Great Eastern Shipping Company Ltd.
Investors/Earnings Conference Call
(October 24, 2008)

Moderator: Good evening Ladies and Gentlemen. Thank you for standing by. Welcome you to the GE Shipping earnings call on declaration of its unaudited financial results for the 2nd Quarter ended September 30th 2008. At this moment all participants are in the listen-only mode. Later we will conduct a question and answer session. At that time if you have a question please press * and 1. I now handover the conference to Ms. Anjali Kumar, Head of Corporate Communication at the Great Easter Shipping Company Ltd to start the proceedings. Over to you Ms. Kumar.

Anjali Kumar: Good evening everybody. On behalf of GE Shipping I welcome you all to the earnings call of Q2FY2009. On this very difficult day we hope our results have given you one small bright spot of the day. Today we have with us our Deputy Chairman and Managing Director Mr. Bharat Sheth and our new CFO Mr. G. Shivakumar. Mr. Shivakumar has been with us for a number of years, in various managerial capacities and has recently taken over our CFO. Mr. Shivakumar will give us a brief financial snapshot of the Q2 results. After which we will have a Q&A session. Over to you sir.

G.Shivakumar: Good evening everybody. And welcome to the review of the Company's most profitable quarter ever. The world economy and the market turmoil of the last two months came a little late to affect our quarter's results. And therefore we have posted the highest ever profits in our history. This is also a confluence of some factors, first of all the highest spot exposure which was a result of a conscious strategy adopted by us from early this year. And this at a time of strong markets helped us to post much higher earnings. And you will see that from the press release where the average TCYs were much higher than the corresponding quarter in the previous year. Also there were much fewer drydocks though there were three vessels which were laid up, they were short because they were short because they were modern vessels and the expenditure on those were very minimal. And therefore there was a big reduction in the drydock expenses as compared to the corresponding quarter of the previous year. And something that I would like to point out is that the effect of the higher spot market exposure shows the disproportionate impact that higher spot exposure can have on a company's results. And the way that it has, and you see the impact in that we have 10% to 12% less operating days than in the previous year, but much higher revenue in the corresponding quarter of the previous year.

The total income was up about 31% despite the drop in revenue days. And off course you have the broad earnings of all the various categories of vessels, all of which were better than last year. And when you come down to cost, I have already mentioned that drydock cost were lower. Routine expenses, running expenses were more or less the same in Rupee terms, though on a cost per day basis they were higher by about 12% to 13% because the operating days were actually lower by about 12%. The profit before interest depreciation and tax was up about a 100% from Rs.318 crs to almost Rs.650 crs. The interest was slightly higher than the previous quarter, and the depreciation was a little lower because of sale of various ships over the last year. And finally the reported net profit for the quarter was up about 48% all these off course you can see from the press release on the results and the detailed results.

One thing that I would like to take you through and explain with regard to this quarter's results is significant change in the accounting treatment, which you will see by way of a note to our accounts. Note #1, up to the previous quarter that is Q1FY2008/2009 for the 5 quarters up to the previous quarter, we have accounted for revaluation of foreign currency loans, under Accounting Standard 11 which states that the effect of reevaluation of foreign currency loans has to be taken to the profit and loss account. With effect from 1st April, 2008, we had decided to adopt the principles of Accounting Standard 30 which is on measurement and accounting for financial instruments, and as part of that we have adopted the hedge accounting methodology for our foreign currency loan liabilities. The way it works is this, going back to basics, the reason why we take foreign currency loans for our acquisitions is because our earnings are predominately in foreign currency denominated or paid mainly in the US Dollar, and that is why we mainly borrow in foreign currencies, because it gives us a natural hedge. And while adopting Accounting Standard 30 with regards to the treatment of these we are only formalizing the accounting treatment of what is a natural commercial decision. And as a result of this treatment the gain or loss on revaluation of the foreign currency loan liabilities goes into a hedging reserve account rather than into the P&L account. This finally translates when it crystallizes, i.e. when the payment is made against the foreign currency loan liability that payment the difference between that and the original rate is taken into the P&L account. What this does is, that it only recognizes a profit or loss when it is actually in the P&L account when it is actually crystallized and up to then it only goes into the reserve. So that is the significant difference between the accounting treatment of the previous quarter and this quarter. And I believe it should be understood in order to better understand our results. I will now throw the floor open for questions. And Mr. Sheth will be happy to take your questions and answers.

Moderator: Thank you sir. Ladies and gentleman we will now begin the question and answer session. If you have question please press * and 1 on your pushbutton phone and wait your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the # key. We have a first question from Mr. Nikunj Doshi of Envision Capital. Please proceed sir.

Nikunj Doshi: Yeah good evenings and congrats on the good results. Just wanted to understand the current scenario and how do you see the future ahead.

Bharat Sheth: The first thing is, I think nobody can see the future because everybody is in a state of shock.

Nikunj Doshi: Yeah.

Bharat Sheth: The current scenario I do not think I need to elaborate much on because obviously very foggy and very uncertain. We are clearly seeing the effects of the financial crisis impact on the real economy, percolating into a much slower demand for commodities, much lower trade flows, and as a consequence it is putting pressure on freight earnings. The scenario is a lot more painful as far as the drybulk is concerned, but a little less on the tanker segment, but I think overall in both aspects of bulk shipping there is a significant impairment on earnings.

Nikunj Doshi: And in the sense for the new capacity additions and all that, again in this kind of scenario that would also not happen, as I believe. So do you see that as a helping factor in say next few quarters.

Bharat Sheth: I think it will eventually depend on trade, on demand, because I think partly what you say is correct there will be a slowdown in delivery due to the financial crisis, shipyards not being able to meet commitments to ship owners, on the buyers side not being able to make the payments etc. that is going to lead to a big mess, but eventually until demand picks up I fear that it is all going to look a little uncertain.

Moderator: Thank you Mr. Doshi for your questions. We have a next question from Mr. Parag Gupta of Morgan Stanley.

Parag Gupta: Okay I just had a couple of questions, I think most importantly, could you tell us what do you think would be the impact on tanker rates going forward given that the OPEC is looking at cutting supply to maintain prices, so that is my first question. Secondly, how do you see all this percolating down on asset prices, we have seen bulk asset prices coming off, are we also going to see similar declines in tanker asset prices. Thirdly could you just help us with your net asset value at the end of September with the breakup into tankers, bulkers and your net debt.

Bharat Sheth: Sure, I will answer your first question, which was on the OPEC supply cut. They have announced a 1.5 million barrels a day cut in supply effective December, which is going to have a negative impact on tanker earnings going forward, but you cannot take this in isolation because tanker earnings will also be impacted by what kind of winter demand we see coming up as well as typical logistical distruption during winter months due to the port delays, particular so in the Atlantic and the Black Sea areas. As far as asset values are concerned there has been correction both for tankers as well as drybulk much more pronounced in drybulk, a little less so in tankers, but the truth is that really there are no transactions that have really taken place, really in the month of October to really give any kind of an accurate guidance as you know what is the extent of correction, really there are no buyers at the moment. And at the same time there are very few willing sellers, because clearly it is too early for the sellers to accept such a sharp correction in values and many of them are simply holding onto their assets and trading them the best they can. I think there will always be some market participants who are exceptionally leveraged and they may come and have to dump certain assets, but we have not seen that yet, but all in all the asset values are clearly softened. As far as our net asset value is concerned as of 30th September 2008, it is Rs.601 a share, but I will add a caveat, obviously as I said post 30th September to date there has been theoretically a very sharp correction in asset values. What that is, is we are in a bit of a vacuum because there has been no transaction. So I would not like to give a number you know unless I can back it with an empirical data. And I hope that some of this settles down by the end of December and therefore when we meet again on a conference call like this sometimes in the 3rd week of January we will be in a better position to discuss the net asset value.

Parag Gupta: Great, and could you tell us how much is your net debt per share.

Bharat Sheth: The gross debt is about Rs.2700 crs and against that we have got cash of Rs.1800 crs. So the net debt is approx Rs.915 crs shares. So whatever that mathematics is, it is Rs.60 a share.

Moderator: Thank you Mr. Gupta for your questions. We have our next question from Mr. Anish of ABN Amro. Please proceed sir.

Anish: Very basic questions, I think we got some explanation regarding the top-line, but you have got the benefit of the higher spot. What is the time spot mix now and we are now going into 3Q would that exposure obviously then hit you all even more.

Bharat Sheth: Yeah, the spot exposure is approximately 60%.

Anish: This is for tankers.

Bharat Sheth: For drybulk the coverage is about 46% and for tankers it is about 42%, if you want precise numbers. We will have lower average earnings on spot compared to Quarter 2 more so in drybulk, in fact significantly so in drybulk and a little less in tankers.

Anish: Regarding the market outlook, what is your sense on the drybulk market and rates like this, are we close to breakeven which should give us support or are we still a little far away from breakeven which could mean further downside to drybulk freight rates.

Bharat Sheth: I think in certain asset classes like capesize, owners are now earning not much more than operating expenses per day. And you know that probably will signal the bottom of the market. We understand that many owners have just decided they will not participate in any further trades. They are keeping their vessels waiting rather than pick up a cargo at these low numbers, because they do not want to take the risk of trading on the cargo when you have got problems even on sub-leading on receivers on shippers etc. And owners, therefore, are preferring to just sit in the water rather than move their ships around. So we understand for example on the capesize there are about 60 capes varying of Australia and Brazil. Having said that you know it is most improbable that there would be no trade in the world. Currently depending on principles trade flows we are seeing on 90% drop in volume. And I think that can go on for a certain period of time until inventories come down to critical level, but it obviously cannot go on and on, it is obvious.

Anish: **H**ow much of this decline do you think is because of credit squeeze on the trade finance rather than actual you know decline in maybe steel production etc. how much of it is the finance sector and how much of it would be really the real economy, any idea any thoughts.

Bharat Sheth: I think it is impossible to put our percentage on how much is trade finance and how much is real demand but at the end of the day because trade cannot be financed any longer or it is very difficult to finance fresh trade obviously it is impacting everything. And on the drybulk as we know one of the fundamental drivers has been the demand iron ore and coal into China, I think we have said before on other conference-calls that 90% of incremental demand on drybulk really emanated out of demand in China. And we are just seeing a complete evaporation of that trade.

Anish: Just coming to your other income it has jumped up significantly in the 2nd Quarter, so could we get some breakup on that.

Bharat Sheth: Yeah partly it is due to the fact that we are holding Dollar balances in London and both get revalued as the closing exchange rate of Quarter 1 and the closing exchange rate of Quarter 2. And the second is, the fact that we sold some investments which we had as you know in Business Standard at a profitable level.

Anish: Would it be possible to get a number on that or…

Bharat Sheth: I think we need to take a buyers permission.

Anish: Okay fair enough.

Anish: Yeah I got my questions on NAV, but just on the drydock, how much was the cost and how many lay up days were there in this quarter.

Bharat Sheth: There was a very little lay up days in Quarter 2, we had 3 lay ups as the CFO pointed out there were just inwater lay ups predominately. So each ship had maybe 5 to 7 days. And the total expenditure was just over Rs.7 crs. But there will be much more in Quarter 3 and Quarter 4 so what we did consciously was because the market was so very strong we decided to defer lay ups into weaker markets and therefore from an earnings point of view that was a right strategic decision.

Anish: Right. And these are standalone numbers, could we get some update on Greatship, what are the numbers for the first half.

Bharat Sheth: As we said we have not informed the exchange on any of the consolidated numbers, but all I can say is that they are profitable.

Anish: Okay, what is the outlook regarding rig rates and offshore support vessels. Is the market holding in that side of the business.

Bharat Sheth: What we are seeing is that the rig rates are probably slightly softer compared to the all time peak we saw in 2006/2007, but if you look at the rest of the world around us, I think they are holding still at profitable levels. And on the boats we are seeing or we have seen prior this major collapse in the price of oil very firm numbers, and there continues to be inquiries from modern boats whether they are anchor handlers or platform supply vessels, how that will pan out in time to come I do not have an answer.

Moderator: We have our next question from Mr. Pinaki of Tradewinds.

Pinaki: Good evening Mr. Sheth and amidst the gloom and darkness in the market the company seems to have done well, congratulations for it. Sir just one question regarding the drybulk market, as you rightly pointed out that there has been no incremental demands from China so far in the past 2 months, do you think that this situation will continue in this quarter, in the Quarter 3.

Bharat Sheth: Yes I do not think that I see much of an improvement in Quarter 3 for certain. Quarter 4 is difficult to tell, but from what we understand that a lot of a Chinese steel mills have cut production pretty aggressively, there are a lot of, so there is surplus steel in China at the moment. And so long as that position does not correct we do not see how the demand for raw materials can kick start.

Pinaki: No incidentally we have seen an agreement being signed between Vale and Tata Steel, with Corus, do you think that this is going to change the scenario in the way, I do not know if prices might come back, bounce back.

Bharat Sheth: No we think it is, at the moment what we are hearing is that the Chinese are asking for a 30% correction in the prices of iron ore for last year's contracts, what they will ask for 2009 for the new contracts we do not know, but again a lot of this is hear say, but clearly the buyers of iron ore after many years has a strong upper hand.

Pinaki: So it has been a buyers market now.

Bharat Sheth: It is very clearly a buyers market, because there are no buyers.

Pinaki: Sir but do you think that this falling iron ore trade might affect the freight rates of dry bulk in this current 3rd quarter or this in any case affect your earnings too.

Bharat Sheth: For sure it will.

Pinaki: To what extent, can you clear that.

Bharat Sheth: Well it is difficult to say that because nobody knows in a spot market what the actual earnings will be, but you know there is a complete collapse in the trade of iron ore as well as coal. And that is going to have a negative earnings impact on those vessels in the spot markets.

Pinaki: Do you have any exact figure for that or you do not want to do it.

Bharat Sheth: Because we do not know what those earnings will be, it is impossible to tell.

Pinaki: Significantly you also have 4 product tankers to deliver next year, I believe. Do you think that in the next 1 year or so will there be some upper movement in the product tankers market charter rates. Yeah they are stable still, but do you think that this is going to move forward.

Bharat Sheth: I think at best they will remain stable, because there is a lot of new refining capacity coming up in 2009, which may add to the ton-mile demand, but at the end of the day you need demand, right.

Pinaki: Yeah exactly.

Bharat Sheth: So we have got to see how the demand pans out across the world.

Pinaki: But you are still firm that those 4 new product tankers will have good earnings in the next 1 year.

Bharat Sheth: I do not, again as I said, everything hinges on demand. What the demand will need for petroleum products going into calendar 2009, it will depend on the severity of the recession. And you know on how deep it is, how long it is prolonged etc.

Pinaki: No, like the announcement you have made quite a vital comment, that you might see some of the yards sweeping in their deliveries. So is Great Eastern apprehending any such happening to its, new deliveries scheduled in the couple of years.

Bharat Sheth: There will be a lot of slowdown in deliveries and there will be cancellations as well, but to what extent it will all pan out nobody knows, there is all kinds of speculations.

Pinaki: Is it going to affect your company also.

Bharat Sheth: You mean in general or specific…

Pinaki: Specific to your company because you have significant number of deliveries in the next couple of years signed up for …

Bharat Sheth: No because at the moment there is no indication that any of our assets are likely to get, beyond the normal delays which is you know 2 to 3 weeks.

Pinaki: But I am assuming, any significant delays for about 6 months or 7 months or beyond that.

Bharat Sheth: No because most of our investments are in very well established and reputable year so we do not see that happening.

Pinaki: Sir even in the last quarter you had contracted to sell 2 product tankers of yours, veteran tankers, do you think that you are planning to sell the 3 others similar in the next quarter also.

Bharat Sheth: There are no buyers.

Pinaki: That means we are going to hold them out for the next 1 year.

Bharat Sheth: For as long as I need to, because if there is a buyer we will reconsider it, but as we speak there is no buyer.

Pinaki: Sir regarding your offshore development you have had a very significant development in last month when you had and origin on joint venture coming up. What exactly do you plan to do with that, we have heard about forming a pool of vessels, how many vessels do you plan for that.

Bharat Sheth: It is a little premature we have just about kick started a joint venture announcement, we are still in the process of taking some people and working on a business plan. So as and when it is ready and available, we will communicate it.

Pinaki: No despite the sharp drop in crude oil prices do you think that E&P activities will still remain firm in the subcontinent.

Bharat Sheth: I think there will be some slowdown in E&P activities, but at the end of the day a lot of the E&P activities are conducted by national oil companies and energy security will I think always remain a high priority for a lot of developing economies because they have also see, just as you are seeing oil today at $65, we have also seen it as $150. So there will be some marginal players who will obviously want to slowdown on E&P activities but the national oil companies I think by and large will continue in their endeavors to enhance energy securities for the respective countries. And that will lead to a certain amount of demand for oil and gas assets.

Pinaki: So your joint venture would be, from looking at the national oil companies as in the private E&P players.

Bharat Sheth: We will look at wherever we think we are getting good remuneration of business.

Pinaki: So does it really make sense in this gloomy atmosphere to go out with your, I mean proceed ahead with your joint venture plan or do you have any…

Bharat Sheth: No because this will be basis, some of the assets that we will own, so this is not like going out and acquiring new assets. So it is finding optimal deployment for the current assets that we have got in new building order book.

Pinaki: So this joint venture would not be acquiring any additional assets for itself.

Bharat Sheth: Unlikely.

Moderator: Thank you Mr. Pinaki for the questions. We have our next question from Ms. Chawla of Enam Securities. Please proceed ma'am.

Surbhi Chawla: Sir just wanted to know how much of the benefit or the revenue growth would have been because of the Rupee depreciation.

Bharat Sheth: An exact breakup I would not have, but at the top-line, it could be about 7%.

G. Shivakumar: Yeah.

Surbhi Chawla: 7% year-on-year…

G. Shivakumar: The average rate for the previous quarter, the comparable quarter and this quarter would have been about 7%, or been at differential about 7%.

Surbhi Chawla: I was basically getting into like on a year-on-year basis we have shown a sales growth of 44%. So on Dollar basis how much growth would have been.

Bharat Sheth: On just Dollar-Dollar.

Surbhi Chawla: Yeah just Dollar-Dollar.

Bharat Sheth: So I think that will give you an indication because in each of our principle asset classes earnings have gone up from between 20% to about 70% and that is just a Dollar for Dollar.

Surbhi Chawla: Okay, and sir you said that there are expected to be delays or deferments in the deliveries of the vessels, because the credit crunch also there have been that, so do we look at any of our CAPEX plans being altered both in the parent and the offshore subsidiaries.

Bharat Sheth: No because we are already committed to all those contracts. And we have advanced money towards fulfillment of this contract. So we do not think so.

Surbhi Chawla: Okay, and sir if I am not mistaken, this quarter we were supposed to add 2 vessels, have we done that.

Bharat Sheth: In Quarter 2.

Surbhi Chawla: Yeah LR1 vessel.

Bharat Sheth: No that is being delivered to us, 1 is being delivered in November in another couple of weeks time. And the other one is within the quarter, I think it is going to be early December.

Surbhi Chawla: Okay. And the rig that is expected in April 2009 has that already been contracted.

Bharat Sheth: That is in the process of being contracted, it has not yet been fully contracted.

Surbhi Chawla: Okay and are we looking at Indian Ocean or somewhere else.

Bharat Sheth: We are looking to predominantly in India.

Surbhi Chawla: Okay. And sir you said that the current spot exposure is around 60% that we have, do we still see that going ahead or are we going to alter that.

Bharat Sheth: Well we would like to alter it, but there are very few people to take vessels at the moment on longer term cover. So whilst we are making endeavor to try and see how best to plaque out some of these assets it is very difficult to transact today.

Moderator: Thank you Ms. Chawla for your questions. We have a next question from Mr. **Avinash** of IL&FS Investmart. Please proceed sir.

Avinash: I have two questions, the first is do we have cover on freight forward contracts, do we work actively on that side. And second is, the follow up question taking it forward on the spot and the long-term charter contracts what is the thought process of the management going forward, because are we getting any clues from the differential rates what we get on a vessel on spot contracts as well as on time charter, is that giving any indication as to what the purchaser of the contract wants, where the market is moving to.

Bharat Sheth: Let me first answer, as far as the freight future is concerned, we have not done anything from Mumbai, but we have a subsidiary from where we have traded in FFA. We have closed all those positions, so currently we do not have any open position. As far as charters are concerned, on tankers we have not seen anybody really charter anything for much beyond 6 months to 12 months, but even there, there is very, very little activity. As far as drybulk is concerned one is again completely in a vacuum, very, very little chartering has been done. And currently our thinking is not to just charter at such a low point of the cycle, because it means committing assets at a dismally low rate plus we have to be a little concerned on you know the counterparty and the credit worthiness of the signature and one has to do a lot more diligence on who the counterparty should be in future.

Avinash: Okay just for understanding, since right now the inquiries on the time charters are not there, it is in vacuum, it is understood, but can something be reduced from the differential rates in the spot and the time charters as where is the market heading exactly.

Bharat Sheth: Well if you take the time charters on the drybulk they are at a very marginal premium to where the spot rates are. So it is in contagion but it is very marginal.

Avinash: Okay there is a premium which is marginal.

Bharat Sheth: Yeah the premium is very marginal.

Avinash: And on the tanker side.

Bharat Sheth: On the tanker side again if it is up to a duration of about 6 to 9 months, it is broadly in line where the spot market is but if you take it, if you go for a longer duration i.e. up to 2 years or 3 years, then it is in backwardation.

Avinash: It is still at a discount.

Bharat Sheth: It is at a discount to, which typically happens in average to strong market, it is only in times of exceptional weakness that you find the forward rates….

Avinash: Premium coming into play.

Bharat Sheth: Yes, the premium, we did see it in drybulk in terms of exceptional strength but that was for a very, very short period of time, I am giving you a general rule of thumb.

Moderator: Thank you Mr. Avinash for your questions. We have a next question from Jankiraman from Franklin. Please proceed.

Jankiraman: Mr. Sheth, in such weak conditions would you be looking at buying assets.

Bharat Sheth: What we would like to see is where the dust settles. And at this stage we do not know where and at what level the dust will settle. So what we will probably start doing is keeping our ears open and seeing what are the opportunities available, but I cannot necessarily say we would go out and buy tomorrow morning.

Jankiraman: And as and when the dust settles, do you think your balance sheet gives you the strength to go out and buy assets.

Bharat Sheth: At the moment our net leverage is not much more than 10% of where the balance sheet is, so I think the answer to that is yes it does.

Moderator: We have a next question from Mr. Nikhil of IDFC. Please proceed sir.

Nikhil: Hi just couple of things, firstly as you have talked about the market if long-term chartered are tough to get in such an environment and I am presuming the spot trades are as attractive, what really can be a strategy at least for the next 6 months to 12 months.

Bharat Sheth: Well I think you cannot have a strategy in a market which is in a vacuum. You know you just have to hope that things change around, the only thing is you keep trying to see how best to deploy the vessels in the spot market because we have seen in shipping things can turn around you know just as it has fallen off the cliff in the last 4 to 5 weeks we have seen you know a similar boom and bust condition and things can turnaround very quickly. So the last thing you want to do is fix your vessels at what must be you know pretty closed to the bottom of the cycle and then go and fix it for 2 years or 3 years or whatever it is.

Nikhil: Okay.

Bharat Sheth: Because then of course you have lost every upside that could be. So the only thing we can do now is you know run the vessels in the spot market the best we can.

Nikhil: Okay. And then on the offshore built up that we have seen till now what is the risk of not being able to get commitments from buyers on the offshore assets in terms of incremental deployment that one is looking at from here on to the next 1 year, given that offshore would have a slightly longer time frame.

Bharat Sheth: Yeah at the moment we have got whatever assets which are coming at least for the next 6 months we are working on this number of customers to try and deploy them for periods between 2 and 3 years. And I will be in a better position to answer this in a couple of months because many of the stock which are in the fire could culminate into transaction, but as we speak I cannot say that yes it definitely will, because buyers of you know freight are changing their minds by the minute. So I am not in a position to answer it, but we believe that if we look at where the stock market is for many of these assets it is particularly strong. And therefore we have reasons to believe that many of our transactions will culminate, but we hope to be able to be in a position to give greater visibility, I would say sometimes in December.

Nikhil: Okay and for the offshore asset build up, is there a possibility of price renegotiations on certain assets that we have already committed up with.

Bharat Sheth: We do not think so no.

Nikhil: Okay. This, I just came slightly later, I have not really seen the numbers in full blow, but is there any external or exceptional items which are impacting our current quarter’s profitability materially.

Bharat Sheth: No significantly as I think one of the earlier queries said on the other income we had a jump of some Rs.60 to Rs.70 crs. As I explained partly it was due to the fact that our Dollar balances abroad get revalued and with the depreciation in the Rupee we have obviously gained on that. And the other was, we made some profits on the sale of our investment in Business Standard.

Nikhil: Okay, just lastly, there is a near 100% increase in operating expenses. So can you just elaborate on that.

Bharat Sheth: In what ….

Nikhil: In operating expenses for the quarter.

Bharat Sheth: You mean direct operating expenses.

Nikhil: Yeah.

Bharat Sheth: Yeah they have increased in the direct operating expenses, the fact that we have many more vessels on voyage charter, and therefore we tend to, if you do more voyage charter then you bear the burden of fuel and port charges and all kind of costs come onto us. So that is really the reason, and of course it has also to do with the fact that the bunker prices, the average bunker prices in Quarter 2 was significantly higher than the average bunker prices year-on-year.

Moderator: Thank you Mr. Nikhil for your questions. We have a next question from Mr. Paresh of Birla Sun Life Mutual Fund, please proceed sir.

Paresh: I have one question in my mind that is related to the breakeven cost that could be there for us actually. In relations to the different segments that we have as we have already discussed that many segments now might actually be near their breakeven rates, I mean so can you kind of give me some kind of ballpark number as to what could be the breakeven cost for tanker segment, drybulk and product.

Bharat Sheth: I will tell you, we would not get into specific breakeven numbers because you know that is a little confidential in nature.

Paresh: No issues.

Bharat Sheth: But as far as the tankers are concerned both crude and products the earnings are well above the breakeven. As far as drybulk is concerned in certain asset classes the earnings are about breakeven and in couple of our assets the earnings are probably now beginning to go below breakeven. If you take our stack of assets which is what 41 or I would say that maybe in 2 or 3 of the 41 assets we are earning levels below breakeven.

Paresh: Just wanted to understand the reason why we would like to earn below the breakeven when in such a scenario, is it because of the fact that they are on, I mean the lay-up cost is also pretty high and that is why the differential is probably less costly.

Bharat Sheth: No first of all it is not that we would, you know the market is at the moment as you know on the drybulk side is in you know fairly negative sentiments. And therefore and at the end of the day we have to take the best freight we can get to keep the ship churning, because of the ship does not earn then they earn zero, if they do not run, right. So we try and do it to earn the best we possibly can. And I think in some of those ship depending on when we bought them and what would be in the drydocking cost in a particular year some of our ships have a higher breakeven than what we would be earning today in the spot market.

Paresh: Okay, but would not the recent fall in the crude prices also might have had some effect on the bunker prices.

Bharat Sheth: Yeah but that does not come in the breakeven, breakeven is a standing expenses, the fixed overheads kind of thing which includes interest, depreciation, crude cost etc. The bunker goes under direct operating cost.

Paresh: But when we run the vessels on spot market and the way I got to understand it was that spot market we will have to spend the money for bunker cost also. So that is why I was just wondering the total OPECs how are we placed in that sense, given the fact that bunker prices might have gone down over the last one month.

Bharat Sheth: Yes, so what at all it means is that the cost of taking a ship from A to B is now much lower whether it is on our account or whether it is on the customer’s account. And therefore means that the freight rates have comes down.

Moderator: Thank you Mr. Paresh for your questions. We have our next question from Mr. Parag Gupta of Morgan Stanley, please proceed sir.

Parag Gupta: Could you please tell us you know given the current frozen credit markets are you facing any risks in getting loans to fund your CAPEX going forward. And if and you know otherwise you know could you just help us a bit on what is the cost of debt that you are seeing right now. Secondly, could you also just tell us what is your debt maturity profile into how much debt is payable into the next one year and how much is longer term debt. And thirdly, if you would help us with drydocking days for the balance half of the year and for fiscal 2010.

Bharat Sheth: Yes okay, I will request the CFO to answer the debt profile.

G. Shivakumar: Yeah we have, first I will come to the debt raising that we required to do. Out of the order books that we had, the vessels up to delivering to us up to end of 2009 are all funded the debt has been tied up. We do not need to tie up any debt up till the end of 2009 for any of the vessels that we have ordered. We have not gone into the market recently for any debt raising and therefore we do not have the price indication for what we could get in the current market, we do not believe it make sense to go into the market at this stage, especially since we do not need to. There is financing available for shipping so is that a slightly higher cost, that this is what we have heard, a tariff finance available for shipping though at a slightly higher cost, all good names, if funding is available at a slightly higher cost. With regards to the repayments the debt that we borrow is as per the RBI’s guidelines for external commercial borrowing, typically has an average life of 5 years with the door to door of between 8 and 10 years. The average maturity profile on average life basis is under 4 year for half between 3.5 and 4 years that is on average life and most of these are equal amortizing loans. So it is more or less evenly spread out over the next 3 to 4 years, you could say, repayments over the, as I said it is more or less evenly spread out so we do not need to get into details of individual years repayments.

Parag Gupta: Yeah great. And could you help us with drydocking days for second half and for fiscal 2010.

Bharat Sheth: Yeah I have it here for the second half and that is, could you give me a second that we have got drydocking days --- 200 days in Quarter 3 as opposed to a 100 odd days in Quarter 2 and another 220 or 230 days in Quarter 4. So for the rest of the year let us call it for 4450.

Moderator: Thank you Mr. Gupta for your question. We have our next question from Mr. Vinod from Tantallon, please proceed sir.

Vinod: Yeah hi, I have three questions one is to clarify if our cash cost are covered by your charter rate.

Bharat Sheth: You mean on the spot market ?

Vinod: Yeah on the spot market.

Bharat Sheth: On the spot market the cash costs are covered by whatever we are earning. That is about the cash cost if you are talking about including let say as a cash cost if you would factor in interest and depreciation, interest and capital repayment then, if you take you know all the crew cost etc and then you add to that interest and the capital repayment against specific assets then I would say that in a couple of our assets out of 41 assets that we own we have probably 3 assets where the current spot market is below the cash recovery but then you have other assets where it is significantly higher then.

Vinod: So maybe my question is more, the you say some operators do not want to operate their ships, and you gave an explanation earlier but I did not fully understand why some operators would keep their cape size on a standstill.

Bharat Sheth: Well I think there are some owners because let us take the cape for an an example, my suspicion is of course depending on when one would have bought the cape but assuming that one about the case in the last 2 to 3 years that cash cost would be the region of somewhere between $20,000 to $25,000 a day, real cash cost.

Vinod: But that is right, that is without depreciation or …

Bharat Sheth: Yeah that just the crewing cost, the repairs, the spares, the stores, the insurance etc to that you add some kind of amortization in terms of interest and repayments to the bank. And in that case I would say the average cash cost on a cape size bulk carrier would be somewhere in the region of somewhere between $20,000 to $25,000 a day assuming you did not buy your assets at the peak of the market, yeah I am just taking and average. Now against that the case currently in the spot market are running 9000, 8000 depending on where they are.

Vinod: Okay just to clarify last question, the amortization is not included in cash cost, the interest is not included in the 20 to 25.

Bharat Sheth: The interest is.

Vinod: Okay the interest is, the last question is about the demand you said volume have dropped 90% …

Bharat Sheth: In certain trade flows, if you take shipments out of Brazil for example, yeah that is kind of volume drop.

Vinod: Okay do not you think, I mean you mention my understanding, my feeling is it comes from demand from what you are saying, did you see it is coming mostly from this lot of credit issue which is very short term and also from the negotiation between Vale and the Chinese.

Bharat Sheth: I think that is correct in both of your prognosis, i.e. we hope that letter of credit issue is really short term and that bank against start trusting and are willing to discount yet us of credit on behalf of those who are opening those LC''s. And clearly there is a tend off between Vale and of the Chinese as I was telling one of the earlier query, that we understand that the Chinese are now talking about 30% reductions even for the 2008 contract with Vale, this is what we are hearing. But also I would say that there is clearly a slowdown as well in the demand for the raw materials. So while 70 some pickup let us assume that the Vale and the Chinese would agree say on Monday morning and shipments were to resume again. Clearly it means that there will be some marginal improvement but at the end of the day it depends on what is the extent of the demand emanating from China. And that is slowing down because the steel mills there have at an average if you take the smaller the medium size and the largest steel mills are now producing not more then 60% of what they were at peak, that is a huge reduction. And you know every one ton of steel translate into above 1.6 tons of raw material usage. So the multiplier impact then on the demand for raw materials is you know 160%.

Vinod: 1.6 tons is only for iron ore or for ….

Bharat Sheth: No that is including coal.

Vinod: That includes coal, okay.

Bharat Sheth: That includes coking coal, 1.6 tons is a combination of about 1.1 to 1.2 tons and last for 0.4 tons for the coal.

Vinod: That is much higher then if you look at the import of coal of China which is still positive I mean there is still some growth in import of coal in recent months. So are you referring to mostly iron ore, or any other commodity you are trading where you see a significant drop that may not be the negotiation or I mean it can be affected by the letter of credit but ….

Bharat Sheth: Predominantly iron ore, but we are seeing a big follow-up in the volume of steam coal as well. As you know a lot of the high intensive, you see two things that happen, one is obviously the price of crude has come down significantly. And therefore even if you take steam coal that was maybe trading at $200 FOB is now down to $95.

Vinod: That from where to where.

Bharat Sheth: From $200 to $95.

Vinod: And about where to where-

Bharat Sheth: I am just talking about the FOB price.

Vinod: Okay.

Bharat Sheth: FOB steam coal, right.

Vinod: Okay.

Bharat Sheth: Now and consequently what is happening is that a lot of the earlier concluded business is simply not being honored. And they have illustrate what is call a washout so the buyer of the commodity goes to the seller and says look I just cannot, I cannot perform. And therefore we will pay you say $35 a ton and washout with my obligation. And the sellers then says alright what is the point of going into dispute because that may take 5 years. So we would rather take in the $35 and washout the tray. So we are seeing that because even on contractual obligation many of the receivers are no longer honoring trade commitment, we are seeing a huge reduction in the volume of cargos.

Vinod: So that means intersecting also contract, not actually the spot market.

Bharat Sheth: Impacting the contract for sure.

Moderator: Thank you Mr. Vinod for your questions. We have our next question from Mr. Nikhil of IDFC, please proceed sir.

Nikhil: Just one more thing, our total committed CAPEX over the next couple of year is close to around $1.6 billion both for shipping and offshore.

Bharat Sheth: Over the next 3 years.

Nikhil: But if the freight markets remains as docile as we are looking at right now, I am presuming that the asset pricing market will also come off materially, do we at that point in time get potentially stuck with commitments at predetermined pricing vis-à-vis having a fairly strong aggressive liquid balance sheet and not being able to capitalize on a potential lower asset pricing market.

Bharat Sheth: Sorry, can you repeat your question.

Nikhil: Right now we are possibly among the most liquid asset company across shipping sector globally, you would have at least 15% to 20% of balance sheet on liquid assets. Whereby if the asset trading market cracks off we potentially are in a best position to you know do incremental asset build up. Having said that we still have contracted over $1.5 million over the next couple of years, thereby maybe our ability to buy incremental asset at as you been pricing cracks off might be fairly limited.

Bharat Sheth: It depends on you know of how much liquidity comes back into the system and I will tell you why. On our new building program, we typically fund 25% on Equity and we normally take 75% debt. Now assuming this debt is not available and therefore we have to move, let us say from 25% Equity to 40% Equity or even may be 50% Equity, then I think what you are saying is correct.

Nikhil: Okay.

Bharat Sheth: It will impair our ability to asset expand in weaker market, but you must then remember that the same money that you are sitting on today has greater purchasing power.

Nikhil: Right.

Bharat Sheth: So, it is all related. For example, let us say that the cash 3 months ago would have bought to in effect, you cash has in effect double in terms of purchasing power while you need less cash for the same amount of expansion. But, clearly the more Equity that we need to fund in order to complete our committed expansion, the greater will be impairment in our ability to expand and take advantage of cheaper prizes.

Moderator: Thank you Mr. Nikhil for your questions. We have our next question from Ms. Archana of DNA money. Please proceed now.

Archana: Because of this slowdown in the bulk segment globally, do we see our bulk ships waiting for contract for like 5 to 6 days or something as there is a kind of situation like that.

Bharat Sheth: Yes, it has.

Archana: What is the situation like? How many days?

Bharat Sheth: Well, it depends. Some ship, there are no days where we wait and some ships we have to wait. We obviously endeavor to try and minimize the waiting, but in the last 6 weeks, there had been on occasions when we have had to wait for cargos. The longest that we had waited till date is about 7 days.

Archana: Okay. Has it hurt our profit margins anyways?

Bharat Sheth: For sure it has.

Archana: In what tune that would be?

Bharat Sheth: Well, we do not know to what extent the Spot market remains where it is and for how long, but there is no denying that the average earnings on those vessels, which are in the spot market will be much lower than they were in the previous couple of quarters. Yeah much lower.

Archana: Much lower. Any figure as to what would that lower numbers be?

Bharat Sheth: Well, it is impossible to give a number because the spot market by definition is that we do not know what we are going to earn on the next fixture**.** So, it truly is impossible to give a number. If you take the average earnings, if you just take where the spot market was in quarter 2 on the dry bulk and if you take where the spot market is in quarter 3, I would say that probably the correction has been to the tune of somewhere between 70% to 90%.

Archana: That is pretty high.

Bharat Sheth: That is very high.

Archana: Okay. Just some time back when he had met for the last quarter results, we had spoken that the GE shipping as a strategy is putting more bulk ships on the spot market. So, is it hurting now?

Bharat Sheth: For sure it is hurting, yeah it is painful.

Archana: Sir, are we looking at any change in strategy to put back all of that into a term contract or do we wait for a better situation in the shipping market?

Bharat Sheth: I think we would have to wait because there is term business today and obviously we want to be very careful on the counterparty with whom we do business because they have to know we are seeing some of the biggest names in history going under?

Archana: Right.

Bharat Sheth: So, what credit risk and whose credit risk do you take now? This is becoming a very serious issue in the business and therefore you want to be additionally careful and some of our assets are old and therefore really there is no market for term business for them.

Archana: Okay. So, currently in the bulk side how much percentage of the ships are in spot and how much is on term charter?

Bharat Sheth: Approximately 40% is covered and just under 60% is spot.

Archana: Okay. But tanker business in contraction is doing better.

Bharat Sheth: It is relative word.

Archana: Okay. Alright. Thank you so much. I will get back if I have more questions.

Moderator: Thank you Ms. Archana for your questions. We have our next question from Mr. Sayed of Pinc Research. Please proceed sir.

Sayed: Sir, I just wanted to know a few questions like 40% is bulk carriers and the tankers on time charter? Would you just let us know like how many of your ships are presently covered like older contracts, which would extend up till this financial year?

Bharat Sheth: Yeah. 40% of our total revenue days are covered.

Sayed: Okay, so they are covered in this quarter or it has been covered since, because why I am asking this question is if it was covered by…

Bharat Sheth: No, I am talking about the balance of 2009, for the next 2 quarters.

Sayed: Okay, so 40% if time charter?

Bharat Sheth: I will tell you. In dry bulk, 46% of the balance days available in the next 2 quarters are covered.

Sayed: Okay.

Bharat Sheth: In tanker, of the balance days available for the next 2 quarters, 42% is covered. Say, if you add both together, it is just under 44% that is covered.

Sayed: No but were these contracts established well back in day rate quite firm or had they been renegotiated and the new contracts have been established at a relatively lower price.

Bharat Sheth: No these were all contracted when the day rate was significantly higher. We have not contracted anything recently because as I was telling one of the earlier participants, that on the dry bulk it can be too late to try and work on any sensible exit strategy and on tankers also we are seeing very very takers because there is huge risk aversion in the system at the moment.

Sayed: One more question like generally in this period in the last quarter and the next quarter, grain trade generally fixed up when there is lot of exports from US, so do we have some of our assets engaged in grain trade also?.

Bharat Sheth: We do have some assets in the grain trade, but trust me there is nothing moving even on the grain trade because I was telling again one of earlier participants' there no letters of credit percolating through in the trade, grain factors is that you now have also corrected downward significantly. There are no buyers.

Sayed: Okay, and one last question sir. Would you please repeat me the number of total dry docking days in quarter 2?

Bharat Sheth: In quarter 2? Yeah. It was approximately 140 days.

Sayed: Okay, so around 50 days, 3 vessels or 140 days?

Bharat Sheth: Yeah, but some of it was to do with roll over from quarter 1 to quarter 2. So, it is not against those 3 vessels.

Sayed: Okay. So there were some rollovers? Thank you, sir.

Moderator: Thank Mr. Sayed for your questions. We have the next question from Mr. Vinod of Tantallon**.** Please proceed, sir.

Vinod: You said that the cash cost would be $20,000 to $25,000 per day for a cape versus charted, but if you do not put your ship on spot, it will cost you anyway a few thousand a day.

Bharat Sheth: Yeah. But that is really your operating cost and your OPEX is today pretty close to $9000 as well.

Vinod: Your OPEX are close to $9000, you said.

Bharat Sheth: Your cash breakeven probably again as I said depending on an average price closer to $25000 a day.

Vinod: Yeah.

Bharat Sheth: Right and then you have got OPEX cost, which is your direct operating cost.

Vinod: Okay. I understood there was reverse I mean in my opinion that the manage that cash cost was the direct cost and then the rest was operating cost, the $20000 to $25000.

Bharat Sheth: No $20000 to $25000, what we call standing expenses, i.e., they are expenses that you incur whether the vessel is trading or not.

Vinod: So, how can it be high than the operating cost?

Bharat Sheth: No, the operating costs are the straight, like my bulker cost, when I say that I am earning $9000 a day, right?

Vinod: Yeah. It is including.

Bharat Sheth: It includes all my direct operating cost and things like that.

Vinod: Okay, so the crude, insurance all that.

Bharat Sheth: Everything is included.

Vinod: But not the bunker.

Bharat Sheth: The bunker is like direct operating expense.

Vinod: I am sorry because I am asking this question because other operators, which had conference call using different way, that the way they talk about cash cost is usually, the opening cost will be much high than the cash cost because they would include depreciation.

Bharat Sheth: No. That is why I asked you earlier, what it depends. I will tell you what we call cash cost. Yeah?

Vinod: Yeah.

Bharat Sheth: It is my standing expenses, which is my wages, my victualing, which is feeding the people on the ship; my insurance, my stores, my spares, and my running repairs. Yeah.

Vinod: Yeah.

Bharat Sheth: So, that gives me a certain cost. Okay. Let us call that A. Let us take that cost is today running at approximately, on a cape it will probably be around $8000 a day, between $8000 and 9000.

Vinod: Yeah.

Bharat Sheth: Then I have got my interest. I am assuming that a person is got, let us say, 50% leverage.

Vinod: Yeah.

Bharat Sheth: So, depending on what is the outstanding loan, there is an element of interest, which is cash out that he has to pay the bank. Right?

Vinod: Yeah.

Bharat Sheth: And then you have got item #3, which is the amortization of my loan.

Vinod: So, assuming that a person has bought a cape at $60mn and he has got a 10-year loan that $6mn what he is saying every year, let us take part leverage right. So, let us say that 60% leverage, $4 mn is what he is paying every year.

Vinod: Yeah.

Bharat Sheth: Okay. That is 18 and then you workup the interest depending on whether you want to take 6%, 7% whatever it is, right?

Vinod: Okay.

Bharat Sheth: So, today the owner when he gets $9000 a day time charter, what he is covering is the OPEX, which is item #A. So this is nothing to do with the fuel.

Vinod: Okay. Which is the breakeven I guess**.**

Bharat Sheth: Let us say that he carries the cargo from Brazil to China.

Vinod: Yeah.

Bharat Sheth: The gross rate is $12 to $13 a ton. Yeah.

Vinod: Yeah.

Bharat Sheth: So, depending on how much he carries, he gets a certain freight against that he then deducts his port expenses, his fuel expenses, and whatever other dues there might be, some incidental dues. Netting all that out, he now makes $9000 a day.

Vinod: Okay.

Bharat Sheth: I am saying the OPEX is covered; the financing cost is not covered.

Vinod: Okay. And that is only for free because that is much more bullish than what I have heard. I mean, there were rumors or there were some comments from Lloyd's saying that have had Panamax repositioning for free.

Bharat Sheth: I will tell you. There was 1 fixture of 1 ship and therefore it is wrong to say that is the market because we have a Panamax and trust me we are running significantly more than that. There was one art picture that was blown out of proportion or one Panamax that needed to go to Hong Kong for a particular positioning and therefore he jumped at what he got.

Vinod: So, the breakeven decision of putting your ship of signing a contract with someone will depend on whether you cover the OPEX first, that is the minimum.

Bharat Sheth: Absolutely that is correct and there are some owners who are saying that the risk of the trade itself right on the bill of lading, on the cargo, on damage to the ship, on wear and tears, if I am not going to earn much more than $9000, I do not need to, there are some owners with very very deep pockets and they say that what is my opportunity cost $9000 a day. So even if I keep my ship waiting for an entire 1 year, it is $4 million, it is nothing.

Vinod: Yeah, but at the same time, if you have landed, you still have some cost that you have to at port, your need some fuel, you need to see the crew.

Bharat Sheth: Absolutely correct and these are his overheads. So let us say that he is now incurring daily cost of $9000 a day, right?

Vinod: Yeah.

Bharat Sheth: Let us call it $10,000 for mathematics. If he does want to keep the ship waiting for an entire 1 year, he is now paid out $3.65 million.

Vinod: Yeah. That is how for everybody because some guys have leverage**.**

Bharat Sheth: Yeah. I am just saying, therefore not all owners can play this game.

Vinod: Yeah.

Bharat Sheth: But there are big owners, who you must remember that in the last until August of this year were making a $150,000 a days, so they build up cash. So, what they are saying is that okay, my opportunity cost is $9000 a day, why should I take the risk of the voyage and I would rather wait. It is theoretical, but if everybody took the same position, you would have a big jump in freight earnings if everybody is just to be ship out.

Vinod: That is the pretty dilemma and if you look at container shipping industry there is exactly the constraints particular on the some specific trades where actually keep under cutting each other.

Bharat Sheth: Well, what has happened in the container sector on the transpacific trait, people are just cutting capacity by approximately 20% to 25%.

Vinod: That is very recent, but for the last few years, they had been under cutting each other and every time there is a down term, they do under cut each other and rates are going down.

Bharat Sheth: That is true, I mean, if you take the Asia-Europe rate $2000 on a container is not down to $200, right? That is a dramatic drop, but you are now finding owners taking the same view saying that we would rather keep the ship waiting and not operate the ship rather than accept and take all the risks that you take when you carry a particular cargo, you take a lot of contractual risks.

Vinod: Okay.

Bharat Sheth: So, just to earn 10% of what you used to earn, it does not make sense.

Vinod: It all depends on how you look at it but anyway it is coming from 100, 000 may be a few months and at some point you may go back to the view that you have to anyway cover the $4 mn or $3.05 mn you are losing every year.

Bharat Sheth: Yeah, obviously is just longed at some point somebody will blink.

Vinod: What are the operating costs of the Panamax that you gave it for the cape size approximately for 2 years old, for Panamax 3 year old what would be the operating cost?

Bharat Sheth: Approximately 7, between 6 and 7.

Vinod: Okay. And then where would you change it is the few or the crew would be more at the same size now.

Bharat Sheth: But crew will, what happens is that you save on your lubricating oils, you save on your store, and you save on your running repair because you have got a smaller ship.

Vinod: Okay.

Bharat Sheth: So, you do not say it is much on crew and victualing, but your insurance costs are lower, your stores, spares, repairs are lower.

Vinod: Yeah. And you know also for the Handymax …

Bharat Sheth: For the Handymax, it would be approximately, I would say, somewhere closer to $5000 to $5500.

Vinod: The question was because Aframax has been trading at a higher charter a day than the Paramax probably, so Aframax you should keep.

Bharat Sheth: You said, Aframax, but an Aframax is a tanker.

Vinod: Sorry. Not Aframax, the size just below the Panamax.

Bharat Sheth: Yeah, you mean the Handymax. And I will tell you why, because what is happening now is with people's ability severely impaired to open letter of credit, everybody has got to downsize the amount of cargo that they can open a letter of credit for and therefore we are seeing a little more trade flow for example, people are saying we cannot afford now to shape 200,000 tons of any commodity in a large scale, but may be we can afford to ship 40,000 tons, which is what you would you load in the Handymax right?

Vinod: Right.

Bharat Sheth: And therefore, there is a little more volume of trade in Handymax. So it is more versatile asset and in particularly today's scenario, it provides many more options to the charter.

Moderator: Thank you Mr. Vinod for your questions. We have our next question from Mr. Gaurav of Gupta Equities. Please proceed sir.

Gaurav: Sir, can I know the NAV at this point of time?

Bharat Sheth: Yeah. Rs.601 per share as of 30th of September.

Gaurav: Okay and sir vis-à-vis corresponding last year?

Bharat Sheth: I have it for the 30th June quarter that was 631.

Gaurav: So, the reason for this fall is like declining in asset prices?

Bharat Sheth: Yes, decline in asset prices.

Gaurav: Okay. Sir and at this point of time how many vessels are in-chartered of the total?

Bharat Sheth: The total in-chartered days that we have got is approximately 680 days.

Gaurav: Okay and sir in terms of vessels is it possible to know?

Bharat Sheth: I think it is 8.

Gaurav: Okay.

Bharat Sheth: Including our subsidiary.

Gaurav: Okay, including the subsidiary.

Bharat Sheth: That is right.

Gaurav: Sir, one thing there is one confusion, I would just like to know that if we give our vessels on time charter, what is the cost we have to incur, in the same way if we give for spot, what are the cost we have to incur?

Bharat Sheth: When we give her on time charter, really we just received the hire.

Gaurav: Okay.

Bharat Sheth: When we run it on our own, we have to pay for bunker fuel and port cost. These are the main costs.

Moderator: Thank you Mr. Gaurav for you question. We have our next question from Ms. Archana of D&A Money. Please proceed ma'am.

Archana: Sir, I just wanted to know, do we have any of our vessels for contract renewal in this year?

Bharat Sheth: Any of our vessels what?

Archana: For contract renewal?

Bharat Sheth: Not till the end of this year. No.

Archana: For this financial year.

Bharat Sheth: No, I mean not the one, which you have already contracted,

Archana: Okay.

Bharat Sheth: But obviously the spot vessels are always available, but those that are contracted will continue to remain contracted until March 2009.

Archana: Okay. But you are looking for term contracts for your spot vessels. If you get any, you would immediately shift spot vessels to terms.

Bharat Sheth: We would look at the pricing, yes for sure.

Archana: Okay, and sir other thing you said $1.6 bn is the CAPEX for the next 3 years, which would be funded by 25% Equity and 75% debt, that is how you want to do it.

Bharat Sheth: That is what we would ideally like to do it, but we believe that it may become difficult currently. Some of it is already funded and some remains to be funded by 1.66 or everything put together for the three years.

Archana: Okay.

Bharat Sheth: And as I said some of it is already funded and some remains to be funded.

Archana: Okay. What is the CAPEX for this financial year? Has it been funded?

Bharat Sheth: Yeah. I will request the CFO to run you through the numbers as they are spread over the next three years.

Archana: Okay.

G. Shivakumar: The CAPEX for FY09 just over a $100 mn and for FY10 it is about $130 mn. FY11 is about $140 mn and for FY12 it is little over $350 mn.

Archana: Okay. And of the $100 mn for this financial year, has it been funded over?

G. Shivakumar: Yes. All the CAPEX for this financial year for up to calendar year 2009, all the vessels coming up to end of calendar year 2009 are already funded.

Archana: Okay. And for the rest you have to look for it?

G. Shivakumar: That is right.

Archana: Okay. This $100 mn includes the one for offshore and for shipping?

G. Shivakumar: No, this is only shipping.

Archana: This is only shipping.

G. Shivakumar: The offshore CAPEX is different. If you want those details, I can give them to you.

G. Shivakumar: Yeah, in FY09, they have about $80 mn for CAPEX and FY10 they have about $500 mn of CAPEX and about $200 mn in FY11.

Archana: And this $80 mn has been funded.

G. Shivkumar: In the process of funding, most of it and marginal small part of it is in the process of being funded for the financial year.

Archana: For this financial year?

G. Shivkumar: That is right.

Archana: Okay fine. One more question. Which are the newer sources of income that would be coming in from the coming quarter? Are your any new vessels going up on contract?

Bharat Sheth: Not in contract, but we are taking delivery of two of our tankers, one in November and one in December. So they will start earning something.

Archana: Okay, from the third quarter?

Bharat Sheth: From quarter 3, yeah.

Archana: On the quarter 3, they would start contributing?

Bharat Sheth: End of quarter 3, so really more reflected in quarter 4.

Moderator: Thank you Ms. Archana for your questions. We have our next question from Mr. Bhavin from EMK securities. Please proceed sir.

Bhavin: Good evening sir. Just one question. Sir, is there a chance that we will lose money on our in-chartered vessels and if so, do we have an option to cancel it?

Bharat Sheth: I do not think we have an option to cancel it obviously in the current spot market on some of our vessels we will, on some we will not. But on some vessels, we clearly will.

Bhavin: Okay, so, may be some of these vessels will be on spot and not on terms?

Moderator: Thank you Mr. Bhavin for your questions. We have our next question from Mr. M.S. Arun from Capital Market. Please proceed sir.

M.S.Arun: Actually, in the Q2, the trade bulker earnings, average TCY earnings has gone up by 57% in a indicative time, so actually the average Baltic index for the quarter has been marginally down actually. Could you throw some light on it how this….

Bharat Sheth: I think it is more to do with lag effect.

M.S.Arun: Okay.

Bharat Sheth: Yeah. They were just happened to be fixed earlier and the index is an average of daily occurrence. That is just more to do with the life.

Moderator: Thank you Mr. Arun for your questions. We have our next question from Mr. Sayed of Pink Research. Please proceed sir.

Sayed: Sir, I just wanted to know this Handysize market that you were telling that they are more versatile. That is true in terms of the capacity being smaller, but still recently we see that it is the Handysize market after the cape size, which is facing the front of the demand slowdown. So, how do you see that because this drop in, as we see the index for the Handysize market is considerably correcting recently.

Bharat Sheth: Yeah. But it is just, the point I was making is that the cape size traditionally should have the highest earning followed by Panamax followed Handimax, followed by Handysize. What has now happened is you have got an inverted position, where the Handymax and the Handysize is earning more money than uptake or Panamax.

Sayed: Yield is better relatively?

Bharat Sheth: The yield is better relatively and is to do with the versatility of the asset.

Saiyad: Sir, one more question like this GE shipping has been there for 60 years and shipping as such is a very volatile market, you have seen such hikes, not obviously the hikes as of present, there had been huge hikes throughout. So how bad is the situation, which you see right now vis-à-vis your 60 years of experience.

Bharat Sheth: Well, first of all I am not 60.

Sayed: Sorry, the company is 60 years.

Bharat Sheth: So, I do not have 60 years of experience, but I think what we are seeing is the speed of the collapse, which I think, I was telling one of the earlier participants that what we have seen happened in the last 6 weeks is probably unprecedented.

Sayed: Okay sir. Thank you.

Moderator: Thank you Mr. Sayed for your questions. We have our next question from Mr. Vinod of Tantallon**.** Please proceed sir.

Vinod: Yes another question, what is the average age of the fleet on the dry bulk and would you retire the older ship those who are 20 plus?

Bharat Sheth: Our current thinking is that we will keep the vessels which are 20 plus simply because they have been completely paid off in our book and therefore the cash cost are nothing much more than the operating cost. Therefore, so long as we do not have to go and spend significant amounts of money on them, we will hold on to them. The average age of the dry bulk fleet is about 14.

Vinod: Okay. So you would in cue actually the $3.5 min to $4 mn a year, since the market was really bad and you could not find a customer. You would be prepared to do that?

Bharat Sheth: It depends how what you define is bad because let us say that if you take other older ship, they are the Handysize, we have got 2 bulk carriers that are 30 years old and they have a daily operating cost of about $4000 and we still believe that on these ships, we will earn somewhere between $5000 and $8000.

Vinod: On a 30-year-old?

Bharat Sheth: On a 30-year-old. Yeah.

Vinod: Wow. That is quite high.

Bharat Sheth: It was higher 2 months ago. We were earning $30,000.

Vinod: But sir, in that case if you look at what BDI was reported, it looks very, very low is there a mismatch between the BDI and the rates you can get on the spot market?

Bharat Sheth: No. I mean the BDI basically just reflects average across different geographical area. I think there are certain trades, which today will commit some of these older vessels to trade and so long as we can on a sustainable basis, trade these vessels at operating cost, we will be happy to do that. Obviously, if the situation does not improve over a length of time, then you start looking at the possibility of trapping the ship, but not just yet because we have seen that these things can also reverse very quickly and the ship that is today earning you $4000 can very, very quickly move up to $8000 and $15000 and since on our 2 ships, which are 30 years of age, we do not have any other immediate expenditure for the next 2½ years, we would prefer to trade them.

Vinod: Okay. In the worst case scenario, is there a possibility where you can park your ship in a port of somewhere like you put the aircraft in the desert in the US and what will be the cost if you wanted to use them one or two years after.

Bharat Sheth: Yeah. I mean that there are places that are designated places where you can what we call mothball the ship, but it is too early to discuss that now because nobody would do it unless earnings went below your operating cost for a significant period of time.

Vinod: And what do you mean by significant period of time in your view?

Bharat Sheth: Well, at least 6 to 12 months.

Moderator: Thank you Mr. Vinod for your questions. We have our next question from Mr. Phantaki from HDFC securities.

Phantaki: Yeah, I just wanted to ask one question about the offshore segment. Can you just tell me that recent decline of crude prices over the last one month or 2 months has created any impact on the offshore rates having they declined substantially?

Bharat Sheth: No the offshore is, again I was telling one of the earlier participants that the offshore boats have not declined if anything they have slightly improved**.**

Phantaki: Okay.

Bharat Sheth: Of course, what is the long term impact is crude remains at these numbers or you know nobody changes these things just because one day crude comes down or because it is down for one month, people look at it as, what are the prospects over the next 1 or 2 or 3 years on the prices of crude.

Phantaki: Definitely, but if the demand does not pick up over the next 6 months, is it possible that E&P activities will slowdown and that will result into a substantial declining the….

Bharat Sheth: I think E&P activities could come down to what extent is difficult to say because lot of the E&P activities are carried out by National Oil Company and the national oil companies have a larger role to play, which is the energy security for the country.

Mehernaush Phantaki: Okay. So no substantial decline is there as such.

Bharat Sheth: So there will be in certain parts of the world some of the private operators who may wish to slow down their activities, I think that should certainly not be ruled out, but I think the larger National Oil Companies have a much greater objective and I think they will continue the activities all be it at a slightly slow pace.

Phantaki: Okay. And now for example two months back, a rig in the spot market has 356 Jack-up rig, it would have earned around $2 Lakhs per day approximately, now today if you charter that rig or place that in the spot market, then how much will you earn today. Is there a decline in the prices or they still will earn around; what I want to ask is that the margins that the offshore segment would give right now at around 60% to 70%, is it likely that going forward it will fall?

Bharat Sheth: I think there is not a business in the world today that can earn you 60% to 70% margin because otherwise the world would not be in a recessionary phase.

Phantaki: Okay, so how much margin do you expect in future from the offshore segment?

Bharat Sheth: It depends on what the future is and I cannot the read the future because we are in a bit of a black hole, nobody knows what is going to happen tomorrow, let alone what is going to happen in the future.

Moderator: Thank you sir for the question. We have our next question from Mr. Vinod from Tantallon**.** Please proceed sir.

Vinod: There was a conference in Singapore last week and the focus was very much on the size of the order book and how difficult will be for the dry bulk industry and did not we focus actually on the letter of credit, we raised the question. My question is do you see your bankers trying to provide better letter of credit the reason being actually they have an incentive to make sure that their customers on the landing side are in good health and also the value of the asset remains good and remains high and we just found that the letter of credit trade has disappear and therefore asset value will drop at some point and as you said you know some decline actually could counter.

Bharat Sheth: Yeah.

Vinod: But do you see any help from is it the banks actually between their landing side and the trade financing do you see it to work very well together.

Bharat Sheth: No, at the moment clearly, we are seeing a significant drop in the trade clause and when we talk to traders, they are saying they just simply do not have the ability to access line of credit as they could earlier and that is impairing them from transacting, but of course you cannot look at that in isolation, I think there is also a case where many of the traders do not wish to transact because it is too risky today to have an open position. They are not sure whether they will be able to put the trade in place as and when the cargo reaches the destination. So, we are seeing significant volume destruction. As far as we are concerned, we do not operate on letter of credit, etc., because as ship owners will get term finance against our assets and what is happening now is that it is possible that earlier whilst we could get may be up to 75% or 80% of the value of the asset in terms of term finance, today that 75%-80% could shrink to somewhere between 70% and 50%.

Vinod: What do you mean by the term finance you finance the day rate or you are talking about the financing of the ship, landing.

Bharat Sheth: The asset value.

Vinod: Okay. But you still need but when you operate your ship or when someone is operating it on the spot market, they still need a letter of credit.

Bharat Sheth: No, there is no letter of credit on that.

Vinod: No, not from you, but the seller of the commodity will require actually the letter of credit from the buyer.

Bharat Sheth: Yeah of course. And it is happening, but it is happening on a restricted basis.

Vinod: Exactly, so that is actually reduced the demand for spot which affect you indirectly.

Bharat Sheth: Which affects us directly. Yeah.

Vinod: Yeah directly. Okay thank you very much.

Moderator: Thank you Mr. Vinod for your questions. As there are no more questions, I would now like to handover the conference to Ms. Anjali Kumar. Please go ahead Ma'am.

Anjali Kumar: Thank you everybody for your active participation and as usual we will be uploading the transcript of this call on our website for your future reference. However, in case you still have clarifications or questions, please feel free to get in touch with us either by e-mail or calling us. Thank you once again.

Moderator: Ladies and Gentlemen, this concludes your conference for today. We thank you for your participation and for using Tata Indicom conferencing services. You may please disconnect your lines now. Thank you and have a pleasant evening.