"The Great Eastern Shipping Company Limited Q1 FY-21 Results Conference Call"

July 31, 2020

MANAGEMENT: **MR. BHARAT SHETH – DEPUTY CHAIRMAN AND MANAGING DIRECTOR, GREAT EASTERN SHIPPING COMPANY LIMITED**
MR. G. SHIVAKUMAR – CHIEF FINANCIAL OFFICER, GREAT EASTERN SHIPPING COMPANY LIMITED

Moderator: Good evening ladies and gentlemen. Thank you for standing by. Welcome to GE Shipping Earnings Call on declaration of its financial results for the quarter ended June 30, 2020. At this moment all, participants are in listen-only mode. Later, we will conduct a question and answer session. At the time if you have a question, please press "*" and "1". I now hand the conference over to Mr. G. Shivakumar – Chief Financial Officer at the Great Eastern Shipping Company Limited to start the proceedings. Thank you. And over to you, sir.

G. Shivakumar: Thank you very much. Good afternoon, everyone. And welcome to the results call for Q1 FY 2021. We also have with us Mr. Bharat Sheth – Deputy Chairman and Managing Director who will take part in the Q&A later, and he would probably make a short statement after I finish with the presentation.

So let's start with the presentation now. First of all, we will have some forward looking statements here. And our market is extremely volatile, it changes within a couple of weeks from boom to bust and bust to boom. So you have to take all our statements in light of that.

Coming to the financial results for the first quarter of FY 2021:

We had an extremely profitable quarter, in fact, the most profitable quarter since the September 2008 quarter, which was just before the start of the global financial crisis. This quarter was, of course, helped by a huge turmoil around the pandemic, and which resulted in tanker rates spiking to levels not seen before, at least not in the last 20 years. And therefore, very strong earnings on the tankers. Let's go forward. You have seen these reported results - we have reported a profit on a standalone basis of Rs. 465 crores for the quarter, and Rs. 468 crores on a consolidated basis. Last year we reported a loss in the first quarter of the previous financial year, both on a standalone and a consolidated basis. In the past, we have spoken about how these results are getting affected by a lot of extraneous factors, which we need to strip out to see the real impact of the operational performance. In fact, our Chairman also referred to it in his statement in the annual report, so let's just go forward and look at that.

So, what we are going to discuss are normalized financial results, and this is what we have done to normalize. You know that we have to revalue foreign currency loans and the current assets and liabilities as at the end of each quarter. That impact has been removed from the results, whether it's a positive or a negative. The second impact that we have removed is on the NCD currency swaps. We have raised a large amount of funds through issue of non-convertible debentures, which are issued in rupees in India. However, since we want to have dollar debt to match our dollar assets, we have swapped those liabilities into U.S. dollars by using foreign currency swaps. And therefore, we have created synthetic U.S. dollar fixed rate loans. The mark-to-market change of these derivatives affects the reported numbers and we think that those are extraneous and should be taken out. Therefore, when we calculate the normalized numbers, it's after making the necessary adjustments to the reported numbers to reflect the effective cost of the synthetic U.S. dollar loans. I realized that this is a little complicated, but we can discuss this separately in case anyone wants to have more detail on this. And I suggest we don't take it up for an explanation on this call.

So, here are our normalized financial highlights:

We discussed that we have Rs. 465 crores reported profit for Q1 FY 21. If we remove the effect of those two items, we come down to Rs. 422 crores for what we call the normalized net profit. Again, this is not a GAAP number, it is not as per any accounting standard, this is what we believe correctly reflects, after taking out the impact of the foreign currency movement, and the derivatives movement. For the same quarter in the previous year, we moved from having a loss of around Rs. 50 crores to having a small profit of Rs. 17 crores on a standalone basis, similar on a consolidated basis as well.

So, now let's go forward to what the ratios look like based on this. But before moving forward, the important thing to see is cash flow. How have the cash flows been? And it's an important thing in our business, because accounting standards are what they are, and the truth comes in the cash flows. You will see that we had very strong cash flows even in the quarter when we declared a loss, that is Q1 FY '20, we had nearly Rs. 200 crores net cash inflow. In this quarter we have had a net cash inflow in excess of Rs. 500 crores.

Looking at the ratios we had on a standalone basis, again, this was a spectacular quarter in terms of the tanker rates. As I said, some of the rates we saw have not been seen before, at least in the last 20 years. And therefore, we had a 30% return on equity and a 20% return on capital employed. So, leaving aside the return ratios, which is just the annualizing of the first quarter's profit, what has happened is that we have actually been able to deleverage significantly between last year and this year. You can see that in the net debt-to-equity number, we were at 0.45 and we are down to about 0.24. And we will discuss this in a little more detail later on in the presentation.

The other data point that we look at every quarter is our net asset value per share. So, we are at around Rs. 456 per share net asset value on a standalone basis, and on a consolidated basis, we are between Rs. 494 and Rs. 536 per share. Again, those of you who have been following us for some time know that this range given is because it's not very easy to put a number on the offshore asset values, because they are not as liquid as shipping. So, we get a range of valuations from the brokers when we take a value. This Rs. 456 NAV was Rs. 454 as of March. We had very strong cash flows during the quarter which added to the NAV. However, we had a drop in the values of ships between March end and June end of about 7%, which compensated for each other. Of course, we also paid out the second interim dividend of Rs. 2.7 per share during the quarter. So looking at over the past one year, we started at Rs. 383. We paid out two dividends totaling Rs. 8, and the NAV improved from Rs. 383 to Rs. 456, which is about a 20% return on the NAV in the last one year.

Looking at the performance, the number of days did not change much so there is nothing much there. What did change is the TCYs earned between Q1 FY '21 and Q1 FY '20. You can see that the crude tankers earned on average less than $15,000 a day in Q1 FY '20. And as against that, we earned $40,000 a day in Q1 FY '21. This was even stronger than Q4 FY '20, which was also an extremely strong quarter. So product tankers went from earning $14,000 last year to $18,000 in Q4, to $27,000 on average in Q1 FY '21. The LPG carriers are predominantly on time charter, there was a very small spot fixture in between, but otherwise these are all earnings on time charters. Dry bulk, again, predominantly on the spot market, and the markets were quite weak so we earned an average of $7,200 a day, which was more than a 30% drop from the numbers of Q1 FY '20, which was close to $11,000 a day.

Coming to revenue visibility and coverage:

We don't necessarily go out to do a lot of time charter unless we get good rates. But still we have managed to lock in about close to 30% of our capacity of the remaining nine months of the year, this is from first July to 31st March on the shipping side. On the offshore front, we have locked in a very large part of our capacity. So, we have revenue visibility of almost Rs. 1,000 crores between the two companies, and this is on a TCY basis. Again, the absolute numbers don't necessarily make much of a difference, what you need to see is what is the extent of cover that we have. We are happy to operate predominantly on the spot market. We are happy to go into a largely time chartered regime as well, depending on the rates that we get.

The fleet profile - all of you are aware of, we run 46 ships, of which 33 are tankers and 13 are bulk carriers. And we run 23 offshore assets, of which 19 are vessels of different kinds, PSVs, ROVSVs, AHTSVs and MPSSVs, and we run four jack-up rigs.

One data point again on the debt repayment schedule. This is something that we plan and that's why we are putting it in front of you. And those of you who have seen us for some time know that we had a large repayment hump in FY '20, which was in excess of $150 million, we went through that without any issues. But we are now trying to ensure that we don't face a large repayment amount in any year, and therefore we plan out our repayments and borrowings in such a way that our repayments are not more than $80 million in any year. And this is the repayment schedule over the next five years. Our debt currently stands at about $553 million equivalent, and we have an effective all-in U.S. dollar cost of debt of less than 4% on this. And 85% of the debt portfolio is on a fixed rate, has already been fixed, so it is not exposed to floating LIBOR.

Coming to what happened in the markets over the last quarter:

First, let's look at the impact of COVID-19. And this is how we have felt the impact, others may have felt differently. So apart from the trade, we are only looking at the operational disruptions here. So we have an issue in drydocking, because, one is, the yards are not quite available for the drydocking, they themselves had for some time closed down and the manpower was not available to drydock. After that recovery, there are still travel restrictions and quarantines, and the inability to send supervision from the office for drydocks. And we have tried to get around this by doing remote supervision. There is a problem in crew changes, and this is a global problem because of the travel restrictions and people not wanting outsiders to come in or transit through their countries, it's been a huge problem to doing crew changes. After the partial lifting of the lockdown towards the end of May, we have managed to do a few crew changes. We managed about 500 crew moves by the first half of July. And we are making significant progress there, though it's a significantly higher cost than we would have otherwise paid. But we are focused on ensuring that the people get home and they are replaced by fresh crew. Lastly, sale and purchase transactions. Because of all these travel restrictions, it was almost impossible to execute any sale and purchase transaction during the last three to four months.

Coming to the supply side, and this is something that we have dealt with at length over the last few quarters. And let's look at some data.

Across the board for the four main sectors that we operate in, whether it's crude tankers, product tankers, dry bulk or LPG carriers, we are sitting with very low order books. And you can see those graphs, the crude tanker orderbook, it's at 8%; the product tanker orderbook is at 6%; the dry bulk orderbook is at 7%; and LPG at 11%. In this, only LPG is actually marginally higher than the lowest point in the last 20 years, and still around that only. And this gives a little bit of confidence, because the overhang of future supply is not there. And this has been a problem in the past, and if you see the historical average and you look at what it was in 2008-2009, you can see that the orderbooks for tankers were in excess of 40%, and for dry bulk was actually at 80%, which is unbelievable when you look back now.

Going to scrapping:

We have seen quite low scrapping. Again, scrapping was not really possible in the lockdown era. But even without that, the scrapping over the last five to six years has been very low. If you look at crude tankers, we have had only about 10%, scrapping for crude tankers, product tankers we have seen only about 6% scrapping between 2014 and 2019. Dry bulk has had a little more, but still only 13% scrapping in these years. And what this has led to is a building up of what we call scrapping candidates, and let's look at that now.

We have taken an arbitrary cutoff of 15 years, because this is when vessels start to get a little vulnerable to very poor markets. So look at those red bars, this is the fleet or proportion of the fleet which is more than 20 years old and is the most vulnerable to weak markets, where they have difficulty finding employment and therefore become prime candidates for scrapping. So, you have about 4% to 5% of product tankers, crude tankers and dry bulk carriers, all at above 20 years of age. And therefore, forming a potential scrapping pool. Above 15 years you have almost 20% of the crude tanker fleet, which could potentially face some pressure if you have very weak freight markets. Similarly for product tankers, though not so much for dry bulk, because the big building boom in dry bulk started around 2005 and went all the way up to 2011. So, that ageing of the fleet will happen a little later for drybulk. So, this may form a little bit of a safety net, where, if the markets go down to very low levels you could have some removal, and therefore bring the market back into a little bit of balance. As we have said in the past, there are only two permanent things in the shipping supply. One is new ships which are built and the other is ships which has scrapped. On both fronts we seem to have a reasonably good picture with a low order book and a fairly large scrapping pool.

The story of the last quarter for tankers was the oil contango, which was widely reported, and which caused a floating storage play. And let's look at what that was like. And this is on an inverted curve, which is the three months forward price of Brent versus the front month price. And you saw the contango peaking in March-April, till the agreement was reached between OPEC and the other large oil producers. And that contango has come down to near zero now, after being at $8 plus for three months. And therefore the economics of the contango have disappeared completely, the storage play has disappeared completely, resulting in ships coming out of storage. Again, they have not come back to zero. So you will see that since middle of last year, and this is probably a function of the IMO 2020 transition, quite a few crude tankers were dedicated to storage. So more than 2% of the fleet was in storage since mid-2019. And that really took off in March, went up all the way to 10%, and now it's come down to about 7.5%. So still a lot of capacity tied up in floating storage, which could come back and cause a further oversupply of ships in the short term. On the product tankers side, we saw the storage peaking at just under 9%. That has dropped off much quicker and is now standing at about 5%.

Now coming to the demand side:

A couple of graphs just to show how dramatic it has been. And so here you have the crude oil demand change which happened. And in April, and that is where we had the real impact, right? So we had 12 million barrels per day drop in demand, this is sort of a consensus. At the same time, we had an increase in supply by 1.2 million barrels a day, which meant that you had a huge surplus building up, which was probably at least 400 million barrels of surplus which went into storage in the month of April. And that is what caused the huge contango. We had the cut in production, which took effect in May, which saw the crude oil production drop by almost 9 million barrels per day, the supply dropped by about 9 million barrels a day. And further drop in supply to almost 11 million barrels a day in June. And that is what has made the market weaker.

Coming to the demand for products:

And you can see the big green column, which is jet fuel. And logically, I mean, it is obvious from what we know about what is happening to jet transportation, that it has come nowhere near what it was before. So it still stays at minus 60% versus year ago. On the other hand, you can see gasoline which went down to minus 30% is now down to minus 13% in the month of June, similarly for diesel and naphtha.

Coming to the dry bulk market:

This is just a breakup of what constitutes dry bulk, and iron ore is a big one, and between steam coal and coking coal, coal also constitutes about a quarter of all drybulk demand. So let's look at a couple of indicators.

One is world steel production:

Steel production in the first half of CY '20, January to June. China stayed in positive territory with a small growth in steel production. However, world steel production actually dropped off and had negative growth during the half year. And that obviously affected the dry bulk markets, we had a very poor six months for the dry bulk market. Now let's look at the other indicator, and probably why the market was so weak for the last few months. And you have the Brazilian iron ore exports. As this is the longest haul trade, basically it is Brazil to Far East, and therefore the longest haul, and ties up more ships than any other trade on a per voyage basis. And that the exports had dropped very significantly between end of 2019 and between February and May 2020. And therefore, we saw a very poor rate for dry bulk in this period. Starting June, we have seen much better exports out of Brazil, which is probably what has led the recovery in that dry bulk rate. We have seen Capesizes go back to the $20,000-plus mark in the spot market.

Coming to Greatship, which is our oilfield services subsidiary:

We have already seen the fleet count and we have seen the extent of coverage. The good news is, despite facing this terrible market they have a lot of coverage, at least for this year. But let's go and see what is been happening in this market.

Offshore E&P spending, which is the primary driver of demand for our assets has dropped from $295 billion at the peak, down to $113 billion in calendar 2019. That is a 60% drop, and you can see that in the results of all the oilfield services companies, and the distress which is there in the oilfield services business. And adding to the problems, a lot of oil companies have reacted to the pandemic and the drop in oil demand by announcing cuts of between 20% to 30% further in E&P spends, so taking it below $100 billion, which is a level not seen since maybe very early 2000s. We are already at levels below the 2005 E&P spending level. Obviously, this is reflected in what is happening in the markets and some regions have witnessed early terminations, renegotiations of rates. Again, this is a market situation, we are not talking about our situation.

Charter rates have come under pressure. There has been some scrapping of rigs, but still there is a significant oversupply. Global fleet utilization is estimated at between 60% to 70% for jack-up rigs. And this is down from the mid-70s that we saw last year, at around the turn of this year. At which point we thought that the recovery was underway, but it's been cut short by the pandemic and its impact. Global fleet utilization for vessel is probably at 50% or lower. Now coming to slippage, again, because of the market situation having been the way it is, vessels and rigs which are under construction at the yards have not been getting delivered anywhere near their expected rate or the contracted rate. So, it's probably at 80% to 90% slippage. So, if at the start of 2019 you had 100 vessels expected to be delivered, less than 20 of them have been actually delivered in calendar 2019. Similarly, for rigs, less than half of the rigs which were expected for delivery have been delivered.

This is something that we have put up and have discussed in the past, the age profile of the offshore assets. Again, this is the global fleet, not our fleet, our fleet of assets are much younger than these, especially on the rigs. If you look at the bottom of that table, the number of rigs which is more than 30 years old as a percentage of the fleet is almost 40%. Just as we described some of the crude tankers as being vulnerable, these rigs are vulnerable and may have to be removed at some point in time. Similarly, there is about 20% of the PSV and AHTSV fleet, which is more than 20 years old and therefore is vulnerable. And therefore, could have to be removed or may not come back into the market at all, effectively removing that as a source of supply or competition. So, this is one small bright spot for the offshore business.

The other bright spot for the offshore business is that the debt repayment profile. So the net debt for the offshore business stands at about $80 million. The repayment schedule for the next two years is only about $23 million each, that's for the next nine months and for the 12 months following that, and it slowly ramps up to $97 million in FY '25. Against this, we have close to $140 million in cash. We also have significant contract coverage for the offshore fleet.

Now, let's look at a little bit of the history:

I mentioned earlier that the last five years have been terrible for the offshore oilfield services business. And let's look at how Greatship has dealt with this. The cash on the balance sheet was at about $118 million in March 2015, five years later it was at $138 million. Gross bank debt in March 2015 was $555 million, in March 2020 it was $225 million. The net bank debt-to-equity was 0.75, and now it is 0.22. Greatship has moved into defensive and consolidation mode, paying down debt and preparing for the bad market. It was also helped by a lot of contract coverage, our conservative approach to the business where we knew that we were taking a lot of leverage, so we went out and as far as possible we got three and five year contracts for our rigs and for the vessels where we could. And that's why we are still standing here and still on a very sound footing, even in the midst of all the distress in the business.

Now coming to some key valuation considerations, and we have spoken about these before but let's look at them in a more formal way. Those of you who have been following us know that we did a lot of CAPEX in FY '17, FY '18, and a little bit more in FY '19. And therefore, we went up on the net debt too. We borrowed a lot, we used a lot of our cash, we went up quite a bit on our leverage, which we measure in two ways, net debt to market value of the fleet, and also on net debt to equity. We went up from being at less than 0.2, to going up to close 0.5 on a net debt to equity. And that has gone down now 0.25 on a net debt to equity and a little lower than that on a net debt to market value of the fleet. This is again a function of the timing, we levered up when the prices were cheap and now we are paying off debt. We haven't sold too many of the assets that we bought. Most of this debt reduction has happened from operating cash flows. And remember that it's not just debt reduction which has happened, we have been paying dividends, we have undertaken a small buyback as well last year. So a lot of cash has been generated from these investments. We made $400 million worth of investments in that period, which has delivered a very solid Dollar IRR, close to 15%. And that is what has enabled us to bring down again the net debt.

The second valuation metric, and since we discuss net asset value every quarter, this is what has been happening to our consolidated NAV, we went up to over Rs. 500 in FY '14, it came down very significantly, largely because of what happened to offshore asset values, we came down to around Rs. 400 a share. It's been built up in the last three years from Rs. 400 a share to excess of Rs. 500 a share. And the standalone NAV which was down to probably below Rs. 300 has gone up to Rs. 450 a share. In the midst of all this, our stock price trades at a very low 0.4x to NAV, and that's something that I thought we should highlight to you.

Finally, an interesting slide which we thought, market cap versus consolidated cash and equivalents. The blue bar is our market cap, and this is our market cap and the previous slide also the stock prices, the price as of 30th of June which is not very different from today's price. And so the market cap was standing at little over Rs. 3,000 crores, our cash and equivalent stands at just under Rs. 4,000 crores as of 30th of June.

To summarize:

The market positives for shipping, historically low order book and potential scrapping. On demand and supply, and you may wonder why we are seeing finely balanced when demand for tankers has dropped off 10 million barrels a day. But remember, the capesizes were at $4,000 a day or $5,000 a day in April and May. And in July, we are making $20,000 a day. So that shows that the market is more finely balanced than we think. And therefore, these markets can turn very quickly. The LPG market itself, which was at $10,000 a day on the spot market, in second half of June 2020 is now trading in the $40,000 plus range. The market negative for shipping is certainly on the commodity demand uncertainty. We don't know how the world economy is going to recover from this pandemic, how long the pandemic itself will last, and what impact it will have on commodity demand. So that is a market negative.

On the offshore side E&P spends having been reduced significantly and there being so much negative growth in demand is a big concern, that is a negative. And we also spoke about the age of the fleet and the requirement for removal of a large part of the fleet, which could be a positive. Overall on the company, the positives are deleveraged balance sheet, a proven ability to manage shipping cycles, which I think we proved quite well from FY '17 onwards when we bought dry bulk ships, when the dry bulk market hit a multi decade low. We bought crude tankers, LPG ships at the low points in the market. And as I mentioned, we have made very solid returns on those investments. And finally, capital available, as a result of the deleveraging capital is now available for future buying opportunities.

That brings me to the end of my presentation. I will now hand over to Mr. Bharat Sheth for some final comments, before we throw the floor open for Q&A. Mr. Sheth.

Bharat Sheth: Thank you, Shivakumar. And to all my listeners, I hope all of you are well under these very challenging circumstances. Just a very quick thing on what is it that we as an organization have been focused on in the last few years. When I say last few, let's just call it three to four years.

One is capital allocation. And in other words, when is a good time to buy, when is a good time to sell, when is a good time to go long freight, when is a good time to trade in the spot market. And on capital allocation, I am really happy with the results that we have seen since FY '17. So since then, we have acquired 16 assets and we have sold two assets. And our target return on anything that we buy over the next three to five years, we have internally set a target of somewhere between 12% to 15% dollarized return on unlevered capital. I am happy to state that on all our 16 assets, we have successfully achieved that, of course, albeit on a mark-to-market basis as of 30th June valuations. We sold two assets, and the way we track the two assets also that we sell, we look at whether were we better of holding to that asset, or were we better off selling that asset. And even on the two assets that we have sold, we were clearly better off selling the asset than holding on to it. So currently, our track record has been 100 positive, zero negative. So that's a job well done.

The second big focus area has been operational excellence. And I am really happy here, this is the one that satisfies me at a personal level a great deal. We have achieved an uptime across the 46 ships at 99.5%. It's possibly the best performance since the company's inception. Equally gratifying is that we have done it with a cost saving of approximately Rs. 50 crores, it's a little over 50 crores actually. So here, again, I would say that it's a job well done. Of course, this has only been for the last 12 months. The first quarter continues to show a strong operational performance. We have achieved an uptime on the ships of 99.4%. And I hope that we can continue with this, because this itself means multiple million dollars of annual savings.

The third area is on the way we now manage the cash. So, you know there are always competing demands on cash. And the way we have prioritized it is, we must always have sufficient cash on what we call risk capital, i.e. we must have an extended runway due to the volatility of our business. And that extended runway should never compel us to take poor quality decisions. So that is one very important thing. It must give us plenty of operational freedom. And as Shivakumar just mentioned, the worst thing you can do is in very poor markets start shorting freight. And we have unfortunately done this in the past, we wanted to get away from that in the future. And I am happy to state now that we have the luxury of actually running all 46 ships, if we so choose to, on the spot market, even in very, very poor freight markets. So that's a big positive. We will now only go short trade when we think,and again, we are not calling markets because we don't believe we have the capability of calling markets. So that's a big recognition internally within the organization. But we will only short markets in future now when we see strong double-digit dollarized returns on book value. And that's a big change from the way we have run the business in the past.

So, I believe this superior way of capital allocation, significant enhancement on operational performance, sitting on plenty full of cash that allows us to ride that market, invest in bad markets, because that is when you really should be leveraging the balance sheet, having the luxury of running all 46 ships spot, however bad the market is, will stand us in very good stead in the years to come. Our focus also now is on the way we manage the interest rate structure on fixed and floating, and also the rupee dollar asset liability mismatch at times. So that is going to be another focus area, and we hope to be able to report to you success in that area as well.

Just a few opening comments on our focus areas, and I am happy now to take any questions. I guess if it has anything to do with numbers and finances, we request the CFO to answer that. And I am happy to come in whenever you people feel it's important to hear from me.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question. We have a first question from the line of Jeet Gala from Central Advisors. Please go ahead.

Jeet Gala: Thank you CFO, sir, for such an elaborate presentation. And thank you, Bharat sir for giving us an opportunity to talk to us. Because I have been an investor in the company for more than two years now, and this is the first time I am getting to converse with you. Sir, my first question is basically on the supply side. So since we have seen in the presentation that the order book is at decadal lows. Plus, we know, since 2008 a lot of shipyards have basically been shut and not all of the shipyards are going to come back very easily. So, looking at these two matrices, that is number of ships which are going to come in versus the number of ships which are going to die, how is this equation looking like considering IMO 2030? So do you think whenever the market really improves, a lot of supply will easily come back? Say for example, in 2023 or 2024 onwards, because the life of a ship is 15 years, and we don't know exactly what will happen in 2030 norms. So, how does this overall setup really look like? I mean, so 2004 to 2008 was a demand led rally, so do you think whenever the next upcycle comes, how long it will really sustain? And what is your preference? I mean, would you like a demand led upcycle or would you like a supply lead upcycle? So, how does the entire setup really like?

Bharat Sheth: Yes, all right. If I can answer that, obviously you have asked multiple questions in that one sentence. So let me just quickly summarize it. First of all, the asset life of various ships, different kinds of ships is not 15 years, but ranges from 20 years up to 30 years. So gas carriers in particular have the longest life.

Now, your question was, yes, a number of shipyards globally have shut down. And that has very clearly reduced the possible new supply that can come in the market. I don't think that is going to change, because many shipyards, I believe, are permanently impaired. And if you were to ask me, I just think that it's just a bad space to be in, shipbuilding itself. And of course, we are also seeing consolidation shipbuilding wise in Japan, in South Korea, and in China. I think more and more of these dominant nations in shipbuilding have recognized that shipbuilding is really a bad space to be in. So, from a supply side, if you ask me, I don't believe that we are going to get a big concern coming from that part of the equation.

Now, let us look at demand. Demand is impossible to predict. And as I said earlier in my talk, we ourselves have recognized the futility of trying to predict what is going to happen. And we have seen this multiple times that this is an industry that is much more dependent on events rather than on the demand for commodities and supply of ships. So, we have seen years in which supply has been significantly higher than demand. And yet you have had rates go up from 50% to 300% within weeks.

So why does it happen? At the end of the day, right, it's all about a few extra cargoes that are available and there are very few ships in a particular position; in our business, positioning of a ship is much more important than the headline news of supply demand. So, you could have an area of this world, some ocean, some part of the world, where the number of cargoes available happens to be more than the number of ships available. And the moment that happens, this market can go up multiple hundred points. Right? So ours is an event based business. And I will give you an example right now. So we have, at the moment, congestion in China, both for dry bulk, we have got a ship there which has now been waiting for, I think, in excess of 30 days. And we are also discharging a cargo crude oil in China where also we have waited for close to 20-25 days. Now, there is a lot of congestion that has built up. What does that condition do? It sucks out large chunks of ships from the market. And the moment that takes place, you suddenly find trade markets rally. Or you can get hit, the famous Katrina, what happened when Katrina hit the area where you had a significant part of refining in America? You will recollect what happened when a lot of the refining capacity got impaired for a few months because of flooding, etc. And you saw that market went up 5-6x.

So, ours is an event based industry. And that is one of the reasons why it is so difficult to track. And why after 72 years of being in this business, I would be the first to tell you that these are markets which are really impossible to read. And it's a waste of time trying to even read these markets. It's really a waste of time. And I can now share with all of you that we started this year believing in quarter one, the crude market will earn $14,000 a day and we ended up earning $40,000. So there is no point in predicting these things any further.

So the way we want to be positioned, right, is we must benefit. And we have got to learn to play the volatility, that's to me amongst the most important things we can do. And if we can play the volatility, i.e. benefit from strong markets and equally benefit from weak markets, that will eventually lead to much, much better results in future.

Jeet Gala: Okay, understood. And sir, like we have a cash flow statement, so if we try to map a ship flow statement saying that what are the expected number of inflows of new ships coming in over the next three years, versus what are the expected scrappage which is expected to happen? But do you see any significant mismatch which is going to happen, or it's very difficult to predict that in any of the years?

Bharat Sheth: Well, the one thing that you do know, and not three years because shipyards today are probably full until end of calendar 2021. So there is still spare capacity for 2022. And ours is a very fragmented industry, there are multiple ship owners, what different people want to do with their cash is up to them. So for us, sitting here to forecast what lots of people would do with their cash is impossible, right? But what we can tell you is, even assuming that every shipyard slot in the world gets committed into different asset classes, because some owners are building container ships, some are building LNG ships, some are building chemical tankers, some are building cruise ships, so on and so forth. So it's very, very difficult to get a real fix on it. What we can say, and as the CFO had highlighted, there is potentially a lot of ships which are waiting to be scrapped, right? Now, partly the scrapping has got pushed back because of the current pandemic situation, and partly because we had a spurt in the market. So just take Great Eastern, for example. We had two 20 year old tankers, which we had, if you had asked me 12 months ago what is Great Eastern's plan on these two ships, we would have said to scrap it, because they are coming to the end of the life. The moment the market bounced and we had strong earnings, what did we do? We extended the life of these assets. So we can squeeze out another 12, 18 months. We can't squeeze out another 10 years, but you can squeeze out another 12 months. And basically, it's a free equity option, right. So When I spoke to the Board yesterday, I compared it to almost a 20 over match. You know how it is, right, you don't know who wins till the very last ball is bowled. And that's what happens in our business. Till the ship is scrapped, you don't know what that last day of equity value will give to you. So that's how we treat all this. So, basically by keeping earning days as long as you possibly can, you are building free equity options.

Jeet Gala: Okay. And sir, could you give us some light on what is IMO 2030 all about? And how is it significantly going to stop the new addition which are going to come in, the ship additions?

Bharat Sheth: Well, I can't say that. See, 2030 is a long way off. And basically, I think the way the world is headed is, everybody is getting more and more conscious on environment, sustainability and emission controls, etc. Let me just add one more point to your, if you want supply. I think currently very few people know what is the best kind of asset to build because of ever changing technology. So, there is talk about hydrogen, there is talk about LNG, there is talk about dual fuel. Some people are talking about some very high powered cell technology. The question is, like an EV- electric vehicle, could you get to electric ships, which are then battery run?

So, the whole propulsion system, right, is under huge debate. And obviously, when you are building an asset for 20 and 30 years, the last thing you want is to get the technology wrong. And this could be a reason why people are holding back from placing orders for ships. Now, if people do hold back from placing orders for ships, I think, obviously, it's good for the industry, it's good from the sense that supply overhang is not going to be as much as we have seen it in certain years. But I mean, these things don't really trouble us, they used to trouble us at one point of time, now they don't. Because we have just positioned ourselves to benefit every which way. Good markets, bad markets, you should be able to exploit the situation.

Jeet Gala: And sir, what has been your overall experience? I mean, a demand-led boom is better or a supply-led boom is better?

Bharat Sheth: So the first thing is, no boom is good for any commoditized industry. Because more money is lost in booms than in busts, right? So we don't like a secular boom. We got caught in it ourselves in the boom market of 2003-2008, we made multiple mistakes, we don't wish to repeat those mistakes. You got to be very, very disciplined in strong markets as I think that famous statement that when the music is on you can't be on the sidelines, you got to join the party. And as night follows day, things like this can happen again and you lose every bit of discipline. So I am a great believer that eventually you need the volatility rather than a secular bull market.

Moderator: Thank you. We have next question from line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Good to hear you, sir, on the call. My question pertains to the point you made that we have the cash available right now with low leverage. And market is, you already explained in detail that the market is looking positive. Are we looking at any acquisition of new ships in the coming three to five years, at least in the near-term for three years?

Bharat Sheth: So, I can only really comment on the rest of this year. So currently we are not, because whilst values have come down, as the CFO said, by approximately 7% as an average, we would like to see cheaper price points. And I will explain to you why. So, as I have said, events like this pandemic can happen again, we haven't even overcome the current pandemic. The question is, you keep getting these black swan events, we saw it at the time of the Lehman crisis, and this is sort of the second big black swan event we are seeing within a decade, 10 to 12 years. And we just want to be positioned whereby if we buy assets, they have just got to be so cheap that we can ride very comfortably through these kind of Black Swan events. And until we get to those price points, we are happy to sit on the cash, all we can think of what else to do with the cash, there is always restructuring of capital as an alternative, there is dividends, there are multiple uses of the cash, right? It just does not have to be steel.

Chintan Sheth: True. And secondly if I look at historical, quarterly or annual numbers in terms of like TCY day rate, I tried to calculate the EBITDA rate for past decade or so. And in each time our cash profit or used to be, lowest point I got was around $5,000 a day EBITDA we have been able to generate because of the market. That is what in the downside we can expect or this quarter we did around $17,000 or $18,000 core EBITDA per day in USD terms.

Bharat Sheth: Honestly, I have never done this calculation. So, offhand, I don't think I can answer it. But what I can say to you is, we have always, even in very bad markets we have always earned a depreciation, right? And Great Eastern's depreciation, and the CFO can step in if I am making a mistake, but I think it's in the region of Rs. 550-odd crores per annum. So that's about Rs. 30 to Rs. 40 a share. And we have always earned depreciation, at least. And whilst to me, the way I look at depreciation, right, it's really just an accounting charge. And if let's say we were not governed by these multiple accounting rules, what depreciation you provide when the volatility is so great that a ship that you build, and we have actually experienced this... A ship that we have bought 15 years ago, and we sold it at the same price at what we had bought 15 years ago. Now when you get a situation like this, all you do is claw back your depreciation as profit on sale, that's all that happens. So, really speaking, none of us know the actual depreciation of the asset until it is scrapped.

Chintan Sheth: Any plans for any of the ships exiting our fleet right now at this stage?

Bharat Sheth: Not, now. But I think next year we will come across at least one ship by memory, that will be the end of the life. But as I repeat, if you had asked me this question last year, I would have said two ships. And so if the market suddenly bounces and we get back to a contango, who knows, right? Can crude oil get back into a contango, of course, it can, who knows.

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

Vaibhav Badjatya: And I must thank you for the fact that you have provided normalized numbers also in this presentation. So on the normalized numbers, when I look ROC, obviously, I am not looking at current quarter ROC, but just as a benchmark now would you say that this current quarter ROC or normalized numbers we should look at the Indian comparable returns and judge it accordingly, right? This is the right way to look at it now, right?

Bharat Sheth: Sorry. Shiv, do you want to take that?

G. Shivakumar: Yes. We had a discussion about this in the last quarter call, if I am not mistaken. So yes, you should take it based on the normalized number. But also remember that a large part of our return comes from the change in the capital value of the asset. So ideally we should look at it on an NAV basis over a longer period of time. But yes, cash and the ROC on a normalized basis is certainly a better indicator of our performance than the ROC on a reported basis.

Vaibhav Badjatya: Got it. But it must be compared with the Indian government bond yields, if somebody wants to look at that.

G. Shivakumar: I don't know what comparables should be taken. But for judging us, our results on a normalized basis are more indicative than the results on a reported basis. That's all I can say.

Vaibhav Badjatya: Got it. And lastly, in the initial remarks made by Mr. Bharat, I do not understand the description provided in shorting of the trade markets. Can you elaborate on the same?

Bharat Sheth: Yes. Certainly, I will. So when we have a ship, any ship, you have an option of either trading the vessel, what we call, in the immediate spot market, means run it for the next 20, 30, 40 days, depending on the trade, and then you come up for repricing, right, after 30 or 40 days. The other option you have is to say, I think the next three to four months, the market is going to be very bad, so why don't I fix the ship for the next four months. That's another option you can play. Another option you can say is, I don't want to take the risk of ups and downs every day of my life, I have got a weak heart, so let me fix my ship for the next one or two years, right? Or you can say, I have got a bank that is breathing down my neck, I want to fix my ship for the next five years. And so you have these multiple options.

Now every time when I say fix, so if you fix your ship for two years, effectively you have gone short of the market, because you have sold freight for two years. So let's say that had we sold freight a year ago for one year, we would have missed the big rise in the market that we witnessed in April and May, right, we would have clearly missed it because we wouldn't have had the ships. So if you are trading spot, that is what effectively we are saying, I don't want to take a position beyond 20, 30 days, I don't know what the markets are going to do, and therefore, I will stay long of the market, means you are long freight, because you have kept your options running every 20, 30 days. And because our markets can turn so quickly, and I think as the CFO said, we had an LPG market on the 27th of June, earning $10,000 a day, on the 27th of July that ship is earning $40,000 a day, right? Now if you just think about it on a 40-day business, your delta is $30,000 on a 40-day business, that's an extra $1.2 million, Rs. 10 crores cash to your bottom line. And it quickly builds up, when you have five of these things, you have got Rs. 50 crores, so on and so forth.

So you have got to really be careful on when you want to go short, i.e., go and cover your ship for one year or six months or two years. And then you just say, okay, now I have got fixed income, and I am not going to play the volatility. Or you say, I have got the balance sheet strength where I will take the good and the bad, but my eventual average of the good and the bad will be better than if I were to lock in today for two years. And these are difficult calls to take, right? And as I said, this is what we want to get better and better at.

Moderator: Thank you, sir. We have next question from the line of Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi: Thank you for the elaborate presentation. Sir, my first question is relating to the offshore business. And obviously, if I look at the NAV, and if I look at the book values, there seems to be an impairment on the offshore fleet. So are we thinking about taking an impairment on this, because this has been a drag on our overall ROC profile for the company? Or is there any other way we can restructure the balance sheet on the offshore side?

Bharat Sheth: Well, I mean, first of all, we follow certain accounting principles, which is being accepted by the Board, accepted by the auditors, which determine impairment. And looking at that, that is when we take long-term averages, and then we do a discounted cash flow statement and we come up with an implied value. Looking at that, at this stage there is no need to take an impairment. And let me tell you the story of impairments.

So we in the past have impaired assets which have then suddenly bounced in value. Now we never revalue, we never revalue up. And I can tell you, we have seen even in the offshore business, and this has happened to us. Our own rig multiple years ago went from $2 million to $40 million. So I think you have got to have a consistent policy on impairment, not look at quarterly or annual fluctuations. And then just say that this is the formula that we will use. If we need to impair, of course, we will impair. but we don't want to make it a unilateral decision, because as I just said, we don't know what tomorrow is going to bring. And I do believe this, right? I could be in a minority view, mine could be the only view. But I think eventually, years of underinvestment that you will see by these upstream companies eventually means you will see the price of oil going up.

Now when that is going to happen, I can't say. And we have seen offshore markets remain challenged for 10, 12 years. And then whenever they have turned, because of years of underinvestment, they have gone up 6x, 7x, 8x, 10x. So imagine if you impaired an asset, right, and then you are not going to revalue that asset, what have you achieved?

Bhavin Gandhi: Got it. Sure. Sir, how do we think about the offshore business as such? I mean, given the way you have described, you have been harnessing your skills to ride out the volatility and actually use it to advantage. You don't get to play this in the offshore market. So how are you thinking about offshore as a business going ahead, whether would you want to deploy more at some point in time?

Bharat Sheth: So, I think the way we are looking at offshore currently is that we would like to deleverage, although it is already deleveraged as the CFO presented in one of the slides, the net leverage in offshore is not much more than shipping. But what we have found is the difference now that we really granulated this at a philosophical level, shipping gives us lots more optionality to go long short. As I just explained to the previous questioner, we can fix for 10 days, we can fix for 30 days, we can fix one year, we can fix five years, and you can do all kinds of things. Offshore, your options are very limited. Plus, it is a much more geographically concentrated business. So you can't just move freely from one geographical location to another geographic location as you can in shipping. And when we look at the net result, so if I play volatility well in offshore, there is no way for me to short that market. So let's say that I said, okay, this is a high point of the cycle, we want to go short, we can't go short. In shipping we can. So shipping, we can really massage the transaction in multiple, multiple ways. And therefore, I guess, we are focused on really building our skills to play that game better than we have in the past. That is where all our energies are going now, yes.

Bhavin Gandhi: Sure. And just one final thing from this side. So, Shiv sir mentioned about the discount to NAV that we have seen, and traditionally, we have been very choosy about the kind of assets that you want to buy. Can we look at the larger buyback? I know you have an embargo right now, but can the buyback size be much larger than it is today, let's say, if the prices remain here?

Bharat Sheth: Well, so first of all, this is something that we cannot consider till end of this year, because I think our window doesn't open up until then. There are all these SEBI rules, etc. And under the current set of rules, I don't think we can look at it till the end of this calendar year. At that point, we would always also look at what is happening to steel, because eventually we are a shipping company, right? And obviously, if we can get cheap assets, I mean, when I say asset meaning steel, if I can get cheap steel, that will always be my priority number one. But if I can't get cheap steel, and I find my underlying paper is a much cheaper way to acquire more of that same steel, then paper will always be an option. And you must remember that unfortunately, again, because our rules are so very bad, here you don't have freedom, you don't have freedom on buybacks, you have restrictive, you have huge leakages on taxation because of buybacks, you have all these price points you have to determine on buybacks. If you do a buyback, I guess, you can't immediately raise capital, there are just too many restrictions. So we have always got to be very careful.

Moderator: Thank you. We have next question from the line of Saloni Hemnani from India SME Investments. Please go ahead.

Saloni Hemnani: My first question is, sir, regarding the scrapping part. You mentioned that the ship asset values coming down and the age of the vessels above 15 years as a percentage of fleet is really high. But there hasn't been a significant increase in scrapping. So any specific reason for that, apart from the reason that happened because of the COVID in the March quarter?

Bharat Sheth: Yes. So two things. One is, many scrapyards globally shut down because of labor problems. And also when you go to a shipyard, you must remember you have got to get your people off the ship. And because of travel restrictions, nobody could get on, get off the ship. So April, May and June we saw very, very poor scrapping. That was one reason. The second is, of course, particularly for the tankers we saw a huge bounce in tankers, both on the clean side as well as on the dirty side, means crude oil and petroleum products. And again, if you could even squeeze in one extra voyage of 30, 40 days, you made just lots of cash. And therefore, you deferred your decision to scrap that ship, unless the ship had no trading life left in her. So everyone who could defer scrapping a ship in certain asset classes, particularly tankers and bulk ships, they chose that option to defer the decision. So I think it's a combination of scrap yards not having the labor, shipowners not having the ability to get their people off the ship before it reaches the scrapyard and the way the markets behave. So three things all interplaying.

Saloni Hemnani: Right. Okay. And my second question is, I actually missed the numbers of the time charter rates of July that were mentioned earlier. Could you please repeat that?

Bharat Sheth: Can I request the CFO to send it to you? Is that just easier?

G. Shivakumar: Yes. I think we should do that separately, yes.

Bharat Sheth: Yes. The CFO is on the call, so we will have it sent to you.

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

Vikram Suryavanshi: Sir, one is that, cash as the risk capital for us, so what are major consideration for maintaining the high level of cash as a risk capital while deciding that? And second question is about, if you look at in 2007, I think prior to earlier cycle we ordered three VLCCs, but post that we never had exposure to VLCC market. And while listening to you, the way we are developing our skills for shorting the market or having an open position and really benefiting from the volatility, how is our thought process for VLCC market? So these are my two questions.

Bharat Sheth: Yes. Sure. I will answer. Your first question was what?

Vikram Suryavanshi: Cash as a risk capital, what are the major considerations.

Bharat Sheth: Okay. Yes. So as I said, the way we look at the cash, obviously, for the period that it lies in a bank it doesn't do much for us. But so long as it increases the purchasing power of that cash, we look at that as an effective return. So let's say my dollars currently are earning me about 0.5% in terms of cash, But let's say that the ship's value, as the CFO said, has come down 7%. Now any asset that I were to buy now as compared to three months ago is now 7% cheaper. So I have effectively increased my purchasing power, right, by 7%. So in that sense, cash has earned me the 0.5% in the bank and my purchasing power has gone up by 7%. Now let's say, if ship's values were to come down another 7%, then my purchasing power has gone up by 15%. So that is the value of cash.

The second thing is we want, as I said, risk capital is just to ensure that we always have cash whatever happens to debt service, to meet all our debt obligations. That, to us, is all about reputation of the organization, and that obviously cannot be compromised. The third thing that cash enables us to do is to say that, look, we have 46 ships, we are under no pressure to go and fix the asset for some fixed income business unless we think that's the right thing to do. And it gives us so much operational flexibility. And in a business like ours, where one day you can be earning $1,000, and then you can be earning $5,000 and then you can be earning $500, having that level of cash just gives us lots of comfort that we will never be put in a corner where we are taking suboptimal decisions. So for us, that is really, really important.

Vikram Suryavanshi: Is there any reference, like overall asset size, how much percentage broadly should be cash or it is just based on three parameters what you have also discussed?

Bharat Sheth: Well, so obviously, until we find a right opportunity, and if we have to build up cash, we will. We haven't set any internal target that once we are above this level of cash, I mean, if we build up more cash we build up more cash. What we don't wish to do is build up the cash and then misallocate it in terms of capital. It has unfortunately happened to us in the past, we just don't want to repeat those mistakes again.

Vikram Suryavanshi: Yes. And I really acknowledge that discipline for us, sir.

Bharat Sheth: Yes. I think if you look at this organization, hopefully, for the multiple decades ahead of us, this will really stand us in good stead.

Vikram Suryavanshi: Right. Yes. And my second question on VLCC market.

Bharat Sheth: Yes, sorry. So on the VLCC, the question is, would we look at acquiring VLCC? The answer is, yes, it's the most volatile of all asset classes in the tanker segment. And if we saw the right opportunity, absolutely, we will get into that sector. We missed it, which was our fault. We had a lovely opportunity to acquire some VLCCs in '17. Had we done it, we would have made a lot more money. But that's life, you miss some, and you get some.

Moderator: Thank you. We have next question from the line of Nidhi Chawla from SBI Mutual Fund. Please go ahead.

Nidhi Chawla: Most of the questions you have answered. I just wanted to understand, when we were looking from FY '16 to FY '18, if I look at your decisions to acquire the assets and where the rates and asset values were, and when I look at it today, and I know you have answered in many other questions. I would still want to understand, I mean, I know it's a very difficult situation right now to assess, but still if you have some pecking order in terms of the new investment that you would be looking and the sectors that are looking much more lucrative to you given where the order book stands, where the overall cycle you look at and how are you looking at those various sectors, if you would be able to summarize, that will be really help .

Bharat Sheth: Yes. So I would love to help you in any which way I can. So let me first tell you that we are very agnostic to which sector we invest in, right? So whether if we got an opportunity in dry bulk first, we would look at that; if we got an opportunity in gas first, we would look; if we got an opportunity in crude, we would look at that, so on and so forth. But we will focus on the four sectors where we have currently built up significant skill set. Crude oil, petroleum products, LPG and dry bulk. These are the four, we are not going to, at this stage, think of going to a fifth, because we really want to be the best that is in the world in these four sectors.

Now, so within these four sectors, we are agnostic. But having said that, we have kept internal caps so that we don't place 100-0 bets, even though we believe that we are improving on the way we handle the volatility, we would never place 100-0 bet on any one of these four sectors. So we have kept internal caps that, however, bullish we are in any particular sector, we will not have more than X 100 million dollars exposed to that particular sector. So we'll never take a 0-1 bet. Because something can happen and things can still go wrong, there is no guarantee in life on anything. So we will be responsible in the way we do it, but within those caps we are completely agnostic. But yes, if we are getting better at volatility, and I hope we will eventually get much better than we have been in the past, we will prefer to buy more of the assets which have a much greater volatility in the market.

Nidhi Chawla: Right. So to the previous question what you answered, that will be on the crude and the product side?

Bharat Sheth: Well, there is volatility as much on the gas, I have just explained to one of the previous speakers, the LPG market was $10,000 on the 27th of June and $40,000 today, that's huge. And can go back to $10,000 tomorrow, I don't know.

Nidhi Chawla: Sir, actually, I was more also trying to understand and trying to pick up your brains, because that time when you were talking even in the con-call meetings, you basically used talk about the rates being low and even though the rates are low, the values were coming down. I know the understanding of the value story is not very clear. I was just looking at in terms of the situation in the current market. Is any particular segment looking lucrative today to you or nothing is clear as of now?

Bharat Sheth: No, it is very clear. What is very clear is that we would not be buyers today of any asset class. Especially, I mean, look at it, if my paper is trading at $0.50 on steel, what am I better off doing if you were in my position.

Nidhi Chawla: No, sir. The point is always taken. And I have had a very long discussion with Mr. Shiv recently on a con-call and I would actually come back to that question, and most of the people have asked you this. But on the cash level, sir, I mean, you are completely right in terms of how you manage the business. Pardon me if I am wrong in this assessment, even in the last buying cycle that we did, we spent around Rs. 1,900 crores to Rs. 2,000 crores over 2016 to 2018. When the cycle was actually, if I look at order books today, the shipping cycle position today in whatever way, it looks like that opportunity is not visible today where we are sitting on the asset level, the prices, but we are sitting at double the cash levels that we have. So do you really think that we need so much conservatism and in terms of the capital protection in this kind of environment? And secondly, would we have such kind of quantum opportunity available for us to deploy such cash?

Bharat Sheth: Okay. So let me answer that. Whilst the cash that is reflected on the balance sheet sounds like a lot, it's really not that much. And I will explain to you why. So, the risk capital is capital we don't touch, so that cash is out of bounds. That is to just make sure that as a company we honor every single commitment with all our lenders. You have got to strip out all that cash. Then thereafter, the cash that we sit on, what we call investable surplus, that is possibly in the region of $200 million, if you stretch ourselves, maybe $225 million to $250 million. So whatever that mathematics is in rupees,. 1,800 crores or Rs. 1,900 crores.

So the question is, will we get to the same price points we got in 2016 and 2017? It's something today I cannot answer. I don't think anyone in this world can answer. But if we get to those price points, would we be able to deploy the money? Absolutely, we will be able to deploy that capital. But would we be saying, okay, forget some discipline now, let us go and invest at a higher price because we are getting very anxious or we are sitting on too much cash. I don't want that discipline broken, because it's very tempting. Actually one of the most difficult things in life is sitting on the cash and not doing much with it. It's not easy to sit and earn 0.5%. But trust me that this will stand us in very good stead for years and years to come. So long as we are disciplined.

Nidhi Chawla: Sure. I agree with that, but it is just that even the cash flow generation is expected to remain strong, right, and the leverage that we have today on the books, we would have more ammunition to play actually over the next two years, if you really want.

Bharat Sheth: Well, I hope we do. . The more the cash we build up, I promise you that we will put it in good use. And what do I define as good use? Whenever we invest in steel, i.e., in ships, we should be in a position to generate hell or high water somewhere between 12% to 15% dollar returns on unlevered capital. And if we can do that on unlevered capital, that would be a job really well done.

Moderator: Thank you. We have next question from the line of Anuj Sharma from M3 investments. Please go ahead.

Anuj Sharma: Thank you for the comments. I had a question based on the narrative you have given. Now I think we have gone long freight and we have played the strategy assuming volatility will remain, and I think a volatility has played out. But how do we capture the intense peaks which we saw? So is there a way we can refine further wherein we can get closer to peaks or it will always remain a random event that we were there at the right place, right time we got it? Or we can refine it further?

Bharat Sheth: So I think it's a very good question. I don't know if we will ever get the peaks. For peaks you need luck. And just like when you hit a trough, you get into bad luck. So it is never our intention to get to the peak or to hit peaks, because that depends on luck. What we just want to get good at is so long as we can consistently capture 80%, 90% of the peaks, I think we would have done a very good job. And that is where we are focusing our energy on. We have a little team that is really working hard on trying to see how can we get better and better at this. And I am confident that it's much more difficult, of course, than capital allocation. And capital allocation, I think, our track record over the last four years speak for itself, as I said at the beginning, 18 rights, 0 wrong. So that's a great record to have.

Now on the day-to-day volatility it is much, much more difficult, having the right ship at the right time is going to be important. But having said that, what you also need is having multiple asset classes in the same category of assets, so then you can spread around. You have some ships in the Persian Gulf, you have some ships in the East, you have some ships in the Atlantic, Mediterranean, so on and so forth. So whilst everything may not benefit, maybe you will capture X percentage of that benefit. So I think it is a combination of luck, it's a combination of having the fleet size and of course combination of our internal skills. And I am not saying we won't make mistakes, we will make some mistakes.

Anuj Sharma: Right. And sir, my second question is, you have clearly explained your discipline and wanting to buy assets cheaper. But let's suppose the charts which you have put up show that there could be a trend which is other way round, clearly it has not moved away. But let's suppose there is an upturn for a long time, would you be willing to participate on the way up and clearly it's not a volatile trend, but let's suppose a directional move up, would you want to give up the discipline and possibly repurchase some on the way up, just your thoughts?

Bharat Sheth: If you ask me personally, the answer is no. We have got caught in this in the past, we have bought assets. Because the temptation is, so let me just quickly tell you this. You have got money lying in the bank at 0.5%. On the way up, you suddenly get dollar yields at 20%, 30%, 40%, and there is huge temptation to buy on the way up, because you can immediately boost your bottom-line, etc. But as night follows day, this will end up in grief. And we don't want to end up in grief for sure ever again.

Anuj Sharma: All right. And sir, my third question is, there would be assets which would be bought as a portfolio, so company is willing to sell. And I know you have a very strict evaluation of ships for buying. So if there is a portfolio of a company wherein you are not able to evaluate the quality, but that's available at a very lucrative price versus buying a-la-carte ships at a reasonable valuation, but quality is insured as per your parameters. Would you never look at buying company with a portfolio...?

Bharat Sheth: Yes. So let me tell you, we did that. Whilst we didn't buy any company, of course, we have bought ships from very good stables without even seeing the ships. And we have bought in blocks. So if the question is would we do that again? If it came from a great stable and there are some people who keep their assets incredibly well. Although I believe now Great Eastern keeps its ships, we probably run now the best ships in the world, and I am not exaggerating that. Whenever you have time, come and have a look at some of these ships. But yes, the answer is we would be happy to buy in block. But would we be looking at buying companies? I don't think so. And the reason is because there is always a challenge on cultural shift. And we want to preserve our culture to the best we can.

Moderator: Thank you. We have next question from the line of M. Samrath from Dwarka Wealth Managers. Please go ahead.

M. Samrath: Just three small questions. At the end of March, the dollar versus the rupee at last Friday of that quarter Rs. 75.58. So I just wanted to have a quick answer. This particular quarter, till what dollar price were you hedged, sir?

Bharat Sheth: Can I request the CFO to answer that?

G. Shivakumar: Yes. I will take that. I don't understand what you meant by till what price are you hedged. We have a natural hedge.

M. Samrath: Yes. Natural hedge. I mean basically, let's say, that was Rs. 75.58, so till what particular level would you be hedged, I mean taking the algorithms into question?

G. Shivakumar: No, we don't have any such things. So we have very, very minimal hedging that we do, because we have a natural hedge. We have dollar liabilities and we have dollar assets. And whatever is extra, we just keep it in dollars because our next utilization of the money will also be for buying dollar assets.

M. Samrath: So Mr. Shiv, just want to ask, Rs. 75.58, so from there you would be hedged or Rs. 1 or Rs. 2 from there on, something like that, you have?

Bharat Sheth: No, so as the CFO mentioned, we have very little forward sale on our dollar balances. Sometimes we will do it. As I said right at the start, this is another focus area, we really want to get better and better at currency management because we always have this challenge, right, how much do you keep in dollars, how much you keep in rupees, so on and so forth. But we don't want to speculate. So this is out of bound for speculation.

M. Samrath: Okay, that's one thing. And I was talking about the dollar loan, the dollar loan part.

Bharat Sheth: Yes. So our dollar loans, even on the liability cover, because as the CFO very rightly pointed out, we have a natural hedge, only in extreme cases would we cover our dollar liability by buying forward dollars. But normally, we would not, but once in a while. Because, again, look, we want to focus on shipping, that is our core business, that is what we are spending our energies on trying to specialize it. And if we just get those calls continuously right, I think that should stand everybody in good stead.

M. Samrath: And sir, just on back of the envelope calculation, what would be our cash breakeven point for tankers and bulkers, sir, just approximately dollars per day?

Bharat Sheth: Yes. So again, everything hinges on what you define as cash breakeven. But if you just take as an average...

M. Samrath: Minus the depreciation, that's all.

Bharat Sheth: Well, again, because we have corporate debt, then we just do an internal allocation on assets. Because when you do a bond, you are not necessarily taking the bond raise on a particular asset. So you raise an X amount of money, you switch it into dollars and then you buy multiple assets. And then we do an internal allocation. So we just treat everything as, whatever is your interest liability and just trade it at random.

M. Samrath: Okay. So what would be the tankers' and the bulkers' cash breakeven point, sir, running dollar cost per day.

Bharat Sheth: Again, I don't have an offhand answer, but I guess somewhere… I don't know, Shiv, do you have an offhand here.

G. Shivakumar: I don't want to speculate on a number I am not very familiar with. Just to tell you, if you are looking for the operating cost, the operating costs are for the entire fleet is between $4,000 and $6,000 a day, depending on the type of ship, the asset cash operating cost.

M. Samrath: Sir, for tankers approximately, sir?

G. Shivakumar: For tanker, it will be in the higher region, somewhere in the $5,000 to $6,000 depending on the ship.

Bharat Sheth: I think so if you look at the crude tankers, maybe it will be closer to $6,500 to $7,000. If you look at the smaller tankers, I guess in the $5,000-$5,500, somewhere in that region.

M. Samrath: Sir, adding the G&A then how much we would be, sir, adding the G&A then what would be the cost?

Bharat Sheth: I think our G&A is currently running at $1,200 a day, Shiv, maybe $1,300?

G. Shivakumar: Yes. Something in that region.

Bharat Sheth: Of course, in the pandemic time, it will reduce, right, the G&A because we are all working from home.

M. Samrath: Okay. And sir, for bulkers?

Bharat Sheth: The bulkers is about $4,500.

M. Samrath: About $4,500. And sir, what is the TCE for the tanker, sir, last quarter of June?

G. Shivakumar: That's in the presentation, which is on the web site.

M. Samrath: And currently, sir?

Bharat Sheth: There is nothing like currently, because it changes by the hour.

M. Samrath: Approximately, sir, how much are you getting for Aframaxes and Suezmaxes?

Bharat Sheth: I would say, at an average somewhere between 16 and 18.

M. Samrath: Between 16 and 18. And for bulker, sir?

Bharat Sheth: Well, that one we have fixed at 20,000. We have already fixed it till December 2020.

Moderator: Thank you. We have next question from the line of Himanshu Upadhyay from PGIM India. Please go ahead.

Himanshu Upadhyay: So my question was more on this side. See, to the question what you replied to Anuj, okay. So last cycle, if we look at we did participate in the up move. So the way I am looking at it is, the fleet was around 29 in 2003, it's moved to 41 in 2006, and 46 in 2008. So if we see a smaller longer term cycle, how would you place your bets? And would you participate in the up move?

Bharat Sheth: Somebody else just asked me that question, and I said, first of all, although it's a very odd thing to say for any ship-owner, as I said, I hope it's not a secular bull market because that would really challenge us a great deal on our discipline. But yes, if it happens, we will have to think on what to do with the cash that we'd obviously generate. As I said, to us, what would stand us in good stead over multiple years is the volatility. Anything secular in nature is not so good.

Himanshu Upadhyay: Okay. And one question was on the equity investments last year, what we did in Great Eastern Chartering LLC, Sharjah. If the buying of equity shares would be a regular feature in that company or how is it? Means, what's our thoughts currently? And what are the risks we are taking in that book?

Bharat Sheth: So, really we leave it to that company to take all the decisions. Obviously, it comes more as an information to us. That company, all I can say is, what their strategy is, they have a very independent Board there. That company has got $25 million in cash. I mean so far, they haven't done anything stupid. They have also got 100-0 positive track record. So wish them well. But if the question is, is Great Eastern going to capitalize it and fund any of their losses? If, God forbid, they have made any, the answer is no, we would not. They have got to live within their means.

Himanshu Upadhyay: Okay. And one last question on the Greatship. We have said that the crude prices have been low and though investment is happening in the offshore side, which will lead to a classical up cycle which happened in this cycle...

Bharat Sheth:

Himanshu Upadhyay: Yes. So the question was on Greatship. In the annual report of Greatship, we have stated that low crude prices will lead to low investments, which will lead to recovery in offshore, and we can have a classical up cycle in that segment. Till now we have stated that we don't want to put money there much more. But once the clarity of the cycle is there on the offshore side, the asset prices would have also risen, means, would we be comfortable to buy at a higher rates once the clarity is there in Greatship or the offshore side? How are we looking at those things? Means, the way is a little bit different.

Bharat Sheth: Yes. So the basic thing is, each company must learn to live off their own. And if the offshore market does well and that company is able to generate surplus cash and meet their own investment philosophy, so be it. We are not going to sort of say that all right, offshore values are very cheap, and therefore, they are all going to go up, etc. We just said we can't take these market calls. So we have set internal discipline to make sure of that, all right, it can't be on our gut that this is cheap. That is something that we are trying to strip out, because eventually nobody knows what's cheap.

Himanshu Upadhyay: But on the shipping side, we are ready to take such a call?

Bharat Sheth: No. Because it's not on a gut, we have institutionalized the entire process now.

Himanshu Upadhyay: So, in Greatship or the offshore side, how far away are we from that space of procedurizing?

Bharat Sheth: No. But as I said, in shipping, the difference is, those assets also are obviously at multiyear lows in offshore. Now there the problem only is one, which is that you can't long short. That's a business where you can only go long. So then it becomes a one-way bet. But it's got the same volatility as shipping, in fact it could be even more vicious. But, what is the right word, you can't create multiple options on how you play the volatility, which you can in shipping. So in shipping, for example, in a bad market, I can just say that I will commit my asset only for 10 days or 15 days. In offshore, you can't do that. So in a bad market, you get compelled to commit your assets for multiple years because that's much more of a tender driven business. There is really a not a spot market there.

Himanshu Upadhyay: Okay. Yes. So what would be the philosophy for that company? Means, when we have stated that, that company would have a separate philosophy.

Bharat Sheth: Yes. So that company also currently, the priority is to just keep paying down leverage through cash flow. And some day, hopefully, they will become debt free and then they will take certain risks that they think fit. Obviously, we keep exchanging notes and we spend a lot of managerial time thinking about all these issues. But we have just seen that shipping has this ability to play so many more options than offshore. And that's what we like.

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

Raja Kumar: Thanks for the detailed presentation and the comments. Sir, if you permit me, just give me like two minutes. First of all, I would like to thank the entire crew and the employees for GE Shipping. I mean, while we all sit at home and stay away from this virus, I think the crew and the employees of GE Shipping have done a very commendable job in delivering stupendous results. I would like to first thank for that.

Sir I have a couple of questions. So first one is on the strategic reason to have an offshore division because I just want to know globally is there a practice or shipping company having the exposure to offshore? Because I have not come across any major companies with this kind of an exposure. So just wanted to know what are the strategic reason to have an offshore?

And just to labour on that point again, as Shiv mentioned that the market, the cash and so on and so forth, you are saying that we are not getting the right market capitalization. So there I just want to know, maybe the market is perceiving that the offshore is going to grab the cash in the long run, so that could be one of the reasons why we are not getting the right kind of market cap.

And further, I want to know what steps the management is taking? I know you cannot do buyback till end of this calendar year. But I just want to know what are the other ways of kind of improving the sentiment or what are the other steps taken? Because I mean, just one more point, I went through the AGM notes for this year, I saw almost 10% of the shareholders have voted against all the key directors. So just want know are there any rival group? Or are there sort of industries where you are not in line with the management? I hope if you can give me some color on that. So that is my first question.

And the second is on the TCY numbers that is given out, it would be helpful if you could give the shipping revenue by the category, both for the quarter gone by and as well the revenue visibility that you are giving. If you can also give what is the TCY for each of these categories.

So at least give some color from an investor perspective in terms of understanding how future P&L would look like? So there are my questions.

Bharat Sheth: So your first question was on offshore. So there are multiple shipping groups that run a shipping company and run offshore businesses. The difference is that they don't necessarily run it through a subsidiary, but they do run it as two separate businesses, but within the same group. So it's not as though what we have done is unique. That's number one.

Number two, your question was why did we do the offshore? So you will recollect that in 2007 and 2008, when we obviously were generating lots of cash at that time, and we had prior experience in this sector, and it was a time when the business was providing very, very strong returns. So again, we were getting dollars yields of 30%, 40%, 50%. And if you see in the first, I think, five years of the life of Greatship, they had some incredibly strong returns on invested capital. And it was a time when shipping was not doing so well. And therefore, it was the offshore subsidiary that helped pass on a consolidated reported number that the parent company was also able to report stronger numbers. So it's not as if all its life, it's been a bad business.

I mean it's just now, the current phase is obviously not so good. It had started improving, as the CFO alluded to, about a year ago, and then we have got hit by this second Black Swan event. We first got it by the first Black Swan event, you couldn't have anticipated that, and then the second Black Swan event. So we have had to survive these two most unexpected outcomes. But we have built up I would say, great operational skills in the meantime. And one thing all of you must remember is that there are very, very few global oil and gas service businesses that are doing as well as Greatship. I can't think of a single one. And I am happy if any of you can identify one other offshore company globally that is doing better than Greatship. So that is that.

Now what was your second question? It was about some rivalry. Rivalry with whom?

Raja Kumar: No. I saw almost 10% of the shareholders have dissented some Directors' appointment.

Bharat Sheth: They have what? 10% have done what?

Raja Kumar: They have not approved the appointment.

Bharat Sheth: I mean, people have a right to either approve or disapprove. It's like, I guess, an election in a country. Not everybody approves of the same ruling party and not everybody disapproves. So people have a freedom of choice, and people are free to either say good job or not a good job. We are quite relaxed about these things.

Raja Kumar: Yes. I completely understand that, sir. Sir. I think GE management is synonymous to governance.So I mean, that is how I view this company.

G. Shivakumar: So just coming back on that offshore question of yours and how there is a fear about it being a drag, let's look at it dispassionately. So Great Eastern Shipping itself has an investment in the offshore business, which is on our books, which works out to about Rs. 110 to Rs. 120 per share. That's on our book at Rs. 110 and Rs. 120 per share. The second thing is, the offshore business has net debt of $80 million, which I mentioned. That $80 million works out to Rs. 600 Crores today, which is Rs. 40 a share. Both those put together are Rs. 160 per share, okay? If the offshore business is entirely written-off, which means the assets are worthless, including the contracts, if all of it is worth 0, Great Eastern Shipping value of the NAV drops by Rs. 160 per share. This is assuming everything is worthless; four jack-up rigs built between 2009 and 2015 are worthless; 19 supply vessels built between 2008 and 2015 are worthless. Even assuming that our NAV still comes to Rs. 300 per share, okay.

Just to put it in perspective, because when we talk of this drag on the results, we have to put it into context, what is this drag on the results. And when you put it at that Rs. 300 per share. So we need to put that also in perspective. Look at the strength of the shipping business, look at the strength of the management of shipping business. As it stands, take the worst case for the offshore business and then see whether this valuation fear is overblown or it's being priced too much into the stock. I am not giving you advice on the stock, but because you mentioned that this might be overhanging fear, I thought we should mention what the numbers are like just to put them in perspective.

Raja Kumar: Yes. But Shiv, this discount to the actual value because shipping, I mean, the ships are as good as the cash. I mean it's really perplexing that why the market is giving such a kind of a discount. I mean we are getting the market valuation which is worse than a holding company discount.

G. Shivakumar: So what we will actually do actually for that to get better handle on that is to have a reverse conference call where we can ask questions and the people who do the valuations can answer the questions, but that's a discussion for a different date. So let's focus now on Great Eastern Shipping and what's happening with Great Eastern Shipping Company. Thank you for the question which you raised.

Raja Kumar: If you could please answer the question on TCY as well, Shiv?

G. Shivakumar: Okay. The TCY, we don't like giving it out on a very specific category basis. And we think that it's enough to do it sector-wise, which is crude, Products and dry bulk

Raja Kumar: But Shiv, please understand. This information is too little for an investor to understand how it's going, at least the revenue visibility whatever you have talked, if that you could give, because that is something which you have already said.

Bharat Sheth: It doesn't take a rocket scientist for any investor to understand that you have got a market cap less than cash. Now what more information? You said, if we give further breakup it helps an investor, right?

Raja Kumar: Yes.

Bharat Sheth: But in what way? Because look at it this. No investor is a rocket scientist who needs to understand that you have got a company that's valued less than cash. I mean, how is it going to help anyone else?

Moderator: Thank you. We move to the next question from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: Just looking at your presentation, I mean, you can just answer separately, but can you help me bridge the gross debt number between the normalized numbers that you have calculated and the reported numbers, there is some Rs. 750-odd crore gap?

G. Shivakumar: So let me just give you an example, and from this you can extrapolate. So we borrowed Rs. 2,000 crores. It was swapped into dollar debt, $300 million debt, very approximately. Okay, fine? So on that $300 million debt today at Rs. 75, let's call it, it is Rs. 2,250 crore, correct? Rs. 75 into $300 million is Rs. 2,250 crores. You are with me so far?

Vaibhav Badjatya: Yes.

G. Shivakumar: On our books, this debt shows as Rs. 2,000 crores. But our effective debt which unfortunately the standards say that Rs. 2,000 crores is a debt and the remaining is mark-to-market and therefore a current liability, the effective debt is Rs. 2,250 crores in this example. Therefore, we, in the normalized, we take the debt as Rs. 2,250 crores. Similarly, for other transactions as well. Okay. So that bit is clear, right?

Vaibhav Badjatya: Yes. That bit is clear. But actually, in essence if you look at, you have already kind of because you have swapped that thing, your effective liability is still the same.

G. Shivakumar: It's Rs. 2,250 crores. In dollar terms, it's the same but in rupee terms it's Rs. 2,250 crore. Let us take it that way, if we had to pay it off today, Rs. 2,250 crores, and that's why it's normalized to show the clearer picture. So we are not just taking the normalized impact on our P&L, but also effectively on the balance sheet.

Vaibhav Badjatya: Okay. Got it. I will actually take it separately.

G. Shivakumar: Yes. We are happy to discuss.

Bharat Sheth: And Shiv, maybe you can explain it offline in more detail, so that the gentleman understands it.

G. Shivakumar: We will put up some FAQs on the website also.

Moderator: Thank you very much, sir. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Bharat Sheth: Well, just to thank all the participants for all the questions. I hope our endeavor always is to explain not only the results of the quarter because quarterly results have some value, but not a great value. Much more important is for you to focus and understand on what we are trying to achieve as a management team, and what are the areas where we want to get better and better, because eventually that is what I believe will reward the shareholders in the longer term. Once again, thank all the participants. Stay safe; that is priority number one. And look forward to interacting with you when we do the quarter two results. Thank you.

G. Shivakumar: If I may, just one thing. And thank you to Raja Kumar for bringing it up. He's absolutely right, our crew on board, our ships are doing a stellar job in difficult circumstances where they haven't been able to go home for quite some time. And we would also like to place on record our thanks and gratitude for their service in keeping the supply lines all over the world open.

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