"The Great Eastern Shipping Company Limited for the Quarter Ended 30th September 2019 Earnings Conference Call"

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Moderator: Good Evening, Ladies and Gentlemen. Thank you for standing by. Welcome to GE Shipping Earnings Call on declaration of its financial results for the quarter ended September 30th, 2019. At this moment, all participant lines will be 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 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: Good Afternoon, Ladies and Gentlemen and very warm welcome to you for our Q2 FY20 Conference call. We have already sent the results to the stock exchange quite some time back and also meantime hoping that all of you would be in possession of it. Without much ado, let me just hand over the call to our CFO who will take you through the significant happenings for the quarter and followed by Q&A after that.

G. Shivakumar: Good afternoon everyone and welcome to the Results Conference Call for Q2 FY20. Let us look at what the markets did in the last quarter. First looking at the tanker market:

While the tanker market was not at very strong levels in H1 FY20, it was much better than in the corresponding period last year which you will probably remember was the weakest patch that we had seen in many years. As you can see in our press release our average TCY for the crude tankers were around 16,000-16,500 in Q2 up marginally from 14,800 in Q1 FY20 and probably from 11,000 in H1 FY19. Product tanker TCY were up very marginally on a sequential basis, but much more up on corresponding half year basis.

LPG carriers are up sharply though not as much as a spot markets because most of our ships were on time charter and -in dry bulk again the news was that the BDI recovered from the extreme lows which we saw in Q4 FY19 and moved up very smartly to more than $35,000 for the Capesize bulk carriers.

Within the quarter itself, the crude tankers did much better in September than they did in July and August where the market was showing a strengthening trend even before we had the runaway market that we saw for a couple of weeks in October. We will come to that later.

With regard to currency, the rupee depreciated about 2.5% during the quarter and it had the usual negative impact on our P&L due to revaluation of our dollar loans and swaps. The values of ships both bulkers and tankers remain more or less flat during the quarter ended September and remember this was before the crude tanker freight rates spike of October. As a result of the rupee depreciation and cash flows from the business, the standalone NAV moved up by about Rs. 10 per share during the quarter to about Rs. 393 a share.

In the offshore business the improvement in utilization and day rates are not reflecting in asset prices or even in sentiment and we can see that in the stocks of various listed offshore players.

The sentiment for investment is quite poor as a result broker valuation have marked down rigs by about $10 million each. As a result the consolidated NAVs stays in the range of 447 to 472 because that impact of those downward valuations of the rigs has offset the impact of the shipping NAV improvement.

As a result of the crude tankers freight rates spiking in October, it is expected that crude tanker values have probably gone up, but there have not been many transactions since the market is in a state of flux.

Now coming to the fundamentals which drove the market during the quarter and in fact the same probably holds true for the six months and the first nine months of this calendar year as well:

Oil demand has been very weak in H1 FY20. Oil demand was expected to have been flat to marginally lower reflecting the weak patch the global economy is going through. So the crude trade actually fell. Refinery runs in the first quarter were pretty low. They were expected to have stayed low during the second quarter though they improved a little bit in Q2 over Q1, but still at pretty low levels compared to a year ago number. As a result the crude tanker trade actually had negative growth on a ton basis and of course, then in September you also had the Saudi Aramco attack at Abqaiq field which took out quite a few cargoes from the market. Despite that it is surprising that the crude tanker market was reasonably firm and much better than the previous year.

Ships supply for crude tankers grew by about 4.5% during the nine month period which was expected. Even at this time last year we were saying that supply is going to be a concern at least for the first half of 2019 and it did grow in fact. Scrapping was lower than we expected because most people were fairly positive on the IMO 2020 impact on the tanker markets and were very reluctant to scrap tankers especially crude tankers.

Scrubber retrofitting which was expected to happen in the last quarter has probably got postponed as a result of the strong market and it will come in later, probably in Q1 and Q2 of calendar year 2020.

Looking at the product tanker fleet, it grew by relatively modest 2.5% to 3% during the period, but again trade growth was quite weak. Very weak light distillate product demand that is gasoline and naphtha and that along with a lot of refinery maintenance resulted in poor trade growth for product tankers as a result they were not very strong.

In October when the spike happened for crude tanker rates, we also saw for a very short period probably couple of days a big spike in product tanker rates, especially the large product tankers - the LR2s and LRS1s, but it lasted for a very short while. Some of that probably is also a result of some switching of LR2s to the dirty trade because they can also trade as Aframaxes and carry crude oil and because the Aframaxes were earning much more than the LR2 product tankers at the time.

Going forward, we expect that IMO related middle distillate demand and higher off-hire days due to scrubber fitment will probably support freight rates and on the positive side the crude tanker order book is currently under 9% of the fleet while the product tanker order book stays at below 7% of the fleet which is low of the last 20 years.

We have seen that there seems to be a reluctance among ship owners to order ships because of lot of concern about what is going to happen on carbon regulation. People are not very sure of ordering conventional fuel driven ships as those may be banned in 10 years' time and everybody may move to LNG ships or some other new technology that comes in if there is a carbon emission cap and therefore people are not very keen to order ships. The few orders we have seen have been a few LNG powered ships, but again because that is significantly more expensive than a conventional ship, so those orders are quite few and far between.

The LPG market continues to be strong through this period. US LPG exports have been very strong, and it is expected to grow further as well. We think there is a sustainable boom at least in trade growth. So, current LPG spot rates are probably around $45,000 to $50,000 per day. Of course, among our LPG ships, two of our VLGCs, are on time charter and they come off time charter in the first quarter of next calendar year. One of our ships came off charter and we put her on to a new contract at a higher level. Our two mid-size gas carriers both are running on time charters. The order book for the VLGC sector is currently at about 12%.

In the dry bulk sector robust Chinese steel production which has grown very significantly year-on-year and significant recovery in Australian and Brazilian iron ore shipments with the restart of Vale's 30 million tons per annum Brucutu mine provided a strong ton-mile kicker and this restart probably caught charters off guard. A sudden upsurge in Brazil to China ore trade, which is a very strong ton-mile trade, left the Atlantic markets significantly short in Capesize tonnage and therefore rates really shot up. Aiding that was continued strong coal imports into India, Vietnam and China which supported the smaller sizes of ships. While the fleet grew by about 3%, it is reported that more than 1% of the fleet which is mostly Capesizes was out of service during the quarter for scrubber fitment which restricted available tonnage supply.

The dry bulk market in recent weeks has dropped significantly for a couple of reasons. One is that Capes spot rates are down from their high I think 37,000-38,000 a couple of months ago, to 20,000, Kamsarmax spot rates are down to about 11,000 and Supramax are also somewhere around 10,000-11,000 range.

While the offshore market continues to be challenged, there are visible signs of improvements in rates on both rigs and offshore vessels. We ourselves have mentioned last time that we got a contract award for our rig Greatdrill Chaaru which is coming off contract next year and she has a three year contract starting in second quarter of calendar year 2020 which is at a significantly improved rate from the last which was done around this time last year. The fleet of jack-up rigs in the world is about 520 of which about 70 rigs are old rigs which are cold stacked.

So what we would call effective supply of 450 rigs, of this currently there are about 350 to 360 working rigs now. So we now have effective utilization of rigs at almost 80% on the total headline number of rigs from the earlier utilization which was in the high 60s. However, this is still not resulting in a big increase in rates. We had that one bump up in rates. We are hearing headline day rates in the region of $70,000 to $80,000 per day, but again their operating costs are very different, but this has increased probably by $20,000 to $30,000 from the lows in those areas.

Offshore Vessels utilization too has improved. We have managed to get a couple of short-term contracts in the international market at reasonable rates and we are happy to report those contract awards. These are short-term contracts for couple of months at a time, but again it is our intention that we have our vessels marketable internationally and therefore, we are trying to go for the short-term contract because we have a lot of long-term contract coverage in India.

As I mentioned, the uptick in the market is not reflecting in asset valuations and rigs values are actually getting marked down.

Coming to the recent action and excitement which happened in the market in crude tanker market specifically in the month of October. We had one small bump up in crude tanker rates when the Saudi Aramco attack happened. Reportedly some of the charterers decided or were worried about getting their supply from Saudi Aramco and therefore decided to try source oil from elsewhere. Now as we have pointed out in the past, the swing producer of oil and spare capacity for oil is in the US and therefore a lot of ships had to be chartered to bring oil from the US.

This is again high ton-mile demand and it takes a long time to get to the US if you are otherwise planning to load in AG and therefore rates moved up, but they did not move up in a huge way. The big trigger really was probably the COSCO sanctions by the US government which effectively meants that approx 3% of the world's VLCCs and some reports say that they control 5% of the world VLCC were out of circulation. As again we have pointed out several times in the past, the market moves on 1% to 2% changes in demand and supply. Our freight markets move on very small changes in the demand supply balance. As 3% of the fleet got taken out or there was a worry that this would get taken out, there was a lot of panic fixing by charterers which took rates up and rates doubled overnight and more than doubled and went up to peak. I think for VLCC probably went past $200,000 per day, for the Suezmax went to $100,000 per day. Again it did not last very long, it lasted a couple of weeks. Some of the very high rates which were reported finally did not get done because the charterers took the ships on subjects, but then dropped them later because that is part of the standard contracting method.

So Suezmax went up from earning say $15,000 to $20,000 a day to maybe $30,000 a day by end of September and then rapidly went up to close to $100,000 a day by 20th of October. Currently, they are probably trading somewhere in the $30,000 to $40,000 per day range in the spot market. We had all our crude tankers open in the spot market. We have managed to lock some of our voyages in at decent numbers which of course will reflect only in Q3 and later numbers. In fact, we had planned for some of our ships to be in yard. We are fitting scrubbers on four of our Suezmaxes. We had planned for several scrubber installations in the fourth quarter. We actually decided to postpone the scrubber installation because of where the spot market was, and we decided to continue trading those ships. We will do the scrubber installation later. We now expect that we will do those scrubber installation in H1 calendar year 2020 probably towards end of Q1 or in Q2.

We have already completed scrubber installation for two of our ships, one is an LR2, Jag Lokesh, one is an Aframax the Jag Lyall. We also have apart from the four Suezmaxes, we have one gas carrier where we propose to install a scrubber which will also be done in H1 calendar year 2020.

Coming to product tanker markets they saw very brief spike, but those markets have dropped off again, so we were back to where we were in September or early in October so not much excitement.

The one disappointment for the tanker market is that we have not yet seen the spike from IMO which we should be seeing anytime now. It is possible that because the underlying base demand growth of one million a day has not happened. The market is not as tight as one would have expected it to be but having said that let us wait and watch you never know what is going to happen tomorrow or next week.

So with that I finish my prepared comments and we are very happy to take questions and discuss the company and what we see in the market.

Moderator: Thank you very much. Ladies and Gentlemen we will now begin the question and answer session. The first question is from the line of Nirav Shah from GeeCee Holdings. Please go ahead.

Nirav Shah: I have few questions sir firstly on the NAV you mentioned about the NAV Rs. 393 as of September end and you also mentioned that although the market was very illiquid, but the prices supposedly are a slightly higher, just to get a ballpark number I mean what would this 393 look like as on date I mean the range would also do?

G. Shivakumar: That is a very speculative question and there is no point doing guess work. The crude tanker fleet is about 30% of our fleet by value and you can just extrapolate from that, but yes this we do not even know. So even to do guess work whether they are up by 5%, 10% or 20% we just do not know and there is no point even trying to speculate on this because we do not even know those values will be there.

Nirav Shah: Second questions on the jack-ups you mentioned that few contracts at $70,000 to $80,000 have happened across geographies so had it been say we were to do our contract not in June, but as on date, what kind of offset could we have seen just on that three month period?

G. Shivakumar: **So** the OPEX is very different and this one we can do a calculation. , so while the headline rate is 70 to 80k there is a lot of customization which has to be done for specific contracts and there is a mobilization cost as well. So I do not think we are worse off by having done. Our contract is worse than these contracts which I was referring to 70 to 80K maybe marginally but not by much.

Nirav Shah: And typically the cycle in the offshore lasts pretty long I mean both on the upside as well as on the downside, so what is the average duration I mean when the rig market turns because you have mentioned that of the available fleet the utilization is close to 80%, so as your experience would have shown how long can then up cycle last because we might be possibly in a very early stages, but just to get a sense on the cycle duration?

G. Shivakumar: I like the slightly positive approach you are thinking about an up cycle. Yes we think we are probably going to bottom out. The last time the up cycle started was 20003-2004 it lasted all the way up to 2014 and then collapsed there out. So it was a strong tenure period with minor dip in 2009 when we had the global financial crisis, but it is difficult to draw conclusions because it is not a market which has seen many cycles. In shipping you can draw some conclusions on the nature of cycles and the duration of different phases of a cycle. In offshore not really, but just to give you an indication that was a 10-year up cycle and we are now five years into the down cycle currently and the last down cycle was probably 15 years which is from the late 80s to the early 2000s.

Nirav Shah: And sir lastly on the debt front or standalone debt has gone up by around 200 crores sequentially. So this is largely due to the buyback and the dividend and the scrubber CAPEX that we would have done?

G. Shivakumar: Did we say standalone debt has gone up?.

Nirav Shah: Standalone net debt I am not talking about the gross?

G. Shivakumar: Yes probably because of the dividend and the buyback, both we have tied up to about 200 crores.

Nirav Shah: And sir CAPEX would be there?

G. Shivakumar: Very little scrubber CAPEX. We did not do much CAPEX. Now of course we have the requirement to put the cash flow, so we have the cash flow statement as well. We have very little CAPEX.

Nirav Shah: Sir, just final questions from my side how many vessels would we have I mean which would have gone off contract in the month of October or say early November which were again redeployed?

G. Shivakumar: We run our Suezmaxes ourselves. So those are the ones we run ourselves otherwise we run the Aframaxes in a pool or on time charter. So out of the Suezmax five of them got re-priced in the month of October, after first October to current.

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

Vaibhav Badjatya: So I have question on the debt at what debt to equity level we will be comfortable and basically what is the upper side in which you will say that you might want to raise some equity, what is the worst case scenario?

G. **Shivakumar**: So couple of things, one the comfortable is again a function of what we have done with the debt that we have raised. We are probably getting close to the limit of our comfort. We are probably close to that with couple of $100 million of more debt max. Now when it comes to raising equity you know that we have not raised equity now for 25 years. The last real equity issuance, we did some rights issues etcetera, we did was 26 years ago in end of 93 or early 94. So we are not really into more equity issuance. In fact we act more in the opposite side because its fundamentally underpriced, right? The NAV is Rs. 390 and the stock is at 300. It is unlikely that we will do much issuance. If we need to raise cash it is better to sell ships to raise the cash at least you get full value.

Vaibhav Badjatya: But I was coming from the perspective of the lenders you know lenders always look at some covenants and lot of things and lenders want to do equity to go up you will have to do something?

G Shivakumar: We are far from that limit.

Vaibhav Badjatya: Yeah, that is what I wanted to know that what is the limit?

G Shivakumar: Yeah we are very far from the limit, it is 2:1 debt-equity ratio we are no way near that. Now before the lender has a problem with it, we will have a problem with it, with our internal risk that prevents us from going that high.

Vaibhav Badjatya: The reason I am just asking this question is that after this accounting change that has happened post-IndAS because of some macro sector here and there, there can be significant shift in our net worth and I hope that you must have factored that into your worst case scenario.

G Shivakumar: See accounting changes have already happened and the net worth changes have already happened.

Vaibhav Badjatya: I am not saying whatever has happened but going forward whatever is the fluctuation in exchange rate we will go through the P&L that is why has the impact on the net worth that lenders get effect?

G Shivakumar: That is well within the comfort zone I mean in the sense of our covenants. There is no compulsion to raise equity at anywhere close to these levels.

Vaibhav Badjatya: And you know lastly long-long time if I look at zero any shipping ROCE or ROE it has not been that great, but if on a NAV the freight does not look that attractive or the profit that companies made, even NAV does not look that attractive so what I wanted to understand that there is some problem in NAV or the freight has to go up to justify the investments made by a shipping company so where is the problem is there is a problem in NAV or problem is in freight?

G Shivakumar: Yes, you do not make fundamentally a very high return on NAV over a long period of time unless you get the cycle right. You are judging it on the basis of 10 years which have been quite poor for shipping. In midst of all this we have had one really good year to probably okay year and rest of the years have been quite poor. I think it is not quite the right time to look back at the last 5 or 10 years and say that it has not added much value, so it is a cycle and the cycle plays out and the whole idea of a cycle is you get poor year and you get good years. Now your question would be justified if we went through a good patch and then there is no return. But if you go back a little bit in history over the last 20 years, the first 10 years of the last 20 years deliver spectacular returns. So we are talking of 50% to 40% return on equity kind of numbers and in the next 10 years as the cycle turn becomes a poor phase. So it is a cyclical business and managing the cycle is very important.

Vaibhav Badjatya: We understand that, but you know that is where we are exactly in that point of cycle?

G Shivakumar: So we are in sort of the lowish part of the cycle. So the results as of September reflect earnings in a lowish part of the cycles. So for instance if you have $16,000 for your crude tanker it is a pretty poor market it is not a great market. It is only good in comparison to what we were doing previous year because we had a terrible market. So it is still not a great market and therefore it is not the right time to look or not the right point at which to say this is the business that does not give much return.

Vaibhav Badjatya: Yeah I understand that is a thing at any point of time the earnings have to be looked in relation to the investments that has been planned. So if somebody is trading ship now at this price and getting this earning he is still not able to make return. The way to up your returns is basically is just to buy shares at lower prices as you rightly said and or up the earning, so I was just trying to understand that which is the case which can happen in future?

G Shivakumar: Yeah you got the basic principle correct, but I do not see that conclusion that you are drawing. So you will have to judge it in a good market. So whether your purchase of ships in a poor market has served you well, you have been judged in a good market and anyways this will be a very fundamental and long discussion. So we can have that separately.

Moderator: Thank you. The next question is from the line of N Samraj from Dwarka Wealth Management. Please go ahead.

N Samraj: I just wanted to ask you about Hellenic Shipping news and they were of the opinion that these high freight prices which spiked up because of this COSCO sanction it would remain firm right up till next year and beyond also. So basically the freight rate now for the tanker market specifically they seem to be about twice or thrice what was you know in the last year, so how would it going forward how would it impact our EBITDA?

G Shivakumar: If the rate stay at this number then obviously it will be a significantly better EBITDA. Again I am not going to comment on what the market outlook is because we do not know. We did not expect that Suezmax would be earning $60,000 to $80,000 a day in October and therefore we cannot even have it as a guess as to what they will earn next week all we know is what we fix our ships at.

N Samraj: Which is now about at least 2x or 3x what it was last year definitely?

G Shivakumar: Last year also we had a sort of strong period from November to December, so it was already strong, but yes it is stronger than the previous year.

N Samraj: How much about it were twice?

G Shivakumar: How much is it depends on the days that you are asking if you ask me last week when Suezmax were earning 55,000 to 60,000 it is different from asking me this week when they are earning 30,000 to 40,000 and these things change on a daily basis. So all I can say it is stronger than it was this time last year.

N Samraj: If you take the moving average then how would it?

G Shivakumar: The average so far for calendar 2019 is higher than the average so far for calendar 2018 for crude tanker similar for LPG shifts as well.

N Samraj: Any number on that?

G Shivakumar: No, I do not have a number on that because it is not really how we are calling. Okay what you can do is look at our crude tanker TCY because our crude tanker exposure is mostly spot. We give the quarterly TCYs and it will be in our presentation you can look at the average TCYs of our crude tanker fleet and you can draw your conclusions from that.

N Samraj: Then I just wanted to ask you what is the current premium between the 5% sulfur fuel oil and the 0.5 IMO specified oil right now because I think it has dropped from $300 right up till $60 premium when I have asked you in August now what is the premium?

G Shivakumar: Now it make sense to start to look at it. There was no point looking in August, it did not make sense because nobody needed 0.5% so there need not be any spread at all. So now it will start making sense because people have to start stocking up on 0.5% fuel. The current spread is probably around $200 per ton. What do you need to look at is what is the forward spread for calendar 20 is probably in the region of 230 to 250 plus minus. So it stays within that range and that is where the spread is. The forward spread hasnt moved that much in the last six months.

N Samraj: So it never came down to $60 what I was thinking?

G Shivakumar: You know the spot $60 is meaningless. It is a product which you do not need why would you need 0.5% fuel.

Anjali Kumar: There is not enough price discovery of a commodity which is not actually being bought today in the physical market.

G Shivakumar: So if we have a shipping company we can use $300 per ton fuel, why would we buy $360 per ton fuel which gives us no benefit for the extra $60 except for testing. We have done some testing of the fuels that is the only reasons we would buy it. There is no other reason to buy the low sulfur fuel in the month of August I am saying.

N Samraj: Because many of the shipping companies were saying that for the fuel tanks where the fuel is stored in the ship that has to be washed off and therefore from October people would start using the lower….

G Shivakumar: It is partly true in October, more likely to be true in November and very much true in December. So yes people will start doing it, we are also doing it, we are cleaning out some of our tanks and filing in low sulfur fuel oil, but again it is not a huge amount of demand, but the spread is $200 today.

N Samraj: So how much would the overhead increase now when you are going to do the shifting sir how much would that overhead increase and how would it affect the margins going forward or will be able to pass on?

G Shivakumar: The market will price in. See everybody is doing the same, right? So, all competitors are doing the same thing. Everybody who is using $300 fuel they will now have to give a $500 fuel except for the scrubber people. So it gets priced into the freight rate and the freight rate will get price based on the demand-supply balance of shifts.

Anjali Kumar: As long as the markets remain reasonably firm almost all of it will get passed through.

Moderator: Thank you. The next question is from the line of Ranjit Kothari as an Individual Investor. Please go ahead.

Ranjit Kothari: Sir, my question is regarding low sulfur fuel oil, so what is our strategy regarding the same? Are we going to stock it up in a floating tanker at these prices or are we going to procure it wherever it is needed, I do not think it is existed strategy?

G Shivakumar: We will give you the exact strategy: we will buy it when it is needed. We are not going to take a call like put our tankers to work, storing fuel for ourselves. So we will procure it when it is required. We are talking to suppliers to ensure that we have the supplies when needed because we are not in the business of buying and selling fuel oil really to take a call on that.

Ranjit Kothari: My other question is regarding sir around 3% of the fleet is going to go off from December onwards for COSCO, so is there any way that those ship can come again in the market by corporate restructuring or something like they have done for LPGs?

G Shivakumar: I do not know what they have done for LPG but let us go through this. This 3% shifts are already off all that. The treasury has given a waiver for some time. They have said you have time until 20th of December to wind down existing transactions. Charters who had loaded fuel on a COSCO ship and this is a report we have in the market may or may not be true, but it is possible, said I do not want to fall under sanctions and therefore they actually went and discharged this cargo from Cosco ships and that is what probably led to the panic because people then said that I need to find something to lift this cargo immediately. So, all that will happen is now you do not have to worry if you have a ship in the middle of a voyage. It does not mean that you can take a ship for a new voyage necessarily. Again all this is subject to interpretation. So as it stands it means that from December what you said is correct and those ships are out. Now finding a way to route this and lot of people will charter for instance because the charterers is basically putting in a crude tanker he is putting two million barrels of cargo that is a $110 million to $120 million worth of cargo. He is not going to take a risk on that cargo getting stuck. So doing this routing and shifting changing names, etc., it is not going to be very much acceptable to the charterer. It is possible that people try it, but it is not going to be easy.

Ranjit Kothari: So sir what is the average life of a crude tanker?

G Shivakumar: You mean the useful life. On our books we take 20 years we have around (+20) year ships also in the past technically they can run forever there is no regulatory scrapping requirement. It just depend on how much it cost you to keep them running.

Ranjit Kothari: So, sir actually I wanted to understand I mean what will be our strategy going forward because I think we have around three ships that are like 19 year old and four ships around 15 to 16 years old?

G Shivakumar: So those ships will run so long as we can run them, so long as they are acceptable to our customer, so long as we can maintain them at a good quality. It is not too expensive to maintain them at the quality that we require because we have certain quality standards we will continue to run them. At some point it may become too expensive to do that and then we will scrap or sell.

Ranjit Kothari: And sir is there any plan to enter into VLCC going forward?

G Shivakumar: Everything is based on getting a good ship at the right price and we can run VLCC too.

Moderator: Thank you. The next question is from the line of Jeet Gala from Centra Advisors. Please go ahead.

Jeet Gala: You talked about double disruption a while back in one of your comments and we are also seeing that anybody who becomes a potential buyers of ships for any reason will look at 2030 norms and try to decide on what kind of fuel or what kind of technology to buy and that is going to create another kind of many disruptions, could we have these opinion on this one do you think it is going to make a real and material difference and to what extent will it sort of shift the demand supply balance?

G Shivakumar: Okay you want our opinion on what is likely to happen to carbon regulation?

Jeet Gala: Yes.

G Shivakumar: So carbon regulation, we do not have to hazard a guess. We are just happy that it is there, if it is stopping people from ordering ships we are happy. So that is all we look at because the rest of it we cannot focus. We do not know how regulations are going to pan out. Two years ago a large part of the industry did not think that IMO 2020 would come in from 1st January, but it is going to. We cannot forecast regulations, so we do not try to do that. Yes, it is okay for us that this is potentially there in 2030. In any case we are not big on ordering new buildings and we are fully capable of transacting in the secondhand market in fact we found that better returns are made from secondhand ships. So the bottom line we cannot forecast it, but we are happy that if it is preventing people from ordering too many new ships because that is the only thing that is permanent in our business. New ships which stay for 15, 20, 25 years that is the only permanent thing in our business.

Jeet Gala: But what is your opinion of the way people will forecast when they look at this 2030 norms, do you think it will materially slow down ship ordering?

G Shivakumar: Yeah, it has and apparently and that is sort of anecdotal evidence and people talking to people and saying that this is what I am hearing and this is what people are worried about, but it is much slower now to order.

Jeet Gala: The next question is if demand supply was a seesaw then what kind of imbalance achieves what kind of price delta so let us say if there is let us say a COSCO event takes away let us say 1% of supply. We have seen some idea of what happens in the short run and some idea what happens in the medium-term after the market sort of recovers from a supply shock like that? So one is what is your opinion of where the segment by segment the ship market is balanced between demand-supply just now and what kind of price delta you would expect? My next question would have been slow steaming would have an impact of I am speculating 5% or 6% overall on an effective reduction in supply, so we just want to get some idea about where the demand supply balance in ships is standing just now?

G Shivakumar: So this is a number which we do not know and is sort of unknowable.

Jeet Gala: It is just an opinion that is why I am asking for opinion?

G Shivakumar: I think the way you represented it is correct that it is a seesaw. We think in crude tanker the seesaw is currently slightly tilted in favor of the ship owner in product tanker it is probably balanced to slightly tilted in favor against the ship owner. LPG it is significantly tilted in favor of the ship owner. In dry bulk probably again the opposite which is titled against the ship owner which is basically from a reading of where the rates are currently. We do not have a number on how much impact there is for particular change in utilization. All we know is at it takes 1% or 2% change in utilization or in the demand-supply balance to take rates up very significantly. I think I have mentioned in the past that 2015 probably saw a change in demand supply balance of not more than 2% for crude tanker and the rates more than doubled in that year. So that is the kind of impact it can have. We do not try to forecast this. All we do is we say the directional call on if the market likely to get together or it is likely to get more over supplied. And if it is likely to get together than we keep our ships open on the spot market. If we think it is going to get oversupplied in the market it is going to get weaker than we try to fix some of our ships out on time charter that is all we can do. So all we can say is $10,000 for a Suezmax on the spot market is a terrible rate and $100,000 is a great rate. If we are getting a $100,000 we are happy to fix as long as possible. If we are getting $10,000 at the end of spot market we will try to fix as short voyage as possible and we only make these directional calls because we do not have enough information to make those calls on how much delta of earnings there can be for 1% change in the demand supply balance and we do not even know when there is a 1% change in demand supply balance. For instance, this COSCO ships are probably still out. However the rates it went up close to $100,000 for Suezmaxes are down below 40,000, nothing explains that in terms of demand and supply balance. We think that there is no point trying to do that number and we do not try to do it. So somebody told me that there is no point trying to know the unknowable and that I think is a very good principle for going through life and markets.

Moderator: Thank you. We move to the next question that is from the line of Ankit Panchmatia from B&K Securities. Please go ahead.

Ankit Panchmatia: Sir, just wanted your view due to this October fireworks which we kind of experienced in the crude markets, have we fixed our ships during that period of time, what sort or range for our ships which we can or we have kind of fixed up for this shorter voyages any rough numbers behind it if you can provide us?

G Shivakumar: The one thing that you can see directionally is a revenue backlog that we have which we put in our presentation. All I will say is that all our seven Suezmax were operating in the spot market and of them at least five have been re-priced after 1st of October. I am not going to get into what rates we have priced at some of them got very lucky, some of them a little less lucky.

Ankit Panchmatia: Sir, just to get your view right as far as opening remarks were concerned so you said that although the charters were fixed in that rate the supplier had a kind of option to reverse those or after seeing the correction in rates, the kind of backdrops from the charters, is the understanding right?

G Shivakumar: So this is a standard part of any shipping fixture. So the customer comes out with an inquiry saying I need a Suezmax to load from particular terminal on 3rd - 4th December. So they come into the market people bid and they negotiate and accept say the lowest bid. However, it is subject to getting a clearance from the terminal the customer does not own the terminal. I am a refinery. I am taking the ship on charter. I do not own the loading terminal which is owned by say an oil company. I do not own the discharge terminal necessarily which is for maybe of port or it may be my own terminal. I will get approvals for all of that. I also have to check the ships approvals whether the ships is approved in my system. So this takes typically 24 to 48 hours and therefore we call it being put on subjects. It is subject to all those clearances. The receiving and the loading terminal approval all those are required and when that happens then sometimes it is like an option. In effect f you are not able to get an approval at that time you are dropped. It is also acting as an option because if the rates have moved very differently in this time then they have the ability to drop you on the subjects, but after confirmation so I did not mean to say that after they were confirmed that people went back on their contracts that has not happened. This is only when they were on subjects and they got failed. We call it getting confirmed on subjects or getting failed on subjects.

Anjali Kumar: Five ships have got approved the subject has been lifted.

Ankit Panchmatia: So the voyages were kind of confirmed and the day rates were fixed?

G Shivakumar: Yeah, they were all fixed, and after that they got confirmed. The day rates fixed then voyage gets confirmed.

Ankit Panchmatia: Sir, just want to understand the testing outcome with the scrubbers, it is too earlye to ask that question, but just to get your view?

G Shivakumar: So with the tool that we installed, we have tested them because you have to get them certified as well as working okay from the classification society. We have tested them, and they are working fine obviously we were not running them currently and not on the regular basis, but when we tested them after installation with the standard pass that you have to get a certification, they were absolutely fine. Again how it works out when you are running on a 24x7 365 days we have to see.

Ankit Panchmatia: Maybe just that is what I was coming to early question to ask that do you feel that slow steaming of the scrubber installed fleet would also take place or they would continue to operate at a normal speed versus the charter who is using a worst fuel content and they would kind of try to save their cost by slow steaming.

G Shivakumar: What are the factors that go into deciding on your optimal speed, there are two things one is what is a freight rate and second is what is a fuel cost. So the fuel cost of the non-scrubber ships let us say taking a spread of $200 is $600 per ton. The scrubber ship is $400 per ton. The optimal speed for a non-scrubber ship will be lower than the optimal speed for a scrubber. So that is all the statement we can make. So if the optimal speed for a non-scrubber ship at 600 is 11 knots, the optimal speed for a scrubber ship at $400 per ton, I am just giving you as a direction, will be 11.5 to 12 knots..

Ankit Panchmatia: But they would be able to operate at the current?

G Shivakumar: There is no technical thing about not being able to slow steam.

Ankit Panchmatia: Sir, one more forward-looking question would we be looking forward to trim our fleet size even if the rates improvement sustain for say next six months are we looking out to kind of reduce our fleet size?

G Shivakumar: See there are two ways in which we can reduce. So not so much fleet size as exposure. So the exposure also comes by owning a ship which is in the spot market. You can reduce that exposure by owning the ship, continuing to own the ship and fixing it out on time charter. If you can get a good charterer who will pay you even if the market falls you can fix it out on time charter. Of course the only way to know 100% sure is to just sell it and put the cash in the bank. So trimming the fleet can be in one of two ways which basically going to reduce your long position. You can reduce it by either fixing out on charter for a reasonable period or by selling the ships.

Ankit Panchmatia: Are we okay to sell?

G Shivakumar: We are okay to sell ships. You know you have been following us, Four years ago we had 32 ships. Now we have 47 ships.

Ankit Panchmatia: But the NAVs were higher?

G Shivakumar: That is only the consolidated NAV, . We are at a higher standalone NAV I think for many years.

Ankit Panchmatia: And sir debt commitment what sort of debt we would plan to over the next half a year?

G Shivakumar: There is no plan in this we have fixed schedule of repayments we have paid about $100 million in the first six months. We have about $50 million coming due in the next six months of it a large portion is coming in the next week. On the consolidated basis we have paid down about $125 to $130 million. In Great Ship, we have paid on $25 to $30 million in the first six months and we have a similar payment to happen in the next six months as well. So this year we are going to trim our debt by about 190 to 200 million. We are also drawing down a little bit of new debt for scrubbers.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, just wanted to understand like you mentioned that if the rates the tariff of crude tankers or maybe an LPG carriers remain at the current rate what it is you expect EBTIDA margin should improve from current levels right?

G Shivakumar: Yes absolutely. From current levels meaning from last year because the rates are see it comes down to very simple thing the operating cost are not different from previous year. So if our revenues go up then it means that our EBITDA will go up.

Deepak Poddar: So for quarter what rate at the current EBITDA margin level so what rates goes behind your crude tanker?

G Shivakumar: We put a number in the presentation we earned I think on average $16,000 the crude tankers. So that is the number which has gone into these results that built into the results.

Deepak Poddar: And currently I think the rates are in the range of 30,000 to 40,000?

G Shivakumar: Yeah something like that.

Deepak Poddar: So that still gives you a good opportunity that we can see a big jump if this rate is sustained going forward?

G Shivakumar: That is correct. However, Product tanker are not so great, but yes.

Deepak Poddar: I wanted to understand that what is that EBITDA margin level that you are talking about when you are seeing that if this rate has to sustain what levels we can reach in terms of EBITDA margin level?

G Shivakumar: One it is not EBITDA margin. We do not even look at it because the costs are more or less fixed with a very small variation. The whole game is in the TCY which is the day rate which is earned. So if the day rates are up we make a higher EBITDA. So that is all which is there so all we are looking at is our crude tanker slightly to earn more than $16,500 then the EBITDA goes up. So let me put it a different way at today spot. So if we had to price every one of our ships at todays spot rates. In bulk carriers, it would be earning lower than this because bulk carrier are earning $10,000-$11,000 a day in todays spot market as per the index. I am not talking of our fixtures. Crude tankers are earning somewhere around $30,000 a day which is higher than this. Product tankers are earning somewhere around this number maybe marginally down, LPG ships are earnings around this number. So overall because of the crude tanker impact yeah but that should be higher just based on today’s rate. I am not giving you forward-looking statements on our results, but all you have to look at is the results of Q2 FY20 included crude carrier at 16.5, product tankers at 14.9, bulk carrier at 13 and LPG at 20 is the market and you know our spot exposure as well because we give that as well. So with that spot exposure is it likely to be higher or lower. So because you know what is happening in the spot markets. So if that spot market is better than that it is likely that our EBITDA will go up again. I am not taking into account all the currency related stuff that come in, I am talking about operating EBITDA.

Moderator: Thank you. The next question is from the line of Chintan Shah from Sameeksha Capital. Please go ahead.

Chintan Shah: If I look at your presentation shipping revenue standalone our TCY rate obviously has increased quite a bit across the categories shipping categories our revenues days has gone down 10% on a YoY basis. Revenues are marginally down on a YoY basis primarily because of the spot mix between these two periods are different is the right understanding?

G Shivakumar: Actually not, the revenue days have come down because we have sold a couple of ships. We sold one gas carrier which was delivered out in May this year. We sold one bulk carrier which was delivered in Q3 FY19. So it is just those ships have come off.

Chintan Shah: So, but that will reflect the revenue whatever ship trading you do buying or selling that get reflected in shipping days, revenue days?

G Shivakumar: Yeah all I am saying is that we have less ships than we had last year and therefore the revenue days came down.

Chintan Shah: So 10% drop in revenue was because of that?

G Shivakumar: See revenue days is also a function of how many ships are in dry dock at any particular time. So if you have lot of bunching of dry docks then you will have lower revenue days as well.

Chintan Shah: So may be these are the couple of reasons where revenues were flat or slightly lower even though the rates were higher?

G Shivakumar: Again there is a fuel cost impact in this so you will have to look at it net of fuel cost.

Chintan Shah: I am not looking at EBITDA I am just looking at plain simple revenue number?

G Shivakumar: Revenue meaning you are looking at the top line right?

Chintan Shah: Yes 700.

G Shivakumar: See that is before fuel cost if you want to do an analysis of it, I suggest you look at the TCY level because the fuel is a pass through, but it appears in our account as a separate line item, so we account for it for a gross level and then we have fuel cost. Also that 10% reduction basically 4,285 came to 4,040 so it is a drop of 240 which is a 6% reduction about a 6% reduction. Do not see the incharter tonnage. The inchartered tonnage is basically we had an opportunity to take in and give out on charter so that is just a trading which was done. Again contract which we had we took in ships from outside.

Chintan Shah: So even that 6% drop resulted in a slightly lower revenue even though TCY rates were sharply higher compared to the previous year same period?

G Shivakumar: Yeah.

Chintan Shah: So I was just disconnected between the rates are higher there were slight lower revenue days, but revenue was kind of flattish overall slightly lower than previous year same quarter so just wanted to understand why that was and secondly in terms of our cash flows if I look at 580 odd crores as you already mention that the debt levels are almost at your comfort level you can add another 100 million odd number if you find a good asset to buy in the market right now, so we are not looking on very heavy CAPEX because already you say that you shifted your scrubber CAPEX next year in first half so it will come in Q4 or Q1 of this year or next year. So the CAPEX will be lower overall this year, are we looking at further buybacks or any dividend payout higher dividend payout because we will left with high cash?

G Shivakumar: So couple of things CAPEX is governed by two things. One is the availability of money to do investment and second is the prices at which assets are available to buy. So, both have to come together for us to do CAPEX. Currently assets are not really at a price where we would like to buy so that is one. Second is coming to other opportunity, the buyback is already going on as you know, and it started in June and it gets over in December. Now we cannot start another buyback for 12 month after we close this buyback so that is out of the question at least in the short term. On the third point on dividend that something the board will consider when we get a clearer idea on what the P&L is likely to be here.

Moderator: Thank you. The next question is from the line of Saurabh Sharma as an Individual Investor. Please go ahead.

Saurabh Sharma: I had a question about the IMO impact that you said has not really come into play as yet, what would be the key monitorable or monitorables according to you which would signal to you that IMO related demand is starting to come in and has been reflected in the prices I mean the price be only monitorable?

G Shivakumar: No, actually one of the things that you will get is what is happening to refinery run, so what is the IMO impact. The IMO impact is that in order to produce the extra low sulfur fuel which is required with effect from 1st Jan refinery runs potentially have to increase in order to produce more of the middle distillate which will either be used in blending or which may be used directly in ships and therefore refinery runs have to go up and that is one of the reasons why we had a fairly weak market during the last two quarters because refinery runs were quite poor. So one of the indicators will be when refinery run start picking up. We have already seen reports from oil research firms saying they are expecting that with the quantity of flows which have been fixed so far that refinery runs in Asia are probably up 1.5 million barrels a day for November and they are expecting 2 million barrels a day for December. If that happens then you should have a tightening of the tanker market. One they will have to be loading crude going in and then there will be refine products coming out. So that is the monitorable, clearly that what is happening with refining runs.

Saurabh Sharma: And in addition for the tanker market, is IMO also expected to have an impact on the dry bulk markets and others markets as well

G Shivakumar: Yeah so IMO will have impact in the tanker market is on account of the demand for ship itself that there is no cargo likely potentially to be carried in order to ensure the IMO demand is met or the change in specifications met. In the case of all ships there could be an impact because of the higher cost of fuel. Now one thing is sure that the new fuel whatever is used will be more expensive than high sulfur pure oil. When the cost of fuel is higher the optimal speed is lower in order for us to maximize TCY. Our function always is to maximize the time charter yield of our ships. So when price of fuel become higher with effect from December or January or when we have to use more expensive fuel. Thus speeds are expected to drop in order to make the optimal speed it will affect all kinds of ships because all of them work on the same base.

Saurabh Sharma: And just one other question in addition to the IMO I could gather one additional thing which you mentioned was the shifting from conventional fuel to say LNG fuel or may be alternative fuels in the future other than these two factors in the longer term let us say medium to long term let us say 5 to 10 years from now, do you see any other special drivers for the shipping market to sort of tighten up for I am just trying to get to the downturn that has been in the market for the past 10 years like you said for any other long term drivers for the market to change?

G Shivakumar: No, nothing that we can see as of now. Again regulations are coming in all the time one thing which is sort of we are fairly confident of that there will be lot of regulations coming in and therefore people who are looking to make investments will think long and hard before making any investment in very long life assets. So if you order a ship now tanker it will come in 2020 or 2021, most probably you expect it to run till 2041 at least and if you have a worry about what can happen to regulation in 2025 or 2030 than obviously you will have to think quite a bit before you make that CAPEX.

Moderator: Thank you. The next question is from the line of Jeet Gala from Centra Advisors. Please go ahead.

Jeet Gala: Sir, could you give us your opinion of up the value chain if there is a sudden spike in new build orders how the shipyard capacities will pan out? Can they even take a big spike in orders, you already told us that mothball shipyards cannot come back, but exactly how much spare production capacity is lying with the shipyards just give us a sense of that?

G Shivakumar: Couple of years ago the order book would probably have been 50% higher than it is today. So what you are seeing at 7% and 9% for tankers could probably have been in the teens or maybe higher also. So a lot of that capacity is there, if you wanted to order a ship you could certainly order and you could certainly find a slot to order a ship and that would be delivered probably in the first half of 2021. So that capacity will be a function of what the prices are but for now let us just say that there is enough capacity to build the ships than are ordered. So at least among the major yards which are the survivors there is enough capacity.

Jeet Gala: If we were to just theoretically get a repeat of those 2008-2009 spike some 30%, 35%, 40% of global capacity gets ordered, do you think the industry can take it?

G Shivakumar: No, that it cannot do. Yard capacity has come down from the 2008-9 levels quite significantly.

Jeet Gala: Could we get a number how much do you think the industry can take and how much do you think it cannot take?

G Shivakumar: So if you have an order book which went up to 25% of current it means that the market is extremely strong. Now you need to look at not just capacity by itself but what can drive that capacity. It means that ship values have gone up very significantly. It also means that not just secondhand ships, but new building values have gone up significantly. Yards are shut down or inactive or even dry docks at big yards which are still operational. They have just reduced their capacity from 9 dry docks to 7 because they wanted to reduce the capacity. To reactivate those two dry docks at that yard, major shipyard company will not take too much time. It is a function of the price that is being paid. The VLCC which are today at $95 million new building went to $120 million, you will get more capacity. So it is an iterative thing which is at what price will you get what capacity. Again you will only see it when it happens, but suffice to say that at 20% higher price you will get more capacity coming in because owners will begin ordering and again because owner behavior may be different and they will be keen to order because the market is so strong, but again the worry about what can happen to regulation and technology is going to be there all the time. So if you have a very strong year, next year I suspect you will not get the same ordering spike that you saw in 2015-2016 for crude tankers because of the worry about regulations.

Moderator: Thank you. The next question is from the line of Deep M from One-up Financial Consultants. Please go ahead.

Deep M: Just wanted to understand so this scrubber installation you mentioned could have been delayed because of the high rates prevailing in the last two months. If a lot of ships go in for scrubber installation earlier next year would not that lead to certain more tightness just that the time IMO regulations will actually kick in?

G Shivakumar: That is something that I should have touched on and thank you for asking the question yes you are absolutely correct. The tightness what has happened is that they should have been tightness in this quarter, and we were expecting there will be tightness in this quarter because of ships going into the yard for scrubber installation and that capacity getting taken out. Now that capacity got taken out by the sanction and as a result of which the market went up anyway and scrubber ships have got postponed. So that is still lying in reserve to help us at some point in future and that is going to happen sometime hopefully in H1 and as you very correctly pointed out that is the time when you will have the disruption of IMO and potentially more trade flows and may be less ships which are available to carry those cargos. So it is sort of I do not know if it will get much tighter, but at least it is sort of safety which is there if the rates drop to very low level let us say that the Suezmax goes back to $10,000 which we saw in the summer of 2018 go down to $10,000 a day in the spot market. All the scrubber people who intend to fit scrubber will go towards the shipyards to fit the scrubber and again you will have a self-correcting thing because supply will get reduced and again the rates go up again. Now how much they go up whether they go from 10 to 30 or 10 to 60 we do not know but yes that is something which is still there in reserve.

Deep M: And how long do you think that could play out for like it will be a quarter or two quarters?

G Shivakumar: Couple of quarter I suspect because that will all get done in if the market is weak again. It is a sort of loop because suddenly let us say that we put one of our ships in March and then everybody is putting their ships in March and then the rate picks up to $50,000, then we postpone the next ship going in because we want to earn $50,000 which then postponed goes later on. So there is a feedback loop but let us see how it plays out. Again it is going to be interesting.

Deep M: And secondly on the product tanker, if tightness in crude actually plays out would not this spillover benefit the product tanker I know you mentioned that currently the rates are more in favor of charterers, so I want to know what happens on the product side?

G Shivakumar: Lot of people were expecting the product rate would pick up very significantly by now. Again it is a function of refinery runs, as I mentioned have been poor, and therefore that means less cargo for product tanker to carry. Product tankers gets affected by crude trade to the extent that when Aframax rates are very strong LR 2 which are basically Aframax which can carry clean products they switch to carry crude oil which means that the supply of product tanker shrinks to that extent and then it takes that market up. That is the only common shift between the product tanker space and the crude tanker space. So it is disappointing that product tankers have not started doing well by now but let us see if refinery runs were actually picking up in November then you should start seeing that impact.

Deep M: So that would be the only spillover I mean if you require more diesel for ships that do not have to go then the demand for the product tanker itself also would go up eventually?

G Shivakumar: Yes it should go up. So if you had asked six to nine months ago most people were saying we will go to gas oil which is diesel basically rather than low sulfur fuel oil because we are worried about the quality of low sulfur fuel oil. There are some who will use blend, some of it be straight burn. You do not what the quality will be. We still have concerns about the quality, and we will have to do a lot of test before we start using it, but it appears that more people are getting with the idea of using low sulfur fuel oil. We do think that there will be more gas oil transportation demand which means product tankers should have more trade.

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

Anjali Kumar: Thank you Aman and I would like to thank everybody for actively participating in this call today. As usual the transcript of this call will be up on our website in a few days' time. For any other information please feel free to connect with our corporate communication team. We are here to answer any queries that you may have. Thank you so much and good evening.

Moderator: Thank you very much. Ladies and Gentlemen on behalf of the Great Eastern Shipping Company Limited that concludes today's conference. Thank you all for joining us and you may now disconnect your lines.