"The Great Eastern Shipping Company Limited Q4 & FY'20 Earnings Call"

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Moderator: Good evening, ladies and gentlemen. Welcome to GE Shipping Earnings Call on Declaration of its Financial Results for the Quarter and Year-ended March 31st, 2020. At this moment, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question please press '*' and '1.' Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Ms. Anjali Kumar -- Head of Corporate Communications at the Great Eastern Shipping Company Limited to start proceeding. Thank you and over to you, ma'am.

Anjali Kumar: Hello, everyone, good afternoon and welcome to this Conference call for our Q4 Results of FY'20. The results were out on Saturday, so I am assuming all of you have had a chance to get a copy of it. And we will go through the usual routine. Mr. Shivakumar will give a brief rundown on the markets and the results and then we will have the question-and-answer session. So over to you Mr. Shivakumar.

G. Shivakumar: Good afternoon, everyone and welcome to the Conference Call for Q4 & Full Year FY'20. We have had an exciting few months, in some ways that we would rather not have and in some ways where it has helped tankers to make a lot of money. Let us go through what has been happening in the last quarter or so. Last part of the quarter which is starting around 15th of March, we had a big spike in the tanker markets, first it was a crude tanker market, as a result of OPEC deciding to go all out or rather Saudi Arabia deciding to go all out in supplying crude oil to the market. At the same time, we were facing the full impact of the pandemic and oil demand actually is estimated to have dropped by about 25 million barrels a day during the month of march starting from second half of March and going through all the way to Mid-April. As a result of this, there was a huge amount of surplus oil in the market and storage started getting full very quickly. It is estimated that the amount of oil which has gone into storage in the last three months is probably in the region of $800 million barrels or even more. Now, tank tops were getting hit very quickly which is that they were coming close to capacity. And as the swing producer or supplier of storage capacity as we have seen in the past, it was immediately a storage demand on ships. We saw contango build up towards end of March, which continued through the month of April and maybe a little bit into May also. And that enabled ships to be taken in for storage. So you could actually play the arbitrage where you bought oil spot, you put it on a ship, you stored it and you sold it forward and locked in a hefty profit. And therefore a lot of ships got taken out of the supply. As a result of this, freight rate spiked. VLCC went up to above $200,000 a day which is the highest we have seen in at least the last 10-years. Product tankers also had a big contango play, again with not much offtake of refined product. There was a lot of. product supply building up and again this went into ships. There was a big contango play especially in jet fuel. Because most of the world's jet fleet was grounded for at least a month or so and a large part of it continues to be grounded. And all of this went into storage as a result of a huge contango build-up. Product tanker rates went up to never seen before levels. So you had the large product tankers, LR2 going up to close to $100,000 a day. MR tankers going up to $50,000 plus a day and even all the way up to $70,000-$75,000 a day. Not too many ships in the world fleet were able to take advantage of this because most of the ships were actually sitting and waiting to discharge and it was because there were not that many ships available to take, the freight rate spiked. We have however been able to enjoy some of those in the current quarter.

Going back to Q4 of FY'20, you have the TCY rates that we got in our presentation. You will see that the crude tankers were at reasonably strong level at $32,000 on average. You see the product tankers around the same level as the previous quarter's average; somewhere in the 18,000 range. You see the LPG carriers slightly better than the previous quarter Q4 FY'20 , we were at below 23K and in Q4 we were close to $26,000 a day. This is mainly due to the repricing of couple of our VLGCs from old contracts which were at much lower levels and new contracts were at significantly higher levels.

Dry Bulk saw a weak patch in the first quarter of calendar 2020. Again, as China went in to a partial shutdown, economic activity came down little bit. We saw the demand for dry bulk cargoes go down. We also saw some of the mining countries go into shut down and therefore a reduction in the amount of cargo that could be carried as well.

LPG market stayed strong through most of the financial year and almost till the end of FY'20. In the last four to six weeks it came off very significantly. The spot market which was trading in the $40,000 plus dollars per day in March is now trading in the $15,000 per day range. Our fleet is completely on time charter. The first repricing which we will have is somewhere in the second half of this financial year.

Coming to the "Net Asset Value". Standalone was in the Rs.450 per share range in December, has gone up slightly to around Rs.454 a share. This is after payment of the interim dividend in March. We had a small drop in the prices of assets between December and March. Bulk carriers dropped by about 10% in this period, again as a result of what is happening to freight rate. Freight rate went down terribly. So, we had capsize down to $2,000-3,000 a day. Supramax is also struggling to earn even OPEX. So running at about Rs.4,000 per day for some time. So the NAV has been flat despite the depreciation of the rupee versus the dollar and you know that this depreciation normally gives us a benefit. But the NAV has been flat in December. However, since March last year, the NAV, we were about 375, we have moved up by about Rs.80 in this period which is. 21% growth in net asset value, of which probably Rs.15 a share comes from the depreciation of the rupee. But the rest of it has come from a pretty strong operating performance and the fact that we have no depreciation in the value of the fleet during the year. So, we charged about Rs.30 plus a share in depreciation on a standalone basis in this year. But that has not been the actual market depreciation, that has just been a notional accounting depreciation… because the value of the fleet instead of going down by about 65 million which is what Rs.32 a share has actually gone up by $30 million. And that is what has contributed to the movement in our net asset value. This is what happens, that it is not reflecting in the results and it will not till we sell the ships. But this is the hidden value which is sitting there in the net asset value and it represents potentially the future earning capacity of the fleet. So this is where we are on the net asset value.

In FY'20 in the group, we have paid down approximately $180 million of debt net-net, net of some small loans which have been drawn. We have paid out a dividend. We have had a buyback. And we have ended with pretty much the same cash balance that we started the year with. So it has been a good year for deleveraging the balance sheet and creating future capacity for CAPEX when the opportunities come. And we are quite happy with the way the year has gone. Obviously, the results are not showing this fully. We had the hit on account of the revaluation of the loans and the derivatives mark-to-market. Again, I will reiterate that is notional because with regard to the impact just on the foreign exchange we have more than compensated on asset side which is not appearing in the balance sheet.

The derivative MTM again, it does not matter because what we have done is we have locked in a dollar interest rate on our loans for the life of the borrowing. It does not matter what the volatility is in the MTM.

Coming to offshore, we have gone through another year with a reasonable level of employment. We were quite optimistic on the prospects for the market in early 2020, that is in January and early February when we last spoke and the market look like it was turning around, it was getting a little bit of strength, utilization of the global fleet was going up or modern rigs was probably in the 75%-80% region. However this dramatic fall in the price of crude oil, even though it has recovered from $15 a barrel which is what we saw about a month ago to about $35 to $38 per barrel which is what we see now. It is still a significant fall. A lot of oil companies have announced immediate cut in their E&P budget immediately and this is between 20% and 30% for the year 2020. It will probably reflect in their requirement for asset. Again, let us see how it turns out if oil goes back to say $50-$55 per barrel. You could see some of this coming back and some more confidence coming back among the oil producers and maybe demand coming back again. But, let us see how that pans out.

We have not seen any new pricing in the Indian market since a new contract awards in the Indian market since we had the lockdown. So we do not know how pricing has changed with this lockdown. We will come to know when there are new pricing. We have had tenders which have been big. But we have not seen anything closed yet. We have six vessels which need to be repriced during the course of this year. Out of our 19 vessels, we have one vessel which is completing a dry dock in Singapore. We have all the other vessels employed at varying rates. The rates may not be great but they are on contract, including the vessel which is currently in dry dock. There will be six of them which need to be repriced during the year and we have bid some of them into tenders and we will get to know as we go along what kind of rates we are able to get and whether we are able to get employment at all. About 80% percent of the vessel operating days have been locked in already. So it is only the remaining 20% that we are talking about.

In the drilling business, we have two rigs. So the Charu which came off earlier contract in early March has now gone on to a new contract, has gone on hire now which is a three-year contract. We have two rigs coming off contract in early 2021 that is between Jan and March 2021. And those rigs will need to be repriced. There has not been a tender for that employment. We will await that tender and look to try to win that business. We can also look to go outside if there are any opportunities outside India.

With regard to the coverage that we have in the shipping business, our coverage except for the LPG where all the assets are currently on time charter, the five LPG ships are on time charter, the coverage in most of the other areas is less than 20%, in the sense that less than 20% of the operating days for the coming year are covered on time charter and therefore we are open to the market movements. Let us see how that pans out. Again, we have built a large buffer going through bad markets and that has improved with the market moves and the rates that we have seen in the last few months. Let us see how the market behaves. It will be a function of what governments do, how we come out of the pandemic and how governments deal with the aftermath of it. We cannot forecast those because there are so many uncertainties to do with that. But as always we keep a lot of our capacity open in order to be able to take advantage of markets while ensuring that we are able to ride out markets even if they are very bad. We will see presumably a drop in oil demand as economies move into a slower growth trajectory. Again, it depends on how the oil producers react to that, whether they continue to keep the market oversupplied or whether they pull back the supply as well. Again, all of these dynamics are difficult to forecast and therefore we will just wait and watch as to how they pan out.

I hope that has given you a reasonable picture of how the markets have been over the last few months. Now, we will throw the floor open to questions. We are happy to take all questions from you.

Moderator: Sure, sir. Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Bhavin from B&K Securities. Please go ahead.

Bhavin: Starting off, I have a few questions. First, on the debt reduction, on a net debt basis we have seen a reduction of about Rs.700-odd crores, but if I look at the cash flow statement obviously you paid out a higher number. So I believe it will be because of the MTM impact on the consolidated debt. So if you can quantify what was the impact of MTM?

G. Shivakumar: So the debt number on the balance sheet does not include the derivative MTM, you are right. So what you should take as the debt number is on a standalone basis is $560 million as of March. The number on the balance sheet does not include the MTM which is effectively will be about $75 to $80 million. So that is the difference always.

Bhavin: Second, given where the VLSFO and HSFO spreads are today, how are we thinking about the scrubber installation?

G. Shivakumar: So we installed two scrubbers, one Aframax and one LR2 last year. And those are working satisfactorily. So no issues with those. We were going to install the four Suezmax scrubbers in between September and December and we pulled out of those because of where the freight markets were at that time. Then we were going to do it in first quarter of this year, but because of the lockdown in China, the yards were not working, we could not do it. So we are going to do those four Suezmax. We had another scrubber which was going to be done either on a gas carrier or an Aframax we have decided not to do that. So we will do the four Suezmax which are remaining. The first of those four will go into the dry dock in June for the scrubber installation. We intend to go ahead with the scrubber installation. Yes, it is disappointing that the spread has come down so significantly and current spot price spread between HSFO and VLSO it is probably US$60 or 70 in Singapore which is not a great number and does not give you a payback on your scrubber. But we will go ahead with it. It is not likely that it will stay this way forever. The forward price is probably in the region of 100 to 110 for Cal-21, 22 and 23. So with those numbers you get back your capital at least and maybe a small positive return. So, we will go ahead with the scrubbers. The projects are obviously not going to be as good as we had originally envisaged.

Bhavin: The next question was on the impact of IMO beginning 2020. There seems to be some increase in the fuel expenses. I thought it was a pass-through, but it seems that might not have been the case. So, if you can elaborate on that part?

G. Shivakumar: It is a pass-through, in the sense that it will appear as higher revenue and as higher cost. So if your freight rate was earlier pricing in $300 per ton and now it is $500 per ton and let us say that you are getting the same TCY, your freight rate will adjust upwards and so will your fuel cost. So it has been higher probably by about $200 per ton on average in Jan, Feb over the previous quarter…at least in Jan, Feb before this price action happened. So, yes higher fuel costs which were recovered in the freight rate and therefore the freight rates would have been higher in that time.

Bhavin: Just on the charter rate per se, it seems that if I go by the market rates we have kind of underperformed I think for the second quarter. So, is it because like you mentioned most ships were not able to operate at those kind of rates or is it a timing issue which is there and which will get caught up in subsequent quarter? I mean, if you can just elaborate on that part?

G. Shivakumar: We had some issues on the Aframax. So the Suezmax did reasonably well. In the Aframax, we had a small technical issue where we are operating in a pool and the way the pool has performed has not been very good. So the income is recognized there. There is some uncertainty and therefore the income recognize has been lowered to that extent. So, if we had to go by the actual performance without making any provision, it would be a higher number than this to the extent of $2,000 to $3,000 a day. So the Suezmax fleet would have made very close to $40,000 a day in this quarter. The Aframax which we are operating in the pool, we also have two Aframaxes on time chart. So out of the five Aframaxes we have two Aframaxes on time charter which are running in the 20,000-25,000 range and the other ships are operating in the pool. So, while the Suezmax are all 100% spot, 40% of the Aframax fleet is time charter and therefore we will not fully get the benefit.

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

Chintan Sheth: On the debt front, again, are we repricing our debt at the lower rate as most of the economies are reducing the dollar rates?

G. Shivakumar: The floating rate loans go to the lower LIBOR. The spread over LIBOR remains the same. So for floating rate loans six months ago, three months LIBOR probably have been+2%. When it gets repriced now where you have a reset will probably be at 0.4 or 0.5. Yes, that will happen in the normal course. However, most of our debt is already in fixed rates where we swap into fixed rates. So only a small portion of our total debt gets repriced. So today we have in the group about $800 million of gross debt. Only less than $150 million of that will be on floating rates. So it is a benefit to have lower interest rates but it is not going to affect our entire portfolio.

Chintan Sheth: Given the prices came off for most of the refined products, do we see this fuel rate percentage to go down in value terms?

G. Shivakumar: Yes, it will but it does not really make a difference because the customer knows what the fuel price is. Yes, it can go lower or it can go higher. But what matters is what is the rate that you are able to charge the customer. It does not matter whether fuel prices are high or low. What matters is whether the shipping market is tight or not. If the market is very weak, even if the price is low, the customer will take the entire benefit.

Chintan Sheth: In the previous question's explanation you gave that it is a pass-through, freight rates will be accordingly booked higher and fuel cost will also be higher. But if I look at as a percentage of sales for this particular quarter, that has increased from 15%, 17% range to 19%. So that is the reason why…

G. Shivakumar: So this is not a relevant metric for us to analyze… let me give you an example. We can employ our ships in two different ways broadly. You can employ it on a voyage charter or you can employ it on a time charter. The way we measure our result and you will see the table where we give what is the time charter equivalent rate on each type of ship. The market is at $30,000 a day for the ship. You can do it on a voyage. Now, let us theoretically say that you can do time charter also for the same period of 30-days. So if I give it out on time charter for 30-days, I charge the customer $30,000 a day. The customer spends on the fuel in a time charter. And let us say the fuel consumption of that ship cost $15,000 a day. So if I give it to that customer at $30,000 a day, I have no fuel cost at all. So the fuel cost as a proportion of sales is zero. Now if I do the same thing as a voyage with the customer, I will charge him $45,000 a day equivalent and I have to pay for the fuel cost. Net-net either I have to charge him 45, I pay 15 to the provider of fuel or I pay 30,000 and he pays 15 to the provider of fuel. But in your analysis, the time charter appears better let us say because fuel cost as a proportion of the total cost base is showing lower. But it does not make a difference to us because in both cases our ship is earning $30,000 a day. That $15,000 is coming into our pocket and going out immediately even when it comes to us. Iit made the top line higher without delivering additional value, just by virtue of the kind of employment which is done. Sometimes you do not have a choice also. And that is why we do not measure it by the total. Five years ago we would have had 40% of our fleet on time charter. At that time you would have seen much lower fuel cost as a total proportion because we were only taking contracts on time charter basis and the customer were to pay for the fuel directly to the fuel provider.

Chintan Sheth: Voyage versus time charter, that is having the percentages?

G. Shivakumar: And price also, but the price of fuel does not matter, so let us say in extreme case, in the voyage itself, just take that same example and assume that you are on voyage and let us say the fuel price drops by 50%. So instead of $15,000, fuel price now is $7,500. And we are still on that same voyage. So either we charge them $37,500 a day and pay $7,500 as fuel, in which $7,500 by $37,500 is 20% fuel cost as a proportion of state. Or which is 15,000 by 45,000 which is 33% fuel cost to sales. These are two different numbers but net-net the company has made exactly the same money in this whole equation and therefore you cannot draw a conclusion whether one ratio is better or not. I just want to point out it is an irrelevant metric for us.

Chintan Sheth: And on the CAPEX front again, what will be the spend we will be incurring this year on the scrubber?

G. Shivakumar: The average spend on each of those will be about $3 million total. But we have already incurred a lot of this expenditure before because we ordered the equipment before. So in terms of cash flow it will be much less. But we have a lot of dry docks to do as well. But just on the scrubbers, we already incurred more than 50% of the cost. So, again it is a very small number; it is less than $10 million remains to be paid for those installations.

Moderator: Thank you. The next question is from the line of Raja Kumar, individual investor. Please go ahead.

Raja Kumar: I have a couple of questions. Sir, you told that there was some upside on the tanker market by end of March and kind of sustained till early May. So would it be possible for you to give us what would be the average TCY for the current quarter, what kind of upside we are looking at for this quarter? I am not asking for guidance. I am just asking for a range like you said VLCC went up to almost $200,000 a day. Just wanted to know whether GE was able to block any contract?

G. Shivakumar: So we do not have VLCC, but Suezmax went up close to $100,000 a day. We were lucky enough to get some of those contracts at high numbers. Because we have 6 suezmaxes operating in the spot market. We have managed to lock in some of those good rates certainly.

Raja Kumar: Also, you mentioned the LPG in time charter and the repricing will happen only in the second half of the current financial year and you also mentioned the current TCY average which has already been booked is about $45,000 a day. Is that a right number?

G. Shivakumar: No, we did not mention at what rate they are booked at. Spot rates were at $45,000 a day in the early part of 2020. They have come down now to $15,000 a day. That is in the spot market. We do not give our time charter rate. Time charter rate on average across our gas carrier is significantly higher than $15,000 a day as an average across our fleet.

Raja Kumar: Would it be more than what you booked in Q4 FY'20, the 26 key numbers?

G. Shivakumar: Again, that is getting very close to guidance. So, I will not get into that.

Raja Kumar: Next question is I see that you are floating a wholly-owned subsidiary to see the shipping management and so on and so forth. Just wanted to know what is the strategic reason for floating this subsidiary and why it cannot be done in the existing entity?

G. Shivakumar: So this is potentially a company which can offer services to third-party. We have had in the past. People like lenders who have taken over ships, approach us and ask us if we will manage assets on their behalf. And we thought we should not put it into the main entity because it will take away the focus from the main entity. So, there are opportunities which can arise including in commercial management of vessels or operational management of vessels. We do not want it to be a part of the main entity because it will take away the focus and we want that to be a very specific organization which is focused on that third-party management. Because the mindset required for a third-party management company and for an in-house management company is different. And that is why we said we will keep that separate.

Raja Kumar: What potentially you are looking at in this?

G. Shivakumar: We do not have a market size kind of thing. It is only something which has come up in discussions over the last couple of years where we saw that there seems to be a need for this and therefore we set it up. Again, it may not come to anything at the end of the day or it could be a big opportunity, we just do not have. So it is not like we have a consultant's report which says market size is a billion dollars and you can take advantage of that. It is something which could be an opportunity and we have set up a vehicle to take advantage of the opportunity if it comes up. But we are not expecting it to be a very significant part of the overall operations. It is just a small thing which does not make a difference to our overall number.

Moderator: Thank you. The next question is from the line of Nirav Shah from GeeCee Holdings. Please go ahead.

Nirav Shah: Couple of questions. First is on the offshore front, just want to clarify, you mentioned the two rigs, they are coming up for renewal in March '21 or '22 because I was under the impression that we reprice two rigs at the same time and we had one rig idling somewhere in 2018?

G. Shivakumar: Yes, so she was idling through '17, went into contract in '18 and that is a three year contract and that finishes in early '21. And the rig which came off contract in '18 again went into the similar three year contract.

Nirav Shah: So the tendering should happen anytime post-September or August-September?

G. Shivakumar: Yes, somewhere around that time. Sometimes it happens a little earlier also. It depends.

Nirav Shah: Do you see the technical criterias for the rigs becoming more stringent because E&P companies would also like to cut on more seriously wherever additional cost they are incurring? In the current crude price environment, technically E&P company would like to maximize or optimize the efficiencies. I mean, tightens the criterias for the rigs that they are coming up for bidding. So that was where I am coming from

G. Shivakumar: Yes, it is likely and that is the direction it has been going. Some weightage has been given for the operating efficiency and the operating capability of the rig. Till maybe three years ago or four years ago we used to have separate tenders for modern rigs which are more capable and old rig. Now that is not the case, but we get a small weightage for the more capable rig in the pricing. Let us see. Again, these things are very much in a state of flux. Let us see how they develop. You never know. We will know when the tender comes out.

Nirav Shah: In your opening remarks, you mentioned that you are open to relocating this rig. So what was the thought process behind that, I mean, in what event or what environment you will look out for a different opportunity?

G. Shivakumar: Moving a rig from one area to another is a significant cost. And typically different customers have different requirements for customization. So, if we can justify that cost in a new contract, then we will look at doing it. That is how we look at all these opportunities. If we get a long-term contract say a three year contract in which we are able to defray all costs of moving and mobilizing and doing the work for the contract, we will be open to doing that.

Nirav Shah: The last question is on the tanker market per se. The IMO event is largely played out. The current spot rate, in the last call you mentioned for the industry is when the rate was around $32,000-$33,000, the ROEs were in mid to high single digits. While I am not extrapolating, but at the current rate you see in terms of slippages in the order book becoming more and more visible or scrappage maybe a couple of quarters down the line is over at around these levels, how do you see the next supply for vessels moving into '20 and '21?

G. Shivakumar: Because the industry's cost structures are a little different than us. Let us keep that aside. But at $32,000-$33,000 for a Suezmax is a very decent rate. But coming to what the spot market is doing currently and I should have mentioned that earlier, Suezmax spot rates are down to about $25,000 a day, Aframax is down to around that, maybe a little bit lower, product tankers are all down to the 20,000 or lower than the spot market rate. So the froth which were there in the market seems to have got taken out. You can see that the contango in prices has come down very significantly. There is hardly any contango now. So the storage play seems to be over. Now the question is what happens to the demand? The current order book for tanker is less than 10% percent across the board, whether it is a crude tanker or a product tanker. The order book is at historic lows, meaning, we have not seen such low order book since the turn of the century let us say and which gives us a little bit of hope. But at the end of the day, you need demand as well. Now what will happen to demand? We do not know. Whether scrapping will pick up, etc., As I said that part of the equation remains a big unknown. The comfort we can take is that the order book is not too high and therefore it will not add further pressure. So you have potentially 4% fleet growth in this year and potentially another 4% fleet growth next year in tankers which is not too bad. You could have some scrapping if the markets are weak. So let us see the order book is not building up quickly either. It is not easy to order a ship in the current situation. And there is always a worry about technology and the new regulations which are coming up. So hopefully the order book should not build up too much. But again let us see how this market plays out. If market stays strong for a long time, then you might find owners going out and placing orders. But as we speak the market is not showing that much strength in the spot market.

Moderator: Thank you. The next question is from the line of Samraj from Dwaraka Wealth Managers. Please go ahead.

Samraj: We will be happy if you can give us some information on the voyage operating expenses breakeven for the Suez, Afra, LR2, MR2, Kamsarmax and Supramax?

G. Shivakumar: So we have two different types of operating expenses. I think you refer to VOE which is the voyage expenses. What exactly is the break even in that? So if you break even in voyage expenses, it means you have made TCY of zero. For different segments, I do not know how to do this. So what I suggest is because this is going to take some time for us to understand what you are looking for and why it is that you are looking for that because it does not seem to make sense….

Samraj: We have been following some presentations of NYSE-listed shipping companies and they have given the ship operating expenses for the various… as you have already mentioned the spot rate, so we will get a fairly good hang on the margin?

G. Shivakumar: Let me give you kind of easy way to do this. So we are not looking at the voyage expenses at all. First thing to get out of the way is you do not need the voyage expenses. What you are looking at? What comes below TCY. Below TCY, you have four types of expenses. First, you have operating expenses which is the expenses of running the ship, which is maintenance, crewing, insurance and other miscellaneous communication expense. Second you have overheads. Third, you have interest. And fourth, you have depreciation. The operating expenses which is the cost to maintain and run the ship are depending on the type of vessels between $4,000 and $6,000 per day. The overhead expenses are between $1,200 and $1,500 per day. Again, you can look at our balance sheet and annual report and calculate. So our average OPEX is somewhere in the region of between $5,000/day and $7,000/day. Interest and depreciation between the two of them add up to about $5,000 to $6,000 per day. So if you want to see what is the book breakeven, you are somewhere in the region of $12,500 to $13,500 a day, if you are trying to arrive at what number does our fleet break. So that is the number for you.

Samraj: Is it possible you could give us the variations from Suez to Afra because we do not have VLCC?

G. Shivakumar: The problem is that once you get into that kind of stuff, they are not going to be very different. You have to go into depreciation of each individual asset. Then it depends on what price you draw that asset. For the purpose of doing the analysis, I think this is a reasonable thing. Bulk carriers typically cost lower to run in OPEX. The crude tankers and LPG ships cost the highest to run. So they are at close to the 6,000 range, the bulk carriers are closer to the 4,000 range. That sort of what you can take away from. Depreciation and interest depends on how you are funded and at which point in the cycle you buy them.

Samraj: Just wanted to get some more clarity on this bunker expenses. Going by coastal shipping presentation of last quarter I am saying because they have not yet done for this quarter. They said that we had got savings in the bunker of about Rs.7 crores, I mean, for a small shipping company, it is a pretty big significant difference. So how did that work over there, I mean, is it something like you have a market price, right, so you contract the vessel on the market price and then we spend lower on the bunker and that goes directly to our P&L, would something like that work out? From your explanation, we got an idea that it is net neutral, right, that is what you meant, correct, it does not make a difference. Let me be more specific now. Last question the crude price average for the quarter would have been something at $40 a barrel, we started in April was $18, that is brent crude I am talking about and May now at the current year around 30, 35. Now, in this P&L, what would be the savings in the bunker fuel and the expenses, given that it is typically 40-45% for a shipping company?

G. Shivakumar: So, let us put it this way. Bunker cost is a part of our day-to-day life. If our ship needed to refuel on 15th of February at $50 a barrel, but you needed to refuel, you have to refuel. If you are lucky enough to refuel at $20 a barrel, and therefore you get fuel of that price, you are lucky. That goes into calculation of your TCY. We do not calculate those savings definitely because you will get somewhere you buy at $50, it drops to $20, somewhere you buy at $20 and it goes to $50. It is part of the TCY calculation. There is no point trying to track it separately because we do not have any hidden formula or secret formula for making money on the fuel cost.

Samraj: Given that we have got only 27, 28 operating days left in June now, so what would be the bunker fuel charges in the P&L for this quarter given the current, approximately let us say $20 would be the average for this particular quarter?

G. Shivakumar: Two things on this. One is the number you are asking for is irrelevant. What will we do with this number? What is the bunker cost? As I mentioned, bunker cost is there and it is coming into the TCY calculation anyway. What the number that matters to you is the TCY. The second is because it is an irrelevant number, we do not even track it, internally also, I will not be able to tell you this number, because we do not track it as a thing to be tracked. It is a cost of running the ship. We are not trying to make money on that part of the business. We are trying to make money in the freight. And this is a cost which is taken out from the freight. So in trying to get to this number, we will not get anywhere. If your end objective is to try to forecast to what the next quarter is going to be like, you will not get at it through seeing what the bunker cost is. That is the bottom line. And there is no point going down this path at all.

Moderator: Thank you. The next question is from the line of Rajesh Agarwal from Moneyore Investment Advisors. Please go ahead.

Rajesh Agarwal: Sir, my question is on the crude carrier. Is it contango which had happened and the rates went up. What timeframe we have locked in for Supramax and Aframax?

G. Shivakumar: Locked in, see, we are running on voyages. A couple of voyages extend all the way up to 80- 90 days also, some voyages are 30-40-days and get repriced frequently.

Rajesh Agarwal: But if it is used for storage, then it can be for a longer period?

G. Shivakumar: Yes, it can be. So that can go up to 100-days also. We have done one long-term contract…long-term meaning is slightly longer-term which is six months contract. Otherwise, the ships are in the spot market and the voyage times vary between 25-days and 90-days.

Rajesh Agarwal: Average can be 60 to 80-days?

G. Shivakumar: No, not that much.

Rajesh Agarwal: Sir, suppose if it is sailing on a high freight for next 40, 60-days till the time it is delivered, so will it still be sufficient on the operational cost, running cost and everything?

G. Shivakumar: No, it does not make a difference. Whether it is standing in one place or whether it is sailing, crew salaries remain the same. The fuel is priced in, if you are in a storage contract, then that becomes a time charter in which case fuel is not on our account in any case.

Rajesh Agarwal: Second, why do you feel the LPG carrier prices have come down, what oil has come in the spot?

G. Shivakumar: Probably it is because the price of naphtha has dropped off very significantly. LPG and naphtha sometimes are used interchangeably in a cracker for petrochem. And price of naphtha has come off very significantly, making naphtha more attractive as compared to LPG as a pit shop. And therefore the demand for LPG potentially have come down. That is one of the causes which is being doubted for the drop in the LPG freight rate.

Rajesh Agarwal: Our LPG is in time charter?

G. Shivakumar: All our LPG vessels are on time charter, yes.

Rajesh Agarwal: This is what period sir – six to eight months?

G. Shivakumar: They were all fixed originally for one year to two years. So all those contracts most of them will finish within the next year which is 2021.

Rajesh Agarwal: We do not have worry on that side because it is all locked in already?

G. Shivakumar: Yeah, now we do not have worry.

Rajesh Agarwal: Sir, what is your outlook on product carriers and dry bulk? And can you tell me the spot rates?

G. Shivakumar: Spot rates in dry bulk are quite low. So depending on which sector you are looking at… all below $10,000 a day in the spot market, so doing quite poorly currently, generally in poor demand it appears. On product, we are doing not badly. So MR tanker rates are still in the $15,000 to $20,000 range which is a very decent level for the product tanker.

Rajesh Agarwal: And our product carriers are on time charter or spot?

G. Shivakumar: Most of them are on the spot market. Out of our product tankers, we have 17 product tankers, of which three, four are on time charter. So, 75-80% of our capacity is open.

Moderator: Thank you. The next question is from the line of Venkatraman from **Orient Securities**. Please go ahead.

Venkatraman: In the PowerPoint presentation, revenue visibility of Rs.865 crores which you have mentioned, is it safe to assume that for crude carriers if it is mentioned as 25%, that means the first quarter is booked?

G. Shivakumar: No-no, it does not work like that. A lot of them maybe booked because they are already in end of May. So, most of the quarter would be booked because you are already on voyages and that voyage will get over sometime in June. So most of it would have been locked in to that extent. However, that number does not specifically mean that this quarter' book. You could have one ship which is on charter for the rest of the year and therefore will be counted as four quarters being booked. So all that represents is whatever we have locked in whether it is for 10-days or for two years, that is counted.

Venkatraman: Second question is regarding the mix of spot and time charter. I believe in the month of March and April, a lot of the international companies are moving lot of their ships to time charter. What is the thinking for GE and why are we not still in the 70% spot rate?

G. Shivakumar: We have tried to do some time charters, we have done some. Unfortunately, there are some logistics constraints on doing time charter including if you have a dry dock which is coming up, then the customer is not happy to do a short time charter with you. So I mentioned earlier we have scrubber fitments which are to be done on our Suezmax tankers. Because of that they have to go into dry dock, then if there is a dry dock impending, the customer does not want to release the ship typically in the middle of the charter to go for a dry dock because of those logistics. Wherever possible we have tried to do longer-term contracts.

Venkatraman: In this current year, the outlook seems to be fairly good in terms of cash flows and with limited CAPEX and very limited debt obligation. Why are we going for additional enabling resolution for another Rs.1,000 crores?

G. Shivakumar: This is just in case an opportunity comes up. We took the resolution last year also. We did not take it if it was not due. It is enabling us to do it if the opportunity arise, that is all.

Venkatraman: Any updates on the shipping corporation business?

G. Shivakumar: We know nothing about it.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Can you comment on how is the scrap value for Suezmax and Aframax or Bulk Carrier currently and if you can give the number currently?

G. Shivakumar: See, the problem is that the market is disrupted to try to get a value, because the yards were just shut down as part of the lockdown. There is no point looking at those rates because the rates are quite irrelevant to look at. They had come down; so from the 400-plus region they came down to somewhere in the 300 and reportedly down below 300 also. But again when there is no market, what is the value of that price? Because you could not actually sell….there was no scrapping happening and therefore the price you should take it with a pinch of salt.

Vikram Suryavanshi: Can you highlight about fleet growth and order book in bulk segment and LPG?

G. Shivakumar: Also pretty low; in bulk also it is 10% or lower, LPG also it is quite low, a similar number; LPG maybe 10%-11%. So in terms of order book, it is not much. I think the problem is going to be more on the Demand side early. Ten years ago when we went into the crisis in 2008-09 we were staring at order books of 60% in bulk carriers and 30% to 40% in tanker. This time that is not the problem. This time the problem might be that you have a real drop in demand. So at least it is good to rule out one side. So you can have problems on both sides. That time we had a demand worry also. This time at least you do not have supply side worry. So order books are still in the 10% or low range. So at least on that we have no cause to worry and there is not too much ordering happening also, get a couple of ships here and there.

Vikram Suryavanshi: Fleet growth if you can?

G. Shivakumar: Fleet growth will be 2%, 3% or more. This year again gross fleet growth will be somewhere in the 4% for crude tankers. But you do not know how much scrapping there will be. Again it depends on what happens to rate side, because there was hardly any scrapping in 2019 because everybody expected a strong market on account of IMO. There has been very little scrapping in the first five months of this year, again, because the market has been strong. All of this is building up for the future. Because at some point, those ships have to get scrapped. The fleet which is above 15-years old in the crude tankers is a very significant part of the fleet and will need to go at some point. So you do not have to scrap a 15-year-old ship, but with the 20-year-old ship certainly you have to seriously think about scrapping. We ourselves have a 20-year-old Suezmax tanker where we completed the dry dock and we are running there because the market is good, you can recover the cost of the dry dock because you can run it for two years after the dry dock and with the market as it is, it certifies dry docking and extend. But at some point these ships have to be scrapped which gives you a little bit of a safety net if the market goes very low. So let us see. I think demand can drop a whole lot more. As it stands today, it looks like demand for oil has dropped by 5 million barrels a day even after coming out of lockdown a little bit. That is going to be a really tough thing for the tanker freight markets. Then you need a lot of scrapping to balance them, a lot of removals one way or another to balance.

Vikram Suryavanshi: Would you like to give details about consolidated NAV?

G. Shivakumar: Consolidated NAV is between 490 and 540 per share approximately. So what has happened is it is about the same as last year. It is basically because of the uncertainty around the valuation of offshore asset, the range has been extended and you know that you get a fairly fine valuation for ships, but for offshore assets you get a range of valuations because the market is not as liquid. So what the brokers have done this time is that they have given a wide range of valuation. And in that widening they have basically brought down the minimum price… the lower end of the valuation and therefore that has dropped off significantly. So the lower end which was used to be somewhere in the 520 region and that has dropped now to the 490. So, offshore assets are still struggling to get valuation and they get hit further and there are not many transactions happening, you are seeing a lot of stress among the listed offshore companies especially the drilling companies, the market caps of those companies have dropped off to $100 million which were a few billion dollars earlier. That has affected the NAV.

Vikram Suryavanshi: How is the liquidity in time charter market because we have seen huge volatility in spot. So, how is the liquidity if we want to really apart from logistics issue what you said about dry docking and other to enter into long term contract, how you can explain liquidity in terms of time charter market has moved?

G. Shivakumar: So there has been reasonable level of fixing of ship. It is not easy to do because of the speed at which the market is moving. In fact, even in the spot market and this is the phenomenon which were seen is typically in a spot market fixture for a crude tanker, you are a customer, you fix the ship and you say that it is on two days subjects in order to clear all the logistic issues, you have to get a terminal clearance, etc., Effectively you have got a free option for those two days because if the market goes down in that period, you can drop that ship, you can say that “I no longer want the ship.” Now in a time charter, it is even more unfavourable, basically if the market changes in that time, you can get dropped in that period. And therefore in a fast moving market especially if the market is coming off quickly, you cannot really fix**.** So the only way to fix is to fix even before the market moves. So you sacrifice something in the rate. Even if you think it is going to go up further, you sacrifice something in the rate for the certainty of fixing. And when we look at that, we typically look at the spot market rate and say you can fix it one year at whatever $36,000 or $40,000. If you include the voyage for 45-days at say $75,000 a day. Then your breakeven for the remaining period comes down very significantly. And sometimes you just have to say that I am not going to take the uncertainty of trying to fix. I will just take the business which is there now and then look at it later and then take my chances with the next spot picture or trying to be time-specific in future. So if tough transactions were to happen, you need a lot of luck to get these transactions, you need the market to hold up because there is so much time between the time that you commit to the transaction and the charterer commit to the transaction.

Moderator: Thank you. The next question is from the line of Rajiv Agrawal from Sterling Capital. Please go ahead.

Rajiv Agrawal: I want to understand the calculation on net asset value. You first calculate the market value of assets and you also subtract some liabilities, debt, etc.,?

G. Shivakumar: What we do is you take the balance sheet, how do you calculate the book value per share? Assets and liabilities divide by a number of shares, right. All we do is we take out the book value of ships and we replace it with the market value of the ships. And there you have it because you just replace that and now you have the net asset value of the fleet. It is the market value of the ships minus net debt, plus other. asset and divide this by the number of shares, you have the net asset value of per share.

Rajiv Agrawal: In dry bulk rate I think are a multi-year low if my information is correct. So are we planning to acquire any asset in dry bulk or what is your fleet expansion plan to take advantage of this?

G. Shivakumar: We do not go in with the fixed plan. We look at transactions which come to us and we see whether they make sense at the time. As it stands today, the prices do not yet seem very attractive. But that could easily change tomorrow or the day after. Yes, among all the asset classes, it may be that dry bulk looking lowest, but as it stands, nothing is planned. We have the capacity to move quickly and buy in volume. But nothing planned for now. We do not have a planned CAPEX is what you are asking. We will be opportunistic whenever the market presents good value.

Moderator: Thank you. The next question is from the line of Avinash Vazirani from Jupiter Asset Management. Please go ahead.

Avinash Vazirani: I am going to do a quick fire because I know you are short of time. The first question is could you please tell us what percentage of revenues, costs, debt and cash is in INR please?

G. Shivakumar: Revenues are a little over 50% received in hard currency dollar…I am talking about the shipping business; however almost 100% is denominated in dollars. It is just a difference in the currency in which we receive. Of our interest cost 100% is dollar. Our repayments are 100% in dollars one way or another. Our overheads are 100% in rupees. Of our operating expenses, about 75% is foreign currency linked let us say, most of it is dollars, but it could also be euro or yen depending on the supply. So we are a net dollar business

Avinash Vazirani: And the cash that you hold at bank, that is all dollars, is it not?

G. Shivakumar: So our treasury is about a third in rupees and two-thirds in dollar.

Avinash Vazirani: What I am trying to understand is these kind of very large exchange gains and losses items that you have and derivatives position, can you kind of explain what exactly are you hedging, are you hedging your INR, are you hedging your balance sheet, are you hedging your fuel, are you hedging your revenues, just explain what exactly you are trying to do and how you deal your company?

G. Shivakumar: Thanks for asking this question. This is something that we should explain. So, what are we trying to do? We are buying ships which are denominated in dollars which earn in dollars. So value and earnings from the ships are in dollars and we sell the ships also to an overseas party and the price is denominated in dollars. So our asset side and our income side is dollars. Our inflows are therefore in dollars. What we are trying to do is to not have an asset-liability mismatch on the currency side and therefore we try to have dollar liabilities to fund the dollar assets. Dollar liabilities, you can have either by just borrowing straight dollars which we do. So you take a dollar loan to fund your ship and you buy the ship. Okay? So now what happens to that? According to the accounting standard, let us say you bought a ship for $20 million and let us keep it really simple and you buy the ship for $20 million, you fund it with a loan of $20 million. You bought the ship when the dollar-rupee was at 70. So you have a ship which is worth Rs.140 crores. You have a loan which is worth Rs.140 crores. That is your balance sheet on day one. On March 31st, it has gone to Rs.75. Your ship remains on your book at Rs.140 crores. You do not revalue your ship. Your loan however has to be revalued to 75x20 million, it becomes 150. That Rs.10 crores change in the value of the total loan has to be taken to the P&L as a revaluation loss. On the flip side and you have understood this that there is a 10 million gain also which is sitting there in our balance sheet. The accounting standard does not permit us to recognize that gain which is sitting embedded in that ship…

Avinash Vazirani: What I am trying to understand is you have a lot of hedging going on and derivatives. So to me you are a dollar company which in INR cost…

Avinash Vazirani: I will tell you what the derivative is. So, the one I explained to you was in very straightforward transaction which was you borrow dollars and you buy a dollar ship. The second thing which kind of funding which we did was where an opportunity came up where you could borrow rupees, get longer tenor loans and get it cheaper and swap it into dollars and get it cheaper than just borrowing dollar. So you get cheaper funding and you get cheaper debt. Now what has happened is you have put a derivative on top of your rupee borrowing. So the same change which happens; Rs.5 change which has happened in the exchange rate, now reflects as a derivative loss.

Avinash Vazirani: So you are now trying to hedge your balance sheet, the hedging that you have done is essentially your dollar contracts. So essentially cross-currency, whether it is INR, whether it is USD or whatever, is that what you are trying to do?

G. Shivakumar: We are trying to match the currency of the inflows and the outflows to the extent we can by creating a dollar liability. We are trying to reduce the mismatch. We cannot do anything about the equities because equities is rupees on the liability side but the debt at least should be 100% in dollar.

Avinash Vazirani: Did I understand correctly that bunker is a pass-through for you and you do not do any hedging or anything on your bunker cost at all?

G. Shivakumar: We will do a little bit of hedging. We take a market call sometime. And especially if we have contract. So it is a pass-through if you are in the spot market 100%. Sometimes you have something called a contract of "affreightment" which is where you have locked into a long-term contract. But it is not a time charter. It is a long-term voyage charter contract where you have priced in a certain fuel cost and you have to ensure that you lock in that fuel cost so that you are not losing out on the margin. So we do those compulsorily. Apart from that, we do a little bit of hedging based on a view but it is very marginal in the overall context.

Avinash Vazirani: So essentially, you do some "speculative hedging" on fuel. In terms of your currencies, you are not doing any of that, you are just hedging your assets against your liabilities?

G. Shivakumar: That is correct.

Avinash Vazirani: So if you were to do your accounts in US dollars, a lot of these hedging gains and losses will actually would not happen?

G. Shivakumar: That is mostly correct, but there is also a derivative in between and the derivative MTM, I am not 100% sure how it will get created because that is a derivative, it is not just a dollar revaluation.

Avinash Vazirani: If you were to put more details on your derivative exposures on your balance sheet, on your presentations, I think it will be actually very, very helpful for investors because I think what you just explained actually does not really come across either in your annual report or in your presentations but what we seem to be doing is pretty good really.

G. Shivakumar: We will take that on board, thank you, we will try to do something about that.

Moderator: Thank you. The next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: There has been some buildup with respect to capital work-in progress. I see some Rs.100 crores have increased YoY. So what is that?

G. Shivakumar: Yes, some of the scrubbers waiting to be installed work which has been done for dry dock. That kind of…

Dhruv Jain: You partly answered that question, but in a sense that how are you looking at the markets say 12 months from now, I mean, 12 months can be a very long period in shipping, but considering that

OPEC is doing these cuts in production. So is it fair to say that the recent sort of rally that we saw is like winter demand coming in a little early?

G. Shivakumar: The one rally that we saw in October was probably because of the COSCO sanctions, right. And the second rally we saw was in March which was just on account of there being tremendous oversupply of crude oil. There was a huge drop in demand and there was just too much crude oil and that had to go into storage and therefore that pulled ship from the trading fleet. So none of which is driven by the fundamentals.

Dhruv Jain: So considering that inventory drawdowns will actually happen once things start opening up, so do we expect the rates to be slightly weaker, I mean, going say 12 months from now or 6 months from now?

G. Shivakumar: **We had floating storage** now in the month of April and caused that huge excitement and therefore the uptick in rates. And this will have demand of the future because you just borrowed from the future demand. The oil it is required in the month of August is already lined up in the consuming areas, and it is being stored there, it will get drawn down from there and the ship will get released. So it is not a great kind of outlook for the business unless the contango builds up again, unless you have a second wave and again your contango builds up, you have an oversupply. But yes, what you are saying is right, the outlook does not look great because you already transported the oil in the month of April and May and you do not need to transport it again in September. So that is a fairly subdued outlook. So it is very dangerous to forecast anything these days. We were expecting a strong winter market because of IMO and nothing happened… we do not know why it was strong, but probably not because of IMO, but it was very strong anyway. But generally, the fundamentals seem to be lining up behind a weak tanker market.

Moderator: Thank you. The next question is from the line of Pankaj Shah, individual Investor.

Pankaj Shah: I had two small questions -- One is if your NAV is 500 or 490 to 540, can we expect to buy back too?

G. Shivakumar: That is for the Board to consider. As it stands, it is less than a year since we finished our last buyback. So regulatorily we cannot even consider a buyback till the end of November. So for now, nothing is to be done. But yes, it is very cheap as compared to NAV. We have been declaring our NAV for almost 20-years now. In the overall scheme of things, this discount to NAV is amongst the highest we have seen in the last 15 to 20-years.

Pankaj Shah: These MTM losses or these derivative losses are exclusively on account of the extension, nothing to do with your forward contracts of affreightment?

G. Shivakumar: No, nothing to do with COAs, we do not have any COAs currently. These are exclusively to do with the borrowing trending. So let me put one more MTM which is there. So we have gone into fixed rates at 2% in dollar. So swapping the LIBOR effectively at 2%. Today, that LIBOR swap is at 0.6%. So, it looks terrible, and there is an MTM loss. But at the end of the day, you have locked in your interest rates at 2% LIBOR. So that is how we look at it. It is a transaction where you have locked in a rate at a very attractive level. And sometimes it just looks bad on your P&L when you will do an MTM. But in the overall scheme of things, it is a good transaction to do.

Pankaj Shah: So notionally, when we see a loss for the current quarter, we should just ignore that?

G. Shivakumar: So again, in the chairman's later last year or the previous year, chairman had written that ideally, you should ignore these derivative losses and FOREX losses. Again, I think the earlier person who asked a question. We need to explain this a lot better that we are not doing any speculative transactions. These are transactions which make sense to do, are actually trying to hedge our position and to reduce the risk rather than increase it. And this should be ignored in the context of our results. And the real metric for us is how does the NAV move because that does not go into the accounting side of things that looks at the intrinsic value of the stock.

Pankaj Shah: Just one last point is, I think you need to be congratulated on your patience. I think what you should do is each time you send out your presentation, you need to send a small note on what is the difference between a voyage charter and what is time charter and how bunkers cost of fuel does not affect the way your balance sheet or your results look. I think we spent almost 45 minutes on explanation on what is a voyage charter, what is the flow through of bunker prices on your results.

G. Shivakumar: That is okay. So we are here to educate investors. Now that everybody can come in knowing everything. But yes, certainly we should put out kind of a glossary to give base information.

Pankaj Shah: If you put it, I think a lot of questions would not come up, I mean, just a suggestion.

G. Shivakumar: Thank you. We will take that on board and try to do that.

Moderator: Thank you. The next question is from the line of Deep Master from One up Financial Consultant**.** Please go ahead.

Deep Master: I just wanted to kind of tie in your comments on IMO and just kind of look at how you guys are sort of expecting the year the medium-term to sort of play out? I think you mentioned that the spreads are down quite a bit and maybe the payback on scrubbers may not be as good. But sort of what can change going forward to kind of bring the benefits of IMO actually coming through, can we still expect to see some of those come in?

G. Shivakumar: See, one of the reasons for the drop in the spread is actually the drop in the flat price of crude oil which is the absolute price of crude oil because sometimes the spreads are just related to the total amount that you are paying. The spread will not be the same at $60 crude and $30 crude of course. So if the price of crude oil itself goes up, hopefully that spread will widen a little bit. So at the beginning of January… that was a slightly disrupted market and we saw the spread going up to close to $400 per ton. That was not sustainable. Pretty soon it came down to $300 by end of January. It is probably not going to be there on average at $300, but we do not need it to be at $300. We did not price $300 over a four-year period for payback. So at $150, I think we would get a full payback and maybe a little bit of return as well. So, I still do not know what it is that would increase that spread. Your VLSFO. What we are talking about is the spread between the high sulfur and the low sulfur fuel. So the low sulfur fuel is sometimes a blend of gas oil, fuel oil and high-sulfur fuel oil. The problem we have currently is that the price of gas oil has dropped off significantly because there is just little demand for it, there is a negative demand growth. Now once the economy start moving again and diesel demand picks up, hopefully, the crack spreads for gas oil go up and therefore push up the price of low sulfur fuel because it is a blend of gas oil and high sulfur fuel. That could take it up. Now again, whether it will go back up to $300, is anybody's guess. But for it to remain at today $70 or even at $100 it is going to be pretty tough. It will be very unusual for it to remain at these levels

Deep Master: And I guess the whole tightening that we were expecting to see in the oil market for now, it is not going to play out until you actually see sort of OPEC following through on that promise and sort of sticking together, at least sort of coordinating better in terms of supply. So...

G. Shivakumar: From the flows, they really seem to have done that.. So actually, it dropped off by 8 million barrels in the month of May which is what has taken prices lower. In fact, we are starting to see some little draws from floating storage as well. So it appears that it is having an impact. The oversupply has got taken out. It seems that the crude oil market is in balance as we speak.

Deep Master: I guess that is benefiting from sort of the demand coming back from China and some driving demand in the US as well?

G. Shivakumar: That is correct, yes. Again, it is still 10 million barrels lower than what it was in January. But at least it reached a stable level where there is not too much oversupply which is what has really driven the price of oil down to below $20.

Deep Master: So if this scenario kind of just incrementally gets better, then the current tanker rate should stabilize here?

G. Shivakumar: Tanker rates are pretty low. So yes, they can stabilize here, but I will be surprised if you have demand staying at these numbers. Demand is actually as I said 10 million barrels per day lower than it was six months ago.

Deep Master: If it incrementally improves from here tanker rates actually possibly at a bottom?

G. Shivakumar: No, I would not call this a bottom at all. They are still at very decent levels. They are higher than they were a year ago.

Deep Master: Just on the dry bulk side now with China opening up again and if things improve in Brazil, are these rates again pretty low and unsustainable or is there still some time to go for us to see an improvement there?

G. Shivakumar: There is some time to go by. Does not seem like things are improving in Brazil. We keep hearing about new shutdown happening there. So I think they are going to have some difficulty putting out the commodity. It showed an uptick a couple of weeks ago, but it sort of subdued again. Though China seems to have come back, and steel production in China has been strong and for some of the industries in India as well are coming back things like cement, etc., but overall we are not seeing that reflected in strong dry bulk demand. So if you recall last year, we had a very poor first three to four months of cal 2019 in dry bulk and then we had a sudden like a coil spring bouncing back in the month of May, June, July. So we are not yet seeing anywhere near that in dry bulk this year.

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

Vaibhav Badjatya: What is your view currently on the strength of OPEC after all whatever has happened in last six months? Because from a longer-term perspective on our offshore fleets, that is what matters a lot.

G. Shivakumar: So on a lighter note, you should not take my views on this because I did not expect OPEC to start pumping plus 2.5 million barrels a day in early March. We thought that they would be cutting by 2.5 million barrels a day. So, so far, the views have not turned out to be very correct in this matter. Nobody knows how they will react. And they have of course their own compulsion. So better not to try to focus what OPEC does. But it seems that the oil prices at least are on the recovery track. I would not have expected near 10 million barrels a day cut being agreed by them and that too for the last one month, they seem to have been abiding by that agreement. So there seems to be some level of discipline there and maybe that will last and hopefully then oil price goes up and the offshore market recovers a little bit.

Vaibhav Badjatya: Last time, you said that our LPG fleets got affected because there is some uncompetitiveness related to the naphtha that has happened. So last time when did you see this kind of things happening?

G. Shivakumar: That was probably about two years ago when the market again was very weak, I am not remembering 100%, but I think it was sometime in 2018. So around this time, I think the market was pretty weak in June 2018 where I think we had a similar situation with regard to naphtha, I think so, I am not 100% sure, but vaguely recall it. If demand picks up again, because the price of oil is low, right, and the price of LPG does not drop as much as the price of oil because it is not traded as much and the bands of oil guide drives the price of naphtha as well. And that is why the price of naphtha dropped off very significantly. If oil demand comes back and therefore the price of oil goes up, hopefully, that will now again make LPG reasonably attractive.

Vaibhav Badjatya: If we see as a company which is trying to convert everything into US dollars, then should we give our return on capital employed assuming that you are a US-listed company, how should we think about, if you generate ROC of 6%, 7%, should we view it as not so good because the Indian government wants yield at 6%, 7% or should we compare it to the US dollar?

G. Shivakumar: In dollar terms, we should be in a position to make an ROC better than 6%, 7%. We might have cost of debt which is lower. So our average cost of debt is 4% and therefore you can put that leverage on at 4%. And let us say you make 7% and you are able to leverage it at 4% and you will get a 10%-plus, I am talking a dollar return. On the total capital employed, if we are able to make a dollar return of 7-8%, including the cash I think it will be a good performance.

Vaibhav Badjatya: I was basically coming from the point of view of when we calculate your number from stated balance sheet and we calculate ROC number, should we compare that to the general number of US or should we compare it with the Indian number? After removing derivative losses, we should go by US dollar.

G. Shivakumar: I tend to agree. It is worth thinking about it and discuss. So we are a dollar business. So we compare it with US dollar return, but our endeavor is to make at least 10% US$ return.

Vaibhav Badjatya: But I think that probably might not work when you start selling your ships, but as of now probably it works. But anyway I think that is it from my side.

G. Shivakumar: Okay, great. Thanks.

Moderator: Thank you. The Next question is from the line of Raghav Patoria from Lipton Securities. Please go ahead.

Raghav Patoria: So we saw some of the market tightening in tanker coming through because of floating storage. So, do we have any data on what is the quantum of that floating storage currently and how much has been drawn and. how much has been added over the last month or so?

G. Shivakumar: Nothing much has been added over the last month. There is marginal draw. So let us look at it versus a year ago, right, because this floating storage started about two months ago. You probably added about 100 million barrels of crude oil to floating storage on ship in the last year. Most of which came between March and now. And it has been flat around that that number probably up/down 10 million barrels a day after that. Maybe it is marginally down now. This is the last report I saw two days back.

Raghav Patoria: So that is why probably the rates are still higher compared to last year because I would have expected if some of the draws are happening from ships and ships get freed up you would have more competition?

G. Shivakumar: Yes, some of it is that. The other is that ships are just stuck because they are not contracted for storage, but they are just standing and waiting to discharge because there is no space in the tank. There is inefficiency of the process which has happened because there is no tank capacity which is also taken …because otherwise you would not have the market being so strong. Again, I come back to a 10 million barrels a day drop in demand, is a massive amount of drop. Just two million barrels a day drop in demand can take tanker rates down to OPEX. Everything else being equal, it will be a very terrible tanker market. Some of it is taken up by this floating storage. Some of it is just taken up by inefficiencies in the supply chain.

Raghav Patoria: We have also heard of some delays happening at ports. Is it just because of not having enough capacity of crude to store for the refineries or are there some other reasons also going on?

G. Shivakumar: A lot of. Inefficiencies come in. You do not have the capacity or sure you are trying to pump out a million barrels of crude oil and there is no capacity to hold that million barrel because the refinery input is reduced. The second is just the quarantine. Supposing, you have a requirement that you should spend at least 14 days from the last port that you called and your voyage was only six days from the last port that you called. So that eight days where you are just standing doing nothing. So that is one ship, eight days which has got taken out of the market which has created an inefficiency in the system…

Raghav Patoria: This can be expected to continue basically till the time COVID is there?

G. Shivakumar: They will start relaxing these requirements. It depends on whether you have a second wave which is more serious, etc., I think these will start getting relaxed soon. Again, this is again a forecast which is dangerous to me because it depends on how the pandemic progresses in different countries. But as it stands it is causing inefficiency.

Raghav Patoria: So whenever those ships are stalled, you are earning demurrage and not the actual TCY that you contracted?

G. Shivakumar: Yes, you are running a demurrage which can be close to the actual TCY in the voyage charter. But the more important thing is when the ship is standing, it has caused a tightening in the overall supply/demand balance of the fleet itself. So that is the critical part of it. It does not matter what that ship is earning. That ship may be earning $10,000 dollars a day because it was fixed three months ago when the rate was poor. The fact is that ship has gotten removed from the supply and therefore help to tighten the market to that extent.

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

Chintan Sheth: On the operating days for the FY'21, you said four Suezmax will go in dry dock for scrubbers and one another is expected to go dry dock.

G. Shivakumar: So the general dry docking is, at least eight to ten other ships which went to dry dock.

Chintan Sheth: So how much revenue days will be lost because of that in the coming year in total, if you can provide that and what will be the additional OPEX because of dry dock for the full year?

G. Shivakumar: One is dry dock cost does not go into the OPEX. The dry dock cost gets capitalized and depreciated over the time till the next drydock. It goes into depreciation cost. So that is one. It is not in OPEX. Second is dry docks happen all the time. So the only time it should matter is if you have an exceptional year of dry docking where instead of your normal rate of doing say 10 dry docking in a year, you are going to do 20 dry docking in a year. So what we have to look at is what is incremental. The other thing that you can look at is when you have high value ships going into dry dock because then their earning capacity is different from the earning capacity of a smaller ship. So here, in this case, Suezmax is going into dry dock is a significant event, because first typically your dry dock will be 40-45 days because of the scrubber fitment. So that is between 160 and 200 days between four of them. And Suezmax days are the most valuable of the days. So that will be going out and that is the most significant. The other dry docks are in the routine course of thing.

Chintan Sheth: So it will be insignificant. We do not have too much to read into it. And what will be the capitalized portion of the dry dock for the full year apart from the scrubber you mentioned?

G. Shivakumar: Dry dock expenditure should be in the region of $20 to 30 million.

Moderator: Thank you. The next follow up question is from Rajesh Agarwal from Moneyore Investment Advisor. Please go ahead.

Rajesh Agarwal: Sir, my question is around the offshore side. What is the revenue visibility and how many number of days it has been booked for offshore, drilling services together?

G. Shivakumar: We have 19 vessels. 80% of the days for this year has been already on contract. Out of the rigs, we have two rigs which will be on contract for the full year, for the first few months almost, we had one rig which was doing her work, now she has gone on contract, she will be on contract all the way up to March and going for total three years. Two rigs are coming off contract between January and March. Approximately 90% of our days are locked in.

Rajesh Agarwal: These are the old rates which we had locked in?

G. Shivakumar: Old rates meaning yes, they are at fairly low rates.

Rajesh Agarwal: So, is there any visibility for the next year '22?

G. Shivakumar: Two rigs will continue on contract. One has to go on till end of FY'22 and one will go on till early FY'23.

Rajesh Agarwal: Any other contracts on the logistics side?

G. Shivakumar: Contracts meaning we have tendered. We have long-term contracts which will go until '22, '23.

Rajesh Agarwal: So we may not fetch better rates which is already there?

G. Shivakumar: Let us see. We do not know how the markets will be.

Rajesh Agarwal: One suggestion. We are running such a huge treasury. Why do not we pay out the dollar debt then?

G. Shivakumar: The treasury is a short-term liquidity management function. Debt is to fund the long-term assets of the business. Treasury is here to be able to take advantage of markets where we see suddenly value in buying ships at short notice. This is what we were able to do in 2016 and '17 which is delivering lot of returns to us today.

Rajesh Agarwal: You are making spread on the dollar debt to cost?

G. Shivakumar: If you mean do we have a positive carry in cost of debt in our treasury? No, we do not have a positive carry because we do not take any risk with the money, just the liquidity management function.

Rajesh Agarwal: Such a huge amount, is it necessary?

G. Shivakumar: It is not necessary but it is the only way you will have the money available to you if you want to buy a ship at 30-days notice. So it helps the business. We have had this discussion internally also and we had a treasury which was 50% of our balance sheet at one point in time, that it is a waste but this is a thing which really gives us the optionality to run our fleet spot and to be able to buy ships when other people are forced to sell ship because the market is good.

Moderator: Thank you. The next follow question is from the line of Deep Master from One up Financial Consultant. Please go ahead.

Deep Master: A couple of follow ups. So to understand how you are looking at capital allocation in the current year sort of with the decision between paying down debt and acquiring incremental ships given that you have had quite a good year and going forward we should have some decent cash flows in the current year as well, how would you kind of decide between buying a ship and paying down debt?

G. Shivakumar: Paying down debt, we very rarely do anything in advance. So that is the first thing. We pay down as per the schedule. We very rarely say that we are going to use our money to pay down debt because the cost of holding onto it we have seen is very low. So what does your debt cost you? It costs us less than 4%. And cost you will make up very easily and you will have a negative of say 3% on that and negative carry you will make up very easily in the next purchase that you are able to do very quickly. And that is what we do. So we would not really go out and pay down debt. It is unlikely. In some other cases, it is not even much of an option because it is not like a bank loan where you can go and talk to the banker and make the repayment. It is NCDs which are not really easily available to buyback. You have to go out and launch a buyback for those entities and they are not really easily available. People like to hold onto them or put them in the hold to maturity portfolio. So then it comes down to capital allocation. Capital allocation will depend on what is cheap at that point in time. If the market pans out as one scenario says that you have very weak tanker market and you get very attractive prices, we are happy to buy if bulk carrier price will drop 20% from here or 15% from here, maybe those will look attractive. We have seen this in 2012-13; we did not get the opportunity to buy and we are just sitting on cash and doing nothing with it. But the opportunities do come. And cycles are shorter. And those opportunities come for purchase. The good thing is that you are in dry bulk, you are in LPG, you are in a product and in crude. And they do not necessarily move together. So you could have one sector moving very strong and one sector being very weak like we have seen just now in crude and dry bulk. And so those opportunities will come up as well for capital allocation.

Deep Master: At current rates, do any of the markets kind of look attractive or even dry bulk you are saying, you would probably only look at something if prices fall 20%?

G. Shivakumar: Yeah, at current prices nothing looks attractive. Second thing is forget about current prices. In current logistics situation, we cannot buy anything because you cannot even inspect a ship, you cannot deliver. That is the other logistics part of it, but in any case the prices are not very effective. We are deep value buyer. So we need that at price

Deep Master: Given that you are still 80% on spot, is it safe to assume that you are still sort of hoping for an improvement in rates due to IMO is it just that we did not get the opportunity to sort of tie up on time charters?

G. Shivakumar: IMO story is sort of I think it is done. It will be a general tightening of the market. Maybe potentially a progressive tightening. Yes, ideally, it would have been nice to have fixed out a couple more ships that is in the high market. But it did not happen and it does not execute so easily. Especially on the product tanker side, though the rates were so high, the time charters were few and far between at decent levels. So the rates went up from $15,000 a day to $65,000 a day in the spot market for MR tanker. The time charter rates went up from $14,500 to probably $18,000 a day. And you just say that that does not make sense. Maybe you could have pushed it to $20,000. It does not make sense because you can make up that entire premium in one voyage. That is the whole thing. Sometimes the rate will not make sense. Sometimes you just did not have the time to do it.

Deep Master: And the general tightness you are talking about is basically the order book positioning being quite light and hopefully some scrapping given that the market is quite weak?

G. Shivakumar: That is right….that is what will give us some confidence to make some purchases, but for that also we need a significant drop in prices to have that comfort.

Moderator: Thank you. The next question is from the line of Samraj from Dwaraka Wealth Managers. Please go ahead.

Samraj: I just wanted to ask you one thing when we discussed about this NAV and you were talking about the hidden value of almost Rs.30 in NAV. That is one. Now if you go through the NYSE-listed companies, even gas log I am talking about, LPG tanker shares or let us talk about FRO or pure product tankers. Our competitors and all are on different segments. Now, what I find is significantly the enterprise value to the EBITDA is huge. So is it not a good idea that GE Shipping could list on in NYSE and get our required interest of market cap? This is huge. And then subsequently one Mr. Venkatesh asked about Shipping Corporation. That is running at 0.9. On the other side you are 4x more valuable than shipping corporation. That would be a good takeover. I mean on both sides, could you just give us your opinion sir?

G. Shivakumar: Interesting idea. Yes, certainly the valuations which the western markets give are much better than the Indian market. So one is we are told is that those are pure plays and so easier to understand. But in general if you just look back at and permit me to boast a little bit, if you look back at our performance over the last 5, 10, 15-years against most of the listed companies worldwide, we are in the top-10% of companies worldwide in terms of return that we have actually produced. This is not returns necessarily on stock price because we do not get much of a valuation, but in terms of the business returns that we have been able to produce. Unfortunately, this does not translate into a valuation because as you can see there are not many companies and the companies that you mentioned are trading at maybe a 30% or 20% discount to net asset value we trade at based on the net asset value which I mentioned, we are trading at a 60% discount to net asset value. You are absolutely right that our valuation is quite terrible compared to our peers. Again, by the way GasLog is an LNG company, so that is a completely different business. But all the product tankers and crude tanker companies trade much better than us. As far as listing in New York is concerned, we can hold separate discussion. But broadly your point on our getting worse valuations than our peers in western markets is, I would 100% agree with it. Unfortunately, I do not know how we can convince investors of the value which is there in the stock except to say that our net asset value is Rs.500 and the stock is at Rs.200.

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.

Anjali Kumar: Thank you very much, everybody for asking those insightful questions. And just to answer some of the suggestions that were made, we do have some glossary on our website, we also have some presentations on our website which give a lot of the basic maritime concepts. So do feel free to go and check them out. And as usual we will be uploading the transcript of this on the website. Thank you all.

G. Shivakumar: Thank you, everyone.

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