



“The Great Eastern Shipping Company Limited Q2 FY23 Earnings Conference Call”

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Moderator: Good evening, ladies and gentlemen. Thank you for standing by. Welcome to GE Shipping Earnings Call on declaration of its financial results for the quarter 2 of FY '23. At this moment, all participants are in the listen-only mode. Later, we will conduct a question and answer session. At that time, you may click on the raise hand icon to ask a live question. Please note that this conference is being recorded. I now hand the conference over 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 afternoon, everyone, and welcome to the results presentation for Q2 and H1 FY '23. Thank you for joining us today. Let me go through quick highlights that we try to present. We have Mr. Bharat Sheth, our Deputy Chairman and Managing Director here with us. I won't take up too much time on the presentation, so that we can get into Q&A.

Let's go forward. Standard disclaimer. Our market is quite difficult to forecast, and therefore, we don't make forecast of our earnings. Or what we're trying to do is explain what has gone into the past performance and what are the various factors lining up to be.

So, highlights. We have just declared our best-ever quarter of profits. Our previous best was in Q2 FY 2008, '09, that was a quarter just before we had global financial crisis. And that was just about Rs. 500 crore. In this quarter, we have had a profit of Rs. 688 crore. That's on a standalone basis. And on a consolidated basis, we have a net profit of Rs. 769 crore. The half year profit was Rs. 1,100 crore and Rs. 1200 crore standalone and consolidated respectively. We declared a second straight interim dividend. That's our second interim dividend for this year. And after the last 5 quarterly meetings we had, 4 of them have ended with the Board declaring an interim dividend. We also finished the quarter, thanks to the strong cash flows, with more cash than debt. Therefore, we are now net cash. We have zero net debt, in fact, a negative net debt.

As you know, we also normally present what we call the normalized financials, which strips out the impact of the exchange rate movements on our results. At this time, there's not much difference between the normalized and the reported results. So, marginally up and down. It's a couple of percentage points up and down in terms of the impact on the results. We'll come to the net asset value. And this is just a little bit of the history of what's been happening to our earnings. Obviously, the last couple of quarters have been very strong, which you see reflected in this graph.

You would have seen this management commentary by Mr. Bharat Sheth. Again, this has to do with the markets and what has happened in terms of the results. The last bit is important, the last couple of paragraphs. We are also seeing continuing strength in oil prices and that seems to be having a positive impact on the offshore oilfield services business as well. We've seen an uptick in asset values. We have seen an uptick in contracting in the international market and in rates that are being awarded in the international markets. Again, all of this comes with a word of caution, high inflation, high interest rates, there is certainly potential for a global recession or at

least in significant parts of the global economy, and that could affect demand for commodities, and that's what really drives our business. So, that's something to keep in mind.

Tankers did exceptionally well in this quarter, that's crude and product tankers. They were quite strong in the last quarter. They built on that strength in this quarter, that is in Q2 of FY '23. LPG carriers continue to be all on time charter. The improvement in rates is because we've sold one of the smaller ships, which was a time charter at a slightly lower rate. And that's one of the main reasons for improvement in rates.

We also had in the previous quarter, a dry dock which could have skewed this. Dry bulk rates have come off quite a bit in the quarter, down 20% on average from the previous, that's the immediately preceding quarter. And after this also, we have seen some drop in rates that is in the month of October.

Now one of the things that happened is that we've had a very big change in our net asset value. And we ended March '22 with a net asset value of Rs. 618 per share. We are declaring a standalone net asset value of Rs. 809 a share. The contributions to this, and we've just taken the main contributions, cash profit of Rs. 96 a share, that's PAT plus depreciation. The fleet value has gone up by Rs. 106 per share. Most of it due to re-evaluation of ships, some of it due to the exchange rate changes because the rupee had depreciated against the dollar.

We, of course, have paid in May and August. We've paid 2 interim dividends for a total of Rs. 10.80. So, that took away from the net asset value since it was an outflow to the shareholders. So, that's our standalone net asset value move. Just going back, a little bit in history, and this is since March 2017, this is how our standalone net asset value has moved. The CAGR of NAV has been 17% over this 5.5-year period, so all the way from Rs. 337, up to Rs. 809 per share.

Coming to consolidated net asset value, that's gone up as well. That's gone up from Rs. 679 per share in March to Rs. 935 per share. For the first time in many quarters, we are seeing a significant marking up of values of offshore assets. So, rigs were all on average, marked up by about \$12.5 million at the midpoint of the range. Offshore vessels also saw some marking up in values. And that's what helped the net asset values to go up even more on a consolidated basis. So, we had Rs. 190 increase in standalone net asset value. But if you take it on a consolidated basis, you have a Rs. 250 increase in the consolidated net asset value.

Looking at the shipping markets. The story is pretty clear. If you look at the graph, we were down in the dumps on the tanker markets last year, all the way up to Q4, so which reflects in the rates you can see there, so in YTD FY '22, Suezmaxes earned \$5,500 a day. And YTD FY '23, they've earned \$41,000 a day. This, again, is not our average. This is the spot market average. MR tankers also had a spectacular increase from \$6,000 a day to \$36,000 a day. Now what caused this change in trade patterns. So, more of West-East and East-West trade flows, shortage in middle distillates in the Atlantic basin, which resulted in longer movement of products. And we have some statistics on the increase in trade. So, we have demand on both crude and the

product trade back to pre-pandemic levels, which is an important milestone because we've been expecting this all the way from middle of 2021, and it is not happen, but finally is there. And this is despite the Chinese demand actually not growing and because of the lockdowns. The fleets have grown but the very heartening fact is that the order book for crude and product tankers is between 4% and 5% of orders.

Coming to dry bulk, dry bulk performed significantly worse than in the previous quarter and in the previous year. So, you had a more than 50% drop in Capesize earnings year-on-year. We also had a drop between Q1 and Q2, and that was more pronounced in the case of the Capesize and less in the case of the smaller vessels. You can see it on the right as well in the Supermaxes, we dropped by about 24% year-on-year. And since we haven't mentioned that number here, but it's dropped by probably 15% to 20% in from Q1 to Q2.

Again, trade growth has been flat to negative YTD over the previous year. And again, because of weakness in the iron ore trade which has been compensated to some extent by the Minor bulk, that weakness in the iron ore trade explains why the Capesizes have been so weak. We had lower congestion, especially for Capesizes and that released a significant amount of the fleet into the market, and that again changed the demand supply balance.

The current order book to fleet ratio continues to be again not high and therefore, gives some sort of comfort that we don't have too much of a supply overhang going forward. LPG, the spot market really doesn't matter or really hasn't affected our earnings because our ships were on time charters through this quarter. However, markets have been stronger YTD FY '23 versus FY '22. And they've become even stronger now over the last 2 or 3 weeks. However, our ships, our 4 LPG carriers, all are on time charters and therefore, will not be participating in this market. Looking at fleet supply. I already mentioned this about the order book. So, we have about 4% to 5% for the crude and product tankers. We have got 7% for the bulk carriers.

Asset prices, of course, have gone up, reflecting what has happened to earnings. Dry bulk has come down by about 15% to 20% during the quarter, again, reflecting what has happened to earnings. And as we've seen, of course, reflected in our net asset value. Scrapping, I won't go into because it's been nothing significant since the markets have been quite strong.

Coming to the Oil Field services business, Great Ship India Limited. There is an increasing number of cold stacked rigs, but there are also more rigs coming off from idling and moving into contracts. We'll see it here, there's a gradual improvement in utilization and rigs under contract. So, we are back again to pre-pandemic levels. If you recall, in early 2020, we said we seem to have turned a corner in the drilling market, oil field services market.

Unfortunately, COVID came in and derailed that recovery but the market has got significantly tighter since then, of course, we've had removals of rigs as well. We have seen very much improved pricing coming in from contracts that have been announced in the Middle East by listed players. So, there is a lot of optimism in the market. And significant amount of tightness

in the market for jack-up rigs. This is also reflecting in a slightly lesser way on the vessels. We have 1 rig coming off contract in H1 FY '24, which needs to be repriced. We have 6 vessels coming off contract between now and March '23 and that's the other schedule. And the other 2 rigs are coming off contract at FY '25.

Looking at a couple of financial ratios, and we've been showing this graph for some time. So, we levered up in FY '17, '18, '19 to buy ships. And what has happened since then is that we've had very strong cash flows because those investments paid off and we are now down to negative net debt. Again this is all standalone numbers. Just an indication of where we stand today. We are still trading at a significant discount to net asset value. Our net asset value, as I showed you earlier, is about Rs. 935 in the middle of the range for offshore asset values. We're still at about 35% to 40% discount in those segments.

We continue to make initiatives on the environment. We try to save on fuel consumption and therefore, reduce our CO2 emissions. For anyone who is interested in our ESG efforts, we have a lot of information available on our website under the tab for sustainability. Last year, we published our first ESG report. And of course, we are looking at different things that we can do in order to increase our initiatives.

Thank you. That brings me to the end of the presentation, and we'll now throw the floor open to you for questions, and we'd be happy to discuss our markets.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Khetan from Laburnum Capital. Please go ahead.

Amit Khetan: Just coming to the tanker markets, so we've seen very good rates and the fundamentals look very supportive. My question was based on your understanding of the market, what are the main 2 or 3 risks or rather events, as you like to say it, that you as management are most mindful of which could take freight on a sustained basis, back to the levels that we saw for much of 2021.

Bharat Sheth: So, we don't think that should happen again because, as we know, Cal '21, the average for the year was at a 31-year low. So, that's unlikely to happen. Can the markets downward correct? Yes, they could. And what could drive that downward correction? Although I don't believe it's going to be anywhere close to the Cal '21 numbers, but some corrections can always take place. And it all depends on, I guess, the level of possible demand destruction on recessionary fears and on what can happen on interest rates and the whole impact that on demand for some of the products, particularly on diesel oil. But if you look at the inventory levels, they're all running pretty low. So, hopefully, some demand destruction we'll be able to take in our stride, but a lot more demand destruction than currently anticipated, can upset the applecart.

Amit Khetan: And do you have a preference for operating the spot market, but given the kind of rates that we have been seeing lately, are you tempted to lock in more time charters? And broadly, how are

you thinking about it right now? And what would your tanker mix be in terms of what for this time?

Bharat Sheth:

So, currently, so we need to break it up into crude, gas, as you know. So, when we talk tankers, we've got 3 subsections, right? Crude, clean which is petroleum products, and then LPG. LPG is all fixed. On the product tanker side, we have 2 vessels that we fixed a few months ago, so at pretty elevated levels. We have 2 of the product tankers, which we have fixed before the big rise in the market. They'd come back to us in the next few weeks. So, that balances out what we had fixed at some elevated levels.

Will we fix more in the product sector? We are, at this stage, uncertain. Obviously, some of the numbers which we are seeing for short periods of time are very tempting. But with utilization levels now running at 90-plus percent, a little pickup in demand can really take this market up even further. So, we've got to be very careful.

On the crude side, we don't have the level of exposure ideally we would have liked to have had. As you're aware, we sold 1 ship, so we've taken some money off the table. Basically by selling a ship, all you have done is, you have encashed the next 4 years of earnings, right, because the ship was a little over 16 years of age. So, we've taken some money off the table. So, I think we are currently going to keep the rest of the fleet spot. Obviously, this is a moving target. And whatever I might say on this call, our thinking could change tomorrow.

Amit Khetan:

Have the period market rates moved in line with spot? Or is the market still skeptical?

Bharat Sheth:

No, period rates have gone up considerably. So, there is a lot of optimism in the market. But as night follows day, as you know, when everybody is very optimistic, there's always something that plays out which was unanticipated. But I think there are 2 critical events. One is the Maritime embargo on crude oil, Europe, the Russia, which kicks in on the 5th of December. And then similarly, there is going to be an embargo on movement of petroleum products on the 5th of February '23. And we've got to see how both these very, very important events play out.

Amit Khetan:

Lastly, we've seen some softness in the dry bulk market. So, are you seeing opportunities for deployment of capital there?

Bharat Sheth:

So, as Shiv has just mentioned, values have corrected 20%. We think at this stage that if this market were not to pick up and this market has a much greater bearing on some of the recessionary trends we have seen globally, particularly a lot of the real estate construction levels that have come up in China and if, therefore, markets were to remain weak for, let's call it, another 6 months or so, it is possible that values could drop another 10%, 15%. It's possible. We, at this stage, with this first 20% correction, would still prefer to sit on the sideline.

Moderator:

The next question is from the line of Abhishek Nigam from B&K Securities. Please go ahead.

Abhishek Nigam: So, my first question is on the US plan to impose a price cap on Russian oil and eventually sort of move away completely from Russian oil and oil product imports. How do you think is that going to impacting demand and supply? And could there be further upsides? That's my first question.

Bharat Sheth: Yes. As I've said, we are now at a 90-plus percent utilization level, both for crude oil as well as for petroleum products. Now once you hit these levels of utilizations, even the slightest uptick in demand or the slightest uptick in trading patterns, can lead to a pretty meaningful uptick in freight rates. Once you hit 90-plus percent, anything can happen to this market on the positive side, right? And that is precisely one of the reasons why we would like to keep whatever we have now pretty much in the spot market.

And even a lot of people have asked us this question before, I might as well answer it now, which is that what if this war is called off tomorrow, what would happen and would the markets all collapse, et cetera, et cetera? In our thinking, even if the war were to come off, I think Europe is unlikely to go back to the energy dependency that they had on Russia previously, I mean pre the war and from whatever we are reading, people are going to be a lot more cautious. And some of these newer trade routes that we are seeing, which is all adding to ton mile demand is likely to continue.

Abhishek Nigam: Fair enough. Yes, that makes sense. So, the second question that I have is on the offshore side. So, that's pretty good improvement on the revenue side, EBIT margin is in mid-teens. I just wanted to check, is there any one-off over there? And is this kind of EBIT margin is something that we can expect in the future next 2-3 quarters?

Bharat Sheth: So, we discussed, I don't know if you were there in the last quarter's investor presentation, we had mentioned that we received a pretty lumpy insurance claim. Last time, people had asked us when it's likely to come in and we said in quarter 2. So, that money has come in. So, to that extent, of course, there is a positive impact on the results.

But instead of discussing it on a quarterly basis, it really makes no sense. I think the important thing is that, as the CFO has also just mentioned now and we mentioned it in the last investor presentation, the worst seems behind us, and we are seeing a meaningful improvement more in the rig side where utilization levels are probably now hitting 80%.

And on both sides, there has been an improvement, but it's still in the low to mid-50s, the utilization level. But that will come up because for every rig, that is incrementally deployed you need a lot of support services, and you can call the ratio as roughly 1:3, 1:3.5. So, for every time a rig gets deployed, you need between 3 and 4 boats to support the activity of that particular rig. So, all in all, I would say, ignore some of the onetime incomes or expenses and just take the bigger picture, which is that there's a lot more optimism in that sector as well.

- Abhishek Nigam:** Fair enough. Sir, last question from me. LPG market, I think 6 months back, my own view was that it's kind of picking out because of fairly aggressive supply growth that was coming in. Now what has happened is that there is a shortage of LNG and there is effectively very little LNG growth until 2025. And what very high LNG prices is doing is it's fueling the demand for LPG in turn. So, could LPG, despite a fairly strong fleet growth outlook, could it stay strong for another couple of quarters?
- Bharat Sheth:** It's always good, right? As I said, we don't look at all these quarterly things. We look at the big picture. And clearly, there is a lot of supply of LPG coming in the first half of '23 in terms of number of assets. But how the arbitrage is going to play out? So, the big trade in LPG is the arb spread between Asian LPG and U.S. LPG, right? And a lot of this spread is determined on also the weather and the demand for our domestic LPG in the U.S. So, if you get a warm winter, there is less demand and, therefore, more exportable commodity. If you get a strong winter in the United States and the greater domestic demand, then you have a drawdown on inventory and less LPG to export. That's number 1.
- The number 2 is also a lot of this is driven by delays in the Panama transit. Now this has nothing to do with the big headline news of how many ships are delivering and what is the demand for LPG. It is also to do with these significant delays, so there are ships that wait after loading for 20 and 25 days to transit the Panama Canal. And the only way you can go U.S. to the Far East, predominantly is Panama. And if you avoid Panama and you go right around the Cape, you're in any case adding a lot more to ton-mile. So, there are a lot of these factors that really determine freight rate. These are all singular events. And I've often said it that don't try and call these markets because nobody can forecast these events.
- Moderator:** The next question is from the line of Vaibhav Badjatya from Honesty and Integrity Investment. Please go ahead.
- Vaibhav Badjatya:** So, our tankers, raw crude and product, if you can just broadly help us understand that in which trades are they currently deployed? Is it like it is to India or which trade our vessels, our anchors are currently deployed?
- Bharat Sheth:** So, basically, sometimes they get deployed into India, sometimes they get deployed internationally. But broader aspect, if you see about 75% of our revenue, approximately, between 70%-75% of our revenue comes from international trade and the balance comes from India.
- Vaibhav Badjatya:** Okay. So, largely it is our international trade companies.
- Bharat Sheth:** Yes. So, we will try and optimize. So, there will be certain months when we get better remunerated on Indian trades. There are certain months we can better remunerated on international trades. And we try and keep an exposure across regions because each region, so let's say, we say the tanker market is doing well, it does not mean every region of the world is doing well, right? So, there are times when the disparity between Region A and Region B can

be x or 2x or 3x. So, a lot of end earnings or average earnings are determined by how you have positioned your fleet and where you have positioned your fleet.

Vaibhav Badjatya: And sir, do we want to increasingly deploy our fleet for imports from Russia? Or given the regulatory and sanctions related to this, we just don't want to do that and we want to stay away from that trade?

Bharat Sheth: So, we haven't done any trade from Russia from the time of the declaration of the war or the Russian troops moving into Ukraine. We haven't done anything. And we have no intention at this stage of doing anything.

Moderator: The next question is from the line of Himanshu Upadhyay from O3 Capital. Please go ahead.

Himanshu Upadhyay: So, my first question was, earlier we used to have a philosophy or a thought process that the cash on balance sheet would be equal to what principal and interest and OpEx will be required in case of tough time and some cash for the acquisition, if the opportunities that come up there. With balance sheet becoming more of net cash of it, what amount of cash you would like to have on balance sheet or build cash for the opportune and what would be the guiding principles for that? Will it be in fact number of ships as we can expand or how would be your thought process now versus historically, when our balance sheet used to be always leveraged, let's say 2007-08 versus today?

Bharat Sheth: I have understood the question. So, we don't keep a target for how much cash should we have on the balance sheet, right? With the current availability of cash and the fact that we are net debt zero or in fact, negative and that we have capability to leverage, we will leverage at the right time with 2 objectives in mind. Clearly, one is to modernize the fleet. As you know, we do have an aging tanker fleet, and there is a need to modernize it. And of course, we wish to grow the business. Now I mean, growth or when I'd say grow the business means grow the number of assets that we currently operate.

So, whatever cash we've built today, it is \$500 million or \$600 million and maybe the later that we expand the better will be the cash build. But it's not as if we say, okay, now we will struggle to find utilization of this cash. One thing I can assure all of you listening on this call that at the right time, we will have capability to deploy this cash and deploy it in a very profitable manner. That's the end objective. So, whatever cash we've built, we are pretty comfortable with.

Himanshu Upadhyay: And vice versa, so the dividend we have been paying regularly in last 3, 4 quarters, okay. So, what would be the dividend philosophy from here on with respect to the market situation continues like this for next 3 to 4 quarters?

Bharat Sheth: Well, little broadly, I don't think that will change. We will keep paying out. Let's say, if the markets remain strong over the next few quarters or whatever few years, whatever the time frame will be, we'd be happy to keep declaring interims.

Himanshu Upadhyay: And then one thing on offshore. We have seen a pretty strong improvement in the rates between Gulf for the offshore rigs, okay. What is happening in India and subcontinent, okay, where we are here? So, if the relationship is 1:1, so similar increase because generally, Indian markets have not always been in correlation because we are allowed to take older ships and all that stuff. So, can you elaborate on how has the Indian market or subcontinent did in the last 3 months or 6 months versus other markets?

Bharat Sheth: So, clearly, what has happened in the Middle Eastern markets, as you very rightly pointed out, Indian markets tend to lag. And we lag for 2 reasons. One is, of course, the fact that we have these incredibly old rigs, which cannot be housed anywhere else, that very sadly are allowed to operate in Indian waters. So, that is one reason why there is a lag.

And of course, the other reason is the old way this L1 system works in this country. But it is what it is and we can't go and change it all. Although we do believe that there are going to be now some newer age norms that are kicking in and the regulator has also just now issued some guidelines, which will mean that even the older rigs will have to spend money towards safety, to enhance their safety norms, what they call MODU-89. I'm not going to go into all the details, but it's all available in the new requirements. So, that's at least a good beginning as far as India is concerned on the drilling activity. Now in terms of percentage increases, we have seen the Middle East has probably doubled the kind of earnings that are now being offered.

In India, I would say closer to a 70-odd percent, yes, maybe 70%, maybe 80% improved in that region. We still don't know what's going to happen because there's a tender in process. We'll wait to see the levels at which it is awarded and I think we will then have a much better fix. But this is what we think will happen because you can't lag it too much. Otherwise, people will just move away from India. And then you won't get rigs in India in any case.

Himanshu Upadhyay: And one last thing, basic question. See, historically, we always had a financial leverage on balance sheet, okay, and which would always result in movements on the NAV side, okay, because whatever increase was happening, the debt was not increasing and hence the equity would be much more faster moving or NAV. With more cash and this type of balance sheet, should we expect that NAV should not give a negative surprise also? And even if it goes slowly on the upside, but it will not be that much negative jerk what we saw in, let's say, 2008 to '15 type of time period?

Bharat Sheth: No. So, if you get a Lehman crisis, right, what happened in 2008? There was a significant black swan event and capital availability just dried up, and therefore, you saw the big corrections in asset values. Now if you get that kind of an event again, of course, there will be a sharp correction in net asset value, right? However, if you ask compared to 2008 when we were really completely invested, today, we've got plenty of cash. So, would we welcome a big correction in asset values? Very clearly, we won't. So, everybody gets very excited about these quarterly results, which is really a waste of time in many ways.

Eventually, the company will get built to go from strength to strength in a more meaningful manner in weaker markets as opposed to stronger markets. So, stronger market gives you the cash and then hopefully, the weaker markets will come, and that's when we've got to redeploy the capital in a significant manner. And so long as we do that, it will serve the investors well.

Himanshu Upadhyay: And one last thing. Earlier, we used to trade in handy sizes also, okay, 8, 9 years back, we used to have. So, is it a complete no for us now or we might look for opportunities in that segment also on dry bulk?

Bharat Sheth: So, I hate to say ever, no because shipping is all about uncertainty. But currently, our thinking is to go for the larger sizes where we think that the longer-term return are superior to this. And then the smaller ships, you've to spend in a lot more managerial time both on technical issues, operational issues, marketing issues as compared to the bigger ships. So, the bigger ships are easier to pick, provide you the same return or superior return.

Moderator: We'll move to the next question from the line of Rajesh Khater, an individual investor. Please go ahead.

Rajesh Khater: I have a few very short questions. So, I will just like some data points like, how much lower is the time charter rate compared to the spot rate in tankers?

Bharat Sheth: So, when you say time charter rate, it all depends on the duration you're talking about. And therefore, there is no one answer. The longer the duration, the steeper the backwardation, right? And the shorter the duration, the narrower the backwardation. So, there is no easy answer to this. And also, I mean, if you had very, very modern tonnage, if you had a new building, for example, you could probably fix for 5 years, on a 10-year-old ship or a 7-year old ship, can you fix for 5 years, most unlikely.

Rajesh Khater: So, let me put it this way. Like usually, when you fix your ships for time charter in one of your core segments, you typically fix them for like 6 months or 1 year or 2 years. So, if you take an average of that, so in that sense, how much is the time charter rate lower to spot? Can you give me some indicative figure like is it 15%, 20% lower or is it steeper than that? Just some qualitative answer on that.

Bharat Sheth: Yes. So, first of all, what do you call spot? I'll tell you why. I'm more than happy to answer, but I want you to understand the business, right? What do you call you spot? Do you call yesterday's rate spot? Do you call today's rate spot? Do you call tomorrow's rate spot? And this is a business where the difference between earnings yesterday, today and tomorrow could be \$5,000 and 10,000 a day, right? So, what do you benchmark it with? But what you really need to understand, right, is, of course, as you rightly said, we very rarely go beyond 2 years, very, very rarely.

Typically, we tend to fix for 1 year. Sometimes, we will fix for a little shorter duration because a lot also depends on what the customer wants. So, sometimes customers say, "We don't want to

take a 1-year exposure. We are happy for 5, 7 months." Sometimes customers says, "We want minimum 2 years." So, it depends. But roughly you could take the discounts. The shorter the duration, maybe the discount, you free the certain spot rate. It could be between 5% and 20%, something like that. But the spot itself is moving these. So, what you call a 20% discount today may suddenly flip into premium to spot or the discount may steepen from 20% to 50%. You know what I mean? Because your spot itself is moving by multiple thousand dollars a day. So, it's not a static number spot.

Rajesh Khater:

So, in terms of your tanker fleet, so today, the rates are quite profitable for you and at multiyear highs, probably. So, what will make you lock in the higher rate, even if you were to, let's fix the time charter at, let's say, 15% discount or 20% discount, you are not going for the time charter in the tanker market. So, what will make you go for it?

Bharat Sheth:

So, I think if we were really to get very concerned about some events which may possibly play out, if there was an internal view that look, and trust me, we view this almost daily. But if there was a real concern of an event that could very significantly negative play out and that to for a meaningful period of time, not for 1 week or 2 weeks or 3 weeks or something like that, we may think of fixing out.

Having said that, we are more inclined to remain spot and I'll tell you why. As I said, utilization today is at 90-plus percent and we have seen in the past that when utilization hits these levels, the earnings can go up very steeply and very quickly, number 1.

Number 2, we have plenty of cash on the balance sheet. So, even if things go wrong, it's not as if we need to run for cover or we are worried about debt servicing, et cetera. Having taken a very conservative approach to leverage on the balance sheet, we are going to roll that dice on the operating leverage, which is running more ships in the quarter. Now clearly, today, anything that we pick for, say, 6 months or 1 year is incredibly profitable. But you may still leave lots of money on the table because of the utilization levels are. And then you will.... So, all in all, we are more inclined to be spot players, all in all. But again, as I was telling one of the earlier speakers, we are, and I'm not exaggerating when I say this that we review this on a daily basis. So, we are always in the mass market, wanting to know what customers are willing to pay us for 6 months or 1 year, always.

Rajesh Khater:

So, how have been the tanker rates in October and November till now compared to the rates, which you witnessed from July to September quarter?

Bharat Sheth:

So, October and November on till date because we are in the middle of November now, on the crude side, it is stronger. On the product side, I would say, on the smaller ships, it's a little weaker. On the bigger product tankers, it's a little stronger. But, again, don't look at all these day-to-day because I can tell you something today and by evening, it's all changed.

Rajesh Khater:

That is a standard disclaimer because I have attended all your con calls. I understand that.

- Bharat Sheth:** And you've seen what can happen, right, between one month and the other month, yes.
- Rajesh Khater:** Yes, absolutely. That is absolutely fine. So, when you fix your ships on the spot, typically, the journey is for how many days? I mean I'm just trying to understand, like, also it depends on the trade route, I understand, but the trade routes where you have deployed your ships on the spot, so what are the typical journey days like?
- Bharat Sheth:** I understood your question. So, we keep changing our trade routes, right? Because when you have a ship on the spot, within the region you are operating, you are trying to optimize your earning. Now within the same region. So, let's say I'm trading my ships south of the Suez Canal, right? Either I may do a spot duration of 20 days because that's giving me the highest yield over the 20 days or I may say that all right, I'm happy to go. At this rate, I don't mind fixing my ship or lock in my ship for 40 to 50 days. But the average in multiple, if you just take different regions of the world, you can say the shortest will be 15, maybe yes, 15, 20 days, and the longest will be about 2 months.
- Rajesh Khater:** In this quarter's profit, is there any contribution from the sale of ship? Or that is completely on the balance sheet side?
- Bharat Sheth:** No, it's there in the P&L.
- Management:** Yes, there's about Rs. 115 crore profit on sale of ship. That's on standalone basis. And we have, as an earlier speaker had asked about offshore, we have Rs. 45 crore claim, which was received on account of vessel insurance in the offshore business. So, that's in the consolidated accounts.
- Rajesh Khater:** And sir, you had said that the LPG carriers are in time charter. So, when is their time charter getting over?
- Bharat Sheth:** So, basically, our customers have an option. So, we fixed it for 1 year within their option to extend it by 1 more year. So, if they extend the option, then it will go to the middle of '24.
- Rajesh Khater:** And their right to exercise the option, is at the same price or at a higher price?
- Bharat Sheth:** Same price.
- Moderator:** The next question is from the line of Vaibhav Badjatya from Honesty and Integrity Investment. Please go ahead.
- Vaibhav Badjatya:** So, in any way, can this EU ban on Russian oil, both crude and other products can turn out to be negative for the tankers, sir? Can you visualize any scenario that this can happen?
- Bharat Sheth:** At the moment, no.

- Vaibhav Badjatya:** Actually, if it turns out to be effective, completely effective, then obviously, some of the oil and products will go off the market and the tankers deployed in that region might come to the rest of the region. So, don't you think that demand-supply might incrementally turn negative in that case?
- Bharat Sheth:** No. So, basically, Russia has to find oil for the market, right? And there are a number of owners who will be happy to continue sharing Russian crude, Russian products because it's not as if Russia supply completely goes off the market, where will those countries get their supplies from? There is not enough global gas supply to say that, all right, even if Russian export go to zero, we as a country can provide it. No country in the world can provide it. And then you know what will happen to oil, you'll see that 150 plus buck.
- Vaibhav Badjatya:** Yes, that I understand.
- Bharat Sheth:** Yes. So, I don't think that you will see a situation whereby Russian exports of crude oil and petroleum products go to zero. That will not happen. And as long as there is oil to move, you will always find a ship to carry. We will not do it, but there are a lot of people who may do it.
- Vaibhav Badjatya:** Right. Yes. So, some of the values that we are seeing on the current market in terms of asset values, do you think it can have an effect of probably people preparing for the impending ban that happens. I mean to say that some of the Russian shipping companies might be in a hurry to buy the assets and that's why these values are inflated to that extent? Is it the case in your view?
- Bharat Sheth:** So, clearly, at the moment, values are being held. Let's break it up into older ships and more modern ships, right? The more modern ships have a closer relationship with new building prices. And due to all these inflationary pressures, which you're all reading about, right, new building prices are at a very elevated level today. That's supporting the values of your, let's say, initially to modern.
- Now the older vessels are clearly partly being supported by the fact that there are owners willing to take Russian fleets and the very strong earnings. So, even if you take a vessel, which may be 2 years left for trading or 1 year left of trading, the difference in earnings between a very modern ship and that ship is not so great.
- Because what is the alternative? The alternative is you say, I will scrap it, right? Now why would you scrap a ship, which is giving you a potential yield of 40% to 50%? So, there are buyers for older ships because of the very strong earnings. Of course, there are also some buyers who will be happy to trade Russia. So, it's a combination of 2, 3 events. Eventually, even if you are willing to trade Russia, but if the market is weak, why would the asset value remain strong?
- Vaibhav Badjatya:** No, I mean to say like if Russia has to export its goods, obviously, their state-owned companies have to arrange for the shipping.

- Bharat Sheth:** No, there are also a lot of other owners -- just to interrupt you for a minute, there are other owners, there are Greek owners, there are Middle Eastern owners, there are Far Eastern owners who are willing to do Russian trade. It's not just Russia. It's much more broadly based than prima facie it may appear.
- Moderator:** The next question is from the line of Devesh Jhawar, individual investor. Please go ahead.
- Devesh Jhawar:** My question is like GE Shipping is trying to maximize its shareholder value by giving dividends and by doing buybacks. Most of the other players in the world are also doing the same. They are also doing buybacks. They are giving dividend. No one has done a significant CAPEX till now. Also order book is very low for tankers worldwide. So, what is your outlook in the medium-term rate? I like the approach GE Shipping is going on. But what if everyone is using the same approach in the same manner?
- Bharat Sheth:** No. So, first of all, I think if we just break it up, your one point was buybacks and dividends, right? Now overseas people have a lot more flexibility on buyback than we have in India, right? In India, as you know, between 2 buybacks, there's a gap of pretty close to 18 months.
- But overseas, you don't have that restriction. So, there are regular buyback programs running. And one of the reasons why shipping companies tend to buy back is not because they don't wish to acquire tonnage. It's only because paper is cheaper than steel. So, today if we buy a ship for \$100 and the equity markets are saying we value this asset at \$70 or \$60 because the book discount to steel, that may be a better of buying a paper, right? That's number one.
- Number 2, why are people not placing orders for tankers? There are people wishing to place order for tankers, but shipyards currently are full with container orders and LNG orders. So, there is very little available shipbuilding capacity that is free. And again, when I talk about shipbuilding, I'm talking about reputable shipyards, not talking about every Tom, Dick and Harry. So, there are very few reputable shipyards that are available to deliver you today a tanker until second half of '25. Now an owner will say, "Look, '25, what may happen, what may not happen, nobody knows." So, what am I better off doing today, especially if I'm trading at a discounted net asset value.
- Moderator:** The next question is from the line of Shivan Sarvaiya from JHP Securities Private Limited. Please go ahead.
- Shivan Sarvaiya:** Sir, just 1 question on the scrapping. While I can understand that the scrapping on the tanker side is weak because we've got a super earnings cycle. But what explains the weaker scrapping on the dry bulk side because these rates are like one of the lowest level seen. So, just some thoughts on that, sir.
- Bharat Sheth:** So, even on the dry bulk, earnings are still well above operating costs. And an owner does not like to scrap their ships until there is a sustained period of time when earnings are below

operating cost. I think I explained this earlier also in one of the earlier investor calls that every trading day that is left in the ship is basically like a free option, right, because markets can turn on a dime. And therefore, why would somebody want to scrap a ship when they are earning more than operating costs. See, even at today's earnings, there is a meaningful EBITDA contribution.

Shivan Sarvaiya: So, sir, at what level would this EBITDA contribution become NIM, for broad understanding, I mean, 10% lower than the current rate, 5% lower than the current rate?

Bharat Sheth: So, again, if you take an average, you're talking about almost 30%, 40% below current rates. 50% below current rates in certain classes. So, there is still a long way to go. But the one thing I must put a caveat here that there are lot of new rules and regulations that are kicking in from January '23. Now that itself, there will be ships that may not be able to comply with the new rules and regulations, number 1. They may have to be forced to scrap. There are some ships whereby customers who are also getting more conscious on decarbonization may say we will not take vessels that do not meet certain standards on decarbonization. And some of that decision-making may lead to further scrapping that may not be limited to earnings drop.

Shivan Sarvaiya: And sir, according to you, what would be the percentage of fleet that would be forced to scrap, as you mentioned?

Bharat Sheth: No. That, see, as I said, how many ships in the world can meet, cannot meet the statutory norms, it's impossible for us sitting in here to know or anyone to know for that matter because which ship can meet, which ship cannot meet, it's impossible to tell.

Anjali Kumar: Since there are no more speakers, we can take the text questions now.

Bharat Sheth: What questions?

Anjali Kumar: Sir, some of the investors have put their questions in the text box. So, I'll read them out one-by-one. The first question is from Tejas Parekh, who is an individual investor. And he's asking why the tax expense is so low for us? Shiv, if you could answer that?

G. Shivakumar: Thank you for your question. We operate like about 99% of shipping. We operate under a tonnage tax regime, where tax is paid not on the basis of the operating profits, but based on our notional income, which is calculated. So, even if we make a loss, we pay that tax. So, that regime has been in place for about 18 years now, and we operate under that regime. And that's why the tax is low. And in some years, even if we're making zero profit, we'll be paying the tax. Anjali, you can move on to the next question.

Anjali Kumar: The next question is from Jathin and he's from Invest PMS. His question is given that the company had been investing in the rig business for almost a decade, how do you see the future of this business?

- Bharat Sheth:** So, as we've said to one of the earlier queries that currently, what we are seeing is earnings on the rig business go up. We are seeing values of the rigs go up and utilization levels, which probably was a few years ago at almost 60% is now back to closer to 80%, maybe 85% depending on whose data you look at. And therefore, in the medium term, and so long as oil prices remain closer to \$100, which looks very, very likely, you should see the rig markets stay pretty strong.
- Anjali Kumar:** Thank you for that, sir. Mr. Ghanshyam Bansal, an individual investor, wants to know -- of course, he's congratulating you for a good set of numbers. He also wants some clarification. If all 4 LPG ships were on charter, then how average realization has increased from \$26,196 to \$31,000 in the LPG segment? And when are they coming out of charter?
- Bharat Sheth:** That I think, yes, the CFO explained why that average earning has gone up. It's just simply because one of the older units, which was below the average got sold. Consequently, the averages went up. So, that's just mathematics. As to when they are coming up also, we have just answered that. The oil companies to whom we have chartered the ships have certain options. If they were to exercise the options, then we are talking about the some in the middle of '24 and some in the end of '24.
- Anjali Kumar:** He would also like to know our plans for entering the containership segment.
- Bharat Sheth:** Yes. So, it's something we are tracking. Just for his information, the day-to-day earnings in the container market has come off, depending on the route by about 60% to 70% and values are down 30% to 40%. In that space, they are still considerably higher than pre-COVID levels. And we are tracking it. But for us, it's too early to enter.
- Anjali Kumar:** He also wants to know any plans for us to reduce our dollar debt.
- Bharat Sheth:** Yes, Shiv, do you want to answer that?
- G. Shivakumar:** We did do some prepayments. We prepaid about \$45 million of debt in the first 6 months of this year. But we will take a call on the remaining as and when we see the cash building up. If we see cash building up and we don't see the utilization for that cash in reinvesting in the business, then we will think about further reducing the dollar debt.
- Anjali Kumar:** Thank you. Mr. Rajesh Agarwal wants to know our outlook on the dry bulk market.
- Bharat Sheth:** Well, at the moment, as we have just said that the market has come off. Again, I've often said that it's very difficult to give outlook because things turn on a dime. But if we had to place a bet, we would place for the next month, 2 months maybe. We think that earnings will be broadly where they are today, give and take. I repeat that it's very, very difficult to forecast markets for the next 30, 60 days, 90 days.

- Anjali Kumar:** Correct, sir. Mr. Rajesh Khater wants to know about our next dry dock schedule and how many ships and how many number of days. Mr. Khater, I think this we can take it offline and mail it to you because there are a couple of ships, which go for dry dock every quarter, and our team can help you with that. So, if you can connect with us on e-mail, I can send you those details.
- The next question is from Mr. Bharat Pethe, he's an investor, and he wants to know if any of our current or old ships need upgradations to increase margins? And also, what are the future plans to tap new markets?
- Bharat Sheth:** Well, so first of all, on margins, I've not fully understood the question, but I don't think we need to spend anything towards that. Obviously, we need to spend money towards rules and regulations, and that's an ongoing exercise for compliance, which we are all geared up to do. And that's again something that is being tracked regularly to make sure that we are always in compliance with all rules and regulations. And what was the second bit of the question?
- G. Shivakumar:** What are the plans to tap new markets?
- Bharat Sheth:** Yes, I mean, as we just explained, yes, the only possible market we may look at, at some point is containers. Again, that's work in progress. And other than that, we don't have any other plans at this stage.
- Anjali Kumar:** Great. Thank you, sir. I think that's all. Okay. We have one more question from Charvi Pandey of Fidelity. Will you increase dividend payouts or think of giving out special dividends given high free cash generation?
- Bharat Sheth:** It's really something for the Board to determine based on our own internal requirements for CAPEX, which we present to the Board whenever we declare results. We do a presentation to the Board telling them what we think is required for purposes of modernizing the fleet and expanding the fleet. And these onetime dividends, again, we'd rather let the Board determine if they want to be in a mood to pay this onetime dividend.
- Anjali Kumar:** Great. Thanks, sir. That's all was there in the text box. From Chorus, if you can take this over?
- Moderator:** Yes. There are no more questions in the audio queue. So, I will now hand the conference over to Ms. Anjali Kumar for closing comments.
- Anjali Kumar:** Thank you very much to all of you for joining this call and the discussion that we had today. Please feel free to reach out to our team for any further queries that you may have. And, of course, the transcript and the audio link of this call will be on our website in a couple of days. Thank you very much.
- Bharat Sheth:** Thank you all. Thank you.



*The Great Eastern Shipping Company Limited
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Moderator:

Ladies and gentlemen, on behalf of The Great Eastern Shipping Company Limited, that concludes today's session. Thank you for your participation. You may now click on the exit meeting to disconnect.