"GE Shipping Company Limited Q3 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen good evening and thank you for standing by. Welcome to the GE Shipping Earnings Call on declarations of its financial results for the quarter ended December 31st, 2020. At this moment all participant lines are in the listen-only mode. Later we will conduct a question and answer session. At that time click on the Q&A icon and click on submit request button. We have with us today on the call Mr. Bharat Sheth – Deputy Chairman and Managing Director and Mr. G. Shivakumar – Executive Director and CFO. I now handover the proceedings to Mr. G. Shivakumar. Thank you and over to you sir.

G. Shivakumar: Thank you. Thank you everyone. Good afternoon and thank you for joining us for the quarterly conference to discuss the results for Q3 and first nine months of FY21. I assume that you have seen the results. We will go through them briefly but we will try to focus more on what's going into these results and what's happening in the market currently and how we are seeing the markets.

First of all we will be discussing markets and what we think of is happening and what we think is possibly going to happen. Remember that we don't have the ability to forecast shipping markets; we don't have the ability to forecast even one week ahead. These markets always surprise us. So keep that in mind when you look at any forward looking statements.

Going through the financial results; these are the reported financial highlights. On a consolidated basis we have an EBITDA of 1605 crores and a net profit of 870 crores. You know that we have been gently nudging you to look at what we call normalized results rather than reported results, so let's go to the normalized results. On a normalized basis for the nine months on a consolidated basis, we have an EBITDA of 1408 crores and we have a net profit of 672 crores. This of course is lower than the reported mainly because the rupee has appreciated versus the dollar. In the nine-months period you will remember that USD INR wase at 76 in March and now we ended December at just over 73 which resulted in a boost to our P&L. After stripping out that boost to the P&L we still have consolidated EBITDA of 1408 crores and the net profit of 672 crores. On a standalone basis the net profit is 725 crores for the nine-months period. The NAV per share continues to be around Rs. 450 per share for the standalone NAV which takes the investment in Greatship at cost. On a consolidated basis it is between 475 and 525 per share broadly based on the valuations that we have got from brokers, again I must emphasize here that offshore valuations are quite tricky. The markets are very illiquid and therefore we need to take a wide range for these valuations.

Fleet development, we have had an active period, active three months on the sale and purchase front and sold two older Suezmax vessels, both of them 20 years plus. One of them was delivered in December; the other one has been delivered just this week to the buyers. We bought an LR2 vessel built in 2012. We took delivery of it in the last quarter 'the Jag Lara'. In dry bulk we have contracted to sell one of our oldest bulk carriers, Supramax bulk carrier called Jag Roopa. We will deliver it most likely in the month of March. We have contracted to buy a Capesize vessel which is a seven year old ship. The delivery of that ship is expected early in the coming week.

On the LPG side we did a sale and a purchase. We sold our oldest VLGC and in an effort to modernize the fleet we bought a 2002 built, a six year younger VLGC. So these are the activities that we had in the last quarter.

Let’s look at what happened in the shipping market and what’s been happening over the nine months of the financial year. First the tanker markets and the headline news is that freight rates are around operating cost and you can compare it with the previous year, FY21 Q3 which is what we finished. Again these are market averages, these are not our average earning. So the average Suezmax earnings in the spot market in Q3 FY21 was only about $6500 per day and therefore on a YTD basis the Suezmax has earned significantly lower than the previous year on a market basis. The MRs are not very different, also around $6500 per day in Q3 FY21, January seems to be more of the same. The average earnings of vessels in the spot market are still around $6000-$7000 around these numbers. Our earnings are higher than this because we had significant amount of contract coverage. We had a COA which was done a little before the market went down and we have some time charters on the MRs, so our earnings are a little higher than this. Now what’s led to these poor earnings, basically the demand for fuel has dropped off. You can see the refinery runs, year-on-year you have a drop of close to 10 million barrels per day that was up to August-September which is improved a bit but still a very big negative number and for those of you who have been following us for some time, you know that all it takes is a million or a 2 million barrels a day to make a the difference in the shipping markets. This 7 million barrel per day drop in refinery run is a massive shrinkage in demand and therefore it’s no surprise that earnings have been so low. Again though there is an expectation that Cal ‘21 will see a rebound in demand. That’s mainly because the base is so low and the positive demand growth of Cal ‘21 and these are different agencies which make these forecasts, the positive demand growth of Cal ‘21 will still not be able to make up for the negative demand growth that we had in calendar 2020. So we are unlikely to reach pre-COVID levels until Cal‘22 and maybe not even then but let’s see how that goes.

This is a floating storage picture. It peaked in May and that’s when rates were very high when 10% of the crude tanker fleet was stuck in floating storage. It’s come down releasing ships into the market which adds to the weakness in the markets. It is still at about 2% higher than the year ago number. So if you see it in our crude tankers, about 4.5% to 5% of the fleet is in storage. Similarly about 3% at the same time last year. For product tankers it is about 2.5% versus about 0.5% same time last year. So this is still an overhang for the freight rates because these ships can come back into the trading market when they are released from the storage activities. And therefore until the floating storage clears and demand revives, the trade is likely to remain depressed. So one is that a lot of supply fuel, crude oil will be supplied from ships which have already carried them to the destinations and are just waiting there and therefore it does not have to be transported again. Second you need a real big revival in demand for the trade to grow and we have seen a (-9%) growth in trade in the nine months of this financial year. So we need demand to revive in a big way. To start, we need all the storage overhang to be cleared as well before that trade itself picks up and has positive growth.

It’s a similar story for products, we have had (-12%) though its showing an improving trend, so from a deep negative its come down less of a negative but it’s still significant negative number. We needed to go back into positive territory and we need those ships which are in storage to finish up with the storage and remove that overhang of the supply.

Coming to the dry bulk market; earnings have softened across all asset classes versus the previous year but the story has been a little bit more cheerful. So I had mentioned this earlier, in Q1 of this financial year when tankers were extremely strong that is crude and product tankers, dry bulk and LPG were quite weak and you can see it here. Capesizes were earning $10,000 a day; Panamax is earning $6000 a day. That’s a time when we were making a lot of money on the tankers in the spot market and now that tankers have weakened, we have reasonably good earnings on the bulk carriers and we have good earnings of course on the LPG ships as well. So this is where having exposure to different sectors helps because you get one or the other sector firing at some point. Again these markets are weaker than the previous year and you can see that in the YTD numbers as well. So about 20% to 25% weaker than previous year.

Dry Bulk trade growth which was negative, did not drop the way oil demand dropped off. So it went down to the (-4%) trade growth in Q1, became less than 2% negative in Q2 and in Q3 actually turned positive and therefore giving a little bit of strength to the market. Let’s see if that continues.

Coming to LPG; despite freight rates been nominally lower than the previous year on the YTD basis, they are still extremely strong rates. $47,000 is a very strong market. While optically lower than previous year, it’s still a rate which is highly profitable. The reason for the strength in this market is not just a trade growth which was strong in Q3 but also the Panama Canal transit issues. The LNG market has been strong. The container market has been strong and you would have seen that in news and reports. That’s lead to congestion in the Panama Canal which meant that the LPG ships were having to wait for a long time or they chose to take the long route coming to Asia around Africa. So as a result of which voyage time increase, you know that we talk about ton miles as a big driver of our demand. Well these are the same tons that were coming through the Panama Canal but they came all the way round and that’s why the miles increase and therefore resulted in effectively a supply crunch for LPG ships. The freight rates spiked to about $100,000 a day in December. They are back down now to somewhere in the $30,000 to $40,000 range but this is what happens in our market. This was an unexpected spike in the markets and this is how the markets take you by surprise. Of course we don’t have an exposure in the spot market in the LPG sector; all five of our LPG ships are on time charter so we don’t have a spot market exposure currently.

Coming to asset price movements; and this is over the last five years and indexed, so we start five years ago at 100. Crude tankers which is at top left hand corner are down significantly from the peaks of early 2016. They are down about 25% on a point-to-point basis and in this year itself they are probably down between 15% and 20%. MR product tankers also down, which is at right-hand corner. But Dry Bulk Carriers are better than in early 2016 which was the lowest we had seen in about 20 years. They are still down from their recent peaks which were seen in 2018 and LPG as a result of the strength, have been moving up and after we bought a ship in October, the prices have moved up. So they have been moving up but they have not yet hit the highs of Jan 2016. All this net-net our fleet value on a like for like basis has gone down by about 2% in the quarter.

Coming to the longer-term and this is something that we have emphasized in the past. We have one of the lowest order book to fleet ratios for tankers and bulk carriers, not for LPG, for crude tankers, product tankers and bulk carriers. For product tankers and bulk carriers this is actually the lowest order book since January 1996 where we don't have the data beyond Jan '96. So it is the Lowest of the recorded data that we have. In crude tankers we saw slightly lower numbers than this in December 2013 but it's still a very low number. And again you have to look at the order book in the context of what is the age profile of the ships and this is what we have and again we have shown this to you before. What is the scrapping potential of the existing fleet of tankers and bulk carriers and here we have taken a cutoff of 20 years. All ships about 20 years of age, we take that as vulnerable to scrapping, especially in weak freight markets. 9% of the crude tanker fleet is above 20 years of age and between 7% and 8% of the product tanker and dry bulk fleet is above 20 years of age. Typically product tankers, bulk carriers tend to trade a little longer than crude tankers, so you will have to keep that also in mind. But crude tankers are the most vulnerable. Also I would like to point out that with steel prices going up and iron ore prices going up, scrap prices also have gone up. We are at multi-year highs currently and that's a further little incentive for somebody who is looking to scrap a ship.

Coming to Greatship, the offshore business, you know the picture of offshore E&P spending. It peaked in 2013-14 and it's come down two-thirds after that. 2020 is estimates which were made a few months ago, we haven't had an update post this.. But the estimate says that it is dropped off further in 2020. Important factors to keep in mind in offshore also is that there is a potential for removal of a significant part of the fleet, the current fleet of jack up rigs is 520 rigs, the order book is 39, some of those rigs may or may not be delivered because they have been in the yard for a long time. The important number to look at is cold stack more than 3 years, now the cold stack is basically, you park it in one place and you just walk away and you don't do any maintenance on the asset at all. Basically you are taking the call that whenever I need to reactivate it for some work, I will go there and spend whatever it takes but I want to save on costs in the meantime because typically when you cold stack it may cost you a $1000 a day but if you warm stack it which is that you keep some equipment going that will probably cost you at least $5000 per day more and drilling companies which are otherwise bleeding cash cannot afford to do that and they take a call to cold stack. Now what happens when you cold stack it, it's going to take a lot of money to bring these rigs back into operation. Therefore to justify spending that kind of money which may be $20-$30 million for a jack up, you need to have a long-term contract of at least 3 years and preferably 5 years at a very strong rate which is not available today. So unless markets come back to pretty strong levels you will not see these rigs really coming back into the active fleet which means that effectively your supply has been crunched already and therefore the surplus is not as much as it seems from the headlines. Similarly, for vessels PSVs and AHTSVs, there's 18% of the fleet is cold stack, 650 out of 3500 and the order book of course is very low because nobody is been ordering these assets in the last few years. Looking at what has been coming up for repricing, we have one rig which is coming up for repricing shortly. She comes off contract within the next month or so. We have one vessel which is idle currently; she came off contract last quarter and she has not got her next contract. We have two more vessels coming off contract by March. We have another rig coming off contract in April and we have five vessels coming out during the course of the first half of next financial year and then we have all the other assets as well. So both of our rigs Greatdrill Chetna and Greatdrill Chaya have both been bid into tenders in India. We await the outcome of that. That was fairly recent. We will await the outcome of that and see if we win that business.

Let's take a quick look at the valuation metric, so we will like to look at couple of these numbers every time. This is what we have done. So in 2017-18, we did a lot of CAPEX and this is the shipping business.. We saw opportunities to buy vessels, first bulk carriers then crude tankers then product tankers and finally in 2018 we bought LPG ships. So we levered up significantly and then by virtue of the market performing as it has, the leverage has come back down close to where it was when we started off. This gives us the capacity to buy more and that's what we look for opportunities to buy. You have seen that we have already been buying some modern assets. We bought a Gas Carrier, we bought Capesize Bulk Carrier and we bought an LR2 Product Tanker. So we are in investment mode where we can get assets at cheap prices and we have the capability to do it as well as we have shown over the last 5 years.

Coming to the last slide, this is again the stock price to consolidated NAV and you can see the red bar is the standalone NAV which was at about Rs. 320 a share which is now at about Rs. 450 per share which reflects how shipping has performed in the last 5 years and also how our new investments have performed, all the investments we made in this period have performed. The consolidated NAV has also gone up a little bit. In the meantime of course the stock price has come down very significantly. We trade at 250-260 versus the consol NAV which is at the midpoint of the range, about Rs. 500 per share. So we are trading at about 0.5 price to NAV. Another thing I would like to point out here is and there is always a concern which is always expressed that this is a cyclical business and it's tough to forecast. We were looking at some numbers recently. After stripping out the effect of currency etc., the consolidated normalized EBITDA of the group over the last 5 years has been approximately 1700 crores. That is the average annual normalized EBITDA on a consolidated basis. To put it in perspective, the EV as of today stands at about 5500 crores or maybe a little less than 5500 crores as well. So that's a very telling number. This year's normalized EBITDA for the first nine months on a consolidated basis is about 1400 crores. That is for three quarters. Still maintaining that same run rate in a way you can achieve a 1700 crores kind of annual EBITDA, it is not a forecast for Q4. I'm just saying that the run rate is fine. That seems really cheap because you have got an EV which is less than 3.5 times of the average EBITDA of the last 5 years and the reason why we look at average of the last 5 years is that you have seen cycles. You have seen offshore go through a really bad phase, we have seen shipping go through a couple of bad years including the year when we made our first loss in over 35 years. Despite that we have had consolidated EBITDA of an average 1700 crores. That's something which I would like to leave you with because that EV EBITDA number of 3-3.5 looks a little low to us and we can discuss that anytime. So that brings me to the end of my presentation. Thank you very much. Now if Mr. Bharat Sheth has anything else to add otherwise we can throw the floor open to questions.

Moderator: Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. We will take our next question from the line of Vaibhav Badjatya.

Vaibhav Badjatya: Just have a question related to that acquisition policy that we have. In the annual report we have given the estimated useful life of various assets, crude oil tanker 20 years, product tankers 23 years and so on. So is this the realistic estimate or we think that our assets can have longer life than these estimates? Just to assess the accuracy of the depreciation that you provide for.

G. Shivakumar: We think that it is an accurate estimate, again see there are markets in which if you get lucky if you have a very strong market, for instance we just sold two crude tankers which are more than 20 years old, you might be able to run them past that 20 year mark. But it's just a question of luck. We have seen crude tankers getting scrapped earlier also in the markets which are extremely weak. So in our view this is a reasonable estimate of the useful life of these assets. They are not overly conservative and they are not overly aggressive as well. Again there are lot of companies all across the world taking different number with some companies taking 25 years. We have taken it as what we think is practical number for assessing the useful life.

Vaibhav Badjatya: On the scrap prices that since you highlighted, we also read couple of articles on that front. So apart from the steel prices is there something else which really drives scrap prices, some environment regulation or some other can really push up the scrap prices, is there something else?

Bharat Sheth: I think mainly steel prices is the prime driver. But as you rightly pointed out on environment, there are more and more jurisdictions that are dissuading their people from running scrap yards or they are becoming very-very strict in the way scrap yards function. So what happens is because the scrap merchant now has to follow a very strict protocol on the checks and balances that they need to adhere to in order to scrap a ship. Obviously there is a price correlation to what they are prepared to pay. So it's a function of steel, a function of environment. If the environment gets stricter and stricter and that is what is known as the Hong Kong Convention, then it is possible that less countries will afford the option to scrap tonnage and therefore there will be a limitation to scrapping capacity. Now that could have a way of driving down scrap prices and then of course if there is a lot of demand for the few people who will control the market then they will be willing to pay up if there is a-demand for the scrap. So we have seen scrap prices come up significantly, I think driven by steel, driven by environment and driven by the fact recently that very-very little tonnage has found its way to the scrap yard during calendar 2020. We of course believe this is going to change and change quickly, possibly in the second half of Cal'21 but certainly in Cal'22 and Cal'23 because there are lots of new regulations that are coming in place and I think we have mentioned this in one of our earlier calls that lots of people have delayed their decision to scrap but as night follows day, scrapping is a narrative. So we think there will be lots of tonnage that will need to be scrapped sometime between second half of Cal'21 and running to Cal'23.

Moderator: We will take our next question from the line of Himanshu Upadhyay from PGIM.

Himanshu Upadhyay: I had a question on the issue what happened with our Capesize Ship in China which was stuck for more than six months. Is that a one-off issue or it was only because of it was getting Australian coal and there were issues, do you think it is being an Indian flag we had certain issues?

Bharat Sheth: No, nothing to do with the Indian flag. First finish your question then I will answer it.

Himanshu Upadhyay: Because in India we have been reading various reports on, there is a situation which is between the two countries and some or the other thing keeps on coming up and even our crew on the ship was not allowed to change through and all those things. What is the issue and is it going to play the impact in our mindset, just your thoughts on that?

Bharat Sheth: I got the broad thrust of your question. So first I don't think there was any targeting to Indian flat because we have had multiple Indian flag ships go to China and really we have not had any problem in any length of delay, normal delays etc. As far as crew change is concerned again China is not permitting any crew change for any nationality, so it has nothing to do with India. You could be any flag; any other nationality, crew change is simply not permitted in China. So that's the second bit. There has been some perception in the media that it was against India. I don't think that is true at all. Now why the delay took place is very difficult to say because as far as we were concerned, we have the ship on charter with one of the largest privately owned grain houses in the world. So we were getting paid regularly. I think this became a humanitarian issue because obviously China was not permitting any crew change for any ship that was there and we were not the only ship there that got stuck in this problem. There were lots of ships similar, of course some got stuck for a little longer time as majority got stuck for a shorter time. But lots of people got stuck at the same time. We now obviously recognize that we need to be careful in terms of crew changes when we are going to China. But these are rules that are changing all the time, not only in China but in multiple parts of the world and these are some of the risks you take in these pandemic times. So eventually as you are aware, we had to go to Japan at our cost, do a crew change which we did very successfully and we are now on our way back to China because we still have an obligation to discharge the cargo to a Chinese team.

Himanshu Upadhyay: What is the spread between low sulfur and high sulfur fuel and with crude prices coming back to normal, between $50 and $60 what we have generally stated, are the spreads making more sense?

Bharat Sheth: The current spreads are $110, between 110 and 120 depending on where you pick up the fuel oil. This had dropped to, so this started the year—I mean when I say the year, this is Cal 2020—so January-February 2020 peaked at little over $400. It then dropped to as low as $40 during the course of the year when the oil prices collapsed and now with oil in the mid-50s, it's between $110 and $120.

Himanshu Upadhyay: And if we believe this situation gets normalized, we had stated that we will like to do CAPEX only for larger ships. So would we think of doing CAPEX for the smaller ships also and the new ships what we're getting like Capesize and all those, are they fitted with the things or we need to do CAPEX on those ships, some idea on that?

Bharat Sheth: The broad capital allocation will be for the larger assets because as the CFO mentioned there is greater volatility there and we think we are getting better at the way we trade volatility and if we are going to get better at the game then we may as well put in bulk of our capital in those assets. So that will be the broad direction. That does not mean we will never buy a smaller asset if we get it at a cheap enough price point, we will. But that will not be priority number one. As far as the Cape that we are due to acquire next week is concerned, she is not scrubber-fitted and we would not want to fit a scrubber at this point of time, simply because the vessel is not due for her docking as you know she is 14 built. So she is past her survey time and she will not come up for survey in another 3 years and we will asses it at that time whether we want to fit a scrubber or not. So as we speak we are done with our scrubber program.

Moderator: Our next question is from the line of Rajkumar V, an Individual Investor.

Rajkumar V: In the last quarter conference call, there was a question on the buyback and you kind of said that the asset market in the shipping is kind of lucrative and you would rather use the cash to buy more ships than go for a buyback, so just wanted to know is the current market condition on the same lines as what we saw last quarter and any thinking on the buyback?

Bharat Sheth: So as we have shown on one of the slides, we are seeing the correction in steel prices at least in the crude sector as well as the product sector. You are aware we bought one large product tanker. We are there to look at more ships. We have to get not only the ship at our price point but we got to get a high-quality ship and just to let you know we inspected eight ships which is in these COVID times not an easy thing to do because these got inspected worldwide but we inspected eight ships and eventually we successfully bought three. So we will keep looking at steel, obviously if we come to a conclusion that we are not going to get steel at our price points or we won't get the right ships at our price point than we can look at other options. But it's too early to debate that at this stage. And we would also I guess wait to see whether some of these transactional costs, what happens on that as you know there is still a tax that needs to be paid on buy back, a pretty hefty tax.

Rajkumar V: Yes that's correct. The second question is on the crude market per se, looks like there will be some permanent drop in crude demand. Given the way the COVID is evolving in, across geographies and also the advent of the electric vehicles and so on. Given this, I just want to know, I mean, this is going to have a long term impact on the shipping market as well. So what is your thought process on this, because this is going to have a long term impact on the freight rates as well because unless the scrappage also happens in line with the reduction in demand, so you will see a permanent or you'll see a pressure on the freight rates, as well as the shipping is concerned?

Bharat Sheth: So again, these things are difficult to tell, how it will eventually pan out, but I think the point you raised is very right, that crude oil demand is obviously going to peak, there is a debate whether the crude oil demand has already peaked, some people believe it has, there is a view that crude oil demand will peak in the next few years, but whichever way you look at it, clearly it is if not peaked, it is very close to peaking. And I think there is no denying that, my own gut is that, there will always remain a demand for crude oil and the volatility will not change because we've seen very often that these are event linked businesses. I think what will happen is that, the average which currently runs at close to 22 to 23 years, could come back to 18 years or 20 years for sure. But, it even could be 18 and as you also know that shipyards globally are now getting rationalized, there's a big merger process going on in Japan, Korea, and China, the three largest jurisdictions where ships get built. With this rationalization of shipyards, I guess that shipbuilding prices may remain relatively high and therefore people will focus on the second hand ships and they get scrapped, etc. Therefore, I think, the commoditized bit of shipping, i.e. the volatility will continue. So you'll get good markets, bad markets and I think average earnings will still be fine, because all that will happen is, if markets remain low for long, then you'll get cheaper entry price points and that will then provide you the return.

Rajkumar V: Lastly, any comment on the continuing shortage and the increase in freight rates, reported by many companies. Why we are not seeing that in our company vessels where, so I don't know why they are, kind of saying that the freight rates have gone up, whereas all your charts are saying the rates have come down.

Bharat Sheth: Because if you see, we didn't show you a chart on containers and the reason is we are not in that business. We have no exposure to the container market and you're quite right that container rates have gone up dramatically. Be very short period of time, I think all this has happened from maybe September-October to now. But the reason we didn't show you that chart, because we have no exposure there and having zero exposure that didn't make sense to show that chart.

Moderator: Our next question is from line of Jeet Gala from Centra Advisors.

Jeet Gala: My question is on the CAPEX and the cheque writing capacity of the company. What I've seen from the asset price movement chart, which is given on the slide #34, that asset prices have really dipped from 25% to 30% since the recent highs, but they are still like 10% to 20% above the 2016 lows and like you said you're expecting a correction in few segments of ships, probably say 9 months or 12 months down the line. Considering the EBITDA run rate 1700 crores a year and I'm assuming the net debt of the company will probably become zero the over the course of next 12 months. I just want to understand what is the CAPEX ability of the company, if you get the right asset and if you get it at the right price, can we look at doubling of the fleet size or it's just going to be like 2 ships, 5 ships, 7 ships a year? I am just talking about the near term, 12 months to 15 months.

Bharat Sheth: If you ask me, can we double the fleet in the next 12, 18, 24 months, I don't think so, and I'll tell you why. It's not to do with our CAPEX capability, it's to do with the fact that it's very- very-very difficult to buy high quality ships at our price points, it's not easy. To go from 46 ships to 92 through the second hand market, at price points is not going to be easy at all. I think our CAPEX capability is a function of what we internalize as our net debt to equity that we are comfortable with. Currently we define net debt, both to market value of the fleet, as well as net debt to equity, which is book equity. We have an internal discipline of 0.5 now, if prices get cheaper and cheaper and cheaper, there is nothing that stops us from going ahead on that net debt to equity. But we are unlikely, it's just an internal discipline that has served us well over multiple years, decades actually and we have come through pretty well across these black swan events. The question then is, if we keep generating an EBIDTA of 1600 cr plus, first of all you said that we are likely to go to a net debt or zero over the next 12-24 months, that's not true. We will not, but having said that, again it's very difficult to put a precise number to how many ships we could buy, because it also depends on what kind of a ship you buy and what age of a ship you buy. If we just bought 20 year old ships or 15 year old ships, we could buy many more for the same capital. But if we buy modern tonnage, then we'd have to buy fewer ships. So, first of all, I would not look at, how many ships, we would be able to buy. The more important part to focus on is if the asset that we buy, is it going to generate us enough of alpha versus the cost of borrowing and our current cost of borrowing on an incremental basis is running a long-term debt. Let's call it 8 to 10 years money in dollars is somewhere between, 3.5% give and take, right? And we can then generate an alpha; our internal alpha is that we should be able to do about 10% more than our cost of borrowing on an EBIDTA plus MTM basis. Because you may sell the ship, you may not sell the ship. It's, like your own equity portfolio, you'll have a mark to market gain, but you may not sell that stock. That's why this NAV becomes important.

Jeet Gala: Secondly my question is on 2030 propulsion systems, so many reports we have read that, people are really unclear, what engine to buy today. Since GE is only active in the secondary market, would you guys be really interested in buying something which is a 5 year old today and which probably will have life post 2030 or you're just looking at only 9 years of cash flow from now?

Bharat Sheth: No, no. We don't mind buying a slightly younger vessel, like you said a 5 year-old vessel. For us, the entire focus is price point. What we do is, when we look at a 10 year asset, we look at what is the technology on the ship and then determine a price point. When we look at a 5 year asset, we take into consideration, that ship's fuel consumption that ships potential to make money, etc. The price point for different asset classes depending on the vintage keeps getting, assessed. And so far, if you look at all the acquisitions we have done from 16, including the three, which we did at the end of last year, fingers crossed, all 19 ships, we have done very well on each of those 19 projects. So far nothing has gone wrong on the buying side and also on the selling side so far.

Jeet Gala: My last question is GE managing 45 fleet company versus managing a 100 fleet company going to be the same, right?

Bharat Sheth: **N**o. I think looking at our current infrastructure I guess we could possibly push ourselves on our current infrastructure, and buy another 10 ships. But, if went to another 20-30 ships, we clearly need to recruit more people for running the business. I'm not talking about people on the ships. I'm talking more about various people within the organization. We clearly need to expand in few of our departments, but on our current infrastructure I guess, we could absorb close to 8 to 10 ships.

Jeet Gala: And continuing with this, do you have plans to double, if not 12 months, 24 months, over the next 3 to 4 years, if that is not a short period?

Bharat Sheth: We don't look at it that way. We don't mind having so long as it justifies the returns that's all, eventually our focus is what is likely to be our return on the capital that we've invested. That's the only criteria. So, what's the point of doubling if we are not going to produce a return, right?

Jeet Gala: No, I'm just assuming if you get assets at your price points.

Bharat Sheth: Yes. We get the assets at our prices, why not? Then we will also be happy to leverage the balance sheet. You saw on one of the slides that, we did not hesitate to leverage balance sheet when the timing was right and rest assured we will not hesitate again. We obviously won't go crazy on the leverage because, you get these black swan events. This is the second one in, so we always like to keep lots of cash and the reason is, we live in these, first of all ours is a very volatile business, number one. Number two, these are the black swan events and number three, and you don't know the extent of the runway you need to build for yourself.

Jeet Gala: What the fleet is probably missing out is the cheque-writing capability. I mean, the company needs to do something with the cash, which everyone is really waiting for. Either you come up with a mega buy back or you really do, go on an aggressive CAPEX or something.

G. Shivakumar: We too are waiting. Let's say our dollar cash has earned us just under 0.5%. But the purchasing power of that cash, have gone up closer to 15% in the last 12 months. So if earlier I could buy an asset for a hundred and now I can try for 85, that 15 is effectively enhancing my purchasing power. Really what is my cash earned, it's only the interest because I've preserved my capital but I've also got an opportunity now, not to buy the 100 but to buy the 85. So where it would be wrong is, if we just sat on the cash and we failed to acquire tonnage when the prices came down, that would be a disaster. Otherwise, sitting on cash has helped us over these previous 12 months.

Moderator: We will take a next question from the line of Chintan Sheth from Sameeksha Capital.

Chintan Sheth: My question was particularly the two comments you made during the presentation, one on the capability to buy ships and one on the cheapness of our stock price. So in both metrics, I just wanted to check, how should we look at capital allocation going forward, whether we'll be aggressive in buying ships that you answered a bit and whether we will be aggressive on buy backs, that also you partly answered, but if you can add anything if you want to.

Bharat Sheth: No that's really it. I think I have explained that we are continuously looking out to acquire ships, but what we don't want to compromise is on cost. So we don't want to be pressurized against using the cash. Let me put it that way. Cash/liquidity as you know is always a precious commodity. It's very easy for us to go and invest all of it tomorrow morning. And then when we don't produce the returns, people are going to question us. So we've got a big responsibility here where we've got to make sure that we invest wisely and we make sure that whatever we invest, we produce enough of an alpha over the cost of debt. Obviously we would fail in our duty if we just sat on the cash and did not seize the opportunities, be it through paper or be it through steel.

Chintan Sheth: And secondly on if you talk about the current market, as you mentioned that they're still weak and you do see the scrappage coming back. The one point I want to ask you was this you mentioned earlier that, we kind of look at buying ship as buying steel basically. But the deals, the purchase we concluded recently were done at very steep steel prices. So is there any correlation to that whether we need to read through it or how should we look at?

Bharat Sheth: The correlation to steel is when you're building new ships. So, because for a shipyard that's the price that they have to pay today. This is steel that was constructed X number of years ago. And but just to let you know on the three ships we've acquired recently, all three have gone up in value. We can buy them today at the prices at which we acquired them a few months ago.

G Shivakumar: Sorry, just one point here. I think Chintan are you thinking that we are taking a call on the price of steel as a commodity itself for buying. Because when we refer to buying steel, we are just saying steel as in buying ships.

Chintan Sheth: And lastly when we talk about, balancing the balance sheet with a dollar denominated liability versus assets. I keep on looking at we are raising NCD's and then converting into the swap. I try to understand why by not we directly take loan on the dollar debt than raising money in INR and then swap it in dollars.

Bharat Sheth: We are doing some in direct dollar debt. We've done a couple of the transactions recently, which we out of the three ships that we've bought recently or we are in the process of buying the third one, those are directly in dollars. One of them we've done in the bond and so there are two reasons. One is that when you do it through the bond route, there's zero amortization, over multiple years. And also if you look at some asset classes, sometime we find it's easier to do it through the bond route rather than through the ECB route. But we have an open-mind to both, so it's not that we favor one against the other.

Chintan Sheth: In terms of course its neutral to us.

Bharat Sheth: Yes, I mean broadly, so it's neutral in some aspects in terms of cost it's broadly neutral, but of course when you do a bond, let's say that one of the ships we funded let's say does not have any amortization for 8 years. So that means a lot of the risks capital that we need to set aside, you have the luxury of not having to set aside. So then you can leverage that much a little more, than you normally could do, because you're losing that bit of a risk capital.

Moderator: We will take a next question from the line of Sanjiv Pandya from Old Bridge Capital.

Sanjiv Pandya: If I try to imagine you over the last 4 to 5 or 3-4 con-calls that I've heard you, you seem to be more a student of volatility than of shipping. So, if I imagine you as just playing volatility, then why stop at merely shipping, only because you know that sector better? For example, let's take container freight; it's a fairly consolidated industry with say 65% of the ships actually being owned by just a few players say five or seven. And if you take what they are also chartering I believe the number is closer to about eight. So it's a fairly a volatile industry with that they are able to even modulate supply of containers and container ships. Wouldn't that be a good place to park your cash in that context? How do I understand your expression of interest in SCI, which would be both an entry into VLCC and container freight?

Bharat Sheth: So you've got multiple questions in that one let me try and break it up for you. So first you said, I'm more likely to be a student on volatility and not on shipping. I should not really be a student of shipping after so many years, right? So that's the first point. Volatility I accept, but not of shipping that's first. Secondly, on the container space I think this is a double-edged sword and because it is consolidated so first you know if you try and understand the structure of containers. Very few people control the decision on when to charter in and when to return your ship to you, because what you say that's absolutely right, it's very-very consolidated. So then you are at the mercy of the big players and it's not a widespread market. So you have very-very few customers whom you can possibly deal with. So that itself has got its own inherent risks, number one. Number two, if you look at the very long term returns in the container space, specially the chartering model I'm not discussing the liners, right? Because liners just need vast sums of capital and it really produces very-very disappointing return on capital. But even if you take those who have been in the chartering space, the long-term return on capital is much less than it has been on tankers and dry bulk, assuming you play all the volume, all the cycles well. So, you know, what we are seeing today should not get us excited because obviously what we're seeing today is an extraordinary market and it'll just suck you into banking expensively and then you might regret it. So we just got to look at that by getting into this space are we really other than of course there is value that you have diversified into one more sector, but will it produce a superior return to the sectors we already are in? I am not so convinced and there is no data to support that. So I hope I've answered your question on the container as well. What was your third question?

Sanjiv Pandya: Incidental to being a good shipping company you have to carry large amounts of cash on your balance sheet so cash management seems to be one of the big constraints and getting a good yield on cash seems to be one of the big constraints of running a good shipping business. That combined with volatility, I find you use the word black swan very often. That combined with volatility, wouldn’t you get more opportunities in playing volatility and get a higher yield on your cash which would convince the market that you are sustainable. The problem seems to be that the market cannot see what you can see. When you say that the ships that I haven’t bought are actually being added, the drop in their prices are being added to the yield on my cash, that’s not visible to the market. That seems to be affecting market valuations of the company and the market cannot get predictability in this company.

Bharat Sheth: I grant you that, that till you explain some of this it’s very difficult for the market to understand it and you must remember that this is an industry that very-very few people truly understand the way it should be understood because first of all if you look at it globally only 25% to 30% of shipping companies is in the listed space, 70% odd is privately held and I guess the only reason why it is privately held is because shipping has never enjoyed proper valuation. It’s an under researched, under understood industry. It’s strong on cash flow and if you get the asset timing right it provides a very good long-term return on capital and then you can afford to leverage some and therefore you can get a delta on your equity. So that’s the reason why 70% of shipping globally is kept in private hands. In India of course there are very-very few people in this space and it’s not easy to play this volatility but the point you raise is absolutely correct. How does the market try and understand some of these issues which we can discuss on a conference call like today? I honestly do not have an answer for that but.

Sanjiv Pandya: I would like to take these things privately with you especially about cash management and the.

Bharat Sheth: Cash management, I will just quickly spend two minutes on cash management. Obviously for us we will not look at taking any risk on that. This is money that we are keeping for two reasons, one is for risk management and one is for having the ability to move quickly in the market. We have discussed in previous investor calls that there have been times when this very ability to just quickly pay in cash has enabled the company to get some very-very lucrative deals and you must remember also that just as we see the cash on the balance sheet so do many sellers see the cash on the balance sheet and therefore there have been occasions when a seller who wants to quickly transact will tell his broker first speak to Great Eastern because we know they have the capability of moving quickly and I am telling you that absolutely factual that we have bought at least half a dozen ships in the last few years where we got the first bite of the cherry or the only bite of the cherry simply because we had the ability to move very quickly. That cash has really proved very useful to us but other than that we will not take any other risks on the cash.

Moderator: Our next question is from the line of P. Manoj from The Hindu Business Line.

P. Manoj: I have been hearing what you have just explained about capital expenditure and all that. This is basically for organic expansion for your own company. Now we have an opportunity or you have an opportunity on the horizon. I am talking about Shipping Corporation of India. Have you taken a call to participate in the disinvestment process for SCI? Whether the board today gave you an approval to look at it or file an expression of interest?

Bharat Sheth: Manoj we are still waiting to collect certain data. We have got some unanswered questions at this stage, we have got some people helping us understand some of these issues. We really don't want to take any call until we have understood all the issues at stake.

P. Manoj: But the thing is the disinvestment department has clearly said that, those information that potential bidders are seeking will be available only at the next stage of the bidding process?

Bharat Sheth: Some information we may be able to get pre the bidding, a lot of it will be post the bidding, you are quite right, but we are waiting to get some information pre the bidding which we may or may not get soon but we will try to get it.

G. Shivakumar: Manoj it's a little early, we have still not made up our mind on this. We need more time to think about it.

P. Manoj: You are saying that it's a little early because the date is approaching another fortnight or so. February 13th is the last date?

Bharat Sheth: Yes, we will take call nearer the date Manoj.

P. Manoj: Is the board in line…

G. Shivakumar: We can't discuss what deliberations have happened at the board. So we will leave that aside for now. The fact is that we need more information before we can make the call and we hope to have that information in the coming days.

Moderator: Next question is from Ankit Panchmatia from B&K Securities.

Ankit Panchmatia: A bit of questions on the offshore side. We have been tracking some offshore renewals which are been happening although very few of them at the rates for the same looks quite upbeat. One thing, do we see a similar trend playing out for us in the offshore market wherein we could get positively surprised in terms of the rates it gets renewed with, one and second are the clauses more stringent this time in terms of the bidding norms or what is the participation, what does the participation looks like at this point of time? Any flavor over this offshore renewals would be much helpful.

Bharat Sheth: As the CFO mentioned we have two rigs for which we had just participated in a tender. We won't know the outcome for a few months but it is our belief that the pricing will be higher than what it is now based on as you rightly pointed out, evidence to show that the newer prices will be higher than what they have been in the past. We too hope and believe that they will be higher, how much higher will be difficult to say. It will depend on the competition and on what others had been bidding etc., which obviously is impossible to guesstimate. As far as the boats are concerned, it is a business that comes up all the type on renewals, again that's a little more fragmented and it is on the drilling business. Very-very difficult to say, there of course the barriers of entry as you are aware are probably lower. On the boat business I am hoping that it will be higher than previously done but again I would just caution that these things are difficult to ascertain. It's also a function of what oil prices are doing at a point of time. They have now recently of course stabilized in the mid-50s so there is a little more enthusiasm possibly in that space but we have seen how quickly oil prices can move down and it's possible that the current price of oil is supported by OPEC plus action because as we have showed on one of the slides the demand I think because of COVID is still very-very weak. We don't know the extent to which and what will be OPEC plus is action going forward. Will they continue keeping oil of the market, will they increase pumping capacity, there are lots of unanswered questions but I am a little more confident on the rigs because there we are clearly see a tightening of the market.

Ankit Panchmatia: On the newer contracts, how are they drafted, are they stringent, are the short listing process quite hard compared to what they were when the last time these rigs were renewed, any flavor around the same?

Bharat Sheth: Nothing that we cannot price because maybe the system works is you are aware from the beginning what are the customer requirements and you price everything accordingly. So nothing that will concern us whereby we would not agree to price or we would not agree to participate.

Ankit Panchmatia: On the gas side what is the typical tenure we are been tied up for? Any of the gas carriers coming out from that tenure and we could just swipe it off towards to a spot rate, any flavor around this gas?

Bharat Sheth: One of our smaller ships is coming off in May '21 and one of the larger ships is coming off in August '21. That's when both will come out for repricing.

Moderator: Our next question is from Himanshu Upadhyay.

Himanshu Upadhyay: We had this Sea Change Maritime LLC investment in that company. It was into some containers shipping business; we had taken provisions but it is completely gone down or it still remains?

G. Shivakumar: Yeah, it's gone. It's shutdown. That's the nature of that container and it is actually it is at point that container shipping is quite a brutal market.

Himanshu Upadhyay: With last 4 to 5 years, we have continuous reduction in the CAPEX on the offshore side. What is the outlook for 2021 means anything you are hearing or what the larger players are saying? Have we reached this stage of the working of….?

Bharat Sheth: All the larger players have become smaller players because they have all gone belly up. Almost every large player both on the drilling side and on the boat side have gone belly up. They have restructured under Chapter 11 or equivalent of Chapter 11 but clearly the general view is as CFO pointed out in one of the slides, there is very little, almost nobody is now building anything in that space and many of the assets have been idling for considerable periods of time and are unlikely to come back into any level of activity and therefore I don't think Cal '21 there is going to be any real improvement as I said, in the rigs we expect the rates to pick up but on the whole it's difficult to be positive on that market over the next 12-18-24 months.

G. Shivakumar: He is referring to EnP CAPEX.

Bharat Sheth: EnP CAPEX I don't think is likely to go up. You mean global EnP CAPEX?

Himanshu Upadhyay: Yeah, and specially off shore.

Bharat Sheth: Yes, offshore. I don't think is likely to go up a lot. If you ask me it's not going to go back to what it was obviously when it was (+300 billion). It's now at a 15 year low at 125. I think it was last at these numbers in 2004-05 but I think that it is unlikely to go up a lot. I think where things could improve is more on the supply side rather than on the CAPEX side.

Himanshu Upadhyay: Generally, in commodities when we see if the CAPEX has been low for a pretty long period of time, the up cycles also come over a period of time?

Bharat Sheth: It can happen, again it all depends on how the renewables all shape up and a lot of the oil companies now are moving a large part of their capital into renewables and not in fossil fuels. I think we have got to wait and watch and it's impossible to second guess what the oil company will eventually do but from whatever we are reading capital is getting diverted into renewables.

G. Shivakumar: I think what happened with Shell on shore also, it depends on that as well.

Moderator: We will take our next question from the line of Rajkumar, an Individual Investor.

Rajkumar: Given the bleak outlook for offshore. Just wanted to know why we have not taken any impairment on the balance sheet because I still see almost 3000 crores worth of net assets shown on the offshore and I think NAV, Shiv mentioned that it's in the near about of Rs. 50-60. Any comment on that?

G. Shivakumar: I think the way he is doing it is 450 to 500. The difference between these two which is a Rs. 50 per share is on top of their cost, so Greatships cost in our books. You have to add Rs. 50 per share to that and then you will get their individual NAV but coming to your main question which is on the impairment. Every accounting period typically this is annual for offshore, we do an assessment of the value of all the assets. This is based not just on the market value but also on what is known as a recoverable value of the assets. Now how the recoverable value is based on forecast of what the asset could earn. The way we do, how do you do a forecast of what the asset could earn. For the immediate period which is of 2-3 years, we take the current rates. For over the longer period we take long-term averages because as you know this is a cyclical business and you will see the cycle come back at some point you will have low markets and you will have high markets. Over a long period of time, you will tend to earn long-term averages. That's how we do the assessment of the recoverable value of the asset, we do an NPV of that and based on that it is assessed that there is no impairment required as of the last time we did the accounting, the checking. Again we will do this again in March. We get influenced by the current charter rates but on a long-term average, long-term basis the charter rates were much higher than where they are today. Those are the numbers which mean to the calculations and that's the whole idea that you are not impairing, just writing it down to market because this is not a calculation where you just write it down to market on a quarterly basis and then you will just have only capital value changes in your P&L and therefore this takes a longer-term view on the value of the asset.

Rajkumar: Given that the market has significantly deteriorated compared to the last year. Is it fair to expect that you will have some impact in coming up in the coming quarter given that the last part of the year?

G. Shivakumar: The market has not deteriorated as compared to the last year. Mr. Sheth just mentioned that we are expecting a better pricing than the last one. We are hoping for a better pricing than the last one because the market is getting a little tighter. We don't know what pricing will be done on the contracts but the general feel of the market is that the market for drilling assets at least is tightening. And since we seem to have a little bit confusion on the NAV part, in the standalone NAV we take the value of Greatships in the Great Eastern books at the cost, the equity investment cost approximately Rs. 80 per share of Great Eastern money and that is stitching in the Rs. 450 per share NAV. So when you add that Rs. 50 you are not taking into account that Rs. 80 which we are starting with. You got that, right?

Rajkumar: I got it.

G. Shivakumar: NAV of the offshore business is close to 2000 crores based on these numbers.

Anjali Kumar: There is one last question and I will just read that out because he has typed out his question. It's from the Mr. Jayesh Parekh He says over the last 5 years your NAV has gone up from 450 to 500 whereas over the same period your stock has been virtually flat. Is that the right way to look at the way the market values the company?

Bharat Sheth: What is the question? NAV has gone up and…?

Anjali Kumar: From 450 to 500 in the last 5 years whereas the stock has been flat. Is it the right way to look at the company?

Bharat Sheth: There is no right or wrong way to look at the company. How the investors look at the company I have never understood because each investor will look at the company differently and there cannot be unanimity on how people value. There will always be a buyer, there will be a seller. The way we look at it in the role that we play which is in managing the shareholders' funds is are we building the value of the business over a period of time. Of course, in between there will be years when it will do well and there will be years when it won't do so well but over a meaningful period of times so long as we are building net asset value, that to me is building value in the business. Now how the market looks at it is impossible to tell.

Anjali Kumar: Thank you everybody for joining in today for the call and we are available for the queries, of course our whole team is here to answer any queries you may have and we will be putting up the link, audio link as well as the transcript on our website in a couple of days. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen thank you for your participation. With that we conclude this session for today. You may now disconnect.