"GE Shipping Company Limited Earnings Call"

**February 12, 2018**

**MANAGEMENT: MR. G. SHIVAKUMAR – ED & CFO, GE SHIPPING COMPANY LIMITED**
**MS. ANJALI KUMAR – HEAD OF CORPORATE COMMUNICATIONS, GE SHIPPING COMPANY LIMITED**

**Moderator:** Good evening, ladies and gentlemen, thank you for standing by. Welcome to the GE Shipping Earnings Call on Declaration of its financial results for the quarter ended December 31st 2017. At this moment, all participants are in the listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question, please press * and 1. I now hand the conference to Ms. Anjali Kumar – Head of Corporate Communications at the Great Eastern Shipping Company Limited to start the proceedings. Over to you, Ms. Kumar.

**Anjali Kumar:** Good evening, everybody. Thank you for joining us on our call today. We have with us today our Chief Financial Officer, Mr. G. Shivakumar, he will give us a brief financial snapshot of the Q3 FY18 performance, after which we will do a usual round of Q&A with you. At this moment, please allow me to remind you that our discussion today may contain forward-looking statements and the actual results may differ materially from the results projected by those forward-looking statements. On this note, I hand over the call to you, Mr. Shivakumar.

**G. Shivakumar:** Thank you. Good afternoon, everyone and thank you for joining us for this call to discuss the results and the outlook for the company. Currently, tankers and especially crude tankers are experiencing the worst winter market since 2012-13, the last trough that we had and the second worst since 2002. Earnings for most crude tankers are below $10,000 in the spot market or $10,000 per day. However, that does not seem to have affected asset values yet. We saw in the last quarter that is between October and December, asset prices went up by about 5% for modern crude tankers. Product tankers as well are struggling to earn anything above $10,000 per day and asset values have held firm there as well in the last quarter.

The dry bulk market after seeing highs in Q4 of calendar year 2017 has come off slightly the BDI is down to about 1100 versus higher 1700 seen a couple of months ago. This could possibly be a seasonal down which traditionally we have seen first quarter of the calendar year. However, the rates still remain around and above $10,000 per day across the spectrum whether it is a Supramax, Kamsarmax or a Capesize. So between $10,000 and $14,000 per day currently is the Baltic Index, average of some TC routes.

With regard to the offshore business, two developments during the quarter and these are just operational developments. The contracts were awarded earlier and we mentioned them on the last conference call as well. The Greatdrill Chetna which was idling since end of 2016 and got a 3-year contract in November 2017 has gone on hire in the second half of January, little later than expected due to procedural issues. The Greatdrill Chaaya finished her 5-year contract in mid January, around the same time and is undergoing her 5-yearly special survey and is expected to go onto her new 3-year contract some time around end of March this year. Apart from that, we have landed a couple of contracts in the offshore business for the vessels. These are between 1 and 3 years, of course the rates are quite low given the state of the market. The market has not yet improved to any significant extent, () despite the oil prices having gone up and we have mentioned this in the past as well. There are a lot of leads and lags between what happens to oil price and what happens to the rates.

Utilization continues to be at low levels. Jackup rig utilization according to reports is somewhere in the region of 58%-59% and vessel utilization is apparently below 50%. This does not include vessels which are operating in the spot market. The way they calculate utilization for the vessels is those vessels which are on term charter which is 2 weeks or more.

The tanker order book continues to be fairly low about 13% for crude tankers, 10% for product tankers and for dry bulk, it is little lower than that as well. We expect that fleet growth for 2018 which is still a fairly strong year, we have 7% deliveries in 2018 for crude tankers and maybe 4%-5% in product tankers. We expect that this year will be another strong year for fleet growth for crude tankers at least on a gross basis and about a middling year for product tankers. So net-to-net, we expect fleet growth of between 2 and say 5% for product tankers and crude tankers.

One encouraging sign is that we have had quite a lot of scrapping in the first 5 weeks of the current calendar year. We have had more than 2 million deadweight of tankers already scrapped. So our run rate is going at about 20 million deadweight of scrapping. With the market being so weak, there are reports that there are quite a few VLCCs still lined up and looking to be scrapped. Scrap prices are quite high, they had gone up past $450 2 to 3 weeks ago and at those numbers for a VLCC, you would get $20 million as scrap price. So it makes it quite an attractive proposition to scrap the ship rather than undergo say a special survey or a dry docking which would cost $3-$3.5 million and we expect that people are taking advantage of this and scrapping their ships especially given where earnings are currently.

So the outlook is that we would expect this year at least a significant part of this year to remain weak for crude tankers. Product tankers hopefully should turnaround sometime this year as supply comes down and net fleet growth is maybe 2% or so. Dry bulk also is expected to have net fleet growth of only about 2%-3%, if not lower, and if we have the standard demand growth on the dry bulk side which is between 2% and 4%, we could have a decent recovery in the market for dry bulk as well. So that is where the outlook is.

The current net asset values for Great Eastern on a standalone basis is at about Rs. 364 per share. On a consolidated basis, the NAV is between Rs. 370 and Rs. 435 per share. Just to remind you, we give a range because we get a range of valuations for the offshore asset especially the rigs because the market is fairly illiquid and therefore the brokers give us a range of valuation, fairly wide range of valuations. So that is all from us. We are happy to hear any questions you may have.

One more thing that I need to point out is that in the last year, one of the things that have led to a very weak tanker market is a big drawdown in inventories. The oil demand growth was quite strong in last year in excess of 1.5 million barrels per day. There was a big drawdown on inventories to the extent of about half a million barrels per day with the result that the effective trade growth was much lower than the headline oil demand and coupled with a big supply growth, so we are talking about 5.5% for crude tankers and maybe 4.5% for product tankers that resulted in quite weak earnings for the year for tankers.

So with that, now we can move on to the question and answers part of this session.

**Moderator:** Sure, thank you very much. We will now begin with the question and answer session. We have the first question from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

**Vaibhav Badjatya:** I just have slightly longer-term questions on both of our businesses, Shipping and Offshore. So just wanted to understand that in Shipping business, we have the opportunity on two fronts which is basically to buy and sell the ships whenever you think is attractive and secondly to deploy the ships for different time periods. The market is fairly liquid on that front. But in offshore, we do not have these opportunities at least in the similar range as we have in shipping. So do you think that over long term due to these restrictions, our returns in offshore might be significantly lower than the shipping business?

**G. Shivakumar:** The factor that you pointed out is correct that we do not have trading opportunities in offshore; however, that does not mean that the returns will necessarily be lower. The return profiles will be different. We will not be actively trading that market because the market does not lend itself to active trading. Therefore, it is more likely to be a long-term source of income on the offshore side. So it does not necessarily mean that the returns will be lower. It is just a different profile of the way that we managed the business.

**Vaibhav Badjatya:** Would it not make it a more good part of our return will not be closer to industry normal return in the offshore business because as a means to add value to our returns from our superior knowledge or superior decision-making process, that seems to be quite substantially hampered in the offshore business just because of the nature of the business.

**G. Shivakumar:** You are right, that the critical factor for the success in the business is not the timing capability as it is in shipping and that is because it is not a commodity which is traded easily. However, the fact that it is not a commodity also gives some advantages which is that your operating capabilities are much more important in the offshore side of the business, your acceptability by customers and your operating capability, your marketing capability as well. So that gives the extra return. Your access to markets, your marketing capability or operating capability and that is what gives you the extra return there in place of the timing capability which exist in shipping. So we have focused our energies on building up those capabilities. We have access to our market which is a steady and hopefully a growing market which is Indian market and that will hopefully enable us to make better returns than our peers. Also, on the vessel side, we have marketed our vessels successfully internationally. We have worked all over the world including Brazil, Mexico, North Sea, Mediterranean, West Africa, South Africa, Middle East, South East Asia and that marketing capability also gives us the ability to get contracts and the track record and client relationship enables us to get contracts. It does not give us a huge amount of premium, but it gives us when there are two people including us competing for the same contract, a lot of our customers tend to prefer us for the operating capability. So that could add some element of improvement to our returns.

**Vaibhav Badjatya:** Just to lead to the other question from there so do you think that it is worthwhile to kind of have these two businesses completely separate or at later point of time demerge the two businesses and provide more options to the investors, do you think that it is viable proposition or do you think that there is some way to generate more returns when we have both the things under single company?

**G. Shivakumar:** So, there are no discussions on any of these options. As of now, it stays as a wholly-owned subsidiary. It helps us to because that is one part of the business which has long-term contracts and it is less volatile because of the long-term contracts versus the shipping business which tends to be volatile on an almost day-to-day basis. So as of now, it remains a wholly-owned subsidiary and there are no thoughts around changing that situation.

**Moderator:** Thank you. We have the next question from the line of Jinit Mehta from B&K Securities. Please go ahead.

**Jinit Mehta:** Sir, the sequential improvement in NAV, sir could you highlight from which segment this is on account of?

**G. Shivakumar:** On the NAV right?

**Jinit Mehta:** Yes.

**G. Shivakumar:** Tankers have gone up, so modern tankers have gone up between 5% and 10% across the board, older tankers which is more or less flat, but this is basically modern tankers which in value terms is about two-thirds of our fleet.

**Jinit Mehta:** Sir, you mentioned that this year probably would be very heavy in terms of tanker deliveries. Now I think on the earlier call you had mentioned that probably in the second half of this calendar year, you would see some revival. So you think that would be postponed now and probably from next calendar year, the expected revival will kick in?

**G. Shivakumar:** Product tankers should be okay from second half of this year. Crude tankers, there are heavy deliveries, but on the flip side, we have the scrapping which will happen more in crude tankers because they are much more sensitive to age and most of the scrapping that has happened this year when I said more than 2 million dead weight, most of it is big crude tankers. So it could happen by second half of this year or it could happen early next year, but we are expecting the turnaround to happen sometime between mid '18 and mid '19, that would be our base case.

**Jinit Mehta:** Could you indicate that the age profile of the crude tankers, how much is beyond 15 years of the current fleet?

**G. Shivakumar:** I do not have it with me currently, but we can send you the details.

**Jinit Mehta:** Sure. And just one last question, sir. Sir, the interest cost has sort of sequentially declined. The debt remaining the same. So any?

**G. Shivakumar:** This you are talking about the…

**Jinit Mehta:** Consol sequential or interest cost? It is 145 crores last quarter, second quarter FY18, it is 85 crores this quarter.

**G. Shivakumar:** There are two things. One, we did a refinancing in Great Ship and we took the impact of the upfront costs which were paid, we took them all in the last quarter so that has some effect. . And we also had some exchange difference last quarter, the rupee weakened. So some part of that weakening we will have to take to the interest cost and now that has been reversed. So this is a double effect.

**G. Shivakumar:** I think we can close the call if there are no further questions.

**Moderator:** That is right. There are no further questions.

**G. Shivakumar:** Then, we can close the call.

**Moderator:** Sure. I would now like to hand the conference back to Ms. Anjali Kumar for any closing comments.

**Anjali Kumar:** Thank you. We will put up transcript of this call on our website very shortly, so thank you all for joining us.

**Moderator:** Thank you very much. On behalf of The Great Eastern Shipping Company that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.