings TCYs for the crude carriers, which came down to just about $45,000 a day in October to December 2023. Product tankers also were much weaker from $36,000 a day to $28,000 a day. LPG carriers, we had one repricing which took the average rate up slightly. All of our LPG carriers are engaged in time charters. Dry bulk, we had slightly weaker earnings than in the previous corresponding quarter. However, in relation to the immediately preceding quarter, earnings were a little bit better. Crude tankers $45,000 versus $40,000, product tankers marginal improvement by about $1,000 a day. Dry bulk a significant improvement because we had a very strong December. I think late November to mid-December was a very strong period, especially for the Capesizes.

Coming to what contributed to our net asset value:

And lest you think that this is only coming about by the change in the values of the ships, that's a very small contributor. So, in the last 12 months between December '22 and December '23, we've had an increase from 892 to 1068. And the (-35) is a dividend paid out so, 1068 is despite paying out Rs. 35 of dividend. A large contributor is Rs. 188 of cash profit. So that's actual cash accrual to the company. A small part is from the fleet value increase which is 24. So that's something to keep in mind that a large part of the improvement in the value has come from cashflows. This is the 5-year movement. In March '18 we were at Rs. 357 a share. Now we are just about 3X of that which is Rs. 1068 per share. This is not taking into account the dividends which have been paid in the interim. Similarly, for the consolidated NAV, we moved from just under Rs. 1,050 per share to 1,300 per share where Rs. 88 per share has come from the appreciation in the value of the assets. This is because the offshore assets have moved up significantly in value during this period. But Rs. 220 has come from actual cash profits.

Coming to what happened in the shipping market:

First, let's look at the tankers, both crude and product tankers. On a nine-month basis the crude tankers have been more or less the same as they were in the nine months of FY23. So about $51,000-$52,000 a day. This is just a Suezmax that I'm talking about. They took some time to pick up after the war started. So, you can see the orange line actually went down in May-June. It wasn't very high and then it picked up and was very strong as the winter started. However, this year started stronger. So, you can see the black line even in April and May was at very strong numbers, excess of $50,000 a day.

The MR product tankers on the other hand, had a very strong FY23 first nine months which came down a little bit in FY24 and you can see the change in the averages. Again, these are the market averages I'm talking about. These are not necessarily our earnings. So, what drove this, just for the Quarter, tanker earnings were lower year-on-year. I mentioned that $60,000 came down to $45,000 due to a drop in Middle eastern exports. However, we also saw counterbalancing impact of increased exports from north and South America. Product tanker earnings were also lower year-on-year.

Again, refining turnaround. So, refinery turnarounds in the east reduced the amount of product, which was available for export, which led to lesser cargoes for product tankers. Similarly, the Chinese exports came down significantly. Last year December, that is December '22 saw very high exports from China. This time it was more normalized and therefore there was less demand for product tankers in the east. However, west of Suez earnings were reasonably strong, also because of the Panama Canal disruption and good product exports out of the United States. Fleet supply has not been very strong. It was only about 2% year-on-year. Asset prices continue to remain firm because even at slightly lower earnings, these are very strong earnings and therefore asset prices continue to remain firm at their highest levels since 2008.

The order book for crude and product tanker; for crude tankers remains exceptionally low at below 5%, product tankers is a little higher at about 12.5%. However, it is still quite low considering the fleet profile. Also, some of the product tankers which have been ordered are Aframax sized product tankers which can switch between dirty, which is crude carriage and product carriage. And therefore, some of it might actually swing to carrying crude cargoes eventually, depending on which market is stronger. Dry bulk again, last year was not a very strong year. Capesizes improved during the year in the nine months versus last year nine months and thanks mainly to the end of the year being exceptionally strong. So, December averaged something like $30,000 a day which pulled up the average. Therefore, Capesizes have done better than they did in FY23 first nine months.

On the other hand, you can see the Supramax index on the right. The smaller vessels had outperformed. So, this is unusual. You can see FY23, nine months, 16,711 average for the capes while the smaller size, the Supramax, averaged 21,100. That's a very unusual situation and that reversed in this year. So, it came down to 12,000 while Capesizes went up to $20,000 a day, on average for the nine-month period. So, we had significant increase in ton mile demand. The fleet supply growth has been only 3%. Chinese imports have been pretty strong, especially in December. The reason ascribed for the strength in December was big iron ore and bauxite imports into China, both of which were long haul trades. So, bauxite typically coming from Guinea which is in West Africa and iron ore coming from Brazil which is again a very long-haul trade. Coal imports also and we've been saying this for the last couple of quarters, coal imports into China have been at their all-time highs. This was because they had an issue with hydropower generation, so they were running their coal fired plants more.

The order book continues to be quite low at below 9% of the existing fleet. So going to LPG while our ships are on time charter, the spot market does affect us when we reprice the ships and it's not necessary that we stay on time charter only.

But let's look at what the spot markets did. So, the nine months of FY24 were fantastic for the spot markets averaging $100,000 a day. Again, driven by high US exports, especially the US-Asia trade. Now this US-Asia trade typically goes through the Panama Canal. The Panama Canal was suffering from low water levels because of a weak monsoon and therefore they reduced the number of transits. When they reduced the number of transits, quite a few gas carriers took the long route for coming to Asia from the US Gulf, resulting in a requirement for more ships and the market became tighter. So that's what happened and that's why the markets were very strong. The order book is in excess of 20%. In a historical context, it's a pretty high number. Now, I mentioned already what the order books are. So, you have less than 5% order book for crude tankers, you have under 9% for bulk carriers and (+12%) for product tankers. Even 12% is a pretty low order book.

Asset price movements, as you can imagine, asset prices have been strong across the board. Dry bulk had a short period where prices dropped a bit from end of December ‘22 to the middle of ‘23. However, they have now recovered and are still pretty strong. All other tanker sectors all of them, the prices are very strong indeed. In fact, for LPG, the prices are at all-time highs. Scrapping has been very minimal, as you would imagine because the markets have been strong. Even though dry bulk was not very strong in Cal ‘23, still we had very minimal scrapping. And remember, this is 0.5 million deadweights on a fleet which is about a billion deadweight. So, we are talking about 0.5% scrapping even in the market, which was not very strong, that is dry bulk.

Coming to the oil field services business:

Greatship India Limited, fleet supply again continues to be restricted. There are the usual stories, there are a lot of assets which are more than 30 years old in the rigs and there are a lot of cold-stacked assets. The order book is very low because there are hardly any assets ordered for the last 7 or 8 years ever since the market dropped in 2015. Our utilization has been improving very gradually. So, we saw a flurry of fixing happening in the Middle East, that was in ‘21-22 and they are still absorbing all the new rigs which were going into contract there. After that we have been seeing a little bit of a lull. Pricing, however, continues to improve. With every pricing which happens for a tender for term business is done at a higher level than before. So typically, these are done when you are coming off a 3-year contract. Typically, these assets in India are getting priced between 50% and 100% higher than their previous contracts. This is across the board. Whether we are talking of vessels or jack-up rigs.

Looking at broad financials:

We have mentioned this before. We had levered up to buy ships and then now we've levered down because we've had very strong cashflows. We now have $250 million of net cash that's just standalone. If you go to consolidated that's even higher.

Now coming to the share price to NAV:

While the stock price has gone up quite a bit, you will see that it still trades at a significant discount to NAV. So, we are still at 0.75 of the consolidated NAV at today's price, while the price has gone up 3x in the last 2 years. So apart from doing the shipping and oil field services business, we are also a socially responsible company. You can find details of all the good causes that we support on our website, and these are some of those names. Thank you. That brings me to the end of the presentation, and we are happy to take your questions now.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from Amit Khetan from Laburnum Capital.

Amit Khetan: My first question is on capital allocation. Are you seeing better opportunities for capital allocation than what you have been seeing in the last three or four quarters? And secondly, for the recent ships that we've purchased, are we still underwriting, earlier we were sort of underwriting to a 10% unleveraged dollar IRR. Is that the same underwriting criteria we are following, or have we sort of relaxed this a bit?

G. Shivkumar: Your first question was, are we seeing better opportunities for purchasing, not really. In terms of we are not seeing cheaper prices and cheaper entry points for our purchases. As you can see in the asset price chart, it's not getting cheaper and therefore it's not as attractive to buy as we would like. We don't know the returns that can be made and this 10%, we would have had a much higher degree of confidence at lower prices. These investments are getting subsidized by the sales of older assets. You may notice we bought one bulk carrier, and we bought one product tanker, an MR Tanker and we sold one of each. We sold a smaller bulk carrier, and we sold one of our older product tanker as well. What we are doing is capturing the premium again. Even the older assets have a significant premium. So, we are capturing the premium on the older assets and using it to subsidize in our minds the new assets that we are buying. So, if you look at the new asset by itself, it may or may not provide that return. However, we know that we have derisked to some extent by selling off the old assets also in the same market. So that's what we are doing. Again, this is part of modernizing. We had some old assets. We need to get out of them at some point. So, we said, let's modernize, move towards modernizing our fleet a little bit. That's the whole idea. But your point is valid. It's tough to put a number or with great confidence as to what we can earn on these projects standalone.

Amit Khetan: But for any new purchases which are not sort of replacement, are we going to still follow the same criteria as earlier?

G. Shivkumar: We'll be a little slow to make new purchases. These purchases have been done as replacements more than anything. So, we'll be slow to make new investments, that is to do growth investments in this market.

Amit Khetan: Second question was on the offshore segment. So, this quarter's EBITDA seems to be a little bit off compared to what we've seen last two-three quarters. Has there been some one-off element here?

G. Shivkumar: That's right, yes, that's well noticed. So, we had one of our rigs, the "Greatdrill Chaaru", came off her old contract, which was at a cheaper price, obviously. She came off her contract. She was off hired on 1st of November and for two months, little over two months, she was undergoing the work required for her next contract. She had, of course, got her next contract at a much higher level. So, for two months she was off hire and not just off hire. So that's no earnings for those two months. She also had expenses towards getting her ready for the next contract. So, both of which sort of was a double whammy to the results. So last quarter's results are not an indicator of what the market is. As you called it, it's a one off. This will happen from time to time, typically you'll have rigs coming off contract, doing work for about 60 days before they go on to the next contract. In which time you will not have revenue and you will have expenditure. So that will happen from time to time. Typically, once in 3 years that will happen to every rig.

Amit Khetan: And this rig is now, when does the new contract start?

G. Shivkumar: The new contract has started. We went on hire in middle of January. So, she's now on contract at the higher rate, which was a rate higher by about 75% or so.

Amit Khetan: And we have two rigs coming up for repricing in FY25. ONGC has recently floated a tender for four rigs. Are we eligible to participate in those?

G. Shivkumar: Yes, we are. In fact, for one of the rigs we have already bid, and the price bids have also opened. The usual procedure is going on. So, we haven't got an award yet, but we are in a reasonably good position to get that award. And for the second tender which has already come out, we are eligible to bid for that contract.

Moderator: Our next question is from the line of Vaibhav Badjatya from Honesty and Integrity Investment.

Vaibhav Badjatya: I just have one question. As you said during your presentation that the utilization and rates were for the rigs market and for basically oil and gas assets market improved in last few years because of increased activity in Middle East. Now we have also seen the recent announcement by Aramco, under which they are going to stop spending on increasing their capacity. I just wanted to have your thoughts on how this can impact this market and on an overall basis this can be a huge impact.

G. Shivkumar: So, this question has occurred to us also and I think there are quite a few analysts who are speculating on it. We don't know how it's going to play out. They've already taken a lot of assets on hire, a lot of rates on hire as I mentioned since 2021, they've been in the market. So presumably those will go on hire. So, they've already absorbed a lot of capacities. So even without additional investment, the market is tight. So, so long as they don't reduce the number and there's no reason for them to reduce. If they're saying that, okay, we are going to go to a certain level. We don't know what their announcement implies in terms of the number of Jackups they require. So, it's too early to tell what impact it can have. But they've already taken a lot of assets and presumably those will start working, have already started, some have started working, others will start working soon. We'll see. It'll play out over the next few months, I suppose. But the market is tight enough. We don't need them to take more assets, really for the market to get tight.

Vaibhav Badjatya: But in terms of, can they return the asset, I don't know how the contractual terms work in this scenario?

G. Shivkumar: Yes, I don't know. I don't know what the provisions are in the contracts? I won't comment on it because we don't know what the provisions are in their contracts.

Moderator: The next question is from the line of Aashish Upganlawar from InvesQ Investment Managers LLP.

Aashish Upganlawar: On the rigs part you mentioned that the repricing of one of the rigs is at about 75% higher than what it used to be. I think we have a couple of rigs coming up for contract renewals. You mentioned one is undergoing a bidding process again. What would be the kind of benchmark or maybe just a feeler as to how it would be repriced? I mean, how's the market like now? What should we expect?

G. Shivkumar: The last pricing which happened and we were not in that tender. The last pricing which happened which was awarded also was 10% to 15% higher than the 175% price that I told you. That was 100% it went to 175% when we priced. So, the last pricing was 10% to 15% higher than that price. The market has only got stronger since then. The effect of the repricing should be seen in your subsidy numbers in terms of much better profitability over the coming 12 months kind of horizon.

G. Shivkumar: Not so much in the 12 months. The one rig will have the impact and it's already having an impact because she's gone on hire. But the other two rigs which are due for repricing in FY25 will get repriced very late in FY25. It will be only for a small part of the year. We are looking at more like FY26 for the impact of three rigs repriced at stronger rates to get fully filtered through the P&L account.

Aashish Upganlawar: And just wanted some feeler on how the standalone operations in terms of what you mentioned on the rates that on a YOY basis for Q3 on an average, the rates were lower. What is it looking like for maybe in January and going into February-March?

G. Shivkumar: Rates across the board are stronger than they were in December. So that's the headline news for tankers the rates are stronger. That's the headline news.

Aashish Upganlawar: But if I recollect, last year the rates were pretty strong. On a YOY basis, we'll still have a negative impact in Q4.

G. Shivkumar: No, I think they are probably at or higher than those levels, especially for the product tankers.

Moderator: The next question is from the line of Yash Jain from Ambit Capital.

Yash Jain: I have a data related question. What I wanted to know is since in a presentation we give the amount of change due to rise in fleet value, but can we get a data point where we can see how the fleet value or the percent of NAV has moved over the last 3 years?

G. Shivkumar: So, Yash, let me tell you what I gathered. What you want to know is, over the last 3 years how much of the NAV growth is due to increase in fleet value?

Yash Jain: Right.

G. Shivkumar: We'll need to work that. Maybe we can connect on that. I think we have mentioned this for the last couple of years, we have been mentioning putting this slide in. I think this is just a summation of all those. But yes, we can look at it.

Moderator: Our next question is from the line of Shreyans Gathani from SG securities.

Shreyans Gathani: My question was actually on scrapping. The last year or two, we've just seen very low scrapping levels. At some point, shipowners will be forced to scrap as the ships age. So just wanted to get your outlook on when we expect some scrapping levels to go up it.

G. Shivkumar: So just one thing I'd like to correct you. You're never forced to scrap because of age. You are only forced to scrap when your vessel becomes too expensive to operate or your vessel is not acceptable to a large number of customers and therefore, you're not able to earn enough revenue to keep the vessel going. There is no statutory drop-dead date for vessels. Now people are starting to put in. So, I'll caveat this a little bit. Now, individual flags are starting to put in restrictions on the age of ships but that is quite a liberal. For instance, you can operate a crude tanker till 25 years of age. Typically, beyond 20 it becomes a little difficult to operate, little less acceptable in the market. But you can still run it till 25 years of age. So only at 25, you may be forced to scrap or sell it to somebody whose flag permits them to operate beyond the age of 25 also. Scrapping is typically a function of, as I said, when it becomes too expensive to continue to operate and you are not able to recover the continued cost of operation from the revenues that you are likely to earn. Currently, the scenario is that you are making enough money to even run very old ships. You can continue to run the ships so long as the market remains like this and it doesn't have to be very strong. This is a very strong market. Dry bulk market was not very strong and you saw last year's averages they're not huge. But with those numbers, you can make a living and you can continue to run your ships. What you need for scrapping is a weak market or if a large proportion of customers do not accept vessels beyond a certain age or for whatever reason, not well maintained ships. That's the only trigger you can have for scrapping. If you're looking at age, there are already a lot of ships which are above the age at which you would say, this ship needs to be scrapped. For instance, we take 20 as the age as the useful life of a crude tanker. But a significant proportion of the fleet of crude tankers is beyond the age of 20. So, they are still operating. It's not an issue so long as you are able to get employment for the ship and you're able to run the ship at a reasonable cost.

Shreyans Gathani: So just a follow up, what would be for example, crude product and dry bulk, like certain breakeven levels where for example, you mentioned 20 years for crude? So, what would be prices that would force people to increase their scrapping level?

G. Shivkumar: The other thing here and again, I may have oversimplified it a little bit. We had a very weak market, and you may remember it in calendar ’21, post-COVID from second half of 2020 and through calendar ’21, the tanker markets were exceptionally weak. In fact, we had the weakest tanker market of the previous 30 years. It was weaker than we had seen for the previous 30 years and still scrapping was very minimal in calendar ‘21 as well. It's tough to put a number on that. But if you have very weak market earnings just about OPEX or you have a very large expenditure coming up on your ship, you may think of scrapping it. There are also some environmental regulations which have kicked in from this year which is with regard to the fuel efficiency of the ship, which may push some ships into being forced to scrap. Again, if the market is strong nobody will be forced to scrap because the customer will take the ship. If you need the ship, if the customer needs the ship, they will take the ship. Otherwise, there's going to be a shortage of ships. If ships get scrapped irrespective of a strong market. So, there is no number. But if you have a repeat of calendar ‘21 in terms of earnings, which was just marginally above operating expenses, then you could have some scrapping. But even that is not a given. You need at least that in order to kick scrapping off in a big way. And last 8 years, I've seen minimal scrapping in tankers.

Shreyans Gathani: That's why my question came in. So that is the basis of my question. That's very helpful.

Moderator: The next question is from the line of Devesh Jhawar, who's an investor.

Devesh Jhawar: My question was regarding the issue at Red Sea. The current tanker rates are inching close to—in some of the routes they are inching close to—$100,000 a day. You were also mentioning earlier in this call that the tanker rates are strong, and they are close to where they were in Q3 FY23, if I'm not wrong. So, do you think this is just a temporary blip that can reverse back in a quarter's time, or this can stay for longer? Just not a permanent statement but what's your view on it?

G. Shivkumar: This is geopolitics. Nobody knows what's going to happen tomorrow or even this evening. So, we just don't have a comment on it. It was unexpected when it started and who knows what will bring it to a stop.

Devesh Jhawar: For now, the ton miles are going off and they are not coming back as of now.

G. Shivkumar: Yes, as of now transits have dropped significantly through the Suez Canal.

Moderator: The next question is from the line of Vaibhav Badjatya from Honesty and Integrity Investment.

Vaibhav Badjatya: When we are showing that different value of our asset. I'm sure all of our asset will be of different vintage, some will be 11-year, 12 year, 13 years old. So is the valuation of these assets based on exactly the same vintage or it is like we take like for 10 to 15 years of age, we take the 15-year-old asset value and then include it in our asset value. How does it exactly work?

G. Shivkumar: The valuation of the ship is for the specific—not just the same vintage, it is for that specific—ship taking into account all the conditions around that ship. So, this is not our assessment. This is an assessment by two brokers, ship brokers, who give us the assessment, their assessment of the value of the ship and we take the average of the brokers. Sometimes we do three brokers also. So, this is their assessment of the value. This is not our estimate or assessment of the value.

Vaibhav Badjatya: I understand. So, it is exactly for this specific ship.

G. Shivakumar: That is right.

Moderator: Our next question is from the line of Himanshu Upadhyay from O3 PMS.

Himanshu Upadhyay: My question is regarding what we stated about replacement. The first question here on call also and in the last one also, one of the observations was, in last five year, whatever ships we have acquired have been generally ten-year-old from 2018 onwards. And generally, we want to mean crude carrier product and we are outside India or operating most of our ships outside India. Generally, clients don't want to be in ships beyond 16-17 years. And then we need to replace them or find some other opportunities for them. And again, if we are buying ten years, so what we are having is only five to six years of ability to charter those ships. That is one point. And the second is generally, let's say, this market…

Moderator: We have lost the connection for Mr. Himanshu. We move to the next question. Our next question is from the line of Roshan Nair from B&K Securities.

Roshan Nair: I just wanted to understand that, is it fair to assume that the day rates that we have for Q3 doesn't capture the rising day rates because of the Suez Canal issue? Is it fair to assume that this quarter hasn't captured any of those impacts?

G. Shivakumar: That's right, because that happened only late in December. And. Yes, more like January, actually, where the serious rerouting started.

Roshan Nair: Another question that I had is on the offshore support vessels. So close to nine vessels were about to be repriced this quarter. So, has it been done and is it at the higher rates versus the previously contracted day rates?

G. Shivakumar: In India, the rates have been between 50% and 90% higher. These are typically three-year contracts. So, between their last three-year contract and the current three-year contract. Few of the vessels are operating overseas, which had already got an improved pricing. But even there, the pricing between beginning of last year, that's beginning of one year ago, and say three months ago when they repriced is up by at least 20% to 25%. Every repricing is happening at a higher level than the previous. So that's the broad message.

Moderator: We have a text question from Ashish Gotham, who's an investor. I will read out the question to you. Could you throw a light on the current pricing scenario, especially in the product tankers market, and also, what percentage of fleet will take advantage of the sharp rise in the prices? Do we expect Q4 to be the best quarter of the year? Congratulations on the consistent performance.

G. Shivakumar: The current pricing is at very strong levels. I mentioned that earlier. Again, it's sometimes location dependent. In December, the MR product tanker in the west was much higher than the product tanker market in the east. So, when I talk about what the current pricing scenario is, it is across all regions, sort of an average. It is very high, they're very strong rates. So, if you had to put a number, you'd be talking of $35,000 to $40,000 for a product tanker, an MR tanker. And larger product tankers are doing much better than that. Typically, 75% to 80% of our tanker fleet operates on the spot market and is therefore in a position to take advantage of the rise in freight rates in the tanker market. Again, there may be leads and lags, because if you're already on a voyage, you can only reprice after a certain amount of time when the next voyage is to be fixed.

As to whether we expect Q4 to be the best quarter, we don't give guidance. We don't know also whether it's going to be the best quarter of the year, because we don't know what rates could be tomorrow when we go to fix our ship the next. And thank you for the question.

Moderator: The next text question is from Yash Jain. How has the fleet value as a percentage of NAV moved over the last three years?

G. Shivakumar: I think Yash asked that question in person when he spoke also, so that we will look at and it'll be there in the previous presentations.

Moderator: We have a text question from Shivan Sarvaiya from Humiviction Investment Advisers LLP.

G. Shivakumar: I can see the question. The question was on the repricing schedule of the three VLGCs, one of them has already got repriced. She's just gone onto a new contract at a significantly higher rate than the previous one. The other two will be repriced somewhere between March and June of this year.

Moderator: Next text question is from Rajesh Khater, who's an investor. Why has Mr. Bharat Sheth not been joining the recent calls? Earlier he used to join every call. Going forward over the next two to three years, how much percentage will your offshore business contribute to your pat?

G. Shivakumar: On the first question, it's a matter of choice that he has decided not to join the calls. He is busy with other things and therefore he is not joining the calls. I hope we are able to answer your questions sufficiently though, because we have the team available to answer your questions. And going forward, we don't know this number because we don't know what our PAT will be in the first place with 75% to 80% of our fleet in the spot market. So, we don't even know what the PAT will be. We don't know what the re-pricings will be. So, I won't be able to answer the question how much. But the contribution should increase because till a year ago there was no contribution coming from offshore business. They were going through a very bad market. Now that the market is improving so progressively it should improve. That's a broad takeaway we can have.

Moderator: The next question is from Pritesh Chheda from Lucky Investment. In segment finance, the offshore assets has insignificant ROIC. With all the repricing of assets in OSV plus rigs, will the ROIC rise 15%?

G. Shivakumar: Again, this is a forecast. We are not going to make a forecast because again, we don't know what these numbers could be, the next repricing could be. A lot of it is tender driven business. It depends on the competition and specific tenders. When the market was strong and the strongest year we had was 2015-2016, the ROIC was well in excess of 15%. And that's all I can say that it can be above 15%. The rates might be different from what they were at that time. Cost structures can be different, but that's all we can say because we don't know what next year's profits can be because we don't know the pricing that we can have.

Moderator: We have an audio question from the line of Archan Pathak from Centra Insights LLP.

Archan Pathak: My question is regarding our offshore segment. When I was trying to find the offshore revenue for this quarter, which is the difference between the consol and standalone, it comes around 200-250 crores, right? So, on a yearly basis, if I assume it to be 1000 crore revenue, and now with large part of our fleet getting repriced in the next year at 50% to 60% higher prices, would it be fair to assume that the hike in the top line will be equally passed in the bottom line, so we can say that an additional cash flow of 400-500 crores by repricing can come in our cash, in our balance sheet?

G. Shivakumar: When all the assets are repriced, so again, it's important to understand that the assets don't get repriced all at the same time. I mentioned the repricing schedule. Two rigs are getting repriced late FY25. So, we will have three rigs repriced into the new rate in FY26. But yes, your broad question on repricing and the impact on the bottom line. Because the cost base is reasonably fixed except for normal cost inflation. So, it should translate into bottom line impact net of tax. There is tax payable on the drilling business. So, you have to take out tax and then it should translate. But broadly, yes, it should translate to a reasonable contribution.

Moderator: The next question is from the line of Forum Makim from JHP Securities.

Forum Makim: Just wanted to know if the current situation at Red Sea affects our fleet utilization at the moment.

G. Shivakumar: It doesn't affect the utilization of the fleet. In a sense, the global fleet utilization has gone up because ships are rerouting around Africa to go from east to west. But it's not affecting our fleet utilization.

Forum Makim: And we would be able to take advantage of the higher prices, right?

G. Shivakumar: Yes. Because the next time we fix for a voyage, we will get the benefit of higher prices.

Forum Makim: Are the rates higher than the FY23 rates that we saw last year.

G. Shivakumar: You mean current rates, are they higher than the year ago rates?

Forum Makim: Yes.

G. Shivakumar: For product tankers, yes. In fact, they are at the highest levels since that one month, which was when COVID hit and there was a huge storage demand. For product tankers, rates are higher than that. For crude tankers, they are still very high and probably getting close to the rates of last year.

Moderator: Our next question is from the line of Himanshu Upadhyay from O3 PMS.

Himanshu Upadhyay: The question is, on the fleet renewable. One of the observations which…

G. Shivakumar: You mentioned that ships become less marketable after 16 or so, and therefore we don't get much time if you buy ten-year-old ships, that broadly was your question, if I remember right.

Himanshu Upadhyay: And again, the price of the older ships falls much sharper. Let's say three, four years down the line, when the cycle goes down, if we let us say, do the back testing that in 2005, 2006, 2007, 2008 if we would have replaced our 20-year ships not with new, but let's say this ten year old ships, how would it have done, let’s say at 2015, post eight, nine years, then what strategy we followed in the last cycle? And some thoughts on that and the working of IRRs.

G. Shivakumar: First on the marketability and tradability of ships, it's not just on the age, it's on how well you maintain your ship. We have found that our ships, and we are running our MR tankers, we have quite a few ships which are (+) 18 years of age. We are able to trade them worldwide. These ships are trading worldwide, so there is not much restriction in their tradability, because we ensure that they are maintained to the standards required. So, it's not just that at certain age vessel getsknocked off. So that's one. Some customers will say beyond 20, I can't take it, some terminals will not accept, etc., but that is at 20, not at 16 or 17.

Second, coming to the past. So, in back testing, and it's interesting that you should mention back testing, because that is exactly what we looked at. So, in back testing, you will find that a ten-year-old ship will give you a better return than a more modern ship. And in these old ships, typically, what you're doing is you're earning in a hot market, so in a strong market, the differential in earnings between, let's say a 17-year-old ship, which is worth, and let's say for an MR tanker, may be worth $18-20 million, and a twelve-year-old ship, which may be worth $32 million. Just giving numbers as an example, the differential in earnings is not much, unless one of them is Eco, in which case then you have to pay a premium for that Eco also. The differential in earnings in a strong market is not much between these ships. We saw this actually in the boom where we had bought single hull tankers and we got tremendous bank for the buck for buying those ships, because you could buy two for the price of one five-year-old ship. And so, you made twice the earnings on buying those cheaper ships. Obviously, those were 15-year-old ships, and that was more extreme. So, in back testing, you do best if you buy older ships, even 15-year-old ships, obviously, we'll not buy too many 15-year-old ships. But ten-year-old ships work perfectly fine. They are acceptable for at least eight years after you buy them for a tanker. And they give you very good cash flows, which enables you also to reinvest in the business because they are producing such significant cash flows as a proportion of the capital employed in that ship. Again, we are not going to only go with ten-year-olds. Don't get me wrong. We may buy even younger ships. And last time actually crude tankers we bought; we bought five crude tankers in 2016-2017. Of those five, four were between five and seven years of age. Only one was an older ship, which was actually a 17-year-old ship, which was available very cheap, but we actually bought between five and seven years of age. So, while in an excel sheet, it looks great to buy a ten-year-old ship, but we'll not be restricting ourselves. If we get a good ship which is seven years old or six years old, we'll buy that also at a good price.

Moderator: Next question is from the line of Roshan Nair from B&K Securities.

Roshan Nair: I just wanted to understand, how are situations panning out at Panama Canal? It still continues to be a key driver for higher day rates across the globe.

G. Shivakumar: Actually, the Panama Canal situation has got eased a little bit. I think maybe the fact that Suez Canal transits were reduced, maybe some pressure was there on them. They have not dropped. They were going to drop to, I think, 20 transits or something like that, but they are still at 22 to 24 transits per day. So currently the LPG market, and again, also because LPG trade has not been very strong, so LPG market has dropped off, but that's not because of Panama Canal. But Panama Canal transits have picked up slightly in the last month or so. They announced that they're going to relax and have more transits. But, Yes, the water levels have not increased. Ideally, the water level should be 85 plus, but now it's still at 81 or 82. It's recovered a little bit from 81 to 82, but they are permitting more transits currently.

Moderator: Our next question is from the line of Anuj Sharma from M3 Investment.

Anuj Sharma: Sorry, my connectivity was intermittent, so pardon me if I'm repeating the question. I was just trying to understand how the capacity is evolving at the shipyards.

G. Shivakumar: Capacity at shipyards, there's not much capacity available to produce ships in the short term. So, I think we are 2024 and 2025 fully booked. I don't think you can find a slot there. Basically, all of this has been booked building LNG ships and container ships. So, it's not really available for conventional tankers and bulk carriers. In fact, there was a report which said that there are hardly any slots available even in 2026 for building large crude tankers. So capacity is still quite restricted for ordering new ships. In the foreseeable future, there is unlikely to be a significant amount of new supply of ships into the market, at least the dry bulk and tanker sectors. It's not that any large amount of capacity is being added, if that is a question you're asking.

Anuj Sharma: Just a corollary, we see some order book rise in the product tanker market. Anything to read into that?

G. Shivakumar: In fact, even the crude tankers have seen quite significant ordering in December, but it's still a pretty low order book. It's been building up. But 12% order book for product tankers is not that much, and if you just take tankers as a whole. And as I mentioned earlier that a lot of the product tanker orders are Aframax size ships which are called LR2s. You build them with the coating so that they're able to carry products, but that can actually swing between the crude trade and the product trade. If you take the entire tanker order book as a whole, divided by the tanker fleet, we are still talking about 6% to 7% order book really. So not a huge number.

Moderator: We have a text question from the line of Gaurav Chopra from Lemon International. How do you see the freight rates trajectory in the next year?

G. Shivakumar: We don't give outlook because the main reason is that we don't know what these rates can be. We don't give an outlook on the freight rates.

Moderator: The next question is from Abhishek Nigam. What is the amount of the one-off expenses booked in offshore in this quarter?

G. Shivakumar: The amount was a little above 40 crores, about $5 million.

Moderator: The next question is from Anil Thakkar from Jalansh Advisors. What is the bifurcation of contracted ships versus spot ships in your fleet?

G. Shivakumar: Typically, about 80% of our fleet is running on spot or spot related rates. Contracted is 20% or less of the fleet.

Moderator: The next question is from Forum Makim. Does the rescue situation…

G. Shivakumar: This question was already taken on the voice call. And I think the next one also was taken from a gentleman.

Moderator: Sir, the next question is from Rajesh Khater, who's an investor. Rephrasing my question. If the average freight across all ship categories by…

G. Shivakumar: This one is too much of a hypothetical because all of these rates, we don't know. When we are talking about rigs and vessels, how much the repricing could give a bump up in the results, we don't know those rates so it's impossible to give an answer to that. We don't know what the number could be.

Moderator: The next question is from Vikram Suryavanshi from PhillipCapital India Pvt Ltd. What is dry docking schedule in fourth quarter FY24?

G. Shivakumar: I think we have two or three vessels being dry docked and some of these can spill one month here and there. So, two to three ships being dry docked in this quarter.

Moderator: The next question is from Himanshu Upadhyay. Are we looking for opportunities for offshore support vessels outside of India as generally the rates are high there and we are seeing two-year contracts being signed. How many offshore support vessels will be outside India?

G. Shivakumar: Out of our 19, we have five vessels currently outside India, if I'm not mistaken. And yes, we always look for opportunities. Whenever vessels come up for pricing, we look for opportunities. Some of the vessels are more suitable for some regions, so there are some limitations there. But we do actively look. We have a marketing team which is capable of marketing internationally and which has relationships with customers overseas. In the last year and a half, we have taken two vessels out of India. So Yes, we are always looking for opportunities. But it's rare to get two-year contracts outside India.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Ms. Anjali Kumar, Head of Corporate Communications and Finance, for closing comments.

Anjali Kumar: Thank you very much everyone for that really engaging session. And I do realize that we had a lot of forward-looking questions which as you should understand in our business is very difficult for us to make any calls beyond the very-very near term. However, please do keep engaging with us and reach out to our team with whatever other queries you may have, and we will be very happy to meet with you. The transcript of this call will, of course, be uploaded very shortly. Thank you everybody again for joining.

G. Shivakumar: Thank you everyone.

Moderator: Thank you. Ladies and gentlemen, that concludes this conference call. Thank you for joining us and you may now exit the meeting.