Great Eastern Shipping Company Limited.
Investors/Earnings Conference Call
(May 7, 2014)

Moderator: Good Evening, Ladies and Gentlemen. Welcome to the GE Shipping Earnings Call on Declaration of the Financial Results for the Quarter-Ended 31st March 2014. At this moment, all participants are in a 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 hand over the conference to Mr. G. Shivakumar – Chief Financial Officer at the Great Eastern Shipping Company Limited to start the proceedings. Over to you, sir.

G. Shivakumar: Good Afternoon, everyone, and Welcome to the Earnings Conference Call for FY14. We will start off with a little bit of market commentary and some of the usual data that we give. First of all, we hope that all of you have received the 'Press Release' that we put out which has quite a bit of data. So, from the TCY that is given you will see that Crude Carriers performed quite well in terms of TCY in Q4; this was mainly as a result of the winter spike that we had and a little bit of the spillover. Some of you asked why the results were not reflecting in Q3's results and we mentioned then that it is based on voyage completion which would happen in Q4 and you see that in the results now.

With regard to Product Tankers, there is not much change vis-à-vis Q3, but certainly a deterioration in the earnings versus the year ago quarter. Market is a little weaker on the Product Tanker side – and we will come to the reason in a bit.

On Dry, the spot indices were down about 15-20% between Q3 and Q4 but again spillover voyages helped increase the Q4 average. We also had one repricing on Time Charter and the Time Charter had been fixed in very early last year when the market was still down and out, and so the repricing has resulted in a substantial improvement in the rate. And vis-à-vis the averages of last year we are up about 30% on indices between Q4 of FY14 and Q4 of FY13.

And all the indices across the three sub-segments are at quite low levels due to seasonal factors like refinery maintenance and the rain season not yet picking up, etc., the BDI is just over 1,000.

Coming to the Dry Docks, there was only one Dry Dock on the shipping side in Q4 and we expect that there will be 4-5 Dry Docks in Q1. In offshore, we had no Dry Docks in Q4 and we expect 2 or 3 in Q1.

In terms of standalone net asset value, which is valuing the investment in Great Ship at cost stand at Rs.323/share; this is vis-à-vis Rs.248 which it was in March last year. And on a consolidated basis, which is taking Great Ship assets also revalued at market value; it stands at Rs.550/share Vs Rs.426 as of March end 2013. This is mainly due to asset values moving up on the shipping side. So they moved up about 5-6% for both Tankers and Bulk Carriers in the quarter and in the year asset values have moved up about 15% for Tankers and almost 30% for Dry Bulk and both without adjusting for age. So even after depreciating, getting older by a year, the values have gone up by 15% and 30% respectively.

As far as ordering is concerned, it continues to be very strong on the Dry Bulk side; between 20 and 22 million DWT were ordered in the first quarter of the calendar year, and this is very much in line with the run rate of calendar '13, where we had a little over 80 million DWT ordered during calendar '13…of course, it was very low in the first quarter of last year because the hopes of a recovery had not yet come in.

Demolition in the first quarter on Dry Bulk was about 2.5 million DWT, while deliveries were at 16 million DWT, resulting in a pretty strong fleet growth of about 1.6% in the quarter.

Coming to the demand side, Chinese steel production growth seem to be slowing, though of course three months is a too short a period to draw any conclusion, and it was only showing about 5% growth in Q1 Calendar '14 versus Q1 of Calendar '13, which on '13 over '12 was about 10%. So, it maybe a one sign but as I mentioned earlier, just still too early to tell, but imports still seem to be growing quite strongly, so, not yet a concern on iron ore imports.

Coming to the Tankers business, the Tanker ordering was slower; around 7 million DWT and most of this was VLCCs, mainly because of the hope which was given by the Crude Tanker spike in winter.

The interesting fact on the Crude Fleet is that there was a marginal negative growth in the Fleet in the last quarter – between Jan and March, while Product Tankers the fleet grew by about 1% during the quarter.

On the demand side, US Shale Oil production continues to grow strongly and so do the product exports, but unfortunately the increase in demand for product exports is more than compensated by a new product tanker supply. So, we have not seen stronger rates on Product Tankers. One thing which has happened is that the momentum of the drop in US Crude Oil imports, which were heavily affected by a shale oil production. That momentum has dropped off and now US Crude Oil import seem to have flattened out or just dropping very marginally on a month-on-month basis.

So that is a broad view of where we stand in the market and we will now throw the floor open to questions and answer them to the best of our ability.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please press '*' and '1' on your pushbutton phone and await 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 '1' on your phone. We have a first question from Mr. Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi: Firstly, on the offshore part, last quarter we had discussed that there was an impact of rig downtime of almost about Rs.60 odd crores and exchange variations of close to about Rs.25 crores. So, I was expecting that there would be an improvement on the offshore profitability this quarter, whereas there seems to be no change in the EBITDA or the EBIT which you have reported. So, could you explain the reason why there has been no change?

G. Shivakumar: Yes, you are right, that we had the impact of the rig downtime in the last quarter and this quarter we have had a few one-off items where we have taken a hit and so the results are a little better than we are reporting in the quarter. Some of it relates to refinancing that we are doing and where we are taking a hit on the unamortized upfront cost and on the swap MTM which we have to cancel because we are repaying the loan. So those hits are coming in. And therefore, the results appear to be worse than they were in the previous quarter. But overall on an operating basis, the results are certainly better than they were in the previous quarter.

Bhavin Gandhi: Even if I were to just remove the standalone EBITDA from the consol EBITDA, I see only Rs.220 crores kind of EBITDA from about Rs.210 crores which you have reported last quarter in the same basis. This does not seem to be a significant change in the EBITDA as well. So, if you can just explain why that happened?

G. Shivakumar: We had little bit of a downtime on the rig, in the sense that she was not working for the full quarter; she went on hire in the middle of January, so we actually had some time where she was not working. Of course, there is a marginal pricing down as well between the old contract and this contract. The other thing which happened is that we mobilized a vessel to West Africa for a contract and we have expensed out that cost of mobilization and she was also idling for some time and she was not earning for some time, and that costs have come in this quarter as well. If your concern is "Whether the operating results are better or worse than the previous quarter" I will tell you that they are better than they were in the immediate preceding quarter.

Bhavin Gandhi: Sir, could you quantify as to in terms of EBITDA if I were to look at it what would be the improvements? If I were to look at the expenses side also, I do not see a significant change on a quarter-on-quarter basis and if I look at your operating days also it seems that offshore fleet utilization has been almost 94%. I am not able to reconcile the numbers somehow. The other part that I wanted to also understand is from last quarter again we have seen that the standalone NAV has been growing, but again the offshore NAV has marginally come off; it is very marginal but why aren't the cash profits adding to the NAV number? If I look at your declared number this time 550 is what you are saying is a consol NAV and 539 was a declared NAV last quarter, so there about a Rs.11 change, whereas if you look at the offshore….

G. Shivakumar: They have a much higher proportion of net dollar assets vis-à-vis dollar liabilities, so there is the exchange rate impact. In shipping, it is not the case, because we have large dollar loans and fleet value is not that much more than the dollar loans, but in onshore they have about 650 million of net dollar assets and they get affected much more by the exchange rate differential.

Bhavin Gandhi: On the balance sheet side, if I look at the standalone numbers, you have had a profit of about Rs.200 crores, and the net worth has come down by about Rs.194 crores. So there is Rs.400 crores impact that you have taken there. So what is this impact?

G. Shivakumar: This is just between March and March?

Bhavin Gandhi: Yeah.

G. Shivakumar: First of all, there is a dividend which is about Rs.160 crores provision; Rs.9 including the tax, Rs.150 odd crores, the rest is on the hedging reserve which is the MTM on the dollar/rupee swap which we have done on the long-term bonds, the other is also on the buyback which is some Rs.40 crores.

Bhavin Gandhi: On the utilization side, if I look at your coverage ratio for the next year, it seems to be pretty healthy in the offshore front and now that utilization for the quarter also has been pretty decent, in the sense that 94% was the offshore utilization and the rig has also started operations. Is this a sustainable number or this number would improve in the next quarter based on your coverage?

G. Shivakumar: We have repricing happening all the time. So, in this year 11 months which remain we have nine repricing of vessels, of which 3 in first half and 6 in the second half. So, there is quite a bit of repricing and it is anybody's guess how much time we have between contracts there. So, there is a substantial amount of utilization risk which lies there.

Bhavin Gandhi: How have the rate behaved on a year-on-year basis now vis-à-vis same time last year in offshore?

G. Shivakumar: We do not see much of a change vis-à-vis last year. Again, market which is not very transparent but we do not see pricing happening lower at least one thing on a like-for-like basis.

Moderator: Thank you. The next question is from Mr. Deepan Shankar from IDBI Capital. Please go ahead.

Deepan Shankar: During the last quarter, we have seen Vessel prices across categories have increased. So, how do you see this moving ahead during the year?

G. Shivakumar: The two factors which went into Vessel prices increasing. One is that there was a lot of money which came in and started chasing assets, resulting in prices getting paid up. The second factor was that in Dry Bulk in late 2013 freight rates went up and therefore let people to believe that the turnaround was very close and therefore they paid up the rates. The same thing happened in crude which happened in very late 2013 in the winter and the rates went up immediately after that, and Product Tankers of course have been the early movers in terms of asset value movement. What has happened now is money is still coming in. So, we had about $11 billion new equity which came in from the market last year in calendar '13. In Q1 of this year we have seen a similar run rate – $2.6-2.7 billion come in. If money keeps coming in then it will chase these assets but there seems to be a little bit of investor fatigue because a couple of issues have got pulled, people who were IPO-ing, and some good names have had to withdraw because they were not getting the price that they were expecting. So that is one factor where there might be a little less money coming into the market in the form of equity. So debt is still available. The second factor is on the earning. And as I mentioned the earnings are now currently quite weak, so we are back almost on the Dry Bulk side at least on the smaller vessels – Supramax and Kamsarmax – almost back to where we were at this time last year in terms of rates, though the Time Charter rates are stronger, but the spot rates are almost back to where they were in April 2013. Most people are expecting a turnaround by the second half of this year – maybe Q3. If that does not come through then the prices cannot hold at these levels. But if that comes through and it confirms that the recovery is indeed here, then you could see a further uptick in price. Similarly, on Crude; we had a little excitement in December-January where age went up to $50,000-60,000 a day and they are back down to where they were before which is maybe $10,000 a day and again if we do not get a spike in the winter of this year then there will be a disappointment and prices will drop, on the other hand if you get strong say August – September, then you could see prices moving up another 10% from here. So, these are the two factors really. Current spot markets do not seem to justify the value that we have, but people are pricing in a recovery which they are expecting to happen in the second half of this year. So, it will be critical to watch what happens at that time.

Deepan Shankar: We have seen WTO has been revising the global trade growth for '14 and '15 in a positive manner. So, how do you see actually the demand growth picking up over these two years?

G. Shivakumar: A lot of that trade growth actually is finished goods and we are a raw materials player, but trade growth on the Dry Bulk side is typically stronger, the demand typically would grow from 4% to 7% during the year. So we expect that to remain strong. Again, China is a big factor here; it is impossible to tell what can happen in China, but if China continues to grow at a reasonable rate we expect that Dry trade will grow at least 4-5% and maybe more than that. On Oil, people are talking about 1-1.5% oil demand growth and that should result in a reasonable amount of demand growth for Crude Oil and Product Tankers.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from M3 Investment. Please go ahead.

Himanshu Upadhyay: Sir, can you give some light on what is happening in the Crude Oil segment? We are seeing a very strong ordering on VLCC side, where the new orders are still coming up, but in Aframax and Suezmax, not much ordering is happening. So, has there been a very drastic change in the market or the roots where the Suezmax and Aframax cater? What is your outlook on the two segments – let us say Suezmax and Aframax – where we are majorly present? Can you give some views on those two categories, and why they are behaving differently than let us say, VLCC?

G. Shivakumar: Basically when people want to bet on a segment, they bet on the first mover in the segment. So for instance, if people want to bet on the Dry Bulk market they would normally first move towards Capesize, because the first segment to recover is normally the largest segment and the first segment to move. So for instance, we saw Cape first going to $40,000 from $5,000 in August-September last year, and they moved first and they have the maximum leverage to the market cycle volatility, and therefore people when they say 'I want to take a call on this particular sub-segment', then they say, 'let me go for the one which has maximum volatility because in the recovery that will do the best'. Similarly, people go the VLCC. VLCC has first moved in early November, and they went up to $60,000 a day. And it was only after that Suezmax and Aframax has moved. That is why first people tend to order VLCC and then they move to the next lower sizes. It is not any great change in the trade…of course, if crude people will tend to go for the larger sizes, because they are more efficient for the longer- hauls, but this is a normal behavior where people tend to go for the large sizes to get the maximum leverage to a cyclical recovery.

Himanshu Upadhyay: Can you throw some light on gas carriers? In the large gas carriers, we have seen a very sharp rise in rates. So what is happening in that market? We were also to by that one more gas carrier which was to come. How does the business happen? Is gas carrier majorly a time charter market the gas carrier?

G. Shivakumar: That is a good point. It is a small business for us because we only have one ship and we are going to have one more ship but it is one of the parts of the business which remains very profitable. Again, this has been mainly affected by US LPG exports, and this is an outcome of increase shale gas production, etc., which is resulting in more production of LPG in the US and which is therefore getting exported. So, a 6-7 million MT per annum of additional exports expected to be coming out of the US. US exports tend to be a long-haul exports because a lot of the demand is in Asia and that is a huge amount of demand, and these will mostly be VLGCs. So there is very strong trade growth. There has not been much ordering of vessels in 2010 and 2011 which would be delivering in 2013 and 2014. Therefore the fleet growth has been quite low and against which you have big demand growth for LPG ship and therefore we saw the rate spike all the way up to $100,000 per day in early April and they remain at 70,000-80,000 per day so at a very profitable level. So that business has been very strong on the spot market. Again, last year's average was probably somewhere around $30,000-35,000 per day. So, also quite strong but the last month has been exceptionally high. Now, as a result of actually last year's action where we saw $30,000 plus per day and the first quarter of this year also was at those levels or slightly higher. We have seen a lot of ship order. So the current world fleet stands at about 155 vessels, against this we have an order book of about 75 vessels, so which is almost 50% order book. So, we need to have a lot of demand in order to be able to satisfy this new order book, but a lot of projections of demand are talking of big increase in LPG exports out of the US which we will be able to absorb the 70-80 new ships in the next three years. So, it is anybody's guess how this could go, but as it stands today, it is a very strong market and it appears to have quite a bit of strength on it for the next few quarters, at least maybe not at these levels but definitely at profitable levels. So, what has happened also is that asset values have gone up substantially, maybe 40-50% in the last two years for these VLCCs. So, let us see what happens in the freight market as we go ahead. One vessel is already operating for the last 1.5 years. Second vessel which we bought last year will be delivered to us sometime in the next 3-4 months and then we will see what the market is and see what opportunities are there in the market for us.

Himanshu Upadhyay: My next question was on the Product Tanker side. So, how has been the market there? Let us say in the ton-mile demand in last one year or one and a half years, what is it expected in next one year, because there is strong ordering what was seen last year. How are you seeing the markets there? What is your read on the Product Tanker side?

G. Shivakumar: Product Tankers have slightly disappointed over the last few quarters. So they had a quite strong period in end 2012 and maybe first half of 2013, but after that I think the number of ships delivering has just been too much for the market to absorb and so we have had earnings coming off a little bit. So we will need quite a bit of demand growth to absorb all the ships that are coming in, a lot of ships have been ordered, so we are expecting fleet growth of maybe 4% over the next couple of years. So, we do not expect it to strengthen much from these levels, but not to weaken much either. So we think it will broadly be in balance at around the current level. I think the ordering has probably run ahead of the demand, and so we are not likely to get much stronger freight rates.

Himanshu Upadhyay: 4% what you said was per annum fleet growth rate?

G. Shivakumar: That is correct.

Himanshu Upadhyay: Can you give ton-mile demand projection? And for last one year how has it happened?

G. Shivakumar: I would probably put it at somewhere around 3-4% in ton-mile demand growth, and where we have had about 4% fleet growth. Projections – we would expect somewhere around 3.5-4% demand growth in ton-mile.

Himanshu Upadhyay: What would be the committed CAPEX for FY15?

G. Shivakumar: Literally, there is nothing much. All the ships are coming in FY16 & '17. Most of the CAPEX would be in FY16 & '17, which is almost $200 million. We have the rig which will come maybe in FY15 or FY16; it is a little bit on the border line.

Moderator: Thank you. The next question is from Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Sir, my first question is again on the Offshore business. You kind of referred to it in the call earlier, but the quarter-on-quarter margin, I am not able to understand, because last quarter also you indicated Rs.60 crores of hit because of survey cost and there were no downtime, and also because of currency. So I guess at least some part of that would not have been there this time around. And secondly, I think earlier in the call you said that one of the vessels has moved to a particular location. And if I remember right, last time also there were two vessels that were being moved. So I am sure their costs were there last time as well.

G. Shivakumar: Just in terms of rupees I would say there is an improvement of about Rs.20 crores in the EBITDA between Q3 and Q4 on the Offshore side. On a margin basis I do not know how that happens, but on a percentage EBITDA basis. But just in absolute EBITDA there would be about Rs.20 crores after you strip out the one-time items.

Ashish Jain: So, that is roughly Rs.10 crores in quantum or what?

G. Shivakumar: About Rs.20 crores.

Ashish Jain: The nature of that is what you told in the call earlier I guess?

G. Shivakumar: That is right, some operating expenses where we have to take some provisions, we have decided to take those provisions and provide for them in our expenses. We had some staff costs as well which we had to take a provision on.

Ashish Jain: Secondly, given your commentary on the ordering which is happening on the Dry Bulk side at an industry level, is there a case now that we might focus more on Tanker side from a new ordering perspective, especially given that Tanker Fleet growth has slowed down, the US shale gas thing you are saying the import decline is basically slowing down. On that backdrop, is there a case now that we might revisit the ordering on the Tanker side or something, because the sense I had got in the last 3-4 quarters is that we have taken a view that Dry Bulk segment is better placed structurally and hence we would focus more consciously on the Dry Bulk side as far as the ordering is concerned?

G. Shivakumar: Good point. We are fairly opportunistic in deciding on which business we want to invest more in. So, we would not mind investing more in Dry Bulk even now if the price is right. The other factor which has come in is that we have made a few commitments in Dry Bulk already, so we already have 5 new vessels charming the fleet and it is a fairly modern fleet, so our average age on the Dry Bulk is substantially lower than the average age on the Tanker fleet. Therefore, we do not really see a need to do anything more on Dry Bulk and it will be purely based on what pricing we can get on any assets that are offered. On the Crude side, you are right, the fact that supply growth is tapering off, is a positive and the last Crude Carrier we bought was seven years ago, so we have not invested in Crude for a long time. Yes, we might think of investing in Crude, but the problem is that the prices have gone up there as well. Again, summarizing what the factors are, if you look at demand growth side, Dry is much stronger. Fleet growth also is growing at maybe 5% per annum. On the Crude side, demand is not growing much because anyway the oil demand itself is 1-1.5%. On the positive side, you have fleet growth which is going to be at maybe 1-1.5% over the next couple of years. Neither of them is looking more attractive than the other currently. So finally it will come down to what price you can execute it. And if we get it cheap vis-à-vis the value that we perceive in it, we are okay to invest in Crude and in Dry Bulk or for that matter even in Product Tankers. It is just a question of the entry price that we get. But, yes, the fact that there is low supply in Crude Carriers is significant.

Ashish Jain: Maybe go one step more on this; is it then safe to conclude that in your thinking structurally Crude looks a bit better today than it was looking, say six months back or nine months back?

G. Shivakumar: Yes, it does, the major factor is that the decline in US imports is slowing down very-very dramatically and it was thought to be a structural decline which would go all the way down to zero and now it appears that it will not go down to zero, and it will stop at current levels or maybe a little lower based on the specifications of the crude. So basically that was an oversimplification which had happened earlier which I just said that US will keep producing Crude Oil and therefore will not need to import Crude Oil. Now, it does not look as bad and therefore the supply side story does not look too negative. We are still to see it turning out positively. So it is tough to put a scenario in which you have say 3-4% demand growth. So we are not yet able to see that, but at least one negative has been removed from that situation, and of course on the positive side you have the low fleet growth which we expect for the next couple of years.

Ashish Jain: On the offshore side, you said that there will be 9 vessels that will be repriced in the current year. Are we already kind of done on contracts on this, because none of these will be rigs I am sure, all of these will be like…?

G. Shivakumar: No, these are not done yet. Most of these will have to get new contracts. There is also one rig which is repricing at the end of this year.

Ashish Jain: And that is still open… that is not contracted yet?

G. Shivakumar: No, that is not contracted. This is not the new rig, this is a rig which is coming off of five-year contracts.

Ashish Jain: Where are the rates today versus where these vessels are currently deployed at in terms of rates again?

G. Shivakumar: This is not the new rig, this is the rig which is coming off a 5-year contract. Rates are actually substantially similar to where they were before, so not much change on the vessels again….

Ashish Jain: Rig would be lower?

G. Shivakumar: Rig, because of the time of fixing last time, it was 2008, when this rig was last fixed, market rates are certainly lower than they were at that time, now it remains to be seen what rates they get fixed at, because there are a lot of local factors also come into play here.

Ashish Jain: The rates on the rigs are about currently 20% lower than where this rig was kind of contracted earlier in 2008?

G. Shivakumar: I would not say currently, because there is no recent pricing happened, but the last pricing which happened was almost 20% lower which happened in the Indian market for a term contract of 3 or more years, was almost 20% lower than the fixing of 2008.

Moderator: Thank you, Sir. We have our next question from Mr. Prateek Poddar from ICICI Prudential, Mr. Prateek please go ahead.

Prateek Poddar: I do not know whether this was answered earlier, I logged in a bit late. Sir, if I just see, the asset prices have started moving up, but if I see the day rates, the spot rates have not moved up. So how should I interpret this as?

G. Shivakumar: Yes, asset prices are running ahead of recovery, so we would like to think of it as smart investors coming in ahead of a freight rate recovery, or you could think of it as general liquidity chasing assets. We hope it is the first, and not prices being bid up irrationally.

Prateek Poddar: What is your view on this?

G. Shivakumar: The jury is a little out on this; there are quite a few people who think that, it is likely that there will be a recovery in freight rates, the current freight rates it was seasonal low, you do not expect this quarter to be high in any of the top segments that we operate in, therefore, you will have to wait to see what happens in H2 of this calendar year to really know whether the recovery is taking hold or not, and that is when we will know, I think there is a reasonable chance of a recovery, certainly rates should be better than they are now, and we have reasonable amount of confidence that rates will be better across all these sub segments than the averages of 2013. So we think that there is a recovery in place. Now the question is the strength of the recovery and whether the strength of the recovery justifies the price increases which we have seen, because we have seen 20% to 30% price increases across the board, sometimes 40% price increase. So the question is whether the strength of the freight rate recovery justifies the asset price increase. Now that is anybody's call. There might be a little bit of additional pressure which has come in due to the liquidity chasing the assets, but it is really tough to tell what a ship is worth, at the end of the day, it is worth what the market thinks it is worth, you cannot say that this is what 5-year old Suezmax should trade at, there is no such intrinsic value really.

Moderator: Thank you, we have the next question from Jinit Mehta from B&K, Jinit, please go ahead.

Jinit Mehta: When exactly is Rig Chitra coming up for repricing sir?

G. Shivakumar: She started a contract in November 2009, so five years end in November 2014, and then she has to do her 5-yearly survey, so that will take some time off, so she will start a new contract, whichever contract she gets, very end of this year or very early next year.

Jinit Mehta: Probably a month or a month and a half will be lost between the two contracts?

G. Shivakumar: The last time we took two months.

Jinit Mehta: Broad outlook on the OSVs if it is possible?

G. Shivakumar: Broad outlook is fleet growth continues to be very strong, which is not good news, so expecting gross deliveries of maybe 10% on the PSV side, on the E&P budget side people are expecting budgets to get cut, we have seen 10% plus growth in E&P budgets in the last two years, this year people are talking of closer to 5 or 6%, which is not good news obviously, but within this quite a bit of variation on how much of this could go to the offshore E&P spending, so there a couple of market participants or research people who say that it is 3 to 4% in offshore and more in onshore and there is at least one market participant who says that offshore will remain at 9% to 10%, and onshore will actually be slower in terms of E&P growth, but broadly message is that spending is likely to be lower, spending growth is likely to be lower than it was last year and therefore maybe affect pricing, but you must remember here it is not a global market, pricing is most affected by local factors, so this is a very broad brush indication, but it is not an indication of what can happen to the rates.

Moderator: Thank you, we have our next question from Mr. Krishna Raj, individual investor, Mr. Krishna, please go ahead.

Krishna Raj: I have two questions, one is an accounting related question, which is that you know, you are carrying substantially higher value of ships in your books versus its market value, and I was hoping that the impairment testing would have captured it this year, it has not done that, so I just wanted to know why, and I will just come to my second question after this.

G. Shivakumar: Yes, there are some ships which are substantially higher in book value vis-à-vis their market value, and yes you are right, we do the impairment testing, in fact we do the impairment testing every quarter, not just at the end of the year, and after doing the impairment testing by the same method as we followed since 2007 or 2009, there is no impairment.

Krishna Raj: So the impairment testing process was not changed.

G. Shivakumar: It has not been changed, and the other thing is that actually the overall fleet value, and you will see that after quite some time we are now at book value more or less equal to NAV, which means that for our overall portfolio the market value is not below the book value.

Krishna Raj: Just for the fleet, on a portfolio basis, that is true.

G. Shivakumar: Yes, there are some ships which are substantially lower, where the market value is substantially below book, but this is compensated by vessels where the market value is substantially above the book value, again we don't apply the impairment test on a portfolio basis, we apply it on an individual vessel basis, but I just wanted to point out that we have come from a situation where NAV was much below so one year ago our book value was still at like 320 to 330 rupees a ship, and our net asset value was below 250, so there actually on a portfolio basis we were lower, now we are back to around book value on the entire fleet.

Krishna Raj: That is good, my second question was more management related, see if you look at the return on equity on the shipping business, you know, it has been hovering around, about 1 year ending March 2010 to this year about 8.75 and you know at the same time the shipping business is sitting on substantial cash, 3000 crores, 4000 crores, 3500 crores, you have been returning part of debt, now I am just wondering how does management view this situation of continuously low ROEs while sitting on substantial cash.

G. Shivakumar: Yes, the ROEs have been low over the last five years or so, because of where the market cycle is, and it is precisely for the reason that ROEs are low that we need to keep a substantial amount of cash, because we have commitments towards the debt that we have taken on the existing vessels, yes, we have vessels which are not performing as they should in terms of the returns that they provide, though, truth be told, most vessels if you look at them at the time of investment would not be showing more than a 10% return on a projection basis, but in order to run the business, and to run the business even at these low ROEs, you need to keep a substantial amount of cash, now that is certainly not 3000 crores, just to preempt your next question, but in order to be able to invest in a market where ROEs are very poor, which is where you will find great opportunities to invest in cheap ships you need to keep that money all the time, and you need to keep your balance sheet under leveraged at all times, so for instance in the last 18 months, we have invested in a couple of second hand ships, three second hand ships, one gas carrier and two product tankers, which are doing reasonably well, and probably up in market value since the time we invested in them, we have invested in six new building vessels and one second hand gas carrier, all of which are probably up in value to different degrees since the time that we invested in them, and at the time that we invested in them, if we just put the current market of that time you would have seen a very, very poor ROC, in fact you would have seen less than 5% ROC, but the fact is that shipping as a business makes money, shipping investments tend to make money when you invest in them in the low markets, the investments that we are struggling with, which is the ships that you are talking of, impairment testing etc, all those investments were made at a time when we were producing 40% return on equity, and those are not the best investments to make, the really good investments you can make in shipping are the ones where you make them when there is a very poor return on equity on a current market basis, and that is why we need to keep cash, now the question is whether this has to be 3000 crores or 2000 crores or 4000 crores, and we believe that this is the amount of cash that we need, we have also committed CAPEX of $200 million, we would look to invest more, unfortunately we have not invested as much as could have, we had a few more orders for vessels, which were placed in early last year, very late 2012, which unfortunately could not happen because there was some issues with the yard, so we would have like to have made more commitments in the low part of the market, more than just this 200 million dollars, that we have done, rough CAPEX that we have currently, and we would have liked to utilize more of the cash, but the market just moved too quickly for us and we were not just able to execute within that timeframe. So, yes, we kept the cash and we are still keeping the cash for a good reason, to be able to invest when prices are low, but we invest it, some of it, we also invested in the buyback, which we think would have added value if they had managed to execute it fully, unfortunately in most cases, the vessels as well the buyback the price, just moved too fast for us to able to execute fully. So we still think that we need to have a substantial amount of cash, and to reiterate again, whether the current level of 2800, 2900 crores is fully required is not, no, it is not fully required, but we still need a reasonable amount of cash for an operation of our size, because the markets are just so volatile, that you need to keep that money in reserve at all times. But, yes we could have easily invested another couple of million dollars, and we would have been comfortable.

Krishna Raj: Sure, thanks, that is a very comprehensive answer, so when I compare this cycle to the last cycle that the firm would have faced, you know, how is this cycle panning out, is it longer and more painful on course, from the firm's point of view?

G. Shivakumar: Sure, it is not any longer, the last cycle was probably in the 90s and very early 2000s, so that was a longer down cycle. The issue that we have is, our equity has built up very substantially in the last up cycle, because that was a real super cycle, from 2003 to 2008, and as a result the return ratios have fallen much more and they were much healthier in the late 90s and early 2000s, so one thing that we find painful is the amount of capital which is coming into this business, which is building the prices of assets very quickly, and therefore not letting us invest at the low markets. So that is one thing which we find different from earlier cycles that there is a lot of public money into the business, private equity, public equity, hedge funds, all coming into the business, and probably as a result of the low interest rates, and the huge amount of liquidity that is available, their rate of expectations, either their return expectations are lower than ours, which leads them to pay a higher price or their earnings expectations are higher than our, which makes them much more positive on those assets, so that is one thing where we find that it is more painful than the last down cycle that we went through.

Moderator: Thank you. We have a question from Mr. Ashish Jain from Morgan Stanley, Mr. Ashish please go ahead.

Ashish: Sir, I just had one housekeeping question. Of the offshore vessels, how many today are deployed in India.

G. Shivakumar: 13 are deployed in India.

Ashish: Which is among the vessels, because rigs are all in India and US.

G. Shivakumar: One moment, let me just think. Yes, 13 in India.

Moderator: Thank you, we have our next question from Mr. Rajesh from Anand Rathi, Mr. Rajesh please go ahead.

Rajesh: Hi Sir, as you have mentioned that H2 will really be able to understand really how the business cycle is looking at, but if you look at from the exports that are happening to China basically from Australia, or if you look at the iron ore and both also from the coal side, those numbers have been pretty good, and import numbers have also been pretty good, so what is your assessment on that front?

G. Shivakumar: Yes you are right, that exports to China have been pretty strong, so that is a positive, the one thing that we have seen, even though Chinese steel production is not growing much, it is based on reported numbers, their iron ore imports have been growing very strongly, just on one set of numbers that I have seen, the steel production grew by 10 million tonnes in Q1 and their imports grew by 30 million tonnes, of iron ore. So, there is again also an element of inventory building, so inventories currently are at about 109 million tonnes, so vis-à-vis about 90 million tonnes at the end of last year. So that is the other factor which is there, you don't know why these inventories are building up, there are reports that some steel mills are having a little bit of trouble, they are in some financial trouble, so iron ore imports into China have been strong, but unfortunately they have been going into building up inventories, which is just taking from future demand.

Rajesh: But Sir, then if I look at apart from iron ore also, if I look at the agri imports also, those have also been particularly strong for the last four to six months, basically the domestic products have been substituted, that is what is the understanding. I can understand the inventory point of view, but when you already have a fleet, which is being added, five new vessels which are joining here on the dry bulk side next year, is there some assessment as such regarding the demand part when you talk about the 4% demand growth. This volatility will continue for some more time at least, that is what is your thinking is on the asset prices and the freight side.

G. Shivakumar: First of all, out of our order book of dry bulk ships – two are coming in calendar 2015 and three are coming in calendar 2016, just to get that out of the way, and so far it has turned out that the freight growth has been as expected, so as I mentioned that iron ore imports into China has been growing substantially, so freight growth has been pretty strong, we don't see any reason why it would come down, the environmental regulations in China as well will tend to favor imports of commodities like iron ore and coal, because it is just so much more power intensive to use poor quality iron ore and water intensive as well, and therefore we believe that there will be some level of substitution below that 90 dollars per ton on iron ore, and that is why we believe that the trade growth will continue to be strong, and the supply side is easier to estimate, so 4 to 5% fleet growth I think is more or less there, and we can be fairly confident that it will not be more than 5% in the next couple of years, maybe closer to 4%. So that is where we are coming from.

Rajesh: Okay, and Sir, any thoughts, looking at the domestic economy, it has been weak, so you think that the exports out of China also will be similar, depicting similar trend, whatever is building up into the inventory, that has to be exported, the numbers on the steel side, that is what they are showing, or on the aluminum, on the metal side, at least they are showing that way.

G. Shivakumar: We have not seen much of that, because we have seen cargoes going in there, but we have not seen much of an export demand out of China, so I don't expect it to be a big factor, at least it is not a factor that we are following currently. What it will do is, all these inventories building up, will just take away from future demand that is all.

Moderator: We have the next question from Mr. Himanshu Upadhyay from M3 Investments, Mr. Himanshu please go ahead.

Himanshu Upadhyay: My question is on the jackup rig. We have currently all three rigs in India and the new coming rig is also positioned for India only. So would we like to diversify or will it be always beneficial for us to be in India only? What is your view on all major assets being deployed only at one customer, in one geography? The second part is two years back there was a huge ordering of jackup rigs at Chinese shipyards. So what is the situation and are they delivering on time, are you expecting any downward movement in that particular space from the charter rates for jackups?

G. Shivakumar: I will take your second question first, on the Chinese, the ordering of new jack rigs, I wish it was only a factor two years ago. So last year we had almost 80 jackup rigs ordered, of which 50% were ordered in China, this year, in year-to-date, that is in the first four months or so, we have seen 20 or 22 rigs ordered, so the ordering continues to be pretty strong, we are going at a run rate of about 60 to 70 rigs being ordered. Ordering continues to be quite strong, again these rigs will come in 2015-16-17, whenever. On the flip side, of course, I have mentioned earlier, there are a lot of old rigs, which require to be replaced, there are about 200 old rigs, which should go because they are less efficient than these modern rigs. So that provides a little bit of a safety net for people who are operating modern rigs, and therefore we do not expect the market to come down very substantially from here, maybe marginally, but maybe it could go up also, again I mentioned earlier, that most of these pricings depend on local factors in a lot of markets, so what is the specific competition for one particular tender, etc. So it is tough to see what impact it could have. Yes, it is bad news that a lot more jackups are being ordered, but on the other side, you have a lot of rigs that have to go. Then coming to your question about India, yes, we have 3 rigs in India and our fourth rig is also going to come to India. In theory, we would like to have some diversification of customers. ONGC is a very large customer for jackup rigs in the world itself, and we have no issues with operating in India or with ONGC, and therefore, we are happy to operate here. We are always looking at opportunities. So in the rig which is coming up for pricing, we are looking for opportunities elsewhere, as well. So, in Asia, we are looking for other tenders where we can employ our rig. Again, it will come down to who offers the best rate or where we can get the best rate and the best tenure, because you also need to look at… one of the things that the national oil companies offer you which the smaller private companies do not offer is long term contracts. So typically, in a national oil company you will get three to five year contracts, in small private companies you will get maybe a six month to one year contract or maybe a well-based contract, which maybe four or six or eight wells, which will not go more than one and half years. So you will have to look at the risk management part of it, because these are big assets which have a very substantial impact on the bottom line. So, we are always looking at options and we will see the tradeoff between short term contracts and the higher rates that we may get on short term contracts, but having said that we are happy to work with ONGC, we do not think there is a concentration risk with regard to working with ONGC, because this is a customer who is a repeat customer and who has requirements all the time. So we are okay working there, but we always keep our options open and keep marketing our rigs as well.

Himanshu Upadhyay: My next question is… let us say a 25-year old jackup rig and a new jackup rig, how much would be the efficiency difference, let us say in terms of operating cost, can you just throw some light on?

G. Shivakumar: One thing is that there are very few 25-year old jackup rigs, either you have more than 30 years old or you have less than 10 years old. In between those, there are very few rigs. So we are talking of 30-year plus jackup rigs, because the main building was between 1979 and 1984. So the efficiency does not so much come in operating cost, it is not an efficiency to us, it is an efficiency to the customer, basically they are able to drill faster because they have more power, they are able to hold more stores on the rig itself, they are able to carry more test load, and therefore the supply support that they require is less and the number of supply vessels that they need supporting them is reduced, they are able to drill wells faster, and there are studies which have been done by other drilling companies, which show that typically the modern rigs are 10 to 15 days faster in drilling a well than the older rigs, and this is on a base of maybe 60 days or so.. this is I am quoting from another drilling company’s presentation. We have looked at these numbers and they look reasonable. The other thing which happens is that there are some kinds of wells which just cannot be drilled by an old rig because of the lack of power. So an old rig will find it easy to drill just straight down, but nowadays there are a lot of wells which are more complex, where you have to do a horizontal drilling or something called an extended reach drilling, where it takes a lot more power and weight, load bearing capacity in order to do those wells. So in some cases, there are wells which they just cannot do, where the wells are more complicated, and as the well gets older or where the hydrocarbon formation is more complex, you will need a modern rig and you cannot use an old rig. That is the comparison between an old rig and new rig, you have at least 10-15-day more time per well on an old rig, and you also have some wells, which just cannot be drilled by an old rig.

Himanshu Upadhyay: Again, we have these offshore support vessels, and we were not interested in CAPEX on offshore support vessels for some period of time till we are able to deploy more sort of vessels what we bought in last 2-3 years. What is your view on these vessels – are we interested in CAPEX on these segments and how is this segment overall looking to you, let us say for next 2-3 years perspective, I would say, the support vessels?

G. Shivakumar: Actually, we did not have too much of a concern about the deployment of the offshore support vessel, we were waiting for the market to settle down, and for our own operations to settle down, because we had ramped up our fleet size very quickly and therefore we wanted to spend some time in consolidation before we take some more expansion. We are open to making investments in offshore supply vessels, but we have to find the right investment to make, and if we can find the right investment at the right price, and where we are able to meet the requirements of our customers in a cost efficient way, we are prepared to make investments, that company has investment capability as well because they are now in a cash generating mode rather than in a CAPEX mode, and so we are open to making investments, again we just have to find the right opportunity.

Himanshu Upadhyay: These second-hand vessels also, would you be interested or only it will be again like the new vessels only what we did earlier?

G. Shivakumar: It is very unlikely that we will buy second-hand vessels, because the spec is very important and the offshore vessels are not a commodity unlike shipping assets. If and when we do any expansion, it will be new only.

Moderator: We have the next question from Mr. Bhavin Gandhi from B&K Securities, Mr. Bhavin, please go ahead.

Bhavin Gandhi: Can you also tell us how many repricing happened during FY14 in OSV fleet?

G. Shivakumar: I think we had 7 repricings in the last financial year. But, if it is different, I will let you know.

Moderator: We have a next question from Mr. Ashish Jain from Morgan Stanley, Mr. Ashish please go ahead.

Ashish Jain: Just on the point which you explained on the old rigs, then is it not possible that these rigs can easily get deployed at say 20-25% lower rate given the differential based upon the base of 60 days, which you indicated, because you indicated that the OPEX is comparable and given they are 30-year old, I am sure they would be all depreciated, there would not be any debt sitting on this rigs in particular. So is not there a case that these could still be deployed and they may not go out of the system at all?

G. Shivakumar: Yes, there are a lot of them continuing to work, but one factor which you have to keep in mind… operating expenses are our cost, so it does not matter to the customer, and now look at it from a customer's point of view, the rig actually forms between 30% and 50% of his overall cost, I will just take the numbers, let us say the jackup rig costs him $150,000, and let us say it is 50% of the overall cost, and the remaining spread costs, which includes all his logging and supply and everything else, his chopper, etc, costs him $150,000. Now that $300,000, you have to incur for an additional 15 days for each well. So it is not just a rig which is costing extra, it is everything else around the rig, which is costing extra. So that is what you have to take into account, because it is not just that rig. If it was just that rig, then yes, what you said would make some sense. So yes, if there is a substantial differential between the pricing of a modern and an old rig, yes, you would think that there would be a replacement where the old rig can do the same work. So in a very simple well, yes, you can have that arbitrage, it is just a question of the pricing, but after some time, it is also a question of the efficiency of the operation, because all these are big investments and they want to get into production quickly. So it is not just the cost of the spread now, now think about getting production 15 days earlier. So that is the other thing which goes into the calculation of the oil companies.

Thank you very much for attending this earnings call, and as always our transcript will be up on our website within a few days, and any other questions, we are always happy to answer, you know how to get in touch with us.

Moderator: Thank you Sir. Ladies and gentlemen, this does conclude the conference for today. Thank you for joining us and you may now disconnect your lines.