Transcript of Q3 FY05 Conference Call held on January 27, 2005

Moderator: Good afternoon ladies and gentlemen. Welcome to the Great Eastern Shipping conference call on declaration of its 3rd quarter results ended on 31st December, 2004. Now, I would request Mr. Balan Wasudeo, Chief Financial Officer of the Company to give us the financial snapshot.

Balan: Thank you. Good afternoon friends, it's my privilege to present you another record quarterly performance of the company.

94% of the growth in top-line and at the operating profit level came from the shipping division. The prime contributor to the growth was very strong markets during the substantial part of the nine month period. Rapid fleet acquisition during 2003, going into the first half of 2004 also paid off.

Lastly, we sold three vessels during the quarter registering a gain on the sale of about Rs. 26.4 crores. Therefore put all together the top-line for the quarter grew by 78% and for the nine months by 63%.

There was a very sharp increase in the expenditure levels too but not in the same proportion. Expenditure in the quarter on aggregate basis grew 41%. This is broadly a reflection of growth in fleet. Some increase was also due to bunching of dry docking during the quarter and a small portion due to wage revision in the shore staff.

Similarly on a nine-month basis aggregate expenditure grew by about 48%. As a result of slower growth in expenditure the operating margins of the company further improved from a level of 48% which itself is considered to be strong for our sector with the current quarter seeing operating margins going up to 59%. As a result of that in absolute terms the quarter's operating profits even excluding the gain on the sale of vessels is about Rs. 361 crores which is exactly double that of corresponding quarter last fiscal. Fleet expansion had an adverse impact on the depreciation and also on interest costs because vessels were funded through borrowings.

Inspite of these, profit before tax still grew by 158% to Rs. 297 crores in the quarter and to Rs.574 crores for the 9 months. There has been a provision for taxation as you noticed both in the quarter and nine months but is much lower and is not proportionate to the growth in the profits. This is because of the tonnage tax regime, which applies to our industry. Provision for tax provided during the quarter refers to the profits on non-tonnage tax activity. Taking out all the provisions of current and deferred tax and also adjusting for very minor prior period adjustments, PAT grew from Rs.110 crores to Rs.287 crores a rise of 161%. Just for the record sake the quarter's profit was higher than the aggregate profits of the first two quarters this year and also happens to be higher than the profit after tax for any full year of the company barring fiscal 2004.

Capital employed grew by about 34% and therefore the return ratios of the company have further improved during the quarter and for the nine months.

To briefly summarize, the return on capital employed in the quarter was about 31.7%, as against 16.6% in the 3rd quarter of the previous fiscal. On the nine months basis it improved from 15.8% to 23%. On an annualised basis, return on net worth was 61% for the current quarter as compared to 31% in the corresponding quarter of fiscal 2004, and for the nine months ended December 31, 2004 it was 42% as compared to 28% for the corresponding period.

With this, hand over the discussion to Mr. Vijay Sheth who will give a business update on the offshore division. Thank you.

Vijay Sheth: Thanks Balan, for the financial snapshot. The quarter was more or less in line with the corresponding quarter and the only extraordinary item was the sale of the two offshore supply vessel Malaviya Eleven and Malaviya Fourteen, which yielded a profit of about Rs.6 crores.

Internationally, offshore activities directionally, were on uptrend in some categories of assets, the full impact of that is yet to be felt. During the 3rd quarter high volatility in oil and gas prices resulted in brent prices moving down from $49 in October to $43 in November and finally ending at $ 40 in December and as we speak we are way above $45. This volatility in oil prices brought about a greater amount of anxiousness. E&P operators globally sought for greater stability and more visibility in the oil prices absence of which impacted E&P activities.

Strategic reserves and oil security have been buzzing the corridors of every country. Energy dependence and energy source diversification is a common agenda. Recognising this challenge of decreasing dependence on oil imports, Government of India is chalking out plans to address this issue. In the meanwhile, ONGC, the largest E&P operator within the country, has decided to spend about USD $ 2 billion on E&P activities to reduce over dependence on imports.

Government of India's decision to conclude the fifth round of NELP in four months instead of six months as in case of NELP IV gives a clear indication about the Government's seriousness of ensuring oil security.

Government is also trying to improve the availability of oil within the country by attempting to privatise some of the marginal fields. There is a promise of increasing the oil output in time to come. This, I am sure will happen in the quarters ahead.

With this I pass on the baton to my colleague, Mr. Bharat Sheth to give you an overview of the shipping business.

Bharat Sheth: Thanks Vijay. With regard to the Shipping division, as far as tankers were concerned the quarter experienced lot of volatility.

The benchmark of the tanker market, the VLCCs reached new heights in the months of October and November and then softened considerably. The peak of the market was world scale 350 which was achieved in mid November translating into a time charter earning of about USD $ 200,000 a day. We saw a similar burst in activity for the Suezmax as well as the Aframax category of the crude carriers.

What really lead to this big surge was probably the Hurricane Ivan, which knocked-off a significant part of the US oil production in September and that too at a time when US oil inventories were running quite low. Hurricane Ivan is rumoured to have knocked-off something like 500,000 barrels per day of US production. This lead to a surge in export of oil from long haul Middle-East countries. Everything else was equal in others words, China continued to be robust in demand so was India and

Japan. The sudden surge of demand into the United States lead to an extraordinary tanker market. A lot of which has subsequently been surrendered.

The product market never went up to quite the same extent during the quarter, although we did see very close to doubling of earnings. GES took a conscious decision to run more vessels on the spot market and as a consequence of which we have benefited in this quarter.

As far as dry cargo is concerned, the quarter experienced great volatility too. Here too, the uptrend in the market from October to early December was probably a combination of very strong grain demand from China with volumes up about 28% from a year earlier level as well as continued strong iron ore demand. Overall, the dry bulk market also remained very strong and quarter-to-quarter comparison on an average, the earnings were up pretty close to 80%.

The asset values of ships have been on a rise irrespective of new building or second hand. To give you an example, new building prices for tankers firmed up by almost 10% over the quarter, which is extraordinary and by about 30-40% when compared to the same time last year. There is a similar story in case of the dry bulk ships as well - a 10% appreciation of new building prices and 25-30% appreciation in second hand values.

As far as the fleet growth is concerned, the owners continuously placed orders albeit at higher values. Currently, the tanker fleet has probably grown by about 5-5.5% over the period whereas the dry bulk fleet has grown by 5.5-6% over the period. Once again this fleet growth has to be taken in context of demand growth and clearly as it is demonstrated from the earnings the demand growth has been significantly stronger than fleet growth.

As far as the reorienting our asset profile is concerned GES sold one Aframax tanker and are replacing that by another equivalent second hand tanker, which will be delivered by mid February 2005.

We were successful in negotiating some new charter contracts for our products tankers and I am happy to report that these have been done at numbers, which are well above the numbers of the previous contracts. In addition, we do have a major chunk of incomplete voyages and the performance of that will reflect in the next quarter.

With these comments, I will hand over the mike to Rajat. Thank you.

Rajat: Thank you Mr. Sheth, I request the host of this conference Tata Indicom to start the Q&A session.

Moderator: We have our first participant Mr. Anish Desai of ABN Amro.

Anish: Good evening and congratulations on a fantastic set of numbers. I wanted to know the number of operating days contributed due to inchartered vessels?

Bharat: We had inchartered two ships during this quarter. One Aframax crude carrier and a Product carrier. Their operating days would be approximately 150 days and does not form part of the revenue days of 3571 days (18% rise) mentioned in the Press Release as that mentions the revenue days of the assets owned by GES.

Vijay: The offshore division also in chartered two PSVs through the quarter**.**

Anish: And what would be the dry-docking days for the quarter?

Bharat: The total laid up days for shipping is about 139 days and the total dry-docking cost was about Rs. 33 crores as compared to Rs.15.5 crores for the corresponding quarter.

Vijay: For Offshore division it would probably be about 40-45 days.

Anish: In your presentation you mentioned that the time charter rates for the product tankers have been locked in it at higher levels. Can you give us some indications of what would be the percentage increase?

Bharat: We have done about two fixtures in this particular quarter and the increase have been approximately 50% in the case of one and in the case of the other ships it's been around 25% when compared to their earlier contracted fixtures.

Anish: Your rig, Kedarnath goes off contract with ONGC or it went off contract last December. What would be the overhaul period for the vessel and what would be the kind of cost that would be incurred on the overhaul and when do you plan to deploy it again?

Vijay: No, Kedarnath as we speak is working, she is on her last well and it's difficult to say when the last well will be completed. The rig will go for repairs & refurbishment sometime in the first quarter of the following year and will be operational October 2005 onwards. The repairs budget could be in the vicinity of about Rs.75-80 crores.

Anish: Can you give us an idea of the spot to term contracts ratio for each category of your ships going in to the fourth quarter?

Bharat: Many of the spot vessels are already committed into the fourth quarter. So, if you take overall roughly we have got approximately 50-55% on contract and about 40-45% on spot. Category wise VLCC is committed for about 65-66% days while the Suezmax is about 50%, the Aframax is about 60-65% and the product tanker has about 50% of operating days committed for the balance part of the 4^{th} quarter . For the dry bulk it's about 55% for the balance 2 months of this fiscal.

Anish: Are most of your vessel mainly tankers,renegotiated for long-term charters at the end of the year somewhere on March and April?

Bharat: About 5 product tankers which are operating on the Indian coast will come up for negotiations in February 2005.

Anish: what is Great Eastern's outlook for the tankers and dry bulk market in 2005?

Bahart: It's a bit difficult at this stage to talk over the next 12 months because we are operating in extreme volatility and we have seen markets in the span of three weeks change completely in certain sectors. For example the VLCC- the markets have come off almost 80-85%. But anything that comes down at that pace can also go up at similar speed and we did see that happen in September where the markets more than doubled in a span of just two weeks. So, in these extreme conditions it is difficult to try and say exactly where everything will balance out.

However, if you look at the pure fundamentals, in our judgement oil demand will continue to be strong from United States, China, India, and Japan. We have a low of 1.8% oil demand growth from IEA but on a more optimistic note we have the US department of energy talking about 2.5%. Eventually, how the tanker markets will pan out will hinge on what the oil demand growth for 2005 is in comparison to that of 2004.

As far as the dry cargo is concerned here too there are two sets of numbers on China's likely steel production in 2005. One set of numbers tend to believe that China will import an incremental 70 million tons of iron ore whereas the other school estimates around 30 million tons of iron ore imports by China. Which number actually materializes will probably determine the fate and direction of freight markets.

About 140 million tons of cargo carrying capacity is scheduled for the market place and if 70 million tons of iron ore needs to be imported by China then, the market will continue to witness a strong 12 months ahead. If however, 30 million tons of imports materialise then clearly the supply of ships are more than the demand which indicates a softer market. Finally unpredicted external factors will continue to play an influential role.

Anish: Will there be a change in the divided payout policy of the company?

Bharat: No, I don't think so. Broadly speaking it will continue to remain some where between 25-30% as a payout ratio. Of course it is the prerogative of the Board of Directors to decide on the final payout.

Anish: Finally, I just wanted to ask that if one looks at the performance of the Great Eastern stock in 2004 vis-a-vis the other international tanker companies your stock prices have not performed? Any views on why this is so?

Bharat: If you look at our returns they are as good if not better than most of the International tankers stocks quoted on the NYSE. Over the previous 12 months all International tankers stocks are about 50% up whereas Great Eastern has broadly remained flat over the same period.

If you look at return on equity, return on investment, operating margins, client profile, business mix I would venture to say that our ratios are probably better and comparable to any other International tanker company but the fact remains that there continues to be a disparity in valuations maybe due to locational/regional listing. But operations wise GES has a global presence and our vessels operate both in the Atlantic as well as in the Pacific.

Vijay: In the offshore business which is mostly domesticated, 3 of our PSVs are operating in the North Sea while a couple of our OSVs are in the Middle East.

Moderator: We have our next participant Mr. Amit Dalal of Amit Nalin Securities.

Dalal: Congratulations on a fantastic performance, far exceeding most expectations. But it was also perhaps a heady time for the shipping industry. Considering what we have seen one side is volatility and on the other side perhaps circumstances which may or may not repeat themselves, for 2005-06, if you take 5 year averages of whichever benchmark the company follows, will you tend towards remaining more on spot or on time charter?

Bharat: Thank you. I think, having seen what has happened in 2004, 2003 and 2001, I think we will probably keep the balance in place. What we have noticed is that it takes very little, particularly in a tight market, for the spot rate to really jump up.

If you really analyse, in a year, you only need 60-70 strong revenue days to get your averages up. In 2005 as well, the average earnings that we will achieve on the spot rate will be higher than the average earnings that we will earn if we fix our vessels out on the forward curve. This is more true for crude oil as opposed to product tankers. So, we might fix some of our product tankers out for the 12-month period and keep the more volatile asset class, which is crude oil tankers on the spot market.

Dalal: For the next year what do you see as drivers for revenue growth?

Sheth: We are regularly adding tonnage, some of the new building ships will join our fleet in 2005. These vessels are coming in at very low break–even levels because they were contracted at a time when new building prices were very low so that will add to our revenues.

Secondly we have renewed contracts on 2-3 ships going forward, and that have been done at higher freight rates as compared to their earlier fixtures. So, these coupled with some unpredicted market developments will drive the revenue.

Moderator: We have our next question coming from Mr. Jinesh Gandhi of Motilal Oswal Securities.

Jinesh: What would be your net debt as of the 31 st December 2004?

Vijay: Net debt is about Rs. 1,000 crores.

Jinesh: What would be the market value of your tanker fleet?

Bharat: The market value of the shipping fleet is just under USD 1 bn. More specifically, the market value of the tanker fleet is about USD 870 million and little over USD 100 million is of the dry bulk fleet.

Dinesh: What would be the pay back period of Aframax which you have contracted in the 1988 built?

Bharat: The pay back period would depend on the earnings that the ship clocks. As of now GES has not entered into any contract for the ship which is yet to be delivered at the mid of the fourth quarter 2004-05.

Moderator: We have our next participant Mr. Amit Mitra from Hindu Business Line.

Mitra: There have been reports that a lot of foreign OSVs are operating in our coast. I believe the contractors, have taken it up with the Ministry of Shipping that this should come under Merchant Act Shipping and also that territorial waters should be extended. Can you tell something about that?

Vijay: The matter is at a very preliminary stage of deliberation. We would not be in a position to comment on it now this being an Earnings Call for discussing 3rd quarter results.

Mitra: What exactly is your capital expenditure programme, and what are your plans in the LNG sector?

Bharat: The total planned capital expenditure is about $350 million for about 15 new vessels. 7 tankers and 8 Offshore vessels. These vessels will be delivered between early 2005 running all the way to the first half of 2007. In addition, we are taking delivery of a second hand Aframax tanker in the middle of February 2005.

As far as LNG is concerned we have just filed the RFQs and we are awaiting Petronet's response on that. In due course we will be submitting technical bids followed by price bids.

Moderator: Our next question comes from Mr. Chetan Shah of Fortis Securites.

Chetan: Congratulations Sir, on a good set of numbers. Can you give us some sense on the asset prices, how have they behaved?

Bharat: Over the last quarter new building prices have moved up between 5-10% depending on asset class. As far as second hand is concerned, these have moved up by about 20-30% and in some cases they have gone up even more.

If you take year-on-year comparison the new buildings are up about 30-40% for tankers as well as for dry bulk and on the second hand market the values have gone up by somewhere between 45-70% depending on the asset class.

Chetan: Since January we have seen a decline in VLCC freight rates. Are the asset prices still firm in January 2005?

Bharat: Yes. Particularly so in the dry trade the indices have probably come off by about 25% but asset values have gone up by 5-10%.

Chetan: What would be the NAV of GE Shipping?

Bharat: About Rs.256 a share as on 31st December 2004.

Chetan: What was the NAV of GE Shipping as on March 2003 & March 2004?

Balan: As on March 31, 2003 NAV was Rs.84 and as on March 31, 2004 it was Rs.139.

Moderator: We have our next participant Mr. Harigeet Menon of UTI Securities.

Harigeet: How much of Rs. 268.7 crores of freight and demurrage income for this quarter will be demurrage?

Bharat: Insignificant. Probably close to 1% or so.

Harigeet: In the press release you have mentioned something about the structured fixture what exactly is this?

Bharat: Some of our product tankers are chartered out on business participation basis with some charters who are reputed oil traders. Under this arrangement, GES is guaranteed a rate as the base rate and also receives half of any earnings achieved above the base rate. For example, GES might have $100 as the base rate and if the ship earns $120, GES would get an additional rate of $10 hence the total earnings would be $110.So basically it pegs the downsides leaving partial participation in the upsides.

Harigeet: What is happening as far as the global supply of shipping fleet is concerned?

Bharat: In case of tankers, we expect the net fleet growth to be somewhere in the region of 6% for 2005 and somewhere close to 6% for dry cargo. Of course this is based on the assumptions that we have made on mandatory scrapping as well as some assumptions that we have made on voluntary scrapping.

On tankers we are expecting approximately 30 million tonnes to be delivered over the next twelve months period. I think it should be more or less evenly spread; we are talking about 7½ million tonnes in each quarter. And as far as the dry bulk is concerned we expect about 20-21 million tonnes to be delivered in 2005, on a current fleet of 322 million tonnes.

Harigeet: You have mentioned that one of your vessels were hit by the Tsunami. What is the kind of revenue hit that you would look at quarter 4 because of this happening?

Bharat: One of our dry bulk carriers was impacted and the total revenue hit due to downtime will be about $400,000.

Harigeet: Considering the fact the way the freight rates are and going forward, also we are not really able to take a call as to how the freight rates would move. Do you think that this is one of the best quarterly performances for the company and going forward, one may not see the same level of performance as far as the company is concerned?

Bharat: It is impossible to say this. When we declared our quarter four results last year we said that it is difficult to imagine us repeating this Rs 185 crores and as you have seen we have beaten that by a mile. So, how can we say that it is not going to happen again? The way to answer that is never say never.

Moderator: We have our next participant Mr. Pankaj Tanna from Maniput Investments.

Pankaj: Good evening gentlemen. I believe there was a fixture reported for one of Great Eastern's Ships to TK Shipping for 3 years at $23,000/ day, is that correct?

Bharat: We have fixed a ship for three years at $23,000 /day but not to TK Shipping.

Pankaj: Okay, $ 23,000/ day for three years would it mean that your projections for the next three years are not as optimistic as they were three months ago?

Bharat: Not exactly. That's not correct because as explained in the past, we try and secure a minimum level of cash flow for the company which covers all our contractual liabilities and ensures a minimum dividend payment etc..

As mentioned earlier, it is very difficult to read the behaviour of the spot market next week forget the next 3 years. Hence, we are continuously evaluating proposals and looking at opportunities where we could fix vessels on a forward basis at profitable levels and that's what is really important.

These fixtures at profitable levels would enable us to take more risks on the spot markets. It basically means that Great Eastern has mustered the strength to play a much harder game on the spot market.

Pankaj: What would be the break-even of the vessel that you have fixed at $ 23,000/ day?

Bharat: The break-even on that particular ship is $13,500/ day.

Pankaj: Okay, Suppose you had sold that vessel at the current valuation what would have been the price that you would have obtained for that particular ship?

Bharat: We think we could have got somewhere in the mid $50 mn.

Pankaj: So, basically buying a ship at around $50 million and giving it at chart rate $23,000 a day is a profitable proposition?

Bharat: When you are buying a ship it is impossible to look at it on a daily returns basis. GES buys ships because we are here to build a business in transportation of bulk commodities, whether it is tankers or dry bulk carriers.

When we were buying in 2003,we bought these tankers let us say, for USD 35-36 mn. with break-even of USD 13,500/ day clearly we did not anticipate that the spot market would go to $40,000-50,000 a day and nor did anybody else in the world because one would never have got a ship in the first place of USD 35-36 mn. So, what is important is when you are buying ships you are buying for the future and you cannot be looking at today's spot market or tomorrow's spot market or the day after's spot market.

What you have to look at is when you are buying an asset are you going to be able to create asset in your books which will permit you to be profitable as an organization even in a bad market. That's the rationale that GES considers.

Pankaj: Your NAV is Rs 256 and if you are able to get around Rs.300 gross on your vessels immediately and the future did not look that bright, do you think that you would encash?

Bharat: GES would never encash the entire stack of assets. One has to remember that in any organisation once you sell out assets you lose the infrastructure of the organisation, people, skill sets etc which are built over the years as a capability. You can't sell organisations and build organisations overnight. GES is here to do business.

Pankaj: Okay, thank you.

Moderator: Our next participant is Mr. Vikram Suryavanshi of Sushil Finance.

Vikram: Congratulations Sir, for the excellent results. I want to know the profitability of your capital expenditure. I want to know what will be the break-even prices for these assets?

Bharat: The broad break-even on the Suezmax is going to be somewhere between $16,500 a day. For the product tanker which are going to be delivered in 2007,it will depend on the interest rates at that time. Still, on the basis of certain assumptions they will probably be in the region of $13,000 a day.

Vikram: What is the current rate for Suezmax?

Bharat: On a one year charter you could probably fix your Suezmax somewhere at $50,000 a day.

This is because the spot market is a daily movement for freight. So nobody goes by what the spot market is doing when you are running a business.

Today say the spot market on a Suezmax is about $26-27,000 a day but at these rates there is no owner who is willing to charter out because as I said earlier, today it just takes very little for this $27,000 to become $50,000 /day or say $60,000/ day. So, a modern Suezmax today for one year will be in the region of $50,000 per day and that is exactly why asset values have not come down because nobody is looking at today's spot market.

Vikram: Can you just give me what is the new building index currently?

Bharat: The actual value of a new building VLCC, today would be at $115 million and a new building Suezmax would be probably somewhere very close $66-68 million. But these would all be for delivery in 2008.

Moderator: Our next question comes from Mr. Vivek Banka of Bulls Eye Investment.

Vivek: What is the percentage spread between the spot market and the time charter rates currently for GES?

Bharat: I would say its changes all the time but it is roughly 55-45%.

Vivek: Because 3 months back when we had spoken in the last analyst call the spread had increased significantly. So, has that come down with the spot rate coming down.

Bharat: In fact, today the period is higher than spot. If you remember when we last spoke the forward cover was at backwardation to the spot market. Today it is the other way round.

Vivek: Is this just in the few sectors or the entire asset class?

Bharat: It's much less in case of product carriers and more pronounced on the crude sector.

Vivek: Does the GES management feel that that increase in the percentage of the period charter is the central option at this stage?

Bharat: We may locate some opportunities but we would not significantly like to change this balance, may be by a few percentage points either ways.

Vivek: In December 2004, when the freight rates had come down it was seen anticipation of mild winter in the United States. But now after 15-20 days we see that the winter in the United States is far more pronounced than it was expected in December end. So have the freight gone up?

Bharat: Not really, the freight rates haven't gone up. While we are seeing much colder days in the United States it's not being for a long enough period of time for it to really alter the market sentiments. Currently market has probably stabilized at the lower numbers and slightest positive news could result into a very quick reversal of the spot market.

Vivek: Is GES considering any bonus issue in the future?

Vijay:It's dependent on the decision of the Board of Directors but as we speak today there is nothing on the cards.

Moderator: We have our next question coming from Mr. Mahesh Bendre from Rathi Technology Services.

Mahesh: When is the VLCC due for dry docking and what will be the revenue loss during that particular quarter?

Bharat: We have just completed the docking of one of the VLCCs. We intentionally did the dry docking now simply because the markets are pretty soft. So, the revenue loss has not been significant it was about $500,000.

The second VLCC is due for lay up sometime in August-September of 2005.

Mahesh: Any plan of sale of assets in this quarter or next quarter?

Bharat: Well, it is impossible to say that.We continuously look at values, we do it virtually on a daily basis and there are so many new variables that come into play. So, at this stage I would not like to comment on that.

Vijay:On the offshore side of GES's business, we could sell one of our harbour tugs depending on future prospects of employment.

Moderator: We have our next participant Mr. Hemant Patel of Enam Securities.

Hemant: Historically, second hand vessel prices and the freight rates have a strong correlation and at this particular moment there has been a major delink. Do you believe that looking at the current situation this might correct actually going ahead in a month or two?

Bharat: We think prices could even get firmer than they are currently and this is a function of many factors like steel prices etc. In my judgment for the next 12 months if the situation is bad, it may come off 10-15%, but I don't see it coming off more than that.

Hemant: Do you see more scrapping coming in during this year?

Bharat: I don't think it can happen much on tankers because there is already a definite amount of mandatory scrapping while some amount of voluntary scrapping will happen. On the dry bulk front, as you know virtually nothing was scrapped in 2004, and if the markets remain strong then in our judgment there will be virtually no scrapping in 2005 too.

Moderator: We have our next participant Mr. Jinesh Gandhi of Motilal Securities.

Jinesh: Can you give me what would be one-year time charter rates for VLCC , Aframax and Suezmax?

Bharat: For a modern VLCC, the one year rate will probably somewhere in $55,000 a day. For Suezmax, its close to $50,000 a day and for a Aframax it is probably be somewhere in the $30,000+ range.

Dinesh: So would this be unprecedented charter rates for higher than spot market rates?

Bharat: No, in a very week spot market, charter rates are higher than the spot market rates. In a strong spot market charter rates are at a backwardation to spot market rate.

Moderator: We have our next participant Mr. Dhimant Shah of ASK Raymond James.

Dhimant: Would you be consciously entering the LNG segment and changing the overall fleet mix in favor of gas?

Bharat: GES has filed an RFQ for the Petronet LNG tender and we are now awaiting to hear from Petronet. Basis that future action in terms of filing a technical and the price bid will be taken. We think it should happen somewhere around May-June of this year.

Whether LNG will become a dominant part of our business at this moment the answer is clearly a NO because the LNG business is really done over 20 year contracts. The moment you get the security of a 20 year business you will have to significantly compromise on returns and we would not like to push too much of our money in a low yielding asset.

Dhimant: As you mentioned that you are seeing very strong asset prices, if your dry bulk calculations go wrong would it dent the overall second hand prices?

Bharat: In 2004 if you recollect that dry bulk spot earning dropped almost 50% in a span of 6 weeks, which then of course went up immediately. In those 6 weeks period I would say asset value dropped by somewhere in the region of 20-25% but no physical tractions took place, simply because it takes time to develop a transaction and 6 weeks is too short a time in which you can actually crystalise something.

So theoretically on a piece of paper yet the asset values had dropped, they have now come back and in fact have gone higher. There is so much underlined optimism in this market that in my judgment 10-20% correction in spot market will not lead to any real change in asset values. It must come down more and people must believe it when it sustains for a long period.

We had such a strong market in October-November 2004 that the operators trading the ships historically in the Atlantic, came in to the East to take advantage of this market. We certainly had a huge build up of ship in the East coupled with a sudden supply cut by OPEC in December 2004 coupled with 8 new buildings that came in.

Now when a new building comes they all come into the East, it will take time to take the ship out to the West. Eight VLCCs is 2% of the fleet and in a very finely balanced supply-demand position the marginal disruptions tend to exaggerate the market.

Moderator: We have our next participant Mr. Siddique of HDFC Bank.

Siddique: In terms of exchange rates since it impacts your earnings, would you say that you would kind of largely be covered, in terms of forward contracts?

Balan: Considerable amount of liabilities is in foreign currency so, to that extent our inflows and outflows are naturally hedged.

Siddique: Did you say liabilities, which include ships in the dock?

Balan: It refers to loan repayments and operating costs etc..

Siddique: It also includes the new ships that we would be taking delivery of?

Bharat: Yes, but having said that we still do have a lot net exposure in the US dollar domain and we do take aggressively required forward covers to take care of any exchange fluctuations.

Siddique: In case you feel that your view is going wrong in dry bulk, possibly you will move immediately into time charter?

Bharat: The dry bulk fleet's age profile is extremely old. The average age of dry bulk fleet is close to 20 years. So those are not the easier ships to move into period charter. However, we have fixed one of our dry bulk vessels at today's spot rate for the next eighteen months.

Siddique: How do you see the effective tax rates moving forward considering tonnage tax regime?

Balan: It will depend on how much of our profits come from tonnage tax activities. Some of our offshore revenues that come from rigs, treasury income and profit on sale of ships are not protected at the moment with tonnage tax. The tax that we would currently be paying on any profit that we realize on this sale of assets would be at MAT.

Moderator: Our next question comes from Mr. Sachin Kasera of Pioneer Intermediaries.

Kasera: Spot rates have come down in the last one and half months and we have around 55-65% on the spot market. Could you give us a view, in the current quarter, spot revenues would be at the current rates or have you fixed them for the spot market say in the November period when the spot rates were very high?

Bharat: Some of them we have fixed at a higher rate. For, example,on the Suezmax, the current spot market is about $ 26,000-27,000 a day but what we would earn for about 50% of our spot revenue days going into Q4 is about $65,000-66,000 a day.

Kasera: Don't you think with the type of asset profile now in the Balance Sheet we have, we should also be looking more in terms of global and probably look at NYSE or NASDAQ listing at some point of time?

Bharat: Yes, it's a good suggestion and it is something that we would actively look at.

Kasera: What is the actual debt and the net worth of the company and the cash on the balance sheet?

Bharat: Around Rs.1900 crores is the debt as we speak and the net worth is about Rs.1800-1900 crores.Gross gearing is 1:1 with cash around Rs.1000 crores.

Moderator: Our next question comes from Mr. Pankaj Tanna of Manipore Investment

Tanna: If you feel that the share is not been properly discounted at the market don't you think a buyback at the current prices could be done by the company?

Bharat: In case of buy backs, net worth gets downsized restricting the Company's ability to grow.

Tanna: No, only thing is that we are getting something at say Rs 250 or Rs. 260 or you are not prepared to sell at Rs. 300, then effectively you are getting the same at 60% of your price you would not sell it at. I mean effectively you are purchasing your asset at 40% discount which definitely call for some sort of consideration. What are your views?

Bharat: Yes theoretically your contention is right. But the situations are not comparable. As I mentioned earlier, the real issue is that in India even if you buyback today you cannot take advantage by using buy back as a treasury option like in the US. In India, you have to cancel your shares, then after a cooling off period you can reissue paper which involves procedural time and costs as well. The Indian system is a little more cumbersome and needs to be adequately justified in terms of gain to the Company.

Vijay: Also I may add to whatever has been just said I think the other issues I doubt whether you can do it at a 40% discount. When you actually announce it and really execute the transaction you may find that the gap has considerably narrowed defeating the buy back proposition.

And also there are some expansion programmes, which may require cash for the company in terms of expansions which may unfold in the next 12 to 18 months.

Tanna: I wanted to say whether the company exhibits the confidence in its share price. It definitely would carry into the market place as well?

Bharat: There is a point to it but there are some issues which from the Company's view point needs to be examined in detail.

Tanna: No I mean when you say you are not prepared to sell it at Rs.300 when you are getting at Rs.170 rupees I am referring about the price you are not prepared to sell it at?

Vijay: The point about not selling at Rs.300 is more a function of the kind to recreate a business within the Company.

Businesses require people, businesses require experience, businesses require track record. If you sell off assets, sell off business, sell off your track record you may not be able to recreate it because the client may not accept you again. As I explained, if you are in the offshore business the first and foremost thing, which you have to show, is track record. If you do not have a track record nobody will qualify you as a prospective bidder.

Tanna: Of the nine Aframax in your fleet, how many are on the period and how many are on spot?

Bharat: Five are on spot, four are on period.

Tanna: And on the Suezmax out of the two?

Bharat: Both are spot.

Tanna: Okay, and on the VLCC both are on the spot?

Bharat: Yes

Moderator: We have our next question coming from Mr. Srinivas Hegde of HP Securities.

Hegde: What is the freight, that we can earn in a year to the current market value?

Bharat: Nobody really knows what you can earn in a year, if you run the ship on the spot market. But if you just take theoretical calculations and let us take that today a brand new Suezmax tanker would cost you somewhere in the region of $85 million and let us say you can earn $50,000 a day on that ship at a operating cost of about $6,000-7000, that's a EBIDTA of $ 44,000 odd. So you would have an EBITDA of USD 16 mn , which is a decent return of 18%.

Hegde: But you will not be able to run the whole thing for 365 days also.

Bharat: No, I am just saying if you cover it forward for one year.

Moderator: We have our next question coming from Mr. Vivek Banka of Bulls Eye Investment.

Banka: I just wanted to know what is the immediate utilization of the cash you are planning on the Balance Sheet?

Bharat: Deposit in the liquid funds.

Banka: Any other immediate plans, Capex plans or like you had earlier mentioned in the previous analyst call that you would be waiting for good opportunities in the market. So is it that what you are going to do again?

Bharat: Yeah, obviously as we said we would be looking for opportunities. But remember that both for shipping and offshore, basically it's a leverage game. So even if you acquire assets, you don't need the full value of that particular asset in cash because you can leverage a certain amount. But the good thing about having cash balance is that whenever opportunity comes, you can seize it very quickly. I think, we gave this example sometime last year when we acquired our VLCC for USD 24 mn., we had to move extremely quickly and we just paid for it in cash.

Banka: what is the cash position as on the Balance Sheet as on today?

Vijay: It's about a Rs.1000 crores.

Moderator: We have our next question coming from Mr. Sachin Kasera of Pioneer Intermediaries.

Kasera: My question is just a follow up of what you were just talking about the buyback. You said that the net asset value is at Rs.256 and the stock is worth much more than that and the current price only is Rs160. As you mentioned because of the cumbersome procedures you would not like to go for buyback. In that case don't you think probably you could also look at it in terms of increasing the promoter's shareholding? For the last one and half years, we have not seen any increase in the promoter's shareholding?

Bharat: Investment decisions of promoters are based on a series of parameters. Having said that we take a note of the same.

Moderator: We have our next question coming from Ketan Karani of Kotak Securities.

Karani: Lots of our assets have been acquired u/s 33AC of the Income Tax Act which was prior to the tonnage tax which came in. So if you sell these assets they will be charged as short-term gain in the year of purchase. So will not reduce the amount of taxation, which is there as a part of the asset and to give a clear view, this sale would be reducing the value of the asset?

Bharat: You are right to the extent that some of the assets are bought in the 33AC reserve any sale would result in additional tax liability. But the asset pool is larger tha the assets required under Sec 33 AC and hence there will be no significant impact.

Karani: Comparing the spot rates for January '04 and January '05, they saw substantial drop and as we compare it to October-November-December '04 they are almost at 80% in the spot market now. So I just wanted to know with refineries closure down for the next 3-4 months for their annual maintenance, a slowdown in Chinese demand due to Chinese new year starting for one week and with US not needing more oil now, will we see this softness in the rates to continue for some more time and then again pick up somewhere about in June 2005 or so?

Bharat: It is very difficult to answer that question precisely but YES in our judgment over the next probably few weeks we do not see much chance of improvement in the rates. We think the rates will continue to remain soft but as I have said in my earlier discussion these things do not take very long. For example, we have an OPEC meeting shortly and for any reason OPEC resolves to increase production back by a million barrels a day. Just that statement is enough to rebuild lot of optimism into this market.

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

Rajat: Gentlemen this concludes today's conference call, thank you for your participation. The transcript of the same will be up to date on the corporate website for your future reference. Thank you once again.