THE GREAT EASTERN
SHIPPING COMPANY LIMITED
CIN: L35110MH1948PLC006472

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Our Ref.: S/2021/JMT

August 03, 2021

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National Stock Exchange of India Limited
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Mumbai – 400 051

Sub: Written transcript and Video recording of Earnings call conducted on July 29, 2021

Dear Sir / Madam,

Further to our letter dated July 30, 2021 on earnings call, please find enclosed written transcript of the earnings call held on July 29, 2021 at 5.00 p.m.

Also find below the link for accessing video recording of the earnings call uploaded on our website: https://www.greatship.com/upload/investors/transcripts/GreatEasternShipping-Earnings-Jul29-2021.mp4

We request you to kindly take the same on record.

Thanking You,
Yours faithfully,
For **The Great Eastern Shipping Co. Ltd.**

Jayesh M. Trivedi
President (Secl. & Legal) & Company Secretary

"Great Eastern Shipping on Declaration of its Financial Results for the Quarter Ended June 30, 2021"

July 29, 2021

MANAGEMENT: **MR. BHARAT SHETH – DEPUTY CHAIRMAN AND MANAGING DIRECTOR - GREAT EASTERN SHIPPING COMPANY LIMITED**
MR. G. SHIVAKUMAR– EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER – GREAT EASTERN SHIPPING COMPANY LIMITED
MS. ANJALI KUMAR - HEAD, CORPORATE FINANCE AND COMMUNICATIONS – GREAT EASTERN SHIPPING COMPANY LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the GE Shipping earnings call "On Declaration of its Financial Results for the Quarter Ended June 30, 2021. At this moment, all participants are in listen-only mode. Later we will conduct the question and answer session when the presentation concludes. If you have any technical difficulty please use the assistance icon present at the bottom left of your screen. I now hand over the proceedings to Mr G Shivakumar, CFO and Executive Director at the Great Eastern Shipping Company. Thank you and over to you Sir!

G Shivakumar: Thank you Aman. Good afternoon everyone and thank you for joining us for this Q1 FY2022 results conference call. I hope all of you are well and keeping safe.

Let us start with the presentation first. Before we start, we may make some statements which are like forecasts. Please remember that shipping markets are very uncertain, freight and asset prices are extremely uncertain please keep that in mind when you hear what we have to say.

Let us take a look at the results first. I hope you would have had a chance to see those results. These are the reported numbers. We will also come to what we call the normalized numbers. So on a standalone basis; we have reported net profit after tax of 99 Crores for the quarter as opposed to a PAT of 465 Crores in the same quarter of the previous year.

On a consolidated basis, we have reported 12 Crores as a profit versus 468 Crores in the corresponding quarter of the previous year. Now let us look at what this looks like on a normalized basis because we have had some of the usual currency and derivatives impacts.

On a standalone basis our normalized profit goes up from 99 Crores to 134 Crores still 70% down from the same quarter of the previous year and once we look at the markets and how they have moved in between Q1 FY2021 and Q1 FY2022, that will explain this difference.

On a consolidated basis the profit has dropped from 423 Crores to 85 Crores on a normalized basis. The significant event of the quarter is the increase in the net asset value. The net asset value which was at about Rs.490 as of March 31, 2021 has now gone up to Rs.540 that is Rs.50 or about a 10% increase in the last three months. This is due to a significant increase in the price of assets whether it is bulk carriers or tankers or gas carriers in the last quarter and we will look at how the asset prices have moved also.

On a consolidated basis, also the movement is similar by approximately Rs.50 per share. Just to remind you of our fleet profile we have 46 ships currently with a total carrying capacity of just under 3.7 million deadweight of which 27 come under the category of crude and product carriers, 5 are gas carriers and we have 14 dry bulk carriers as well.

Let us see what happened in each of the individual sectors that we operate in and here you have on the left side the Suezmax earnings chart. These are not ours. These are the market averages. You see the blue line represents how the market was in the last financial year and you can see that the first quarter of last year was of course spectacular because of the huge oversupply of oil which we had through the month of April and part of May and therefore we had very high earnings so FY2021 Q1 average Suezmax spot rates were at about $48000 a day in contrast you have this quarter April June 2021, which has an average of below $5000 a day which is a drop of 90% and that is a reminder of what can happen in the shipping market.

On the MR side, which is on the right side, the MR product tankers the market was more or less similar. We had an average of about $26000 last year and this year in the first three months of this financial year the average was little under $7000 which is about a 74% drop. Now what led to this basically refinery runs remain 5% below the pre-COVID levels. The crude trade itself remains 10% below what it was before COVID. So that is at the very end of 2019, January 2020.

OPEC plus had held back crude supply in order to support the higher price. They have now reached an agreement to start releasing oil back into the market increasing by about 400000 barrels per day every month so hopefully that should help improve the availability of crude oil to carry and while the trade has collapsed we have had significant supply growth from new buildings and we have had the floating storage release, which has happened over the last one year or so. Last year you remembered that the floating storage took up about 10% of the fleet in May last year and that has been coming down. We are still at about 4% to 5%.

Also despite the poor freight market and very strong scrap prices, scrapping still remains slow. 1% or less of the tankers have been scrapped in this six month period despite very, very poor earnings, which are just about operating expenses.

Coming to dry bulk, which is one bright spot and it is almost the exact opposite of what has happened in tankers. We had a very poor first quarter last year. This is the Capesize graph you are seeing and the Capesize earnings you are seeing in that table. Capesizes average below $10,000 a day in April to June 2020. In April and June 2021, they averaged $31000 a day and you can see that the blue line which was pretty low in the first quarter and then recovered later and this year April it just started off at a very high level. It is at above $30,000.

More than the capes the sub-capes which is the Kamsarmax and Panamax and the Supramaxes have done very well. They were not almost the same as a Capesize bulk carrier and the reason for that is the second point here which is that the demand for minor bulks, which is commodities like bauxite, limestone, clinker those kind of commodities which typically are carried on smaller vessels, smaller than Capes, the demand for those has grown faster and therefore the demand for smaller vessels has been growing faster than that for Capesizes. It is mainly dependent on iron ore and coal transportation.

Also as a result of the sudden surge in cargoes in dry bulk port congestion has increased pulling in a lot of supply and tightening the market further. Currently the port congestion stands at about 5% which is its highest level since 2014, so all of this has served to tighten the market. The market continues to be at around $30,000 a day whether it is Capesize bulkers or Kamsarmaxes or Supramaxes.

Moving to LPG, the quarter was more or less in line with what it was in the previous quarter in terms of averages. So last year the spot market averaged $33,000. While this year it averaged about 8% higher rate about $35,500. It is currently a little lower than that. The spot market is probably around $15,000 to $20,000 a day. Of course, our ships are all on time charter. so they do not directly get affected by the spot rates.

Again, there was a lot of congestion in the VLGC sector in December-January especially at the Panama Canal. This has eased. So the supply situation has eased a little bit despite that the rates have been reasonable. US LPG exports have suffered a little bit because local demand for LPG has increased and they have been drawing down from inventories for exports so they will have to rebuild the inventories.

Coming to the fleet supply situation, we have been showing this chart to you for a few quarters now and the order book keeps reducing. The dry bulk order book is now at 5.6% and the product tanker order book is now at 6.6%. It is at its lowest level since we have records. The database goes only up to January 1996. So it is a lowest since then so we do not know how many years before that we have to go.

The crude tanker order book has been building up in recent months. People have been ordering crude tankers. So it is built up but it is still at only 8.6%. It is at its lowest for the last eight years. Let us see what happened to asset prices and this is a bit of a conundrum here. You can see the crude tankers chart which is a top left side which is a Suezmax Crude tanker. Between January 2021 and July 2021 earnings have been only around operating expenses. So probably not even covering basic interest cost even at the current very low levels of interest; however, the asset prices have gone up by 10% in this six month period.

The product tankers have also gone up in price but not to that extent as crude tankers. Dry bulk is much more easily explainable. The asset prices have gone up between January and July by 40% to 50% depending on the age of the ship so at the more modern end probably 30% and at the older end more than 60% or 70%. This has been the movement in the asset prices but at least that is explained by what has happened to earnings but the tankers it just does not explain why prices are going up like this, except of course that new building prices because of high steel prices, have gone up and because of high steel prices, scrap prices have also gone up and they have gone up from probably $450 per tonne to $600 per ton and maybe even more and that is a big increase in scrap prices which is pushing up the prices of ships as well. LPG has been more or less flat maybe 5% higher over the last six months.

Coming to the offshore business Great Ship India Limited. This is again a chart that we have shown for a long time. There are a lot of cold stacked rigs which have been cold stacked for more than three years, you can see the number at the bottom which is 60 rigs which have been cold stacked for more than three years and the reason we look at cold stacked rigs is because it will take a significant amount of investment to get them back into operation. So you can actually consider that these rigs may probably not come back into service unless the market becomes extremely strong from here. They will probably not be counted as part of the effective fleet supply at all.

We are not yet seeing this really reflected in our pricing as it has not gone up in any big way. Hopefully, this will just like the low order book for ships at some point in time when the demand picks up; we will see an additional tightness because of the lack of supply of assets. We are seeing some pickup in the utilization for jack up rigs. Again this is not our rigs. This is global utilization as reported by industry reports.

So utilization has picked up from very low 60s which it was at the beginning of this year to about 66% that is the green line. We are up from about 61%, 62% to about 66%, which is not bad. We are getting close to where we were in January 2020 where the market was looking quite good, which seems to be on its way to good recovery before we were hit by COVID. Let us see if this trend continues.

Coming to repricing, we had two rigs which came off contract between March and April. The Greatdrill Chetna and Greatdrill Chaya. Greatdrill Chetna has gone back on hire in June onto a new three-year contract. The Greatdrill Chaya still remains without a contract. We have however bid that rig into a tender. The tender has opened. It is for a three-year contract and we are L1 in that tender. So we hope that there is a good chance of getting that contract and we will be able to go on to the contract immediately after the monsoon. As you know we cannot go on to a contract during the monsoon in the West Coast Fields. So if we get that contract, the rig will go on hire after the monsoon.

So that is the one rig which is showing here in H1 FY2022. We have seven vessels also which are up for repricing of which four are already off their current contracts, four have been bid into contracts with ONGC and hopefully when the tenders open we will land some more contract coverage for those vessels. apart from that the next rig which is coming up for repricing in about May 2022 and then the next one after that is in May 2023.

Now we thought we should update you on what initiatives we are taking on the environment. We voluntarily published our first ESG report this year and I hope you would have taken a look at it because we have given some very extensive information on all the things that we are doing and all the data points on our environmental initiatives. So it is part of our annual report, which we have released about a month ago for FY2021 and I think you will find it an interesting read.

Second is we have established a working group to study on alternate fuels and fuel optimization technologies in view of the IMO emission reduction targets and we hope that we will be able to make some headway on that in the next few quarters.

Third point is on the low sulfur emissions. After the January 2020 IMO mandate on switching from 3.5% sulphur to 0.5% there has been of course a drastic reduction in the Sox emissions using a mixed strategy of scrubbers and low sulfur fuel oil.

Finally, this is something that i would refer you to we have created an ESG profile of our company based on certain ESG metrics. This profile is available on our website under the sustainability tab and I would request you to take a look at it. It is quite interesting. Among the things that we have done to save energy on our vessels, we have energy saving devices/work done and we can go into detail on these separately if you want to have an explanation on them. The high-performance paint basically is applied on the ship's hull in order to reduce friction when it is sailing and therefore to improve the efficiency, basically of streamlining the ship and reducing your fuel consumption.

The Mewis duct, the propeller boss cap, the ecocap, all of them help to make the propeller more effective and therefore reduce the power loss while that it is providing to the ship and therefore help to reduce the fuel consumption. The LED lighting is something which makes a very small difference to the overall consumption of the ship but we think that every little bit counts so we are doing whenever we get an opportunity. We are changing all the lighting on the ships to LED lighting just so that you can save these little fractions of fuel and help to improve our record on emissions. The rudder bulb and the pre-swirl fins also help to make the propellers more efficient.

Coming to financials, there is just one slide actually, the stock price to NAV. So the stock continues to trade at a discount to net asset value. This is based on the price as of yesterday. So it is a little lower today. So we continue to trade at a significant discount to the net asset value. So that brings me to the end of the presentation, and we have more slides for you in the presentation, which has been uploaded for the usual data that you look for so it is available in the uploaded presentation on our website. So you can feel free to take a look at that.

We did not want to waste too much time going through the presentation here. We would like to have as much time as possible for discussions and Q&A so that we can explain our strategy and you can ask us more questions on the markets etc. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session participants may ask their question by clicking on the raise hand icon on the toolbar or on the Q&A tab on the left of your screen. When it is your turn to ask a question an operator will announce your name, unmute your lines so that you can interact with the speakers. Ladies and gentlemen we will wait for a moment while the question queue assembles. Our first question is from the line of Saravanan Balakrishnan from Lead India Academy. Please go over.

S Balakrishnan: Thank you very much. Firstly, good set of numbers. So my first question is regarding the SCI divestment. So recently I heard Safesea group has also got approval for bidding for government's development of SCI. So I presume due to some procedural delays so it may even become next year. So provided, if we were able to successfully bid for SCI so how do you think the industry dynamics will change? That is one and the second question is that is again 900 Crores of sales tax dispute that we have pending right now so any reason why this number goes up every year with regard to that.

G. Sivakumar: Mr. Sheth, would you like to take the SCI or shall I take it?

Bharat Sheth: You can take it. I can take it, does not matter.

G. Sivakumar: Let me take the easier one first the sales tax. The sales tax thing is that it is a recurring issue. It comes up and some years you get a demand for it. What we provide is a service and I think it is fairly clear that we are providing a service and it is on the offshore side and unfortunately, we have got demands for like a sales tax. So it will go up and it is you know it goes with the business and we will have to deal with it. We are dealing with it appropriately and we are fairly confident on our stand on it. With regard to Shipping Corporation, we have decided not to put in a bid for SCI. We looked at it and we thought that you may be aware that we are fairly risk averse and we have very specific risk parameters especially with regard to the balance sheet. As it stands, we have decided not to put in a bid. So we have not put in our expression of interest and we are not in that process as of now.

S Balakrishnan: Sir another question that I have regarding the capital allocation front is that, so if we just look back over last five years right, so NAV has definitely gone up so where we have taken multiple contrarian decision in terms of buying different assets so I just want to get this from a long-term view, what is the ultimate endgame like now since the industry has almost consolidated right even in one of your earlier concalls so you mentioned that almost a lot of existing capacity has gone out of the market. So how do you see this evolving going forward like in terms of sales as well as the industry structure itself? So will it be more of like again more of asset buying or is there a substantial unlocking that could happen due to the structural changes that is happening on the ground?

G. Sivakumar: Sorry I did not quite get that on the consolidation. So there has been no great consolidation in the industry. It is a very fragmented industry. The commodity transportation industry is very fragmented and probably the top 20 players do not control more than or top 10 players do not control more than 20% to 25% of the fleet and the rest is very fragmented. So consolidation does not really help. You do not get pricing power, everybody is a price taker in the business whether you have 30 ships of a particular kind or whether you have one ship of that kind if you meet the quality requirements of the customer, you get the same price. So there is no pricing power available. With regard to the net asset value good that you asked the question and I should have mentioned this earlier. We changed our approach towards investments starting in 2016 and as you mentioned contrarian investments. As it stands today and we do this at the end of every quarter because you can get a price for each asset. As it stands today as of end of June 2021, our investments of about $530 million in total that we have made between 2016 and now, are giving an average unlevered IRR of 16.5%. That is dollar unleveraged IRR. So it has worked for us. We think that kind of strategy works, contrarian investments, sometimes you get lucky and you get a really high IRR like 16.8%. Our target, was 10% to 15% and we have done better than that but I did not quite understand what you mean by going forward on what we are expecting?

S Balakrishnan: Going forward in the sense that since now in this whole segment there are two listed players who control almost 80% plus approximately revenues in this space as now. Since SCI also getting divested which most probably will be taken over by another private player so do you see this could again alter the dynamics moving forward or like it is going to again remain consolidated with the top five ten players?

Bharat Sheth: There is nothing. So let me come in here. Basically, the way Great Eastern is positioned is you know we do a lot more international business than domestic business and I guess that trend will broadly continue so and as the CFO just said you know ours is a very fragmented industry I believe it will remain fragmented and we will just be opportunistic players and I think so there is nothing like an endgame. What we hope is that we are able to replicate our success on capital allocation that we have seen over the last five years and so long as we can keep churning that out I think that is a phenomenal dollar return and I will be more than happy if this can be sustained over multiple decades because think about it once you leverage right? Our average cost of debt at the moment is 3.5% and the moment you lever the transaction which we do we are then talking about returns in dollar terms in excess of 25% to 30% on invested capital. So that is very, very high number and if we can sustain that nothing like it.

S Balakrishnan: One last question then I will come back in queue. So there is some EEXI compliance that is coming from 2023 so where again we are preparing for the compliance that is kicking in the next couple of days so how is that coming up?

G. Sivakumar: We have just completed an internal study on EEXI that becomes effective from January 1, 2023 and it is actually your first annual survey, which you have to do from January 1, 2023 where it kicks in and having analyzed each of our 46 assets, we do not see any challenge at all in meeting the criteria.

S Balakrishnan: Thank you so much. That sounds great.

Moderator: Thank you. The next question is from the line of Archan Pathak from Centra Advisors. Please go ahead.

Archan Pathak: Good evening and thank you for the opportunity. In the last quarter, when the concall happened when the tanker prices were starting to build up Mr. Sheth told us how the greed has been overtaking the logic and but you still told us that you expect the prices to correct in the near coming future and are waiting for the right opportunity to make the capex but since then even though the freight rates have remained quite weak the asset prices have risen even more and now if the demand returns the freight earnings will starts to improve and that will again raise the asset prices to another level. So what I want to know is do you think or do you feel like you missed the opportunity of the capex or do you see one coming in the nearby future? Basically your outlook on the asset prices in the near term?

G. Sivakumar: Let me tell you so on tankers about a quarter ago, with earnings at 31-year lows clearly we were expecting values to correct. Now even with the benefit of hindsight, a quarter ago prices were too high for us and we would not have bought those assets even with the benefit of having that. Today, when we think about it we are obviously very surprised that asset values have continued to rise rather than come down but there is obviously a lot of factors that is driving it and clearly the big one is liquidity and very low interest rates. Now these things can correct pretty quickly and if we want long term to be continuously having the success that we had in the last five years I think we should not break away from that discipline. So whilst we would love to have asset prices come off they have surprised us by remaining strong but I do not say that we have missed buying ships because even when we look back, we would not have bought at those price points. We just do not think we could have delivered a return and these things have a momentum right, so in a strong momentum, yes you can deliver returns but if we break the discipline of price points then at some point we will get back to the old days when as you know Great Eastern had to take in significant impairment and we just never want to be in that position again.

Archan Pathak: Thank you for that. Another question just like SCI do we have any such inorganic expansion coming or any opportunity upcoming in the future?

G. Sivakumar: Not at the moment, no.

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

Himanshu Upadhyay: My first question was we have seen significant repricing or we on the assets on the offshore side, two jack up rigs and again vessels also we would have seen some repricing, so are we seeing the trend moving upward direction and blended if you can give how the rates would have moved on vessels and rigs, let us say from the prior contract to the new contract what we have won, not particular asset prices but let us say to what it was earlier and how much percentage improvement you would have seen?

Bharat Sheth: On the boats actually there has been no improvement that remains a big disappointment and maybe it will improve but possibly with a time lag. On the rigs, we have seen somewhere between on the revenue side we have seen an improvement between 30% and 50% again albeit from a very, very low base and there we are seeing as I think the CFO showed in one of his slides a gradually tighter market in terms of utilization, what we are also seeing overseas be it in the North Sea or be it in West Africa or even be it in the Middle East, we are seeing jack up prices on the revenue side going up. It still has not translated to asset values but I think the worst is behind us in terms of asset values. So if revenue goes up then as night follows day, asset values must go up it has not happened yet but we think it must happen. What we need to see is this increase is sustained over the next few quarters. So we do not want it to be a flash in the pan but we think it is here to sustain and we would not be surprised if this increase continues for some time to come and especially now with oil prices having moved up from $10, $20 bucks to $70 odd bucks I think there is a lot more feel good factor even with the customers.

Himanshu Upadhyay: One more thing in the offshore annual report we have said that even if the longer term there can be issues but medium term we remain quite confident on the business okay or it can be a highly profitable type of statement. Can you elaborate what you are trying to say in your annual report on the offshore business?

G. Sivakumar: I think the real message on the offshore business is that we believe as I have just really articulated I think that as the rigs come up for repricing there is a very good chance unless again heavens fall, there is a very good probability that the repricing will be higher and as I have just said with a time lag and we do not know what that time lag will be that you should see even an improvement in the boats' repricing.

Himanshu Upadhyay: The voice was cracking or is my connection problem I could not hear the reply very clearly.

Bharat Sheth: The broad thing is that even if in the long-term there are some challenges with regard to oil, we think there will be some tightening before that and therefore the tightening will be oil market balances and therefore, there will be a decent market for oil field services across.

Himanshu Upadhyay: We had said about a medium term okay so for us medium term is five years plus timeframe?

Bharat Sheth: Yes, up to five.

Himanshu Upadhyay: One more thing, on the LPG if we look at the spot rates have been better, I think you said that they are not the best way to look at it because ours have been longer term duration of charters okay because our rates are 8% YOY down so how should I understand where we are on the charters.

Bharat Sheth: The charters got repriced so we were on charters. We were typically on one year charters. The charters got repriced down in the earlier part of the year so that is the whole thing and these are charters which were fixed a few months back so not affected by the current spot market sentiment and by the way the current spot market is down to between $15000-$20,000/day.

Himanshu Upadhyay: On this asset prices on the slide #25 where a lot of discussion happened and one of the questions also if we look at the five-year prices the same chart the least movement over last five years is still Suezmax only so that hundred moves to only 105 only okay and for various others it has moved 100 to 140 for dry bulk.

Bharat Sheth: No, see it is a starting point, July 2016 was a pretty strong point in the cycle. You will see that July 2016 which was 100, by December 2016 was already at 85. It will depend on the starting point so we have just done five-year indexed values. I should have mentioned that it is an index values which is starting at July 2016 equals 100 so in dry bulk that was a low point of the cycle so there was really no way to go but up, in tankers it was in crude tank especially it was just coming off a very high point in the cycle which was in the beginning of 2016 and therefore it was sort of mid-cyclish and this 100 is only 105 now you are right, but it went down all the way to 85 and then it has recovered from there.

Himanshu Upadhyay: One small thing this government that subsidy that 16 Crores-24 Crores over next five years what they have stated PLI scheme so the assets what we will be purchasing from here on so let us say some assets we got in this calendar year I think it is from first February so they will get some benefit on those assets okay?

G Shivakumar: No. Including these, you get on the old ships also, except that the rates are lower. You get 5% less on the old ships also; old ships meaning existing ships.

Himanshu Upadhyay: To us, it is a beneficial thing. How will you operate?

Bharat Sheth: So the way it is contemplated to operate is this is applicable only to import cargos where central public sector enterprise or a government department is chartering a vessel and if there is a foreign ship which is L1 and there is an Indian ship which is there they get a right of first refusal at some level which is higher than the L1 okay depending on the age of the ship and when the ship was bought etc., it is between 5% and 15% but subject to the maximum difference. So let us just take an example so let us say that the foreign ship is L1 at $20,000 per day for a charter and let us say there is an Indian ships and let us say that you are in a category which gets a 10% subsidy so and let us say you have bid $23,000 so you will get $22,000 from the charterer which is a PSU then the government will reimburse that extra $2000 which that charterer has paid to you. The government will reimburse to that PSU. If you have bid $21,000 the charter will give you $21,000 and the government will reimburse $1000.

Himanshu Upadhyay: This will also happen for period charters also so one year duration charter?

Bharat Sheth: Yes. Yes it seems so yes, everything We have to wait for the full details to come out for implementation purposes. Let us see maybe there will be further communication, but this is our reading so far.

Himanshu Upadhyay: This is only for shipping not for offshore?

Bharat Sheth: No. Only for import cargos not even for coastal cargos or exports, only for import cargos. So if you are having a product tanker carrying cargo around the coast of India, this does not apply.

Moderator: Thank you. The next question is from the line of Vikram Sooryavanshi from Phillip Capital India Limited. Please go ahead.

Vikram Sooryavanshi: Some of the questions have been answered by. Basically what we are seeing is that some of the capacities getting back in the water because of unwinding of storage capacity as well as the last OPEC meeting was also not a very conducive in terms of cut down or the production cuts basically so how is the we are reading in terms of tanker trade market going ahead and what would be the triggers for recovery?

G. Sivakumar: So there are two things one is you may have read that OPEC plus has announced that they will increase supply by 400,000 barrels a day a month starting in August. So on an annualized basis that is really another five million barrels a day coming to be transported on ships, significant amount plus the floating storage is now more or less done. The inventories for your information now are at five year lows, global oil inventories are at five year lows, so there is very little now maybe another one or two percent can add to the supply because there is always an x amount of oil that is held on so there is a natural drawdown beyond which there will be no further drawdown. So we are coming very close to the point and if you read multiple reports across the world from those who dare predict tank of freight rates, everybody now says that things can only go up from here.

Vikram Sooryavanshi: In offshore side obviously you have given a good amount of commentary but looking at the under investment for so many years and also you are also expecting some recovery in medium terms is possible so are we considering some acquisitions or capacity addition in options side or we will still hold on with existing fleet and wait?

G. Sivakumar: We may look, we may and I repeat the word may look at one or two possible acquisitions but we have not yet taken a decision on it, but the jury is out to that extent. We are still debating internally whether we should wait a bit or whether we should invest something now.

Vikram Sooryavanshi: If you keep aside some risk capital as well as just to take care of the business continuity in case of downturn continues how much kind of or what kind of capex we can afford in shipping right now in terms of many million dollar war chest we have in terms of capex available?

Bharat Sheth: Again you know this is just self-discipline but I guess between shipping and offshore we should be able to undertake in the region of $300 plus million of capex. This is a moving target right because the longer we wait the more firepower we will have eventually.

Vikram Sooryavanshi: Yes Sir I understand that. The last question sir we do get scrap value in shipping because of steel price and all that and that acts as a huge or bottom part at least in terms of valuation for old ships but in case of rigs do we have any scrap value or like a dismantling and mobilization is too big cost with daily scrap value?

Bharat Sheth: I think it is a good question but in rigs you really do not have that much because it is a lot more machinery, much less steel so and there is a huge cost of mobilization so in rigs typically what happens is it just get cold stacked as the CFO presented and the longer they are out of service the less likely they will ever come back to be used again because to mobilize or to refurbish a rig that has not been in operation can cost tens of millions of dollars and it just becomes a very, very expensive exercise. So consequently, even if it is not scrapped you can take it out of the equation as an asset from the supply side.

Vikram Sooryavanshi: Understood. That was really helpful Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Shivan Sarvaiya from JHP Securities. Please go ahead.

Shivan Sarvaiya: Good evening Sir. Two questions from my end. One is on the scrapping so we have seen record low freights and yet no scrapping so I would like to get your thoughts on the possible reasons for the same and your outlook on how this will increase over the next few months? The second one is you mentioned it is on the scrapping part only you mentioned that in the first six months the scrapping was less than 1% of the total tanker fleet. Sir at what level would the scrapping start negating the oversupply in the market? So at what percentage of scrapping would that start negating the oversupply in the market and the third one was on your capital allocation strategy. I think I missed this so if you could just repeat it. Are we looking out for acquiring ships or are we yet gonna be on the sidelines? So these are the three questions from my end.

Bharat Sheth: The first question? I got the second and third.

Shivan Sarvaiya: So the first one was that in spite of about six to eight months of pain seen in the tanker market in terms of freight rates we have not seen the level of scrapping that one would have expected. So your thoughts on the reasons for the same and your expectations on when it would start increasing from where it is currently?

Bharat Sheth: So again I do not have an answer as to when it will increase. Obviously, those who did not scrap in spite of a very, very poor, it is a 31 year low market have obviously benefited right because scrap prices were $450 a year ago now they are $600 plus and therefore people who have taken the decision not to scrap as they have got more money on the ship and maybe there are people who believe that scrap prices are unlikely to come down and maybe go up further. So I guess that is the only explanation as to why in such a poor market, people are not scrapping ships. What I do feel is once this EEXI the new regulations come in which is due from January 1, 2023, I think people are going to have no option but to scrap so that i think will accelerate the level of scrapping. Until then people will just regulate on the price of the scrap. So that is at least my view. I could be wrong but that is my view of when people will eventually scrap. What your second question was?

Shivan Sarvaiya: Second question was on at what level of scrapping, you mentioned that currently in the first six months of the year, we have seen less than 1% of the overall tanker fleet being scrapped. So at what percentage would be the oversupply in the tanker market be negated with the scrapping. So would it be 5%, 6% of scrapping, what would that number be in a ballpark range Sir?

Bharat Sheth: As I was saying, it is not overhang of supply. The real issue is demand. And if you see the demand, the crude oil demand, the trade is down by 10%. Now if OPEC plus sticks to what they have said, which is additionally providing 400,000 barrels a day per month for the next 12 months, that is going to bring in 5 million extra barrels to be moved by ships. So, it is not a supply challenge at all. It is only a demand issue now. So, whether ships get scrapped or not scrapped, once demand kicks in, you will see a meaningful move in the tanker market.

Shivan Sarvaiya: So the question was on the capital allocation capex part, I think, I missed that. So, the question was that are you going to be looking out for vessels or you would be preferring to stay on the sidelines?

Bharat Sheth: So where prices are today we will stay on the sidelines. We will obviously keep looking and hoping again to see that asset values correct, they may not and if they do not then we will be on the sideline.

Shivan Sarvaiya: That is it from me. Best of luck for the coming quarters. Thank you.

Moderator: Thank you. Our next question is from the line of Raj Kumar an individual investor. Please go ahead.

Raj Kumar: I have a couple of questions. Sir first on the asset prices you know you just said that the prices are very sticky and you are not encouraged to buy at this level so I just wanted to know what is driving the prices today. Is it the steel price or is it the freight market or what exactly is right or the interest rates and you know the connected question do you expect the freight markets to kind of tone down and that is why you are waiting you know on the assumption as the price will come down? Basically I want to know of these three factors which one do you think will pull the prices down? The second thing why are we not you know capitalizing on this opportunity by either by selling some of our tankers or by scrapping it? That is my first question.

Bharat Sheth: You have talked about asset prices as you know the one sector where we are very surprised at the strength of the asset price is in the crude and the petroleum product sector because that is the one sector where earnings have now for the last eight months been at operating cost and it has been the lowest eight month consecutive period in the last 31 years so that sector has clearly surprised us and I mean these are just guesses right. There are multiple reasons why asset values have not dropped. One, is that at the older end scrap prices have moved up considerably and that is underpinning the value of older ships. At the higher end, at the more modern end new building prices have gone up considerably for two reasons; one it is driven by a huge upsurge in raw material costs particularly that of steel and also we have seen a huge ordering on the container side. So shipyards are getting a lot of business in a sector that is then taking away capacity from shipyards building crude oil tankers or product tankers. So on one hand, you have got new building prices going up which is supporting the value of the modern tonnage, on the other hand you have scrap prices going up which is supporting the value of older ships and also you have huge liquidity in the market, which is supporting every asset class globally. So every commodity in the world now is at a very high point. So if interest rates remain where they are which are at multi-decade lows and if the liquidity continues and when I say liquidity I mean dollar liquidity then I suspect it is going to be very difficult to see a downward correction in asset prices and then I think the only thing we can do is wait patiently until one of these things reverses and the one thing that can reverse quickly is withdrawal of dollar liquidity and a possible rise in US interest rates and if that happens then you could see a downward correction in asset values. As far as dry bulk and gas is concerned, asset values are supported simply because earnings have gone up very sharply and the current yield on some of those assets ranges from 20% to 50% in dollars so with that strength of current yield, there is just no chance of asset prices coming down.

Raj Kumar: Thank you Sir. Actually, my question is why are we on the sidelines either we should be a buyer or a seller, so I mean if you are saying if you are on sidelines do you which means that you expect the prices to further go up and that is when you want to sell or you know if you could just give more color on that?

Bharat Sheth: I do not think that necessarily it is wise always to be a buyer or it is wise always to be a seller. There are times when you are best served being on the sideline and we will wait for I mean we may sell first and buy later, so we have certain price targets at which we will sell ship particularly the older ships because if scrap prices were suddenly to reverse those ships will drop very sharply in value. So yes, we will look at opportunities to sell older ships as far as would we sell modern tonnage? We would be reluctant to sell modern tonnage, but if prices again keep going up we will have to have a very hard look and maybe even sell some modern ships, but we will do it carefully. Obviously, we do not want to leave too much money on the table when we sell. So we try and optimize just like we try and optimize our buy decisions, we also wish to try and optimize our sell decisions, but there is nothing wrong with being on the sideline.

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: My first question is in one of the slides you explained in chart how the price of ships is moving up while the freight rate on crude and product tankers have been coming down in your opinion how far this disconnect can continue or do you see this should correct in near-term? I mean the freight is moving up or maybe after COVID, once COVID insignificantly resides in Asia

Bharat Sheth: So I think again you know we have been wrong in the fact that we did not expect crude oil prices to be as strong as they currently are especially with eight months of owners only earning operating costs, but at this stage, my bet I probably would take is that asset values are unlikely to come down in the short term, if earnings remain this weak let us say for the next 6 or 12 months which again I do not expect they will I think we have seen the worst behind us and earnings are likely to improve then I guess that asset values you may not see poor earnings for the next you know 6 or 12 months. If however for any reason let us say this COVID situation gets worse again globally and the demand for oil just simply does not pick up then it is possible that asset values may come down but I think the one issue on which asset prices will come down or more likely issue is if interest rates in the US were to go up and some of the liquidity which we are seeing if that were to withdraw then you might see a global correction across the commodity basket and you know shipping is just another one commodity.

Jayesh Gandhi: So my next question is which segments do you see the fleet size globally increasing? I mean is its crude product, LPG, bulk carrier and what will be our strategy in future? I mean while buying the ships?

Bharat Sheth: The one on which we are seeing again you have got to go up to 2023 because shipyards are now more or less committed till 2023. So over the next two years the biggest supply overhang is going to come in the LPG sector and in the container sector. Now we are not in the container sector but that is where we see a huge overhang, people have gone you know sort of pretty crazy ordering container ships and also a lot of gas carriers have been ordered. That is where i see the overhang. I do not see any overhang in crude or products or a dry bulk and as far as our strategy is concerned as I have often said if we have to remain on the sideline we remain on the sideline, sadly I cannot say for how long we need to remain on the sideline, but what it will mean is that we keep deleveraging the balance sheet, keep building our firepower, so whenever the opportunity presents itself we will be able to do significant capex and you know in the long term this will really serve us well. In the short term and you know in a company's life one two years is short term. So in the short term it may look painful but trust me that as you know asset prices will correct and as and when they do we hope you are the only person standing.

Jayesh Gandhi: So by strategy what I mean since the world is moving towards non-fossil are we still open to buy crude and product tankers?

Bharat Sheth: Yes absolutely at certain price points. Absolutely because see the world is not going to go to zero right so I think as we have seen it is possible that the peak demand for fossil fuels may be done, some people of course believe that you will see one last hurrah as it were but bit by bit, the demand will come off but it is not going to zero so there will still be considerable trade in fossil fuels. If you remember everybody had written off coal five years ago. I do not know if you recollect that story. Coal was the most polluting commodity and everyone,, if you read any international publication or even domestic publications, they said coal is done. It is finished and we are now seeing five years later coal at a multiyear high. So you know never try to second-guess what the market's going to do.

Jayesh Gandhi: Last question in what territories we actually rent out our assets? Are we renting it across the world or it is specifically in particular territories?

Bharat Sheth: No. We trade across the world.

Jayesh Gandhi: That is all from my side. Best of luck for the future.

Moderator: Thank you. The next question is from the line of Pushkar Jain from Joindre Capital Services. Please go ahead.

Pushkar Jain: Basically because of the increase in the asset prices as our NAV has gone up and there is a discount between the substantial discount between the enterprise and the NAV now do we consider buyback at some point because of the growing disconnect?

Bharat Sheth: It depends. So there are two issues here. One is if the disconnect keeps mounting it is always an option available to us but you must remember that by introducing a 22% tax on buybacks, buyback is now a lot less efficient than it used to be before the tax got loaded. We are hoping that at some point the government may reconsider, not imposing this tax on buybacks because eventually all we are doing is returning money to the shareholders and we think it is very unfair that there should be such a significant tax on it. In fact there should be no tax on it. There never used to be and there never should be. So we will wait and watch and we will keep seeing where we lie in terms of net asset value.

Pushkar Jain: Thank you.

Moderator: Thank you. The next question is from the line of Samraj N from Dwarka Share Brokers Private Limited. Please go ahead.

Samraj N: Good afternoon gentlemen. This particular question I am asking you since you have been considering whether to be on the sell side or on the buy side for in the S&P market so this with reference to this one question was I had attended a marine money conference a few weeks back and Randy Givens from Jeffries. He had asked this particular question to the owners that is Thanos Shipping, when you consider a purchase or a sale what sort of an EV to EBITDA is your multiple consideration when you think of secondhand vessels?

Bharat Sheth: What we are targeting is somewhere between over a three to five year horizon, we should have a 90% confidence you can never be 100% sure but we should have at least a 90% probability of earning somewhere between a 10% and 15% unleveraged dollar return over three to five years. So obviously not on the day you buy the asset. And this is basis our current cost of debt, so we are able to raise debt I think I mentioned it earlier at around 3.5% at the moment. Now and therefore we are okay even if we got a 10% return because it is still creating a significant spread over the cost of debt so somewhere between 10% and 15%.

Samraj N: So would our calculation be right if that you would be comfortable with EV to EBITDA multiple of 7.6 on the vessel when you consider a buy or a sell? About 7.6% would be again ballpark

Bharat Sheth: But you know we do not look at EBITDA as much because we do not know what it is going to be. So what we look at is just historically where asset prices have settled, and historically so long as you know buying a certain price point and if you see all the acquisitions we have done I do not know if you were part of the call when the CFO gave us some numbers, but having invested a little over or just under $600 million since 2016 we have averaged close to 17% dollar returns on unlevered capital, which really you know I should not be saying this but it really is a wonderful performance and this is a inspite of the fact that tankers are not at very high price point.

Samraj N: Appreciate but if you could just sort of give a number on that what I considered 7.6% or it will be in some way.

G. Sivakumar: I would just like to jump in here. See we do not look at it as EV/ EBITDA. We are looking at it as an IRR. Yes you can convert your EV /EBITDA but remember that we have to consider, you can just put a multiplier on this and say therefore 15% and therefore EV to EBITDA 100 by 15 is 6.6% but it is not so you have to recognize that there is a depreciation of the asset possibly as well or there could be an appreciation of the asset so when we buy the ship, we are also pricing in that when we are looking at the IRR. The EV to EBITDA does not look at what happens to the price of the ship and you mentioned Thanos and because you mentioned Thanos it is a container ship company maybe that is yes and maybe the EV EBITDA is based on a long-term charter so it is a very different model from ours.

Samraj N: But you think that Great Eastern definitely at sub 5 EV to EBITDA is definitely under par for the course, correct?

Bharat Sheth: No. Not necessarily. So, let me take you back to 2005,2006, 2007 and 2008 when we had the super cycle in shipping, lot of people bought assets with an EV EBITDA of 6%, so this is in the super cycle right because your EBITDA was very strong and therefore people went and bought assets at an EV EBITDA 6% and 7% and then they got wiped out. They just went into bankruptcy. So that is one reason why we do not like to follow that principle. We do not look at it at all.

G. Sivakumar: Let me just put one point to you among the best investments we did was buying two resale bulk carriers in April 2016. At that time, we bought them at a very, very low yes there was no EBITDA basically we bought them at 25 times EV EBITDA because there was no EBITDA. So it is like that because we buy when the markets are so bad that there are no earnings and we are expecting to make it up on the earnings going up and on the price of the asset therefore going up as well. So it is a very different model to a container ship company which is doing long-term charters. So we cannot force that you know their formulas onto our business model.

Bharat Sheth: But here even when we I mean just to digress for a second you had very low EV EBITDAs in the drilling side when rigs were selling at $200 million you had five-year charters at huge numbers and you had a very low EV EBITDA then but lots of people have gone bankrupt following that model. So we do not think it is a sensible way to run the business long term.

G. Sivakumar: I do not know where the person was asking the questions has gone.

Moderator: We have lost the connection. That was the last question in queue. I will now have the floor to Miss Anjali Kumar, Head of Corporate Communications at the Great Eastern Shipping Company Limited for closing comments.

Anjali Kumar: Good evening everybody. Thank you so much for joining us this evening and as usual we will be putting up the transcript on our website shortly both the written one as well as the audible transcript. Do have a look whenever you would like and feel free to reach out to our team for any other clarifications that you may want. Thank you so much.

G. Sivakumar: Thank you very much.

Bharat Sheth: Thank you.

Moderator: Ladies and gentlemen thank you for joining us. This concludes this session. You may now click on the exit meeting to disconnect. Thank you.