Great Eastern Shipping
Analyst/Investor Conference Call
(November 1, 2010)

Moderator: Welcome to GE Shipping Earnings Call on declaration of its unaudited financial results for the 2nd quarter ended September 30, 2010. Now I would like to hand over to Ms. Anjali Kumar, Head of Corporate Communications at GE Shipping to start the proceedings.

Anjali Kumar: Welcome to our conference call for Q2 of FY11. We have with us today our CFO and the entire top management team of the shipping business. Since our results have been out for some time now, I am hoping that all of you have had a chance to go through it and therefore we will not do the usual procedure of going through the numbers line by line. I would therefore request you to straightaway start off with your questions, so we can be spend more time on whatever queries you may have.

Moderator: We have a first question from Amrit Mathur from Economic Times.

Amrit Mathur: Why have the shipping revenues seen a drop from Rs 626 crs in Sep'09 quarter as compared to Rs 478 crs in Sep'10 quarter?

G. Shivakumar: There has been a drop in the revenue days because the fleet itself has reduced in size. You have seen that quite a few of our older vessels have been sold during the year and therefore the fleet size has reduced.

Moderator: We have a next question from Anirudh from Reuters. .

Anirudh: Wanted an update on your IPO plans. What is the time line and exactly how much you are looking to raise?

G. Shivakumar: We can't give you a full reply to your question. One thing that we will confirm is that we have received final observations from SEBI and therefore we have a period of 12 months within which we can do the IPO. The decision on when to do the IPO will be taken by the board of Greatship based on the recommendation of the BRMs.

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

Vikram: What is the NAV at the end of the quarter? The second question is regarding the interest cost. Why has the interest cost come down very sharply on quarter-to-quarter basis?

G. Shivakumar: The NAV at the end of this quarter stands at Rs.382 per share. Second with regard to the interest cost you might have seen in our previous quarter that we had to take an impact on account of the depreciation of the rupees vis-à-vis the dollars. Some part of depreciation was taken into interest account and we had to provide for high amount of borrowing cost to the extent of about Rs 32 crs. Now the move has reversed in this quarter, so between end of June and end of September that move is almost exactly reversed and so that has been written back. That's why the interest cost for this quarter is extremely low. But if you take the figure for six months, that would be correct indication of the actual interest cost.

Vikram: So in this quarter, we can assume that the adjustment is close to Rs30 crs?

G. Shivakumar: That is right, it's close to Rs30 crs.

Moderator: We have a next question from Varun Kajriwal from IDFC Securities.

Varun Kajriwal: I wanted to get a sense on mix of time and spot mix in this quarter versus same quarter last year.

G. Shivakumar: It hasn't changed much really. There is not much of a change in terms of our shipping strategy. We are still around the same number of about 50% to 55% on time.

Moderator: We have a next question from Raj Gandhi from Principal Mutual Fund.

Raj Gandhi: In this NAV calculation, is it possible to give what will be the offshore networth that you have taken in that?

G. Shivakumar: The offshore's net worth is about Rs 1200 crs.

Raj Gandhi: How is the expansion mode in the shipping side phasing out?

G. Shivakumar: We have an order book of five bulk carriers and three crude carriers, which are to come in over the next one and half years.

Raj Gandhi: When will the next round of acquisitions start?

G. Shivakumar: We are not yet seeing value in increasing our position through purchase of vessels and therefore we are not doing that now. We are still waiting for the opportunity. The prices of ships are still quite high especially taken along with the charter rate that are existing today. So I don't think that time has yet come to go for the next round of acquisitions.

Raj Gandhi: So what if we incharter a vessel on long term rather than purchase it?

G. Shivakumar: The only issue that we have is that the premium of a charter rate to current spot rate is still quite high, I am referring to the tanker business. So for instance in the tanker business you can see generally over the last three-four months across the spectrum the spot rates have been somewhere between $5,000-$10,000 per day. However if you incharter large crude carriers as to Suezmax or a VLCC, even for 3 to 5 years, the cost is $30,000-$40,000 per day. So you start bleeding from the very first day.

Raj Gandhi: Even though we have seen increase in the oil demand over the last year, it has not resulted in any increase in tanker rates. Why is that disconnect?

G. Shivakumar: One thing to understand is that the market moves on 3% to 4% imbalances and 3%-4% imbalances in supply and demand can lead to 80% change in the day rates, so it's not a linear relationship, it's an exponential relationship. Second is that you are right that the demand has picked up quite smartly in this year, it's rebounded from the lows of last year. However an interesting fact is that the main thing that drives our rates is the amount of oil that is transported and a lot of the demand has been met by increases in production in the consuming areas itself. For instance, China has managed to increase local production, the US also has had some increase in local production, so it means less of import demand

Raj Gandhi: I suppose outside of OPEC, the largest surprises come from Russia which is now higher than even Saudi Arabia, so does that help the ton mile effect or no?

G. Shivakumar: No, it's actually a big negative for ton mile because one is that when it comes to Europe, it's a short-haul or a pipeline cargo, and similar is the case when it comes to Asia where it goes either by pipeline or as a short-haul…

Raj Gandhi: Are we still facing supply delays & slippages?

G. Shivakumar: Supply side delays continue to be there. The slippage in order book continues to be at 25% on the tanker side and on the dry bulk side that's 40% and so those continue and there is not much change in that. But still even without that there is a substantial amount of supply coming in.

Moderator: We have a next question from Prasanna Kumar.

Prasanna Kumar: What is the timeline for your vessels that are coming in the fleet, your three VLCCs and two Supramaxes and three Kamsarmaxes that you have.

G. Shivakumar: The three VLCCs will come in by end of FY12 and the dry bulk vessels will come in by end of FY11 between Jan and April. Some of them might go into April, so that's an early FY12.

Moderator: We have a next question from Anirudh Basu from Reuters.

Anirudh: What kind of overall EBITDA margins you expect for FY11 and also particularly if you can give me a breakup of the margins you can see for the whole year in terms of shipping as well as offshore.

G. Shivakumar: We don't give out any estimates, but the EBITDA margin requires us to forecast the day rates and it is extremely difficult to forecast the day rates and we don't know what kind of EBITDA margins we could be making at all.

Anirudh: What would the margins be for shipping in first half of the year?

G. Shivakumar: For the first half we had 52% EBITDA margin.

Anirudh: How do you see the rates shaping up for the next two quarters, both for the dry bulk as well as the crude segments?

G. Shivakumar: In the oil tanker segment, the big hope is on a cold winter or on a resumption of contango. The contango has come down to pretty low levels now. We need a contango typically of about $1.5 a month for contango to pick up in any big way and that's something that we are looking for, but there is no sign of that happening. The other thing is a very cold winter which results in much more movement of cargo and both those cycles are not in our hands and we not able to forecast those now. On dry bulk it's all of course China and so far rates have been quite buoyant and we don't see rates dropping off. We are not able to see anything that may make rates drop off cliff anytime soon. So rates have been fairly steady now for the last 6-9 months at least for the smaller segment. The capesizes of course have been volatile, but on the smaller sizes the ones that we operate, the rates have been fairly stable over the last few months.

Moderator: We have a next question from Rajesh Ravi from Ambit Capital.

Rajesh Ravi: Sir, regarding the time charter yield that you have delivered in the results, they are broadly quite robust, given the drop in the tanker day rates. So if the impact was not felt in the September quarter, would we be getting impacted in our December quarter because around 50% of your tankers are on spot exposure?

G. Shivakumar: We were able to get some premium rates on some of our ships and the fact that some of our ships have been fixed up. So it is unlikely to se a huge amount of variation. Of course we do have a spot exposure, especially on a crude carrier side and that has been quite weak. But I won't be able to tell you whether it's going to be lower or higher than the numbers that we did in Q2. But yes the markets have been weak.

Rajesh Ravi: What is the scenario on single hull scrapping?

G. Shivakumar: We expect that most of the single hulls will get scrapped in the current year and there will be a few of them trading but not enough to really affect the balance. So most vessels will go out of active trading in the current year.

Moderator: We have a next question from Mr. Chirag from HDFC.

Mr. Chirag: What is the current global order book that is outstanding, the expected delivery that will take place and if you have some sense in terms of whether slippages translated into cancellation at all?

Anjali Kumar: Global order book on tankers is about 26% and on the dry bulk is little under 60%.

Moderator: We have a next question from Mr. Avishek Agarwal from PUG Securities.

Avishek: How much out of the total debt of Rs5100 crs is dollar denominated?

G. Shivakumar: It's almost exclusively dollar denominated, some of it is borrowed in rupees but swapped into dollars.

Avishek: What would be the average cost of debt?

G. Shivakumar: Average cost of debt will be in the region of 5.5%-6%.

Moderator: We have a next question from Vikram Suryavanshi from Antique Stock Broking.

Vikram Suryavanshi: Can I have details regarding dry docking in the second quarter?

G. Shivakumar: We had one vessel dry docked and that was of 36 days.

Vikram Suryavanshi: Any dry docking plans in the third quarter?

G. Shivakumar: We are expecting between 3-4 dry docks.

Moderator: We have a next question from Mr. Ravi Shenoy from Motilal Oswal.

Ravi Shenoy: Could we get some idea about advances against capital expenditure?

G. Shivakumar: It's just under Rs1000 crs. It's the advance payment that we have made.

Moderator: We have a next question from Ms Manju from Sundaram Mutual Fund.

Manju: What is our expectation going forward on the NAV number? Do we expect it to move further in an upward direction or what is the sense because I think we are expecting asset prices to move down for as to deploy the cash.

G. Shivakumar: That's right, that is the preferred position for us to be able to buy, however this market has fooled us over the last several months in the sense that prices have gone up without earnings really having gone up. So we don't know how this will continue, as part of it is of course liquidity driven

Moderator: We have a next question from Mr. Mohanti from Fortune Equity Broker.

Mr. Mohanti: You have provided revenue visibility numbers for the balance half of this fiscal year ie Rs336 crs. Is that on a standalone basis or on consolidated basis ?

G. Shivakumar: That's on the standalone basis.

Mr. Mohanti: And this assumes what kind of freight rates going forward?

G. Shivakumar: No this doesn't assume any freight, doesn't make any assumption about freight rate. It's on the basis of the ships which have been fixed already, voyages fixed already or time charters already fixed.

Moderator: We have a next question from Darshil Zaveri.

Darshil Zaveri: Are we looking at selling any assets given our outlook on asset prices?

G. Shivakumar: We are not really looking at selling any asset. There are some assets which will have to be phased out, which we will continue to do as per the phase out plan, but we are not looking at actively doing any trading in the assets.

Moderator: As there are no more questions, I would now like to handle the conference to Ms. Anjali Kumar.

Anjali Kumar: Thank you everybody for joining in today and as usual we will be putting up the transcript on our website in a couple of working days. So do feel free to call us if you have any other questions.