TRANSCRIPT OF Q2 FY 2005-06 CONFERENCE CALL

Moderator: Good afternoon ladies and gentlemen, welcome to the Great Eastern Shipping second quarter conference call. We have with us Mr. Bharat Sheth, Deputy Chairman and Managing Director and Mr. Vijay Sheth, Managing Director to answer your queries. To start with, Mr. Balan Wasudeo, CFO of the company will give a financial snap shot. I request Mr. Balan Wasudeo to please go ahead.

Wasudeo: Thank you, good afternoon ladies and gentlemen. It gives me great pleasure to present you the financial results of the quarter and half year ended September 30, 2005. To give you a very brief snap shot, net profit has almost doubled 96.9% growth in the first half as compared to the first half of 2004-05. This is no doubt largely due to the gain on sale of two vessels adding up to Rs. 207 crores. Apart from this other contributing factors were growth in the shipping and offshore supply capacities, strong earnings from the offshore supply boats, and better treasury yield.

Total income grew by 19% in the half year from Rs. 900 crores to Rs. 1072 crores. The reasons are two- revenue days increased from 6784 days to 7621 days, a 12% increase and also there has been a very substantial increase in the revenue generated from inchartered vessels. The growth in the quarter was somewhat more flat at only 1.4% growth inspite of a 10% increase in the shipping revenue days. It is largely because of softening of freight rates. As I mentioned earlier we sold a vessel each in Q1 and in Q2 and the profit from that added upto Rs. 207 crores. There is a smart increase in other income i.e. the interest and dividend income. The reasons are- the corpus i.e the surplus with the treasury in terms of cash surpluses were substantially higher in this period as compared with the earlier one. But more important the yield we earned on this has gone up substantially because of hardening of interest rates.

Coming to the expenditure side the total expenditure in the half year increased by 22%. A large portion of this increase is on account of a cost related to voyages. Number one, the bunker cost has gone up substantially due to which our bunker cost has gone up by 16% over 2004. And also there has been an increase in inchartering which adds to the topline and also to the expense side. There was some increase in dry-docking in Q1 but in Q2 there was a reduction in dry-docking cost because the number of dry-docks were far less.

Understandably the operating margins were slightly squeezed from 49% to 48% in this period. Interest costs went up from Rs.39.5 crores to Rs.53.12 crores, due to increase in interest rates floating LIBOR has moved up in the last 12 months and also because of the amount of loans outstanding in this half were higher than what it was in the earlier year. But the increase in the interest income was far more than the increase in the interest cost. And if we take on a net basis net interest cost was Rs.21 crores in the half-year as compared to Rs.27 crores in the previous half year.

Provision for tax is higher than the early year. The current taxation at Rs. 19 crores is entirely related to the minimum alternate tax on the sale of vessels, which does not qualify for the benefit of tonnage tax shield, which is fully taxable in the MAT. And hence we have Rs.19 crores charges compared to Rs.7.11 crores in the previous half-year. There has been some increase in the deferred tax expenses because of capitalization of machinery on the offshore side in the last two weeks of this period and the fringe benefit tax of Rs.1.87 crores, taken together the profit after tax Rs.531 crores as compared to the Rs.270 crores in the previous half-year with an increase of about 97%. With those gentlemen, I end my presentation of the financial results; I request our Deputy Chairman and Managing Director Mr. Bharat Sheth to take over.

Bharat: Good afternoon ladies and gentlemen. I will take you quickly to our shipping division's performance. In terms of operating days there was a net increase of 11% vis-à-vis the corresponding quarter of last year. In terms of net earnings it was virtually flat and this was as the consequence of the vessel, which were on the spot market earning at an average between 30-40% less than the corresponding quarter of last year. However, the entire negative impact of the vessels on spot was muted by the increase we got in the vessels that were fixed for the longer-term period. So our earlier decision of fixing some of our operating tonnage for the longer-terms clearly muted the fall in the overall net earnings and therefore the net earnings was flat. Logically it should have followed the same trend as the fall in the spot market. We then had the profit on the sale of a single-hull Aframax tanker which gave us about Rs. 35 crores and the profit at the division grew by about 17%.

The other important variant to note in this quarter was that on the expense side due to very high crude oil prices in the particular quarter, the cost of bunkers rose in the spot market and which is directly on our account. There the difference between what we paid in the corresponding quarter of last year and what we were compelled to pay in this quarter the net impact was about Rs.15 crores, for the quarter alone. We do have a policy on hedging our fuel prices of our fuel intake. We had about 20% our total fuel intake hedged about 80% of what we bought on the spot market.
At the end of the quarter we did see an improvement in the earnings both on the tanker side as well as on the drybulk side. On the tanker side in particular, the hurricanes Katrina and Rita helped the product market initially to begin with, and then percolated to the crude market. In addition on the drybulk side, China continued to import bulk quantities of iron ore though they have become a little flat in the month of July and August. But China is again, improved its iron ore intake in the month of September and October and therefore we are seeing an improvement in spot markets in drybulk as well. The impact of that, will come in Q3 and we also have more incomplete voyages going into Q3 vis-a-vis incomplete voyages coming in to Q2.

On the interest side, the interest cost of the division have gone up above 76% from Rs.12 crores to Rs.22 crores partly due to a higher average outstanding loan of Rs. 1700 crores. So that broadly is the summary of the performance of the shipping division for the quarter. Once my colleague Mr. Vijay Sheth completes the offshore presentation, we will take all the questions of the division.

Vijay: Thank you Bharat, Good evening Ladies and Gentlemen. The performance of the offshore is a little bit weaker for this quarter as compared to last quarter. We have had a drop in revenues about 9%, which is about Rs. 50 crores largely on account of Kedarnath the jackup unit that was commissioned at the end of the quarter did not work for the full quarter as compared to last year. Though there has been an increase in the earnings of the offshore supply vessels the net drop in revenues was of about 7 crores. The operating costs were higher and therefore our operating margins had a dip of about 3.5% resulting in PAT coming down by nearly about 37% from about Rs.31.3 crores to slightly below Rs.20 crores. We did see an increase in interest costs largely due to increased borrowing as vessels were inducted into the fleet. As you will note in the first half of the year we have taken delivery of Malaviya Twenty One, and Malaviya Twenty Four. The quarter has been a little bit weaker, largely because both drilling rigs were non operational for major part of the quarter mostly not working even though Gal Constructor, our construction barge, worked at a much higher day rate. Now I revert back to Rajat, who would then take the request on the participants to come forward with their questions.

Rajat: Thank you Mr. Vijay Sheth, I open the floor for the question-and-answer session.

Moderator: We have our first question from Mr. Siddarth of Principal Mutual Fund.
Siddarth: Good afternoon Sir. This is regarding your offshore division, what have been the dry docking expenses in relation to Kedarnath and Badrinath for the quarter?

Vijay: On Kedarnath the total dry-docking and refurbishing expenditure is about Rs.50 crores, which would be amortised over 3 years. While Badrinath did not undergo a dry dock but her repairs would be a order of about Rs. 4 crores.

Siddarth: Why has Staff cost has gone up significantly nearly 35% y-o-y?

Bharat: Yeah, that is predominantly because of addition to the fleet. Also, we have provided for the possible increase in the union wages, which around 7-8%.

Siddarth: In our segmental results breakup, others show around Rs. 32 crores please explain

Bharat: Yeah, it is treasury income.

Moderator: Next in queue is Mr. Shashwat of PTI.

Shashwat: My question is to Mr. Bharath Sheth. How would you like to analyse your Q2 performance?

Bharat: On a net earnings basis, the earnings have remained broadly flat with the corresponding quarter last year. And this is inspite of 30-40% drop in the spot market on an average between different asset classes that is tankers and drybulk. But clearly the fall was neutral because of the improved earnings that we had due to some of the period business that we had concluded in the earlier part of the year when the markets were much stronger. I would say that it was a quarter broadly reflecting the current state of the various markets that we are operating in.

Shashwat: GE Shipping is in a hurry to sell its drybulk carriers, why is it not acquiring any new ship in its fleet?

Bharat: Its not that we are in a hurry. We bought 3 modern ships this year, 1997 built, 2000 built and 2003 built and what we have sold is one 1977 built. Obviously her life had come to an end that's a 28-year-old ship and we did not think it made sense to go and spend more money on such a old ship, and the other two that we had contracted to sell are 1983 built. So the eventual operating days will remain the same, with an improved age profile of the fleet.

Shashwat: And Sir, what is the status of the demerger? It seems the report of the demerger is delayed, will that also affect the demerger process.

Bharat: No, there is no delay. At the moment the Hon'ble High Court of Bombay has given a date of November 16 2005, when the court convened meeting would take place of the shareholders and the creditors. After that there is a detailed process to be carried out. We think all going well it should happen sometime between February and April of 2006.

Bharat: And Sir, Varun Shipping seems to be acquiring fresh ships, does that affect G E Shipping's market share?

Bharat: No. As you know our industry is extremely segmented. Therefore buying ships by any one shipping Company does not have a direct bearing on anyone else unless everybody goes and builds ships, which will have an impact on a global basis. But buying in the second hand market really has no impact.

Shashwat: Sir, is G E Shipping bidding for Dahej LNG terminals?

Bharat: We are not bidding for the terminal, we have put our price bid for the transportation of the LNG in association with Teekay Shipping.

Shashwat: Government has decided to invest around $32 billion through public private partnership to build marine infrastructure and facilities across the country. Is G E interested to join hands with the Government?

Bharat: Not at the moment, we haven't considered it

Shashwat: With the increase in freight rates, will G E Shipping focus on drybulk?

Bharat: Unlikely.

Shashwat: Varun Shipping has adopted the strategy of adjusting cargoes of international careers with its own fleet. Is G E also thinking anything of same terms or will it affect G E's prospects?

Bharat: No, GE is not thinking anything of such nature.

Shashwat: Will it affect your prospect?

Bharat: No.

Shashwat: Essar had plans to develop dry-dock but it has abandoned it, Is G E looking at this business?

Bharat: We have not considered it.

Shashwat: Increasing detainment of Indian ships at foreign shores, would that affect G E's prospects?

Bharat: No, At the moment none of the Great Eastern ships have been involved in any detainment at any foreign port and as a result there is no impact on Great Eastern Shipping.

Rajat: As this is a quarter call for the Q2 results, I would appreciate the questions to be focussed on the Q2 results only.

Moderator: Our next question from Ms. Kanan Shah of Net work Stock Broking.

Shah: Good afternoon Sir, this is a question regarding outstanding debt on 30/09/05.

Bharat: Outstanding debt on Sept. 30, 2005 is about Rs.2000 crores.

Shah: And what will be your offshore utilization for the quarter?

Vijay: Well, it is different for different categories of vessels. For the harbour tugs it was 85%, for the offshore supply vessels it was around 84%, for the drilling rigs it was very low, around 14% and for the construction barge it was around 68%.

Shah: With your three or four ships going out of business next quarter, do you think that it will affect your revenue days going forward?

Bharat: In the next quarter, in addition to the three ships, which still need to be delivered, we have many more dry-docking days budgeted for quarter 3. So yes that will have an impact but as I said earlier, the spot market rates have gone up in tankers as well as drybulk vessels. So we are hoping that one will offset the other.

Shah: Okay Sir, the profits will come down for that much.

Bharat: That is right. As a combination of vessel that we are delivering as well as additional dry docking, to that extent profits will get adjusted.

Shah: And Sir, you have mentioned that 'Jag Prakash' and 'Jag Radha' would be delivered in Q3, around what month will it be?

Bharat: Both in November 2005.

Moderator: We have our next question from Mr. Anish Desai of ABN Amro.

Desai: Good evening, on shipping it was mentioned that the operating earnings were flat. Is it at operating EBIDTA?

Bharat: Yes, at an operating profit of Rs. 236.8 crores in Q2 FY 2005-06 the earnings was flat. In case the operating profits for Q2 FY 2005-06 was Rs. 207.63 crores a meager 2.5% growth. This is not considering profits on sale of ships as well as other income.

Desai: So the EBITA of that is roughly we are saying around Rs. 292 crores and Rs 257 crores if sale of ships is not included? The press release mentions shipping EBITA for Q2-06 mentioned 173 crores.

Bharat: Yes that's right, it is after depreciation.

Desai: That is right, so from this if I remove the sale of asset which is roughly 34 crores, EBIT is more or less flat and then if I want to come to EBIDTA add the depreciation I would imagine, year-on-year shipping depreciation maybe higher.

Bharat: That is right, it is about 11% higher.

Desai: What you are saying is EBIDTA is flat.

Bharat: Yeah, that is right.

Desai: Okay, and the other is on offshore, considering that Badrinath was not operating for two months in the quarter, EBIT for the quarter is higher sequentially. So can we get some guidance on the operating days of the OSVs and what has been the increase in charter rate the OSVs witnessed?

Vijay: Well, basically we took delivery of two OSVs and they worked in the second quarter and did not work in the first quarter. The rates have gone up by about 16% on average as compared to previous year.

Desai: So, the sequential increase is primarily because of OSVs, is it?

Vijay: Yes, primarily OSVs addition and improved yield on the construction barge.

Desai: And what about the operating days…?

Vijay: Operating days would have probably gone up by about, 10%.

Desai: Fair enough. Just jumping back to shipping, we could get some guidance on what spot rates the vessels are earning going into Q3 FY 2005-06?

Bharat: At the moment, based on the business that we already have in place, the VLCCs are earning in the very high 40s and we have one VLCC. We have got some single-hull Suezmax and some double-hull Suezmaxes. The single-hull Suezmaxes are now averaging somewhere in the USD 30s and the double-hull Suezmaxes are now averaging somewhere in the USD 50s and the single-hull Aframaxes that we have on the spot market are now averaging somewhere in the low USD 20s.

Desai: Okay, these are all the spot rates?

Bharat: These are the spot rates. Those that are already covered on periods there will be no change in the earnings, going into Q3 or Q4.

Desai: What were the inchartered operating days for the quarter?

Bharat: For the quarter, actually on a net basis, because we inchartered some ships on back-to-back terms, but on inchartered operating days for the quarter will be approximately 90 odd days, 90 for shipping.

Vijay: For offshore we have taken two ships, it will take 90 days for each ship, totaling 180 days. On a completely back-to-back basis.

Desai: Okay, as of the end of the quarter what is the combined NAV as well as NAV for shipping and offshore division? If you can just give me the split we get the combined figures?

Bharat: It is about Rs.300 a share for the Company and the split would be Rs. 252 per share for shipping and Rs.48 per share for offshore. This is on a combined capital of Rs. 190 crores.

Desai: Okay, and I would have imagined quarter-on-quarter if atleast the single-hull assets prices have come down, the NAV seems to have gone up. Could you just give us some guidance on that?

Bharat: Yeah, basically for 3 reasons, one is the valuations have gone up on the offshore assets, secondly the value have gone up on modern-end of the tankers and the third is the retained profits that we have derived from the quarter.

Desai: Right, and if you can just tell us what is the status of this LNG Shipping tenders?

Bharat: We have to put in a price bid around the 16th of November and we understand from Petronet LNG that the award will take place sometime before the end of December 2005.

Moderator: We have our next question from Mr. Hitesh Jain of Enam Securities.

Jain: I just wanted to know what is the deadweight tonnage as of today and what was it as of FY05?

Bharat: It is about 2.93 Mn and it was slightly in excess of 3 million tons in the corresponding quarter of last year.

Jain: Could you just give us a sense of where the global freight rates would be heading post winter?

Bharat: Going forward, clearly the winter months will help the tanker market as well as all the building up of inventory. Iron ore trade is going to help the drybulk market. But as an average we think that 2006 and 2007 will see weaker average earnings, both for tanker as well as the drybulk.

Moderator: Next in line is Ms. Shilpa Krishnan of Kotak Equities.

Shilpa: Good afternoon everybody. Can you give us the breakup between the spot and the period rates and the number of days that each category of vessels VLCC, Aframax, Suezmax?

Bharat: On the VLCC for the quarter that is just completed we have only one VLCC as you know, and that earned about a little over a USD 30,000 a day as compared to USD 49,000 in the corresponding quarter of last year. The Suezmax has earned an average of a little over USD 22,000 a day compared to USD 34,000 in the corresponding quarter. The Aframax did about USD 18,000 as compared to USD 21,000 and the product tanker did about USD 20,000 as compared to an average of about USD 16,000. And on the drybulk side the handy size vessels averaged about USD 12,000 a day vis-à-vis USD 15,000 a day of the corresponding quarter and the larger Handymax vessels averaged about USD 17000 as compared to USD 20000 in the corresponding quarter.

Shilpa: Okay, now on the product tanker specifically, can you give us the break-up of your spot days and your period days and what were the rates that you earned on each category?

Bharat: On the product side, about 86% of the revenue days what covered in period market, it is only about 14% of the revenue days that was on the spot market.

Shilpa: Okay, and any significant renewals coming up in the next one quarter or so?

Bharat: There are a couple of renewals, nothing on the product side, but there are some renewals that are coming up on the crude side over the next quarter.

Shilpa: Okay, alright and my next question is pertaining to the in-chartered fleet, I was just wondering whether are you making a loss on the in-chartered fleets?

Bharat: No, we haven't made a loss. What happened is that the way we account for it, some of the voyages on the in-chartered ships are going to complete in Q3. But what we do is we debit the entire cost of what we paid to in-charter on that particular ship. We debit that on a 90-day basis. So what happens is if you have already got 30 days on the revenue side because the second voyage is say, incomplete but you have debited 90 days, it tends to distort the picture. But if you ask me on the whole the in-chartered ships have earned us very decent profit.

Moderator: We have our next question from Mr. Amit Mitra.

Mitra: Good afternoon, Mr. Bharat, now that the spot rates are increasing, do you think that the current mix of the spot and period charter would change in the coming quarters?

Bharat: No, I think these things once you fix the vessel you are typically kind of fix out for about 12 months, in some cases 24 and in some cases even 36 months. You can't just change a mix at free will, but in various segments we are basically 60% of our crude fleet is at the moment covered until March, 2006, in terms of revenue days, 86% of the product is covered and about 35% of the drybulk is covered.

Mitra: What is your capital expenditure program now for the next half of the year or next year?

Bharat: We have a capital expenditure program that runs through till end of 2007, last quarter 2007 and is running at about $242 million.

Bharat: There are some product tankers and there are some offshore supply boats. There are 5 MR product tankers aggregating USD 165 Mn and about 6 supply boats aggregating USD 76 Mn.

Moderator: Next in queue is Mr. Gaurav Oza of Techno Shares.

Oza: Good evening Sir, can you throw some light on guidance on drybulk market?

Bharat: Drybulk earnings were particularly weak in the month of July and August and then we saw a revival coming through from early September. In line with seasonal demands there was a marked improvement in the dry bulk rates.

Oza: Okay, for coming two quarters, would freight rates remain stable?

Bharat: Hundred years of shipping has taught us that freight rates never stay stable. But both on tankers and drybulk we think that the average earnings on those vessels, which are on the spot market, should be higher in H2 vis-à-vis H1.

Oza: what is the current freight rates going on for Handymax vessels?

Bharat: About $19,000 a day, give and take.

Oza: How much time will single-hull vessels will be trading?

Bharat: We clearly have atleast until 2010 and then as you know various jurisdictions can provide concessions and then it could just, to somewhere between 2010-15 subject to the age of the particular asset. There is every possibility of the final date being stretched upto 2015.

Moderator: We have Mr. Sachin Kasera of Pioneer Intermediatories

Kasera: Good afternoon Sir, my question is regarding the demand-supply side. Could you just sum it as to what is the scenario both in drybulk and the tanker side on the demand-supply during the quarter?

Bharat: On the crude oil demand side, we saw United States zero percent demand growth, China was 4% demand growth and India was (–)2%. On the crude tanker supply side we had a net fleet growth of about 4%.
The product tankers have actually grown a little less than crude but it is again on the margin between 3-4%. Going forward over the next 6 months, we will see about another 3% net fleet growth in tankers.
We believe that there must have been some level of oil stocking particularly in China, because what is very interesting in China is that we are still seeing our 9-10% GDP growth but we are seeing only a 4% oil demand growth. So it is possible that the imports in H2 in China could be well be higher than in H1.
On the product side, clearly Katrina and Rita have significantly changed the equation. The numbers that are going around is that Katrina and Rita have probably disrupted about 200 million barrels of gasoline production and some of this is bound to be imported and that is why we are seeing a very strong spot product market rate.

In terms of crude oil, I think there is something like 65 million barrels of production that has probably been blocked as a consequence of these two hurricanes. Now, over a period of time that will clearly be made up, but what we do see is that it is going to take time to make up these 200 million barrels of product lost and 65 million barrels of crude lost. So hopefully the next few months should see very healthy rates.

As a consequence, every year as winter sets in, typically a ship gets caught up for longer stays in ports either due to bad weather or more cautious operations, etc. and therefore on the margin these things help a great deal in creating, what I would call ‘an artificial shortage of ships’ and that what helps sentiments. The clear indication of how the customers or charterers see the market is that today cargoes are coming in 30-35 days in advance. Typically they would come in 15 days in advance in a weak market, clearly it’s a sign of strong market maybe here to stay for the next couple of months.

Kasera: And how was the demand-supply in the drybulk side?

Bharat: On the drybulk side we have seen an improvement in the last one month. The average earnings are clearly well below what they were in the corresponding quarter of last year and its predominantly driven by the fact that we've got a 4% net fleet growth in drybulk with a demand growth yearly coming at about 3%. I think what is happening in drybulk is that there is very little scrapping that is taking place. Traditionally in drybulk annual scrapping rates normally run between 10 and 11 million dwt per annum. But because of very healthy market, over the last two years that number has dropped to below 1 million dwt. So, there is a lot of scrapping that is waiting to take place in drybulk that has not happened yet.

Kasera: Regarding the asset prices, we have sold some of the old ships both in the product as well as the drybulk side, since then how has the market behaved and how do you see going forward, because from what you are saying at least in the short terms things seemed to be looking up, so how are you looking at it?

Bharat: Well, if you see we have sold. We sold our VLCC at what we think was probably the highest price ever achieved in the history of shipping in that class and age at around USD 60 million. We believe that a vessel similar to that today would probably worth of $40 million. So you know, we have seen a very significant correction that has taken place in the single-hull tanker. Similarly, on the single-hull Aframax tanker that we have sold, whilst the fall is not as dramatic as the VLCC, clearly there is at least 10% downward correction in the value of that asset.
On the drybulk side we actually got rid of our 1977 built ship and 1983 built ships because both the ships had major dry docking that was coming up in the next 30 days and we felt that rather than spend money on these older units, its better to keep our powder dry for the fall in value that we anticipate will come in the more modern tonnage. On the double-hull product tanker sale that we have concluded, I would say that the price is broadly where it was when we sold the ship or when we contracted to sell but no transaction has taken place since the time we sold.

Kasera: Do you think the market has corrected enough for you to have a say, if you look at the second hand market in terms of single-hull prices or you believe that you would like to wait for a further correction and then may be look at adding assets?

Bharat: We would like to wait.

Kasera: And Sir, regarding the long term contracts. Some of them eligible for renewal in next quarter and some of them in the start of FY-07. Going by the rates what is your sense in terms of earnings on these?

Bharat: On some it will be better and on some it will be worse. The one that are coming up for renewals now will definitely go at better numbers. The ones that come up for renewal in the quarter one of FY-07 will be driven by what the spot sentiment is at that time. I would really be reluctant to stick my neck out on what could happen then, because we've seen in the past events have changed equation. It was extraordinary what we have witnessed in just two weeks due to Katrina and Rita.

Kasera: And Sir, in terms of key pointers in the next six months you look out which could make or break the drybulk or the tanker market?

Bharat: Lets take tankers first; I think if the winter was mild, I see that as downside risk factor to the tanker demand. Other than that, I don't see too many other factors that in the short-term will necessarily bring this market down. I think there is a greater chance of the market going up than coming down. But so everything will hing now on the severity of the winter. The first indications are that North America and Europe should experience a very severe winter, but we'll have to wait and watch.

On the drybulk, I think it will depend on how people see the price of iron ore, clearly as you know about 90% of the incremental trade that is taking place in the drybulk is taking place only in iron ore. Now, three months ago people believed that the price of iron ore that typically comes up for negotiation in the month of November and December, will either be flat or it will be negative. That could be one of the reasons why China actually slowed down the imports of iron ore in the month of July and August. Now, people are saying that it is possible that you might see a 5-10% increase in the price of iron ore for next year. Now, you know that everything hinges on China in drybulk, unlike tankers where you have many more players. So if the Chinese government decides on a strategy to reduce imports, so that they can keep the price of iron ore to a low level, then you might not see any further increases in the drybulk earnings.

Kasera: Sir, one last question regarding the policy of ratio of spot to time charter, going forward, are you comfortable with the current ratio or you would like to change the mix?

Bharat: I think, clearly with what has happened on Katrina and I would have loved to have many more product tankers on the spot market but life never works like that. So, at the moment if you ask me with today's spot market, we would like to have more on the spot but that's not going to be possible, but I think you can't look at it on a quarter basis. The spot earnings have averaged about 35-40% less compared to the corresponding quarter. And yet our shipping EBIDTA has 2.5% rise. So the gap between fall of 35-40% and a small rise of 2.5% is because we follow a policy of always having a certain amount of our fleet on the forward curve.

Moderator: We have our next question from Ms. Shilpa Krishna of Kotak Institutional Securities.

Shilpa: Hi, this is the follow up question, on one of the statements that Katrina would have probably destroyed 200 million barrels of gasoline and that's what would have to be probably imported. Now, if you could just get a sense of what this means for the product trade how much does the average product tanker carry and what is the average voyage duration where is it being imported?

Bharat: Well it depends where it's being imported from, I mean, this is not at loss, its just a loss of production, so eventually you just catch it all up in time. Today products are moving in various type ships like MR, GP, even Aframax in some cases.

At a macro picture level, Asia is long products and the United States is short products. But that is what is good for the product market because that adds to tonne mile demand. In terms of earnings pre-Katrina and post-Katrina, I would say that they probably have gone up in terms of net earnings something like 60-70% increase. So, clearly the deficit of the 200 million barrels is going to sustain the product tanker market at a higher level and for a more sustained period of time.

Shilpa: Okay, but do you see any further upside in the product tankers spot rates because of Katrina or you think it's all in the current year?

Bharat: People are now in a better position to assess the extent of damage. Initially it was very difficult to know how long things will take to settle down. I think there's a lot more confidence about being able to settle the rituals vis-à-vis Katrina and Rita.

Shilpa: As there are no more questions, I would now like to hand over the conference to Mr. Rajat Dutta. Please go ahead, Sir.

Dutta: Thank you. Ladies and Gentlemen, this concludes the second quarter conference call. Thank you for your participation, the transcript of the same will be uploaded on the website for your reference. We shall be glad to answer any of your questions, which could not be dealt with today. Kindly send us e-mail on the same. Thank you once again. Thank you so much.