



“The Great Eastern Shipping Company Limited's Q4 FY'21 Earnings Conference Call”

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Moderator: Good evening, ladies and gentlemen. Welcome to GE Shipping Earnings Call on Declaration of its Financial Results for the Quarter-ended 31st March 2021. At this moment, all participant lines are on listen-only mode. Later, we will conduct a question-and-answer session. At that time, click on the 'Q&A' icon and click 'Submit Request' button.

I would now like to hand the conference over to Mr. G. Shivakumar – Executive Director and CFO at The Great Eastern Shipping Company Limited to start the proceedings. Over to you, sir.

G. Shivakumar: Thank you. Good afternoon, everyone and thank you for coming to attend this conference call to discuss our Q4 and Full Year 2021 Results. As always, we'll take you through a short presentation, where we'll discuss the financials in brief, and we'll discuss the markets and also some other things that we'd like to communicate and then we can move on to Q&A where Mr. Bharat Sheth, our Deputy Chairman and Managing Director is here and we will be happy to answer any of your questions.

First of all, standard disclaimers apply. There may be some forward-looking statements we make. We are not giving guidance with regard to future earnings. So please keep that in mind.

First, you may have seen the results already. We finished our board meeting quite late. So, just in case you haven't had a chance, we have declared for the full year FY'21 standalone net profit, this is our reported net profit of Rs.1,030 crores and on a consolidated basis we have reported net profit of Rs.919 crores for the full financial year FY'2021.

Coming to normalized which is a number that we discuss every time, the normalized standalone profit for the full year is Rs.842 crores. This is because we got a big gain on currency and derivatives during this financial year. And so, stripping that out our normalized profit is Rs.842 crores which translates to an EPS of about Rs.57 per share.

On a consolidated basis, we have net profit normalized of Rs.759 crores. We have declared a dividend per share of Rs.9. Our net asset value standalone which was Rs.454 rupees as of March 2020 has gone up to Rs.489 a share. This is valuing our investment in Greatship and all our subsidiaries at our cost. When we value all of those investments at the market value of the assets they represent, it's gone up from a range of 488 to 530, to a range of 514 to 562.

These are the broad numbers which we look at every time. Now let's look at the fleet profile. So we currently have 46 ships, we have one more Supramax bulk carrier due to be delivered to us sometime in the next few days and that will take our fleet to 47.

Moving on to discuss what's been happening in the markets. We are going to discuss the full year, some of which we have already discussed in the past. Let's see what happened to the crude and product tankers during the year. We saw those great heights in April 2020 when we saw huge oversupply of oil as there was a generalized lockdown in a lot of countries around the world and OPEC was going all out pumping out oil, which meant that ships were taken into floating

storage and reducing the supply of ships and therefore we saw very high rates for tankers in the first quarter of this year. After that, the rates have come off and have been bouncing maybe a little bit higher than operating expenses. So you can see that where whether it's crude tankers, which is a Suezmax in the green line or a MR product tanker, earnings have been typically around \$10,000 per day. That's mainly because by May, June, the oil supply from OPEC was curtailed, ships got released from floating storage and added to the pressure of the supply of tonnage and therefore rates collapsed. And they've stayed there apart from small little ups and downs from time-to-time. But in general, the last six to eight months have seen very poor earnings in the market for both crude tankers and product tankers. Our crude tankers did not suffer the full brunt of it, because we had some of our Suezmax capacity locked away on contracts and that was done earlier in the year and therefore, we were able to outperform the spot market in the last six months.

What's happening currently, as I mentioned, earnings for both crude and product tankers remain near operating costs. However, demand continues to remain 5 to 6 million barrels a day below pre-COVID level, so we have not come anywhere close to a full recovery. Though there is talk that within the next three to six months, we could get back, we have seen research reports from some of the big research houses, saying that we could get back to that level by end of 2021 but that remains to be seen.

On the supply side, as I mentioned earlier, the floating storage vessels have come back. There is still a little bit of an overhang, but not so much now. Fleet growth has been quite strong, almost 4% for crude tankers and almost 3% for product tankers. And remember, this is in the face of a negative demand growth for tankers. Also, strangely enough, there has been minimal scrapping during the year of tankers, despite the poor earnings, maybe because of some optimism which is there for the future.

Looking at the dry bulk market - if you look at the Kamsarmax earnings, it's almost a mirror image of the crude tanker and product tanker market, in the sense that the Q4 has been very strong, while Q1 was very weak. Again, it was affected by the lockdown, as industrial activity came down in the first quarter of FY'21. This has slowly recovered over the course of the year, and especially led by China, and also strong grain demand as well from China, and therefore rates have picked up. After this, rates have gone up even higher, in fact, rates are at levels which have not been seen since 2010. This is across whether it's a Supramax Bulker or a Kamsarmax or a Capesize, they've reached levels which we last saw in 2010. So there's been strong demand growth across several dry bulk commodities. So it's a broad-based sort of demand pick up, not just a single commodity.

What has also happened, which typically tends to happen when suddenly, the demand for transportation goes up is that port congestion has gone up a little bit. It's now at a level last seen again in 2010-2011. So that's adding to that tightness in the market.

Looking at LPG, the LPG market again saw a very high level in December, we saw rates of about \$100,000 a day in the spot market. Again, this does not directly affect us because all our LPG ships are on time charters, but they come up for repricing from time-to-time typically these are one to two year time charters, and therefore these rates also affect the rates that we get for our time charters. So the LPG earnings have been reasonably strong on average during the year. US exports to Asia remained healthy through most of the year. Also, we had the phenomenon of a large number of vessels undergoing dry dock. If you've been following this market for a long time, you will remember that there were a large number of ships which were delivered in 2015. Typically, those ships have to dry dock for the first time in 2020, which meant a lot of them were removed from service which crunch the supply.

Let's look at what the fleet supply outlook is like. So while we don't know what can happen to scrapping, the order book and this is a statistic which we've been putting before you for the last few quarters, the order book as a percentage of the fleet for product tankers and dry bulk is at its lowest level in the last 25-years. And again, we're only saying 25-years because we don't have the data for before that, maybe it's for a longer period as well, but it's the lowest in at least 25-years.

For crude tankers, where we've seen some ordering, the order book is at its lowest since 2013. So that's eight years. On drybulk and product tankers, it's at really low levels at 7% and less than 6%, which gives some hope to market players on potential tightening of the market in future.

Let's see what happened to asset prices. This is asset prices indexed starting five years ago, indexed to 100 as of 1st April 2016.

On the top left hand corner, you see the Suezmaxes. So they were at a high at that time and they came down by 25% in 2016-17. If you recall that's a time when we bought a few crude tankers, then they went up a year ago, they were very high. They went back to the peak seen in 2016 and then they came off towards winter. But again, now there's been a rise of about 10% in second hand asset values. This is despite earnings being only slightly above operating costs for the last several months, as I mentioned earlier. Similarly, for product tankers you can see that prices were at a high in April '20. It came down significantly towards end of 2020, but again, they've gone up about 5% since then.

In dry bulk, the movement is quite logical. The prices were at a very low level in October, November. Because the markets have picked up so much, they've gone up about 40% to 50% in value within the last six months or so.

In LPG, again, earnings have been quite strong for the last two years at least and therefore asset prices have remained strong. They had a little bit of an upward movement over the last few months as well.

Broadly, on our fleet, crude tankers year-on-year that is from end March '20 to end March '21 dropped in value by about 25%. Product tankers went down in value by about 5% to 10%. LPG went up in value by about 5% to 10% and dry bulk went up in value by 15% to 20% during the year.

Looking at the offshore business, one thing that we found interesting is what's been happening to offshore field discoveries. As we've seen spending go down, that is spending on offshore drilling, exploration, and production, the number of new fields discovered has obviously come down because the activity is lower, less wells drilled, typically tends to mean less fields discovered as well unless you can improve efficiency in a huge way. And number of fields startups also have come down very significantly. Some industry participants expect that this may result in a tightening of the oil price because you have to keep discovering more **oil fields**. A producing field cannot keep producing at the same level forever, it will keep declining at different rates depending on the nature of the field. But it needs to be replaced at some point. And this appears bleak as not much replacement activity is happening which may result in some tightness in oil at some point in the future.

Again, this is on the supply side. You can see on the rigs, almost 40% of the rigs in the fleet are more than 30-years of age. About 12% of the fleet has been cold stacked for more than three years, we've mentioned this before, that these rigs will require a significant amount of expenditure before they can come back into full operation and before they are accepted by the customer. So you will need day rates to go up significantly before these rigs can come back. If rates don't go up much, the longer these rigs idle, and are cold stacked, the higher the amount of money that has to be spent for them to come back.

Similarly for the vessels, about 19% of the fleet is more than 20-years of age. We have almost a similar proportion of the fleet which has been cold stacked for more than three years and therefore may not come back into operation very quickly unless the market picks up in a very big way.

These are our repricings. We have one rig and that's a gray bar in H1 FY'22. One rig which has come off contract, that's a Greatdrill Chaaya. She has not yet got the next contract. We have bid for a business, but we have not got the award yet. And we have to see whether we are in a position to go on hire if we get that contract and to be able to go on hire before the monsoon. Typically, rigs go on hire only before the monsoon, otherwise they have to wait out the monsoon.

We also have seven of our offshore vessels which will be up for repricing in the first half, that is within the first six months of FY' 22. And then you have the repricings which have to happen. So a year from now we have to do one more repricing of a rig and similarly in H1 FY'24 as well.

Looking at some statistics, and this is something that we have looked at in the past and it appears more stark now. So what is this telling us? We start on the left with what was our net debt in March 2016; we had approximately \$110 million of net debt in March 2016. We leveraged up

because we saw opportunities to invest. You would remember that the dry bulk market was extremely weak in 2016 and then the tanker market was weak and then we had a period of weakness in the LPG market. We did a lot of CAPEX, we did net CAPEX in the last five years, that is between March '16 and March '21, of approximately \$400 million that is purchases minus sales. However, on a point-to-point basis, you will see that the net debt has gone up by only \$30 million. I'm talking about Great Eastern Shipping standalone, just to clarify. So the leveraging up happened, the leveraging down has also happened because those investments have paid off, they have generated very strong cash flows. If you take all the investments that we have done since 1st April 2016 till date, they have together produced a US Dollar IRR of just under 15%, this is unlevered IRR which shows that model seems to have worked reasonably well. And that's what has enabled us to reduce our net debt pretty quickly as well because of the cash flows that have come from those investments, and of course, our investments that were there earlier as well. So what this also enables us to do is it have given us capacity to expand because now again our debt is at quite a low level and we have cash. So it enables us to do CAPEX again whenever we see the opportunity for doing CAPEX.

The other thing which has worked for us considering net block, we are looking at it in a five year block, on the left is what our consolidated block was in March 2016. Of the consolidated net block, 60% was offshore assets and 40% were shipping assets. Today, thanks to a lot of the investment that we've done in shipping assets. It is flipped around and we are at 41% in offshore and 59% in shipping assets.

This is again a statistic that we show every time, share price to consolidated NAV. I mentioned to you that the standalone NAV is just under Rs.500 a share. The consolidated is somewhere between 510 and 560 per share. So we've taken the midpoint of that. We are currently at about 0.72 price to consolidated NAV.

Thank you. That brings me to the end of this presentation. We are as always very happy to take questions from you.

Moderator:

Thank you very much, sir. We will now begin the question-and-answer session. We take the first question from the line of Jagdish Vikas Sarda, an investor Please go ahead. Mr. Jagdish Vikas Sarda has also put up a question on text which says I wish to ask a question, why company is raising 1,000 crores through NCD when company is having cash on books?

Shivakumar:

This is an enabling resolution which we do once a year. It keeps the option open for us to raise NCD money when the opportunity arises. Currently, there are no plans to raise money from NCDs because we have no CAPEX plans, the CAPEX related to the one vessel that we have to take delivery, has already been funded. It is an approval which has been taken from the board which can be executed anytime during the course of the year as and when required. So we are not currently in the market to raise an NCD.

Moderator: Thank you. We take the next question from the line of Himanshu Upadhyay from PGIM. Please go ahead.

Himanshu Upadhyay: So my first question was on the dry bulk side. You have two Capesizes and number of Kamsarmaxes. And last year, when the market moved on the Suezmax side we had an issue, we could not catch that market, okay, or very near to the top or the realizations. What strategy we are using this time? Because what we are saying is Capesize rates are nearly at \$40,000 is what we are hearing. So those can be real big gainers, if we can get some of those realizations, what is your strategy and what you are doing on that side? Because we have already said that we expect the market to be more volatile from here on last year and two years back also. So we are preparing in that fashion. Can you elaborate on that? How are you playing the market?

Bharat Sheth: So first, did I hear you right in saying that on the Suezmax we did not benefit from the big rise that we saw in April and May of the year? So just to correct you, we did significantly benefit from that. We had many of our ships which traded in the spot market. And what we did was at the higher price points, we covered our oldest Suezmaxes for periods ranging from six months to a year. And as the CFO mentioned during his presentation, we also covered another two and a bit of operating days on Suezmaxes by taking a contract of affreightment. So when the market did collapse to earning at operating costs from, let's call it October to March, we had an incremental net income of about \$14 million. So we really benefited from getting that timing sort of almost perfect. Now, as far as the Capes are concerned, we have two Capes as you rightly said, and both the capes are currently in the spot market. Now, pricing takes place daily, and sometimes you will need the market, sometimes you will lag the market, but both our Capes are fully benefiting from the current rally. At some point, we may decide to fix them forward. But we don't think that point is reached yet. There is every possibility of the rates going up even further. As far as the Kamsarmaxes are concerned, out of the seven Kamsarmaxes we own, one we covered in October-November of 2020 for a period of one year. And that will therefore come up for repricing later this year, that was of course covered well before the market rallied in early March, and the second vessel we also covered for one year, that was done in February of '21 and that will come up for repricing in February '22. The other five ships are in the spot market and are benefiting from the increase in earnings. And similarly, although you did not mention the Supramax bulk carriers, all those are in the spot market and they all are currently benefiting from this rally.

Himanshu Upadhyay: My second question was on tankers side, both product and crude tankers, we have seen the rates to be extremely low, and the price of steel has increased dramatically. Scrapping has been pretty low or we are not seeing any increase in scrapping. How are you looking at those markets and what are your expectations of those two markets? Generally we would have expected this scrapping to increase. But the scrapping remains pretty low specially in product tankers. So what are your thoughts on what are you doing in those two markets?

Bharat Sheth: Yes, so you're quite right that in spite of both the crude and the product market being significantly challenged, we ourselves are very surprised of two developments; one is very poor

scrapping and the fact that values of the ships are going up. And we can only guess because scrap prices also are at multi-year highs and scrap tends to follow what is happening in the steel market. So it's scrap prices at multi-year highs. We are as surprised as you as to why additional scrapping is not happening. But as night follows day, it will happen because there are lots of regulatory changes that are coming in the next couple of years, so it's all accumulating to be scrapped some time. We can only guess and I think our current guess is that there is optimism in the market really driven by two factors; one is OPEC plus themselves having announced that gradually they will be enhancing production by about 2 million barrels a day. So that much more oil coming into the market for transacting. And also there is some talk about Iran possibly coming out of sanctions in the new US political regime. And if that were to happen, that can possibly add to another 1.5 million barrels of oil to be transported. So if all this were to happen... 3.5 million barrels of oil to move and if let us say, later in the year, many economies do go back to functioning to pre-COVID times, all that will lead to a big demand increase. You're already seeing crude oil at close to \$70 and, again, it is all being led by optimism of demand picking up later this year. So, our guess is that people are sort of hoping before they need to scrap those older ships that they will get the equivalent of one last hurrah. And we did see this last year if you recollect when our own vessel that was imminently due for scrapping, earned the highest six month average rate in its history. So sometimes the old ships can suddenly pick up a lot of money. And I guess, this is only guessing, that is the reason why people are not scrapping.

Himanshu Upadhyay:

In the presentation, we have shown that the number of wells drilled is reduced dramatically and the price of crude is nearing \$70. Do you think the offshore market is now being more ripe for the upmove or at least day rates are starting to improve, what is happening in that market, if you can give some commentary on the market it would be helpful?

Bharat Sheth:

Sure. So potentially, the answer is yes. There has been some level of tightening in the rig market. And if you see the repricing of our own rig, we were just awarded the contract I think it was a couple of weeks ago. And that was approximately 40% higher than what it was earlier. And there is every possibility that if you get a sudden spurt... I mean, we are seeing it in every commodity, oil too is not an exception, it's moved from 20 bucks to 70 bucks. And there is talk that oil will continue to go up, particularly as demand picks up. And if that were to happen, and as the CFO showed in one of the slides, there is a lot of older rigs which would really find it a challenge to satisfy customer demand. So it is possible that the tightening may continue in the months and years to come, that is possible because we have seen a period of under investment. Now whether that happens or not will obviously depend on lots of factors and we would refrain from trying to second guess that market. On the boat side, I think that's going to take longer, boats will lag the rig market. So if there were to be a recovery, I think it will be led by the rig market and then followed by the boat market because the current utilization level in the boats is lower than what it is on the rigs.

Moderator:

Thank you. The next question is from Jeet Gala from Centra Advisors LLP. Please go ahead.

Jeet Gala: Sir my first question is on asset pricing and eventual CAPEX program. So sir in the previous quarter and in the chart which shows the asset prices, we can very well see that over the last 12 to 15 months, the asset prices have been correcting very well. And it's been actually worth the wait by sitting on the sidelines and not getting on to the buying spree. But in today's presentation, we have seen that the asset prices have started to bounce back. So just wanted to know the view on asset prices, I mean, do you really want to sit on sidelines further? Do you again see the asset prices going to dip further? Or would you want to start getting onto the CAPEX plans?

Bharat Sheth: So let me just rewind to April 2020. In the first three months, that is April, May, June of 2020 because of COVID we were not in a position to acquire anything because there were no movement. Even if you can buy a ship, you couldn't get your people out there to transact. So the first few months of FY'21 were lost on COVID account. We then got into a buying mode. I think the price rally caught us to rise. We need more time to go and spend money and we were clearly struggling with all these restrictions on Indian seafarers. So we had to be careful not just buying ships because you obviously have to get your people out of the ship, etc. So we consciously did it one step at a time. Unfortunately, what has happened is prices have rallied a great deal. And today, if you ask me, I would say that we are really priced out of the four sectors we are in. So we would now not be looking at this moment at doing any further CAPEX unless of course, prices were to reconfirm and come down, but they are ahead of our price points. And as the CFO pointed out, we've been very careful with the way we've allocated capital. And over this five year period on 20 acquisitions that we've made, we've obviously done very well. On each of our acquisitions, we are well into the money. So it's a 20-0 record in our favor at the moment. And that's only happened because we've been very careful with the way we've allocated capital. So we will remain disciplined. If prices come to our price points, we continue to buy and if they don't we will have to let that opportunity go. So we will not be a momentum buyer.

Jeet Gala: Sir, SCI bids, is the bid stopping you from any CAPEX in the sense that once the bid is allotted or you get the opportunity to acquire SCI, you will have to set aside some cash for that acquisition, right. So, is it that you will be able to do only SCI and not anything in the secondary market or you can do both the activities together because...

Bharat Sheth: Let's not look at SCI. We are just focused on looking at acquiring ships from the second hand market if we can. We came very close to finalizing some new building contracts for crude oil tankers. Unfortunately, it did not work from the seller side. We were there to transact but the seller, unfortunately, after agreeing to a price, did not consummate the transaction. Having said that, currently, immediately, I'm saying even if we were to get our price points because of what's currently happening on the COVID issue, we are really going to find it a challenge to move our seafarers around towards any further acquisitions. So when prices are where they are, a) we are not buyers, but b), we are also constrained at the moment due to this big rise in the COVID count.

Jeet Gala: Sir, my second question is on dry bulk. We've seen the freight rates becoming stronger in the last couple of months and it's been mainly because of the commodity-driven rally led by China.

And sir most of the people around talking there is a stronger rally, I mean, the commodity demand is going to stay here for longer. So, I just wanted to know your view on the freight rates, I mean, is it going to be a whipsaw, or kind of a temporary phenomenon, like two, three months or the rates are going to remain stronger for longer?

Bharat Sheth:

Well, that is one thing we don't know. I've always said we are positioned sort of to benefit from both. Eventually we want volatility, right. So we will benefit not if there is a secular bull market, because then you are priced out. So eventually, for us, whether they are short term markets or long term markets, these are things difficult to call. All we look at is when asset prices come to our levels, we should always have the liquidity and the capability to strike. And if the markets rally, we should also have sufficient spot tonnage to benefit from it. And that's how we are currently positioned. Historically, freight rates in the dry bulk market have always done well when commodity prices are strong, because the shipper looks at freight as a percentage of the commodity. And if you see today, just to give you an example, freight rates, if you take iron ore, which is seeing its biggest bull run possibly since pre-Lehman and spot iron ore is now \$200 a ton and the rates on the long haul Brazil, China which is the most sought after trade, freight rates are a little over \$30/t, which is 15% of the commodity. And we have seen the long term median of freight to commodities about 20% but we've seen this go as high as 40% and 50% of the commodity price. So if we were to go back what we have seen in the past and I don't know if we will or will not, then, obviously, there is a long way for freight rates to go up.

Jeet Gala:

If the freight rates are going to remain here for longer period, what do you think the impact is going to be on the order book on the dry bulk side, I mean, are there newbuildings going to be ordered very easily or your IMO 2030 is going to stop people from ordering, what is your expectation of the chain which is expected on the order book side?

Bharat Sheth:

So, again, if history were to repeat itself... and often history does repeat itself, ship owners are their worst enemies and we have seen lots of people get excited very quickly. And there is every possibility that if this market were to continue either the present levels or even higher numbers, people will order. And we've seen that happening every time in the past. So, there is no reason for it not to happen again. We are already seeing this in the container space. As you are aware, the container market is seeing its best market ever and we are now witnessing a lot of ordering taking place in the container space. Having said this, shipyards are now getting filled. So even if people were to order right now, it is possible that some of the ships may not hit the water till '23 or '24, but that's very difficult to tell. Because one never knows what is the total available capacity at any point of time and shipyards if you see the way they run their book, they do want to be diversified, so, they will take orders for containers, they will keep some capacity for dry bulk, they will keep some capacity for crude tankers, they will keep capacity for offshore assets and so on and so forth. So one never knows the precise capacity, but going by history it just depends on the length of the bull market.

Jeet Gala:

Even in a scenario where there is no clarity on the propulsion systems, even knowing that people will go ahead with ordering in euphoria?

- Bharat Sheth:** Because greed has always taken precedence over logic.
- Moderator:** Thank you. The next question is from Chris Norona, private investor, please go ahead.
- Chris Norona:** I have a couple of questions. I've been a shareholder for many years and last year I attended one of the quarterly reports where you said the bulk of the revenue was on the spot market as opposed to time charters. Has that strategy changed a lot in view of the rates fluctuation over the last six months?
- Bharat Sheth:** The answer is no, the strategy broadly remains the same, give and take a couple of percentage points. What we do just like when we acquire assets, we have determined some broad price points that we will be happy to buy into and some broad price points that we would be happy to sell into. And we follow a very similar strategy when we run spot and when we also fix ships out for one year or longer. There are certain price points at which we would be happy to be overweight, running ships on fixed period income and there will be price points at which we are okay to run everything spot. So, just at the moment if you see on crude oil and petroleum products, because the rates are so very weak even though we can earn contango rates by fixing out for 12-months, we are not going to get tempted to do so, we will continue to run spot. On the gas because the rates were very healthy and profitable and gave us very-very strong yields relative to investment value, we have gone and fixed for periods ranging from one year up to two years. On the dry bulk, a significant majority of our vessels are trading spot and thank God for that. So, we are in a position to take plenty of advantage, but there could be price points depending on where this rally leads to, there could be points where we will then again switch from being more biased towards fixing ships for one year, two years, etc., We like to run ships for by and large.
- Chris Norona:** I just wanted to go back to some of the charts which were presented on the offshore business and you basically provided input in that there are some green shoots appearing in that particular business. But also to say that the future is difficult to forecast. At what point do you have a Plan-B for that particular business, in other words, it's a situation where the assets are not really contributing to the extent to represent the capital invested in them. So at what point does the company decide to make that decision?
- Bharat Sheth:** Yes, so again, we've seen from our previous experience in this very same sector, that often we go through a lean phase for a number of years. And then because of significant underinvestment in the sector, you suddenly get a big rally. And so long as we can afford it and at the moment, obviously, we can, we are better off just taking what we get holding on to the asset, because we've seen the speed at which these things can... it turns on a dime. And in our own history, we have seen assets that we have had to idle, and I'm talking about rigs for up to three years and then we've seen the market go up in excess of 600% within less than 12-months. So every time we reprice a rig, we hope that we can reprice it at a number that is good enough to keep the debt servicing going. And so long as we can do it, then you've got a free option on the equity portion of the rig.

Chris Norona: I'm not a finance professional, I'm just a plain garden variety businessman. You had a calculation called normalized financial reporting where you swap the debt and convert it to a synthetic US dollar debt. This to some extent, results in about 15 points shaved off the earnings per share. As opposed to just borrowing directly in US dollars and hedging is that a completely much more expensive option?

Bharat Sheth: There are two reasons why we finance it the way we do. So number one, even if it was dollar debt, right, the accounting standards requires us to revalue it since we report in rupees. So even if we were to fund it directly as an ECB loan in dollars, if there was a rupee movement, whereby the rupee weakened vis-à-vis the dollar, it would have the same impact as it does through the synthetic transaction on the currency front. On the interest rate front, where we go from floating to fixed and then there are lots of other variables we have to look at and which also has a bearing on the reported earnings. So at times, you tend to benefit from it, at times, you tend not to benefit from it, but over the tenor of the loan, it all sort of works out to balance the impact.. So, this year if you saw we had enhancement on our earnings per share, and in the previous years, we've had a negative impact on earnings per share. But these are all notional numbers, right. And that's why we always try to show normalized earnings. The other reason why we do the bond financing as opposed to ECB, because it allows us to effectively leverage more within our constraints. As you can see, when you do a 10-year bond, you've got lots of free cash which you're generating since you don't have to repay the principal over a 10 year period. So we try and balance the percentage that we have in the ECB route as well as look at the bond route. Roughly, 70% of our financing is through the bond route, 30% is direct borrowing from the dollar market through the ECB route. Also, the bond route provides one other flexibility which is that we can acquire some older assets, which we'd like to acquire which cannot be done necessarily in the ECB market where banks are a little more stringent on sort of the age that they would be willing to finance. So it's a combination of multiple factors on why we use the bond route.

G. Shivakumar: One more factor I'd like to add here, remember that we are counter-cyclical buyers, the assets that we are buying, we are buying at a point when the prices are low, which means that the earnings are weak. At that time, if you do a normal dollar loan, you will have repayment starting three or six months from the date that you acquire, which puts a lot of pressure on the cash flows in a weak market. And then it makes it difficult to do too many of those CAPEX transactions. If you're doing that value buying, it helps to have only interest payments for some period because you're waiting for the market recovery to come.

Moderator: Thank you. The next question is from Rajakumar Vaidyanathan, an individual investor, please go ahead.

R Vaidyanathan: My question is, given that your shipping market, the asset values are not as lucrative and we cannot deploy the cash and given the offshore market is very tight now, so would it not be kind of prudent to look at some acquisition of rigs or look at acquiring companies which are into offshore, because they are all trading at a very depressed valuation, so are we looking at any kind of an asset acquisition or a company acquisition on this offshore space? The other thing is

I also recently saw a Barclays report, they're saying that the time to own oilfield services now when the upgraded Baker Hughes in the US. So I would appreciate if you could give more color as to what the management is thinking in terms of how to make use of the upswing that is expected in the offshore division in the next two to three years?

Bharat Sheth:

Yes, so we keep looking at opportunities as and when they present themselves. I think I have mentioned this before. When we look at the fundamental difference between offshore and shipping, offshore is basically a long only business and shipping allows us to long short the market. And both the businesses are pretty much equally volatile. Now, in volatility, you want much more greater capability to be able to long short because that's the purpose of being able to try and get on top of that volatility. So, while we will look at certain offshore assets, we are clearly not looking at any companies. We came pretty close to a very small transaction on the rig business, but unfortunately didn't work out. There were certain rigs where we would have been happy to acquire at the values that they presented themselves, but the transaction did not materialize. So we will sort of do it very, very cautiously, but I don't think we are in a mood yet to do anything aggressively on that front.

R Vaidyanathan:

So you're saying that the market is still not that great for you to...

Bharat Sheth:

It's not that whether the market is great or not, because as I said, we really don't know how these markets will play out and we are not that keen to second guess these markets. On the same incremental dollar, we just think that shipping allows us to also gives us two options; you can either long it or you can short it. And it's got a lot more liquidity compared to offshore. So, if you look at the number of transactions in a year on the number of ships that may be sold and bought, that liquidity is much greater than offshore. So you really want to buy cheap and then hopefully buy it with a contract if you could. Otherwise, it's better to just stay on the sidelines. And remember, we still have a very modern offshore fleet. And we have plenty of sort of capability there to benefit in case the markets were to go up.

R Vaidyanathan:

Just one clarification, you mentioned that you expect if there is any upswing in prices, you said that the rates for rigs will go up first and followed by the vessels. Is that a correct statement?

Bharat Sheth:

Yes, that's right.

R Vaidyanathan:

What is the utilization number that you mentioned for the vessels?

Bharat Sheth:

So I think the global utilization for vessels are still very low. I don't have an exact number, maybe around 44-45%. And unless you get to closer to 60-65%, the pricing power does not come back to you.

Moderator:

Thank you. The next question is from the line of Chaitanya Shah from Silverline Partners. Please go ahead.

- Chaitanya Shah:** Regarding the interest payment, I just needed a clarification on this, in your cash flow statement, interest paid is around Rs.310 crores and Rs.90 crores again and we received some Rs.24 crores as the interest and our debt in the presentation is around Rs.1,400 crores. I just wanted to understand why this interest payment is optically high? Can you just give me the net interest payment that we have done for the year?
- G. Shivakumar:** A lot of the income from the treasury is not interest income, it comes in as other income which is investment income. You will get it in purchase of current investments and proceeds from disposal because it comes in as investments as well. On financing activities, we only have interest paid, your interest income will come in cash flow from investing activities, interest received, that is right, that's why you're looking at that Rs.28 crores. And then you have investment income as well, which is in excess Rs.100 crores. I don't understand the point you're getting at.
- Chaitanya Shah:** I just wanted the net interest payment that we had done. I was a bit confused because I didn't realize that some of the amount would be included in investments.
- G. Shivakumar:** Large part of the treasury is in mutual funds.
- Chaitanya Shah:** My second question is, are we looking at more buybacks?
- Bharat Sheth:** Again, it's not at the moment. As you know, just like when we buy ships we look at buybacks when we think there is a deep enough discount to net asset value. So we just like buying everything at deep value. There is a big leakage of 22% on buybacks. And that just makes it that much more expensive because neither the company nor the seller of the security benefits from that transaction. So, we are hoping we have made various representations to the finance ministry to roll back on that and if that is done, we can always revisit it as another way of using cash.
- Chaitanya Shah:** I heard you earlier and you seem to be certain about the strength of the dry bulk markets. What makes you certain that these rates are sustainable?
- Bharat Sheth:** No, I didn't have certainty because in shipping, you can never be certain about anything. All I said was that historically, freight rates have a very close relationship with commodity prices. And commodity prices, across every bulk commodity, whether it is iron ore, steel, grains, multiple minerals, many of these prices are multi-year highs. And freight has typically tended to work in a very close correlation with the commodity market. So, if the commodity prices remain strong, then freight rates should remain strong, number one. The other point I made is that the historical relationship between freight and commodity particularly iron ore shows that the long term median freight to commodity has been around 20%. Currently, that is at 16%. So, if the commodity prices remain where they are, then logically it should catch up at least to the long term median, although it's gone to as high as 50% and we are only at 16% now. So that's all I'm saying. I don't know what's going to happen. Maybe the commodity prices collapse. We don't know, right.

- Moderator:** Thank you. The next question is from P Manoj from the Hindu Business Line. The question is on text, it says, have you received intimation from the government's disinvestments department on moving to the next stage of privatization of shipping corporation on meeting the eligibility criteria?
- Bharat Sheth:** No.
- Moderator:** Thank you. The next question is from Jagdish Vikas Sarda, an investor Please go ahead.
- Jagdish V Sarda:** Do you determine the mark-to-market loss or gain on FOREX debt based on the currency rate on the last Friday of the quarter, if not how do you calculate the mark-to-market?
- G. Shivakumar:** Mark-to-market is provided by the counterparty bank. It's depending on the close on the actual last day of the quarter, not the last Friday.
- Moderator:** Thank you. The next question is from Kishan Mundra, an individual investor Please go ahead.
- Kishan Mundra:** I had two questions. So firstly, what kind of fuel do we use in the ships? I mean, is it LSFO, HSFO, MGO? And if you could give the bifurcation based on number of scrubbers that you have?
- Bharat Sheth:** We have five ships with scrubber. So on those five ships, we use high sulfur fuel, because we have scrubbers, but on the rest of the fleet where we don't have scrubbers, we use low sulfur fuel. And that is just mandatory. So it's not as if there is any option. And there are times when we have to use MGO. So clearly we use MGO on the generators. But there are also times when we may use some MGO for the engine. So it's not as if we have a mix and match policy. Wherever we have to use very low sulfur, we do. We have the option of using high sulfur on the scrubber, we will. As you know, in ports, most places do not permit the use of high sulfur fuel, so then we use MGO.
- Kishan Mundra:** So that would also mean that higher oil prices in general increase your cost of running the ships, because...?
- Bharat Sheth:** It just increases the percentage on your direct operating. But it just is a function of the market. So in a relatively strong market, it's pretty easy to pass it on, because we just convert everything to a net time charter rate. So we factor in the latest bunker prices. In the short term, a big rise can impact you, but long term, it all evens out. So we are pretty much indifferent on that. And especially on ships, which are on time charter rate, it then becomes the responsibility of the charter rather than yourself.
- Kishan Mundra:** So the second question was, I think if I heard you correctly, you said that you have done investments worth \$400 million over the last five, six years, right?

- Bharat Sheth:** Net.
- Kishan Mundra:** If that was true, and also the fact that you have earned a 15% dollar IRR on those ships, so shouldn't your NAV that you present in your presentation in a span of let's say, five, six years have grown from 450 to let's say around 700, 800?
- G. Shivakumar:** Yes, first, it was not 450 five years ago, it was somewhere in the low 300 on standalone basis. What also happens is that some of that NAV is investment in shares of Greatship. So stripping out that you would have been at around Rs.200 to Rs.225 a share, which is invested in the shipping business plus cash sitting in the shipping business, that itself has moved up to very high 300 today, so which is sort of similar to the ratios that you're putting. We are up about 50% in this time in NAV, we were in the low 300 on a standalone basis in March 2016 and we are now at close to 500. And, of course, it's also after payment of dividends, which would have averaged somewhere around Rs.9 to Rs.10 per year for the last five years.
- Moderator:** Thank you The next question is from Amit Mehendale from RoboCapital. Please go ahead.
- Amit Mehendale:** So I just heard earlier in the call that on the rig side your last contract was up by about 30% or 40%. I just wanted to reconfirm those numbers. And secondly, just wanted to understand a little bit on the utilization side of the rigs. Like if we were to move ahead of the curve when the cycle changes what do you think is the current utilization and how do you think that will evolve over the next 12-months or so?
- G. Shivakumar:** Over the last market pricing which happened. Our own pricing of that rig we have a 50% plus increase.
- Amit Mehendale:** Just to understand this clearly, so the last pricing was done how many years back?
- G. Shivakumar:** So pricing of our rig was done three and a half years ago, and that pricing is up by more than 50%. The last pricing in the market for similar contracts was done about a year ago. From there, it's up about 40%.
- Amit Mehendale:** Is it an offshore rig or an offshore rig?
- G. Shivakumar:** We only have offshore rigs.
- Amit Mehendale:** And what is the overall utilization for offshore rigs currently, sectoral question, not particularly to GE Shipping?
- Bharat Sheth:** Yes, it's somewhere in the 60s.
- Amit Mehendale:** If you see a trend for last like six months, 12 months or years, is it flat, or is it trending up, how do you see that?

- Bharat Sheth:** It last peaked in end of 2019, it came down with the COVID crisis and with the crash in prices of oil, it is now coming back up from those numbers.
- Moderator:** Thank you. The next question is from Anuj Sharma from M3 Investments. Please go ahead.
- Anuj Sharma:** I had a few questions. One is on the dry bulk. We are hearing change in shipping routes which is leading to increase in ton miles. Are these trade routes temporary or some structural things you observe?
- Bharat Sheth:** So some of it is temporary, some of it is structural. I guess what is happening now is because of the way commodity prices are rising, there are change in trade routes, which is adding to ton mile demand. But what we're really seeing is congestion. And I don't know if we showed it on one of the slides, but congestion is at a decade high in certain sectors and that effectively takes away capacity for repricing. So it's a combination of short-term factors where people just want to lay their hands on commodity because everybody's margins are pretty strong, particularly in the steel industry. And so whatever freight they're paying really doesn't move the needle and therefore, they're happy to source it from wherever they can get their hands on the raw material. We're also seeing that in grain, as you know, many of the grain prices are at multi-year highs and that too, is leading to changing trading patterns. Now, how long this will go on for? It's really impossible to try and predict.
- Anuj Sharma:** Currently, what would be the floating storage capacity and what is the lowest we would have seen? So I'm just trying to understand how much capacity we can see release from floating storage from now on.
- Bharat Sheth:** I think from the data that we track, it's now over and done with. So there is an actual amount of floating storage that goes around the world and they're at that point now. So we don't see floating storage now further threatening supply. I think it's more or less done.
- Anuj Sharma:** My third question is on the offshore. We've seen a 40% increase in jackup rates. While you said they come late into the cycle, but are we seeing buoyancy in the boats also in terms of rates?
- Bharat Sheth:** Not in the Indian market where we are currently operating or where the significant part of our fleet is operating. But let me add that we have seen some very, very large spikes in the North Sea market, albeit for short contracts, sometimes just a few weeks and sometimes a few months, but we've seen some very sharp spikes but those are for much more specialized boats, not the more commoditized boats that we own. So for more commoditized boats that we own in the Indian market, which is very heavily oversupplied, we are not seeing any improvement in rates.
- Anuj Sharma:** On the same lines, our offshore market has been domestic generally near the Indian markets. Have we thought about exploring other markets for both rigs and boats?

- Bharat Sheth:** So on the boats, we are operating in multiple markets when overall the offshore market was much stronger, that's going back almost five, six years, we have operated in multiple jurisdictions from West Africa to Brazil, to Malaysia, to Australia, South Korea, Japan, so we've just operated in multiple, multiple markets. When the markets came off, we concentrated a lot more of the assets in the Indian market. But we still have boats we have out in South Africa, we have something out in Malaysia, we have something out in West Africa at the moment, but a significant majority at the moment is in India. On the rig side, we have predominantly been an Indian player. And we will look at opportunities overseas. But the Indian market tends to have longer tenor contracts than the overseas markets. And that sort of enables us to have a little more visibility on cash flow. But I guess once we get into a debt-free status on some of our rigs, we will get a little more adventurous. So it was a conscious strategy that we took.
- Anuj Sharma:** The next jack up which is in line for contract, are we expecting the same trend in the increase or it's kind of flattened out from the ...?
- Bharat Sheth:** We've already submitted the price bids a few months ago. Now obviously nobody knows what the competition has done. And we are expecting the tender to be processed in the coming weeks. So I guess it will be out in public domain once ONGC announces the winner.
- Moderator:** Thank you. The next question is from Manish Kothari from Sri Kaushal Investments. The question is on bonus issue. Is it contemplated now?
- G. Shivakumar:** No, it is not currently being contemplated.
- Moderator:** Thank you. The next question is from Vaibhav Badjatya from HNI Investment. Please go ahead.
- Vaibhav Badjatya:** Again, on the offshore business, assuming that we are looking at some kind of taking the offshore market for next three, four years, given the way our assets are coming for repricing, do you think that most of that benefit to us will live just in asset prices and not in terms of the rates that we'll get and the cash flows associated with it?
- Bharat Sheth:** No, offshore as I told you, we have seen meaningful improvement in the earnings on the rig. Let's see what happens to the new tender which is under process. On the boats, as I've just said, it's very flat, there's zero improvement I would say. And values continue to remain pretty soft both for rigs as well as for boats.
- Vaibhav Badjatya:** I actually meant to ask that, given the fact that seven of our vessels are coming for repricing in first half this year itself. If the uptick in the rates were to happen post that given the tenure of the contract, will we miss most of the uptick that will happen?
- Bharat Sheth:** Every year we have boats coming up for repricing. Obviously, if you were to take in say business today, and the seven boats which are coming up for repricing have been offered under multiple tenders, which are currently being processed. But let's say you go and fix an asset for three years,

and in between the three year period if the rates were to go up, yes, you do not benefit from that. So you're always balancing out your portfolio into saying that all right, each year do I have some boats coming up for repricing so that even if I have missed out on something that I might have committed to now and let's say the market will go up six months or 12 months from now, you will benefit from another stack of boats, but not from the stack of boats which you are just committed to.

G. Shivakumar: For the rigs, every year we have some repricing you can see it here on the slide. So we get regular repricings across the board.

Vaibhav Badjatya: And how many of our vessels and how many of our rigs are currently idle? I cannot find that in the presentation. Maybe I might have missed it.

G. Shivakumar: So one rig has come off contract, she is currently idle, waiting for the next contract. In any case, she has to do some work now after having completed her contract. Among the vessels, there is only one vessel which is not working, that is the vessel Greatship Rohini, where we had a fire and suffered some damage. So she is not working, otherwise 18 out of 19 vessels are working currently as we speak.

Moderator: Thank you. The next question is from Jeet Gala from Centra Advisors LLP. Please go ahead.

Jeet Gala: Sir, one last question on scrapping. So in one of the replies, you said that scrapping is expected to increase over the next two to three years mainly based on some regulatory changes. So what are you referring to here?

Bharat Sheth: First of all, within the next two years, a lot of the ships have to fit what is called a ballast water treatment system which is quite expensive, it's not cheap. And depending on the size of the system, it can vary from \$400,000, \$500,000 to \$700,000, \$800,000. And there are lots of older ships where it will not make commercial sense to put this equipment and without this equipment you won't be allowed to trade. So as many of the boats come up to that anniversary date, I'm expecting that the owner will just throw in the towel and scrap. In addition, next year from CY'22 and '23 there are some new norms coming on GHG emissions and CO2 emissions and therefore, there is likely to be modifications that many of the boats will need to do... when I say boats, I mean ships, many of the ships will need to do in order to meet those norms. And in some of the older designed engines which are on older boats, you will not be able to meet what they call EEI which is nothing but Energy Efficient Index for second hand ships, on the new ships it's called EEDI, on ships which are in the water is called EEXI and you will not be able to meet those norms. And if you cannot meet the norms, you will not get a customer that will take your ship. So then the ship goes for storage. So you might as well scrap it. And scrap prices that I just mentioned are at multi-year highs following what has happened in the steel industry, and therefore, more and more owners are now going to be incentivized in many ways to scrap because scrap prices can easily come down as steel prices would come down. So, I think this is just accumulating for it all to happen. But it will happen, I mean, I'm absolutely convinced it will

happen. And also, what we are seeing is a trend where many of the loading facilities are insisting on younger ships being allowed to come to the terminal. So there was a time when you could use older crude oil tankers in the Middle East to bring crude oil to any part of the world. And now many more and more of the terminals are saying not more than age 20, I'm just giving you an example. So even if your ship is in a very good nick, if you can't go to the predominant loading terminals of the world, you have no option but to scrap it.

G. Shivakumar: Even if you don't scrap it, some of these older ships get used for storage. So basically, whether it is scrapped or it gets diverted to a storage business, it is effectively no longer competing for the cargo.

Bharat Sheth: I personally believe that the average age of scrapping will reduce across the world fleet.

Jeet Gala: With this last sentence which you said, do you see the addition of ships which had happened during the last cycle, the addition which came during 2010 and '11, so will they start scrapping in as soon as say 2025 or 2027 and that's a larger percent of the world fleet?

Bharat Sheth: I don't see ships getting scrapped at age 17. because something built in 2010, 2011 in '27 is going to be 16, 17 years old, right? It is too far forward to say it with any degree of confidence. But if you were to ask me to place a bet, today, I really doubt whether they will be scrapped at such a young age, but it could happen, because clearly the way the world is headed, there are going to be multiple more demands on shipping when it comes to CO2 emission and GHG rating. And just to add to what I'm saying, there is now going to be GHG rating norms and customers will start saying unless you are at this minimum rating, we will not consider you for business. So, I think there will be a reduction in the age of scrapping. What it is? I really can't forecast over the next six years, it's impossible.

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

Himanshu Upadhyay: Currently, we have a net debt of around 0.18% or 0.2%. The way the asset prices are, they are expensive in our opinion or the company's opinion, what would be our capital allocation strategy or what will we do because when the last time we had such a phase or the starting of phase we did churn a lot of older ships moving out, new coming in and all that. But right now, it seems we are not so keen on purchasing. And with 0.2x debt-equity would we like to accumulate cash on the balance sheet and really keep on reducing debt or we would like to keep the balance sheet, so what would be your thought process on your balance sheet structures if the asset prices remain what they are one year down the line, how are you looking at managing the balance sheet?

Bharat Sheth: If asset prices remain where they are, as we've said, we are not buyers, and therefore, by default, at the moment, the only thing that would happen is we would eventually get to a net debt-free position. But what that does do is significantly enhance our firepower when the next low points come on the cycle and they will come. Now will they come in '22, '23, '24? That is something

that I think we are incapable of predicting. But I think that's all we can do is to deleverage the balance sheet and create that level of buying power. So the next time around whenever asset prices come to our comfort zone, we can do much bigger expansion.

Himanshu Upadhyay: So my question is, can we have a situation where if we look at last 20-years balance sheet or even longer, we had been always having some net debt on the balance sheet, okay. But can we move over next one or two years if this continues that we would like to keep on accumulating cash on the balance sheet, are we comfortable with that thought, because this business is a 14% return on capital employed business means over a longer period of time?

Bharat Sheth: Everyone doesn't do 14%. Otherwise, you will have many more rich ship owners. 5% or 6%.

G. Shivakumar: It's a 14% business when you buy at the right price.

Bharat Sheth: There's no guarantee. We did an interesting exercise recently, that obviously, we recognize that sitting on cash has sort of downward bearing on the overall balance sheet return. But we also saw that, if you sat on cash, returns you very low levels of interest, currently, as you know, in dollars, it is sub-1%. But so long as we can price, right, in terms of capital allocation, you make it all up over a long period of time. And consequently, rather than feel the pressure of building too much cash and then misallocating capital, that will do us a lot more harm in the long-term. And it just breaks down all levels of discipline. So if we say generated cash through strong operating profits as well as some asset sales, so be it. But we've made this mistake in the past where we misallocated capital and eventually we've done a lot of impairment as you're aware. So we don't want to make those mistakes again. So I repeat, we will remain value-based buyers and not feel the pressure of sitting on cash. If we were to sit on cash and we go to zero net debt so be it.

Himanshu Upadhyay: One last thing on jack ups, or let's say even in the boats, if we feel that the market may improve from hereon, would we be interested in the smaller contracts specially on boats where it is more feasible, that shorter duration contracts are more easily available, so whatever focus on getting shorter time for boats or if we don't want to...?

Bharat Sheth: If we can, obviously, we would so. If you see some of the boats, which we have overseas, we have one in Malaysia, one in South Africa, one in West Africa and all, those are much shorter term contracts. ONGC tends to come up with longer contracts. So the longer contracts have their pluses and minuses. On a rising market, obviously, a long term contract is not the best thing to enter into. On a short term when markets are in a secular decline, those very contracts that serve you well. So we will try and see. We try and balance the portfolio, because honestly, we don't know which way the markets will eventually move. So we'll balance it the best we can. That's one of the reasons why we like shipping because you can go as short as 20, 30 days to as long as three years. So you have a lot more optionality in shipping.

- Himanshu Upadhyay:** And is ONGC changing any duration of their contracts or they keep, because large cycle downtime they also increase the duration to be in five years generally on jackup, so currently are they continuing with that or they are saying...?
- Bharat Sheth:** No, jackup used to be five years, now it's three years.
- Himanshu Upadhyay:** And on boat?
- G. Shivakumar:** It's about the same, Himanshu, there's no major change in....
- Bharat Sheth:** No, there is not real change in ONGC strategy.
- G. Shivakumar:** In 2017, they actually went to five year contracts for boats first time after several years. But now I don't think that is the case. They've gone back to business as usual. It's one-to-three year contracts.
- Moderator:** Thank you. The next question is from Rajakumar Vaidyanathan, an individual investor, please go ahead.
- R Vaidyanathan:** I have a few questions. So the first one is on the scrapping part. Just wanted to know, are we looking at scrapping any of our older fleet on the crude side given the higher steel prices or do we expect the steel prices to go further, are you waiting for that? The second question is I wanted to know the health of all the seafarers, how are they doing from a COVID standpoint? I hope all of them are safe and we haven't had any significant issues.
- Bharat Sheth:** Yes, I'm glad you're considering all the seafarers. I think if you ask me that is currently biggest challenge to keep them as safe as possible. As you know, none of this is in our hands. We have a rigorous process which we are following before seafarers can come on the ships. But, as you know, when ships are trading, there are multiple touch points which is inevitable in our business. And even after testing negative at times, they do test positive, even though they've been on the ship for as long as six or nine months. On board itself, we've had a few instances where people have tested positive, and we've had to then get them off and run a particular process, we have done. Obviously, all this comes at a cost. And last year, we have our extra COVID cost has been about 30-odd crores. So it's not a small sum of money. We expect at least in the current phase of the COVID for that level of expenditure to continue or maybe even increase, because you got to divert a ship the moment somebody test positive or has even symptoms of COVID because you don't want it to spread obviously. So this is something that keeps us awake all night. So we are doing the best we can for all our seafarers not only on the ship, but remember, they all have family and we are now seeing increasing instances of seafarers telling us that some member or the other of their family has tested positive and is not in very good health. And so on those emotional grounds too, we try and provide them relief the best we can. So that if you ask me is the one big challenge, any shipowner in the world is facing this. On the tankers, if you see our oldest tanker is 18-years old, we've just completed a special survey. And there is no need to scrap

it because even an 18-year-old ship today can sell at a significant premium to scrap. So even though scrap prices themselves have gone up, the premium to that scrap price has even widened further. So, what we will be looking at is selling some of our older crude oil tankers. The problem right now is because of restrictions on Indian seafarers, whereby you can't get them off a ship almost anywhere in the world, it's very difficult even to execute a sale transaction or even a purchase transaction. On the purchase side, luckily, I mean, luckily in the sense that, it would be a great regret for us if let's say the asset prices were where we would love to buy, and we were unable to execute buying because of the restriction on Indian seafarers globally. But that is not the case. On the sale side, we would like to sell a couple of our older tankers, but we would be unable to execute right now simply because we would not be able to get our Indian seafarers off since most of the world has shut out Indian seafarers. It's a challenge to execute today.

R Vaidyanathan:

Just one last question on this tussle between China and Australia. As of now, they're allowing the import of iron ore. So if we get to a situation where China decides not to import, what would be the impact on the dry bulk side, do you see the market? I mean, I just wanted your views?

Bharat Sheth:

So I think it is near impossible for China to say we will stop importing Australian iron ore, because that level of capacity that Australia produces is not available anywhere else in the world. Obviously, theoretically, Brazil has that capacity, "spare", that would be great for shipping. I mean, that would be the best news, right, because of the ton mile impact, but that just cannot happen. What we are seeing is on the coal, and this is predominantly coking coal, which at the moment remains banned commodity into China. China is managing to source some of the coal from Mongolia, which is coming through land, but also from other sources in Russia and from the west. And some of that has helped ton mile demand. And some of the coal obviously comes from Indonesia as well. So some of it has helped ton mile demand, some of it has not. But net-net in Q1 that is January '21 to March '21, Australia's export of coking and steam coal is significantly lower than what it was in 2020. What has kept this market very buoyant at the moment is really the demand for iron ore because of steel, and because of China's huge consumption of grains. That's really what is supporting the market. And of course, as we mentioned, in ships presentation, the fact that congestion is at a decade behind. So it's a combination of multiple factors, there is no one factor that is determining the market.

R Vaidyanathan:

So this coal exports have come down. Is it because of the stringent the carbon emission norms in Europe that is kicked in?

Bharat Sheth:

This is what I said was, was predominantly to China because of the political tension at the moment between Australia and China because if you see the data, and again, you got to take some of this data with a pinch of salt, China's coal stocks are running low.

R Vaidyanathan:

My prayers for all the seafarers, just to keep them safe and healthy and it is all their sacrifice that is giving all the numbers for the company...

- Bharat Sheth:** No doubt. So what we've also done is we have given them bonuses and lots of other incentives for them. They are making the biggest sacrifice today, there is no doubt. And in fact, that's the one community that is keeping global trade alive. You saw what happened with just three days of disruption in the Suez Canal. So the seafarers are making the biggest sacrifice for the world trade to continue today.
- Moderator:** Thank you. The next question is from the line of Jayesh Gandhi from Harshad H Gandhi Securities Private Limited. Please go ahead.
- Jayesh Gandhi:** So my question is on offshore business. If we look at slide #30, am I correct in interpreting that the fleet utilization, in the sense, the coverages for jackup rig it is 72% means that we have tied up for 72% of the capacities for next year?
- G. Shivakumar:** You're referring to the presentation, which is on the website. That's correct.
- Jayesh Gandhi:** So in that case, do you see that this year we might have a better year than what last two years we had in offshore business?
- G. Shivakumar:** In the previous year, our rigs were fully employed through the year. This coverage basically indicates as it stands today, how many of our operating days that we have of that category of asset are covered. If we end at 72% it would be a worse outcome than the previous two years, because in the previous two years rigs were working through the year.
- Jayesh Gandhi:** The second question is we had some impairment of Rs.46 crores this quarter. Can you just highlight what is that?
- G. Shivakumar:** Yes, there are two things; one is the normal impairment which happened on some offshore supply vessels because of where the market is and based on the calculations that we do. The second is that we had this I mentioned Greatship Rohini idling currently because she had an accident... she had a major fire, requires to undergo significant repairs if she is to be brought back into fully operational status. Though, this is covered by insurance, as per the standard, and as per discussions with auditors, they said, we should provide for the potential repair cost of it. And therefore that has been provided as well. On account of both these items, which is impairment of some vessels plus the Greatship Rohini it's not just 46 crores, it's a total of 65 crores, though there is only Rs.46 crores item appearing as impairment, under a different head we have taken Rs.19 crores as well.
- Moderator:** Thank you. The next question is from the line of Shifakath RF from Shifakath RF & Company. Please go ahead.
- Shifakath RF:** I wanted to check out why we are paying so low dividend in spite of having high EPS and high cash earnings per share, the yield is hardly 2-3%.

- Bharat Sheth:** It's still amongst the highest yield companies. I think if I'm not mistaken, the average yield across majority of listed securities is around 1% in India. So a 3% yield is not bad.
- Shifakath RF:** I understand that. But we have EPS of Rs.50 and a cash earnings per share of Rs.100. And rather than putting it in the hands of low interest rate investments, why not give it back to the shareholders?
- Bharat Sheth:** If you look at the way we've paid out dividends when we've had lower numbers of profit, payout ratio has been much higher. And when we had a higher EPS, our payout ratio has been lower. I do agree with you that when you're sitting on cash, which is earning you 1%, why not pay to the shareholder? The thing is, we never take it back from the shareholder when we need to invest in stake, i.e. when we want to go and buy ships. And once you distribute this dividend out, right, we've not raised fresh capital, from shareholders. So then that money, that's gone. And the whole intention of retaining this money is to be able to acquire assets when the time is right and we have now shown successfully, that in the previous five years, on 20 of the assets that we bought, we have produced a dollar return of 15% on unlevered capital. So think of the return on equity on that transaction, right, or a series of transactions. I will agree with you if we have to sit on cash for 10 years, because then that would result in lower yield in business, but what we have seen the median trough to trough in asset classes is about three years. And I think I was telling one of the earlier speakers that even if we were to sit on cash for three years, and you get your price points, you more than make up for the fact that for the three years your cash is only 1%. And that's the only reason. Just a few years ago, when we actually had a loss and yet we declared a dividend of Rs.5.40 a share, because we have about Rs.2,000 crores in retained earnings under our dividend account.
- Shifakath RF:** On a lighter note it would help if the dividend goes to the promoter also who can again buy back the shares from the markets which will increase the price of the shares.
- Bharat Sheth:** Yes, but we are here to create long term value in the business and we are not here just to look at whether a promoter buy... this promoter is the most outdated concept in the world as you're aware. I think India may be possibly the only country where we still have a formal definition of the word, promoter. And in fact, if you see some of the founders of some of the big companies, their stock prices have rallied every time they sold. So, we are here to build long term value irrespective of whether the promoter owns one share or owns 100 shares.
- Moderator:** Thank you. The next question is from Jagdish Vikas Sarda, an investor Please go ahead.
- Jagdish V Sarda:** What is the EV upon EBITDA of GE Shipping today? What is your fair value estimation, sir?
- G. Shivakumar:** Somewhere between four and five. Fair value estimation, the way we do it is the net asset value, we have no other way to estimate the fair value. So the NAV is from 510 to 550 valuing all our assets at market.

Moderator: Thank you. The next question is from Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya: So all the seafarers' issues that we are facing currently, what's your outlook on the same because I think a lot of countries are rejecting changeover of the crews and I think Indian ships can only use Indian seafarers if I'm not wrong. So, if this situation has to escalate, would you forecast any disruption in operations where we have to idle our assets for some time?

Bharat Sheth: Let me answer it in two ways. One is as you rightly pointed out, we can only use Indian seafarers under the Merchant Shipping Act, and secondly, can we envisage a case where because of these problems that we are currently facing, and it has all escalated only in the last few weeks, some of our vessels idled because of crew changes, etc., the answer to that is yes, they could. That is the biggest challenge we are currently facing.

Moderator: Thank you. The next question is from Vinay, who is an investor. The question is, there are reports of systematic closures of oil refining capacity over the years and Europe, US on account of low margins, ESG, etc., How do you see this impacting tanker demand?

Bharat Sheth: So, tanker demand, long term, obviously, we remain very cautious on how this crude oil demand may play out. I think there will be times when the tanker demand goes up significantly and there will be times not only due to COVID, but because for the reasons that I've just been mentioned, alternate sources of energy and the fact that total hydrocarbons bit-by-bit getting challenged. So, I think we all need to be much more conservative in the way we look at long term demand for some of these commodities. But I just want to add that if you see what drives shipping freight rates, it's really not long-term demand, what really drives is our events, and it is these events that can lead to very, very large spikes in the business. So whether it was in April, May of last year, or even in the past, on multiple occasions we have just seen rates can go up, 100%, 200%, 300% in the matter of weeks and months. So this is event-linked sort of business in many times. I think you will continue to see the volatility. And as I've also mentioned, I do genuinely believe that because long-term demand remains challenge, you will see also the average age of scrapping, reducing and therefore, eventually in any commodity there will be supply/demand mismatch for a period of time and then there is equilibrium that comes through because prices lead to its own equilibrium. You'll never see in a commoditized business multiple years of one way street or one way movement. But we have to be very, very cautious and therefore, I repeat that we are wishing to be so very particular at the price points at which we are prepared to buy ships.

Moderator: Thank you. The next question is from Sagar Gandhi from Future Generali India Insurance. The question is, when we say freight cost is currently 16% of commodity prices versus average of 20% on a long-term basis, what is the reference price that we need to track as an outsider?

Bharat Sheth: So, I didn't say commodity prices, I said iron ore. So, in the example I gave, if you take iron ore as a commodity, the long-term median freight to commodity has been 20%. So we just normally take the biggest route which is Brazil, China and today, let's say iron ore is at \$200 and the freight is in the very low 30s, so, that is close to 16%. Now, if we were to get to its long term

median of 20%, then either the commodity price may come down and freight may remain where it is or if the commodity is going to remain at \$200, and if eventually freight is going to revert to a long-term average, then the freight needs to move up. What will happen is impossible to tell. And at the peak of the freight market and at the peak of the last iron ore boom, which was pre-Lehman, on the Brazil China route, it was \$100, which is now \$30.

Moderator: Thank you, ladies and gentlemen. That was the last question. I now hand the conference over to Mr. G. Shivakumar for closing comments.

G. Shivakumar: Thank you, everyone. That was a very interesting session. We liked hearing your questions, and we hope we were able to throw some light on the various issues that you wanted some information on. As always, the transcript of the conference call will be up in the next week. We welcome any more questions that you may have. All our contact details are available with you and are on the website. Thank you very much. Stay safe, stay healthy.

Bharat Sheth: Thank you very much.

Moderator: Ladies and gentlemen, thank you for joining us. That concludes this session. You may now disconnect.