"The Great Eastern Shipping Company Limited Financial Results for the Quarter-Ended March 31st, 2018 Conference Call"

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Moderator: Good Evening, Ladies and Gentlemen. Thank you for standing by. Welcome to the GE Shipping's Conference Call on the Declaration of its Financial Results for the Quarter Ended March 31st, 2018. As a reminder, all participant lines will be in the listen-only mode. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. 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 over to Ms. Anjali Kumar -- Head of Corporate Communications at The Great Eastern Shipping Company Limited, to start the proceedings. Thank you. And over to you, ma'am.

Anjali Kumar: Thank you. A very warm welcome to all of you for this FY 2018 Conference Call of Great Eastern Shipping. We have with us our entire team of the management and I am hoping that all of you would have got hold of the results copy because it was declared just few minutes ago. And anyway, our CFO will take you through the highlights and thereafter, we will have a question and answer session.

Over to Mr. Shivakumar.

G. Shivakumar: Hi, Good Afternoon, everyone. Just to take you through the broad headlines on the results. I am talking about the full year results. Great Eastern Shipping on a standalone basis has declared a standalone profit after tax of Rs. 160 crores and on a consolidated basis we have a loss of Rs. 210 crores for year. This loss is on account of two major items which we have also given details of in the notes to our results. I would like to reiterate them. Greatship (India) Limited, which is a wholly owned subsidiary of the company in the Oilfield services business, has recorded a deferred tax liability of Rs. 270 crores in the consolidated results. This charge is a result of temporary differences as per IndAS 12 which is on Income Taxes and this has resulted from the purchase of the rigs by Greatship (India) Limited from its Singapore subsidiary during the year.

The second item which we would like to highlight is that there is a provision for impairment made by Greatship (India) Limited on a consolidated basis which is total of Rs. 206 crores. This is an impairment related to some of the offshore supply vessels. Both of these are non-cash charges and excluding these non-cash charges the results would obviously have been better by Rs. 476 crores. So that is on the results.

Whatever questions you have on those items, we can discuss them. Now, let us look at what has been happening in the markets in the last quarter. The Crude Tanker market has had its worst Q1 of the calendar year since 1990, this is in terms of freight rates. U. S. production is up about 1 million barrels a day year-on-year and therefore, imports are down almost half a million barrels per day. Chinese imports continue to grow but only half million barrels per day. As a result, the growth in demand was insignificant and with the fleet having grown year-on-year, the markets were extremely weak. Crude Tanker freight spot markets through the quarter were significantly below breakeven levels.

Product tanker freight rate was slightly better because of higher movement of products. One of the big factors affecting demand for ships was a drawdown of inventory and we have discussed this in the past that contango structure, where forward prices are higher than current prices is better for tanker shipping and tanker demand. Here, prices have been in backwardation, that is forward prices are lower than current prices for quite a few months now. Therefore, people are drawing down from inventories to consume oil. And though the end-user demand for oil products has been strong, a lot of it has been met from existing inventories and therefore, the requirement to transport oil has been lower than the headline demand for consumption.

The good news here is that since there have been drawing down from inventories, inventories have dropped to levels close to those seen four or five years ago, which means that the overhang which got built up in 2015 and 2016 is effectively getting removed from the inventory. And once that tightens, we expect that there should be some urgency in importing to consume, and also in building the inventories back up.

Coming to LPG, the big driver of LPG markets over the past few years has been U. S. LPG export. These dropped by about 17% in the quarter, that is Q1 over Q1, and this was mainly because of cold weather leading to higher U. S. consumption for heating. As a result of this, LPG freight markets were also extremely weak. This financial year LPG spot freight rates have been at their lowest since 2009.

Coming to the Dry Bulk trade. Dry Bulk trade also grew slightly during the quarter. While Chinese Iron Ore imports grew only marginally, coal imports were up by about 10 million tonnes.Though the Dry Bulk markets were relatively weaker than expected especially for cape sizes, the subcapes did quite well, but the Capesizes were not as strong as it was expected. But these capes have now strengthened after the end of the quarter. Currently, Capesizes are earning at about $18,000 per day in the spot market.

On the supply side, the highlight was the rapid pace of Crude Tanker scrapping. Almost 7 million deadweight of crude vessels were scrapped, giving a negative fleet growth for the quarter in Crude Tanker. Product Tankers had a marginal positive fleet growth. Dry Bulk scrapping, on the other hand, was much lower at only 2 million deadweight or 0.25% of the fleet. So the Dry Bulk fleet has grown by about 1% in the quarter.

The order book currently stands at about 13% for both Crude Tankers and for VLGC that is LPG ships and at about 9% to 10% for both Dry Bulk ships and for Product Tankers. Considering the low freight rates and where the time charter rates are, we have consciously stayed away from fixing too much of our capacity. As a result, we have more than 80% of our capacity for FY 2019 open. This gives us significant leverage to a market recovery.

Coming to the offshore market, it continues to be challenged, though the strength in oil prices that we have seen in the last couple of months should result in some improvement over a period of time. And the good thing to report is that for four of our vessels, we have obtained short-term contracts of nine months in the Indian market. So, our utilization is likely to be quite strong.

Coming to asset prices, tanker prices dropped by about 5% to 10% in the quarter while bulker prices were flat to marginally positive. As a result, the standalone NAV stood at about Rs. 357 per share.

In offshore, the asset valuations dropped further especially for the vessels and while there has been some buying interest, it has not yet resulted in any increase in prices. So, the consolidated NAV taking the mid-point of values given by brokers, stands at between Rs. 375 per share and Rs. 380 per share.

And with that, I come to the end of the update. And 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. The first question is from the line of Aditya Bapat from Axis Capital. Please go ahead.

Aditya Bapat: Sir, firstly if I may ask. Can you please talk a little about the global capacity, how is the addition in the scrappage happening both in the Dry Bulk and the Tanker segment? And how do we see this probably capacity addition or depletion impacting the asset values going forward? That is one part of the question and if you could just elaborate, how does this thought process relate to our ordering of two new vessel which is Jag Rahul and Jag Viraat, if I am not mistaken.

G. Shivakumar: So just one thing I would like to correct. Jag Rahul is a bulk carrier which was sold in the last quarter, we delivered it in February. Jag Viraat is a vessel that we have contracted to purchase, and we have taken delivery a few days ago. Jag Viraat is a VLGC, a very large gas carrier. The other ship that we have contracted to purchase is another gas carrier, mid-sized gas carrier which we will take delivery in the next few days. Now coming to your first question which is on how the fleet is developing. Scrapping is usually a function of where freight rates are and considering where freight rates have been for crude tankers, we have as I mentioned earlier, seen a lot of scrapping of crude tankers. About 7 million deadweights of crude tankers were scrapped in the first quarter. And the new ships which came into the fleet was less than that number. So giving a negative fleet growth on crude tanker. This has not happened for product tankers because they are less sensitive to the markets and Dry Bulk markets in any case are on the recovery path and people are much more optimistic and therefore, Dry Bulk scrapping also has been quite low. In tankers we expect that if markets stay like this we will have significant scrapping though maybe not in the run rate of the first quarter, but we will have significant scrapping in this year which means that you could end up with fairly low fleet growth somewhere between 2% and 4% in Tankers and hopefully at the lower end for Crude Tankers. Dry Bulk, in any case, the fleet growth was not expected to be very high, but we would expect it to be somewhere around the

3% range. The bad news is that quite a few VLCC's have been ordered this year and the number of VLCC's ordered exceeds the number of VLCC's which have got scrapped in this year. So, people are seeing some opportunity in ordering the ships though we hear prices have also picked up. So prices are up by maybe 3% to 5% for ordering. People are thinking of putting in options of scrubbers. Maybe they are trying to prepare themselves for the new regulations. This does not seem to make sense considering where the market is but maybe they have some different compulsions of trying to rebuild their fleets, etc. But this is what has been happening. So we do not expect fleet growth to be very high, we expect this year to be somewhere between 1% and 4% across most of the market sectors. Similar numbers next year but all of this will be subject to what happens to freight rates. There is likely to be some pressure on scrapping as a result of the new regulation, the Ballast Water Treatment, etc. Maybe, as a result of the new sulfur emission norms, which are slated to come in from January 2020. So it is tough to see how that could develop. But overall, if freight markets remain where they are for the tankers there will be scrapping and there will be significant amount of scrapping happening in this year. Does that answer your question?

Aditya Bapat: That does, sir. And just wanted to take this point a little forward, we have seen the TCYreducing a lot over Q3 and Q4. So just wanted to understand, you highlighted two things, one is the increase in the production in the U. S. and the second is the obviously the capacity. Which one do you think would have a larger bearing on TCY?

G. Shivakumar: In the TCY both the sides have exerted pressure actually. So, the fact that the headline demand for oil growth and demand for oil did not translate into demand for transportation of oil due to drawing down of inventories and the drawing down of inventories was almost to the extent of 1 million barrels per day. So that is one thing so that demand itself got suppressed. At the same time we had strong fleet growth of 4% to 5% and therefore, rates have been poor. This is across all the types of tankers. So, it is both sides really. Demand slowed down and when I talk about demand slow down, it is not a slowdown in demand for oil, it is a slowdown in demand for carriage of oil because of drawing down from inventories. And at the same time, the fleet has been growing significantly. So, there is pressure from both ends. Lower demand growth, higher supply growth.

Aditya Bapat: Okay. So I am sorry, I am just harping on this, but one last point. Is my understanding correct that since we are at such low end of the inventory cycle and with such heavy ordering done so early in the year in the calendar we find that the TCYs would be more or less stable going forward through the year? Is that a fair expectation to have?

G. Shivakumar: Stable at these levels is quite terrible because these are well below breakeven.

Aditya Bapat: No, coming back to 16,000 odd levels or even 15,000 odd levels?

G. Shivakumar: I do not know. We expect that the market should start balancing maybe in a year's time. By end of this year or by middle of next year. Somewhere between end of 2018 and middle of 2019 and again that is current market consensus as when the market is likely to balance. In Product Tankers maybe a little earlier, in Crude Tankers maybe a little later. So that is where we expect balance to come in which means that TCY should start picking-up. So, freight rate should start picking from there, from that point on. But at these current levels, it is just unsustainable, there will be a lot of scrapping happening, if these levels sustain. And we have seen in the past, we have seen this in 2012 & 2013.

Aditya Bapat: Right. Great, sir. Thank you. Just one last data point from my end. I missed your NAV numbers, if you can….

G. Shivakumar: Yes, standalone 357 approximately and the consolidated NAV, our estimate is 375 to 380.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: I have two questions. So on the offshore part of our business. What is your outlook for next say one year, two years, three years, in terms of profitability excluding the one-time hit that we have taken in this quarter? What would be the outlook on a normalized basis?

G. Shivakumar: Yes, okay. So we do not provide guidance on earnings. However, currently, we have all four rigs working. Two rigs have been repriced in the current market which is a very low level and we have three years contract. So they will continue from now till early 2021. A lot of our vessels are working now. So our utilization for vessels is also likely to improve from last year. However, the current rates are poor, we are focusing on utilization. Of the old contracts that we had, one is going to get over at this time next year and the fourth rig that we have, the contract will get over in early 2020. As regards the market recovery with the oil price going up the way it has, we expect that the activity for exploration and production, should increase. Now, there is generally a lag between the price change and the activity, we saw this in 2009 - 2010 and we saw it on the way down as well and we will probably see it on the way up. We expect that by the end of this year there should be significantly more activity. We have already seen the North Sea pick-up significantly in terms of the rates for vessels in the spot market. North Sea is one of the indicators of where the market is seeing demand and how the market is seeing the future. We hope that this is an indicator of how the other markets are going to perform in the coming quarters. In a normal market, it should pick-up with oil at 70 plus. There should be definitely an increase in E&P activity and it is expected that it should result by end of this year in an improvement in utilization and maybe sometime next year in improvement in day rates as well. So that is how we see the market panning out, improvement in utilizations by end of this year. I am talking about the global markets, not our utilisation.

Vaibhav Badjatya: Got it. I think, that answers my question. On the second part of the question which kind of is slightly more fundamental and long-term in nature. Based on earlier conversations on the concalls, what I understand is that most of the assets because they are traded in dollar, we also use to convert our liabilities to the extent possible into dollar. Now that result into investors, shareholders looking at dollar balance sheet. Now, that is what I was wondering whether it is a good policy to have because if you think that there are two kinds of shareholders whether there are foreign shareholders or the Indian shareholders. The foreign shareholders anyway would have their hedging in place given that they are investing in your company, they are investing in India. They would have already had that hedging strategies in place. For Indian shareholders having U. S. dollar balance sheet anyway does not make sense because they generally do not hedge themselves assuming that they are buying dollar balance sheet. So I just wanted to understand management perspective as to what is the overall logic and rationale of having the U. S. dollar balance sheet?

G. Shivakumar: So we do not have a U. S. dollar balance sheet but we have U. S. dollar liabilities. We borrow in dollars, if that is what you are asking.

Vaibhav Badjatya: Yes. I mean in terms of underlying matching of the assets and liability, you hedge liabilities to dollars because your underlying assets are in dollars.

G. Shivakumar: That is correct, yes. So yes, we do that because that is part of our risk management. We say that our assets are in dollars and our flows are denominated at least in dollars and therefore, our liabilities also should be in dollars. So that is our risk management principle here. Because we do not want to take a currency call in this.

Anjali Kumar: The business inherently is a dollar business because the assets are quoted and traded in dollars all over the world**.**

G. Shivakumar: And that is the reason why we borrow in dollars against our assets. If the question you are asking is why are we borrowing in dollars?

Vaibhav Badjatya: No. So what I was trying to understand is that, if you do not want to take the risk on the currency, I mean anyway by default your liability side, most of the liability side is in rupees. Now, either you convert the whole of the asset side into rupees, or you can convert the whole liability side into dollar. So, you are exercising an option to convert liability side into dollars. So would it not make sense more to have the overall balance sheet and risk management that the way of hedging your assets by converting into rupee.

G. Shivakumar: No. Okay. So, what you are suggesting. How do we hedge the assets? Unless you are saying, we just keep selling our revenues forward.

Anjali Kumar: That is only freight**.**

G. Shivakumar: Yes, we cannot change our balance sheet. Our balance sheet is dollar assets, earnings dollars. And it has on the liability side equity capital which is in rupees and debt which is in dollars. Okay, we can change the debt to rupees but then we have got a tremendous mismatch between assets and liabilities currency, we do not want to take that risk because we are not experts at that.

Vaibhav Badjatya: So I mean there is no way whether you can I mean on the asset side you can try to convert your dollar exposure?

G. Shivakumar: Okay, if the asset side we convert everything to rupees by just selling forward. That does not make sense because then you have got your dollar liabilities. And your competition is with people who have dollar assets and dollar liabilities. So, we are trying to compete in the market. I recognize that there is a small issue. I do not see why it is an issue for the shareholder that we have a dollar business because it is like any other industry which earns in dollars. So, there is no issue for a shareholder to have to hedge this.

Vaibhav Badjatya: Right, fair enough. Okay, I think and that is it from my side

Moderator: Thank you. The next question is from the line of Sanjeev Pandiya from Property Management. Please go ahead.

Sanjeev Pandiya: I just wanted to get a view on your re-leveraging strategy, if any? In the sense that I mean big picture I think of GE Shipping as someone who survived a serious downturn long-term in freight rates and has sort of reduced debt painfully over the years. And now, we are sitting at the bottom of the cycle. So this is a big picture question where I am trying to gauge your forward view of freight rates through your re-leveraging capacity. Should you be holding cash and conservatively keeping your assets at a point where you are able to service that and basically managing the downturn or should you be looking up at coming upturn which we find in more cyclical people are not able to see. So, to that extent, should you be sort of adding on to assets and waiting for an upturn?

G. Shivakumar: Thank you for your question and thank you for noticing the way we manage the cycles, that is a good observation. Our guiding principle is that we hope for the best but we prepare for the worst. So our risk management puts in place what kind of risk we can take with regard to leverage. And though we have fairly strong views on what is likely to happen to market in terms of how the rates are going to move, asset prices are going to move, etc. our focus is on longevity, we will not put the company at risk in taking those bets. Because our focus is, as you pointed out, that we need to ride out the cycles and we need to provide for a chance of our being wrong with regard to the timing of the recovery. And we have seen this happen too often in our industry, unfortunately. That it is just a question of being able to ride out that market and sometimes people just cannot ride it out and they miss the recovery by a few months or by a few quarters. We do not want that to happen. And that is why the kind of the leverage that we have may seem suboptimal. But I would like to point out that we have increased our leverage significantly in the last two years when we have done this expansion. We went up from 32 ships in March 2016 to next week we will be 49 ships. And we have done that by taking on a significant amount of leverage. So we have done $400 million of CAPEX in this period. On a fleet side, and that on the fleet value that we had was $650 million. We have done a very significant expansion. So we think that we have levered up very significantly. In our view, we have taken a lot of leverage in these last two years but this is a level at which we are comfortable. We are not going to bet the house on this on the timing of the market recovery. And the very thing that is helping us being able to ride out the cycles is coming from our not taking those bets which can risk the company itself. I know that is far off, we still have significant amount of cash, we have significant amount of leverage capabilities, but this is how we see the cycles and this is how we think that we have got a solid amount of capacity. 49 ships and almost 4 million deadweight is the highest we have been in our lives. We are happy with that capacity, if we have opportunities to buy ships even more cheaply, we are okay with it. But we are not likely to lever up much from here. We are not going to go up significantly from these levels.

Sanjeev Pandiya: So do I take that to sort of reflect your view of potential for upside?

G. Shivakumar: No, it's not because we do not believe in the upside. It is because we provide for not being right.

Sanjeev Pandiya: Okay. So my little aggressive question then while I can understand your conservatism, in fact, that is what we are buying as shareholders. We are buying last man standing in a very bad industry. We are betting on that whenever that last man standing, this spectacularly at least in my personal life. Whenever that last man standing is really the last man standing, things happen that nobody expects. So you should also be I mean it is quite obvious that you see yourself exactly the way we are seeing you then what is your view of coming, you were talking about scrappage rate speaking I mean we think that almost about what is your understanding of the proportion of world shipping that is today under water? I am talking about all segments together you know world shipping as a total that would be underwater and unable service debt, I mean these are all most of the shipping capacity would have got added around 2006, 2007 to 2008. And they would be under water and those loans will be coming up for repayment and those loans are not obviously going to get rolled over. So this is a sort of credit recession. And in that recession, you are kind are kind of last man standing like this, like just you agreed. So you can also see that there will be an eventually an upturn I mean the situation is not sustainable. But at the point of the upturn which will correct faster. Your ship rates will correct faster or freight rates will go first?

G. Shivakumar: Yes. So let us come to this. the first thing I would like to say is one thing I left out in response to your question on leverage. Leverage does not just come from taking on more debt or drawing down from cash. There is also operating leverage. If you have been following us for some time you know that we typically tend to have 35%, 40%, 45% fixed on time charter at any point in time. Now we are down to below 20%. This is the other leverage that we have, which is we are saying let us have our operating days open because the market is likely to recover, we do not need to fix at the current low rates so that we can take advantage of market recovery if it comes, okay so that is one. So we have taken more leverage. We have taken balance sheet leverage of course in the last two years. Now coming to your point on the debt. I think we are way past when ship loans became stressed and ship owners became stressed that happened maybe five years - six years ago, and that is all past and the cycle continues and there are people who are stressed today and people who were stressed five years ago and it maybe be some of the same people also. So ships were available cheap. They were available very cheap in dry bulk two years ago. We bought a few of the ships. So the last man standing is not the critical edge, it is good to be the last man standing. However, the question is whether the ships will survive or not and it does not matter whether their existing owners are able to survive or not because if the ships survive, somebody will buy them cheap and run them and compete in the market. The major change can come if the market remains low for a long period of time- then the ship will get scrapped because nobody will find it lucrative to run that ship. That is what needs to happen. That is what is happening in the Crude Tanker market. Rates are so low that people are saying it does not make sense to run these ships, let us just sell them for scrap. And scrap prices happened to be high enough and therefore, they are getting a good price. So that is what happening now really. And so yes, we intend to be a survivor through a terrible market cycle and we intend to have the capacity open so that when the recovery comes and it eventually will come at some point we are there to take advantage. We have the ships to take advantage of the increase in freight rate, we have the ships to take advantage when the asset prices go up and maybe we can sell some ships and book some gains.

Sanjeev Pandiya: So do you have a sort of a timeline because this is why we are really, the reason why we are excited about you?

G. Shivakumar: Yes, we have a timeline in the sense that we would like the recovery to come tomorrow morning. However, the market is not that accommodating.

Sanjeev Pandiya: Your view will be better than mine.

G. Shivakumar: No, unfortunately, that is not really true. There are too many factors at work. However, we can wait. That is a great thing about being more conservative. You do not have that urgency of needing a market recovery to happen quickly. And that is what we are playing for. It does not matter whether it comes in three months, six months or nine months. Whenever it comes we will be there.

Sanjeev Pandiya: Is it three months, six months, nine months or is it few years away?

G. Shivakumar: I do not think it will be a few years away because if the market stays like this for more than year there will be a lot of scrapping and removal of capacity, we saw that in Dry Bulk. When the market stayed very low people scrapped a lot of ships and that laid the foundation for a market recovery, so it will not be a few years. If it is a year, year and half, it is good eventually for the market because there will be so many ships scrapped that the supply will get constrained.

Sanjeev Pandiya: Okay. I have another hypothesis, can I test it out with you?

G. Shivakumar: Yes, please and the last one because we have few others in the queue.

Sanjeev Pandiya: Which is that freight rates will go up first because that is what happens at the end of credit….

G. Shivakumar: Yes, you asked this question. Yes, typically freight rates go up first before asset prices go up. However, in the Dry Bulk cycle, we saw freight rates went up a little, but asset prices went up a lot because they went down a lot before that happened. That is probably because there is a lot of money waiting to be invested and which gets excited as soon there is one small sign of turnaround. So it could well happen that asset prices go up ahead. The normal thing is for freight rates to go up first followed by asset prices. But we saw in the tanker market when the prices dropped in 2016 prices dropped before freight rates dropped, so there is something else at work here. We do not know what it is maybe people are forecasting and getting out ahead of a downturn or getting in ahead of an upturn.

Moderator: Thank you. The next question is from the line of Apurva Sharma from DHFL Pramerica Asset Management. Please go ahead.

Apurva Sharma: This on the LPG segment, so since we have increased our fleet size, so what is your view on that segment, LPG? And second question is do you think the asset prices have bottomed out on LPG?

G. Shivakumar: I will answer your second question first. The LPG sector is not as liquid as the other sectors, so there are not many of those ships which are traded. However, prices are at a very low part of the cycle. We do not know whether they have bottomed out, but they are certainly at a very low part of the cycle. Your question was on where we see the market recovery?

Apurva Sharma: Yes.

G. Shivakumar: Yes. So the cause of the weakness of the last quarter is, as I mentioned, U. S. exports dropping because of local consumption being higher than expected due to the weather conditions. Now, oil prices being where they are, we expect that production should grow and which means that exports will grow and that being the longest haul trade, we expect that the demand for LPG vessels will grow. Eventually, the market will go up from the levels that it is at currently. That is our outlook for LPG, and whether it happens within the next three months or six months or it happens by the beginning of next year is anybody's guess.

Apurva Sharma: Okay. And one more question on the Crude Oil Tankers our second-hand vessel value, what do you think, what is your view on that?

G. Shivakumar: Yes, prices are pretty much near the bottom, they are probably somewhere between the 10th and 20th percentile of long-term values. It is surprising, they have not gone down further considering where freight rates and how terrible they have been but they have held up reasonably well, maybe they are being protected by scrap prices but that is at the very older end. Even modern vessels have not dropped too much in value as far as we have seen. Maybe, people are staying off selling because they are expecting the recovery to happen so unless you are highly stressed, you do not sell.

Apurva Sharma: Okay. So you see more or less this is where the prices will be?

G. Shivakumar: Yes, 5% - 10%. But not really that much more room.

Apurva Sharma: Okay, because of the scrappage support.

G. Shivakumar: That is right. And yes, there seems to be some confidence here.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Sir, just on the hypothetical basis the two rigs which you had contracted sometime back had it been done right now, how much would be the freight rate increase in that approximately?

G. Shivakumar: So are you talking about the rigs which we contracted within the last six months?

Ritesh Poladia: Yes.

G. Shivakumar: There has been no pricing after that. That is the last pricing we have in the Indian market.

Ritesh Poladia: So one more rig would be up for renewal next year?

G. Shivakumar: That is correct.

Ritesh Poladia: Do you expect the rates would increase by that time?

G. Shivakumar: I do not know, it is still quite some time away, we should be having a recovery in utilization in the offshore drilling market by the end of this year. So you may have an improvement in rates. Again, it depends on the competition in that particular tender.

Ritesh Poladia: Okay. And in offshore logistics, how much utilization you expect to improve?

G. Shivakumar: No, currently all our vessels are employed as it stands today.

Ritesh Poladia: Okay, everything is employed as of now.

G. Shivakumar: Yes.

Ritesh Poladia: And that would be at least for nine months?

G. Shivakumar: No, there are some which are in old contracts which will be getting over in the next few months. There is one vessel actually which is sort of on standby but all of them are on contract.

Ritesh Poladia: Okay. And one final question, what is the impact on GE Shipping fleet with this new emission norm as and when it gets implemented?

G. Shivakumar: Yes, we will have to comply with it just like every other shipping company in the world. We will have to decide. So there are couple of options which is that you can just go and burn low sulfur fuel or you fit a scrubber on your ship, which involves a significant amount of CAPEX and has some operational issues. So we are in wait and watch mode and seeing what happens and how the market develops before we make any commitment towards CAPEX.

Ritesh Poladia: Do you expect this emission norms to get delayed?

G. Shivakumar: We do not know really. I do not want to hazard a guess on it. On whether it get will get delayed or not. As of now, they are saying they are on target to start it on 1st January, 2020. The one impact that it will have especially if everybody moves to low sulfur oil which is gas oil which is significantly more expensive than the fuel oil that we currently use is that ships will be running at a slower speed because the speed optimization depends on the price of fuel. At a higher price, your optimal speed is lower, which means that capacity will be effectively reduced. That is one impact which could happen from the new sulfur norms.

Moderator: Thank you. The next question is from the line of Trilok Agarwal from Birla Sun Life. Please go ahead.

Trilok Agarwal: One thing I wanted to check what is your TCY?

G. Shivakumar: So we have that in the Press Release, in which particular sector are you referring to?

Trilok Agarwal: In products.

G. Shivakumar: Our current TCY in the last quarter is about $14,500 including gas.

Trilok Agarwal: And what is the like you mentioned in the opening remarks you are substantially below breakeven. So what is the average breakeven?

G. Shivakumar: No, Product Tankers are definitely above breakeven at these numbers.

Trilok Agarwal: Okay, and Dry Bulk are significantly below is what you are saying?

G. Shivakumar: Not really. Crude Tankers are the ones which are really operating below breakeven because their capital cost is so much higher.

Trilok Agarwal: Okay. And apart from that your assessment that you highlighted in the beginning that on a six months to nine months is where you believe the things should get start improving because either the scrappage will go up or they will not operate at these levels. What is your opinion about other segments?

G. Shivakumar: Sorry, what is the?

Trilok Agarwal: Outlook for other segments?

G. Shivakumar: For Tankers, we expect that this turnaround should happen between three months and 12 months from now. Dry Bulk is already in the midst of its turnaround. So it is already fairly strong, Capesize are earning $18,000 per day, which is a pretty strong rate. The sub-capes which is the Kamsarmaxes and Supramaxes are earning $11,000 - $12,000 a day.

Trilok Agarwal: The index has not kind of moved up much, right? Is it anything to asset price going ahead of the freight rates, is that correct?

G. Shivakumar: They did but they have not gone up that much now. So what happened also was that the first quarter was a little weaker than people expected especially for the Capesizes. So the Capesizes average I think somewhere around $11,000 while the sub-capes also averaged around the same number. So asset prices went up very marginally in this quarter.

Trilok Agarwal: And one last thing just like strong with strong balance sheet like GE Shipping, I am presuming there will be handful of companies globally, right with such strong balance sheet and ability to add fleets. In this scenario, would you believe that supply should be constrained going ahead because you have highlighted 2% to 4% of addition, will that also is a probably, will that even come down further?

G. Shivakumar: Yes your statement is correct about the balance sheet but it is only correct in relation to the listed universe of shipping companies and that constitute maybe 10% of the overall fleet of commodity ships, bulk carriers and tankers. I am not referring to say the Japanese companies or the cargo owners having ships like a steel mill or a power plant. Excluding those, the large proportion of the fleet is in private hands and we have found very often that when we are competing for a ship, it is often with private buyers especially Greek buyers and they seem to have a lot of funding capability. So, a lot of the private players seem to be sitting on a lot of cash as well and that is something which prevents prices from going down too much. Maybe that is one of the things which has protected tanker prices because there are buyers out there looking for bargains.

Trilok Agarwal: But will that I mean that may remain going ahead because the cost of capital is far-far lower than a lot of others?

G. Shivakumar: That is right. So yes your question was on supply going forward, right?

Trilok Agarwal: That is correct.

G. Shivakumar: Yes, the one constraint in that is likely to be yard capacity where some of the yards are closing down. a lot of the yards in China have closed down. However, there are enough yards remaining in operation to produce a reasonable number of ships. Not as many as in the 2010, 2011, time frame because that has dropped by at least 40%. But we think the yards have a capability to produce at least 4% to 5% gross fleet growth in a year. This is getting constrained. Again, there are some trade disputes with regard to issuance of refund guarantees, etc., on whether it is a subsidy being offered by the Government. But these yards will survive. A lot of the small yards have gone out of business, but some of the big yards will survive. So the ability to produce those huge number of ships is no longer there but there is an ability to produce, it is not going to be zero fleet growth because ships are not being produced. And so far, money has been available. So I do not know if the situation will change in the general tightness in money. It is not a function of the cost. Because the cost is not too high, you can still get 6% debt to 7% debt and people will order. Ship owners will order ships if they find good project, if they are getting 7% debt also. The issue will come if it is not available at all, which is quite far away, I do not think we are anywhere near that situation where there is no money available.

Moderator: Thank you. The next question is from the line of Rajakumar, an Individual Investor. Please go ahead.

Rajakumar: Actually, I have three questions. To start with I am just looking at your P&L, I see that you have a loss of on derivative transaction which is kind of getting offset with the gain on foreign currency transaction. So it looks like we have to read the numbers together whatever gain that we have got because of the rupee depreciation, it got offset by the hedging that we have done. So is my assumption correct? And so I just want to know how much of revenue is kind of hedged and also if you can indicate what is the rate at which it is hedged and did we expect a similar number for the subsequent quarters as well or do you see that we needed some benefit out of further rupee depreciation in the forthcoming quarter? That is my first question.

G. Shivakumar: Yes, so let me just finish this one. One is by hedged you are thinking selling our revenues forward like say the IT companies do, we do not do that, except very marginally if at all. This is not relating to that activity of selling dollars forward. I mentioned to one of the earlier callers, our liabilities are in dollars, our flows are in dollars and there is no need to hedge. Our outflows in terms of interest and repayments is in dollars. If we sell our dollar revenues forward, we are creating a mismatch. In the sense that we will convert our inflows into rupees and our outflows will continue to be in dollars. So, we do not sell forward. Our sale forward has happened by converting our debt into dollars itself. So this is as a result of the revaluation. So let me tell you what the derivatives are? We borrow in rupees, we issue bonds in rupees, this is a non-convertible debenture and we swap into dollars. The change in mark-to-market on that swap comes into the P&L account. On the revaluation of foreign currency, we have some dollar balances in our accounts which we use for operating purposes. In this instance, we were at Rs. 64 to the dollar in end of December. We were at Rs. 65 to the dollar in end of March, that Rs. 1 gave a benefit in revaluation of foreign currency. So that is where those transactions are, so it is not because we do lot of forward selling and trying to time that market, etc., we do not do that.

Rajakumar: Okay. But when you do see the benefit of rupee depreciation coming into the P&L because between December quarter and March quarter I see we have lost Rs. 50 crores if I add both the foreign currency transaction and the derivative.

G. Shivakumar: Yes. So a depreciation will have a net-net negative impact on the P&L. All else remaining the same, it will have a negative impact on the P&L because of loans in the consolidated entity, we have about $800 million of loans which get revalued into the P&L, okay. On a quarterly basis, these are dollar-denominated synthetic or natural dollar loans which get revalued into the P&L. Against this we have about $350 million of cash balance which benefits from rupee depreciation. So net-net you have $400 million to $450 million let us call it a short position just for assessing the impact of the depreciation of the rupee.

Rajakumar: In other words, you are saying that rupee depreciation will predominantly be reflected on the top-line and not on this line of gain on the FOREX…

G. Shivakumar: It will be reflected in a net-net negative impact on the P&L because $800 million of liabilities will be revalued while only $350 million of assets will be revalued. So, net-net a rupee depreciation will be bad for the P&L just on account of these two big revaluations which will happen.

Rajakumar: Okay. But overall from bottom-line perspective rupee depreciation should be beneficial to the company, right?

G. Shivakumar: It is beneficial to the company. See, against this $800 million of loan which is getting revalued, we have $1.4 billion assets which are there, which are dollar assets. However, they do not get revalued into the P&L account. So that is a hidden gain which we have but because of the way accounting is done, it does not come into the P&L. Yes, you are right we are better off when the rupee depreciates but that is not how the accounts come up. The accounts will be worse-off when the rupee depreciates.

Anjali Kumar: And each of this will be encashed only when either (a) you sell any of the assets or (b) if you actually bring in the freight which you have earned in dollars.

Rajakumar: Okay. So is it fair to assume because I see that rupee has significantly depreciated between March 2018 and now I mean is it fair to assume that we will have significant numbers to be reported when we report the June quarter?

G. Shivakumar: I cannot speculate on that, but you are right. Once again, I go back to my statement, if the rupee depreciates, it is bad for the P&L.

Rajakumar: Okay. The next question is I am just looking at your segmental results, so I see that your shipping revenue has actually moved Rs. 2,200 crores plus to Rs. 2,406 crores, whereas if we see the bottom-line for this segment it has dropped from Rs. 572 crores to **Rs. 134 crores** I just want to know what is driving the top-line and why we are not seeing that flow into the bottom-line because I did not significantly change in your gain from sale of ship. So what is driving the lower bottom-line for this segment?

G. Shivakumar: No, there is a significant change in the fleet size between average of FY 2017 and average FY 2018. On average ship years, we had about 35 to 36 in FY 2017. In FY 2018, we had more than 45. So there is a 25% or 30% increase in the ship days that has resulted in an increase in revenue, okay? So that is a quantity variance, which is positive. However, the rate variance has been a big negative and you can see it in our average TCYs between FY 2017 and FY 2018. So the rate variance has been negative. That is why despite the top-line going up, the bottom-line has been negative.

Rajakumar: Okay. So which means if you see any uptick in rates in the coming quarters then we should see a significant improvement in your bottom-line?

G. Shivakumar: That is absolutely correct - we have created more capacity which is not yet reflecting in our P&L because the rates are poor. In fact, those ships are not making more than breakeven. So as of now, they are not contributing to the bottom-line. But when the market recovers hopefully they will contribute.

Rajakumar: Yes. But it is also correct to assume that the capacity is also put to use it is not only creates capacity or deploying the capacity but we are not seeing the bottom-line implement of rates are coming down.

G. Shivakumar: That is correct because they are not being deployed at a very profitable rate.

Rajakumar: Okay. And the question is between the segment of shipping and offshore which one do you think will turn around? And if you can give us a high-level timeline by which you would see this?

G. Shivakumar: Yes. So we have a little more confidence on shipping maybe that will turnaround quicker. We have seen many more cycles in shipping. But more importantly and this is more significant, a lot of our capacity in offshore is locked-in on long-term contracts. So even if the turnaround happens tomorrow morning, you will not get any impact because most of the days are locked-in, there is no rig to reprice. The rig earnings are locked in all the way up to January-February next year. However, if Crude Tanker rates go up tomorrow morning, we have 12 Crude Tankers on the spot market, and their rates will improve. So it is fundamentally different that way.

Rajakumar: So this is helpful. So I see that for the quarter you reported -397 bottom-line for the offshore but I guess that also includes non-cash charges of 200 which means since you are saying your rates are already locked on for one more year. So is it fair to assume that you will report a similar negative bottom-line on this segment for the next few quarters?

G. Shivakumar: Again, I am not going to give any numbers projection, but you know that there are two big items which are in non-standard in nature, the impairment and the deferred tax liability.

Rajakumar: Yes. No, I am just assuming that there are no more…..

G. Shivakumar: A lot of the operating capacity is locked in and it is not locked in at a better levels than last year. Any contracts are getting done at lower levels.

Moderator: Thank you. The next question is from the line of Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi: Chetna, started operations I think mid-January. But your rig days have not moved on a sequential basis.

G. Shivakumar: Yes, because at the same time Chaaya came off contract.

Bhavin Gandhi: So the Chaaya idling is completely there in this quarter's number?

G. Shivakumar: Yes, she went on hire I think on 1st or 2nd of April.

Bhavin Gandhi: So Chaaya was completely idle for this quarter, is it?

G. Shivakumar: No, she came off around 15th January - 20th of January, around the same time Chetna went on hire. So between them, it worked out to around 90 days.

Bhavin Gandhi: And then Chaaya will start operations beginning April which means that…

G. Shivakumar: Yes, so now all rigs are working. Yes.

Bhavin Gandhi: Okay, all right. And just on the Ballast Water, what are your thoughts now and how do you think it will pay out?

G. Shivakumar: See, it is one more pressure which is there on ship owners, one more pressure of spending which they have to do. Again it has still not yet kicked in, right so if you have to do your dry dock this year you are okay with not doing the Ballast Water Treatment System assuming you do not want to trade to U. S. This will be typically for older vessels where they have to make this choice, either do this or scrap. And a lot of the ships you can actually postpone your requirement to fit all the way up to 2022. So it is a fairly complex thing, so we can go into that but it will take some time. But it can postpone all the way up to 2022. But there will be ships which have to come up in end of 2019, 2020, etc., all of them will face this pressure on having to spend that money and hopefully, it will push people to scrap their ships earlier.

Bhavin Gandhi: Sure. And just one final thing from my side. The upper end of the NAV on the consolidated side again has moved down by about Rs. 45, Rs. 435 to Rs. 380. So…

G. Shivakumar: No, this is not the upper end, this is the midpoint of the NAV.

Bhavin Gandhi: Okay, you mentioned Rs. 370 - Rs. 380, that is the midpoint.

G. Shivakumar: No, Rs. 375 to Rs. 380, I am saying is the midpoint.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: Just a small follow-up on our earlier conservation. Can I get in touch with somebody in your company separately to discuss the point that I was discussing earlier? I think, it would take too much of time on this call, would that be possible, do you think so?

G. Shivakumar: Yes, you can contact our Corporate Communications Department, Anjali is here and drop them a line and we can fix the meeting.

Moderator: Thank you. The next question is from the line of Rajakumar, Individual Investor. Please go ahead.

Rajakumar: The same question on the offshore revenue. So I just want to know you said the rigs are already contracted for more than a year. But your revenues have dropped between December quarter to March quarter to Rs**.** 255 crores to Rs. (+206) crores. Is it fair to assume that the revenues are going to be in the range of same 206 crore that we are seeing for March and if so then the bottom-line will also be more or less the same trend as March?

G. Shivakumar: Yes, again you are asking for guidance. All I will say is that pricing has been lower. So do not look at only one quarter. One quarter may have, as I mentioned to the earlier caller just now, out of four rigs, we had effectively only three rigs working through the quarter, okay? So this quarter's earnings are a little lower to that extent so do not take this quarter. Take this year as a whole. Of course, this year again we had one rig which was not working through the year but pricing of the last rig which happened, happened at a lower level.

Rajakumar: So you are saying the utilization will improve in the coming quarter?

G. Shivakumar: Utilization will improve but not at a high rate, the rates are going to be poor, but utilization is going to be better. We are focused on getting utilization for our assets because we do not want our assets to idle.

Rajakumar: Okay. But is it fair to assume that you will at least breakeven or you are even contracting a rate which is below breakeven?

G. Shivakumar: We are contracting at whatever rates we can get contracts at and today those rates are below breakeven. So current contracts are happening below book breakeven levels. They are happening EBITDA positive but below book breakeven. In the sense, you are not recovering depreciation in new contracts.

Rajakumar: Okay, got it. Just one final question on the balance sheet. So I see, about Rs. 2,000 crores in bank balance other than cash and cash equivalents. So I just wanted to know if you can give more color as for why do you have this and what is the strategy behind this?

G. Shivakumar: So are you saying why they are being shown separately or are you saying why do you have so much cash?

Rajakumar: Yes, why they are being shown separately and they are not cash equivalent is it because of they are have higher maturity period?

G. Shivakumar: Yes, that is right. These are deposits which have greater than three months to maturity, so they are not treated as cash.

Rajakumar: You also have borrowings under balance sheet side, so would it not be prudent to retire your borrowings and are you saying that you are getting a higher coupon rate on this?

G. Shivakumar: Yes, see the borrowings we have are long-term in nature. The cash balances we have short-term. Our cash balances are part of our risk management. Our cash balances are here to help us ride out the next couple of years of bad markets. At the same time, we do not want to give up on the ability to acquire new shipping capacity in low markets. So what we did in the last two years, we have borrowed money which is due for repayment between seven years and ten years from now. However, we know that the markets are likely to be weak and therefore, we have kept this cash. In the next two years, we also happen to have $250 million due for repayment in Great Eastern only. In the Group, we will have more than $300 million of repayments. This cash is being kept as a reserve for that. At the same time, we wanted to create capacity by buying ships so we borrowed long. And we are holding cash for ensuring that we are able to ride out this bad phase of the market.

Moderator: Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand over the conference back to Anjali Kumar for her closing comments. Over to, ma'am.

Anjali Kumar: Thank you, everybody, for this very active participation and in a couple of days we will have the transcript of this call put up on our website. Any of you who would wish to have any further clarifications or meetings, please feel free to reach out to us and we will be more than happy to meet you. Thank you.

Moderator: Thank you very much, ma'am. Ladies and Gentlemen, that concludes this conference call. Thank you for joining us today and you may now disconnect your lines.