"The Great Eastern Shipping Company Limited Q1 FY23 Earnings Conference Call"

August 1, 2022

MANAGEMENT

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Moderator: Good evening, ladies and gentlemen. Thank you for standing by. Welcome to GE Shipping Earnings Call on the declaration of its financial results for the quarter ended June 30, 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 click on the Q&A tab to ask a live question. I now handover the conference to Mr. Shivakumar – Executive Director and CFO at the Great Eastern Shipping Company Limited to start the proceedings. Thank you, and over to you, sir.

G. Shivakumar: Thank you. Good afternoon, everyone. And welcome to the conference call to discuss the results for Q1 FY22-23. Let's run through the presentation first with some basic information. And then of course, we are very happy to have a lively discussion with all of you with your Q&A.

First of all, forward looking statement, we don't know what the markets are likely to be like. We are not giving guidance on markets. So, please take it in that spirit.

So, let's look at the results for Q1 FY23. Compared to last year, which is the corresponding quarter and the immediate preceding quarter, our profitability has been much, much higher. And we can see that when we look at the TCYs, we'll also look at the reasons why we made so much more profit than the previous quarters. So, let's move forward. I'm sure you would have had a chance to look at these numbers already. Normalized, you would have seen the numbers which are there in our presentation. So, they were a little better than our reported numbers. Still multiple of what we did in the same quarter in the previous year.

Important and significant factor is the change in the net asset value from March, so that's just a quarter ago, our net asset value was about Rs. 618 on a standalone basis. It has now gone up to Rs. 732. We'll also look at the journey of how it got there within that 1 quarter. Key financial ratios. EPS on a normalized basis, so the EPS is steady Rs. 32 on a standalone basis and Rs. 35 on a consolidated basis.

Most important and we keep saying this over and over again, shipping is a very strong cash flow business. So, in profitable years, it produces a huge amount of cash flow. So, we have in the last quarter earned Rs. 48 of cash profit per share. Management commentary, this is something that we thought we should put new, just to give the highlights and the main takeaways. So, all 4 shipping sectors have done very well in Q1. You would have seen it in the TCYs as well that we earned, and having a large part of our fleet in the spot market, which helped us to take advantage of the strength in the markets and therefore earn superior TCYs. Strong cash flows from the business as I already mentioned and coupled with an increase in asset values. So, ship prices have gone up significantly during the quarter. It resulted in a significant increase in net asset value.

A long period of under investment in oil and gas production seems to have caught up with the oil market, and there's much more activity coming up in certain areas and that's boosting demand for rigs and vessels. This makes us believe that we are possibly past the worst of the offshore market. But let's see how it goes in the next year or two. Importantly, we must recognize that there are recessionary pressures building up, thanks to the increase in inflation and central banks moving to increase interest rates. And the impact of this is quite difficult to assess, as we stand today.

Looking at the time charter yields and this is what has driven our performance and we've rarely had this kind of performance where all ship categories have earned more than $25,000 per day on average during the quarter. This includes whatever part of the fleet was on time charter or on the spot market. So, across the board, all 4 sectors have done in excess of $25,000 per day in the last quarter. And you can see how it compares to the previous quarter which is Q4 FY22 and Q1 FY22, which is the corresponding quarter in the previous year. And huge outperformance has come from the crude and product carriers, which have doubled or more their earnings of the previous periods. Looking at what led to the changes in standalone net asset value, we had the Rs. 618 going to Rs. 732, to Rs. 41 of that change came from the cash profit per share, 79 rupees came from the increase in fleet value. This also includes the impact of the depreciation of the INR versus the dollar as we have mentioned many times. Though this does not come into our P&L, our assets are all priced in dollars and our earnings also are in dollars. When the rupee depreciates, or assets move up in value in rupee terms, and that's part of the impact which has gone in here in the fleet value. Then, of course, we paid out a dividend of Rs. 5.40 in the previous quarter, and that's reduced the NAV to that extent. This is the highest standalone NAV since our inception. And over the last 5 years, this has moved at a CAGR of 16%, again very high numbers. And we're not saying that this is something which is going to continue forever, but it's just the performance which has happened over this period. It's also a testament to the way that we have done investments over this period.

A quick word on the buyback:

We closed the buyback in early July, when the 6-month period was completed. We managed to do just under 60% of the buyback, that of the amount that we had targeted for the buyback. So, we spent Rs. 132 crore, and we also spent about Rs. 30 crore on the buyback tax. So, total of about Rs. 160 crore to Rs. 163 crore at an average price of Rs. 316 per share plus the tax. So, that's completed now.

Let's look at what happened to the shipping markets in the last quarter. First the tanker markets. You will see the tables at the bottom which give the YTD this year than previous year. And you can see the few 100% change because the markets were very weak. And they have turned around largely as a result of the conflict in Europe, which has disrupted the normal functioning of the market and by bringing in inefficiencies into it. So, let's look at the reasons. And what happens when you have these inefficiencies which come into the supply chain is that the rates just take off and when the market is otherwise quite balanced, all it takes is a couple of percentage points change in the demand supply balance which should take rate from $10,000 to $25,000 a day. We've mentioned this in the past and you can see how it played out in the last quarter. The recovery in the spot earnings in product tankers was mainly due to supply tightness in the

Atlantic markets, which meant that you needed long haul carriage of refined products from the east to the west, which took up more product tankers. Refining margins were very high, and therefore, refineries were running at close to full capacity, which also results in improved demand for tankers.

While the crude and product trade actually remained 4% and 1% below the pre COVID levels, so we've still not reached the levels of 2019. We hope that this gap will get made up soon; again, this is subject to how the macroeconomics pans out whether we enter a recession, etc. Another factor which helped the market was increased congestion and something called the stationary fleet, and again ships waiting for cargoes or possibly waiting and one of the theories which is going around is, ships which are waiting to transship Russian oil, either crude or refined products has tightened the supply of ships. The dry bulk market - Capes performed significantly worse than in the previous year. So, versus $31,000, they had brought $21,000. Again, I must clarify, these are market averages. These are not our averages. These are market spot averages. So, they were significantly worse, while the Supramaxes actually did a little bit better than in the previous year and this has been a feature of the last couple of quarters where the smaller size vessels have done much better than Capesize. Again, iron ore and coal movement not being very strong in fact which is impacting more larger vessels. Our ships of course are not on the spot market, our ships are all on Time Charters.

Looking at fleet supply and we've spoken about the order book before:

We are at very low levels of the order book. We thought we'd put it in draft form to represent how low we are. So, the tanker order book is just about 5%. When I say tankers, I'm talking about crude and product tankers. The dry bulk order book is about 7%. In all of these, the median order book over the last 20 plus years that we have data for has been between 15% and 20%. So, we are very, very low by historical standards.

Asset prices have done well. As you would expect, crude and product tankers prices have gone up significantly in the last 3 to 4 months. Dry bulk continues to remain strong while LPG also continues to be strong, marginally going up during the quarter. There's not been much scrapping. In the first half of the year, we had less than 1% scrapping in crude and product tankers. Again markets have been reasonably strong for crude and product tankers, so no reason to rush into scrapping. And dry bulk, of course, the market was very strong through the period. So, very little scrapping has happened.

Coming to the offshore market:

This is standard data. Global utilization of jack-ups has gone up to just about 70% now. So, we're starting to get into a tightening kind of situation. Quite a few rigs which are cold stacked for more than 3 years, which is 10% of the fleet, that possibly may not come back into the market. That's something for us to see as the market strengthens. We have seen lots of new inquiries for contracts, lots of rigs changing hands, especially jack up rigs for contracts in the Middle East.

Between Saudi Aramco and Abu Dhabi have been pulling in many more rigs. We've seen asset prices for rigs move up 50%-70%, sometimes even close to 100% over the last 6 months or so. Even the vessels market, especially for the more advanced vessels, in the international markets have improved significantly. We've had pricing increases of in the international markets again between 40% and 100% over the period between beginning of '22 and now. And that's what really makes us believe that the worst is behind us. This I mentioned again, global utilizations have come up to just under 70% for jack-ups.

What is our situation? We have no rigs coming up for pricing till middle of next year. So, the rig comes off contract in the middle of next year, that's calendar '23. However, the pricing of this rig will happen sometime in the next 6 months. Hopefully, there will be tenders out, we will bid into those tenders. And hopefully, we will be able to price that rig and get that contract. Apart from that, we have 6 vessels coming up for repricing in the rest of FY '23.

Again, this is a slide that we show all the time. So, we levered up, we've levered down now. We are down as of June'22 about $75 million in net debt. Now we are down to even lower numbers. And we are in a position to do CapEx at the right prices. Share price to consolidated NAV, this is as of Friday. So, we're still at about 0.6 price to NAV. Initiatives on environment. These other initiatives, we've mentioned in the past. The first one is that we have reduced our annual emissions by about 40,000 tons between FY19 and FY22 by investing in various energy saving technologies. You can't do much to a ship because it's the same ship. So, you can only improve on the margin by maybe 2% to 6%. This saving we're talking about is overall about 4% for the fleet. We tried to fit various energy saving devices onto our vessels so that we can save on fuel consumption and therefore reduce our carbon emissions. So, that's a constant endeavor that we do. We use the best quality of paint to ensure that friction when the ship is sailing is minimized. We're always looking at new things that we can do to reduce the fuel consumption. Finally, this is the story of Great Eastern Shipping which is in our coffee table book. The picture on the left is our first office, and this is our current office. You can read our story of the last 7 decades in the coffee table book, which is on our website. And we're very proud to share that with you.

That brings me to the end of this presentation. And now we're very happy to take questions. Mr. Bharat Sheth who is the Deputy Chairman and Managing Director is also here, and we'll be happy to take your questions.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Naman Bhansali from Perpetuity Ventures. Please go ahead.

Naman Bhansali: So, my first question is that we've seen a constantly improving NAV for GE shipping, and a significant part of it comes from high asset prices. So, what is the sustainable number for NAV if we assume that the asset prices fall?

G. Shivakumar: So, there is no sustainable number for NAV. So, it depends on the extent of the asset price fall. So, I don't have a forecast that we can do for asset prices really. So, let's take a sort of thumb rule. The value of the shipping fleet is about $1.1 billion. For every 10% drop in that value, you would have a Rs. 50 to Rs. 55 drop in the net asset value. But we can't forecast what the asset values could be.

Naman Bhansali: And my next question is that as you see good times for offshore going forward, are you planning to allocate any capital on this segment or will you maintain the existing number of rigs and vessels?

G. Shivakumar: Yes. We're not planning to allocate more capital from Great Eastern Shipping in that segment. If that company itself is able to generate the surpluses required to grow, then it can do so, they're free to do so, and they've always been free to do so. But it's unlikely that there will be capital allocated from Great Eastern as of now.

Naman Bhansali: And my final question is that, as you've seen that the interest rates are rising all over and there are fears of recession. And so you have mentioned in your management commentary that it's difficult to assess. Still from past experiences, if you could just throw some light on how that impacts the shipping industry with the recession actually it is in?

G. Shivakumar: Mr. Sheth, would you want to take that if you're able to hear the question, otherwise I can take it.

Bharat Sheth: What is the question? Let somebody repeat it to me.

G. Shivakumar: The question was what has happened in the past when there has been a recession? So, do we have an experience of what has happened to the shipping industry in the past when there's been a recession?

Bharat Sheth: So, recessions historically, again, it depends on the length of the recession, the intensity of the recession, etc. Very deep recessions have obviously not been good for the industry, because it leads to demand challenge. But again, shipping is a business that is determined often by events. So, we have seen, you could get a general recession. So, we have seen that because shipping is more determined by certain events, which take place, it has so happened that in spite of recessions at times, the markets have done well. But obviously, with the macro headlines is that, recessions can't be on a sustained basis. If it's a deep recession and it is sustained for multiple months or years, obviously that can't be good for the industry.

Moderator: We move to the next question from the line of Amit Khetan from Laburnum Capital. Please go ahead.

Amit Khetan: Based on what you're seeing in the markets today, where do you see the best opportunities to deploy capital? And given that we are likely to have a problem of plenty when it comes to cash, how are we thinking about capital allocation?

Bharat Sheth: So, at this moment, asset values continue to remain elevated. On basis of current prices, we are unlikely to or almost certainly we will not be in the market to acquire any assets. And as we build cash, what we're really building is more and more firepower as and when the asset values present what we think would be a better risk reward ratio opportunity. So, that's one use of capital. And the other use of capital, as and when we get optionality, we would look at buybacks. As you know, currently, we can't reinstate a buyback until August of 2023. And then we will see at that time, what are the discounts, if any, to net asset value, where the net asset value is and then determine whether we should do more of that?

Amit Khetan: My second question was on the offshore segment. So, we were earlier reporting something like a Rs. 40 crore, Rs. 50 crore normalized EBITDA. So, this quarter this has gone up to something like Rs. 85 crore. Is this a number that should be sustainable if the markets hold up?

Bharat Sheth: So, we are hoping, as I think the CFO just mentioned, as repricing takes place on our assets, we have a rig that reprices in the next few months. We have certain offshore supply boats that reprice also in the next few months and we do believe that we will be in a position to reprice at higher and higher points. So, logically, if that was the case, and there was no other operational challenge, the answer is yes.

Amit Khetan: And lastly, how many of our dry bulk and tanker ships would be on time charter currently and have we taken any new time charters in the last quarter?

Bharat Sheth: We have taken some time charter more recently on the tankers, not on dry bulk. As the CFO just mentioned, some of the tankers are at elevated earning level. We are doing it cautiously. One of the ways to protect net asset value and to protect on earnings is to take advantage of these high spot earnings. So, consequently, at these more elevated prices, we have begun a gradual process of fixing vessels for up to 12 months. But please do remember that the 1-year rates are in backwardation to the spot rates, and so we are doing it in a very, very gradual manner, because there's a big disparity between 1-year rates and where the spot market is. At the same time, just to let you know, we had some vessels, which we had fixed at the much lower price points of the market and they come up themselves for repricing. So, basically, we are balancing. Something comes out from lower levels and something is going in at much higher levels.

Amit Khetan: But what would be the mix of time versus spot today and is that higher towards time today compared to say 2 years back also?

Bharat Sheth: No. Today, we are on balance still more inclined to spot but as I said, we keep watching where the 1-year rate is. We are not going much beyond 1 year. So, we are not going down 2 and 3 years, also partly to do with the age of some of our ships. As you know, we have a fair number of tankers in particular which are 14, 15, 16 years of age, they become very challenging to fix for very long periods of time. So, there, we are fixing for 12 months, and we will keep looking at every opportunity that comes. We don't have a policy that we must have an X percentage of our fleet operating in the fixed market as it were. So, it's always going to be a function of where the spot market is today, what is the backwardation, who is the customer. So, there are multiple variables that go into our decision making.

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

Abhishek Nigam: So, first question on the dry bulk side, seems to be in an interesting space, limited supply growth I agree, but also Risk of recession, slower growth in China. So, how are you thinking about this? On balance, are you more positive? Or are you slightly mixed outlook over there?

Bharat Sheth: If you see the data that has been made available from Jan to July '22, we have had less total cargo that has been traded in dry bulk as opposed to Jan, July of '21. Having said that, we have seen that the supply side is obviously very limited. We've also seen congestion at times build up, it sort of builds up and then it wanes again, and then it builds up again, etc. We've seen weather disruptions too which are both good and bad for the markets, depending on the duration of the weather disruption. So, there are simply too many moving parts to say that, the future direction of how the market will behave. It's obviously come off from the months of May and June. But these things can quickly reverse again. So, we are personally not too concerned. We remain predominantly in the spot market, as far as dry bulk is concerned. And I guess another indication of the general confidence in the dry market is that asset values have not really corrected that much in spite of a 20%. 30%, 40% drop in some of the earning levels that has been achieved in the market today with what it was, say, 1.5 months ago, 2 months ago. And I guess that the fact that asset values are holding pretty well, there seems to be a general confidence in the market overall, particularly because the net supply growth is very limited. We also must remember that there are regulations that kick in from end this year, early next year, which may have a consequence of vessels trading at lower speeds, which then effectively pulls back the supply of ships. So, that is again positive. You might have read that there is in fact, the first shipment of grain is out from Ukraine. And potentially there is 20-30 million tons of grain that could possibly be shipped from that area assuming all goes well. And I believe that once that full 20-30 million tons of cargo come into the market, that is also market positive or freight rate positive. So, there are some factors that are positively inclined to the market, some less so. So, let's see where the freight rates eventually go, there's just simply too much volatility which will continue.

Abhishek Nigam: Question on the offshore side. So, your day rates remain locked. But that segment is sort of, it's kind of seeing some improvement on the supply chain side and energy costs and salaries for crew. So, how should we think about margins for the offshore segment going forward?

Bharat Sheth: I think the CFO just did mention earlier in this call that the worst seems behind us in the offshore sector. And as our assets come up for repricing, we said we've got a rig that comes up for repricing within the next few months, although the rate will be effective in the second half of next year. And then we've got boats that come up for repricing now and more so in the first half of next year. So, as they come up for repricing, we are confident that each repricing will be at a higher point. So, we remain pretty confident at this moment of that market.

Abhishek Nigam: Last question from me, just a bookkeeping question. So, your press please mentions an insurance claim of about Rs. 44 crore. So, just to be clear, that will flow through in the P&L in the second quarter, right?

G. Shivakumar: That's right.

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

Himanshu Upadhyay: So, my first question was when we look at the NAV and try to compare, even the offshore values have increased, okay. But because of buyback and the other things, it is not very clear. Can you tell how much would be the increase in NAV or the value of offshore fleet? Just some understanding on that. And what percentage of increase would it have been there on that?

G. Shivakumar: Let me just take that. So, Himanshu, the values have gone up, it stayed within the range, that we traditionally get a range of values from the broker for the offshore assets because they are not as liquid and they don't get priced as often as the shipping assets. So, what has happened is that the values were tending towards the lower end of the range, now they're tending towards the upper end of the range. So, for instance, now it is 780 to 830. Earlier, it used to be closer to 780. Now it is probably closer to 830.

Himanshu Upadhyay: See Shiv, what I'm trying to understand is if I take the slide, Q1 FY '22, the NAV on standalone was Rs. 540. So, this included the value of ship plus the book value of offshore vessel, okay. And the other side was 567 so net-net, it was Rs. 27 to let's say, over the book value range from that. Right now, it is some Rs. 732 and Rs. 779, so 49 or 48. So, if I take 832, it would be much bigger difference.

G. Shivakumar: Yes. I got your question, Himanshu. So, it's not because of asset value increases, it's because of 2 things. One is their earnings accrual. So, every dollar of PBDT accrues to the NAV, right? So, the exchange rate change has improved it. So, it is not because of from a year ago, the prices having changed, the ranges have remained more or less the same, including from a year ago. That yield is purely due to earnings and to exchange rate difference.

Himanshu Upadhyay: And one more thing. On the asset side, means on the offshore side itself, how much would be the approximate change in the drilling and offshore rates? Because the number of days have changed in both things? On the fleet, if you can see, so let's say, drilling services, rates have changed by this much percentage and offshore logistic rates have changed by this much. So, just some idea.

G. Shivakumar: You're talking of our rates or you're talking of the market.

Himanshu Upadhyay: Our rates have changed by how much on drilling services and offshore logistics Y-o-Y?

G. Shivakumar: Y-o-Y, the big change is that in Q1 of last year, we had 2 rigs. One and a half rigs were idle through the quarter because of a change of contract. Two rigs came off contract, one of them went back on contract at the very end of June. The other rig came off contract in May and went on contract after the monsoon. So, that's the reason for the big jump between Q1 FY22 and Q1 FY23.

Himanshu Upadhyay: So, rates have not yet materially changed?

G. Shivakumar: Rates have gone up. Rates from the bottom of the market have gone up by 60%, I'm talking of Indian period contracts. So, those have gone up. They've gone up less than the international market, which have gone up probably 100%. But based on the last pricing, these rates have gone up about 60% from the lows of the market. But the main difference between Q1 FY22 and Q1 FY23 is the volume, which is the number of operating days we had. Last year, we had 90 days x 2.5 rigs, this time we had 90 days x 4 rigs.

Himanshu Upadhyay: And just some thoughts on the market side, okay. So, when we look at the presentation, we are showing the order book being one of the lowest, okay. And what we also understand is that people are not ready to give so much orders because of changing energy regulations which can be there by 2030, okay. I may be wrong, but this is what we read that there are a lot of changes which are happening in the energy. So, can we have a scenario where the order book remains low and the market remains high for 2-3 years or you think it will mean revert because of new orders will start coming? Just some thoughts on that. And how do you then play out if the scenario is that because of regulations people will not be ordering too much. So, can we have a 3 to 4 years of good period? And in that case, how do you play the market? Some thoughts on that.

G. Shivakumar: I think Mr. Sheth may probably be in a better position.

Bharat Sheth: So, well, let me answer. First of all, it is wrong to say that orders have not taken place in at shipyards. Shipyards currently, are fully or when I say shipyards, I'm talking about, the Tier 1 shipyards, whether it's Japan, China, Korea, they are all booked until '25. What has happened is that the bulk of the orders have happened on the container ships as well as on LNG. And because shipyards prefer to take those orders, because they're obviously much bigger on a unit basis in terms of value. So, what has happened is the yards have preferred taking orders of the container ships as well as the LNG ships. And consequently, there has been significant reduction in ordering on other asset classes, like tankers, which includes crude and products as well as dry bulk. So, it's not that people are not ordering ships, because solely they're concerned on technology, that is a cause as well. But predominantly, you simply can't get an order through, possibly now till end '25, maybe even '26, right? That's one. Now, if you saw this data of the low order book, the low order book was also there 3 months ago, it was also there 6 months ago, it's not changed, right? So, with the low order book that we saw last year, we still had the lowest tanker market of the last 30 years, right? So, the low order book always helps but cannot be a determinant in where the freight rates are going to play out. So, what has really happened, and if you see what has happened just between the early part of this calendar year and until we had this big Russia-Ukraine challenge, the rates have just gone up considerably. So, it is much more at this moment linked to the trade disruptions that has been caused by the conflict. It has been led a lot more by congestion that have been caused by various infrastructural challenges that terminals are facing globally, as opposed to only looking at the supply side of the equation. And this is what shipping is all about. We saw it happen at the start of the pandemic in 2020, when we all know what happened to the storage of oil and the steep contango that led to, and we saw the tanker markets going up to 3x in a very short period of time. And today whilst it's not the contango that is playing out, it is the fact that there are just multiple trade disruptions, which has caused inefficiency, if that is the right word within shipping, and that has led to this big move in markets.

Himanshu Upadhyay: So, if the rates remain here, can we expect the order book to start increasing over next 1 year? Just your thoughts and how do you play the market then?

Bharat Sheth: So, let's say that if the rates remain elevated, eventually, people will want to order ships for now. I'm talking about the conventional ships, right? So, whether it could be crude oil tankers, product tankers, dry bulk, etc. And if the yard says, look, we can't give you supply till ‘25 or ‘26, I think there'll be some owners who might say, okay, we'll wait till ’25, ’26, and some may say, no, there's no point waiting for ’25, ’26. We'll just buy something in the water today. So, again, different people will act differently. There are some people who just love a newer fleet in their books or a more modern fleet in their books. They will wait till end ’25, ‘26 and some will not. So, it's difficult to say what. Ours is a very fragmented industry and what each person does and what drives their decision making it’s difficult for us to forecast.

Himanshu Upadhyay: We held an in chartering business also from the bulk company which used to run it. So, what are they doing right now? Are they in chartering or they don't have any assets right now?

Bharat Sheth: No. So, we, this last year, I mean, in the current fiscal year rather, we won a contract to transport crude oil for one of the Indian refiners. It's a fixed price contract, and to service a contract, our overseas subsidiary, and of course, to take a position in the market, we have in-chartered a couple of Aframax tankers. And since the time we have in-chartered them, the market has moved up. So, hopefully those, we've hired just two ships for a short period of time.So, they've not been taken for long periods, they’ve just been taken for a short period but they are in the money.

Moderator: The next question is from the line of Vishal Agarwal from Leo Capital. Please go ahead.

Vishal Agarwal: My question pertains to the last one that you're making, sir, that that right now the spike in the rates has largely been caused by the trade disruptions with Russia-Ukraine war and other stuff. Adjusted for that, once some of those things even out given that the order books have been weak for the last few years, how does the demand supply situation for tankers and all look, because crude oil demand in absolute tonnage does not seem to be growing at that rate. So, how does one forecast where are the markets headed in terms of are they likely to be tight or are they likely to be at very low rates?

Bharat Sheth: So, demand is never easy to forecast. And, you know, I think I've mentioned this on multiple investor calls that we have at least given up trying to forecast. And again, had you asked us to give you a forecast of what the tanker market would have done in March, we would have been very embarrassed by those numbers today, because it's gone up 3x, 4x, 5x whatever. So, these things become very difficult to forecast. What we do know and we know it'll help is that the supply side of the equation is very, very much controlled and is at a multi year low. So, any trade disruption and it could be the war, it could be something else tomorrow, is going to lead to these spikes. Because effectively there is a tight market on the supply side and whenever there is a tight market on the supply side, any change in demand for whatever be the reason will lead to very sharp spikes. If you have an overbuilt market, then the spikes, whilst there will be spike they will be much more subdued. So, demand is just impossible to tell.

Vishal Agarwal: And at the current order book level, sir, which is 5% level, is the absolute supplies staying flat because as many ships are retiring as is the new order book or is it increasing or is it flattish?

Bharat Sheth: So, actually from the supply which you see which is the headline supply, remember, there are always a certain number of vessels which are also in dry dock, right? Now, in strong markets, people try to defer dockings and then you get sort of gradual bunching. In weak markets, people prepone dockings. So, the supply side is affected not only by the headline news which is new ships coming out, it is determined by how many ships are in dry dock, which also we track globally, how many ships are under repairs in dry dock, under statutory requirements, how many ships are in congestion. And these minor deltas, so it could be a 1% further strain on supply because there is a bunching of dry dock. So, there's a bunching of ships in multiple ports due to congestion, all that makes a significant difference to the effect or the impact it has on the markets. And I think I have mentioned it before that just marginal plays on supply demand leads to this huge volatility. So, one extra cargo, one extra ship is what it takes for the markets to move in both directions. One extra cargo means the market can go up a lot, and one extra ship can mean the market can come down as well. So, it's eventually all on the margin and sentiment plays a predominant role I would say in the market behavior. Remember this market is determined by 1000s of players.

Vishal Agarwal: But given the order book situation and the fact that you mentioned that till 2025, the shipyards are practically booked, over the next 3 years for the tanker market, will the absolute number of tankers or capacity of tankers go up, go down or will it be flattish?

Bharat Sheth: No. So, obviously, because there is still a supply growth, the number of tankers will go up. Now what is difficult to determine is what will happen to scrapping. Now, how people react to the new regulations that are coming up. And they're coming up very, very quickly, will also determine whether there will be a net-net supply growth or net-net supply degrowth. For any reason if scrapping accelerates or let us say that there are terminals and customers who say we will not take vessels above a particular age, then automatically those vessels while they may still be in the water are effectively no longer a supply threat, right? Are you following?

Vishal Agarwal: I get that, but does scrapping not follow a very clear rhythm that vessels are following right here.

Bharat Sheth: No, it does not. So, let me explain to you. Last year, if you recollect, that is I'm talking about call '22, right, we had the lowest average tanker market of 3 decades. And you had a multi year high of scrap prices. So, what would you have concluded? That scrapping will accelerate, right, because on one hand you had a multi-year low market, on the other hand you had a multi year high scrap market and yet scrapping disappointed. And again, this is because for every extra trading day that you can extract from a ship, basically you've got an option. And suddenly you get a market like what happens today. Now think of that owner who deferred his decision of scrapping, he's suddenly making a lot of money. So, I've said this often enough in the past that there are a lot of owners who will take these chances and are agnostic to the age of their ships, and would be happy to trade them as much as they possibly can. So, again, these are individual decisions that are taken can by a multitude of ship owners across the world, and it's very, very difficult. Common sense would have said last year scrapping should have been at a multi year high and yet it did not happen.

Vishal Agarwal: So, you're saying that is what kind of even in the next 3 years the order book is there for 5%. So, that much more inflow will come in, how much will go out, it's hard to forecast because it's tough to forecast scrapping.

Bharat Sheth: **I**t is really hard to forecast, but what I just feel, and again, of course, I could be wrong, that the way sort of the trade is headed, clearly, older vessels, let's say, tankers beyond the age of 20, will find it more and more difficult to trade, partly due to the new regulations, partly due to customers, placing an emphasis on more modern tonnage, and partly due to terminal restrictions. So, a combination of everything points to a net supply growth, much less than the headline news.

Vishal Agarwal: And this might be a naive question, but how does one compare the NAV, which I believe is calculated based on the current value of the open market so to say with a cost of a fresh construction, like do ships periodically trade above or below their new replacement cost? And where are things today?

Bharat Sheth: Yes. In strong markets which we saw in, I mean, today is a very strong market, but it's not what it was in 2006, 2007 and 2008. So, In 2006, 2007, 2008, we had a situation whereby the vessels in the water, older vessels, 5-year-old vessels, 7-year-old vessels, 8-year-old vessels were commanding numbers significantly higher than new building prices, that hasn't yet happened. It may have happened in the container sector. I am seeing some extraordinary transactions in the container sector, where significantly older tonnage is getting, I mean, just seriously off the chart prices, because people want the ship today in the water in order to take advantage of today. Who knows what the market will be in '25 or '26. So, we have seen this happen before, but that is not the case yet today.

Vishal Agarwal: And for crude tankers and dry bulk, which is a segment where we are present, how does the price today compare with the fresh construction cost?

Bharat Sheth: It's become a little more complicated then answering that in a simple way, because you got different kinds of assets in crude oil, you have the eco ships with scrubbers, you have non-eco ships but with scrubbers, and you then have the non-eco non-scrubber ship. So, within the crude sector, if you just take one sector, the VLCC or the Suezmax. Again in that now you have multiple sub sectors, and the price points of the multiple sub sectors varies a great deal, right. So, again, to compare that really with where new building prices are, is not making a lot of sense. I mean, there's not a simple one to one equation or a simple answer to that question. You could have provided it when everything was a lot more commoditized. You could compare apple for apple, but now you no longer can you compare apple for apple.

Vishal Agarwal: But directionally what's your sense? Is it broadly trading at the cost of fresh construction?

Bharat Sheth: No, it is trading well below the cost of fresh construction today. So, what you're really alluding to is there a scope for these values to go up? If the freight market stay at these elevated prices, the answer is yes, values will keep going up.

Vishal Agarwal: Because the cost of fresh supply is much higher. So, the order of magnitude when you say is well below --

Bharat Sheth: No, more than the cost of supply being higher, you're not getting supply till '25, maybe '26. Now it's very difficult to sit in July of '22 or first day of August in '22 and try and forecast what's going to happen in '25 or '26. So, the owners will want to ship today. Sorry.

Vishal Agarwal: Apologies. You're saying there's no supply till 2025, 2026. But hypothetically, if you are to make a booking for that, how much more expensive is fresh supply today versus what an existing ship is trading at in the water?

Bharat Sheth: No, sorry, what was the question? I didn't follow the question.

G. Shivakumar: He wanted to know how much more expensive is it to order a new ship versus an existing ship.

Bharat Sheth: But in that existing ship you've got 4 categories. The existing ship can be eco scrubber plus age. The existing ship can be eco non-scrubber plus age. The existing ship can be non-eco scrubber plus age. So, how does one compare? It's impossible.

Vishal Agarwal: I understand the challenges. My question was, is there a way to give a directional sense of range being say 20% to 40% lower.

Bharat Sheth: No, you cannot. That's the point that because they are completely different animals, it is just impossible to compare. You see, all I can say is that the ships which are currently in water, yes, are going to be much more determined by the 1-year rate, the 2-year rate and the spot rates. The vessels which are being built at the shipyard, their price points will be determined by the cost of raw materials, the cost of labor, and the comfort of the yard in terms of their capacity. Today, the yards are not under pressure, because they are booked out till '25. And even if therefore raw material costs were to come down, say the cost of steel was to come down or the cost of some other metals was to come down, there is no need for the yard to reduce their prices right now, because they've got plenty of business. So, all that will happen is their profit margin will go up.

Vishal Agarwal: And one final question from my side. You made a comment earlier that in terms of capital usage, you're focused on buyback, which is done, and you're also waiting for asset values to be more rational, before deploying money into vessels. Can you elaborate a bit more on that, that, how does one forecast what's the right timing on the asset, what are the indicators you are looking for and what are the segments you are looking at in terms of where you want to deploy cash and assets as and when the opportunity shows up?

Bharat Sheth: So, we are agnostic, I mean, for the businesses we are currently in, which is crude oil, product tankers, LPG and dry bulk. We are agnostic on whether the money goes in one sector versus the other. We don't have a hard and fast rule, saying that let's not buy dry bulk, let's buy only a tanker or let's buy only LPG, etc. So, to that extent, we are agnostic. Now, as far as price points are concerned, we have determined some basis, which obviously, we're not going to talk about where we think the returns will provide us on certain assumptions that we generally make somewhere between a 10% and a 15% dollarized return on unlevered capital. Now, whether that return eventually pans out at 8%, currently, the return has panned out at 20%. Obviously, at the time when we were buying, we did not expect 20%, we were expecting less and it has just turned out to be more. So, every time we invest, our investment guidelines is that we should be able to own the risk we take, we should be able to create a sufficient delta on cost of capital. Even this 10% that we say is not in isolation. It's a function of where interest rates are. So, if interest rates were to go back to what they were, let's say 2% or 3%, let's say the long term interest rate went down to 2%, right, we would be happy then to target a 7% or 8% return because you're still creating a significant spread. Today with interest rates, say, if you were to borrow a company, like as if it was to take term borrowing in dollars, I guess it would come in at somewhere between 5%, 5.5%. Now, if you're going to borrow money at 5.5%, we should be trying to target a return of minimum of 10%, 10.5%, because I don't want to borrow money at 5.5% and try and earn 7% or 6%. I'm not getting compensated for the risk.

Vishal Agarwal: No, that makes total sense and, and really appreciate the way you think about and talk about capital allocation very clearly. So, congratulations on that policy and, and good luck with it. Those were all the questions.

G. Shivakumar: Now maybe we can take some questions from the chat. People have been putting in questions there. So, shall we just read?

Bharat Sheth: Sure.

G. Shivakumar: Shall I read out? So, first question is from Mr. Ghanshyam Bansal, who's an individual investor. He says, as we are following the value approach and don't buy in momentum, so we need to wait for few years to deploy our cash flows. So, can we expect further buybacks whenever valuation is below 0.6?

Bharat Sheth: So, if I can answer that, the first thing is, we don't know when we'll get an opportunity to buy ships. It could be earlier, it could be later, we don't know. So, we are geared up as and when we get opportunities, we will be there. As far as buyback is concerned, there is no point considering it now, because under the current buyback rules, we cannot act on buyback until August of '23. So, closer to that date, we will see what the market is like, what is the liquidity that the company has got, is there a discount to net asset value, where is the net asset value at that point of time. There will be a multitude of variables that we will consider. And yes, we do think of buyback as a means of capital allocation, particularly when there is significant discount to net asset value, which is the case today. But I don't know what it's going to be in July or August '23.

G. Shivakumar: Okay. The next question was from Mr. Rajesh Khattar who said his mic was not working, he has two questions. While you say that you have operational leverage by keeping capacity in hand for the spot market, but you have been selling ships. Can you give me more understanding of this dichotomy? And two, any competitive advantages that you have?

Bharat Sheth: Sorry, what is the second question?

G. Shivakumar: Do you have any competitive advantages?

Bharat Sheth: So, the first one is on selling of ships, the one vessel which we are due to deliver, I think in the next 2 or 3 days, which is old or an older gas carrier, because of her age, she cannot be fixed into multiple trades, or at least the multiple trades that we are focused on, and consequently her utilization would have been very poor. That's number one. On the second ship, which we have contracted to sell, the way we internalize that decision, we were sitting between the gap where we are in book value, where we are in terms of the market value of our assets, there is a significant sort of mark to market gain of approximately $400 million. And we said to ourselves that maybe we should take some money off the table. And so, we've just taken a tiny percentage of that $400 million potential gain because, anything can happen in our markets. And we've seen what happened in 2008. There was a black swan event in terms of Lehman, we are all aware of it. And asset values came off very, very, very quickly. So, there are these black swan events which come and impact us. And therefore, we felt that it was not an easy decision, it was a very difficult decision for us. But we said, maybe we should take a tiny percentage of the potential $400 million profit we are sitting on off the table. And that's why what we've done with the second ship. And you said the second question was on advantage, again, I don't know what competitive advantage we really have versus every player--

G. Shivakumar: I think the ability to participate in all trades because of….

Bharat Sheth: So, I was about to make that comment that I think we run the vessels very competitively. I think we probably run amongst the best assets globally. If you see all the non-financial parameters and it is data which we capture all the time, because customers require this data all the time. And we go through multiple audits, from customers, from port authorities, from our own Indian regulator, etc, and we have had the best year last year for the year ending March '22, since we started the business. So, we are very, very focused on the quality of assets that we maintain. And I guess you could argue that it gives us a competitive edge, and we do it in a very competitive manner. So, I guess that is a competitive advantage. Of course, it's very difficult to know what every owner does, because significant ownership of our industry globally is privately held, and getting that data from the privately owned companies is not easy. So, our comments, obviously is from wherever we can get data, we make these comparisons. And I would say that we are clearly in the top quartile of global ownership.

G. Shivakumar: Moderator, maybe we can go back to the voice questions now.

Moderator: The next question is from line of Vikram Sharma from Niveshaay IA. Please go ahead.

Vikram Sharma: I had a just a basic question. What is the mix of spot and long contracts? And also, I wanted to understand the pricing formula, how do we calculate the spot rate and charge to our clients? How it is linked to index like Suezmax.

Bharat Sheth: Now, we don't link it to index. So, whenever there is a cargo, we have to compete with what other owners are going to offer. And it's a negotiation that takes place on the spot. And that's why it's called the spot market. And sometimes our price point is or the price at which we are willing to carry the trade is higher. Sometimes it matches the customer's requirement and we are able to fix the ship. So, we look for every cargo, we look at what is the competition around us and around that particular cargo, and then determine whether we want to undertake that trade or let that cargo go and wait for another cargo. So, it's a moving target all the time. We don't link it to any particular index. And what was the first bit of the question was?

Vikram Sharma: What is the mix of spot and long term arrangements --

Bharat Sheth: So, again, so it depends on what you call long and what you call spot because remember, when you fix the ship as spot, it could be fixed for 5 days, and it could be fixed for 90 days. And even when you fix a cargo for 90 days, it's sort of often talked about as spot simply because it's fixed in the spot market, but it just happens to be a longer-term trade, right? Today, if you look at our dry bulk fleet, the gas fleet is 100% fixed for long and when I say long meaning at least for 1 year. On the crude oil side, we have nothing fixed for that period of time. All the cargoes are spot which is 60 days, 50 days, 40 days like that. On the product side, we have fixed 1 vessel for 12 months commencing September of '22. And we have 2 of our vessels or 3 of our vessels, which were fixed earlier. Before we saw this big rally in the market, 1 out of the 3 comes for repricing in September of '22 and 2 come up for repricing in December of '22. So, as I said, 1 comes out in September ’22, 1 goes back in but at a much higher price in September ‘22. So, in dry bulk, we don't have anything fixed beyond spot.

Moderator: We move to the next question from the line of Archan Pathak from Centra Advisors. Please go ahead.

Archan Pathak: Just wanted to get an idea of what's happening in the shipyard space. As you know, during the 2010 period when shipyard used to exist in higher 3-digit number, and they came down to lower 3 digits number in the recent time. So, are we seeing revival in the shipyard capacity, as most of them are booked for now? Can the shipyard capacities come back?

Bharat Sheth: We don't think so. Currently, there has been a lot of rationalization in the shipyards in Japan, in China and in Korea, because some of the yards went through very, very difficult times. And I think strategically, these 3 big shipbuilding nations, I think will ensure that they don't go back to a situation where you have over build capacity.

Archan Pathak: My second question would be as you know, our average ship has crossed or almost at the age of 13. So, is there a possibility that rollover of old ships to new ships can happen by selling few ships or near the top is the high asset value prices, which we're realizing right now and acquire the younger ones at more competitively or a little bit higher price net-net benefiting with a zero rollover cost. And if so, how many ships can be offloaded taking the highest net value which are raising right now?

Bharat Sheth: Yes. So, we looked at this exercise, whether it makes sense to capture the premium you are today getting on the older ships and swapping it to the premium one would need to pay on newer tonnage. Well, the selling makes sense, the buying does not make sense. And we have seen from past experience that once you buy a very expensive ship, your dollarized returns are pretty substandard. We have done this in the past. It's a strategy that did not work out very well. And we would refrain from making that same mistake again.

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

Himanshu Upadhyay: I had a question. What we are also seeing is the spread between low sulfur and high sulfur has again increased, okay. And we had scrubbers, okay. Or we had ordered for scrubbers, but then we decided not to put all the scrubbers on whatever we had ordered, okay. Is there scope to use those scrubbers and put on the ships or you think the way it is, we'll continue with the ships?

Bharat Sheth: No. So, we have placed scrubbers on all the ships. So, whatever we had ordered are now on the ships. So, we have no scrubbers which we had ordered, which are not on the ships, right, number one. Number two, as far as the spreads are concerned, they went up dramatically during the course of the calendar year. I think they peaked around close to $550 or $600 a ton. And now they're back to $300, maybe a little less. So, it's all over the place. Again, it's very much fluctuating. What all I can say is that the scrubbers which at one time looked as a very poor investment, I think now will provide us an "okay" return.

Himanshu Upadhyay: So, how many ships out of our 45 are having scrubbers?

Bharat Sheth: Six. Am I right, Shiv?

G. Shivakumar: That's right.

Bharat Sheth: Six, yes.

G. Shivakumar: We have 6 scrubbers on our ships.

Bharat Sheth: And remember just when you have a scrubber, also the returns are determined by where you're trading the ship, because there are many trading areas where you're not permitted the use of an open loop scrubber. And therefore, while the ship may have a scrubber itself, you may land up in a situation where for multiple weeks or months you are not getting a benefit of the scrubber.

Himanshu Upadhyay: And sir, one thing. Our offshore fleet, there are a number of boats which will get re-leased over next 1 year okay, 7 or 8, okay. Can we go out of India on these because in the call also we stated that there has been much higher movement outside India on the offshore side than in India? Or do you think the boats will remain in India?

Bharat Sheth: No, we have already started moving boats away from India. We started this process a few months ago, recognizing that there is potential more business globally. So, currently, we have an operation going on in West Africa. We have some operation going on, I think it is in South Korea, we have an operation going on there. And we are happy to take our boats outside as and when they come up for repricing. We will decide where we think the price points are going to give us the best returns. So, I mean it's not as if we are bound to limit our operations to India and plus I do believe that even in India, the rates will go up. So, it will be a function of assessing whether would we get a better rate outside of India or would we get a better rate within India? The one benefit of India is that it is business that you get for a longer duration. So, again it will depend on the rate and if you get a good rate and you get a decent duration, why not.

Himanshu Upadhyay: Our new contracts also which are coming outside India, the rate may be higher, the duration are still small?

Bharat Sheth: So, what we are now finding is the duration is also going up overseas, but it is not as much as it is in India.

Himanshu Upadhyay: So, generally, what would be the duration of the contracts in outside India currently?

Bharat Sheth: So, what happens is outside of India, they run for a few months with some options thrown in. In India, as you know, it is for approximately 3 years. So, there is still a big difference between what you see overseas and what you see here. Now if you are likely or if you believe that these markets will reprice up as time goes on, then you're not that inclined to do the 3-year business. And you would rather do the 6-month business as a time and keep repricing. So, I think eventually, we will have a mix and match because again, just like shipping is difficult to forecast, oil and gas or offshore is equally difficult to forecast. So, we will do an eventual mix and match where some assets of us we'll try and fix out for years. And some assets, we will run for the shorter duration in overseas markets.

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

Rajesh Khattar: I have a few follow up questions. Earlier my mic was not working and you took my question on the chat. So, I have a few very short questions like, what is the highest capacity utilization ever achieved by GE ship? Let's say, we're back in the bull period of 2003 and 2007. What is the highest capacity Utilization we ever achieved?

Bharat Sheth: So, on shipping, you mean?

Rajesh Khattar: Yes, on shipping.

Bharat Sheth: So, shipping, we've always achieved full utilization. We've never not achieved full utilization. The issue is not utilization in shipping, the issue is the rate or the price point at which you achieve full utilization.

Rajesh Khattar: So, when you say you have a lot of capacity on spot, so even those ships you mean to say are utilized but for short voyages, is it?

G. Shivakumar: That's right, correct. You're absolutely right. So, what let me explain to you, right. Let's say that, I have, say 5 ships that are available for repricing in the next 1 week, right? Though those 5 ships will either benefit or will get hit depending on what the market is, in that period of time, right. Now, some ships I may fix for 5 days or 10 days because that's the cargo. I can't say I will only take a 50-day business; I will let go the 10 day business, correct. So, we will look at what are the cargoes available for that particular ship. And you will then decide okay, maybe you have a 10-day cargo, so I'll take the 10-day cargo. On some other ship, you may say that instead of taking all 5 five ships on 10-day cargoes only, one ship I will take for 50 days. And 1 ship I may take for 20 days. So, it's a continuous, it's an almost a daily decision. If you look at our data for Q1, we did 100 plus different voyages. So, that means we are pricing some business or the other on a daily basis. Every working day, we are doing some price point.

Rajesh Khattar: So, if your capacity utilization has never been below 100% and today you have 45 ships, and potentially the capacity is 45 ships into 365 days.

Bharat Sheth: No, let me come in here. Every year, you have approximately 1/3 of your fleet that has to go through statutory dockings, right, because, every 5 years, you've got to do a full docking and then you have what is called an intermediate survey. So, roughly I mean, every year you have 1/3 of the fleet that goes into dry dockings. Each of these dockings, let's say from that because you have to even position the ship to the dry dock, right? So, if you take the total of hire time for each docking, i.e., the time from when you have last turned to when you are likely to next turn could be between 35 and 40 days, right? So, 15 x let's call it 40, whatever that mathematics is, that's out of your revenue days.

Rajesh Khattar: Okay. So, if I reduce 40 from 365, so you're seeing that for almost 320, 325 days, your entire fleet gets to one.

G. Shivakumar: That is only the ships.

Bharat Sheth: Only the 15 ships. See, you have some ships which we've already finished docking, right. So, say you have 45 ships, out of 45 ships, 15 ships at an average don't earn for 40 days, right, so that you have to knock out. Now that leaves you with whatever the mathematics is 30 ships. On 30 ships, sometimes you know what you call unplanned downtime, right, it could last for 1 day, something is not working, some equipment on the ship is not working and you need to take time off, you might need to take 2 days off, 1 day off, a fewer hours off, 5 days off, like this, right? So, let us say for those 30 ships at an average you might take 2 days off in a year. So, we calculate everything bases 3 on the ships, which are not docking we will take an average of 360-362 days.

Rajesh Khattar: So, basically the ships which are getting docked, for that probably 30, 40 or 45 days will be reduced and for the other ships you're saying that for the unplanned, there is maybe 3 days.

Bharat Sheth: Yes, 3 days, above 3 days will be reduced on the other ships.

Rajesh Khattar: So, how many net new ships you have added since 2008? Because you have also been selling a few ships. So, what is the net addition since 2008?

Bharat Sheth: Shiv, I don't have an offline answer.

G. Shivakumar: I think the fleet is more or less the same. We went down to 28 at the lowest level, we were at around 45 in 2008. We went down to about 28 and we are back to 45. But of course, we had a lot of ups and downs in between.

Rajesh Khattar: So, there is no net new addition as such?

Bharat Sheth: No. So, let me answer this for you in a different way. Don't look at 45 versus 45, that's a wrong way of looking at it. You have to look at kind of ships. I could have 45 ships let us say which have an earning capacity of $3,000. I could have 45 larger ships which I ever earning capacity of $100,000, right? So, what you have to really look at, what is the earning potential in a low market, in a mid market, in a higher quartile market of the differential. So, just looking at ships has no meaning.

Rajesh Khattar: So, if I were to compare the earnings potential of 2008 versus the variety of ships that you have today, will it be like 30%, 40% higher or like can you give me some percentage like for comparison?

Bharat Sheth: See, there is actually honestly you cannot compare because sometimes -- so let me give you an example of a Capesize bulk carrier okay. This Capesize bulk carrier in 2008, we had 1. That ship at peak earned $150,000 a day, at trough around $2,000 a day, right. Now, today we have 2 of those. Will we get the next peak of $150,000? I have no idea. Will we get a trough of $2000? I have no idea. All that you should really be focusing on and this is really to everyone listening on this call that this company has built both operational capability and the balance sheet strength to benefit from whichever way the market goes. If the market is weak, we have tremendous firepower that we have built up to take advantage of it. If the market is strong, we have huge operational exposure to this market, huge by our standards. So, whichever way the market does, this company will benefit.

Rajesh Khattar: So, can I just take this question in a different way? Like instead of going by the earning potential or the number of ships, is there a unit like the carrying capacity of the ships what it was in 2008 versus what it is today?

Bharat Sheth: Yes, carrying capacity, we can give you offline. I mean in any case on our website. So, that's easier. I mean, if you can't work it out yourself, then we can get somebody from our investor relations team.

G. Shivakumar: Maybe we'll take that offline.

Bharat Sheth: Yes. It is there on the website. So, that's not a challenge. I mean just one bit of advice, and I guess you're trying to work out our earning capacity or capability, we can't do it and I have not met a single human being who can do it.

Rajesh Khattar: Yes. I mean all those just projections.

Bharat Sheth: Yes. Don't waste time on all these things, right, because nobody can do it. Just try and understand the ways that business is positioned that here is a company that will benefit in weak markets, and that will benefit in strong markets.

Rajesh Khattar: Okay. I have just 3 very small questions, very, very short questions, if you can just take them. One question is like, what is your inquiry to order conversion ratio? Like, how many inquiries you're able to convert to order and how many you end up losing? Like you have any data on that?

Bharat Sheth: No, so we don't have Yes, there is basically no data on this like we track or we are concerned with. All I can say is that since we are much more dependent on the second hand market, for acquiring ships as opposed to the new building market for acquiring tonnage, we have to inspect a fair number of vessels, because sometimes you don't get vessels in a very good condition, and then we tend to reject it. And sometimes we get lucky and the one ship you inspect and you want to buy.

Rajesh Khattar: Sir, my question is not on you buying the ships. My question was more on you getting an inquiry for carrying of a cargo.

G. Shivakumar: Sorry, if I may just take this. See, our market is not like you keep bidding for business like that. It is like asking someone who is an investor in the stock market, mutual fund, for instance, what is your ratio of filling your orders. If you take into account that we are there in the market, we look at several options. Mr. Sheth mentioned that we look at several options when we had to fix ships, whether to do a 10 day voyage or to do a 50 day voyage. We look at all the options and decide on which one to take. And we price it. At the end, the price is a function of what the market is paying. We are price takers. So, the inquiry, it's not like you're bidding for business. It's a tender. Yes, there are some businesses which go by tender, but they're very few and far between in the shipping business at least. Normally, you're just negotiating on a bilateral basis, through a broker or directly. And that's how the business gets done.

Rajesh Khattar: My second last question is, I mean, you have tremendous experience of so many decades in the shipping industry. So, why have you never explored diversifying to the adjacent areas like container shipping or inland cargo or any other adjacencies? I mean, I'm sure that if you put your interest, I mean, you have the competencies as a company. So, why has it never interested you?

Bharat Sheth: I think that's a very good question. We are now in the process. I think we first wanted to build up a lot of knowledge in the 4 sectors and we built it over time, because if you remember, I mean or if you're aware, not remember, but if you're aware, we were a very domestic oriented business, where I would say a significant majority of our revenues came from Indian customers. Gradually, we started trading internationally. And for the first quarter, if I'm not mistaken, 80% of our revenues has come from international customers and 20% has come from Indian customers. So, we've now got the confidence of being able to build up on our operational expertise. Having said that, there are 2 areas that we can. So, it could be containers. Today, we are all aware that container shipping is at an all time high. It's not just at a multi year high, it's at an all time high and prices are obviously very elevated. So, we are building up internal knowledge on that. We will build up knowledge on LNG. If an opportunity presents itself, we will look at that. So, it is work in progress. I must admit that had we done this exercise 5 or 10 years ago, we would have been in a much better space. But it also means that we would have had to then invest less in our current sectors. And because we had greater comfort in the current sectors, we focused on the current areas where we have built up knowledge over multiple years. But it's not as if we‘ve built up this knowledge over 7 decades because the first 30, 40 years, we did not trade that much internationally.

Rajesh Khattar: And my last question now. So, you've already answered it partially when I asked you about the competitive advantages, but I could not follow a few things. I think you said something like you provide data, continuous data to customers, I could not hear that part correctly, if you mentioned anything. So, my question is, if a customer has 2 choices, if a customer who's bringing the business, he has 2 service providers, one is GE shipping, and there is another who offered the same price and probably the same asset quality. So, do we have any competitive advantages, if price and asset qualities are same?

Bharat Sheth: So, if everything is the same, so when I say so, let me give you on a tanker for example, right? You have the oil companies and all coming inspecting the ships and they give you what is called a SIRE report. They will look at your last SIRE report, they will look at the number of observations, when they last inspected the ship, how good has been your safety record. So, there is a lot of data that is fed in to the customer, there is a whole form that gets fed in every time you're trying to do a business. And the comfort that you have built with that customer is very important. So, if there are 2 ships on the same day, offering the same rate, if the customer saying we have dealt with Great Eastern, we know Great Eastern well, we know that they're a very reliable organization, I think we will get the business. If they have a greater comfort with the other customer, then that other customer may get the business. If they have equal preferences to the customer, so say they're agnostic saying we don't care whether it is a ship owner A or ship owner B, then they will decide on whom they wish to support on any given day. So, your operational performance is most important to the customer because the customer does not want headaches. He has said I will pay you so much money, I want you on time to deliver this cargo from A to B without any challenges. And therefore, your operational performance and the fact that your vessel is going to perform as described to your customer, that is the key.

Rajesh Khattar: So, do we measure our on-time performance?

Bharat Sheth: Of course, absolutely, everything is measured. Of course, it's measured. And that is why you might have read in the Chairman statement in an annual report that we have actually made a statement to say that this year on non-financial parameters, i.e., for the year ending March ’22, we've had our best year ever. That's all-operational performance.

Rajesh Khattar: Thank you so much for patiently taking all my 6-7 questions. Thank you so much. That's all from my side.

Moderator: The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: Sir, my question is on Slide #18, which talks about revenue coverage. Does that mean that out of 90 days if crude carriers were in revenue generating mode are deployed only for 15%?

G. Shivakumar: No. So, this is for the remaining part of the financial year. You have 9 months remaining from 1 July ‘22 to 31st March ‘23. Out of these days which is about 270 days, 15% of that capacity has already been tied up out of those days. This is for the future, not for the past. The past is 100%, it's already earned, the ships have already earned in that period. This is an indicator of how much of our operating capacity of the remaining part of the financial year has already been tied up, and how much is still open.

Jayesh Gandhi: And one last question. Sir, in your crude carriers or say product carriers, if I just want to look at the trend in which the prices are moving, is it fair to say that Baltic dirty and clean index are will give a fair idea on where the trend is?

Bharat Sheth: Sorry, what was the question?

G. Shivakumar: He wanted to know if the Baltic Clean Tanker index and the Baltic Dirty Tanker index are good indicators of what the markets are doing, right?

Bharat Sheth: Let me explain that. It's a good indicator of the direction of the market, but not necessarily a good indicator of what any particular vessel will be earning. And the reason I say that is because the index is a culmination of various routes across the world. Now, you're not going to have a ship across every route in the world, right? So, what does happen sometimes is you can get an index going up. And let's say the index has gone up, because say, some of the Atlantic cargoes or whatever the Atlantic grades, as we call them, have moved up. But your fleet may not, you might have no exposure to the Atlantic, you might be only in the Pacific, or you might be in the Indian Ocean. So, the index is only a broad indication, which you can say over a long period of time means over say 12 months, not on a daily basis, but on 12 months, will give you some indication of the direction of the market, but not on a daily basis, no.

Jayesh Gandhi: So, for understanding your business trend for say crude carrier product carrier, can an investor look at these 2 rates or it is a futile exercise.

Bharat Sheth: Well, if you're trying to forecast something based on that, it is futile. If you want to know is the business healthy, is it sort of challenged, are the rates strong, are the rates weakening, it's a good exercise. But to try and forecast anything from that in terms of oh, what is this company likely to earn, it's a futile exercise.

Jayesh Gandhi: Is there any other index which we can track to maybe understand?

Bharat Sheth: I'm desperate for me to understand.

G. Shivakumar: Maybe you can contact our Corporate Communications Department offline. And they may be able to guide you on this as to what sources of information there are about the markets.

Moderator: Members of the management, that was the last audio question. We can move to text now.

G. Shivakumar: Yes. There is one text question, which is from Mr. Ghanshyam Bansal who asked how many of our ships will get affected from the new regulations expected in 2023?

Bharat Sheth: The answer is none. We have done an internal review across the fleet. And we will be fully compliant well in time to meet the new regulations of '23.

G. Shivakumar: Somebody has asked, what is the market value to NAV of international shipping companies? I think that would probably be between 0.8 and 1.2 in general.

Bharat Sheth: Yes. At the moment, it again depends on which sectors you're looking at currently, I think the average price to NAV is somewhere closer to 1.1. But again, it varies every day, because as you can imagine, equities change up and down daily. But approximately it is 1.1.

G. Shivakumar: And Mr. Samraj N. has asked what is the impact of rupee depreciation on financial and other expenses? So, I'll take that question. Basically, the interest costs are all in dollars. So, when the rupee depreciates the interest costs go up. So, that's the simple answer again, just to remind you that this is more than compensated by higher income because our incomes are also dollar denominated. He has also asked what are VLCC spot rates today?

Bharat Sheth: Sorry. Just to answer on the rupee-dollar, I guess, if we are EBITDA positive, which we are, that means we are long dollars effectively.

G. Shivakumar: That's correct. Yes.

Bharat Sheth: As far as the VLCCs rates are concerned, again, I mentioned there are 4 different categories of ships. At the top end, which is a vessel that is eco as well as scrubber fitted, I would say the average earning because it depends on the route you're in, but the average earning is $30,000/day to $35,000/day. At the bottom end, which means a non-eco non-scrubber ship, it will be under $10,000/day. It will be somewhere between $5,000/day and $8,000/day.

G. Shivakumar: I think that brings us to the end of all the questions that were there in the chat.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. G. Shivakumar for closing comments. Over to you, sir.

G. Shivakumar: Thank you everyone for attending and for asking such thought provoking questions. As always, the recording of the call and the transcript will be up on our website in a couple of days. We are always open for communication with investors who are interested in us. Feel free to reach out the contact numbers of the corporate communications team. The contact details of the corporate communications team are on the website. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of the Great Eastern Shipping Company Limited, that concludes today's conference. You may now exit the meeting. Thank you.