THE GREAT EASTERN
SHIPPING COMPANY LIMITED
CIN: L35110MH1948PLC006472

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Our Ref.: S/2022/JMT

May 10, 2022

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National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400 051

Sub: Written transcript of Earnings Call conducted on May 06, 2022

Dear Sir / Madam,

Further to our letter dated May 07, 2022, please find enclosed written transcript of the earnings call held on May 06,2022.

We request you to take the same on record.

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

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

“The Great Eastern Shipping Company Limited Q4 & FY'22 Earnings Conference Call”

May 06, 2022

MANAGEMENT: **MR. BHARAT SHETH – MANAGING DIRECTOR & DEPUTY CHAIRMAN**
MR. G. SHIVAKUMAR – CHIEF FINANCIAL OFFICER
MS. ANJALI KUMAR – HEAD, CORPORATE COMMUNICATIONS

Moderator: Good evening, ladies and gentlemen. Welcome to GE Shipping Earnings Call on Declaration of its Financial Results for the Quarter and Year-ended March 31, 2022. At this moment, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. At that time, you may click on the 'raise hand icon' to ask a live question. Please note that this conference has been recorded. I now hand the conference over to Mr. G. Shivakumar, CFO at The Great Eastern Shipping Company Limited to start the proceedings. Thank you. And over to you, sir.

G. Shivakumar: Thank you, Aman. Good afternoon, everyone, and welcome to the results conference call for The Great Eastern Shipping. Thank you for being here.

Let me first take you through the highlights of the Results. We also have Mr. Bharat Sheth, Managing Director and Deputy Chairman with us. And we will be happy to take questions after the presentation. So, let's first run through the presentation.

Standard Disclaimers:

Market is volatile and we don't know how it's going to pan out. We can give you some views on how the fundamentals are stacking up.

First, let's look at the P&L and we are looking at the reported financial highlights:

We had declared earlier an interim dividend of Rs.4.5 per share. The board has now declared another interim dividend of Rs.5.40 per share, taking the total dividend declared to Rs.9.90 per share for FY'22.

And again, these are the reported numbers. Those who have attended these calls in the past know that we also discuss something called normalized numbers, which we believe give a better picture of how the business is doing. So, we have a drop in consolidated profit from Rs.919 crores to Rs.630 crores. The normalized drop is not as much, but we'll come to that in a bit. And on a standalone basis, we've dropped the PAT from Rs.1,050 crores to Rs.812 crores.

The important thing to focus on always is in our business. And the one special characteristic of our business is that it produces very strong cash flows. So, let's look at what has happened with the cash flows during the year and how we've used. We've tried to put together a short simple explanation for what we've done with the cash flows to give you an idea of how much cash is generated. So, we're looking at about $140 million of cash generated in the business, of which just under $50 million. And I've looked at all the numbers in dollars because our business is basically in dollars. So, about $50 million in net CAPEX. These are the ships that we bought, dry docks that we did and equipment that we fitted onto our ships retrofitted, minus the sale proceeds from the ships that we sold during the year. That's $48 million of new investment in new capacity effectively.

We've reduced our gross debt by $62 million during the year, again, freeing up borrowing capacity for the future.

We've also done two returns to shareholders, one in the form of dividends, this includes the final dividend of FY'21 and the first interim of FY'22, which were paid out during FY'22, that's $26 million, about just under Rs.100 crores.

And last, up to 31st March, we had spent about Rs.163 crores, equivalent to about $22 million on the buyback. This is including the buyback tax that we paid.

After all this, we drew down cash to the extent of between $10 million and $15 million. I should have clarified; these are standalone cash flows. We have drawn down our standalone cash balances by between $10 million and $15 million during the year. After having accomplished all this which you can see that this is about $150 million of uses of cash.

This is explanation for the normalized results. Basically, we are stripping out the impact of foreign currency revaluation on loans and current assets and liabilities, which are point-to-point impacts. We've also taken out the impact of the derivatives gains or losses. These derivatives are on our borrowings, which are in rupees and have been swapped into dollars, and effectively should be treated as dollar loans.

So, on a normalized basis the difference in performance between last year and this year is not as stark. So, you'll see the standalone results have dropped from Rs.842 crores to Rs.787 crores, so, a drop of only about Rs.55 crores, and even on a consolidated basis the drop is only about Rs.80 crores between FY'21 and FY'22.

Net Asset Value: This has been a big impact. In March '21, the NAV per share was Rs.489 on a standalone basis. This has gone up very significantly during the year to Rs.618 per share. And we'll come to how it's grown later on in the presentation.

On a consolidated basis also, it has gone up. There is not much impact in the offshore side of things on the NAV. So, it has gone up similar to what has gone up on the standalone NAV movement.

Looking at the business performance during the year, you can see that crude tankers and product tankers had a terrible year, probably the worst year in three decades. And therefore, our crude tankers on average earn about $13,000 per day, less than in the previous year, that's a 50% drop in rates, and product tankers had a one-third drop in the rates,

LPG carriers which tend to be on time charter. In any case, the market was sort of similar to where it was in the previous year. So, not much change.

Dry Bulk has been the highlight for this year; $10,900 on average has gone to $26,900. This is despite crude and product carriers forming 60% of our fleet, and dry bulk forming only about 30% of our fleet. This outperformance by dry bulk has cancelled out the underperformance by the products and crude tankers. And that's why we've produced almost a similar result to the previous year. This again, sort of underlies the logic in our being in these different sectors, because they are able to smooth out the earning cycles, while also offering opportunities for investment at different points in that cycle.

Just looking at what happened in Q4 versus Q3, crude tankers picked up a little bit towards the end of Q4 after the Russia-Ukraine conflict started in end of February. So, we had slightly stronger earnings.

Product tankers were more or less the same as they were in Q3, maybe marginally lower. LPG, of course, are on time charter.

Dry Bulk was significantly lower than it was in Q3. Of course, the first quarter of the calendar year or Q4 of the financial year, is traditionally a very weak period for the dry bulk market. So, this is sort of expected.

I mentioned the change in the standalone net asset value. Now let's see what went into it. So, we started at Rs.489 in March '21. The cash profit, which is PAT plus depreciation… and these are rough numbers that I'm talking about, is about Rs.85 per share. So, that's built up, because that is cash in the bank, PAT plus depreciation is actual cash flows.

The fleet value has gone up during the year about $100 million, which when you divide by the number of shares, etc., was sort of about Rs.52 per share.

Then you have a dividend payout. So, we paid out Rs.13.5 as dividend between the final dividend of FY'21 and the first interim of FY'22. So, that's a negative to the net asset value because it's gone out from the cash balance.

The buyback has contributed about Rs.6 per share to the net asset value. Basically, this is we bought back about 42 lakh shares at a discount to the net asset value, which adds value to the remaining shareholders by improving their net asset value because we bought back almost 3% of the equity at a significant discount. And that's how we've reached this NAV of Rs.680 in March '22.

I want to highlight here that a very significant portion of this increase is that Rs.85, which is cash profit, which is actual cash accrual, which has happened from the business.

Just as an update on the buyback:

As I mentioned, up to date we bought back just under 42 lakh shares at an average price of Rs.316.21, we will utilize about Rs.133 crores in this which is just under 3% of the equity. We had to pay tax on this buyback, which is about Rs.30 crores. So, the remaining amount which we had allocated and taken a board approval for a total buyback of Rs.225 crores, of which we have spent only Rs.132.79 crores, so, we have remaining amount of Rs.92.21 crores of buyback approvals, for which we have two months more, buyback opened on 7th of January 2022, so, we have up to early July in which we have to execute the buyback. The maximum price just in case you need reminding was Rs.333 per share.

Coming to fleet supply:

We reiterate this, we are at one of the lowest order book to fleet ratios; it's at 6.6% for dry bulk, 5% in product tankers. These are historically low order book numbers. And we have mentioned several times in the past, this gives us hope for the future, because the potential supply is limited. Again, the order books are full all the way up, probably up to end of '24. You may get one slot here and there in '24 itself, but even that would be very rare, and it would be very expensive. So, it's unlikely that this is going to significantly change for the next two, two and a half years.

Asset prices have been high. So, they were already up for tankers, which are the top two graphs. And in recent times, they've gone up a little bit more. A lot of these assets are significantly above the levels that we have which is our comfort level for purchase. But let's see if we get opportunities.

Dry Bulk again, because of the markets being very strong, the prices have gone up 40%, 50% in the last year, year and a half, while LPG continue to be strong, they hit the bottom about three, three and a half years ago and continue to be pretty strong.

Scrapping has been low because of what markets have been doing. Crude tankers and product tankers have seen some scrapping but still not much for the whole quarter, it's only less than half a percent of scrapping. This is again possibly because of optimism. Those scrap prices have been very high. And again, it's hitting historically high levels.

Dry Bulk has been very little and which is understandable because rates are so firm that there is no real incentive to scrap the ship. You might as well run the ship. If you had to spend money to do a drydock and extend the life, you can do it because the rates justify.

Coming to the oilfield services business:

This is again the same chart that we look at. There's a large proportion of the fleet which is very old. There are lots of coal stack rigs which may not come back. So, 50 rigs have been cold stack for more than three years. And these rigs will find it difficult to come back without spending a lot of money to reactivate them. Similarly, for offshore supply vessels as well. We have quite a few which have been cold stack for significant amounts of time.

One thing which is happening is that there has been a gradual improvement in utilizations. We are now getting close to the 70% utilization level, which is the highest we have been for a significant period of time. Just before COVID struck, we were almost at these numbers, and then it went down significantly again. But now, we have crossed those levels. There is a little bit of excitement and activity in the market. We haven't seen significant price changes in recent tenders for rigs. However, there is certainly more activity from the oil companies especially in the Middle East for taking in more rigs on contracts. They seem to be increasing the level of activity. So, these are new requirements which are coming in.

From Great Ship's point of view, the next rig pricing is in H1 of FY'24. So, that's this time next year where I think comes off contract. We have a rig which has come off contract now, which will be coming off contract anytime in the next couple of months. She's already got the next contract for three months after this one. So, the next pricing actually we have to worry about in rigs is 12-months from now, which hopefully should get done by the end of this calendar year. In vessels, we have four vessels which are to be repriced in H1 FY'23, that is the 1st September and two vessels in the second half of FY'23.

People who have been following us for some time will know that when the crisis hit and utilizations went down in international markets, we used to operate about 25%, 30% of our fleet internationally. This is a vessel fleet. We brought most of them back into India, because we were getting contracts in India. While the rates were not very lucrative, at least we were getting utilization. So, we brought most of our vessels back into India. Recently, we took one vessel out into the West African markets, because international markets are beginning to look up, pricing is beginning to look up, and we might look at taking out one or two other vessels as well. One thing we do see is that the level of activity and enquiries for especially the larger, more specialized vessels is quite strong.

These are standard slides, showing how we went up the leverage curve between FY'16 and FY'19 and how we've come back down. Again, this gives us a lot of headroom for expansion, and we'll have to see whether we get those opportunities for expansion.

This is what has happened to our consolidated net asset value over the years. So, we were at about Rs.450 rupees per share. In FY'16 and '17 actually, the Rs.450 rupees was sort of a holding number, because we were not able to get the valuations for our offshore assets because the market was really broken. So, the consolidated NAV has gone up from Rs.400 per share over the last four years, so this is from March '18 to March '22, has gone up to Rs.679 per share.

Just to reiterate before we close the presentation. We are disciplined buyers, we look to buy only where we can see value, we don't see a value in growth for growth sake, we are careful with our investments and we'd like to ensure that any CAPEX that we do results in a good return, which is past our hurdle. We will also have low balance sheet leverage which will enable us to run a large proportion of our fleet on the spot market, and do time charters only on an opportunistic basis. We have back tested these. We are aware that having a strategy of being very disciplined in our price levels could result in large cash holdings for significant periods of time. We have back tested both the purchase model that we follow and the spot versus time model that we follow over the past 10, 15 years and found that this is the model that gives best results and that is what we will be following. So, we found that even over two, three years from holding excessive cash is usually compensated by the drop in the value of the assets and the ability to buy the ships cheaper.

So, with that, I come to the end of the presentation, and we are happy to take questions from you.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Himanshu Upadhyay from Oaktree Capital. Please go ahead.

Himanshu Upadhyay: My first question was on offshore. In last few years, we have seen a number of consolidation deals, Noble, Maersk, Tidewater and GulfMark, ENSCO and Rowan, etc., What impact and opportunities do you see in the next few years? Previously, Ajay has stated that we want to look at some stability in that market and improvement in offshore business before doing anything on that side. So, what is your current reading and how are you looking at the market for opportunities?

G. Shivakumar: I don't know about the merger, hopefully, the mergers will help to improve pricing as you get less players. But even if these are leading to improvements in international pricings, what happens in our market may sometimes not follow the international pricing. We hope it will. At least the slack seems to be getting taken up. And we've been hearing of Saudi Aramco and ADNOC looking for several rigs and reports are maybe 20 to 30 rigs additional requirement, which hopefully will reduce the oversupply of rigs in the market.

Himanshu Upadhyay: We are reading the price of offshore vessels and rigs is increasing with rates also steadily improving. Any rough estimate what would have been the increase in last price for a jack up rig which is 10 years old from the bottom, instead of what we are owning.

G. Shivakumar: One thing which has happened is that we have seen several transactions in the last couple of months. And again, these transactions have typically been tailored towards putting them on contract in the Middle East. The problem is that the price points are at least 30% to 40% different and pricing within the same week. So, it's very tough to put an estimate of how much the pricing has gone up. Because it depends on the individual circumstances. So, we had pricing at below $40 million for a rig, we've had pricing at $70 million for a rig as well. The only thing that we can say with certainty is that there is much more volume of transactions, there is much more buying interest and we have seen for quite some time.

Himanshu Upadhyay: You have very clearly stated of the Q4 what happened. But after March, there has been a lot of volatility in the rates and what we are saying is smaller vessels has started doing much better, whether it is on crude side or product and even dry bulk. Do you think this smaller vessels doing better will continue for this year or do you think it will start getting reflected for larger ships also, so let's say capsizes on the dry bulk and VLCCs on the offshore tanker side. Some thoughts on that?

Bharat Sheth: Clearly, we don't know whether it will continue or not, but there is clearly today an outperformance across these asset classes. So, let's take crude oil first. You have VLC, Suez, there is Afra. On the normal supply side, the Afras have seen the least supply growth as compared to the VLs and as compared to the Suezmax tankers, that's number one. Number two, if you see some of the dislocation that has happened with the Russian oil being supplied into Europe, that's much more of an Afra trade. The VL trade is predominantly a trade emanating from the Middle East and West Africa. And that's not got impacted. So, we have seen these spikes in the Afra which we think, give and take, should remain relatively strong. Soon as the war began, there was a lot of major disruptions, Suez Max has benefited a lot in the first 15 to 30 days. It's now come off a bit, but it can spike again easily and quickly. The VL haven't really benefited yet from any of this disruption. But I can't see a situation on a on a sustained basis, where you can have one or two of the sub-asset classes doing well and one particular asset class not doing well. So, on a sustained basis eventually, there'll be some level of catch up, either all the three sectors will average better than last year or not. Our guess is that it will almost certainly average better than last year.

Himanshu Upadhyay: Even on the dry bulk the situation –

Bharat Sheth: As you know, China has reduced its import of iron ore, which initially for the first quarter, if you take the Jan, Feb, March data, China imported less iron ore and a little bit less of coal. That tended to impact the capes. The Kamsarmax has predominantly gained from the grain trade, which have been very robust. You've seen what has happened to food prices globally. And the smaller ships, the Supramax, the Handymax they all benefit from a multitude of what we call minor bulks. Although the sum total of all this minor bulks now exceeds a billion tons of cargo per annum. And that we have seen has benefited a lot more export from Indonesia on coal. As you know, coal suddenly became desired commodity for a lot of people and recently we have seen the capes do a quick catch up. And a lot of you might have read it in the media that India too wants to import an extra 15 to 17 million tons of coal, it's all going to come pretty quickly. And if it has to come quickly in this volume, really it has to come in capes. So, we've seen the cape rates also jumped from March to now by 50%, 60%, 70% depending on the day you take.

Himanshu Upadhyay: On the asset prices, we have seen the new building prices have increased very dramatically and the crude prices have also increased. So, the scrubber fitted ships, are they getting any advantages? And is it in the asset prices also, are we seeing there is a significant difference between eco and non-eco ships and scrubber-fitted, non-scrubber fitted? And if we look at historical facts, do you think the market is fairly valued or expensive, so let's say 15, 20-year track record, all the three important categories for us, how are you looking at the market now?

Bharat Sheth: In multiple calls, we never look at the market, right, because we don't understand the market. So, there's no point looking at something you don't understand. We just are price takers, we play the spot market and we've seen that in bad markets, obviously like last year, we had a pretty tough tanker market, and you've seen where the earnings have been and now you're benefiting because you have everything spot. So, these things all have a way of averaging out and we will only short trade at elevated price point. Otherwise, we just take each day as it comes. As far as the operation on the scrubber, etc., is concerned, the spread, keep changing by the day. The least of the differentials was in the second half of 2020 where it dropped to some $30, $40 a ton, then widened $100, then went on to $170 and now it's just shy of $100. So, the spreads also keep changing. So, you've got now effectively a three tier market, you've got one market for eco and scrubber, you've got one market for eco non-scrubber, you've got another market for scrubber non-eco and then of course you've got a market for nothing, nothing, no scrubber, no eco. But eventually it doesn't matter because everything is on capital, right? So, the capital that you pay for top tier ship is so much more than you pay for a ship which doesn't have any of these bells and whistles. And what we focus on is just return on capital.

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

Archan Pathak: My first question will be regarding the line item of profit and loss on sale of asset which has been shown in the P&L. So, has there been any sell-off in the offshore assets?

Bharat Sheth: In the offshore side, we had a vessel which unfortunately if you recollect last year, had a fire and came a total loss. So, that asset has now been sold and delivered to a scrap buyer. And the vessel is now as we speak is at a scrap, at one of the beaches where scrapping takes place in **(Inaudible) 32:15.**

Archan Pathak: Secondly, for the issue of debenture. Normally, we used to gain around Rs.100 crores to Rs.200 crores, but for these times we have increased to Rs.1,000 crores. So, any reason for that?

G. Shivakumar: Actually, that's wrong. Our enabling resolution was always Rs.1,000 crores. We used to issue in tranches of Rs.100 crores to Rs.200 crores.

Archan Pathak: Lastly, I was going through over the details and I notice that many of our tankers were in 2003, it wasn't before, and very close to picking out a lifecycle. So, just wanted to get your view over any sort of modernization when I look at the asset pricing chart and they are charts that we discussed even in the last quarter regarding that with the lower freight rates, but the asset prices went hiking, and we talked about how there are channels that tanker owners are waiting for price to hike up to a level and utilize the price and exit the market. So, just wanted to get your view over how do you see that now with the rise in the tanker freight rates which happened with the recent war situation, there could be a slight off in the asset prices and what is our modernization plan or any plan regarding introducing fleet size?

Bharat Sheth: As the CFO said, in one of the graphs, you've seen asset values continue to go up for the modern assets as well as for the older assets. Now, as far as our modernization program goes, we would love to modernize because we recognize that we have older tanker fleet. We are okay on dry bulk and I guess we are okay on gas as well. But on the tanker fleet, we would like to bring the average age of the tanker fleet a few years younger than it currently is. But the price points are very elevated and we just think that we are better off eventually maybe not in the short term, but possibly in the medium to long term just remaining discipline and only modernizing the fleet even at the cost of maybe losing some ships will only modernize when we think the price points are right.

Moderator: The next question is from the line of Faizal Hawa from H G Hawa & Co. Please go ahead.

Faizal Hawa: So, what is our total foreign debt as on date?

Bharat Sheth: So, basically, as you know, we have the bulk of our debt is being done through bond issuance. So, it starts with a rupee debt and a rupee liability, which then gets converted into dollars. So, we swap the rupees into dollars on the currency and consequently you get a benefit on the interest rate. And then we determine whether we are effectively taking that into floating or swap. So, if your question is what is the total debt, our net debt is just over Rs.700 crores. We are sitting on cash of approximately Rs.3,800 crores So, I guess our gross debt is about Rs.3,700 crores or Rs.3,800 crores.

G. Shivakumar: Debt minus cash is $108 million. That's a little over Rs.800 crores.

Faizal Hawa: We used to be an authentic company at least two or three decades ago and you are almost a bellwether of the stock market. We have survived the last two, three decades. If you were to stay only three factors, which have changed over the last three decades, which have resulted in kind of underperformance of the company, what would be those three factors which have changed over the last three decades on the industry as well as our company?

Bharat Sheth: I don't understand valuation, I must admit, because you see these flavors change and we went through a phase very recently, where the greater the cash burn, and the greater the losses, the better the valuation you've got. So, the only thing we can do is to apologize to you for not producing a cash burn, and for producing a profit as opposed to producing losses, because that's the thing that seems to get plenty of people. Having said that, let me refer to the company itself. I think where the big change has come is, we were not very good at capital allocation, I guess, about 10, 15 years ago. We significantly improved on it. And if you just break up the last 10-years, into two lots of five years, our average return from 12% to 17%, which was 7% to 8% has now improved…Shiv, correct me if I'm wrong, but somewhere around 12% to 15% from 17% to 22%. So, the company has, I believe, gotten much better on capital allocation, which I think will stand us in good stead for time to come. And that's the big one change. Values, as I said, I don't understand because the superior the return, the greater the price is.

Faizal Hawa: In the latter part of your answer, I got the answer to my question. So, basically, you mean to say that, for a better part of the last three decades, we were we were not good capital allocators, now that is constantly changing?

Bharat Sheth: Yes, that's what I believe.

Faizal Hawa: What will be our ROC and ROA at the end of FY'22?

Bharat Sheth: I think it was a little ahead at 12% on reported numbers, and I guess, on invested capital, so if you just strip out cash, which we keep for investment opportunities, I think we'll be closer to the high teens, maybe 19% to 20% on invested capital.

Faizal Hawa: Once you feel that this capacity utilization of 70% in the industry moves up to say 80%, 82%, you feel a lot of pricing power to come into the hands of a shipping company? And what is your sense of other shipping companies --?

Bharat Sheth: Hang on, you're getting confused. So, the 70% utilization is not in shipping. The slide that the CFO showed to you was the capacity utilization in the drilling business. And in the drilling business, which is now at around 70%, I think as it crosses the 80% and moves closer to the 85%, the pricing power significantly changes from customer to service provider.

Faizal Hawa: That time maybe quite near?

Bharat Sheth: Well, that time will tell.

Faizal Hawa: Do you feel that this entire deglobalization which is now happening, could have a big effect on shipping rates or shipping companies, because all the time we may be looking at some shortages in some country or the other, and the spot rates could always be higher?

Bharat Sheth: Eventually the deglobalization, whether it's going to work, not work, etc., it's too premature to say. Eventually, people will keep producing from countries which tend to have a lower cost base, be it in terms of capital or taxation, or whatever it is, and there will be different sources of demand. That's as far as the consumer is concerned. Now, when you look at other commodities, like let's say, a natural resource, right, I might suddenly say that I want instead of India importing 100 plus million barrels of oil, we should have our own 100 plus million barrels of oil and stop importing. That's not going to happen overnight. So, our natural resources challenge is so much more than on the consuming side of the transportation business.

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

Samraj N: If you could just take me on the current spot rates from the Suez right up till this bulk Supras, I'll be really happy, because they are really needed for excel sheets?

Bharat Sheth: I'm happy to give it to you by the piece of advice. In shipping there is nothing like current –

Samraj N: Because we have the FSA. I am quite aware of it.

Bharat Sheth: So, the best is to be guided by FSA and FSA changes daily. So, just to give you an example, the FFA between last week and this week has gone up significantly. FSA is also you should recognize change as you know every day. And the liquidity in the tanker space in the FSA is not as good as the liquidity in the dry bulk space in the FSA. So, for dry bulk business, being guided by FSA, that is some basis on which you can prepare your excel sheet. On the tanker because of the lack of liquidity, it's a bit more challenging. I'm happy to give you any number you want. As I said earlier, we are now in triple asset classes because you have vessels which are eco scrubber fitted, you have another category, which is eco non-scrubber, you have a third category, which is scrubber, non-eco and you have a fourth category, which is non-scrubber non-eco. So, the same ship, if it's in the top category will have one earning and if it's in the bottom category, we'll have a completely different earning. So, the bottom of the pile is a non-eco, non-scrubber. On the VLCCs in the stock market today, the earnings are negative, $5,000 to $7,000, a day. On the Suezmax, currently, they're positive between $5,000 and $10,000 a day depending on where you are. On the Aframax, they are somewhere between $15,000 and $30,000 a day depending on where you are. On the product tankers, MRs are $20,000 to $30,000. The LR1s are $30,000 to $40,000. The LR2s are $40,000 to $50,000. Everything is depending on where you are, and what position you are in, so on and so forth. I'm only giving you the bottom category, right. LR1, long range, these are roughly 74,000 deadweight, so it's like the Panamax is for the product business. So, they vary between 30 and 40 and the LR2s are varying between 40 and 50.

Samraj N: So, that leaves us just with the Kamsars and Supras if you please.

Bharat Sheth: Kamsars currently are again varying between you can say 20 and 30, and the Supras are in a similar range; 20 to 30.

Samraj N: I understand that your back tested your model for CAPEX and all this. But are we being very ultra cautious? Of course, these people were in big trouble before the rates went up. I'm talking about Scorpio, and they sold off their entire LR1 to Hafnia and Hafnia purchased it in one stroke and of course, now they have done a lease back to manage their balance sheet. I think day before yesterday, **(Nave) 30:12** also gone in for four products and that also new builds. That is I'm talking about the product tankers for –

Bharat Sheth: They have gone in for LR2 against the long-term **(Inaudible) 50:22** We don't like to do eight and 10 year charter transactions. Our preference is –

Samraj N: Agree. Your whole model today rest on being more on the spot now?

Bharat Sheth: Spot market and playing the volatility the best we can. Sometimes it works in your favor and sometimes it works against you. So, it's a very different business model. On the question of whether we are being overly conservative, my view is look in a rising market, one will always feel, were we being too conservative, because when you have a rising market, at every price point, you can make money. What we have learned in the past, and it's a mistake, we would not like to be repeated is that long-term. And I repeat the word, long term, which means in the life, who knows what the life of the organization will be, I truly believe that we will be much better served and so will our investors be better served if we are much more disciplined on capital allocation. In the short term, it may be painful.

Samraj N: I will totally agree with you when you're talking about the container liner part of the market, because there the order book is now closing at almost 33% and there was really a panic buying over there. So, I'll leave that out. But if you just see the product side of it that I'm talking about the MRs and the LRs, there the cost advantage, the freight yields on the capital investment of the ship works absolutely in our favor right now. So, why can't we consider product tankers going by the current logistics and the Ukraine, etc., and refineries shutting down and opening up elsewhere, at least on the product side, we can consider purchasing a few? That would be my humble observation.

Bharat Sheth: No, no, it's a very valid observation and I'll tell you where the trap lies. It's a debt trap. No business I have come across is sustainable at these kinds of current deals. What was a mistake? One of the mistakes we made in the past is because we got tempted with very strong current deals, which were 40%, 50% on capital, there's a temptation that we should invest in steel, which has a current yield of 40%, why keep money in the bank when you're running 1% and 2%? Right? That's basically the logic. Now, this was the exact trap that a lot of people fell into when Lehman happened or even when the virus sets the world. So, at the time of the pandemic, you think what the product tanks were doing before Russia decided to invade Ukraine. These product tankers were earning $8,000 and $9,000 a day. When you get tempted because yields are strong. You should be selling a 40% yield asset, not buying a 40% yield asset, because you know it's not sustainable.

Samraj N: Which business is going to allow you a two year payback on a sustained basis? I would say that LR1s at 30 to 40 and 40 to 50 is really not that off the mean, because we've gone to a very low patch, that is why we are learning and they are higher?

Bharat Sheth: It is significantly higher than the mean.

Samraj N: So, what would be the mean according to your model sir?

Bharat Sheth: About 18.

Samraj N: Even going by and are some of the models which are getting simulated at the end of this particular calendar year, right up till 2025-26, we're seeing the supply and demand of vessels and almost all categories, except containers would be very, very favorable for owners. So, I was still just wondering whether we should keep up to the 18 mark, or raise the mean a little bit up, say 25, 30, something like that, if we can consider purchasing?

Bharat Sheth: We can raise it to anything as you suggest, but me raising it is not going to change things. We have seen what you need. Yet, a nominal supply clearly helps the market. But also think of what happened. the nominal supply was as nominal when the COVID hit the world and when demand got destroyed. Now, think today, if you see the Jan to April data, China, which is one of the big players on energy imports, their demand is lower. If you get another way, what some other thing, we are living in very, very uncertain geopolitical times. So, I can raise it to anything I like, but that's not going to help. So, all we are saying is, yes, in a rising market, you will get penalized for being overly conservative. And that's why we keep our operating fleets in the spot market you see. So, we at least significantly benefit in the spot market. But I know that we will be left belling the cat if we bought expensive assets and there was unforeseen event, which then brought markets down. So, we don't want to fall into the trap again.

G. Shivakumar: Yes, just to clarify that 18,000 is not our number, it is history, it is not some number that we have put as our cutoff or anything. It is the actual history of the market that we're talking about. So, we have no role in increasing –

Bharat Sheth: We have nothing to do with it. I don't know what the market will be on a Monday morning. If I had a ship to fix today, and if I have a ship to fix on Monday morning, I honestly cannot tell you what rate I'll fix it on Monday. So, what is the use of taking any median? And here, I've just taken out the precise number is 17,000 on the LR1.

Moderator: The next question is from the line of Samar Singh from DPS Capital. Please go ahead.

Samar Singh: I just have two questions. My first question was, is there any opportunity to purchase assets from any Russian shipping companies who are looking to set at a discount or in distress?

Bharat Sheth: So, number one, we would have to look at whether any of the Russian entities we deal with are in a sanction, not sanction. If there is a sanction, the answer is no, whatever be the price. And if the entity is not sanctioned, it is something that we could consider. But we got to be very, very careful because you've got to go through multiple layers of corporate veil to ensure that the end beneficiary is not sanctioned also. So, it's not an easy exercise.

Samar Singh: I think it was a news of undergoing a massive tanker sale.

Bharat Sheth: We are aware of that.

Samar Singh: Is that something that we will be looking at?

Bharat Sheth: No, so again, as I said, there are multiple entities involved, and we would have to get a sign off from multiple layers of legal checks and balances before we can answer that question. Because, every day is a moving target, and every day there are new entities getting sanctioned or not sanctioned.

Samar Singh: Just one question on capital allocation. I understand that buybacks that we are currently going through, is it fair to say that we will continue to repurchase the shares as long as the discount to NAV continues, I guess, until the 75% promoter shareholding limit?

Bharat Sheth: No. So, we only look at what is the discount to NAV and at what price point is your NAV. Okay? Now, when we announced the price, which was 333, we believe that the discount to the NAV was excessive and hence we announced a price of 333. Of course, today we can't buy because we've crossed that discount to NAV although NAV has gone up, the share price has gone up. I mean, the point is, the NAV value of the business also changes every quarter, every six months, every year. And we will keep looking at what is the discount to NAV and ideally, your best allocation if the shipping market is saying steel is worth $1, but the paper market, which is represented by investors are saying that we think the steel is worth 50 cents on the dollar and not $1, why would we want to pay $1? You're better served buying paper at 50 cents or 60 cents, right? Earlier, people said why don't you buy a ship? But if I buy a ship for $1, the investors are saying it's not worth $1, it's worth 60 cents. How can the same investor say buy a ship?

Samar Singh: I agree. I guess my question was one year from now, if the discount to NAV is accessing again, would you institute another buy back?

Bharat Sheth: Window will only open a year from now or a year from 14 months from now. And we will look at what is the needs. Our priority will always be to buy steel. To buying paper is second priority to buying steel. So, let's say my paper is cheap, my steel is cheap, my preference would be to buy steel. But if my steel is expensive, but my paper remains cheap and I have surplus capital, then I'll buy paper.

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

Vaibhav Badjatya: Whatever happened on **(Inaudible) 63:58**, in that terms, if we take the situation pre was, whatever was the crude and refined products export from Russia, if we were to assume that all this product will get redirected to say China and India instead of Europe, then what would be the demand side impact due to the increase in ton mile?

Second, how much is the Russian supply of ships is what I wanted to understand. So, it's more the demand and supply side impact so that we can make a judgment of what is going to happen?

Bharat Sheth: I think all that we can say is that if what Europe is importing currently from Russia is imported for from areas which are further away, like for example, the Persian Gulf or from China, non-pipeline from China, etc., obviously that support to the market and it adds to ton mile. The question also is that particular product has got to be in surplus, because if somebody wants product-A, and that product-A is not available in the market, then that demand remains unsatisfied until somebody can supply the product. So, it's something that has to be dynamically looked at and managed. And that's what we are doing in order to try and play the spot market and determine what we think is to happen today and tomorrow and do we fix a ship today, and we fix it tomorrow, etc., But it's again, these are very, very, very well –

Vaibhav Badjatya: I was not talking from the bulk market perspective, but I am just talking from the energy market perspective.

Bharat Sheth: I'm also talking about energy markets. So, I look at petroleum product, I look at crude oil, I look at gas, all the energy related markets, coal is an energy related market, looking at all these commodities, everything will hinge on where is the surplus capacity from where it can be sourced. And that is something we never have an immediate answer.

Vaibhav Badjatya: One part of the equation in the sense that how Europe is going to alternatively go, but that will have incremental demand, right, but what I am asking is another part of the impact that Russian supply to some extent, which will be reduced, but it will be available, and due to geopolitical reasons, if it gets diverted towards China and India, then what would be the ton mile impact because that supply is in front of us right now, that will be available, Russian supply of crude oil is available and whatever refined oil products.

Bharat Sheth: Russian supply of crude oil into China, there is the pipeline, which has been laid multiple years ago. So, a lot of the import from Russia and to China is happening on the pipeline. Of course, there is also a trade from Russia to China on ships. Some of it is carried on Chinese ships, some of it is carried on Russian ships, and some of it is carried on third-party ships. But some of that trade is short haul. So, if you take, there's a Russian port in the Pacific called Kozmino and Kozmino to China is a very short haul trade. So, again, it depends. Is it the Baltic? Is it the Black Sea? Is it Asia Pacific? None of these things are easy to answer. Unless one truly, truly get deep into the business, it's difficult to answer and even more difficult to understand. But we are only focusing on energy, we got to think of the grain market as well, because between Russia and EU, I think we're approximately 30% of the grain market. Can that easily be sourced from other grain growing areas? I don't know. These are very, very difficult questions to answer.

Vaibhav Badjatya: That's what my question was. The supply would be there with Russia before then there's no alternate. So, I think it would be just the redistribution of who is supplying to who, rather than Russia supply going off the market completely because that's not easy and that's why I just wanted to understand. I understand too much uncertainty as of now. You can't quantify.

Moderator: The next question is in the line of Amit Khetan from Laburnum Capital. Please go ahead.

Amit Khetan: So, in one of your earlier calls, I believe you had indicated that you expect product tankers to lead the recovery. And if we look at what has happened over the last couple of months, there seems to be significant improvement. So, in your opinion, has the cycle finally turned or is this a short term phenomenon?

Bharat Sheth: Again, I would hate to really stick my neck out on this. Again, one thing, we must all understand whether it's on this call or any subsequent call, that these markets are determined by events. And there are certain events that have a bigger impact, there are certain events that have a less bigger impact. Now, the longer the disruption that takes place of cargoes moving into Europe and other destinations that hitherto went from Russia, if there is a lot of disruption there and there is cargo movement, then logically, you should get the strength in the market continuing. Having said that, we are also hearing, right, this word called stagflation. And whether, the demand for certain commodities is just going to get reduced because of inflationary pressures that the consumer is feeling, or whether the inflationary pressures means there are some places where the demand will reduce, you're also getting issues like China, where lots of cities are in complete lockdown, the demand for oil has come off. And these are important consumers of energy. So, there are so many moving parts that are playing simultaneously, that it becomes extremely, extremely difficult to say that this is going to be sustained or not sustained rally. I just don't know, and I want to be honest about it.

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

Himanshu Upadhyay: When you reply that the market has become multi-tier to eco, non-eco and scrubber, non-scrubber, the combination, the rates between the base which is non-eco, non-scrubber and eco and in six rubber ship, you are able to get, and how different are they even within one class, are the asset prices significantly different and the rates also significantly different and are people ready to pay for more less polluting ships more to 3% or 4%?

Bharat Sheth: See, the rate is the same. Suppose I have a vessel that is eco and a colleague of mine has a vessel that is non-eco, on the same rate, my eco ship makes me more money than my colleague ship which is non-eco. Having said that, you got to remember that as far as the customer is concerned, he's paying you an X dollars per ton. So, he's not necessarily going to pay you unless now when you convert all that into time charter rates. So, first time discussing just simple voyage calculations. Then when you go into time charter, obviously, the customer does the same calculation is, you are saying look, if I take in a vessel on time charter and I've got an eco ship, this is what I burn in terms of fuel, and so I don't mind paying $2,000 a day more. But remember that that asset is also that much more in capital. So, at the end of the calculations, whether eco scrubber fitted shape produces a superior return to capital to a vessel that is non-eco, non-scrubber, depends on a multitude of factors and not just eco and scrubber. It depends if you're playing ships on the spot market. Now obviously, the better the shipping in terms of eco and scrubbers, the easier it is to market. Especially if you want to fix up for two years or three years or five years, many owners like to do. But that's not the game we play. In the spot market, it doesn't make much of a difference.

Himanshu Upadhyay: Is the differential similar between single haul and double haul it was like in early 2000s?

Bharat Sheth: No, no, it varies, there's a standard differential, because today say the scrubber differential, I think I said it to one of the earlier speakers, that differential now is down to $85. It was a $100 a few weeks ago, prior to that it peaked at $180 and the immediate cycle in 2020, it was down to only $30. So, that is also changing all the time. The eco is a lot more constant, but the scrubber benefit varies depending on the differential. And these differentials like any other commodity are changing all the time.

Himanshu Upadhyay: So, the asset prices are also very volatile between the scrubber ship versus -?

Bharat Sheth: Asset prices are volatile per se. Now, some people will prefer a scrubber ship, some people may not prefer a scrubber ship. I'll give you a simple example. Take the Indian PSUs. They say we will not pay you any premium for the scrubber. So, if I have a scrubber ship, if I put it into an Indian trade, am I going to make any money from the fact that I have a scrubber? Answer is no, I will not.

Moderator: The next question from the line of Samraj N. Please go ahead.

Samraj N: I just wanted to ask you whether our management subscribes to the super cycle model say between end of calendar year '22, right up to '26-27 because of the reasons of EEXI, CII and you know the yard slots not there. No one knowing which is going to be the new design as far as fuel and propulsion is concerned. So, do you expect a squeeze in those years? And then what probably could be your hypotheses on the freight rates?

Bharat Sheth: I've said often enough, I have no hypotheses on the freight trade. And I don't know what will be the impact of EEXI, CII, new types of fuel. I don't want to fabricate something when I don't know. All we can tell you is that there is going to be a lot of upheaval, there's going to be a lot of uncertainty. And traditionally, whenever there have been upheaval, and there has been uncertainty, it has tended to benefit shipowners.

Samraj N: And that would be the ideal condition for you because you will be getting a volatility there?

Bharat Sheth: Well, nothing is ideal or not ideal. As I've said, I think maybe 568 quarters ago, a bad market is good for us as well, a good market is also good for us. So, we are positioned where we can benefit from a bad market, hopefully by getting cheaper assets to expand. We benefit from a good market because we build up more cash because of the operating leverage. We run a very high operating leverage. We are very conservatively leveraged on the balance sheet. We are highly leveraged on revenue.

Moderator: Our next question is from the line of Amit Khetan from Laburnum Capital. Please go ahead.

Amit Khetan: We were operating largely on the spot market on the tanker side. Have we increased our time charter exposure over the last couple of months or have time charter has not moved as much as the spot rate?

Bharat Sheth: We have increased it marginally, out of 17 product tankers for example that we operate in the spot market, we have time charted out let's say for the next six to nine months, little over two ships. If the answer is, have you time charted out, answer is yes, we have. And, of course, numbers that were meaningfully higher than the average of last year will be time charter out more, it'll again vary on what the rates we get. So, we are always assessing it. We would not like to time charter out everything. In bad markets, we are happy to run everything spot, but in strong market, I don't think we are happy to charter everything out.

Amit Khetan: And lastly, if you could provide some commentary how has your strategy changed for the different segments as a result of the war? You would have done some situation or scenario analysis. So, what's your sense of how it's going to impact the industry? And if there has been any change at your end in terms of how you're thinking of the different segments?

Bharat Sheth: No, we are not thinking at all of changing our strategy which has played out pretty well, let's say over the last five to six years. So, if something is playing out well, you might stick to it.

Moderator: Ladies and gentlemen, that would be the last question for today. I now hand the conference over to Ms. Anjali Kumar for closing comments. Thank you. And over to you, ma'am.

Anjali Kumar: Thank you very much. And this was a rather engaging discussion we had today. So, thank you to everybody who participated. And as usual, the transcript and the audio link of this call will be up on our website in the next couple of days. And also, please feel free to reach out to our team at any time that you like. Thank you so much, everybody.

Bharat Sheth: Thank you.

Moderator: Ladies and gentlemen, on behalf of The Great Eastern Shipping Company Limited, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines.