

Transcript

Conference Call of GE Shipping

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Presentation Session

Moderator: Good afternoon ladies and gentlemen. Thank you for participating in the quarter call organized by the GE Shipping Company Limited. A copy of the financial results has been emailed to you. In case you have not received the same we request you to kindly download the same from the company's corporate website www.greatship.com I would now like to request Mr. Balan Vasudeo, CFO to give us the financial snapshot.

Balan Vasudeo: Good afternoon friends. I welcome you all this afternoon's presentation of the company's third quarter results for the period ended December 31, 2006. In the face of it in the first reading it appears to be a slack quarter and not very remarkable but actually there are many offsetting pluses and minuses during the quarter and to better appreciate the performance I think I will briefly highlight this to you.

The overall capacity in the quarter was lower as compared to the previous years' quarter. Revenue days were lower by about 4.5%. It has been broadly offset by better time charter yield on the dry bulk sector and the total income from operations remains at the same level with just a 1% growth. The small increase is because yields on bank and treasury balances have improved substantially. The only relative feature on the top line is that in this quarter there has been no gain in sale of ships because we did not sell any vessels during the quarter as compared to Rs 124 crores in the previous years' quarter. So with this the overall top line shows actually a decrease of 15.4%.

Likewise if you come to the expenditure side, it is practically flat with a small de-growth of 1.6% but in expenditure side there is quite a substantial decrease in repairs and maintenance of fleet which has been offset by increase in bunker cost and increase in salaries and wages cost due to wage revisions. The net impact of the movements in the expenditure has seen a 28% decrease in the operating profits. But if you exclude profit on sale of ships in the corresponding quarter last year, then operating profit has actually increased almost 12% in this quarter. Therefore the operating margins of the company have shown a marginal improvement at 45.6% as compared to 44.2% in the previous quarter. Interest cost in this quarter was lower at Rs 24.27 crores in spite of the loan outstanding being on the higher side; this is due to proactive interest rate management. The depreciation levels have also been lower, whereas the taxation has been on the higher side because the income from non-shipping side has been higher in this quarter as compared to the previous quarter.

Therefore overall, considering all this, the net profit reported is just about 1.8% improvement, but again if you correct for gain on sale of ships and impairment provision made in the previous year's quarter actually the growth in the profit is a more respectable 31%. With that I come to the end of my presentation. I now put the floor open to questions for Mr. Bharat Sheth, Deputy Chairman and Managing Director to answer.

Question and Answer Session

Moderator: Our first question comes from Mr. Rohit of DSPML

Rohit: Could you give us your net asset value as of December end?

Bharat Sheth: It is about Rs.388 per share.

Rohit: Okay and sir your outlook on your VLCC rates

Bharat Sheth: At the moment the VLCC market remains pretty soft. We obviously need the OPEC to get back in to increasing production because as you know there is very close co-relation between OPEC production and VLCC earnings. So unless OPEC really gets back some more oil into the market I think the VLCC market will continue to remain soft.

Moderator: Our next question comes from Mr. Kamlesh of Asian Market.

Kamlesh: I just wanted to have some idea about your offshore rig that is how you are going to bid for the ONGC tender and also how you are going to record your subsidiary revenues.

Bharat Sheth: At the moment as you know in the subsidiary, we have only one vessel in the water and we have obviously contracted for a number of new buildings. There are totally 8 OSVs that are being built and we also have contracted for 2 second hand vessels PSVs, one of which we take delivery in the month of March 2007 and the other one will be sometime between August and September 2007. We have been qualified in the ONGC mega tender for 3 of our OSVs. We still have to negotiate the rates with ONGC so the jury is out as to what would be the precise earnings on this boat and in addition to our boats; we have also placed an order for a rig, which is due for delivery in the latter half of 2009. That basically is the asset profile of our subsidiary that's going to look after the oil and gas business. We have committed USD 380 mn up to 2009 in the business

Kamlesh: These are what sort of vessels? They are all OSVs or Anchor handling tugs?

Bharat Sheth: They are a combination of Platform Supply Vessel, Anchor Handlers and one solitary Rig. So we will have as I said the one vessel that is in the water just now is a Platform Supply Vessel. The vessels that we take delivery of in the month of March and September are also Platform Supply Vessels.

Moderator: Our next question comes from Kanan Shah of Networth Stockbroking.

Kanan: Regarding your offshore business there was a recent ONGC order for offshore vessels and I believe even GE Shipping through its subsidiary Greatship (I) Ltd has bid for the same so what is the outlook on the same?

Bharat Sheth: Yes, 3 vessels have been short-listed and ONGC will be calling us for price discussions shortly.

Kanan: As we have only one will you be in-chartering those vessels?

Bharat Sheth: Some are owned by us and some will be inchartered?.

Moderator: Our next question comes from Mr. Anish Desai of ABN Amro.

Anish Desai: Would you like to walk us through of what you think could be the earnings outlook in GE Shipping for fiscal '08?

Bharat Sheth: The general perception at the moment in the market is that there is a lot more optimism on dry bulk, vis-à-vis tankers, but as I have often said before, shipping is a funny sort of a business where when you least expected things turn on their head and you can get very strong markets. So at this stage, while it's early in the day to really comment on all of 2008, what I'm sharing with you is a general perception of where the sentiment lies.

Anish Desai: Okay, moving to offshore business, what are the kinds of day rates currently for maybe a 350-foot jack up?

Bharat Sheth: It depends on the duration of the business. We have seen the one year business still being written at about slightly ahead of \$250,000 a day, I think if you were to go for the three year and the five year business, I suspect the market is somewhere in the region of between 170 to 180,000/ day.

Anish Desai: Okay, and at that day rates, what kind of return would you get on a new jack up?

Bharat Sheth: On those kinds of rates I think you will still be at well within a 5-year pay back.

Anish Desai: So then should we expect Great Eastern to acquire more jack-up rigs for the subsidiary?

Bharat Sheth: Not at the moment because if we were to order anything just now we would not get any deliveries until the first or maybe even the second quarter of 2010. We would first like to see at this stage the rig that we already have under construction get employed. And if that got employed then may be we would venture out to look at another new building opportunity. As far as buying something second hand for prompt delivery is concerned, the premium that you are required to pay is extremely

high. For example if you contract today somewhere in the region of USD 179, 180 million for 2010 delivery, as opposed to that for a prompt rig, if you want one, it is not easy to get one, you would probably have to pay somewhere like USD 240 to 260 million.

Anish Desai: What about may be rigs that have been stacked up, is there any opportunity over there? I think some of your competitors might have been able to do something with the rigs that have been stacked up.

Bharat Sheth: Well at the moment I think any rig that was ever stacked up is obviously operating or is under a conversion because in this market nobody wants to stack up a rig if it can at all work. So to actually go and identify something that is stacked up and which can be technically converted is not easy particularly with yards so booked at the moment. Lot of the yards are focusing on new building with value addition to their business being much higher than simply trying to repair some of these stacked up rigs.

Anish Desai: Right, Sir, just one last question, Great Offshore if you would not like to comment, any way it has booked an order with an Indian shipyard for a jack up. Do you think you would like to follow a similar strategy may be if you get an earlier delivery?

Bharat Sheth: Well, we have not yet looked at building at any Indian yard, but it is something that we are open to and if we got the right delivery may be we will look at it.

Moderator: Our next question comes from Rachna of LKP Shares.

Rachna: I just wanted to understand that Rs 255 crores have been subscribed by you as preferential allotment in Greatship India your subsidiary?

Bharat Sheth: Yes, its Great Eastern's a wholly owned subsidiary.

Rachna: Okay, so what is the total paid up capital currently, for the company?

Bharat Sheth: Rs 256 crores to be precise. Since they are shares issued at Rs.100 per share, they are 2,56,00,000 shares.

Moderator: Our next question comes from Mr. S. Das Gupta of SSKI Securities.

Das Gupta: I just wanted to get a sense of the freight movement was for the quarter, how did we manage a 4.5% growth crude earnings?

Bharat Sheth: In the crude earnings?

Das Gupta: Yes.

Bharat Sheth: Actually it was a combination of fact while the spot earnings were clearly lower as compared to Q3 of the previous year; we had done certain renewals at

higher numbers. So the spot earning reduction was to an extent made up by the period charter renewal.

Das Gupta: Sir, my sense was that major part of the fleet was on the spot market. Am I wrong to believe that?

Bharat Sheth:No, if you look at it for Q3, we had about 38% of revenue days on the spot market as compared to 41% in Q3 of last year. So it is really pretty similar.

Das Gupta: Right. Sir, what amount of CAPEX are we expecting in the shipping business over the next 3 years?

Bharat Sheth:The committed CAPEX at the moment is a little over USD 450 million.

Das Gupta: Now how much of that has already been paid?

Bharat Sheth: USD 68 million has already been funded.

Das Gupta: What is the current cash on the balance sheet?

Bharat Sheth:About Rs 1,200 crores.

Das Gupta: And debt?

Bharat Sheth:About Rs 1,800 crores.

Moderator: Our next question comes from Mr. Hemant of Enam Securities.

Hemant: What was your fleet size in this particular quarter versus the last?

Bharat Sheth:Just under 3 million tons. It was 2.92 or something.

Hemant: Given the order book on hand, how much is this likely to go up subsequently?

Bharat Sheth:I think it would probably go up to about 3.2, 3.3 million dwt over the next few years. Now we clearly know what is committed but what we don't know is what we are likely to do over the next 2, or 3 years in terms of second hand acquisition nor do we do know what we are likely to do in terms of sales because that would be a function of the market.

Hemant: How does the asset price look at this particular time versus what we had seen in the last quarter?

Bharat Sheth: Asset prices continue to remain very high. Compared to the last quarter the only change that has probably been is in the values of the single hull tankers that we own where there has been a downward correction of between 20% and 25%. The dry bulk asset values had probably moved up by a similar percentage and

the modern double hull tankers had probably remained very similar to where they were during the last quarter.

Hemant: And is there something to add on to what you had said earlier about the tanker side of the market. Just wanted to get a sense of what would actually change or what would actually structurally shift the freight rates upward going ahead. Could you just highlight some key figures that we might actually look at?

Bharat Sheth: Yes, I think clearly one is the US inventory levels because at the moment US inventory still remain relatively high compared to their 5-year average. Secondly is to see the intensity and the severity of the winter and whether that leads to any disruptions in some of the principal routes where crude oil and products move. And third is obviously OPEC's action, whether in case crude oil goes back to the \$60, \$65 a barrel, whether OPEC is prepared to bring back on stream the 1.2 million barrels that they have actually taken off from the supply. The fourth will always remain a joker in the pack, which is if there are disruptions, which effect logistically the supply chain management of transporting oil.

Hemant: How does it look in terms of the capacity, which is likely to come through on the tanker side?

Bharat Sheth: Well there is a significant amount of capacity that is going to come through not only in 2007 but beyond as well. And therefore if you just take pure fundamentals one would logically expect tanker earnings going forward to be softer than what they were in 2006 or 2005. But as I have said earlier in today's conference call, tankers is about a business where sentiments is far more relevant factor than straight fundamentals; and you need only a slight shift in logistics management; as I was saying like disruptions of a hurricane here or a hurricane there and some delays or an intense winter and sentiments can change very quickly, because the market still remains reasonably well balance between the supply of ships and the demand for ships.

Moderator: Our next question comes from Mr. Gaurav of Birla Mutual Fund.

Gaurav: I just wanted to re-confirm if the CAPEX overall is USD 450 million dollars in the shipping side and USD 380 million on the offshore side right? Second is, you had deployed one PSV is the number reflected in the results?

Bharat Sheth: Yes the total committed CAPEX would be USD 830 mn. No, the number is not reflected in the results because so far the results that we have declared are not on consolidated basis. We will consolidate the results in the year-end as per accounting practice.

Gaurav: Okay, but on an average what do you think will be the reflect on the EPS?

Bharat Sheth: I don't believe that this year the oil and gas business is going to appreciate because there is only one boat in the water. So we expect the year to breakeven. I think it will be EPS accretive for FY08 onwards.

Gaurav: What is the day rate for the OSV when employed?

Bharat Sheth: It is running at the moment at a shade below \$20,000 per day.

Gaurav: Okay. On an average on a full year can we expect about Rs 15, 20 crores of EBT coming from this business?

Bharat Sheth: It is difficult to say because we are taking delivery of another 2 boats, which need to be deployed. One is in March as I said and one reaches later sometime in September. Of course at the very end of the year we have delivery of one of our new building boat. So at this stage it is difficult to give a number but as I said it will be EPS accretive FY08 onwards. For FY07 it will be pretty much breakeven.

Gaurav: And on your long-term target, say FY2010 what percentage do you think is going to come from your offshore business?

Bharat Sheth: Well it will also depend on how shipping pans out over the next 3 to 4 years. But the current stack of assets that have been planned in the Oil and Gas business – the benefit of that will fully start reflecting in our company's results somewhere in FY2010.

Moderator: As there are no more questions, I would now like to hand over the conference to Mr. Rajat Dutta. Please go ahead sir.

Rajat Dutta: Ladies and gentlemen this concludes today's conference call. Thank you for your participation. The transcript for the same will be uploaded on the website for your future reference. We shall be glad to answer any of your questions, which could not be dealt with today. Kindly send us an email and we shall be glad to respond to the same. Thank you once again.