THE GREAT EASTERN
SHIPPING COMPANY LIMITED
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Our Ref.: S/2023/JMT

February 07, 2023

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BSE Scrip code: **500620**

Trading Symbol **– GESHIP**

Sub: Written transcripts of Earnings call conducted on February 01, 2023

Dear Sir/Madam,

Further to our letter dated February 01, 2023, please find enclosed written transcript of the earnings call held on February 01, 2023.

We request you to take the same on record.

Thanking You,

Yours faithfully,

For **The Great Eastern Shipping Company Limited**

JAYESH M TRIVEDI

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Jayesh M. Trivedi

President (Secl. & Legal) & Company Secretary

"The Great Eastern Shipping Company Limited's Q3FY23 Earnings Conference Call"

February 1, 2023

MANAGEMENT: MR. G. SHIVAKUMAR – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER, THE GREAT EASTERN SHIPPING COMPANY LIMITED
MR. BHARAT SHETH – DEPUTY CHAIRMAN & MANAGING DIRECTOR, THE GREAT EASTERN SHIPPING COMPANY LIMITED

Moderator: Good evening, ladies and gentlemen. Welcome to The GE Shipping Earnings Call on Declaration of its Financial Results for the Quarter-ended December 31, 2022. At this moment, all participants are in the listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question, please press '*' and '1.' I now hand over the conference to Mr. G. Shivakumar -- ED and CFO at The Great Eastern Shipping Company Limited to start the proceeding. Over to you, Mr. Shivakumar. Thank you.

G. Shivakumar: Good afternoon, everyone, and thank you for joining us for this conference call. Mr. Bharat Sheth – our Deputy Chairman and Managing Director is here to take questions; we are very happy to take your questions on the company and what's been happening in the markets.

So, let's go into the "Presentation." Again, we might make forward-looking statements. It is not our intention to give any predictions or focus on profitability. For the first time ever, our profits have crossed Rs.1,800 crores; our previous highest was in the super cycle where we were just short of Rs.1,400 crores, so in the nine months, we have a consolidated profit of Rs.1,800-plus crores.

Our consolidated net asset value has moved up and crossed Rs.1,000 per share; a year ago, this was about Rs.600 per share, and that just shows you what can happen in our business.

Also, we have declared three interim dividends in this financial year, totaling to Rs.19.80 per share, again, the highest dividend in our history. These are the reported highlights, you would have seen this, I'm not going to go much into the numbers unless you have specific questions.

We also have the normalized financials as usual. They are not too different from the reported numbers. The effect of the currency has not been very dramatic on our results, because the business results have outweighed everything else by such a big margin.

So, we have the net asset value per share and I mentioned on a consolidated basis we are in excess of Rs.1,000. Here, on a standalone basis, a year ago that was in December '21, we were at Rs.576 per share, now, we are at Rs.890 per share. We'll come to the NAVs what has caused them to go up in this period. And remember, that this growth of Rs.300-plus in net asset value is after having paid out dividends, between May and November, we paid out about Rs.16-17/share in dividends. These are the key ratios and we'll leave this aside, these are the EPS, etc.,

Broad management commentary from our Managing Director. Also, we have our highest ever quarterly profit. In nominal terms, the previous quarter was higher, but there we had the advantage of significant profit on sale, which was about Rs.115 crores. If you take out that impact, this quarter's results are higher, because the rates have been higher and we'll look at that as well.

The consolidated net asset value per share, as we mentioned earlier, has crossed Rs.1,000, because in offshore we get a range of values for the assets; it's between Rs.1,012 and Rs.1080 per share. So, the markets are interestingly poised. Tankers have had a very good run in the last three quarters or so, crude tankers even more so in the last quarter.

The one thing that we've been pointing out for a few quarters now is that the order book is dwindling. And therefore, at least one side of the equation that you have to worry about has been taken out. There is not much new capacity coming in and we'll look at the order book statistics. So, from here on, it will depend on what happens to demand picking up and what happens when China comes back, because China is a significant demand driver both for oil and for dry bulk commodities.

On the offshore market, again, this is something that we pointed out for a couple of quarters now. The market is recovering with oil prices continuing to stay at decent levels where oil exploration/production companies can make a profit and can afford to invest at least in production if not in new exploration. The market has shown signs of significant strength. The effective utilization rates for jack up rigs, if you take out the rigs, which have been cold stacked for quite some time, now we are getting close to 90% for the first time since 2014 when the oil prices collapsed.

On the balance sheet front, these cash flows have been exceptionally strong and we've used the cash flows to pay some dividends. We've also prepaid debt whereever possible.

Just looking at differences between last quarter, that's Q2 and Q3, you see what's happened to crude tankers; 33k has gone up to 60k, product tankers and LPG have been more or less the same, dry bulk has dropped off in Q3 versus Q2. But, the crude tankers outperformance was so high that it's more than compensated for the drop in dry bulk earnings.

This is how and why our NAV changed. This we are comparing versus March, so this is a nine month change in net asset value standalone. We had a change of little under Rs.300 per share where we've got equal contributions from the cash profit, the cash flows which have been produced by the business and the increase in fleet value. Again, the reason why we put this here is that this is different from the NAV from other NAVs that you may look at. So, you should not look at it like the NAV of say a mutual fund, which if the stock prices fall, you lose what is there in the NAV. Here, when the earnings are strong, a part of that net asset value is converting into cash flows on a daily or a quarterly basis. And that's what we wanted to show you here. It's not just an increase in asset values, it is actual real cash that has come in here. Again, asset values you never know what happens to them… they could go up further, they could come down, but Rs.147 per share is actual cash which is accrued to us. This is the five-year movement in standalone net asset value; in March 2017, we were at Rs.337 per share, now we are at just shy of Rs.900 per share. Again, just to remind you, we have been paying significant dividends through this period.

On a consolidated basis, the story is somewhat similar. We had an increase of about Rs.350 per share in the net asset value which has contributed about 50:50 between the cash accruals and the fleet value.

Looking at what happened in the shipping markets, again, we have gone through this many times in the past. We've had exceptionally strong product tanker markets since early in the year. So, that outperformed for a significant period. The Suezmaxs took some time to catch up, but they had a very good Q4 of calendar 2022. This is a commentary and we can rather than read this commentary or go through it, we can discuss it in the Q&A.

The main cause, of course, for the tanker markets growing up was the war in Europe… the Russia-Ukraine war, which resulted in a trade dislocation, which came on top of a fairly tight-ish market, and that's what really took the markets up in a big way. And it illustrates what happens in our business, which we have said in the past, which is that, it takes these events to suddenly take the markets up or down. And basically you need to be positioned with your fleet to be able to take advantage when the markets go up. And that's why we have a significant spot market exposure most of the time.

Looking at dry bulk, the dry bulk was a different story; we had a very strong period in FY'22 especially for the smaller vessels, which is the Supramax/Kamsarmax, this year has been quite poor, the capesizes have suffered a lot versus the previous year. And now we've seen over the last few months that even Supramax and Kamsarmax earnings have come off very significantly, which is the black market.

Again, steel production, which is the biggest driver of demand for bulk carriers, was down, and had negative growth. We look forward to it coming back in CY'23. Unless you have a very significant global recession, you should have positive steel production growth, which means that you should have some dry bulk trade demand growth.

LPG earnings have been strong again. We don't get much affected by the spot market, because we are on time charter. So, we don't get affected on a day-to-day basis. Of course, if the spot market is strong when our ships come up for repricing, that comes into the pricing that we receive.

Looking at fleet supply, the current order book is an exceptionally low level, so, we are talking of below 5% for both crude and product tankers, we're looking at about 7% for bulk carriers. All of which are historically very low numbers. And as I said, this gives us at least one comfort that the supply side is not challenging. You can see that, in 2008-2009, these order books went up in excess of 50%-70%. And that was really a worrisome market. Single digits like this, this is a positive for the market going forward. As I said, you still need demand to help in the overall equation, but at least one side is taken care of.

The LPG order book is significantly higher than this; LPG carriers order book is about 21%. So, not as comfortable as this, but still, we have significant trade growth there, which hopefully should take up some other ships.

Looking at asset prices, obviously asset prices have moved and we saw the impact on the net asset value. Asset prices have moved significantly over the last couple of years especially for the tankers, dry bulk asset prices have come down in between 20% and 30% from the peak early this year.

Scrapping has been very poor. Again, all of this is creating an overhang of scrapping, which is a little bit of a safety net for us. If the markets are very weak, you have a chance that there will be significant scrapping which takes out some of the fleet and therefore brings demand/supply back into balance.

Looking at the offshore business, the Middle East has been a big driver of incremental demand, and there are a lot of rigs which have been going in there, there's a lot of demand for jack up rigs there. So, Saudi Arabia and UAE have taken in a lot of rigs. They have publicized their targets for increasing production capacity, and they are taking in rigs in order to try to meet those targets. So, rig utilization is now close to 90% on an effective basis… and when I say effective, I mean, if you take out the rigs, which are cold stacked, and you take into account the rigs which have already received contracts and are waiting to go into contract. For instance, today, you have 358 rigs under contract, you have another 35 rigs or so which are waiting to go into contract, they've already received contracts, and they will go into contract within 2023. So, that's a little above 390 rigs. Of the 490 rigs that you have in the fleet, about 60 rigs are cold stacked, 45 cold stacked for more than three years, and therefore will not be really in a position to compete actively in the market unless the market moves up along. And therefore, we say that the effective utilization has now come close to 90%.

It's sort of similar, though not exactly so for the vessels. It's not a 90%, but you've seen on term contracts that you moved up from the low 40% to somewhere around 54%-55%. If you take into account again cold stacked vessels, you're probably up to 70% or more. And we have seen significant pricing improvements for vessels and for rigs recently. This is just a depiction of the utilization on a chart.

We have two rigs coming up for repricing, but that's only next year. So, our repricing we had the Greatdrill Chaaru coming off contract. In this year, she has been awarded a three-year contract in India and she will go on to that contract sometime probably in the middle of FY'24.

Vessels, we have quite a few coming up for repricing, which is a positive in this market, because repricing when they come for contracts will be better than the previous rates.

In the last quarter itself, we had come down to net cash on a standalone basis and also just about net cash on a consolidated basis, now, we are significantly net cash. So, on a standalone basis, we have about $80 million more cash than we have debt. On a consolidated basis, this is probably somewhere around $50 million of net cash.

While the stock price has moved up, you will see that the net asset value has moved up a lot as well over the last nine months. So, we still continue to trade at a very significant discount with the net asset value. These are the initiatives on environment when you go into the website.

So, that brings me to the end of the presentation. We are happy to take questions.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Amit Khetan from Laburnum Capital. Please go ahead.

Amit Khetan: I had a couple of questions regarding the offshore business, just to get a better understanding. So, I think there was recent news about our rig getting on-contract at something like $80,000 a day. How does this compare with the previous pricing on the same rate and on the average of the remainder of the three rigs that we have?

G. Shivakumar: Yes, we have received a contract. We don't comment on the rates. But the contract has been done at a rate which is about 75% higher than the current contract running on that rig. So, the recently awarded rate is more than twice the rate at which the other three rigs are working, the average on the other three rigs.

Amit Khetan: How should we think about the earnings in the offshore segment between say the rigs and the vessels, I'm sure the rigs are earning a lot more, but could you give a rough sense of the split between the two?

Bharat Sheth: There is no correlation on that. So, all that happens is, when the rig market moves up, the boat market also goes up. As the CFO has just mentioned, the rig that we have, just repriced at 75% higher, we've also repriced certain boats, and those are being repriced depending on the region, they are in between 30% to 60%, improvement from the previous numbers albeit on a lower base.

Moderator: The next question is from the line of Abhishek Nigam from B&K Securities. Please go ahead.

Abhishek Nigam: First question is on the dry bulk side. Rates have corrected very sharply. So, do you think now it has bottomed or at least there is not significant downside from hereon?

Bharat Sheth: Obviously, there can't be much more of a downside, because now you are earning at operating costs across two sectors; one is the capesize sector and one is the supermax sector and some of this is seasonal. So, it's not as if it was unexpected… very much in line with what was expected, typically the time when you have a lot of disruption due to bad weather both in Brazil as well as in Australia, which are the two main dominant exporting areas. Having said that, if you look at what the forward paper is showing, it's in significant contango. And therefore, what the market is clearly saying is, let the disruptive season get over and we should see an improvement. The extent of the improvement obviously is going to depend on when China really settles down post these lunar holidays of theirs, and how much of that improvement is going to be seen through the manufacturing sector, as opposed purely to consumption sector.

Abhishek Nigam: On the dry bulk fleet expansion, so, where are the asset values now, and do you think now they are at a range where you would want to consider buying a few of those?

Bharat Sheth: So, as the CFO said, we've now seen somewhere between 20% and 30% drop since let's call it the last nine months, which were the peak of this last cycle. It's still a little away from where we would feel comfortable. Now, if let's say that there is a longer duration in Chinese recovery, then maybe asset prices may fall off a little further. So, it's something we are closely tracking We are looking at a couple of ships, but nothing I could say very honestly that there's nothing that we've got our teeth into yet.

Abhishek Nigam: When are the LPG ships up for renewal? And is it true that the contract you have currently with the current customer, so the current customer has an option to renew the LPG ships at the old rate?

Bharat Sheth: At the current rate, yes. We have one vessel that comes off, I think it's between April and May, in which there are no further options left. So, that's all done and dusted. So, that I think will get repriced sometime in the month of March. The other three, because there are options at the similar rate, will run through for another 12 months.

Moderator: The next question is from the line of Himanshu Upadhyay from O3 Capital. Please go ahead.

Himanshu Upadhyay: My first question is, we bought an AHTSV recently, okay. Can you help us understand the rational means for it -- was there some one-off opportunity to deploy at a very lucrative rate or the price itself was very cheap?

Bharat Sheth: Basically, Himanshu, what happened was that there was ongoing tender in front of us. We saw that there was likely to be a slight shortage in the number of assets that were going to offer under the tender, and we got this opportunity to pick up this asset. I wouldn't say it's cheap, it wasn't as cheap as it would have been let us say six or nine months ago or one year. But, we are pretty confident that we will get through in the tender and effectively pays back the asset at the end of the contract if we do get a contract. So, basically, it wipes out most of the rest.

Himanshu Upadhyay: I have a question on this crude carriers and product tankers, the order book is the lowest. In crude, we have very old fleets also; some of them are 18-19 years old. And are we getting opportunity to get good rates for one or two year charter, or we will like to be in spot only even whatever time we have with these ships, so any thoughts on that?

Bharat Sheth: So, on the older assets, it's very difficult to place it out for long periods of time, simply because of the age. On the relatively younger four tankers that we have, two afras and two suezmaxs we could. But, what we have seen again from previous experience, that whenever markets are tight, a sudden surge in demand for some cargoes tends to exaggerate the earnings. Not that we expected the market to do as well as it has done, but really, we have significantly benefited from our overall policy that run everything spot, or as much as you can spot. And I think I've mentioned this in the past that since we have a very conservatively leveraged balance sheet, and now indeed, we are net debt, we may as well take risk through the operating leverage, because just think about it that we could have fixed some of these tankers, let's say, because a year ago, let's say our 2004 built vessel in the start of '22 was still 18-years old. And we could have fixed it at a remunerative level, but the average that asset has earned compared to what we would have got for 12-months is almost 2x. And that's the thing about shipping that you really want to keep as much of your operating capacity open and balance that out by running a very conservative balance sheet, so that you're never under pressure to take suboptimal decisions on fixing the ships out. So, I think that strategy has paid us very well and I think we'll continue to hold on to that.

Himanshu Upadhyay: I have a question on policy decision at the company level. I think this is the first time in last 20-years, we have a net cash balance sheet. What would be the policy or a process of how much cash you want to have on the balance sheet? And what would be the determinants of what percentage of balance sheet should be on cash, because one of the things is, eventually this business is a 13%-14% ROC in a longer term state, and if we want to have a higher thing, we'll have some amount of leverage, but how all these things are playing in your mind, how is that philosophy or a process of cash on balance sheet you will decide or what's the thought process there?

Bharat Sheth: So, first of all, when you say this is a 13%-14% ROC business, it's not. It only is if you invest wisely, because if it was, then you would not have so many shipping companies getting wiped out, and there are very, very few shipping companies that have been around 75-years as Great Eastern is. So, that's the first point. It's not as simple as you are looking at. The second point is how much cash would we be comfortable with. If our cash reserves were to double, and therefore they would be a larger part of the balance sheet, we would have no qualms about it, because the important thing is to deploy the capital wisely. So, basically, the way we look at capital is, we only want to deploy it as and when we think we have a reasonable probability of providing, we've said this in the past, dollarized returns, and, of course, subject to interest rates, but we must be able to on a high probability significantly outperform the cost of debt. Today, the cost of debt, let's say is around 6% in dollars. So, unless we see a chance of making 10% to 15% dollar returns, we just rather sit on that cash. So, we're not shy on how much cash we sit on. And remember, you got to take this capital into three buckets: One is just the risk capital, which the company always will keep as cash. One is replacement capital, because obviously there are ships that are getting old, and they need replacement, and then you are just standing still, although you may be modernizing the fleet to an extent. And then the third bucket is the growth capital, which hopefully will take us from 40-plus ships today to 50-70 ships as and when the time is right. So, until we think the time is right, and if in the meantime, we have to build up cash, so be it.

Himanshu Upadhyay: In offshore, was this a one-off of our drydocking and hence the EBIT turn negative? And secondly, can you give an idea of how is the average rates for vessels and rigs for us today versus two years back, in the same quarter something like what we give the average price of ships, how they have on a base of 100, how they have moved something, just to understand where -?

Bharat Sheth: So, what happens is, it's not right to comparing with shipping, because shipping averages are spot averages, right? In offshore, the averages are typically one-year average or three years. So, you take the rig business, right? Every time you've priced a rig, it's been for three to five years unlike shipping, which is spot, every day, you're doing some fixture or the other. So, that's more representative of averages than offshore. Having said that, if your question is compared to two years ago, if you had a rig that you were pricing two years ago versus pricing today, it's fair to say that it would probably be about 2.5x to 3x higher. If you're pricing a boat as well… and again, the boat is not as commoditized as ships are, because they have different features, they are operating in different jurisdictions, and they're expected to perform different tasks. So, there again, I would say, compared to two years ago, maybe the improvement is 2x to 2.5x.

Himanshu Upadhyay: In this quarter, EBIT is turning negative. Any -?

Bharat Sheth: No. So, basically, all that has happened was we had a rig that had to prepare itself for a new contract. So, there were two hits that you take. One is the rig obviously is not earning, and that happened for most of October, November and December, and you're also spending money to redeploy her in a new contract. So, that's why you take a double hit between contracts. But all that is you have deferred it because obviously you will have a start date and then you are now committed for the next three years. So, I thank you very much and I would recommend to all listeners in not to place too much emphasis to all these quarterly things.

Moderator: The next question is from the line of Roshan Nair from B&K Securities. Please go ahead.

Roshan Nair: So, my question was like on the VLGC trade miles. Is expected to remain elevated for the coming years like tankers?

Bharat Sheth: So, on VLGC, the trade miles will broadly be where it has settled in Cal'22. I think the difference of course on the VLGC is that, that's one sector where the supply side is a little ahead in relation to where the conventional tankers are and where the conventional dry bulk businesses.

Roshan Nair: Is Russia a big propane exporter?

G. Shivakumar: I don't think so. Only LNG.

Roshan Nair: Would you like to give any guidance on offshore breaking even given that as it is decidedly in a much more positive environment, right?

Bharat Sheth: It's very difficult to give forward guidance. I think there was a caveat at the start of today's conference, where we are reluctant to give a lot on forward guidance. All we can say is that every asset that we are repricing be it boat or be it the rigs are being repriced at a higher level than let us say six months ago, and obviously much higher levels than one and two years ago. So, logically, obviously, with some lag, the business will move into a profitable position.

Moderator: The next question is from the line of Vaibhav Badjatya from Honesty and Integrity Investment. Please go ahead.

Vaibhav Badjatya: So, we have explained the fundamentals of the business in the presentation. Are you seeing any changes which can really affect the product and tankers market, apart from the seasonality, because I think recently there has been quite a lot of decline in both the clean tanker and the dirty tanker index. So, anything fundamentally you're seeing any changes or just seasonal and just one-time?

Bharat Sheth: So, we think it is a little more seasonal, although, this season, it's got a little more exaggerated, but traditionally, if you see Jan and Feb tend to be weaker than November and December, right, because all the pre-stocking for the winter already happened. And also, people then also do a lot of refinery maintenance in different parts of the world, typically in Jan and Feb, and then the refiners get back into action for the summer season. So, if you just look at averages over the last many, many years, Jan, Feb are always a little weaker. They are 10-30% weaker. I just said to one of the previous participants that we should ignore these daily and weekly and monthly volatility. I think the important thing is that you've got a very tight market, as the CFO has just shown and highlighted on the supply side. And therefore any improvement in demand can lead to a very quick tightening of these markets, because 50% of the equation is resolved.

Moderator: The next question is from the line of Anurag Jain from Green Lantern Capital LLP. Please go ahead.

Anurag Jain: I just wanted to understand the slide #18 in our presentation, which talks about revenue coverage for Q4. So, are we starting to go slightly long on the rates as in covering our ships for slightly longer than what we used to do earlier, is that how it should be there?

G. Shivakumar: Q4 is basically just these three months. So, it's logical that you will have much more coverage when you only have three months left. The base itself is less. When we talk of coverage, basically what we're talking about, if we're telling you in July, we're talking about the remaining nine months of the FY, if we're telling you in October, we're telling you for the six months, if we're telling you in January, we're telling you for the last three months, and therefore by definition, same number of days is only 90-days per ship, so it will show a higher number.

Anurag Jain: In Jan, Feb, we've seen rates come off, but these would have a slightly higher rate, because we fixed them for a quarter or something like that?

G. Shivakumar: Yes, some part of it would have got fixing. Normally, even if you're on voyages, you fix a 45-day voyage, you're covered for 50% for the quarter.

Anurag Jain: Just wanted to understand the other thing in terms of deployment of capital. Are we finding opportunities in any segment at all, I mean, for example, containers are down, dry bulk is down, are there any opportunities at all there for deployment of capital or sitting tight right now?

Bharat Sheth: I think we are getting closer to our targets than we were obviously six months ago. As container prices whilst they are down by 70%, they are still significantly above where they were pre-COVID. Dry bulk from the peak of this last cycle is down somewhere between 20% and 30% from an elevated level. But, as you can see from both these examples I have given, we are moving closer to our target. Obviously, we don't want to define exactly when we are likely to come in and buy.

Anurag Jain: So, is it that for maybe next few quarters or for some period in time, our peak numbers are already there, in the sense, unless rates go up substantially higher from here our peak in terms of profitability is already here, is that a fair assessment?

Bharat Sheth: Well, if rates don't go higher, obviously, profits can't go higher, because capacity is not likely to change at the moment. So, on the same capacity, unless the per day earnings go up… of course, what can happen is, like, let's say offshore will hopefully provide improvement in their outflow as the repricing kicks in. But, other than that, unless you expand the Q, the P-into-Q can improve, right?

G. Shivakumar: So, we have a question in the text box. I'll just read out the question from Mr. Rajesh Khater, individual investor. The first question is, how much of the profit is contributed by crude carriers? Mr. Khater, we don't talk about individual sectors, the profitability, we give the TCV wise, what the day rates that we have earned for each of the types of ships and you can work that out from there, but we don't disclose that. The next question is how should we interpret the operating days coverage mentioned on page #19? I've already answered that question just now. It's for the remaining days of this financial year. Next is the maximum fleet is in product carriers. What are the triggers for product carriers?

Bharat Sheth: So, the basic thing is, products is an arbitrage-driven business. Unlike crude, which is not that much driven by arbitrage. So, the trade depends on what the refining margins are, where the refineries are, where are the shortages. And therefore, it's a much more trader-dominated business as compared to crude oil. And so both absolute demand and ton mile demand for the products is driven by where we see the best ups going forward. And because the odds are so very uncertain, typically, traders have multiple options when they quote for the business. So, it's very difficult to really say, what else will drive demand other than ups. And of course, the fact is that, how is the economy doing, because the demand for products like gas oil is dependent on transportation demand, is dependent on manufacturing demand, jet fuel is dependent on people wanting and willing to travel again post-COVID, particularly, we are seeing, there is a lot of vengeance traveling that the Chinese are talking about. They haven't been able to travel for the last two years, and we believe that it's going to lead to a lot more demand for jet fuel. So, for different products, demand is driven by different factors.

G. Shivakumar: The last question is how has January been, I assume, what the spot markets are doing in January?

Bharat Sheth: So, January, typically, you mean for crude products, crude, what is the question?

G. Shivakumar: No, this is in general. So, every season, January typically tends to be weaker than as I just said to one of the earlier participants, Jan, Feb are typically weaker than November, December. We are seeing a similar trend of that both in tankers as well as in dry bulk. There is no reason to believe that trend will change. And then we start seeing improvement from the month of March. Obviously, we are one full month away from March, but there is no reason to believe that that trend will not continue.

Moderator: The next question is from the line of Samraj N from Dwarka Share Brokers P Ltd. Please go ahead.

Samraj N: Since Mr. Shiv said that we are very close to OPEX on the bulker side, I just wanted to ask, basically all in breakeven, if you take the G&A and this one finance expenses, so can we presume that on the bulker side, we were negative if you take on the net side?

Bharat Sheth: Even if you just take currently, you see, you got to have a vessel that is in the spot market. You have to take average earnings. So, there are some vessels which you might have fixed 40-days ago, some vessels you have fixed six months ago, some you have fixed one week ago, like that. So, if your question is, is the dry bulk division EBITDA-positive, it's EBITDA-positive even today.

Samraj N: Currently, the VLGCs are under pressure if you take the West Coast route. So, is this also rubbing off on the Aframax and Suezmax rates?

Bharat Sheth: Not to the same extent. As I just explained to somebody else, that January, February has an average earnings, typically tend to be lower than November, December. So, each of the sectors, average earnings today are lower than what they were in the previous two months…but they're still at incredibly profitable levels.

Samraj N: My last thing is just on the sideline of the conference. Since you have such a wide knowledge on shipping industry, don't you think Shipping Corporation of India is the cheapest shipping stock going on now, especially if you take the cover of its real estate, which is one and a half times more than the current price, and if you take the entire fleet, NAV is coming free of cost, what's your comment, if you just give a general view on that?

Bharat Sheth: Honestly, I have not studied it, so I can't give you a comment on Shipping Corporation.

Moderator: The next question is from the line of Rajesh Khater, an individual investor. Please go ahead.

Rajesh Khater: You have already taken some of my questions from the chat and I have already written the next set of questions on the chat, but I will just read them out. So, one question is on the dividend payout. You have given an excellent dividend in this year, which works out to be the highest dividend ever in the history of the company, but the dividend payout ratio works out to 15%. So, as a policy, how much payout ratio does the company wants to maintain?

Bharat Sheth: Broadly speaking, our payout ratio will be somewhere between 15% and 20% give and take. That's the current thinking. These things can change. But I think that's where we are somewhere in that range at the moment. It's always a function also. Obviously, you want do a 15% payout ratio if your profit is, just for argument sake, say, Rs.10 crores, I mean, then you will flow up from your accruals so on and so forth.

Rajesh Khater: My next question is like on the gas carriers, you have the fleet with the highest average age. So, when do you plan to sell the older ones?

Bharat Sheth: No, we still have plenty of life on the gas carriers. So, there is no immediate plan to sell anything. As you know, gas carriers tend to have a longer life than conventional tankers. So, there is no plan whatsoever at this stage to sell any of the gas carriers.

Rajesh Khater: So, how much longer does life typically have -- is it like easily close to 20-to-23-years?

Bharat Sheth: Much more.

G. Shivakumar: 27-years.

Bharat Sheth: If you see the company's depreciation policy, it's 27-years.

G. Shivakumar: But we've seen ships straight up to 30-years.

Rajesh Khater: So, you are nowhere close to selling off your ships due to aging in any of your segments, right, or is any of the segment approaching the use by date and you will have to look at selling some of them?

Bharat Sheth: So, we don't have to look at selling anything at this stage. But, obviously, as time progresses, let's say 12-24 months, then some of the vessels will be hitting, not necessarily the end of their life, but what we are now seeing is private terminals and certain ports, and customers are reluctant to take very old ships. Of course, in a tight market like today, they all make concessions. But, in a more normalized market, then the utilization levels of some of these older vessels come off. But, what you should never forget is that these older vessels sometimes give you the best return on capital… or on book value, let's put it that way.

Rajesh Khater: Can you share the e-mail ID for investor queries? If we want to reach out between the quarterly concalls, how can we reach out?

G. Shivakumar: You can find them on our website; it's corp_comm@greatship.com if you go to the 'Contact Us' page.

Rajesh Khater: Just can you repeat that, corp_?

G. Shivakumar: corp_comm@greatship.com. If any doubts on it, just go to the 'Contact Us' page, you will find it there.

Rajesh Khater: Then, you have already explained twice about the coverage of operating, but I'm still not clear on how to interpret let's say if you can give an example, you have mentioned crude carriers is 50%.

G. Shivakumar: Yes, that's right. So, there are 90 days. So, let's say that you only have one ship, okay, and let's say that you keep fixing it for 45-days voyages. If you look at it on 1st April 2022, and you're looking for FY'23, your coverage is 45-days divided by 365-days which is 12.5%. If you look at it on 1st July 2022, it is 45-days upon 270-days which is 16% or whatever that number is. Now you're looking at it as 45-days on 90-days, which is 50%.

Rajesh Khater: So, that means your LPG carriers are all booked out for the -?

G. Shivakumar: All are on time charter.

Rajesh Khater: This does not indicate whether this is on spot?

G. Shivakumar: No, no. This will weather spot, so if you've done a 45-days voyage, that counts as a coverage.

Moderator: We'll move to the next question, which is from the line of Amit Khetan from Laburnum Capital. Please go ahead.

Amit Khetan: I just had a clarification on the offshore segment. So, the rig that we have repriced, is my understanding, correct that it's currently off contract and not earning anything and this goes -?

Bharat Sheth: No, but it is on the older rate contract. There was a tender which allowed us to participate in it. So, when the old contract terminates, which is in the second half of calendar of this year '23, the new rate will apply when it renews its contract. It's earning money.

Amit Khetan: So, basically all our rigs are currently earning money, it's just that one of the rigs is on the older contracts, it will get repriced –

G. Shivakumar: It has already been repriced. But, the repriced earning will kick in when she enters a new contract, but all the four rigs are earning.

Moderator: The next question is from the line of Anurag Jain from Green Lantern Capital LLP. Please go ahead.

Anurag Jain: Just wanted your thoughts on this. So, somebody did ask about SCI as a company. Would SCI be a good asset and it's on the divestment list, so would that be an asset you would evaluate for a buyout or something?

Bharat Sheth: No, we are not in contention. So, we didn't put in that expression of interest.

Anurag Jain: Of an asset that you don't like, is it?

Bharat Sheth: No, we had multiple reasons, which we don't obviously want to discuss on the call, but it was a decision that was collectively taken that we'd rather grow on our own.

G. Shivakumar: We have a text question from Nikhil Jain of Zontro. He asks, why do you think product rates have fallen so much? The next question is what will be the impact of the ban on Russian clean products on ton miles? And third question is, China buying a lot of Russian crude thereby reducing ton miles?

Bharat Sheth: I've said this before, January just is always weaker than December. It's typically the time of the year when there is a lot of refinery maintenance going on. And a lot of the ologies get filled up between November and December in anticipation of the winter season. So, then there is a less immediate requirement for requiring those products, especially the heating end of the product. It's just a few less cargoes that then determine what happens to the markets. Markets tend to exaggerate. And I think we have seen data in the past, which tends to support that every incremental cargo increases the rate by between 10% and 20%, and every one less cargo reduces the rate by then. So, you just have a few less cargoes and then ships quickly build up and so on and so forth. But, these things turn on a dime. And we have seen this happened in October of '22 where the average of October and the average of November, the market went up 3x in just 30-days. So, again, I think I shared with one of the other participants seriously ignore these daily, weekly, monthly earnings.

G. Shivakumar: Next question was on what could be the impact on the ban on Russian cleaning products.

Bharat Sheth: So, the ban kicks in on the 5th of February. We've got to see whether there is a market for the Russian products. Obviously, unlike crude oil, where India and China were the big beneficiaries, and were the big purchases of Russian crude, that's not going to be the case for products. But, there is talk in the marketplace, that the product would find itself to Africa, where there is a product shortage, it could find its way to Latin America, where there is a product shortage, but we don't know yet, because the absolute date hasn't kicked in. Obviously, if the Russians fail to find a market for its products, it means, they will almost certainly get compelled to reduce their refining runs. And once they reduce the runs and obviously there's less product to move. So, that too can happen… so we just have to wait and watch.

G. Shivakumar: Last question was if China buying a lot of Russian crude thereby reducing ton miles…probably referring to either pipeline or Eastern?

Bharat Sheth: No, China has been buying a lot of Russian crude throughout. It's not as if they're buying more now and they were buying less earlier. And in spite of China buying Russian crude, we've seen close to a 9%. year-on-year improvement in ton mile demand for crude oil… and this is in spite of China buying Russian crude. So, Obviously, if they were not buying the Russian crude through pipelines, then the 9% would have gone up even further.

Moderator: We don't have any more questions in the queue, sir. Would you like to give any closing remarks, Mr. Shivakumar?

G. Shivakumar: Thank you, everyone. The transcript and the audio of this call will be uploaded on our website in the next couple of days. As always, we are available for your queries, contact details are on our website, so, please contact us if you have any requirements.

Bharat Sheth: Thank you, all.

Moderator: On behalf of The Great Eastern Shipping Company Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.