"The Great Eastern Shipping Company Limited Q3 FY-20 Results Conference Call"

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Moderator: Good evening ladies and gentlemen, thank you for standing by. Welcome to the GE Shipping Earnings Call on declarations of its financial results for the quarter ended December 31st, 2019. At this moment all participant lines are in the listen-only mode. Later we will conduct a question and answer session. At that time if you have a question please press '*' and '1'. I now hand the conference over to Ms. Anjali Kumar – Head of Corporate Communications at The Great Eastern Shipping Company to start the proceedings. Thank you and over to you.

Anjali Kumar: Thank you. Good afternoon friends and welcome to the results conference call for our Q3 results. I hope all of you managed to get hold of the result that we have announced couple of hours ago. As you can see from the result there has been a good improvement in the numbers, largely due to the improvement in the tanker market which in 3Q20 was at very strong levels and product rates too have firmed up. As you can see in our press release, the average TCYs which we earned were substantially better in the crude segment. In fact, in the crude segment we earned 38,800 plus on an average compared to 16,500 in the previous quarter. Product tanker TCYs too were up to about 18,555 compared to 14,900 in the previous quarter. LPG carriers were also up to average of about 22,800, up from the 19,800 in the previous quarter. On the dry side, market was a little soft and averaged at a TCY of about 12,900.

Coming to asset values, tanker ship values were up approximately 10% while the dry-bulk asset values were marginally down. On the whole, market value of our fleet was up approximately 7% in dollar terms. As a result of this and the rupee depreciation, the standalone NAV has moved up to Rs. 450, up from the last quarter of Rs. 393. The consolidated NAV that we announced has moved from the previous range of 447 to 472, it has moved up to 512 to 538. In the offshore segment broker valuations have been flat and at least the declining trend seems to have now halted.

Coming to the specific segments; first the crude market, freight rates in the crude tanker market had improved substantially during the quarter and like most of us by now know the reason for it were firstly the fact that the US had put a sanction on couple of the COSCO subsidiaries. This had impacted 26 VLCCs. There were additionally about 29 vessels which were storing the VLSFO at Singapore. This was done ahead of the IMO 2020 implementation, so this was done through the last few weeks of the quarter and of course there was the entire fleet of the Iranian Vessels which were impacted due to the sanctions. So in total roughly about 92 VLCCs which approximately is about 11% of the VLCC fleet and about 6% to 7% of the total crude fleet was impacted, so all of these put together had a tremendous positive impact on rates. And this is despite the fact that 6% YOY growth in the crude tanker fleet.

Now coming to the product market, after remaining very weak for most part of the year product tanker freight rates also doubled sequentially during the quarter, we saw growth in core products demand mainly driven by the middle distillate, product trade is estimated to have risen by 500,000 to 600,000 barrels per day during the quarter. MR trade in particular doubled sequentially mainly led by higher intra-Asian trade. However, in the LR segment we saw the trade fall by about 4%. Fleet growth in this segment has been about 4.5% in the quarter.

Post the December quarter of course the tanker rates as you know have come off quite significantly due to the effect of the coronavirus on the oil demand and the fact that the ban on the COSCO ships has been lifted. These have been the two main short-term headwinds that have impacted freight rates. Further there have been some run cuts and a low demand has had an impact on the product tanker freight rates negatively too. But one important point to note for the medium term is that the outstanding order book is below 10% in both crude and product. This is at a multiyear low now. So this is an important point to note for the medium-term.

Coming to the LPG markets; this has been strong due to mainly the US LPG production growth. In fact, the US-Asia LPG trade arbitrage also remained at very healthy level during the quarter, LPG imports into India also has increased almost 22% YOY during the quarter and the order book in this segment currently stands at 14%.

Next we come to the dry bulk segment; and the dry bulk segment has been very weak through the quarter, couple of main reasons is that—the biggest reason of course is the fact that—iron ore supply was impacted by the Vale's loss of production and in fact just recently they have announced their results and this production issue continues even in the current quarter. There has also been negative growth in the global coal trade which is led largely by the Chinese government's policy to curtail imports and of course there has also been degrowth in the Indian coal imports. This is largely because of negative growth in the power generation by coal fired plants.

The supply-side situation also has not offered much of a respite as the deliveries continue to increase. This quarter that is the last quarter, the October-December quarter has seen the highest delivery since Q4 of FY17, roughly almost 4% growth. The excessive rainfall in Brazil in the month of Jan as well has hindered exports of iron ore and therefore Vale's production issues have continued like I mentioned in this quarter also. And in Jan alone in fact Brazilian iron ore exports are down 10 million tons after having declined by 7 million tons in December. This has severely impacted the demand for Capesizes due to loss of ton-mile and extended Chinese new year amidst the virus backdrop is also having a huge impact on demand which is now over and above the seasonal weakness that normally comes at this time of the year. The order book in dry bulk stands at about 9.1% today.

One point on the IMO transition to the VLSFO fuel, it has now been almost 6 weeks and things seem to have settled down by now. By the end of December, we saw approximately 29 VLCCs stored with VLSFO off Singapore as we spoke earlier. This ensured that there was adequate supply of the new fuel. Initially we did see the price of VLSFO jump up, in fact the sulphur spreads went up to almost $400 but now they have settled down and now they are just a little over $200. The initial price distortion of the VLSFO was also mainly due to the unavailability of barges rather than just any lack of supply. So it was just a very short term sort of thing and that now seems to have settled down.

Coming to the offshore segment; the OSVs continued its gradual recovery in utilization but of course from a very low base. Utilizations in the OSV segment has increased marginally from about low 40s at the start of the calendar year to about 50% at the end of the year. And charter rates have seen some improvements in certain geographies, especially in the Indian market start of rates for PSVs have inched up by roughly about 10% recently. But overall market still seems to remain a little oversupplied. But the one silver lining is that scrapping has exceeded new deliveries here, so that in turn has been reducing the overall delivered fleet.

Due to the improvement in market sentiments, some of the modern cold stacked vessels were reactivated in the year which led to the increase in the marketable fleet. C,urrently order book for the fleet stood at 5% at the end of the year.

On the rig segment, the utilization has improved quite substantially; it was 61% at the start of the year, calendar year and now it's at about 70% and if we take just the modern rigs then the utilization is close to about 80%. As a result of this, charter rates have seen a substantial improvement in this segment. Based on the outstanding tenders and the activity in the rig market especially in the Middle East and South East Asian market, the outlook for the sector looks promising. It's also supported by the fact that the fleet age profile which still consists of close to 40% rigs that are greater than 25 years old. With that I will now throw the floor open questions and please feel free to ask.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Neerav Shah from GeeCee Holdings.

Neerav Shah: First question is there were many vessels which were supposed to go for dry docking, not for scrubber installation in the first half of this calendar year and we have had some disruptions in China and I believe there will be many dockyards which would have been utilized for this installation of scrubber facilities. So how do you see that event impacting these vessels supply and maybe on the pricing front, can it give some support to the pricing in the current challenging environment?

Anjali Kumar: I will hand over to our CFO, Mr. Shivakumar to answer that.

G. Shivakumar: I don't know if you are referring to our own ships which are going or generally about.

Neerav Shah: Generally.

G. Shivakumar: So yes, a lot of ships were supposed to go for dry docking in China. In fact, we ourselves were intending to go for our scrubber installations on a couple of our vessels in March-April. However, given the situation at the yards these have been postponed. We will look for alternatives. There are ships which are already coming to the supply and how it can disrupt; there are ships which are already stuck in China, in dry dock doing scrubber installations or generally in dry dock itself which is sort of preventing them from joining the markets, so which is a small positive for the market. Also there are ships which are not able to go in and discharge for various reasons when they are carrying cargo into China though that is very few and far between. But broadly in the dry docks there are ships which are stuck there because the workforce is not available to complete the project. Secondly yes, there are very few people who are going into China currently for the dry docks given that the yards don't have their manpower.

Neerav Shah: So it can lend some support?

G. Shivakumar: No, they are trading still, it's not that they can't trade, so the ships are trading or they will find the dry dock in the Singapore or in the Middle East. Except that the scrubber, if the scrubber is sitting in China then it's difficult to transport it out of there, so that is a separate problem.

Neerav Shah: Any indication of how much supply would be going to China for the installation of scrubber?

G. Shivakumar: Actually no, see if they have not yet gone in you can continue to trade or you can go into dry dock in Singapore or in the Middle East.

Neerav Shah: The second question is on the dry bulk segment, I believe the current rates - the way they are quoting there will be big cash losses—at least on the spot basis for Capesize and everything and—we have also reduced our exposure to that segment from 16 vessels in March '18 to the current 13. So what is our view in terms of again scaling up in this segment and how do you see the demand impacting because is it a demand issue that will prevent this particular segment from reaching against the levels of which were 2 months or 3 months back, so how do you look at this segment in terms of even scaling up your own operations in the dry bulk?

G. Shivakumar: So couple of things, one is of course it's a seasonal lull, first there was a seasonal lull which normally comes in the month of December-Jan that's one. Second is that you have the coronavirus issue which has obviously affected economic activity in China and therefore reduced their requirement for imports and therefore taken demand out of the market. We also have the Vale issue where they are having lesser exports due to excessive rain fall in one of their exporting areas. So a lot of it depends on what happens, how this virus develops and parallel to this is when we had SARS in 2002-03. That went off in about 6 to 8 months time. That blew over, that's it. Obviously today China is much bigger as a share of the world economy as a share of world commodity movement and therefore has a much bigger impact. However last time after the SARS event everything rebounded very quickly. In fact, the dry bulk markets stayed strong throughout. That's because China was growing so rapidly in 2003. So you could well have that there is a base level of demand which is not being met currently and we have already seen talk of a stimulus in China and when it comes in again it will just rebound very quickly. This we saw this happen in June last year, all the exports that were lodged from Vale suddenly they came back and then it's like a coiled spring, suddenly bounces back.

Neerav Shah: But just your initial feedback, whatever in the press it's coming that now things are gradually on the recovering front.

G. Shivakumar: Really on the virus we just have no idea. It's going to depend how the virus plays out.

Neerav Shah: Another question is about the vessel prices, how have they moved, have they moved in line with the way the rates have moved or because it's a very short term phenomenon supposedly, rates are pretty steady for across segments.

G. Shivakumar: Yeah, vessel prices are a little soft, obviously that confidence is not…

Anjali Kumar: Vessel prices move with bit of a lag to the charter rates.

G. Shivakaumar: They are a little soft, softened a little bit but not a huge amount.

Neerav Shah: Just a last question on bookkeeping, I just want to reconcile on the net debt front. On the standalone basis in the September quarter our debt was around 1800 crores and as on date it's around 1576 crores. Our cash flows are pretty strong this quarter plus we sold one Suezmax, the gains we have booked but the principle cost would also we have received. So just want to check why the net debt number has only been down by around 225 crores despite just the cash profit of around 430 crores plus the principle value of the Suezmax?

G. Shivakumar: No, we did have CAPEX as well; we have been spending money on some equipment. So we have drawn down some debt during the quarter to not to buy ships but to do CAPEX on equipment for paying installments on scrubbers and other equipment. We also have as part of the debt derivatives that we have on the NCDs that is also required to be paid out. We had a big maturity of an NCD in the last quarter when that is paid off, you have to pay off the derivative MTM as well. So that was about 100 crores.

Neerav Shah: So MTM itself was 100 crores?

G. Shivakumar: That's correct. It was a 200 crores NCD which was done in 2009-10.

Neerav Shah: This was the high cost NCD that you were mentioning last call?

G. Shivakumar: That's correct.

Moderator: The next question is from the line of Bhavin Gandhi from B&K Securities.

Bhavin Gandhi: If I look at the headline numbers although the numbers have been spectacular but it seems that the headline numbers are weaker than what the market rates are indicating given that we were mostly on spot as far as crude tankers are concerned. So any particular reason why those are not reflecting in the charter rates?

G. Shivakumar: There is always a lag, so your earnings are basically the fixtures of September-October-November. You haven't got more than 1-1.5 months of a strong market in this. So typically, there will be a 1 to 1.5 month lag between the fixing and the TCY in the quarter.

Bhavin Gandhi: Will it be fair to assume that some sort of the strength that we saw in the spot rates will also be reflected in the 4Q numbers?

G. Shivakumar: Yes because the fixings of December would have been executed in January and part of February, so yes. So you would always take a lag, if you want to forecast the TCY of any quarter just start with one month before the start of that quarter in a very thumb rule kind of thing.

Bhavin Gandhi: Also on the offshore site, when does the re-pricing hit the P&L? We have not seen any sequential change in numbers there as well.

G. Shivakumar: I think the next re-pricing will happen in March. Contract will get over in March.

Bhavin Gandhi: On the IMO itself are the higher fuel costs getting compensated through higher charter rate for scrubber installed vessels, how is the equation, how will we see that change playing out for the P&L going forward?

G. Shivakumar: They don't get higher charter rates, they get the same freight rate and their cost base is lower, so that's on the spot market. In the time charter market yes they get higher charter rates but you are definitely not getting 100% of the gain. If you want 100% of the scrubber saving you have to run it in the spot market. So let's say a particular type of ship will give you $3000 per day improvement. In the spot market you will be able to capture that assuming you get that spread and you have that consumption. In the time charter market you will not be offered $3000 extra.

Bhavin Gandhi: How are we looking at our exposures in each of the markets individually now? Going forward would you like to kind of keep the exposures to the same levels that we are seeing right now or would like to cover some of it?

G. Shivakumar: In gas we have fixed a couple of ships, in fact we have done two fixtures in the last 3 to 4 months for the VLGCs, both of which came off contract. We have one more gas carrier coming off contract shortly. We will have to decide whether to fix or to run off the spot market because the export market there is quite strong. It's still in the 40,000plus range. In crude tankers not really, we have two Aframaxes which are on time charter but the rest we are running on spot. You saw that we sold one of our 2000 built Suezmaxes and delivered it in December. So the option to sell is always there. But yeah we are not really there to fix because again the four modern Suezmaxes which are the only ones we can really fix on-time charter. We are scheduled to have scrubber installation so we can't go into a time charter and take the ship out then for a dry dock in the middle of the charter. It's a complicated thing. So we are not seeing any great opportunity to go into much more time charters. Product tankers maybe one here or there, currently we have very little cover in the product tankers side as well. Out of our 17 we probably have 2 or 3 fixed, so not really looking at doing anything. Again the market now is not really giving very tempting time charter rates. Maybe the next time the opportunity comes around, and in dry bulk there is no question of looking at it in this market.

Bhavin Gandhi: Finally on the payout side; how should we look at payouts given that we don't have meaningful CAPEX lined up?

G. Shivakumar: Even last year when we had no profit, there was a dividend payout. So the intention of the company is always to pay a dividend. Now the board will decide eventually on how much, if your point is that we have a lot of affordability, yes you are absolutely right. We certainly have a lot of—not a lot of cash—we have significant amount of cash buildup and we are fairly light on repayments in the coming year and as you said no CAPEX. So yes, we have the capability to pay a dividend but the board will take that call. But yes we do have a capability, we have free cash.

Bhavin Gandhi: This DDT, the Dividend Distribution Tax going out, will it have any implications as far as payouts are concerned?

G. Shivakumar: Not really. I don't see why it should.

Moderator: The next question is from the line of N Samraj from Dwarka Wealth Managers.

N Samraj: Just wanted to ask you given the spreads as you have said is around $200 between VLSFO and high sulphur oil bunkers, how is the economics now currently working and all are in the different segments and tankers and bulk carriers and all given the spreads and current freight rates, are we having a comfortable margins?

G. Shivakumar: We have only committed to put scrubbers on some tankers; on none of the bulkers we are putting any scrubbers. Yeah, those projects are still going to achieve that payback. Obviously it's a little lower than one would have expected currently but certainly they will meet that payback period target which is why we only did it on the vessels which would have a payback of under 2.5 years because there was always a worry that the spreads would not be as wide as forecasted. So there is a margin of safety there and while the returns currently don't look great they will make back their investment certainly.

N Samraj: What I was just asking is now just using the VLSFO without the scrubbers, how was the economics working then now and are we having a margin given the current softened rates in the different segments?

G. Shivakumar: So your question is considering that the fuel cost has gone up are we still able to make money…

N Samraj: Given the softer rates.

G. Shivakumar: Are we still able to make money.

N Samraj: Yes.

G. Shivakumar: It depends on which market it is. The tanker sector we are making money still, the gas carriers are earning $40,000 a day in the spot market. The crude tankers are still earning $20,000 plus and product tankers are somewhere in the teens. So they are all still making reasonable amount of money and dry bulk, because our market is so bad they are making much less money.

N Samraj: But we are breaking even on the running cost per day?

G. Shivakumar: Breaking even meaning what?

N Samraj: I mean we are making up the running cost, the variable cost and…

G. Shivakumar: See this is not a lab where all other factors can be kept constant and only one factor changes which is the cost of fuel. We can't control the environment. The environment is very weak. Pricing environment for dry bulk and therefore the rates have dropped off very significantly, just because the demand for dry bulk ships is very poor. Therefore the cost burden is falling on the ship owner in the dry bulk market. In a tanker market if it has been in the old cheaper fuel they would have been the earning $5000-8000 more in the crude tanker and in this way they are making a little bit less. I keep getting asked this question as to who is bearing the cost, it's always part of our cost which we try to pass on to the customer and the ability to pass on is based on how tight the market is. The gas carrier market is tight, so the rates remain at 40,000. The dry bulk market is oversupplied so the rates are down below 10,000.

N Samraj: There was a morning report from Morgan Stanley and they are predicting that the following quarter given the China virus environment as you were saying there could be a spring back, so they are forecasting a spring back in the following quarter. So what do you anticipate will we be halfway through this particular rate on the crude tankers and what we earned in the first quarter?

G. Shivakumar: It's impossible to tell without a crystal ball because we don't know what the rates will be tomorrow morning frankly.

N Samraj: But you expect it to be comfortable in the next coming quarter?

G. Shivakumar: Again I don't know what the rates can be tomorrow morning. So ships which are running 25,000 today in the spot market tomorrow morning may be priced at $5000. The one thing which we have in history is SARS. When it got over there was a big drop in jet fuel demand during the time of SARS because travel became less. When the problem was resolved which was in July 2003, the demand bounced back completely which is what I suppose the report you are alluding to has spoken about.

N Samraj: During our course of a research we found out this Shipping Corporation of India the real estate value itself is about double the current price of the spread and the fleet value is also almost twice the current value, so I think this question was asked to you by ET Now also, whether GE Shipping given at very light balance sheet and asset light model, would you be going in for this given that including the Marine Academy you have lot of synergies except the liner segment.

G. Shivakumar: It's too early to tell anything. We have no idea what it is, so what the transaction is, so it's just too early to tell.

N Samraj: Because there is sheer value in this.

G. Shivakumar: I know all the points which are there but it's just too early to tell because we have no idea what the transaction is.

N Samraj: So you will be waiting for the expression of interest and all that?

G. Shivakumar: Like everybody we are interested in knowing what it is.

N Samraj: I missed the first part, what is the current broker value of a fleet?

G. Shivakumar: You mean the Net Asset Value?

N Samraj: Yes NAV.

Anjali Kumar: Standalone Net Asset Value is Rs. 450 and on a consol basis it's 512 to 538.

N Samraj: That includes offshore vessels?

G. Shivakumar: That's right.

Moderator: The next question is from the line of Neerav Shah from GeeCee Holdings.

Neerav Shah: If I look at our cash flow slide in the presentation, from investing activities we are reporting cash flow of only 40 crores. So this would include the sale of Suez or is it captured over here only?

G. Shivakumar: Yeah, it is net of CAPEX that we have done.

Neerav Shah: And what was the CAPEX in this quarter?

G. Shivakumar: CAPEX will be all the dry docks, scrubber installations because we capitalized dry docks.

Nirav Shah: Any number you would like to give?

G. Shivakumar: No, I don't want to get into that.

Moderator: The next question is from the line of Himanshu Upadhyay from PGIM India Mutual Fund.

Himanshu Upadhyay: My question is, one is we had taken the hedges, the diesel and the HSFO. How are they reacting and what impact are they having? Are we out of the money and what can be the potential impact or current impact and are those hedges going in the right direction or what's the view from here on?

G. Shivakumar: We have not taken any hedges. Our overseas subsidiary has done some transactions which is selling the spread. So again this is a market which moves every day. It's like the crude price it moves every day. One month ago I think the spread would have been higher than the price at which it was sold, today the prices are lower than the price at which it was sold.

Himanshu Upadhyay: So net impact would be how much?

G. Shivakumar: As of today, it is a positive impact. As of today it's in the money but with the caveat that one month ago it was out of the money.

Himanshu Upadhyay: They are majorly till the 2021 end?

G. Shivakumar: No, these are calendar '21 and calendar '22.

Himanshu Upadhyay: One more thing on the offshore side where we have a net debt of around 600 crores but still a consol is around 1600 crores. On the shipping side we understand the decision that we are looking at the assets or the way we are thinking it's much more liquid market, so we will be always looking into the buy or sell ships on that side. But on offshore we have clearly stated that the market has been illiquid and we are thinking about it. So the strategy what we have always held on the shipping does it make similar sense on offshore having both cash and debt and significant amount of differences between the cash and debt position what we used to generally have on shipping. So just to understand why and what would be the thought process there?

G. Shivakumar: You mean why not pay down the debt and sit on and have less cash?

Himanshu Upadhyay: Yeah, on offshore side because….

G. Shivakumar: Fair enough I get your question. Yes it's an interesting point except that your debt payment, it's not very flexible. In the sense that if you want to prepay, it's a loan which goes over the next 5 years, if you want to prepay you have to prepay the last installment first. A typical term loan, at least a shipping term loan, if you want to prepay the part of the loan you have to pay the last installment. You can't choose to pay the first year's installment upfront.

Himanshu Upadhyay: But in future also the philosophy on offshore will remain the same as what has been on the shipping side?

G. Shivakumar: I fully get your point. If you have significant contract coverage which gives you free cash flow there is no need to keep too much cash, so long as your cash flow from your contracts is able to meet your debt repayments easily. That is your point, right?

Himanshu Upadhyay: Yeah.

G. Shivakumar: You are absolutely right and when we structure it the next time around, yes we will be looking at that and your point that it is different from the way we do the shipping business is 100% correct. But going into the downturn we had to conserve our cash, we did this in shipping as well. We took in a lot of debt just so that we could keep cash. We issued a lot of debt which was in 2009-10, maturing in 2019-20-21 just so that we would have cash and push the repayments further into the future so that we had a runway.

Himanshu Upadhyay: But in shipping the view has been always that there are so varied classes of assets that we will always get an opportunity to invest and the market is liquid and again you can use this asset…

G. Shivakumar: No, Himanshu we are not using the same logic as shipping. What we did is, we didn't know what you're going to price the next contract at, the next rig when it comes for re-pricing what that will be priced at, whether you will get a contract or not. So you need a lot of cash upfront so that you can ride out the poor market, if your rig is idling you should be able to ride out that period when the rig is idling and not having a negative cash flow and therefore sometimes you just overcompensate by keeping extra cash on the balance sheet just to ensure survivability.

Himanshu Upadhyay: And the view on offshore remains the same that we will like to wait and further watch out in that segment?

G. Shivakumar: Yes, we are riding to the market and its slowly improving. We are seeing pricing improving in the market and hopefully it should continue that trend. We are seeing utilization is improved significantly, utilization meaning the global utilization. Our rigs are employed in any case, in fact all of our assets are employed currently including the vessels and the rigs and pricing has improved significantly in the last year, year and a half. So there is an improving trend.

Moderator: The next question is from the line of Lala Ram Singh from Vibrant Securities.

Lala Ram Singh: May I know that post the IMO the developments which have happened, have they been in line with our expectations because I think we were expecting some structural changes in the market due to IMO. But it seems that lot of people have delayed one CAPEX in scrubbers because of the good market rates, number two you were expecting the routes of product tankers to may be shipped because of some of the refineries may not be able to produce the low sulphur oil, so just wanted to know your thoughts on the developments post IMO.

G. Shivakumar: Good question and thanks for asking it. It's probably not gone as we would have expected. A year ago, we would have thought and lot of players also thought this that the fuel of choice would be marine gas oil rather than low sulphur heavy fuel oil. What has actually happened is that the fuel of choice has actually been low sulphur fuel oil and fuel oil is transported on crude tankers and typically transported on crude tankers and marine gas oil is transported on product tankers. So the hypothesis was that there will be a lot of marine gas oil movement which will lead to a huge demand for product tankers; which has not panned out and therefore the demand for product tankers which was expected for carriage of marine gas oil has disappointed. That's the answer to that one question. Second is, it has not gone as expected in the sense of the spread between high sulphur and low sulphur fuel in early 2020 that is may be in the first 10 days of January the spread went out to $350 to 400 per ton. Currently it's at little over $200 per ton. It's a little surprising that it's only little over $200 per ton, we would have thought it will be much more in the (+) 300 range. It's probably a function that the market is oversupplied in just all fuels today because the demand has collapsed for ships and oil itself, as temporarily collapsed due to the coronavirus issues. There is an estimate which says that in the last 2 to 3 weeks Chinese oil imports have dropped between 2 and 3 million barrels a day which is a huge number as you know. So your spread being low may be a function of that as well because again you don't function in a vacuum or under laboratory conditions and lots of factors are affecting these outcomes.

Lala Ram Singh: Secondly when do we expect our vessels to go for docking for scrubber's installation?

G. Shivakumar: I mentioned a little earlier, we were planning at least one or two in March and they were to go to China. Now we are considering other options because obviously the yards in China are not in a position to do those projects. So we are still considering how we can go about it. We are looking at different options now, so no schedule as of now.

Lala Ram Singh: And also are we looking to further downsize some of our assets?

G. Shivakumar: No that will be on an opportunistic basis, if we get an opportunity as buyer at a good price we will certainly consider it. There is no requirement to downsize. We have significant amounts of cash; we are very comfortable, so there is no real requirement driving us. If there is a market opportunity we will look at it.

Moderator: The next question is from the line of Venkat Samala from Tata Asset Management.

Venkat Samala: I have a couple of questions, so firstly just wanted to understand how has the scrappage of the shipping fleet panned out this year and how much as a percentage of overall fleet, was the fleet addition this year? Secondly in terms of the refinery shut down that has happened prior to IMO, have most of that completed whatever maintenance was carried out and are they now operationalized?

G. Shivakumar: On the refinery shutdowns yes, it was a temporary shutdown, just to do the turnaround and rejig themselves so that they can manage maximize production of middle distillates. So those refineries have all come back and with regard to the scrapping, we haven't had much scrapping last year on the tankers side. In dry bulk we had a little bit of scrapping though even that was I think less than 1% of the fleet. In tankers it was a very minimal because everybody was expecting the IMO to have a big impact. In this month also even with this terrible dry bulk market we have had I think six or seven Capesizes scrapped but that is about it because we have only gone little past 1 month but in 2019 scrapping was less than 1% in all the sectors whether its dry bulk or tankers.

Venkat Samala: So do you expect that this year it would be considerably higher than what it was in 2019?

G. Shivakumar: Again it's a function of what happens to rates. If the dry bulk market stays like it is now which is less than $5000 per day across all the sectors whether it's Capesize or Panamax or Supramax then you could see a lot of scrapping. But if the rates move up as some people are expecting, if there is a bounce back post middle of the year, if this coronavirus blows over then maybe not so much scrapping. So it's all a function of rates really and rate expectations.

Moderator: The next question is from the line of Jeet Gala from Centra Advisors.

Jeet Gala: Going into IMO everyone in the shipping industry was very much positive that good times are really ahead of them from 1st of January and not anticipating this Black Swan kind of an event in form of virus which has happened in China and which is why many ships which were due for scrapping held back anticipating good times and which is why you could see a scrappage ratio of 2%-2.5% in last quarter. Now this variable of virus which was not anticipated by everyone, I mean is it kind of a blessing in disguise for people like GE Shipping who are last men standing in this game. So how do you interpret this entire thing wherein the entire scenario has been postponed by 6 months? So do you think the weaker hands will probably still wait for 6 more months or they will get in for scrappage and similarly the enthusiasm on the side of shipyards as well because even those people would be anticipating good times, anticipating good order books etc. So how is this played out and how does it affect people like you?

G. Shivakumar: Yes, interesting point and how it will affect people like us? We are waiting for opportunities, we have cash, we are there to buy, we are there to sell depending on whether price is high or low. We are not there to buy high and sell low, so that is the other way around. We are there if the market has a period of weakness which gives rise to buying opportunities; we are there to invest. If it's a strong market and it gives opportunities to sell some assets we are there, on that side of the transaction as well. With regard to scrapping I don't know where you got a 2.5% number for last quarter because there was no number, no scrapping like that. Maybe 1 to 2 million dead-weight would have got scrapped. Again it's difficult to say how people will react but yes 6 months of a dry bulk market like the one we are seeing today; will result in significant scrapping and we saw that 4 years ago in the first half of 2016. When we had a 0.5% per month scrapping for the first 4 or 5 months and then the market started picking up and then you had no scrapping at all. So again it just depends on how you see the freight market playing out but yes if your question is are we there to buy if the market goes down? Yes, you are right, it may be a blessing in disguise because it gives you an opportunity to deploy cash and we are building up cash because of the strong markets and a couple of sales. Yes it does give an opportunity to deploy cash and we will look forward to those opportunities as well.

Jeet Gala: So in other words it will put you ahead of others, right because this unknown variable which has come in?

G. Shivakumar: Yeah, I don't know about others because as lots of people have collected cash from this market. Partly if all the tanker operators are generating lots of cash flow; so yes but at least we are in a decent position if the opportunities come up.

Jeet Gala: Can you share some light on slow steaming concept, how it has played out after 1st Jan?

G. Shivakumar: The average speeds in dry bulk have come down. In tankers not so much when I last saw about a week or 10 days ago, maybe 0.2 or 0.3 knots. In dry bulk it was almost 1 knot slower that's the data which we saw about 10 days ago. So it is slower but again it's also because the dry bulk market was just so weak.

Moderator: The next question is from the line of Dhruv Jain from Ambit Capital.

Dhruv Jain: I had a question with respect to product tankers, so incrementally we have the highest exposure in product tankers but as you said that things have not really moved as per our expectation with VLSFO being the good choice of fuel, so incrementally what is our view with respect to product tanker? Do we continue to remain positive or we will move to any other asset class as the opportunity comes?

G. Shivakumar: They still make a decent amount of money. It's just that not as much money as a crude tankers made in their last creative boom that we had but product tankers are a little more steady. So they don't go down as badly as crude tankers in the bad markets and they don't go up as much as crude tankers in the good markets. So they are a steady earner even in the poor markets, they make positive not just cash flow but positive P&L as well so long you bought them at a decent time, at a decent point in the cycle. Yes, they don't give you the excitement of crude tankers but they are good steady earners.

Dhruv Jain: One book-keeping question, can you just give this the breakup of spot and time for this quarter?

G. Shivakumar: You mean the days?

Dhruv Jain: No, the percentage, the mix.

G. Shivakumar: The mix of the fleet, right, for the last quarter?

Dhruv Jain: Yes.

G. Shivakumar: That would be somewhere in the 25% time and 75% spot.

Moderator: As there are no further questions I now hand the conference over to Ms. Anjali Kumar for closing comments.

Anjali Kumar: Thank you very much for joining us today and as usual the transcript of this call will be on our website in a couple of days and do please feel free to reach out to us if you have any further questions. Thank you.

Moderator: Thank you. Ladies and gentlemen with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines.