



“The Great Eastern Shipping Company Limited Q2FY22 Earnings Conference Call”

November 01, 2021



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Moderator: Good evening ladies and gentlemen. Welcome to the GE Shipping Earnings Call on declaration of its financial results for the Quarter ended September 30th, 2021.

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 Raise Hand icon from toolbar at the bottom of your screen, or click on the Q&A Tab. You may also send your questions by text by clicking on the Text option.

I now handle over the call to Mr. Shivakumar, from The Great Eastern Shipping Company Limited to start the proceedings. Over to you sir.

G. Shivakumar: Good evening, everyone. And welcome to the conference call to discuss the results and the market for Q2 and H1FY22. As is our usual practice, we will take you through a presentation giving the highlights and then we will be happy to go into Q&A. Our Deputy Chairman & Managing Director is also with us and we will be happy to take questions from you.

Normal disclaimers apply.

Let's look at the results first, these are the reported results and these are as per the accounts and the accounting standards. So, we have a profit for this quarter which is higher than the reported profit of the 1st Quarter, which was affected in a significant way by the derivatives and exchange rate. This one had very small effects of derivatives and exchange rates. So is closer to reflecting very accurately what the business has done.

So here are the normalized results, the normalized profit for the quarter on a standalone basis that's for Q2FY22 was Rs. 249 crores that's on the leftmost column. And the consolidated profit was Rs. 217 crores. Obviously the subsidiary, Great Ship India Limited which is in the oilfield services business, because of the way that business has been for some time, rates are pretty poor and therefore they have had a loss in this period, just as they had in the previous quarter.

Coming to the balance sheet on standalone basis, we have net debt that's net of cash of Rs. 900 crores or approximately \$125 million as per the exchange rate. And on a consolidated basis, we have about Rs. 1330 crores which is about \$180 million. So, the cash position continues to be comfortable within the group. And we have brought down our leverage significantly over the last few years and we will look at that as well in one of the forthcoming slides.

Normalized financials, this is the explanation that we put up every time you can refer to it or if you have any clarifications on it, we are happy to give them, but since this has been repeated in our presentations for the last five or six quarters I am not going into detail.

Looking at the highlights, and the most important data is right at the bottom, which is in the orange row, the Net Asset Value per share on a standalone basis is now at Rs. 570. You may remember and you have the number of Q2FY21 which was in September last year was Rs. 445.

In March this year it was Rs. 490. So, within this period, we have gone up by about 16% within this six month period, again a very large part of it is due to dry bulk asset values going up. Of course we also have the earnings which have come in which has been decent for dry bulk and we have had a positive PBDT which adds to the Net Asset Value, but dry bulk values in this six month period have gone up about 30% to 35% and that's helped a lot in this the NAV going up so rapidly.

Looking at the comparative TCY, the crude and product tankers, and we will look at those markets in just a moment. The crude and product tankers continue to be at very poor rates. So between the two of them earning about \$9,000 a day on average, just as they were in the previous quarter as well, that's in Q1FY22. But in the corresponding quarter of last year, the average earned by our crude tankers was \$25,000. That was largely due to the effects of some contracts that we took in order to lock-in.. Because we were anticipating that the market would come off from those heady days of April-May 2020. And therefore, we did not suffer as badly. Probably the overall market would have still done somewhere in the 10,000 to 15,000 range in Q2FY21. But we outperformed the earnings of the broad market significantly, because of the cover that we took.

When it comes to LPG carriers, they have been strong for the past few years. But these rates that you see here are not the spot rates, our vessels, as you know, if you have been following us for some time, are typically on time charters ranging between typically one to two years. And so these are the average time charter rates being earned by our five LPG ships currently or in the last quarter. So they have not moved very much, though the spot rates have been quite volatile. But our earnings from these have been in a fairly narrow range, you can see it's within a 10% range up to 29,000, over last few quarters.

The highlight of course, has been dry bulk, last year, the dry bulk ships on average, in Q2FY21 earned \$11,250 per day, and in this quarter earned \$30,000 a day, even compared to the immediately preceding quarter, we have gone up significantly, we were at 24k and we moved up to about \$30,000 on average across our fleet. So we have 14 dry bulk vessels just to remind you, so this is the average earned by those 14 ships.

This is the revenue visibility that we have, again, the broad messages you can see the LPG carriers 86% of our days, up to March '22 are covered. Dry bulk we have 28% of our days covered, but less than 20% of our tanker days covered. Again, this is a function of the rates that we were getting to cover the ships and we did not feel it made sense to cover our ships at those rates because it wasn't really providing a downside protection.

On the offshore side, the jack-up rig almost a 100% covered. In fact, this 4% was a rig which the Greatdrill Chaaya, which was unemployed as of early October. And I am happy to report that on 29th of October, she has gone on hire. So all of our jack-up rigs are currently working.

On the PSVs and Anchor handlers we have 90% plus coverage. MPSSVs are basically two vessels which are a very high capability vessels which are operated by a Singapore subsidiary and which have slightly lower coverage. But broadly, we have a lot of coverage on our offshore assets.

Let's look at what happened in the shipping markets. And first, the tanker market and you can see this graph tells you everything. This is the Suezmax and the medium range product tanker. And you can see what it was like in 1st Quarter of FY21. And thereafter, it's been quite an abysmal market. Average earnings have been somewhere in the \$5,000 to \$15,000 range throughout this period and so it's been very weak whether it's for crude tankers or product tankers.

And now let's look at the reasons for why that was so. So the major factor is that the pandemic is still having a huge impact on air travel, and therefore jet fuel demand is 2 to 2.7 million barrels per day, lower than the pre-pandemic levels and we are looking at September '19, for comparison purposes. And that's why we haven't seen the demand for crude oil come back to where it should be. Refinery runs and crude again, because of the lower demand for products remain below the pre-COVID levels. And in the same time, you had fleet growth, so obviously, the market demand supply balance has changed for the worse.

OPEC+ has released a scheduled to increase crude production by 400,000 barrels a day every month. But that's not yet had a real tightening impact on the market. We await that. And based on the last forecast, it appears that they will reach pre-COVID levels only by September '22.

Looking at the dry bulk market where we have seen quite a lot of excitement, and again, the graph looks a little different from the tanker market. And this again supports our case for being in these different sectors. Because last year, you can see how bad those rates were. And this chart is of the Baltic capesize average. And you can see that it was below \$10,000 a day in April and May of last year, just when tankers were making a lot of money. And now when tankers are not making much money the dry bulk ships are providing significant profitability.

So you have the capesize, which in H1 of last year averaged \$15,000. H1 of FY22 has averaged \$36,000. So again, what drove this trade growth of 5.5% year-on-year in first nine months of '21 versus the same period in the previous year. Again, the base of course was low because of COVID impact for a couple of months. But we have also had COVID related congestions and reportedly, congestion in Q3, that is the quarter which has just gone July to September at 5% was the highest, it's been since Q4 of 2011.

So we have seen again, coal prices, energy shortages, all of those hitting the headlines. And there has been demand for transportation of coal because of that. On the other side, we have pretty poor growth in steel related demand. So iron ore trade hasn't grown much as China moves to cut, or at least achieve flat steel production in 2021 over 2020. So iron ore hasn't provided much joy to the dry bulk market. It's mainly been the minor bulks, which have helped, including steel. And

that's why we had such a solid performance from what we call the sub-capes, which is basically Supramax, Panamax and Kamsarmax sizes which have done very decent earnings over the last six months or so.

Coming to LPG again, this doesn't affect us too much because we are on time charter. But let's look at it, the market has been a little bit weaker than in the first half of the previous year. We have seen 36k going down to below 30k. Again, our ships are on time charter, and they are affected when they come up for repricing sometimes, but those rates don't move as dramatically as the spot market rates.

So yes, the trade grew by 5% during the quarter, and mainly this is U.S. export growth, which has been driving the LPG market for the last several years. The fleet grows quite strongly and that's a concern for the market. Because the order book for the VLGCs is also quite strong. So despite that we have still held at about \$20,000 to \$25,000 on the spot market.

Coming to supply and we have been showing this graph for some time. This is one of the lowest order book to fleet ratios. It's moved up very slightly, we were below 6% in dry bulk, probably about 5.5%, but now it's moved up to about 6.5% still not a high number in historical terms it's probably in the bottom 10% of all readings that we have had for the last 25 years. Even in crude tankers which have an 8% order book, this is a very subdued order book.

Looking at asset price movement I mentioned that bulk carrier prices have gone up by 35% on average in the last six months. You can see it from January, you can see the capesize rate has gone up. And this is all based to five years ago, being 100. So it's indexed. So if it was 115, in January this year, it's at 175 now which is about a 60% increase. We have pointed out earlier also that it's quite puzzling that tanker prices have also gone up since the beginning of this year, despite having such weak freight rates. And that's something which has prevented us from expanding. We have, as I mentioned earlier, built up quite a bit of cash and deleveraged. We will look at opportunities to expand but we haven't got the opportunity, because prices haven't really come down reflecting the earnings situation.

In LPG, the prices have been strong, for over a year now and they continue to be strong.

Looking at scrapping, we have had tanker scrapping picking up and again from a very low base you had in calendar '19 and '20, you had only about a half a percent of scrapping. In the first 10 months or so, of this year, you have had about 1.6% scrapping in both crude and product tankers. Dry bulk of course, because the market is so strong scrapping has been minimal. There is still quite a bit of scrapping potential. Scrap prices continue to be high at around \$600 a ton. So, in recent weeks, we have seen quite a bit of scrapping on the crude and product tanker side. But let's see if that continues.

Coming to Greatship, the oilfield services business, this is again one statistic that we show. So we have a low order book obviously because very few people have actually ordered rigs ever

since the oil price collapsed in 2015 and the offshore market went down, the rig market went down. We have had a lot of scrapping we have had a 135 rigs removed over the last five and a half years. And we still have a few rigs which are more than 30 years old. 34% of the fleet is more than 30 years old. And that presumably will have some pressure to scrap at some point if these rates don't go up significantly. And then you have the rigs which have been cold stacked for more than three years, which is 53 rigs which again will have difficulty coming back into the market, without spending a large amount of money.

There is a gradual improvement in rig utilization, again we have come back to the levels that we were in January 2020 where we said that we are beginning to see some hope on pricing and pricing power. That time the recovery was choked off by the COVID impact. However, we have now started reaching that again. Sorry, that is the total number of rigs being employed. So its rate are tending to go up we have seen the recent pricing that we have seen are higher than the lows that we saw in 2017 and 2018. But we will wait to see if that trend continues. Internationally also we are getting signs of contract pricings improving a bit.

Talking of repricing we have four vessels that are to be repriced in the next six months, that is up to March. We have the Greatdrill Chitra, coming off contract in H1FY23 so sometime in April to May 2022, we had bid her in a tender in India, that's for a three-year business. We will await the outcome of that whether it translates into a contract for us. But that's the one rig that needs to be repriced in calendar '22. Apart from that, there are only two other vessels which need to be repriced in FY23. So most of our vessels are covered, again not at very profitable rates, but at least that employment has been assured.

Coming to broad financials, we have put this chart before. We started off with about \$110 million of net debt in March 2016. We went up all the way to \$350 plus million dollars of net debt. And that's come back down again to about \$125 million of net debt. So we are in a position on a net debt to equity basis, yes we are at about 0.15 or so. So we are in a position to do significant amount of CAPEX. Again, this is just a cyclical play, we have levered up because we saw opportunities to invest, we have got the returns on the investments that we did and that's why the cash flows have been so strong.

I would like to point out here that the investments that we did from April 2016 onwards, on average, have produced an unlevered IRR in excess of 17%, that's in dollars. So we invested about \$530 million in total in ships and that's the average project IRR that we made on all those investments in this period.

And again, this is a share price to NAV we are currently trading at a little over 0.5 price to NAV on consolidated and maybe about 0.6 price to NAV on standalone. We are probably among the cheapest shipping stocks worldwide.

So that brings me to the end of this presentation. We are happy to take questions from you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Himanshu Upadhyay from PGIM. Please go ahead.

Himanshu Upadhyay: So, my first question was on the dry bulk side, where we have seen a quite a strong momentum. We have two capesize ships okay. So, what is the status, are they running still on spot or time chartered? And are we increasing time chartered on the overall dry bulk or how are you looking at the market, some thoughts on that?

Bharat Sheth: So both the capes are currently linked to an index and therefore, their earnings move up and down with the spot market. Your second question was, are we looking at fixing something into period. So, with the volatility that we are seeing at the moment, I think we would prefer to remain spot on tonnage because the volatility we are seeing now is pretty usual, that is, we are not seeing any concerns in terms of the market in the short to medium term. We think demand will remain reasonably strong, supply side I think we have mentioned in the past is very muted. And congestion is of course, being the biggest factor in driving the dry bulk market as it has been driving the container market and congestion will ebb and flow depending on ports.

So I guess we may fix one or two out of the entire fleet of 14 ships, we may look at one or two ships to fix, but otherwise we will broadly remain spot.

Himanshu Upadhyay: And other question was on offshore logistics. So if we compare Q2FY21 from 1700 revenue days it went down to 1227 days. What is the outlook for that from here on?

Bharat Sheth: Yes, so going to offshore logistics most of our boats are now covered. The gap was because between contracts, there is work to be done right, some of the boats, so they come off a contract and then they go into a new contract. But we have now got more or less everything covered. So, the number of earning days or revenue days will go up.

Himanshu Upadhyay: And even the realization on these days will be better than what historically was because we are just seeing buoyancy in the market.

Bharat Sheth: No I think the realization is not going to be great as far as the boats is concerned. We have a couple of boats on the spot market and there we are seeing a little better realization. One is in West Africa. We had one in Malaysia/Singapore, where we are seeing better rates. As far as the boats, which are in India are concerned, I think it's just going to be a little over operating costs, but nothing to write home about.

Himanshu Upadhyay: And one last question on the tankers side, generally we have seen when the crude prices move up, the crude also tends to move from much further away places okay. Are we seeing anything of that or signs of crude moving from further places to the refineries, let's say in China, India and Singapore?

Bharat Sheth:

So actually, there is not a great relationship between crude going up and markets. Not always right. So what really is the situation is just what are the arbitrage opportunities and what are the kinds of crudes that refinery want, do they want sweet crudes, do they want sour crude, there are multiple kinds of crudes I think I mentioned this at the last investor call. And it just depends on the demand for a particular grade of crude, which is much more important than the price of crude.

Typically, what has happened is when prices have gone up, OPEC has, pumped a lot more oil, which at this stage, you might have read the OPEC+ sort of news is that they intend to do it moderately, the increase. So whereas I think a lot of the consuming nations who are getting impacted by crude prices are pushing OPEC+ to get much more aggressive in the supply side.

So tanker rates are much more correlated to what is going to be the eventual supply of crude which needs to be moved from destination A to B, on or through ships, because sometimes you get a crude flow improvement, but it could be by pipelines, and then that doesn't help the tanker market at all.

So I think there are multiple factors at play that eventually determine the market so not necessarily just the price of crude.

Moderator:

Thank you. We will take the next question from line of Vikram Suryavanshi from PhillipCapital India Limited. Please go ahead.

Vikram Suryavanshi:

So in case of a dry bulk, asset price increase what we have seen how much impact is because of the asset prices are also increasing for new build with the containers shipyards are mostly going for container orders and that is also increasing the new build prices for the order categories? So this second hand price increase is it mostly correlated with the freight increase or it also has some impact of increasing new build prices? So I just wanted to have the correlation or connect between the freight --?

Bharat Sheth:

Yes sure, so I think it's both clearly because new building prices have gone up and as you rightly said, a large part of the world shipyard is being at the moment occupied by containers orders. Dry bulk orders also have gone in but on very moderate basis. But yes, new building prices have gone up. So that is one reason why asset values have gone up.

The other reason why asset values have gone up is very clearly, the very strong current yields one gets on existing ships which are in the water. And as we have been discussing, we have seen rates move up from, compared to this time last year, we have seen rates move up 2x, 3x, 4x, depending on the asset category. So, I think it's a combination of both people are earning very strong cash flow, particularly on older assets. And, if you sell a ship, yes, you will get a certain amount of money, but how do you get back into the market that's another challenge that some people will have to tackle with.

So, there are some people who would like to sell but are uncertain how to get into the market. Some people who have lots of ships can say okay, we will sell one and we have the luxury of waiting it out for the next few years even if we can't get back into the market now.

Vikram Suryavanshi: Second question on tanker side basically, now a lot of people are talking directionally upward trend in crude prices. So, does that increase port storage or speculation with the storage quantity or it will not have a material impact on storage side of the business impact?

Bharat Sheth: No. So storage is dependent on whether forward trading contracts in oil, whether they are trading at a premium or discount to spot oil, what we call contango and backwardation. So currently forward contracts on crude oil trading at a discount, and consequently, storage is not going to happen with the current price curve on oil. And as far as the volume I just explained, a lot hinges on what we see from the United States in terms of exports and what OPEC+ decides to do going forward. There is a lot of talk, that crude oil could hit a \$100, and maybe even surpass \$100. And my guess is that there will be a lot of political pressure on OPEC and OPEC+ to significantly increase the supply of oil, which of course, if it all happens will be good for the market.

Vikram Suryavanshi: And last question, the outlook on jack-up rig business. So basically the number in a presentation what you have given, I wanted to clarify that around 480 plus availability, those includes the cold stack around 50 plus that was one point I wanted to clarify.

Bharat Sheth: Yes.

Vikram Suryavanshi: Okay, it is included. And are there any signs or possibility that rig count can go back to a from 330 to say 400 plus in down the line in few quarters, or how you are sensing that impact of crude oilin particularly supply side and demand side from the rig count.

Bharat Sheth: I think eventually, it will all depend on the ENP activity. What has happened is obviously all oil companies are making tons of money at the moment. But there is this big concern that oil companies have got on, a lot of the pressure that they are facing, from shareholder activism on ENP activity, particularly on Fossil Fuels. So we have got to see how all this pans out, but at some point, right I mean, rigs are not as the CFO has just said, nobody is building any rigs, more and more rigs are going into cold storage or getting deactivated for the first time after many years, we are seeing rigs getting scrapped.

And I was sharing the analogy with somebody the other day, that if you see what has happened in the container market for 10 years, people made no money in the container space. And in this one year, they have made more money than in their lifetime.

So when the demand for these things come up, at a time when the supply has been completely ignored over long periods of time, you see significant increase in earnings, and we have seen this happen before in the drilling business and I am sure we will see it again. Now, the point is,

when will it happen I don't think anyone has an answer to that. We certainly don't. But the longer the down cycle, the greater will be the strength of the upcycle whenever it happens.

Moderator: Mr. Shivakumar, there is a question that's received by text may we request you to please read it and take it forward sir.

G. Shivakumar: The questions are, the crude tanker asset value increase, as you mentioned is puzzling. What's your outlook on longer term? And 2) If we look at average age of gas tankers at 17 years, would we prefer to buy gas tankers instead of other options? The question is from Mr. Avadhoot Joshi of Newberry Capitals.

Bharat Sheth: So whatever little homework we have done, we believe that the crude market is going to tighten. Again, to be very precise, on the timing is difficult. But there is a very decent probability that the tightening may begin in the second half of '22. And we remain confident that if not in second half of '22 then almost certainly in by '23, the crude market could see very meaningful tightening. And if that tightening were to take place, or even as people get a whiff of the tightening asset values could go up a lot more.

So we never have a preference for any asset class, we just look at what we think is the right price. And if the price is right, we will buy almost any asset class it could be crude, it could be products, it will be gas, dry bulk. And if the price is not right, then we will not buy it's as simple as that. So we have no preference really speaking for any one asset class vis-à-vis the other.

Having said that, we would always like to remain diversified in multiple asset classes in the industry. However cheaper asset gets we would never become a single asset class Company.

G. Shivakumar: Now Mr. Amit Khetan has put his question in the chat, we have been reading about the illicit oil trade between Iran and China. Could you give some sense of how large this trade is? And should the sanctions be removed and the trade legalized, what percentage of the global fleet could be removed assuming most of this is happening through older non-compliant ships?

Bharat Sheth: Basically, whenever there is illicit trade, one never knows the exact quantity of that trade that is moving around, because obviously a lot of it is done under the radar. Now there are two bits, these letter said the sanctions are lifted and I was reading very recently that there is a lot of behind the scene activity on the resumption of UPA talks on which there was an agreement and then which that agreement got barred or resented.

Now if it does happen, #1 There will be more crude on the water, which is a positive. #2 It could also mean that a lot of the current tankers which are in storage can also get released and therefore be a balancing factor to more oil coming into the market. So I would say that it's really, all over the place, I don't think we can make a statement that yes it is great or no it's a disaster. I think it's just going to be a much of a muchness. A lot more is just going to depend eventually on the demand for oil. Because if there is no demand, then whatever sanctions get lifted that itself is a

constraint. Because then somebody else will have to cut allowing Iran to supply. So just lifting the sanctions does not produce any resolution to the tanker market.

This will be really dependent on demand, and as we have seen you know ton miles more or as relevant as absolute demand and therefore a lot will then depend on where the crude is being supplied from, is it coming long haul, short haul etc. There are simply too many moving parts to know what's likely to happen on Iran. But irrespective, we believe whether Iran happens, does not happen, we do see a tightening either in the second half of '22 or indeed in start of '23.

Moderator: Thank you very much sir. We have a next question that's from the line of Raja Kumar V, an individual investor. Please go ahead with your question.

Raja Kumar: The first question is on the revenue visibility slide. So I think 28% revenue which is shown for dry bulk, and I also understand that none of the ships are on fixed time charter, all of them are on time charter. So if you can please clarify that, how this 28%?

Bharat Sheth: Basically what happens is, so first let me clarify, out of the 14 ships that we own, currently two ships are on what we called fixed income, right, which were contracted, one was contracted in November of 2020 another one was contracted in April of '21, both for a period of one year. The one that we contracted in November of 2020, before the market rally, will now come for repricing in the next two weeks. Because the one year period is getting over, correct.

The other one which also we fixed before the market rallied, will come up for repricing in April of '22. Now assuming we don't fix any of that, then we will have the entire fleet on the spot market. But there is always a chance we may fix something for one year again.

G. Shivakumar: Just let me clarify one thing here that 28% that we talk of, is from 1st of October up to 31st of March. So you will already have some period fixed in voyages, itself.

Raja Kumar: I think if I understood correctly, the average voyage period is somewhere between 45 to 60 days, right?

Bharat Sheth: It could be anything. Yes. Something like that, because you could have 90 day voyages as well. We do those.

G. Shivakumar: Yes, I can break it up for the questioner, right. If you have capesize vessels, the average duration will go from 45 days to 100 days. On the Kamsarmax kind of asset they can go from 30 days to a 100 days. And on the Supramax kind of vessels, they can be as little as 10 days, and typically may go up to 40 to 45 days.

Moderator: We will take a next question from the line of Anuj Sharma from M3 Investments. Please go ahead.

Anuj Sharma: Just wanted to understand one is on jack-up, I do understand we don't have anything for the next six months. But how is the pricing behaving for jack-up globally?

Bharat Sheth: So that tender that opened recently, the ONGC tender that has opened recently, has indicated a slightly higher price than the last tender. But it is still under negotiation, so we don't know what will eventually transpire. Globally, what we are first seeing is that there is more business that is being inquired for, and you have seen the slide on utilization.

Now typically what tends to happen is once the utilization reaches 70%, maybe somewhere between 70% to 75% then the pricing power starts to shift meaningfully, between the service provider and the service recipient. So, maybe we are still about 400 to 1000 basis points below where we would ideally want the utilization to be, for a big change in the pricing power. Obviously at a 66% utilization the pricing power has improved in favor of the service provider but not to the full extent.

Anuj Sharma: And same lines, if we were to reprice all our contracts today, what is the average increase, for the last tender or rough estimate?

Bharat Sheth: No, we have already repriced.

Anuj Sharma: In the entire portfolio, if they were to, it's a, theoretical question, but if the entire jack-up was to --, then what is the realization increase, we could see?

Bharat Sheth: See, I will tell you, it is difficult to answer that and I will give you the reason why. It also depends on who else is bidding and what do they bid at, right. So let us say there is, because remember that these at least is, so long as ONGC is your client, you only get one bite of the cherry. Now, let us say, there is somebody who just wants a business, irrespective of improved utilization, irrespective of what is happening in the global market, he just wants the business. And say he has a very old rig, which, maybe the lender puts pressure on him, saying you must go and get the business. He may still price it weakly. And then you got to match it, right. Or you may say I don't want to do business in India, I will go somewhere else. So these things are very difficult to answer in isolation.

Anuj Sharma: My last question is, you have said that the boats are operating near to the cost. I just wanted to know how much premium they could move around or what if they could move around, going forward?

Bharat Sheth: Sorry, how much premium, what?

Anuj Sharma: How much maximum, historically, we have seen them moving around the pricing or the profitability.

Bharat Sheth: So you see when the markets tighten, right all bets are off. So currently we know that boats are just sort of making a very minor contribution to EBITDA, okay, that's where they are at the moment. And we have seen these boats earning 4x, 5x, 6x operating costs. So one, as I said, whether it is in the drilling business or it's in the boat business, once the market tightens, then, people are just willing to pay anything that the service provider asks for. The critical thing is utilization. And in the boat business, the utilization is still only 55%. So that will take time.

Moderator: Thank you. Our next question is a follow-up from a Mr. Raja Kumar V, an individual investor. Please go ahead.

Raja Kumar: My question is on the capital allocation policy. I see almost Rs. 2,500 crores of cash we are carrying on the balance sheet in a consolidated basis, which is almost like one-third of your net equity. So given that you are bullish on the freight market and given the assets currently are priced on the higher side. So, just wanted to know what is the thinking on the management side to carry such a huge cash and why not consider getting a higher dividend payout?

G. Shivakumar: So before you answer just one thing, that cash is actually higher than what you mentioned, yes, it's Rs. 4,000 crores.

Bharat Sheth: So actually, it makes the problem even worse.

G. Shivakumar: That's right.

Bharat Sheth: But don't worry. So let me answer that question. So, basically whether the cash is Rs. 4,000 and all you know that's irrelevant. I think your question is right what does the management do as it builds up cash particularly if asset prices are going to remain at a high point. I think at this stage, so there are two things or three things you can do with cash, right, you can either distribute out in one of two ways, one is through dividends, and one is through capital restructuring. And then the third use of the cash is always buying physical assets, so buying ships.

Now ships we have already discussed that asset values are where they are, and these are at price points where we think we will not be able to meet our internal targets on dollar return. As far as dividends and capital restructuring is concerned, let me first address capital restructuring. Unfortunately, as you are aware, the Government introduced a 22% transaction cost on capital restructuring, which we think really doesn't do justice to either, all the stakeholders in the business, because effectively what it does is it compels those who don't wish to tender, to effectively pay that 22% tax. I mean, they are effectively paying tax on behalf of the person who is tendering and therefore, there is no equity in terms of going down that path, to all the stakeholders, I repeat.

On dividends, what happens is, ideally, what should happen in any corporate, right, if you are sitting on excess cash, you should be able to give it out to the shareholders and take it back as and when you like, without transaction costs. But there are transaction costs, all that has

happened is it has moved away from the Company to the individual. And at some point, right, the capital will be required to buy assets. Because, as night follows day the values of the ships will come down, now, whether they come down in '23, '24, '25, I mean, I don't have an answer when they will come down, but they will come down. And when they come down is when you really want cash on your balance sheet, to be able to move quickly. And if you have started, if you get into aggressive distribution policies, you may not have the cash when you require it the most.

So, unfortunately, at this stage, I think we will have to live with sitting on the cash, which we all recognize earns suboptimal returns. But I do believe, and we have actually done a pretty interesting exercise on this, that even if we were to sit on the cash for as long as three years, if we get sensible pricing opportunities in that period of time or even soon thereafter. We can move quickly, we can move aggressively, and we can move meaningfully. And if a combination of all that, will then mean that even with three years of cash earning you are under 1% in dollars, you more than make it up if you get the right asset class or if you get it at your price point. I think the real issue will be that if we get the opportunity to buy and we don't buy, that will be a tremendous disservice to all shareholders. So I hope that doesn't happen.

Raja Kumar: Thanks for that detailed explanation. But what is kind of baffling is your market cap, the NAV or the cash, I mean, as Shiv mentioned, it's R s. 4,500 crores of cash you are carrying, and your market cap is close to the cash that you are carrying. So what is the concern and I think you must be meeting all of the institutional guys. So I just don't understand because this kind of.....

Bharat Sheth: Don't worry that you don't understand. 99.9% of the people I have met don't understand. So you are just part of the 99.9% of the crowd.

Raja Kumar: Yes, I mean in a market where companies are valued based on sales no longer based on profits. So it is really disheartening to see GE Shipping in such kind of a discount.

Bharat Sheth: I mean, some companies are valued, the higher the loss, the greatest the badge of honor, it seems to be. But that is for investors to answer, not for managements to answer.

G. Shivakumar: And don't forget that possibly is the reason whilst 75% of shipping globally is privately owned. There is only 25% of global shipping that is in public domain.

Raja Kumar: Maybe the market is worried on the volatility of the earnings.

Bharat Sheth: Well, the market seemed less worried on knowing that a Company is likely to lose cash day-in and day-out. They seem much less worried on that. It's a mystery to all of us.

Raja Kumar: Lastly I want to know what is your view on the dry bulk index, it's has been volatile, it has kind of lost quite a bit in the last month or so. So just wanted to have your outlook

Bharat Sheth: So what if you see, if you study history on dry bulk market, this is nothing new. And there had been months, in the past. And I would just say, if you went to, just go back to the last five years, you don't even need to go back a lot more than that, this has happened before. And then again, because all this business works on the margin, a few more cargoes come into the market, and the market can double at the same speed at which it has halved.

So those of us who have been in the business long enough just take it in our stride, because we have seen this happen often enough to know that the fundamentals of the business haven't changed or the fundamentals of dry bulk. The supply is very moderate. The demand is clearly there. So if the fundamentals don't change, these things will come back.

G. Shivakumar: Maybe we can take a couple of questions which are on the Chat. So the question is from Mr. Hitesh Patel of Capital Ideas. So he asked a question on the buyback as well, I think you have answered it. He said, your views on buyback, as you mentioned, GE Shipping is one of the cheapest companies, based on discount to NAV. Do you think at 0.5x price to NAV which is attractive, even after considering tax on buybacks that you have alluded earlier? I think you have answered this question.

Bharat Sheth: Yes. And it's not just the tax on buybacks, right, that is one thing. But the moment you do these things, there are a lot of traders, right, who just take your stock up with a view to speculate, then you pay distribution tax. Then if the whole thing is, it's just a lot less efficient at this stage in India. Unlike in the more developed markets capital markets.

G. Shivakumar: The next question was from Shivan Sarvaiya of JHP Securities. He said, you spoke about the possibility of tightening of the tanker market in H2FY22 or FY23. In this case, how are we looking at deploying our cash in acquiring new vessels, before asset prices react to the freight rates?

Bharat Sheth: Sorry, is the question are we going to buy right now?

Management: Yes, his question was, how are we planning to deploy? Are we planning, yes sort of, yes, are we going to buy? Are we looking to deploy --?

Bharat Sheth: No, I don't think we are, see there is a chance, I mean, obviously, if the tanker markets were to go up, asset values will go up, right, but I think a lot of the current value of the assets on tankers is reflecting that level of optimism, because today, if assets are earning just a margin over operating costs, and making almost 0% contribution to EBITDA, there is no justification on asset values where they are. So a lot of the forward news has been factored into today's price. We are unlikely to buy at these prices.

G. Shivakumar: Yes, so when he says before asset prices react to freight rates, which is that they seemed to have already priced in a significant increase in freight rates --

Bharat Sheth: We never know how much is factored into the current price, what we do know is a certain amount has been factored in, because there is absolutely no justification on these asset prices with current yield.

G. Shivakumar: The next question is from Amit Khetan of Laburnum Capital. We have seen good rates on dry bulk for the last six to nine months, yet the order book has gone up by just 0.9% from March, what's preventing ordering of ships? Is it skepticism on the strength of demand, constrained yard capacity or uncertainty around ships being compliant with future regulations?

Bharat Sheth: I think it's a combination of a couple of these factors that have been mentioned. I don't think it's to do with a concern on the market. It is much more to do with the, first of all, if you look at dry bulk, Korea has more or less shut its doors on building dry bulk vessels, more or less. That leaves you with Japan and then China. Now in Japan, they are very finicky, whom they will build for because a significant part of Japanese yards cater to Japanese customers. And only a very small percentage of Japanese yard cater to foreign customers. And that too, they only like to cater to customers who have built with them in the past. So they are very finicky in other words. That then leaves you with the China options. And China as you may be aware, have seen a lot of rationalization on shipbuilding capacity. And therefore, there is only so much that can now be built, that is #1.

#2 The yards are taking in a lot and lot of container order. Now, the margin for the yard in building a container ship is much higher than building a dry bulk vessel. So for the same space that a dry bulk vessels will occupy at the shipyard they would prefer to build a container ship as opposed to building a dry bulk ship. And therefore consequently, and with container demand the way it is, the yards are saying, first preference containers, second preference tankers, there is of course, LNG and all, I am not getting into all the categories. But one of the last preferences is dry bulk.

And of course, technology is always, but that technology is true for all asset classes, is not only dry bulk. So today, some people are concerned on what is likely to be the fuel of the future. I don't think anyone has a sensible answer to that. People are taking speculative bets, and it is the best workout fine, if they don't, then there is a challenge. So I think a combination of all this is reflecting the way people are behaving or reacting with our current market.

G. Shivakumar: Next question is from Vikram Suryavanshi. How is Contract Renewal Schedule in the gas segment?

Bharat Sheth: Yes. So we have one ship that we have just put away for two years. This was I think the new contract will start in December of '21. We have one vessel to be repriced, in end of February '22. And then we have a vessel to be repriced, during May '22. And then we have a small gas carrier, what they call the MGC, which will come up for repricing around July-August of '22.

- G. Shivakumar:** There is a question from Neerav Shah from GeeCee Holdings, while calculating the market value for the rigs for NAV purpose. What is the implied discount to our purchase price for the rigs? It is about 60%, I suppose. That is the implied. It's about that much lower -- 50% to 70% --
- Bharat Sheth:** Somewhere between 50% and 70% compared to the new building prices, yes, absolutely, yes. But of course, you can't take it to new buildings because you have depreciated it over 10 years or so.
- G. Shivakumar:** Yes, that's right.
- Moderator:** We have a question from Himanshu Upadhyay from PGIM. Please go ahead.
- Himanshu Upadhyay:** My question was, last time when the order book was low, in 2009-2010 and we saw furious amount of activity by private equity players. And we had a second hump, okay. And again, the payment terms were very lenient. So are we seeing private equity again coming back into the market? And has the payment terms also improved from the shipyard side? Or they remain the similar what they were at this point of time?
- Bharat Sheth:** So, first let me answer your question on private equity. We still haven't seen the private equity money coming in. I guess, a lot of private equity, people burnt their fingers the last time they tried to make a play in shipping, I think they timed it all badly. And of course, they invested in the wrong companies. On new building prices, because actually the yards are pretty full up till '23 and therefore, the terms are getting tighter, not looser for new buildings.
- Himanshu Upadhyay:** Is the upfront payment, which had gone down to 5% and 6%, moved back to something like 20% for the new order?
- Bharat Sheth:** For the smaller, I mean, for the mid to small players, it would be 20% to 25%. For the more established players, it may be closer to somewhere between 10% and 15% on the initial payments. But the other payments have got crunched into a smaller timeframe. You get contract, somewhere between 10% and 15%. And then you have a term which says contract for six months. So within six months you have paid close to 30%.
- Himanshu Upadhyay:** And one small question on this, in our presentation, we had stated that the demand for jet fuel is still low, and it is still running very low. Would it mean that once the recovery starts happening, the product tankers, the improvement in demand, yields and demand can be much higher than the crude oil?
- Bharat Sheth:** Yes we think so. So I think once the product, I mean once you get jet back into say, pre-pandemic levels or hopefully even higher than pre-pandemic levels. And the other commodity demand stays strong, I think there is every possibility and remember the product side, supply side is much more muted than crude. And of course, there is a lot of arbitrage. I think unlike crude, crude has

a certain amount of arbitrage. Products have a lot more arbitrage. And if this arbitrage starts working, we think the product market will rally ahead of the crude market.

Himanshu Upadhyay: And one thing is markets where the asset prices have run up so sharply, but the day rates are so low. What time would be good for in-chartering the fleet or we run a model of in-chartering also these ships. So when does it make sense to in-chartered Yes.

Bharat Sheth: Yes, so we are in the market to look at in chartering. Again, because there is a lot of optimism unfortunately in the market, we were close to negotiating some crude oil tankers, but there was a difference in the bid offer price. So, we couldn't conclude that. We are trying to see if we can do something on the product side, but again, there is difference between bid offers continuous work in progress from our side.

Himanshu Upadhyay: And when the level of difference between the bid and offer, will it be very significant and would that difference be justifying the current market price of ships, means just trying to understand what is the state of affairs of market, especially on tanker side, yes.

Bharat Sheth: So, there are different owners, as you know, ours is a very fragmented industry, right. Now, let us say that there are certain owners who need the time charter, because that's the only basis on which the banks will fund them. There are certain owners who don't need the time charter because they have a lot more equity in the ship. Now, when you in charter a ship also, you want to ideally go to the quality owner, correct. And more often than not, the quality owner has a lot more equity in the asset, and is therefore reluctant to come down on its charter rates or whatever he is aspiring to get. And as far as we are concerned, we want to be very disciplined, because I mean, obviously we can we have got the capacity to take the loss, but we would just like we have been successful in acquiring assets. And we have had a good track record in the last five years, the CFO has just mentioned that. We obviously want to make sure that we create a similar record when we in charter ships. So once again we need quality ships, it's easy to in-charter, but there is no point in-chartering a bad ship, because eventually you are the face of the customer when you in-charter a ship. And then that has reputational challenges. So #1, we will only in-charter a quality ship and #2 we will only in-charter it at a particular number. And currently there is a gap of approximately 10% between where we are happy to pay and what the seller wants.

Himanshu Upadhyay: And can it make sense on offshore side also?

Bharat Sheth: No, because offshore is a much more domesticated business, right.

Himanshu Upadhyay: So even on the boats side it won't make sense?

Bharat Sheth: No, not that much. I mean we could, but I don't think we are rich. And again, it doesn't move the needle. So we also want to now spend a little more time where if our decisions are going to go right, it starts moving the needle.

G. Shivakumar: We have a question on text box and it is from Mr. Chris Noronha. There has been an increasing focus away from Fossil Fuels, with companies pivoting strategically away from Fossil Fuels, given that your major asset classes are directed to transport or drilling for these resources, I would like your thoughts on what type of Company GE Shipping will be in 5 years?

Bharat Sheth: So, we think that the demand for Fossil Fuels whilst it may peak or some people believe it will peak in 2030 some people believe it will peak earlier, but I think there is going to be a demand for Fossil Fuels. And as far as we are concerned, if there is a demand and somebody needs a ship to move it, we will need to be in that space to move it.

Today if you see what has happened to the energy mix, it is precisely for the reason that people were reluctant to invest in Fossil Fuel, we are seeing a lot of the Fossil Fuel energy pricing at multi-year or multi-decade highs, for precisely this reason. And I think one of the lessons from this current reflection in the energy mix, is that whilst no one is against the challenges of climate change and decarbonization, so on and so forth, I think we need to do it in a much more calibrated manner, because any underinvestment for any length of time, can lead to significant price increases. Just see what has happened to gas, right, because I mean just see, natural gas has gone up, what is it, 5x or 6x. And the same without naming people, the same countries that were totally against Fossil Fuels are now saying please give us Fossil Fuels because otherwise we are going to have power shortages, winter is approaching so and so forth, right so these things are there.

So I don't think Great Eastern moving away from, yes we need to calibrate the fleet mix, so we too will be very alert to see what is our exposure to crude oil, what is our exposure to products, what is the exposure to ships which move coal etc. Our current focus over the next 5 years is going to be a lot more in making sure we focus on reduction in emissions and we improve our carbonization rating. So we are already taking multiple measures. We are making our ships more fuel efficient, our existing ships, by taking a lot of measures which we can do on existing tonnage to reduce CO2 emissions, to remain again at the top of the customer's list saying okay here is an owner who has successfully brought down emissions, who has improved it's CII rating so on and so forth. So that's where our current focus is.

And eventually there is no substitution, if everyone says, we don't want Fossil Fuel ship, we would love it, because then we could really buy cheap. But today if you look at what the world is saying, they are saying we all want Fossil Fuel ships that's why prices are not coming down.

G. Shivakumar: This leads to underinvestment in the sector, which again leads to then tightening of the demand supply balance yes. So I think Raja Kumar has a follow up question to this which is will mutual funds and financial institutions focus on ESG skip investing in GE Shipping given our offshore exposure?

Bharat Sheth: So well if they did, again it might give us an opportunity, I leave it to them to decide. Irrespective of what mutual funds and other investors may wish to do, we have ourselves setup an ESG team

because as a responsible corporate, we do want to focus on the best role that we can play in this area and make sure that we are not behind the curve on any of our actions. And that people recognize that here is an organization that is a good corporate citizen and is doing everything it possible can.

Now having said that, if investors say, oh, we don't want to invest here, fine that will give us a great opportunity on capital restructuring. But even that is not happening.

G. Shivakumar: So they are not. So because the focus on ESG so far is that you know it's on the governance aspect, it's also on the environment in terms of how well are we treating the environment in the context of our business. And it is clear and we have also put out a sustainability report this year, voluntarily where we have spoken about all the actions we are taking to reduce our carbon emissions. And that also I think is taken into account by investors when they look at our ESG score.

Bharat Sheth: Yes so that we are doing on our own voluntarily. It's not to try and say okay, please invest in the Company. As I have always said that shipping has to be privately owned, it should never be owned in public domain.

G. Shivakumar: Chris Noronha has another question, is the rotation of seafarers still a critical --?

Bharat Sheth: So if you have a vessel trading in the West of Suez Canal, the problem is a lot less, because more and more countries are now opening up to crew changes. I think if you have a vessel trading East of the Suez Canal of course with the exception of India, the Middle East has become a little more considerate on crew change. India has always been very considerate on crew change and full marks to the Government on this.

I think once you cross Sri Lanka, it's really becoming a challenge. So we really can't do any crew change in Singapore, China; limited crews change Korea, Japan, Philippines, Malaysia, Indonesia, Australia, New Zealand so on and so forth. So we haven't successfully done a crew change I would say the East coast of India and that remains a challenge. And just for your information, in the first 6 months, our operating cost on account of COVID, which includes crew change cost, has gone up by \$400 a day, across each of our 46 ships.

G. Shivakumar: Yes which has gone into our P&L.

Bharat Sheth: Which is already reflected in the P&L but I am just putting out some data on the COVID impact on direct operating cost.

Moderator: That was the last question. I now handover the floor back to Ms. Anjali Kumar, for closing comments. Over to you Ms. Kumar.

Anjali Kumar:

Thank you everybody for joining today and having such an interesting conversation on the industry. The transcript of this call, both the audio link as well as the video link, the transcript will be – in a couple of days. And other than that of course please feel free to connect with us if you have any further queries.

Moderator:

Thank you members of the management. Ladies and gentlemen on behalf of the Great Eastern Shipping Company Limited, that concludes this conference. Thank you for joining us, you may now click on Exit the meeting button. Thank you.