The Great Eastern
Shipping Company Ltd.

TRANSCRIPT OF Q4 FY 2005-06 CONFERENCE CALL

Moderator: Good afternoon ladies and gentlemen, welcome to the Great Eastern Shipping conference call on declaration of its unaudited financial results, (provisional) for the 4th quarter and full year ended on 31st March 2006. I request Mr. Balan Wasudeo, Chief Financial Officer, of the Company to give us the financial snap shot. Mr. Wasudeo please go ahead.

Balan: Good afternoon friends. It gives me great pleasure to present you another year of record performance. The net profits have gone up from Rs.809 crores to Rs.939 crores, an increase of 16%. A very apparent reason for that is an increase of Rs. 330 crores from gain of sale of vessels. But I would like to put before you a little more about the whole results besides the numbers.

In the financial year '06 we had certain negatives, illustratively we had higher depreciation charge of Rs. 40 crores, partly due to addition of 5 high value vessels during the year and also due to change in the depreciation policy for single hull tankers. Then we had an impairment on 3 of our dry bulk ships, which gave an adverse impact of Rs.88 crores. Lastly, in FY-05 we had taken a reversal of provision of deferred tax of Rs. 47 crores pursuant to the introduction of tonnage tax. So, all these add up to Rs. 175 crores and you will appreciate that the entire Rs. 175 crores are non-cash charges, merely accounting entries.
So, if you correct for that, the increase in the profit for the year is as much as Rs. 306 crores, which just about matches the increase in the gain in the sale of vessels.

This is noticeable especially with a view that despite soft freight markets in shipping in FY-06 as compared to FY-05, the company's two operating divisions have kept their bottom lines and the gross margins from getting eroded. This is the highlight of FY06. How we did it the two managing directors today will explain to you after my presentation.

Going over the numbers itemwise now. Income from operations grew by 11% from Rs. 2049 crores to Rs. 2281 crores because of two reasons. There was a 3% increase in shipping revenue days from 14891 days to 15327 days, and some increase in the in-chartering revenues also. As I had already explained, gain on sale of vessels was Rs.331 crores compared to Rs.25 crores in the previous year. There was a small increase in the other income, basically income on the treasury corpus, as you all know the interest rates in the markets have gone up, the treasury corpus has also gone up. Therefore there is almost doubling of other income during the year. Therefore the total income grew by 27% from Rs. 2119 crores to Rs.2691 crores.

Total expenditure on the other hand also grew by 24%. The major increases are in two areas. One, repairs and maintenance, an increase of almost Rs.40 crores on account of bunching of dry dock and special surveys in the shipping division. Second, there is a 62% increase in direct operating expenses. These are on account of three developments, one is the fuel and bunker cost, which we had to incur on all our spot charters, increased as global crude oil prices went up substantially. Secondly as I mentioned there was an increase in inchartering business, whereby the Company in-chartered vessels and then sublet it out. So, when the topline has grown because of the subletting, the in-chartered vessels have impacted the direct operating expenses as well. Other expenses were on the other hand lower to some extent because of stringent cost cutting measures within the company. Therefore overall expenditure has grown up by 23.6%.

The operating margins excluding the gain on sale of ships increased by 3% from Rs. 1134 crores to Rs. 1172 crores. This is noteworthy especially as inspite of the softening freight markets we kept gross margins, operating profits almost at same level or maybe marginally better.

Interest has gone up from Rs.83 to Rs.113 crores. This increase of Rs.30 crores is due to – one, the interest rate has gone up, the Libor has been moving up quarter-to-quarter and Second we have been borrowing funds for some of the recent acquisitions. So on both counts the interest cost has been growing up.

Depreciation has gone up by about Rs.40 crores of which Rs.20 crores are because of accounting policy change as explained in the notes of accounts. We have curtailed the life of the single-hull tankers to March 2010 in compliance with IMO regulations.

Profit before tax has grown up by 24%. Provisions for taxes are on MAT basis because this year gain of sales of vessels has been large so MAT has been high. We have profits of ordinary activities growing by 16%. And after correcting for prior-period adjustments it has grown by 16% on the same amount.

Coming to segmental results, you will find that the increase has been broadly in the shipping division because of gain in sale of vessels. The capital employed has increased sharply from Rs. 4268 crores to Rs. 5154 crores. We have managed to keep the return on capital employed in the same level as last years, around 22%, inspite of the increase in capital employed. With this, I come to the end of my presentation, I would like to now request Mr. Bharat Sheth, Deputy Chairman and Managing Director to make his presentation.

Bharat: Thank you Mr. Balan and good afternoon to everyone. I would first go through some of the numbers for the quarter and then highlight the events of the year.

As far as the quarter is concerned shipping achieved a turnover of about Rs.527 crores an improvement of 15% quarter-on-quarter.
As far as the EBITDA is concerned, the shipping division had an EBITDA of Rs.292 crores for the quarter as compared to Rs. 278 crores for the corresponding quarter of last year, an improvement of about 5%. If you then adjust for the depreciation and interest etc., the PBT was Rs. 196 crores for shipping as compared to Rs. 197 crores. Basically a very comparable quarter.

The highlights clearly are that inspite of a very significant reduction in the spot earning in the crude oil sector by about 20%, in the dry bulk sector by about 50%, we still managed to get a quarter that was comfortable to the quarter four of last year.

This was primarily driven by the fact that we had very strong renewal of some of our ships in the earlier part of the year and which then got reflected in this quarter. As far as the expenses were concerned they were broadly in line with the quarter of last year.
If you then go across the summary for the year, the total turnover of the shipping division excluding sale of ships was Rs. 1900 crores as compared to Rs. 1650 crores of last year, an improvement of 15% and the total shipping revenue days was 15300 days as compared to 14900 of last year, an improvement of about 3%.
As the CFO has explained we have taken a larger depreciation charge this year on our single-hull tankers. It is basically

having been done to be more conservative in the way we report our accounts. It is not that there has been any newer regulations that are going to preclude single-hull tanker trading beyond 2010. But we just thought that it is better to write-off all our single-hull fleet by 2010. So that is why we got this additional depreciation charge. In addition as our CFO has explained we had recognized impairment in the value of three of our modern dry bulk carriers in quarter three, we took a charge of about Rs. 88 crores. I am happy to now report that the values of some of the ships have probably improved in Q4 but we still think it is too early to write-back any of this amount but at least there is no further impairment.

As far as the operating PBT of the shipping division is concerned, there is a drop from Rs. 685 crores to Rs. 530 crores and as explained the bulk of this jump is due to an impairment provision and an additional charge to the depreciation, so they are really book entries. If you add back the impairment and the excess depreciation charge, the operating profit is broadly in line with FY 2005. If you therefore compare the year vis-à-vis last year, shipping business has an return on total capital employed of about 28% and has earned a return on its own equity of 51%, again a very strong performance.

As far as the average age of fleet is concerned, there is an improvement in both dry bulk as well as tankers. The average age of the dry bulk fleet has improved from 21 years to 15 years and on tanker has improved from 13 years to just a shade above 12 years. During the course of the year we also placed an order at the end of the year for a couple of new LR1 product tankers as well as we took delivery of very modern 2006-built Aframax tanker. This was all on the acquisition side.

As far as the sales were concerned, as you all know earlier in the year we sold our VLCC, at a record price of $60 million. For some of you who might be interested in statistics, I think we can now buyback an equivalent ship for probably $30 million that is half the price. So we have done very well on the sale of that ship. We then sold another couple of single-hull tankers and some of very old bulk carriers all of which I think was a wise decision because we should be able to replace back the bulk of what we sold at cheaper prices. That is really the highlight, we will obviously answer many more of your questions during the Q&A

but prior to that I would request my colleague Vijay to take you through the oil and gas business.

Vijay: Thank you very much Bharat. Good afternoon to everybody. The Q4 results for the offshore division for this year has been better by about 19% in terms of revenue. But the profit before tax has also gone up by about 51% as compared to last year. This is largely because of the better utilization of our drilling rig Kedarnath that started earning a higher day rate. We have had three more vessels added to the fleet, two of which has contributed to the 4^{th} quarter.

If you take an overall view of the year's performance because of the fact that Kedarnath was not working for nearly 7 months of the year and Badrinath also had some idling in the monsoon period, we pretty much turned out a flat year in terms of the revenue levels. There has been a percent increase in the topline but our operating profit has pretty much remained the same. The profit before tax has come down this year largely because of interest costs. This is because of the new buildings that we have taken on and the refurbishment that we have done to Kedarnath. The additional depreciation charges that we have had for the Kedarnath refurbishment and the new vessel has also added significantly to depreciation.

If you really look at it on a PBT level it is pretty flat, last year we had about Rs. 121 crores, this year we have Rs. 100 crores. But if you consider the additional cost of about Rs. 20 odd crores on account of these two items we were pretty much flat on PBT level. So, the year as a whole was pretty straightforward but I think it is the future that has some promise and we just need to see how it spans in time to come. With this I hand you back to Rajat, thank you once again.

Rajat: Thank you Mr. Vijay Sheth. Ladies and gentlemen we can now commence the Q&A session. I request Ms. Roshni to take over and initiate the Q&A session.

Moderator: Thank you Mr. Dutta. We have our first question from Mr. Anish of ABN Amro. Please go ahead Mr. Desai

Anish: Good afternoon and congratulations on a good set of numbers. I just wanted some details on the operating days, what was the number for 4th quarter, what are the numbers for the in-charter tonnage and if at all any dry-docking days?

Bharat: Good afternoon Anish. The 4th quarter shipping and total revenue days of 3631, this was as compared to 3605 of Q4 of last year. We had three layups in each of the two quarters, last year and this year. And the total number of days for which the vessels were laidup was about 70 days in this quarter broadly in line with what it was in the previous quarter. Inchartered days were around 179 days for this quarter as against around 95 days in last year.

Anish: Operating days are roughly the same and we are seeing that Great Eastern has declared it's best ever quarterly top line, so it would then mean that some of your spot contract probably have been at much better rates during the quarter?

Bharat: That is true and also we had larger exposure to the spot market. 30% of our revenue days in Q4 of FY05 were on the spot market and this quarter it has been 35%. The spot earning days have gone up by approximately 180 days.

Anish: Would you like to share your outlook on shipping for FY-07?

Bharat: Yeah, our current view for FY-07 is that both on the dry bulk as well as on the tankers the markets will be softer. It is difficult to give a precise percentage but currently our internal thinking is that it will be somewhere between 15-20% lower for FY-07 as compared to FY-06. This on an average and does not consider seasonal variations. This is of course for those vessels that are on the spot market.

What we are clearly hoping is that the two things to happen, one is that our period renewals which we had done and which will start reflecting in FY2007, will be at higher levels as compared to FY06. And also as our CFO had earlier pointed out, this year we had a big bunching of older vessels that were dry docked and to give you a precise number, we spent around Rs. 128 crores purely in dry dock expenses in FY-06. This number will come down significantly in FY-07. So our total expenditure in FY-07 should be less.

Anish: Okay, but you were expecting spot rates to be softer, then how is it that these time charters are being contracted at a higher rate?

Bharat: Because these are higher than what they were contracted for earlier. Some of the time charters were entered in 2003. Now those in 2003 obviously reflected in 2005, because they terminated in 2006. So it is higher relative to what they were earlier.

Anish: Okay, thank you.

Moderator: Next in queue is Mr. Dipen Mehta of Dipen Mehta Shares and Brokings.

Dipen: Congratulations on a good set of numbers. In your press release you have mentioned briefly that with the oil exploration activity scaling up in and around our country that would mean better prospects for the offshore services business. If you could just elaborate little bit more and then try and link that up with the present day rates in that particular segment of the market. Also I understand that of all the businesses that particular business you have increased the capacities significantly, not only in this fiscal but even expect to get some more vessels in the first half itself. So how does that whole thing fit into, what these results relate to next year?

Vijay: Well, basically in NELP blocks that have already been awarded by government about 90 are offshore blocks that have been already leased out to various oil companies all over the country and internationally also. And this will mean that there has been more activity on the coast. Last year, India did not grow quite as rapidly as the rest of the world because we were waiting for some of the seismic results. We have seen some of the positive results like recently some of the oil companies have reported to have found some oil on the east coast. This will result in improved utilization for offshore assets.
As you rightly said, we did take delivery of three vessels last year, an anchor handler that has been working now in South Africa, a PSV which is working with ONGC and a multiple support vessel which will work with ONGC starting from April this year.
The average spot rates would probably have gone up anywhere between 10-15%. But they vary depending on the class of assets. And in the segments that we operate in have also witnessed increase in day rates.
The new vessels that are scheduled for delivery this year are starting from July onwards and continuing till September

2007. So these 6 vessels are expected to meet a part of increase in the demand and the activities within the country and outside.

Dipen: What will be capacity increase in FY07?

Vijay: About 25-30% in the current OSV fleet.

Dipen: The volumes would go up by 25-30%, is that a correct understanding?

Vijay: With deliveries schedule spread over the year the revenue may not increase in line with volume.

Dipen: My question was that let us go a step ahead to September '07, say October '07. Supposing your monthly run rate is Rs.100 in April of '06, in October of '07 what could be the run rate, assuming today's prices?

Vijay: To be honest with you, I haven't worked that one out. The run rate would obviously be higher keeping in mind the trend of current markets.

Dipen: The 10-15% increase in average rates, which you have just told, is year-on-year increase, right?

Vijay: Yes.

Dipen: We have been hearing about delays on account of certain constraints or rather roadblocks in the entire demerger process. So could you throw some more light on this? Perhaps give some kind of a timeframe because that is also adding bit to the uncertainty in our mind?

Vijay: We are working towards resolving some of these issues and we are waiting for some of these approvals to come and as soon as we get the approvals in place, the effective date would be announced and thereafter I think it is a matter of time for getting the necessary balance procedures to be followed.

Dipen: Sir, one last question. You used to disclose the net asset value of the company as they are based on current market prices of the ships. Is that possible to give separately for both divisions?

Bharat: Yes, it is about Rs.360-370 per share on a consolidated basis for the Company. The shipping's net asset value on the reduced capital base of Rs. 152 crores is about Rs.336 a share. It is Rs371 per share consolidated but I am giving you a range of Rs.360-370 per share because of bid offer price.

Moderator: We have our next question from Mr. Kartik of Unifi Wealth Management.

Kartik: I have a question on your operating cost of Aframax and Suezmax. Can you give us an approximate figure on how much would GE Shipping incur on operating Aframax per day?

Bharat: About $5000 a day.

Kartik: And out of that how much would be bunker cost?

Bharat: Bunker does not come under this expense; this is just the standing expense. Bunkers form a part of a direct operating expense. Across the fleet average bunker cost as a part of direct operating cost for FY-06 was about 54%, but just for this quarter in particular, it was about 60% and that is because of very high oil prices which has lead to very high bunker expenses.

Kartik: How the world tonnage market is moving ahead. We understand that the shipyards have starting to deliver ships from FY-07 onwards.

Bharat: We believe that somewhere in the region of 6-7 million dead weight tons of tankers will get scrapped in the FY-07 and if that does happen, then the net fleet growth will be about 5% for tankers. This is as opposed to 7%, which was in FY-06, but a lot hinges on the scrapping.
On the dry bulk side, we have assumed a scrapping of about 4 million dead weight and on that assumption, the dry bulk fleet will grow about 6% net as compared to 7% of FY-06.

Kartik: And what would be your immediate outlook given the fact that in Q2 there would be refinery shut downs world over. Don't you think the freight rate would recover from these levels?

Bharat: Well, this year we have actually seen a lot of the refinery maintenance taking place in Q1. What has happened is that, last year the US market was significantly impacted by two major hurricanes, Katrina and Rita and therefore the refining margins went up very significantly and so every refiner tried to delay maintenance. So one of the reasons why the crude oil markets are strong while the tanker rates are very soft is because on a global basis a lot of the refinery maintenance has accumulated together. They are all having longer refinery maintenance in Q1 of this year as compared to normal averages.

Kartik: Is that over or is it still on?

Bharat: No, a lot of the refinery maintenance is still going on. We have just seen a couple of refiners come back into the market place in last 10 days and so we have seen a distinct improvement in the tanker segment. To see a more sustainable improvement we obviously are waiting for more refiners to get back on stream.

Kartik: Okay, and just to recollect the figures you shared with us, what is the time charter and voyage charter break-up of revenues in shipping business?

Bharat: We had about 37% of the shipping revenue days on the spot market for FY-06 compared to 34% for FY-05. So just a marginal greater exposure to the spot market. And for FY-07 at the moment 41% of the revenue days has been locked up in time charter.

Moderator: Our next question comes from Mr. Anand Gupta of SBI Mutual Fund.

Gupta: Sir, is it possible to share your estimate for asset prices for coming two years both on tankers and offshore segments?

Bharat: Tankers, we think that asset values will probably remain strong for the rest of this calendar year. We think that we could see a correction in asset values commencing sometime in CY 2007. To what extent at this stage is difficult to say, but it would obviously depend on how the spot market performs and what are the interest rates etc., 12 months down the road. But may be in the region of anywhere between 5-10% at the modern end may be a little steeper for the slightly older tonnage.
On dry bulk as I was saying earlier, we saw very sharp correction happening Q3 of last year and then we have seen a slight bounce back of about 5% in the last one month. We

think that it is possible that dry bulk values could, although they have stick back 5%, they could drop may be 10% over the next 12 months.

Vijay: In offshore I think the next 6-12 months will remain relatively firm, but with the new vessels coming in to play, particularly the new PSVs there could be a softening of the rates, may be towards the end of next year, that is ’07 or may be even sometime in ’08.

Gupta: And what would be the range of correction Sir, you expect?

Vijay: Very difficult to say today because today the market is quite firm, so I don’t think that today we will be able to guess of what levels of correction if any, that would take place.

Moderator: Our next question is form Mr. Nilesh Banerjee of UBS.

Banerjee: Can you kindly give us the average rates of the OSVs that we have clocked in FY-06? And number two some idea about the future Capex for two divisions?

Vijay: In Q4 FY06 OSVs clocked about $5600/day. The Capex that we speak is about $85 million for 6 OSVs with deliveries starting from July ’06 to Sept ’07.
The further capex plans would be unfolded once the demerger happens.

Banerjee: Is there any plan of buying a rig in near future, Sir?

Vijay: We are examining various options, nothing has materialized yet.

Moderator: Next in queue is Mr. Kanan Shah of Networth Stock Broking.

Shah: I would like to know what would be your Capex for FY-07 in the shipping division?

Bharat: Total committed Capex for shipping is $268 million in New building orders for 7 product tankers with deliveries between Feb 2007 to Sept 2009.

Now for FY-07 we haven't really planned because as I was saying earlier, asset value continue to remain high, but we hope that in the dry bulk values may correct may be in the summer months or later during the year. If that happens we would buy. At these values we are a little reluctant to do anything too aggressively because based on the forward curves, investments at today's values will probably not give you much more than a 5-6% return.

Shah: What is the cash on the balance sheet, as on 31st March '06?

Bharat: About Rs.1500 crores consolidated cash. About Rs. 1400 crores for shipping division and Rs. 100 crores for offshore division.

Moderator: Next in queue is Mr. Yogesh Hede from Brics Securities.

Yogesh: I would like to know the operating expenses for the vessels, for the PSVs and the AHTSVs that you incur, per day?

Vijay: Well, it depends on where we operate them, and it also depends on the type of vessels that we operate. But it would be an average of anywhere between from $2500-3000/day to as high as about $4500-5000/day, depending on where and which part of the world and what is the actual specifications of that vessel.

Yogesh: Can you just separate out the depreciation expense of shipping and offshore?

Bharat: The depreciation for the shipping division for FY-06 was Rs. 280 crores and Rs. 42 crores for offshore division.

Yogesh: Okay, and also could you give debt for shipping and offshore?

Bharat: The total consolidated debt is about Rs. 2200 crores and out of which about Rs. 1800 odd crores is for shipping division and the rest is for offshore divsion.

Yogesh: Okay, what is the kind of difference that is prevailing between the spot rates in an North Sea and what you get on time charter in the Indian waters?

Vijay: The spot rate in the North Sea varies significantly. It fluctuates virtually on a day-to-day basis. Last year it had gone down to as low as about £7000-8000/ day and then it has gone up to as much as to £20000-25000/ day. It also depends on the type of vessel that you have. So it is difficult to give a comparison completely like-to-like. And the Indian market, the last fixture was done around $14000 for a one-year charter.

Yogesh: Okay, would you also like to comment as I understand Badrinath would be up for re-negotiations in September ’06?

Vijay: Yeah, it will. It had been tied-up with ONGC for another period charter.

Yogesh: Could you give us what would be the operating earnings per day, what is the rate per day on that?

Bharat: Well, it is significantly higher; it is more in the range of about $75000-80000 a day.

Moderator: Our next question comes from Mr. Arpan Mukherjee of Reuters.

Mukherjee: I have been through your press release and found that you have an aggregate committed Capex of around 355 million. Is it for the entire year or is it till September 2007?

Bharat: No, till middle of 2009.

Mukherjee: what is the committed Capex for 2006-07?

Bharat: Well, as we said some of the vessels come out in 2006, some come out in 2007. Out of this $355 million, say about $110 million is for this year that is March ’07.

Mukherjee: Okay, and would you comment on your outlook for the current year for shipping business.

Bharat: For FY-07, we think the vessels that are in the spot market will see average earnings somewhere between 15-20% lower than compared to FY-06. But we do expect that the vessel which are on period cover will be probably at higher level compared to the earlier years because they are being renewed now after a gap of 3 years.

Mukherjee: Do you have a percentage on that?

Bharat: About 41% of our total shipping days is now covered at a higher level.

Moderator: We have our next question from Mr. Rohit Ahuja of ASK Raymond James.

Ahuja: We would just like to know that how far we are on the demerger process and at what time we can expect the process to be through?

Bharat: Can we request our Company Secretary, Mr. Jayesh Trivedi to elaborate.

Jayesh: There are certain approvals, which are yet to come through. We are pursuing it as hard as any one would but I cannot give you any exact date as to when this will happen. It can be anyone's guess right now. But we are pursuing the things and it may take may be 15 days or it may take a month, one doesn't know as of now because these are all technical approvals from certain government contractors and therefore it may take some time.

Ahuja: Whether the approvals of ONGC are through Sir?

Vijay: We are working on it and I think we should have some news on that shortly.

Ahuja: Going forward, in the offshore business what would be the PBT margins?

Vijay: This year operating profits were about 50% while PBT would be more like about 22-23%.

Ahuja: What would be the taxation structure, what level of taxation we can just adjust to your offshore entity?

Vijay: Well, some of our assets will be what we would call them as qualifying assets under tonnage tax and balance would be subjected to normal corporate tax.

Ahuja: Going forward are you planning to look at buying some another rig or construction barge?

Vijay: Well, I think we will unfold our plans once the demerger happens.

Moderator: We have our next question from Mr. Viren Dalal of Kotak Securities.

Dalal: Is the Capex for the offshore business about $85 million?

Vijay: Yes.

Dalal: And do you need to raise funds or debt or cash would be enough for at present to fructify that Capex?

Vijay: I think that is depending on what the board of Great Offshore decides. We will have to consult them and take that forward accordingly.

Moderator: Next in line is Mr. Amrit from Business Standard.

Amrit: How did you manage the segment profit for shipping division of Rs. 216 as against Rs. 212 crore last year?

Bharat: Basically what happened is, that those vessel that were on the spot market, the average earning from the crude side was lower by about 20-30%, on the product side the average earning was higher by about 20-30%, on the dry bulk side the average earning was lower between 45-50%. Now what compensated this was the fact that the period cover that were renewed during different parts of the year were at a higher level than when they were last renewed. Some of those last renewals were in 2003.

Amrit: Your long-term contract renewed at a higher rate.

Bharat: That’s right. That average was about 17%. If you take the break up of our period and our spot fixtures, the period being higher, the 17% in absolute rupees was greater than the fall of the 45-50% in the lower bit.

Amrit: Okay, so making it the long-term contract as and when they come up for the renewal you have got better rates than what you have entered previously, it has basically helped you maintain margins.

Bharat: That is what has helped us to mute the reduction in the quarter.

Moderator: We have our next question from Mr. Nikhil of SSKI Securities. Mr. Nikhil please go ahead.

Nikhil: Does the delay in the demerger of the offshore business delaying your ability to fund our Capex?

Vijay: Not at all.

Moderator: We have our next question from Mr. Yogesh Hegde from Brics Securities.

Yogesh: Of the $85 million Capex for the offshore, is there any advances paid?

Balan: Yes, about Rs.180 crores.

Moderator: Our next question comes from Mr.S. Dasgupta of SSKI Securities.

Dasgupta: I just wanted to get a sense of this 41% revenue that is covered for FY-07. How much of it is in the bulk segment and how much is it the crude segment?

Bharat: About 25% in the bulk and 46% in the tanker of which crude is 43% and product is 42%.

Dasgupta: Considering the fact that especially in the crude market you are expecting the rates to go down by 15-20%, why are we keeping the 50% still open on spot?

Bharat: There are actually two or three reasons. One is if you look at some of the vessels which are in the spot, they are single-hull tankers which don't very easily find a house in the period market. Second is that the modern ship which we like to keep in the spot market gives us a great a presence vis-a-vis the customers. Once they are out on period we find that the interaction with the customer becomes lesser and lesser and this gives us a better feel of what is happening in the segments. So we have taken up conscious decision that we must keep a minimum presence in the spot market irrespective of what our view is in the period market. So today we are thinking of a 15-20% fall but even if we believe that the fall would be 30% or 50%, we would still want a minimum presence in the spot market.

If you have seen what has happened over the last two years in particular we just needed a couple of seasonal delays somewhere or political uncertainty or typhoons or blackout and we suddenly had a huge spurt in the spot market earning. To capture that upside is also very vital.

Dasgupta: Another question that comes my mind is that this 46% that has been locked in, compared to the rates average for this year, are they the higher rate or are they marginally lower?

Bharat: No they are at a higher rate.

Dasgupta: How much would be that position?

Bharat: About 14%.

Dasgupta: About 14-15% higher than existing rates?

Bharat: No. When compared to the previous year.

Dasgupta: Compared to where the freight rates are right now, how high or low would they be?

Bharat: If you take the product segments for example, the bulk of the vessels that we had got on period are probably higher than the current spot market. On some of the product tankers, which were fixed in 2003, was in particularly bad market. Today the spot market is clearly higher than what is reflected in the period because some of the periods are still going on even though they were fixed in 2003. On the crude side, again a similar story, some of the period rates are higher than the spot market today and in a couple of cases the period rates continue to be lower than the current spot market.

Dasgupta: Rs.370 NAV on a consolidated basis, how does it break down between shipping and offshore on a consolidated basis?

Bharat: It is between Rs. 360 and Rs. 370 a share on consolidated basis. It is about Rs 336 per share for shipping and about Rs 450-500 for offshore on consolidated basis.

Moderator: Our next question comes from Mr. Nikhil of SSKI Securities.

Nikhil: This is for Mr. Bharat, basically in your statement you also highlighted the fact that ship prices continue to remain pretty strong compared to the correction in the feasible study we are looking at right now and possibly in the current year. What really explains the disconnect and whether does it really make commercial sense for us to possibly unlock some more value being assets swaps in this or it is going to be difficult to only time that?

Bharat: Let me answer the first question why? In our belief it is probably because over the last five years the shipping industry has obviously made lot of money and huge amount of liquidity chasing an 'x' number of modern assets and nobody wants to get rid of that because even shipping companies have over five years made a lot of cash and therefore they do not really need more cash. Also I think everybody is aware that shipyards are pretty full till 2009 and therefore if one were to sell a very modern asset today there is always the question mark as to when and how easily will we be to get back into this space, that is the one reason why the asset value remain high. As far as ships are concerned it is something that we look at and I think we have already announced it to the stock exchange that we took it or we have just taken advantage of a 96-built product tanker which had survey coming up in the next month or so. And we sold her at a price that is significantly higher than what we bought her four years ago.

Nikhil: If we look at this more on how actually you see the business going forward, if we assume the worst case shipping cycle coming back in the next year or so, would it be fair to presume that the bottom end of the cycle will now not be the average of the last 12-13 years but could be the average of the last 3-4 years. Is that something, which one can really look at?

Bharat: I think that there is a sporting assumption and we do believe that there is a paradigm shift and therefore while we may not get higher highs, we do believe that we may see higher lows.

Nikhil: And why would that be?

Bharat: Because from the fundamental demand continues to remain strong whether it is on dry bulk or whether it is on tankers. And therefore that could be one of the reasons why we have seen five pretty strong years. We have never really seen that happening in shipping in the last thirty years. I think for the first time in many years we have got every economy virtually showing very strong economic growth and that basically leading to very strong raw material demand whether it is oil or whether it is something on the dry bulk, iron or coal. So we think that the lows we have seen in the past are most unlikely to repeat themselves. And the other thing you must remember is particularly on dry bulk there has virtually been no scrapping in the last five years because of very strong freight market. To give you an example, average scrapping in dry bulk has run at about 16 million tons before this market really picked up and in the last three years average scrapping had been one million tons. Now at some point that scrapping will catch up. We don't think it will see at a very low level for any sustained period of time because scrapping will then always be kicking.

Nikhil: If we just look at broader data points, apparently the shipping market has got significantly consolidated than what it was some 10-15 years back. We have not been part of any consolidation so to speak, are there such businesses which are available which we would mostly start to look at now, which we historically possible here or not?

Bharat: Although we talk about a lot of consolidation in shipping compared to 10-15 years ago, it is very relative. I don't think consolidation in shipping has actually transferred any level of pricing power. So consolidation, whilst some of it may have taken place, it has not been a transfer of pricing power. So what is use of such consolidation?

Moderator: Our next question comes from Ms. Monika Joshi of Quantum Securities.

Joshi: Could you just repeat the NAV of your offshore division please?

Bharat: Between Rs.450-500 a share on reduced equity base of Rs. 38 crores.

Moderator: Our next question comes from Mr. Yogesh Hegde of Bric Securities. Mr. Hegde please go ahead.

Yogesh: Can you comment on the 26% stake that you have taken, in the logistics of the business? What are the plans going ahead on that front?

Bharat: That is the stake we have taken in a logistics company called United Shippers Limited an unlisted company. USL is looking at the possibilities of developing a minor port at Dharamtar. They are looking at a CFS, SEZ etc. and we hope that some of these plans will fructify and we will obviously assist them in trying to develop all these ideas.

Yogesh: Any plans in further increasing your stake in the business?

Bharat: At a value yes.

Moderator: We have our next question from Mr. Arpan Mukherjee of Reuters.

Mukherjee: This is just regard to the Capex spending you have just told me about $110 million this year. How many ships will that be translated into?

Bharat: Five supply vessels and one product carrier.

Moderator: As there are no more questions I would like to hand the conference over to Mr. Rajat Dutta. Mr. Dutta please go ahead.

Dutta: Gentlemen this concludes today’s conference call, thank you for your participation. The transcript of the same will be up to date on the corporate website for your future reference. Thank you once again.