The Great Eastern Shipping Co.Ltd
Q3FY11 Analyst/Investor Conference Call
(February 14, 2011)

Moderator: Good evening ladies and gentlemen. Welcome to GE Shipping's earnings call on declaration of its unaudited financial results provisional for the third quarter ended December 31, 2010. I now hand over the conference to Ms. Anjali Kumar, Head of Corporate Communications at GE Shipping to start the proceedings. Over to you, Ms. Kumar.

Anjali Kumar: Welcome to our conference call for the Q3 results. As we announced the results on Friday, we presume that most of you have had time to go through it. So rather than taking you through line by line explanations of the results, we can directly proceed to the Q&A session. We have with us our CFO Mr. Shivakumar and the entire top management team of the Company to answer your queries.

Moderator: We have our first question from Mr. Jineet Mehta.

Jineet Mehta: What is the NAV at the end of the quarter and the breakup between shipping & offshore?

Shivakumar: The NAV at the end of the quarter is Rs. 362 per share. We do not give break up of the NAV. We take the entire fleet of the shipping business at market and we take GE Shipping's investments in the offshore business at cost.

Jineet Mehta: What is the current mix of spot and time charter in shipping business?

Shivakumar: It is approximately 50% on time & 50% on spot.

Jineet Mehta: Will this mix be maintained going forward. Now the spot rates are actually very low, so do you want to move your vessels from spot to time charter going forward?

Shivakumar: Even the time charter rates are also low, so it's not a good time to fix vessels on time charter. However, we are always looking at some opportunities to fix vessels at the right pint during the cycle.

Jineet Mehta: What per cent of your fleet would be up for renegotiation at the end of the fiscal?

Shivakumar: Approximately, 6 ships will be up for renegotiation at the end of this financial year. Most of them will be product tankers.

Moderator: We have our next question from Mr. Amrit Mathur from Economic Times.

Amrit Mathur: Can you explain the reason for the income declining from Rs706 crs to Rs556 crs. Also would like to understand if this weakness will remain for the balance part of the year?

Shivakumar: The topline has declined due to a drop in the operating days. The fleet has also reduced over the last year because we have sold quite a few vessels. Our outlook is that we do not expect a very quick recovery in the market. There is quite a bit of supply overhang in both the tankers and much more in the dry-bulk segment. So both the segments will remain under pressure for some more time.

Amrit Mathur: In the quarter gone by, we experienced severe winters in the western world. But this did not translate in any pickup in the shipping freight rates. What was the main reason behind that?

Anjali Kumar: You are right that we had a severe winter this time. But there was huge pressure from the supply side. This supply is not just from the new building side, this is also due to the fact that a lot of floating storage vessels came back into the supply because now the arbitrage has gone so that has also put in a lot of pressure. On an average, we had about 4-5% of the world fleet on storage at one point in time and that has completely disappeared. So the arbitrage is completely disappeared. All of these ships also back into the supply chain.

Moderator: We have our next question from Mr. Bhavin Gandhi from B&K Securities.

Bhavin Gandhi: What were the operating days of Greatship (I) Ltd for Q3 & 9 months.

Shivakumar: For Q3FY10 & 9mths FY10 the operating days were 1209 & 3400 respectively and for Q3FY11 & 9mths FY11 the operating days were 1298 & 4000 respectively.

Bhavin Gandhi: How are the offshore markets gearing right now in terms of utilization levels?

Shivakumar: We have seen some activity coming back from middle of 2010. Generally, we have seen that modern jack-up rigs are at close to 100% utilization, so there are no modern jack-up rigs which are unemployed. For the old jack-up rigs the utilization rate is reported to be somewhere in the region of 70%. In the supply vessels, the current utilization will be around 80%. In case of Greatship, most of the vessels are fixed on contract ranging between one and five years. We have a couple of vessels which are the subsea vessels, which are in the projects market so they are not on long-term charters, but we are trying to use them to do projects in order to get a higher realization from those vessels..
The subsea contract segment is a very lumpy business. So basically they do a contract maybe for 20-30 days then there is a waiting period till the next contract starts which maybe 10-15 days, so there might be some in their idle period, but it is like the ballast voyage of a tanker or a bulk carrier. That is part and parcel of the business itself. As you build a higher backlog of contract, that waiting period between contracts will come down substantially, but we are still in the very initial stages.

Bhavin Gandhi: How have been the charter rates in the offshore segment?

Shivakumar: The rates have improved in the rig segment. They have probably improved by 20% from the bottom. Also in the supply vessels like small AHTSVs, they have improved by 25-30% from the bottom. But overall the time charter markets are still reasonably firm and they have recovered from the lows of late 2009, early 2010.

Bhavin Gandhi: Can you also share with us the revenue visibility in offshore business?

Shivakumar: The revenue visibility in this business is approximately 60% of the revenue days that are covered for next year.

Bhavin Gandhi: Can you share some more details on acquisition of the new rig?

Shivakumar: That is a rig that we have been operating on a bare boat basis from almost two years since Feb-March 2009. The intention was to grow that business and we thought that we might as well acquire the rig that we have been operating. We thought that would be a good way to grow the drilling business and that also without too much lead time, because it is not really easy to buy such assets in the second hand market.

Bhavin Gandhi: We had a JV for the subsea business. What is the status on that JV now?

Shivakumar: That JV has been abandoned because the JV partner was no longer focusing on growth in this area. So we decided to grow in this area ourselves. The commitment to grow the business remains irrespective of the IPO. We are now looking at various ways in which we can grow the business; one of which is to increase the number of drilling units which are owned and operated by us and the other is of course the subsea business.

Moderator: We have our next question from Mr. Vikram from Antique Stock Broking.

Vikram: How many vessels were under docking during the third quarter? Secondly, there has been a significant decline in other income. What was the reason behind it?

Shivakumar: 2 vessels went for dry dockings during Q3FY11 and 1 vessel will go in Q4FY11. Decline in other income is not due to any significant factor. It is just an accounting entry that was there on some provisions.

Moderator: We have Mr. Jehangir Master from ICICI Securities.

Jehangir: How is the financing of the new rig scheduled?

Shivakumar: The rig will be financed. They will take an asset specific debt; standard model which we follow is every time we buy an asset. We take a debt against that specific asset, which is normally 70%.

Jehangir: Can you give the consolidated debt and cash levels for Q3 FY11?

Shivakumar: On a consolidated basis, total debt is Rs5,034 crs and total cash is Rs3,461 crs.

Moderator: We have our next question from Mr. Junaid.

Junaid: What will be the pricing deferential between the new building rig & second hand rig which is available in the market?

Shivakumar: It depends on the market situation. If the market is extremely positive, then you had to pay more for a second hand vessel than for a new building contract and vice versa if the market is weak.

Moderator: We have our next question from Mr. Chetan Kapoor from IDBI Capital.

Chetan Kapoor: My question is regarding asset price of the shipping vessels. What is your view regarding the asset prices shaping up in the coming years?

Shivakumar: We believe that the current asset values are not in line with the earnings. We expect that they will have to come down a bit to reflect current earnings.

Chetan Kapoor: So you expect them to again come around the all-time lows?

Shivakumar: They will probably come down to the cycle lows that we saw in late 2008; early 2009 on the dry bulk side and the cycle lows that we saw in tankers are probably about a year ago. It is possible that they might come back down to those numbers, if these current earnings stay for few more months.

Chetan Kapoor: What will be the peak debt equity ratio for the offshore entity?

Shivakumar: We do not expect GILs peak debt equity ratio will cross 2.2, which is well under control considering that a lot of their assets are on long-term charters.

Moderator: We have our next question from Mr. Trilok Agarwal from Birla Sun Life.

Trilok Agarwal: What are the key reasons for withdrawal of the DRHP?

Shivakumar: One is that we had requirements to grow the business and unfortunately the market timing did not seem to be very good to come into the market with an IPO and we did not have a wish to sell the equity very cheap.

Moderator: Our next question comes from Mr. Raj Gandhi.

Raj Gandhi: What is the tanker supply growth that you are envisaging now or is the supply what was supposed to come already hit the market?

Shivakumar: In CY11 , gross growth would probably be in the region of 12%. As of now the order book for CY12 does not look so heavy. It will probably be around 7% to 8%.

Raj Gandhi: Are there any in-chartering opportunities that you are seeing either in offshore or shipping?

Shivakumar: Not really. The charter rates are still substantially higher than spot rates. There is quite a bit of contango in that. So you will have to take in anything on charter, even if you take it on one year charter, immediately you will start losing money from the first voyage itself. And as we go to a longer charter, it becomes even higher. Because term structure of the rate is that the five year charter are higher than the one year charter.

Raj Gandhi: When is the capsize coming for renewal in dry bulk?

Shivakumar: The capsize vessel is due for renewal in a short time now. There will be probably some drop in the rate when we renew. .

Raj Gandhi: How is it on the product side?

Shivakumar: On the product side, the main renewals will happen on 1st of April where we have the government contracts.

Moderator: Our next question comes from Mr. Bhavin Chheda from Enam Holdings.

Bhavin Chheda: What is the investment of GE Shipping in Greatship India?

Shivakumar: As of now it is Rs1116 crs but we will be infusing more capital for their requirements.

Moderator: We have our next question from Mr. Siddharth from Centrum Broking.

Siddharth: My question is on what are the vessels that are still left that we need to scrap this year and next year?

Shivakumar: We have an statutory requirement to phase out two non-double hull tankers which are there in the fleet, which can technically trade up to 2014.

Moderator: We have our next question from Mr. Milind.

Milind: Since we take asset specific debts, do we have any covenants on the debt side?

Shivakumar: Yes, we have covenants on the debt side with regard to the value of the asset. There are balance sheet covenants with regard to debt equity and interest coverage and debt service. It is only one or two cases that we have actually come close to breaching on the covenant where we have provided an additional security.

Milind: Are we still maintaining the delivery schedule which we have for the Supramax and Kamsarmax vessels?

Shivakumar: Yes, they will all be delivered within the next three to four months.

Moderator: Our next question comes from Mr. Vishal Ajmera from CARE Ratings.

Vishal Ajmera: Why has the hire of chartered ship expense dropped significantly from Rs35 crs in the last quarter of previous year to Rs 9 crs this quarter?

Shivakumar: Last year, we had a COA contract for crude oil carriage to carry crude oil for the Indian customers, for whom we had chartered in vessels on a voyage charter basis and therefore, that cost came in there. In this quarter we don not have this COA.

Vishal Ajmera: In CY10, we had seen the second hand vessels were priced at 20-30% discount to the new vessels? How is the market now?

Shivakumar: Currently, I would say that second hand meaning a reasonably modern one, which is less than five years old is probably at similar levels to new building contract.

Vishal Ajmera: How do you view the current crisis of Egypt? Also, how has the Australian floods affected the shipping markets?

Shivakumar: Egypt did not really affect the shipping market. There were some worries about the Suez Canal, but those did not materialize. With regard to Australia, yes, that had a huge effect, because there were so many cargos which just did not come to the ports and therefore, ships were just idle and had to look for the next available cargo. So that is one of the things that caused the capsize rates to collapse to $4,000 to $5,000 a day.

Moderator: Our next question comes from Amrita Pillay from DNA.

Amrita Pillay: Apart from the existing investment of Rs 1116 crs in GIL, How much will GE shipping infuse for the next financial year?

Shivakumar: We not have that figure but we will be assessing the requirements and investing according to that. That will be in the next few months.

Amrita Pillay: Are we planning to form some new JVs in future with other companies in the subsea segment?

Shivakumar: We are trying to do this by ourselves. But we are always looking for alliances which will help us to grow the business and help us to improve the reach of our marketing capability. .

Moderator: We have our next question from Mr. Avhishek Agarwal from PUG Securities.

Avhishek: What kind of time charter earnings are required to earn a return on asset of some 13-14% in case of VLCC?

Shivakumar: On a broad calculation, you need about $60,000 per day to earn 14% return on capital employed. But especially in a lower interstate scenario, it will be lower because a large part of the capital is coming in the form of debt.

Abhishek : What was the bunker cost as percentage of the total cost?

Shivakumar: In the last quarter, bunker cost, as a proportion of total cost was about 32%.

Moderator: Our next question comes from Mr. Dhrushil from Prabhudas Liladhar.

Dhrushil: What will be the net worth of our offshore subsidiary?

Shivakumar: Part of their net worth is from preference shares so not taking that into account, their net worth will be around Rs1100 crs. Accounting wise their net worth will be just under Rs1400 crs, that includes preference shares capital which is nonconvertible preference.

Moderator: We have our next question from Mr. Mahantesh from Fortune Equities.

Mahantesh: I noticed between the September to the December quarter year, your interest costs on a consolidated basis is up from Rs33 crores to Rs48 crores, where as your gross debt on a consolidated basis is almost static for the two quarters, why is that?

Shivakumar: If you notice in Q1, we took a very high interest cost, that is on basis of an accounting standard which said that the effect of changes in foreign exchange rate, has to go to the interest cost, and therefore we took a very high interest cost in Q1.

Mahantesh: When the ownership of the rig changes hands, will ONGC renew the charter rates?

Shivakumar: Initially we had bid and we are the operators for ONGC. So there are no changes in the contract.

Moderator: We have our next question from Mr. Rajesh Kumar Ravi from Ambit Capital.

Rajesh Kumar Ravi: How do you expect the offshore market to perform in the coming years?

Shivakumar: The outlook for the offshore segment as a whole seems very positive. The E&P companies have increased their exploration budgets and we expect an increase of 8% to 11% in E&P budget for this year. That will of course translate into higher requirements for these assets, and therefore we expect that, the utilization rates and day rates will go up for these assets.

Moderator: Thank you for your question sir. As there are no more questions I would now like to hand over the conference to Ms. Anjali Kumar.

Anjali Kumar: I thank you all for joining us on this call and as always we will upload the transcript of the call on our website. However, if you have any other queries, you are always welcome to, either call us, or send us an e-mail and we will be happy to answer your queries. Thanks again for joining.