Moderator: Good evening ladies and gentlemen, thank you for standing by. Welcome to GE Shipping Earnings Call on declaration of its financial results for the quarter and 30th September 2014. At this moment all participants are in 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 Ms. Anjali Kumar, Head of Corporate Communications at the Great Eastern Shipping Company Limited to start the proceedings. Over to you Ms. Kumar.

Ms. Anjali Kumar: Good evening friends, welcome to the conference call for our Q2 results. Mr. Shivakumar our Executive Director and Group CFO will walk you through some of the key numbers and some outlook on the business and thereafter we will throw the floor open to questions, over to you sir.

Mr. Shivakumar: Good afternoon everyone and thank you for attending this quarterly conference call. Just some highlights of the quarter gone by. One is that our net asset value on a standalone basis is Rs. 321 and on a consolidated basis it is Rs. 558 per share. The main action which has resulted in this is that we have seen a big drop in prices of dry bulk ships and product tankers between July and October. This has been offset a little bit by the increase in prices of crude tankers but not enough and therefore we had a drop in the standalone net asset value. Apart from that offshore fleet has more or less remained stable in value. Again the market is quite illiquid, there have not been any significant deals done recently, so it is tough to put a price on those assets. We have maintained them at the same value as they were earlier. In terms of the market outlook in shipping, the markets have been firing, both crude and products in the recent few weeks have been doing quite well. On the product tankers, especially on the larger sizes, the LR2s and to a smaller extent the LR1s and the MRs, the markets have been quite strong in the last few weeks. Apart from that the crude tankers have been doing reasonably well better than one would have expected say at the end of last year and the averages for the year seem to be turning out quite well for the crude carriers. On the dry bulk side, the picture does not look so good though the headline BDI had gone up because the capesize average had hit at about 26,000-27,000 dollars per day but Panamaxes and Supramaxes are the smaller sizes, which is where our main focus is, those were still at 10,000 dollars per day or lower than that on the Baltic Index.

So dry bulk, that recovery still seems elusive and the supply continues to grow, we are seeing about 5% growth for this year on the dry bulk fleet. Coming to offshore all of you would have observed the price action that we have seen on the price of crude oil in the last two to three months. We have seen a drop of 20-25% in the price of crude oil, both Brent and WTI from the high 90s to now between 74 and 79. So that is causing a little bit of discomfort with regard to the outlook for offshore. There is already report of E&P spending being cut, as it is this year is likely to be just a marginal positive number, I think we have mentioned this in the past. For offshore E&P spending it is likely to be only a marginal positive number. In fact, if people are able to scale back quickly we could have just 0% just flat year on year E&P spend numbers for offshore. Next year people have now started talking about negative growth on offshore E&P spend, so we will have to see how that pans out. The order book continues to be strong on offshore, so it is looking a little uncertain there. With regard to dry docks we had more dry docks in second quarter of this year than in both the first quarter and in the second quarter of last year. In the first quarter this year, we had three dry docks and second quarter we had five dry docks. Also, for the group it was a similar picture, we went up from six dry docks to seven dry docks between the first quarter and the second quarter. In the coming quarter, we expect two to three dry docking in the shipping space but the big one in the offshore space is the rig, our Greatdrill Chitra which has just completed five years and she has to undergo her five yearly special survey, so she will be undergoing that special survey for about 45-60 days and she is already on it, so November end/December she should be doing her special survey. So that is all I have with regard to a general update and now we can go to questions and we are happy to answer your questions on the markets and the company.

Moderator: Participants, if you have any question please press * and 1. We have a first question from Suman Bhat from Individual Investor, please go ahead.

Mr. Bhat: Good afternoon Shiv and the team there. I think another recently good performance in light of the difficult markets that we have seen all the past few quarters. I have a couple of questions. One is on the fleet growth, you mentioned 5% dry bulk fleet growth, is that for 2014 calendar year?

Mr. Shivakumar: That is correct.

Mr. Bhat: And what is the corresponding growth for the tankers?

Mr. Shivakumar: For product tankers we expect a very similar number for fleet growth - 4.5-5% and for crude tankers we would probably expect less than 1%.

Mr. Bhat: In light of the still dropping prices in dry bulk do you think you could look at further acquisitions in that space or do you think we have exhausted our appetite in that segment with new build orders that we have?

Mr. Shivakumar: First of all let me thank you for your kind words on our performance. Yes, in dry bulk we have – you may have seen that we did go and buy one ship in the month of September, we bought a Supramax Bulk Carrier, an eight-year old ship. So we are making some moves in that direction that you mentioned, so we are seeing some value there. Again it is tough to see when the recovery will come but you cannot buy at the bottom and sell at the top, only one percent can buy at the bottom, only one percent can sell at the top, so the best you can do is to say this is a cheap price, let us just go and do it. So, we have done that, we have bought one Supramax Bulk Carrier and after that we also have as you would be aware, we have five new building Kamsarmax Bulk Carrier which are coming, two in 2015 and three in 2016. So we have a reasonable exposure, again if there are opportunities which come up, if these markets remain bad we could look at adding to our exposure to that dry bulk space or even to the product tanker space. The only thing in the dry bulk space is that it is big bet on the direction that China is going to take and how the Chinese economy and how the Chinese infrastructure development is going to pan out. So that is something that we have to keep in mind.

Mr. Bhat: So you said there is a possibility also of product tankers but crude do you think is not a good segment to invest in right now?

Mr. Shivakumar: No, it is a good investment, in fact the outlook for crude is looking slightly brighter at least in the short term than for product tankers or for dry bulk and it is purely because of how the supply side is playing out there. We had as I mentioned less than 1% growth over the last 12 months. We are expecting this year to finish at 1% or lower, next year also is not likely to be a strong year, maybe 2%. Of course, then it will start building in 2016 and for that reason the crude tankers are looking reasonably good just on account of where the supply side is. It is tough to call the trade flows there because there are issues that you will not know about including say a US export of crude. The issue with crude tankers is that they have already gone up in value, they have probably gone up in value about 30% since this time last year and maybe more than that, maybe 35 to 40 also. This is secondhand ships I am talking about, on a like for like basis they are probably up. So a lot of it is priced and the problem is that there is so much money waiting there to be invested, that the moment there is some optimism about any sub-segment or any sub-sector, everybody rushes in and then the prices just go up 10% at a time.

Mr. Bhat: Are you seeing a lot of ordering again in dry bulk the same way it happened last year?

Mr. Shivakumar: No, there has been a lot of ordering considering where we saw the freight rates but it is not to the extent that we saw – last year we saw almost 80 million dwt ordered. This year we have probably seen about 50 million dwt, it is still a high number considering where the market was but not similar to last year.

Mr. Bhat: So we are still seeing order book in dry bulk increasing.

Mr. Shivakumar: That is right, it is still at excess 20% order book.

Mr. Bhat: Okay, I have another question on the rig that is gone in for the survey, do we have a contract fixed for that once it comes out of the survey?

Mr. Shivakumar: Yes, we do have a contract, we have a contract which has a firm period of one year and with options for three, four months more. So she would be employed till very end, through calendar 2015 she will be employed, maybe through the first quarter of 2016 as well.

Mr. Bhat: And how does the contract pricing compare to the previous one which was…

Mr. Shivakumar: It is lower by somewhere between 10-20%, I will not get too much into the numbers but somewhere between 10-20% lower.

Mr. Bhat: I think we also have a new built MR product tanker and one of the press releases at that time mentioned that the contract has an option to add more ship, are we looking at picking up that option?

Mr. Shivakumar: No, those options have expired in early 2013 and so the – we had a little bit of an issue with the yard that we ordered at. That yard is now almost defunct practically, that was in China, so we have managed to transfer that order to the parent yard in Korea, so we just managed to do that one ship which we had ordered originally.

Mr. Bhat: Yes, that is it from me, thanks.

Mr. Shivakumar: Thank you very much.

Moderator: Thank you for your question. We have a next question from Mr. Jinit Mehta from B&K Securities, please go ahead.

Mr. Mehta: Hi sir, good afternoon.

Mr. Shivakumar: Good afternoon.

Mr. Mehta: Sir, just on the rig on the downtime, so we are doing an EBITDA of say 20-46 crores, so what would be the decline of EBITDA once the rig is for a two-month downtime for the next quarter?

Mr. Shivakumar: It takes 45 to 60 days off and so you can make the projection based on that, we will also have a dry docking cost, I am not going to get into what the dry docking cost is, but you can expect, between the old contract and now you can knock off, somewhere between 80,000-100,000 dollars a day of EBITDA based on the current pricing.

Mr. Mehta: So once it comes back in Jan so do we see that going back to the run rate of 246 crore or because you said there is a 20% decline in the contract value, so that will get knocked off.

Mr. Shivakumar: No, I am not going to comment on what EBITDA run rate we will be doing, there is a pricing as I mentioned to Mr. Suman Bhat, we had a pricing downwards, so you just knock off 25 to 50 days of revenue but she hopefully will be on hire through the next quarter. So we should be through with this dry docking, so the expenses and the loss of revenue in this quarter itself. Since you brought it up we expect delivery of our fourth rig late in fourth quarter of the financial year and she should hopefully go on hire at the very end of the financial year or early in the next financial year.

Mr. Mehta: Okay, understood. Sir, on the shipping side now you have seen the rates move up significantly in the past few weeks. So, have we actually covered that rate increase in the existing time charters, because our time charters have increased significantly, our coverage has increased.

Mr. Shivakumar: One minute, I think we have a little bit of confusion here. Yes, so you are referring to the average TCY per day. So let us first look at it, so if you are comparing Q2 to Q1 or Q2 to Q2?

Mr. Mehta: Q2 to Q1, sequentially.

Mr. Shivakumar: So dry bulk is weaker as ships are operating, most of them are operating on the spot market, there is only one ship which is on period charter and therefore they are taking the current spot market in those earnings. Crude tankers are doing substantially better than they were doing in Q1 and that is reflected in the average TCY per day. Product tankers overall were not doing well, so MR and LRs were not doing better, were not significantly different from what they were in Q1 last year. The big difference is coming from the gas carrier which we took delivery of in first week of July.

Mr. Mehta: And that is on spot.

Mr. Shivakumar: That is on spot and that has made a huge difference because that is earning $ 75,000-80,000 a day, the spot market is very strong and that has brought up the average.

Mr. Mehta: Sir my question actually our coverage…

Mr. Shivakumar: We have not changed the coverage.

Mr. Mehta: Coverage has not been increased, okay.

Mr. Shivakumar: Yes, we have not done any major time charters, I do not even think we have done any time charters in the last – so the spot exposure remains the same.

Mr. Mehta: Across all the categories.

Mr. Shivakumar: That is correct.

Mr. Mehta: Okay, understood. Just one last question, sir the decline in – I mean a very just a Rs. 2 decline in our consol NAV and that can be explained by the shipping asset values decline but is that the only reason or has anything apart from the decline in asset prices has contributed to the decline?

Mr. Shivakumar: Nothing else will contribute actually, it is basically the decline in asset value.

Mr. Mehta: That is it, okay perfect, understood, thank you so much sir for your time.

Mr. Shivakumar: Thanks a lot Jinit.

Moderator: Thank you for your question. We have a last question from Mr. Sumit from Standard Chartered Bank, please go ahead.

Mr. Sumit: Thanks for your time. Most of my questions have been answered, just one question on what is your net debt position now and how was it last quarter in terms of free cash flow generation?

Mr. Shivakumar: We had the dividend payment and stuff like that, but our net debt position is here in our press release.

Mr. Sumit: It is long term.

Mr. Shivakumar: Yes, this is long term debt, this includes everything. So if you are wondering whether this is like the accounts where we separate the current position of long term debt, etc no we do not separate that, this is long term debt which includes all our debt.

Mr. Sumit: Okay, fair enough, I got it. Most of my other questions have been answered, just one more thing on the OSVs, I see your coverage ratio is below 100 but it has gone up I guess versus last quarter, so is there any chance that you can take that coverage up to 100% as well other than giving the softer outlook on the crude side?

Mr. Shivakumar: You mean the supply vessels category?

Mr. Sumit: Yes, yes.

Mr. Shivakumar: Unfortunately the issue with this is that we do not decide the timing on this, it depends on the customer requirement and the tendering, shipping you can do that because there are always charters going on. Here you have to wait for a tender to come and you have to wait for a tender to be decided. So we have bid into tenders one and half months ago, two months ago in India also but we just – I mean it will take time for those to come, for those to get finalized and if we get those contract etc, but intention is to get a period cover if that is what you are asking.

Mr. Sumit: Yes, basically correct, okay. All right, that is it from me and good luck for the next quarter, thank you.

Mr. Shivakumar: Thank you Sumit.

Moderator: Thank you for your question. Sir, further we do not have any questions.

Ms. Kumar: That is fine, we can just wrap it up. You can just tap once again with the investors.

Moderator: Okay, participants if you have any questions please * and 1. We have a question from Mr. Deepak, IDBI Capital, please go ahead.

Mr. Deepak: Good evening sir. Just want to understand, you told that E&P spend outlook is not looking that great, so that means to say how our charter rates will be for this offshore vessels, what will be the outlook for the same?

Mr. Shivakumar: Yes, the logical way to look at it is supply is growing by 6-7% of new fleet and demand on a headline basis is not growing. So, you would have potentially poorer utilization which would then as a next consequence lead to lower rates because the order book is quite strong in all segments, in PSVs and rigs at least.

Mr. Deepak: Okay, sir in dry bulk side how do you see the outlook for demand?

Mr. Shivakumar: Demand is not good, the iron ore is the only commodity which has actually moved up in demand in a big way. So Chinese iron ore imports have been up by about a 100 million tons in the first nine to ten months of the year. So that has been strong. Unfortunately Chinese imports of lots of other commodities have gone negative. One is their own coal requirement has gone down because of additional hydro power generation, so there has been a negative of about 25 million tons in coal imports into China. Along with that we have had the nickel ore and bauxite exports from Indonesia which have been banned and that has knocked off another 30-35 million tons of cargo. So overall there has been basically only that – and of course on the bright side India is growing its coal imports and that is expected to go up by about 25-30 million tons this year. So that is a positive thing. The other thing which is happening is that steel exports are going up, so Chinese steel production has gone up by about 25-30 million tons this year and at the same time we have seen steel exports from China going up by 20 million tons almost. So obviously their apparent demand does not seem to be growing much. So overall the outlook for growth in dry bulk commodities does not look very good. We think the iron ore replacement story has almost played out. There is a little bit left said that probably 100 to 150 tons still being produced in China but a lot of the iron ore has been replaced already with imported iron ore. So we will have to see how the price action pans out, already we have seen coal drop to below $ 65 per ton, we have seen iron ore drop to the 70s, so let us see how this affects the movement and the demand for these commodities.

Mr. Deepak: So basically we will be expecting this demand growth getting lower than this supply growth itself?

Mr. Shivakumar: It looks like it, the one good thing is that next year Brazil is coming up with a lot of iron ore capacity coming on stream and as you know that Brazil to China iron ore is the longest route and so it is very good for ton mile demand. This year even though there was 100 million tons extra of iron ore most of it came from Australia, almost 90 came from Australia, so it was not very good for shipping demand but if it is going to come from Brazil next year then it is going to be very good. So we will wait and watch but generally directionally it seems to be that demand is going to grow slower than supply. Again we have a lot of scrapping which can be done. Two years ago we saw 32 million dwt, last year we saw 25 million dwt scrapping. This year so far in the first nine or ten months we have seen only 12 million dwt of scrapping. So there is a lot of scrapping which has to take place and hopefully next year, if the markets remain weak that will kick in.

Mr. Deepak: So the ordering also has considerably slowed down?

Mr. Shivakumar: It has slowed down not enough, so it has come down from 80 last year to about 50-55 in the first ten months of this year. So we needed to slow down a lot more.

Mr. Deepak: Just because I want to understand, because market is expecting something more on this side because only prices are low, why they are ordering still considerably high?

Mr. Shivakumar: Yes, the prices of new building ships are reasonably cheap and as a lot of money is going for these eco ships because they want to order new ships which is the eco type. So that is the whole story. So it is not a number of 43 million dwt, sorry, the number is 43 million dwt ordered in nine months.

Mr. Deepak: Okay sir, thank you.

Mr. Shivakumar: Okay, thank you very much.

Moderator: Thank you for your question. We have a next question from Mr. Krishna Raj from Individual Investor, please go ahead.

Mr. Krishna Raj: Hello?

Mr. Shivakumar: Yes, hi.

Mr. Krishna Raj: Thanks for taking my question. One observation is that over the last few quarters the debt of the firm has been coming down, so is this going to be likely going forward as you kind of take in rigs and other assets on the books so that the cash kind of flows out or you are going to raise your bet and keep the debt equity ratio to where it is right now?

Mr. Shivakumar: The debt is coming down, I guess you are right in one way in your observation. Basically what has happened we took delivery of one gas carrier and one bulk carrier in the last quarter. In the previous quarter we did not take delivery of any vessels. So we have not drawn down any new debt I think for the last year or so, we have not drawn any new debt and so we have just been paying down debt. However we will be drawing a loan for the rig when we take delivery of the new rig of a 120 million dollars and you would probably know that our standard repayments in the group are around 150 million dollars in a full year, so presumably in the second half we should be about 70-80 million. So we will have an increase in the debt number by the month of March. This is basically debt is coming down because we have not funded any new assets and we have been buying secondhand ships, we have just been paying out of cash itself.

Mr. Krishna Raj: And what is the floating to fixed ratio on this debt?

Mr. Shivakumar: In Great Eastern we are 80%, in Greatship we are at 54%, so overall we are somewhere around two-thirds fixed.

Mr. Krishna Raj: Okay thanks, my next question is a more qualitative one. I read about OW bunkers and then its bankruptcy. So I just wanted to know if there are likely to be any cascading effects on Great Eastern or Greatship.

Mr. Shivakumar: No.

Mr. Krishna Raj: Yes, that is it from my side, thanks for taking my question.

Mr. Shivakumar: Okay, thank you very much.

Moderator: Thank you for your question. We have a next question from Mr. Vikram Suryavanshi from Philip Capital, please go ahead.

Mr. Vikram: Hi, good evening sir.

Mr. Shivakumar: Hi Vikram.

Mr. Vikram: Can you repeat NAV numbers, I just missed that and second is that in offshore how much revenue would be outside India?

Mr. Shivakumar: 321 and 558 standalone and consolidated respectively.

Mr. Vikram: Okay got it, thanks.

Mr. Shivakumar: And revenue outside India is somewhere between 25-30%.

Mr. Vikram: And this E&P slowdown in capex is mainly because of crude oil prices or is there something else more to…

Mr. Shivakumar: No, it started in early this year when oil was still at $ 110 a barrel. Basically it is that all these large listed oil companies are facing pressure from the shareholders to pay dividends, do buybacks etc and they have been investing and not finding much oil and therefore shareholders have been putting pressure on them to give money back just like they are putting pressure on companies like Apple and Transocean to pay out more dividends. So what these guys have been doing is that they have been scaling back on their investments and using their cash towards dividends and buybacks. So that was already a trend which we started seeing in second half of last year and that is just continuing. Now of course this is going to add more pressure with the price dropping to such low levels, they will already be quite nervous about it. So, presumably that will result in further cut in spending, at least the marginal projects will not get funding and they will just decide to drop the marginal projects where the cost of production is likely to be higher. The good impact of oil price movement is likely to come in the tanker business. Hopefully there will be an improvement in demand because of the drop in price of crude oil and refined products and that will give a boost to movement of oil. That that is going to be good for the tanker business we hope. You will find some of these developing economies are quite sensitive to the price movements.

Mr. Vikram: And for the shale gas particularly in US do we further can expect our production increase or that what currently is happening is more or less would be stagnant.

Mr. Shivakumar: Yes, I think you are referring to shale oil, the production is happening every month as we speak. We are now seeing more than 3 million barrels per day of production increase from 2011, every year at least a million barrels per day production increase. It does not look like slowing down, however we will have to see how this plays out, whether at $ 75 per barrel, whether there is some pressure. There will be little bit of pressure because they also have funding requirements, you will have to keep drilling. There might be some funding issues, we hear that the high yield bonds have moved up in yield and so it might be more difficult for them to fund themselves. Oil companies stocks have also dropped, so they might have a little bit of a capital constraint for these smaller shale oil and shale gas companies. So that might result in a little bit of slowdown but we do not see it coming of dramatically from here. So currently shale oil production must be around 4 million barrels a day. We do not see it coming off dramatically from this four number but maybe growth will slow down if money is not available at these oil prices.

Mr. Vikram: Has it started impacting in terms of second hand pricing in offshore ship segment or rigs or something like that?

Mr. Shivakumar: No, it is not because we do not see transactions at all. The only reason I say it is not impacting is because I have not seen a transaction because there are so few transactions in offshore. In shipping you have transactions all the time, so you know what your price benchmarks are. In offshore we have not seen any transactions for quite some time now, so it is very difficult to judge. In new buildings the prices have not dropped, so the price of a new building rig is the same as it was about a year ago. In one case we saw it was marginally higher also in the case of a rig at Keppel. So of course the spec change can mean a lot in this but basically in new building there does not seem to be any drop in price for the rigs. In supply vessels, there is a drop in pricing in China but secondhand we just have no data on it.

Mr. Vikram: Thanks sir, that was helpful.

Mr. Shivakumar: Thank you very much.

Moderator: Thanks for your question. We have a next question from Mr. Jinit Mehta from B&K Securities.

Mr. Jinit: Sir, just on that VLGC, sir when is the tentative date of delivery for the older VLGC?

Mr. Shivakumar: Sometime in January, the one that we sold, right?

Mr. Jinit: Yes.

Mr. Shivakumar: Sometime in January.

Mr. Jinit: That is it sir, thank you so much.

Mr. Shivakumar: Thank you.

Moderator: Thank you for your question, participants if you have any further question please press * and 1. For any further questions participants are requested to please press * and 1. We have a question from Mr. Suman Bhat from Individual Investor, please go ahead.

Mr. Bhat: Hi, me again. Just a couple of other questions. What is the cash on our books as of the end of the quarter?

Mr. Shivakumar: We have about 3,300 crores of cash in the group.

Mr. Bhat: Okay, our operating costs have gone up quite a bit, is that only because of the increased dry docks or are there…

Mr. Shivakumar: Yes, that is correct, it is a dry dock thing and small timing changes in buying some parts, etc. but it is mainly dry docks. We had in between Q1 and Q2 I think there was a 10 crore increase in dry dock cost in shipping itself and yes that is the kind of swing that it has.

Mr. Bhat: Just another question, now our market price, stock price is still trailing significantly under both NAV as well as the book value per share, so are we again looking at buyback as a possible avenue for the cash that we are generating? I think we are generating about 300 crores of cash each quarter and if the book value are much higher than our current stock price, it might make sense to invest in our own stocks rather than look for new assets, right?

Mr. Shivakumar: Yes, it is an interesting thought but I am not going to comment on it.

Mr. Bhat: Okay. Okay, that is it from me, thank you.

Mr. Shivakumar: Thank you very much.

Moderator: Thank you for your question. Ladies and gentlemen, if you have any question please * and 1. Participants if you have any question please press * and 1.

Ms. Kumar: No, we can wrap up now.

Moderator: Yes ma'am we do not have any question.

Ms. Kumar: Thank you ladies and gentlemen for joining us and as usual the transcript of this call will be on the website in a couple of days and you are always free to call us or e-mail us for any other clarifications that you may have. Thank you very much.

Mr. Shivakumar: Thank you.

Moderator: Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using Tata Docomo Conferencing Services. You may please disconnect your lines now, thank you.