

Share Data

(%)	Absolute price performance		
	1m	3m	6m
Sensex	(2.4)	(25.3)	0.0
Great Eastern	(5.1)	(25.5)	16.2
Mercator	(6.5)	(50.1)	30.1
Varun	1.1	(28.9)	12.3
SCI	5.7	(33.0)	7.8
Chowgule	0.7	(55.2)	(17.0)
Essar	(7.4)	(16.8)	303.6

Valuations

Company	Year ended	Standalone/ Consolidated	Reco	Price (Rs)	M-cap (Rs mn)	EPS (Rs)	PE Ratio (x)	EV/EBITDA (x)	ROCE (%)	ROE (%)
Great Eastern	FY09	S	BUY	388	59,092	57.9	6.7	5.2	16.7	20.8
Mercator	FY09	C	BUY	77	17,297	11.3	6.8	6.4	12.3	18.0
Varun	FY09	S	MP	71	10,650	10.9	6.5	5.2	12.7	22.2

Credit crunch impacting new building orders

The tanker markets were uncharacteristically strong during the month with a modest change in the VLCC segment, whereas Suezmax and Aframax segments were up ~50% MoM. Drybulk rates remained firm during the month with the Baltic dry index showing an improvement of 18% MoM. In the gas market the VLGC segment recovered from the all time lows of February. The midsize market remained stable. The new building prices for both tankers and dry-bulk continue to appear strong. The second hand sales markets are showing some signs of moderation.

B&K View

The dry-bulk market is expected to remain firm for most of 2008. The current order book which is ~56% of the existing fleet should lead to softening of the charter rates beyond 2009. The tanker orderbook also remains sizeable (39% of the existing fleet). The demand supply remains finely balanced and any disruption will lead to a sharp volatility in rates. The charter rates will continue to remain range bound and the conversions and scrappings could be key determinants for this market. The recent oil spillage of a single hull tanker could tilt the balance in the favour of double hull tankers.

Shipping portfolio NAVs

(Rs mn)	Reco	Fleet Value	Debt	Cash	NAV	Equity	NAV / Share (for shipping fleet)	CMP (Rs)	Premium/ (Discount) (%)
SCI	NR	92,786	12,447	26,247	106,585	282	378	213	(44)
GESCO	BUY	79,895	24,293	11,850	67,453	157	430	388	(10)
Mercator	BUY	37,493	19,800	5020	22,713	262	87	77	(11)

Market Overview

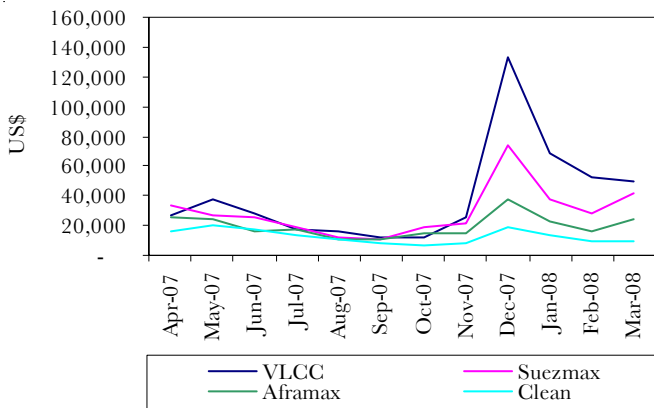
Tankers

The tanker market rates during the month of March declined for the first half and recovered during the second half. Strong OPEC volumes and a high crude price environment have helped. An increase in the long haul voyages from the Caribbean and UKC/East-coast lent some support. The rates appear to be high and could moderate in the month of April. The average charter rates for VLCC were moderately lower than February, whereas Suezmax and Aframax were up ~50% during the month. The product segment was 5% higher than February. On a YoY basis the current rates for the VLCC and Suezmax were up ~11% and 22%, respectively. Aframax rates were flat on YoY basis. The product rates were lower by ~50% YoY. The asset prices for the modern tonnage continue to remain strong, but the older tonnage is witnessing a decline in prices. The number of ship owners opting for conversions in Chinese yards has moderated.

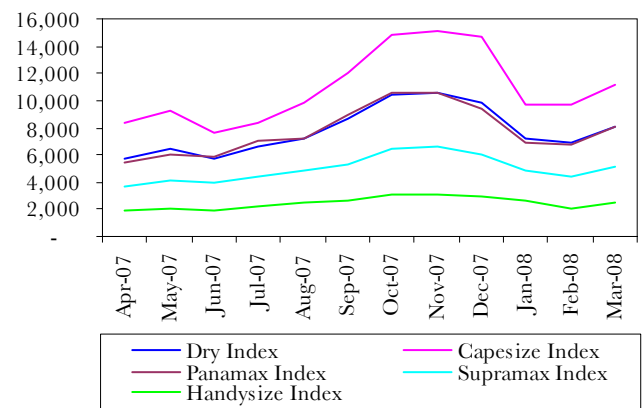
Dry-bulk

The dry-bulk charter rates remained firm in March. As expected this was partly led by the resumption of coal supplies from Australian ports and partly by last month's finalisation of iron-ore negotiations. The Baltic Dry Index (BDI) has shown an increase of ~18% on an MoM basis. The average charter rates for all the asset classes have shown growth from 15-22% on an MoM basis. Though the dry indexes were lower on a six-monthly basis they were still higher by more than 50% on YoY basis. The asset prices remained firm for new-buildings though the secondhand prices indicated a decrease. A further strengthening of rates is expected in the near term with the increase in commodity imports by China and the increase in chartering activity.

Tanker charter rates (monthly average)



Baltic dry index (monthly average)



Source: Great Eastern Shipping

Gas (LPG) **VLGC**  **MGC** 

The VLGC (LPG) markets have shown some recovery after reaching their all time lows in February. The current VLGC spot rate stood at US\$ 34 for the benchmark Ras Tanura-Chiba voyage. This is greater than the rate of about US\$ 22 required to cover the operating expenses. Though the rates have recovered they are expected to remain suppressed due to additions in VLGCs in the coming months. The midsize segment consisting of large gas carriers (LGCs) and medium gas carriers (MGCs) remained stable with 35,000 cum vessels (MGC) attracting charter rates of ~US\$ 29,600/day. There are some doubts being professed about ammonia rates, but their subsequent impact on the shipping rates is not expected to be negative. Hence, the MGC segment, which carries more than 50% of all seaborne ammonia (17 mn tonnes), is expected to retain the charter rates.

Special Focus

Cancellation of new building orders

The total world orderbook is valued at ~US\$ 500 bn. The total dry bulk orderbook currently stands at 216 mn dwt or 56% of the existing fleet and for the tanker fleet the number currently stands at 172 mn dwt or 39% of the existing fleet (see Shipping Monthly March 2008: Special Focus - Fleet addition). Though these numbers look intimidating, recent order cancellations might signal a trend in which case, these numbers might not appear so daunting. Among recent ship order cancellations, HongKong-based shipper Jinhui in January cancelled construction of two giant ore carriers, citing global credit conditions. The ships were to cost US\$ 122 mn each. Jinhui would pay a US\$ 4 mn cancellation fee. According to the company it could not get good financing conditions despite a 15-year charter contract from a “first class steel mill.”

In February, Athens-based Oceanaut Inc announced it had terminated a deal to buy nine dry bulk carriers for US\$ 700 mn.

The orderbook of world shipyards has a 3 year backlog. There are different estimates of the value of these orders, ranging from US\$ 500 to 600 bn. Generally vessels are ~60% debt financed. It is believed that close 75% of these orders are yet to be financed which entails funding requirements of ~US\$ 375-450 bn. Faced credit crunch the banks are increasingly become selective in financing deals.

According to some reports the construction of box ship with a 10 year charter requiring ~65% debt financing, which in June 2007 could have been funded at Libor + 60 bps would now require Libor + 100-150 bps assuming a syndicated financing deal, whereas a VLCC which would trade in the spot market would find it difficult to get finance.

These developments could have two possible consequences for shipping companies 1) There could be a raft of further such cancellations being announced by speculative builder which would reduce the order-book and improve sentiments in the freight markets 2) Shipping companies with adequate funds at their disposal could find bargain deals which were otherwise not available due to non availability of shipyard space.

News Synopsis

Industry News

- The first Chinese-built liquefied natural gas carrier, Dapeng Sun, was delivered to its owners, China LNG Shipping. The ship was originally scheduled for delivery in November last year. There were some delays in delivery after builders found problems in pipe parts supplied by a domestic company. The 147,000 cum vessel cost US\$ 160 mn.

Company News

- Varun Shipping has taken delivery of a third anchor handling and towing supply vessel (AHTSV) with engine capacity of 16,085 BHP. This is a specialised vessel which is used for deep sea oil exploration activity in areas like North Sea, KG basin and Atlantic Ocean off the coasts of Nigeria, Brazil and Mexico. This vessel will be the most powerful AHTS vessel under the Indian flag. This is the third of the high power offshore vessel, acquired by the company and is part of the US\$ 400 mn capex program to be incurred by the company by December 2008. With this acquisition, the company will own a diversified fleet of 21 vessels comprising 12 LPG carriers, 3 double hull aframax crude tankers, 5 AHTS and 1 product tanker.
- Mercator Lines (Singapore) has entered into a memorandum of agreement (for the purchase of a geared Panamax dry bulk carrier named YK Titan, at a total consideration of US\$ 65.5 mn. Built by Tsuneishi Shipbuilding, in Japan in 1997, the vessel is of aggregate capacity 69,221 dwt. The company has also entered into a firm negotiation with Refined Success Ltd. which is a subsidiary of PRC shipping conglomerate, COSCO (HK) Shipping Company, for the time charter-out of Geastiniono TBN, a gearless post panamax vessel of approximately 92,500 dwt.

This is a one-time charter for a period of about 35 to 37 months. The charter-out rate will be US\$ 39,500 per day and the commencement date is anytime between 01 May, 2009 and 30 September, 2009. The above vessel is taken by the company on time charter-in basis at US\$ 25,300 per day for a period of 5 years and is expected to be delivered in June 2009.

- The Great Eastern Shipping Company Ltd. (G E Shipping) delivered its non-double hull Panamax crude tanker, Jag Anjali, to the buyers. The 1986 built 66,203 dwt ship was contracted to be sold in January 2008. The Great Eastern Shipping Co. Ltd. (G E Shipping) has contracted to sell its Handysize dry bulk carrier, Jag Vikas (1977 built, 26,781 dwt). The ship is scheduled to be delivered to the buyers during 1QFY09. The Great Eastern Shipping Co. Ltd. (G E Shipping) has contracted to sell its 1982 built single hull General Purpose (GP) product tanker "Jag Praja" (29,990 dwt). The vessel will be delivered to the buyers in 1Q FY09. The company's new building order book comprises 12 vessels aggregating 0.85 mn dwt (4 long range (LR)1 product tankers aggregating 0.30 mn dwt and 8 dry bulk carriers aggregating 0.55 mn dwt).

Key stats...

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Fleet profile

Vessel type	SCI (Total DWT 4.62 mn)			GESCO (Total DWT 2.98 mn)			Mercator (Total DWT 1.7 mn)		
	Number	% of DWT	Age	Number	% of DWT	Age	Number	% of DWT	Age
Crude	30	72	16	12	50	7	9	63	16
Product	14	10	15	21	27	15	0	0	0
Dry Bulk	20	18	18	13	23	15	9	37	3
Total	64	100	16	46	100	13	18	100	9

Source: B&K Research

Shipping trends

Asset price trends

	US\$ mn		% change of current price from							
	Current		Feb 2008 (1 Month)		Dec 2007 (3 Months)		Sept 2007 (6 Months)		Mar 2007 (1 Year)	
	NB	5 Year	NB	5 Year	NB	5 Year	NB	5 Year	NB	5Year
Crude										
VLCC	142	138	0.7	3.8	0.7	6.2	2.9	3.0	11.8	16.5
Suezmax	88	96	0.0	0.0	0.0	0.0	2.3	0.0	10.0	18.5
Aframax	69	70	0.0	1.4	0.0	4.5	0.0	1.4	6.2	7.7
Panamax	63	60	0.0	0.0	0.0	5.3	3.3	5.3	16.7	11.1
Product	52	52	0.0	2.0	0.0	(1.9)	6.1	(1.9)	10.6	10.6
Bulk Carriers										
Capesize	95	140	1.1	(0.7)	1.1	(3.4)	5.6	14.8	23.4	1,455.6
Panamax	52	82	0.0	(1.2)	0.0	(6.8)	8.3	7.9	26.8	65.7
Supramax	46	68	2.2	(1.4)	2.2	(9.3)	9.5	6.3	24.3	56.3

Source: Compass Maritime

Freight rates trends

		% change in the current TCY/Index from			
		Feb 2008 (1 month)	Dec 2007 (3 month)	Sept 2007 (6month)	Mar 2007 (1 Year)
Tankers					
VLCC	50,189	(4.7)	(62.4)	323.3	8.0
Suezmax	41,384	49.3	(44.5)	303.5	19.2
Aframax	24,103	48.6	(36.3)	118.3	(1.3)
Clean	9,411	5.8	(49.3)	15.8	(50.7)
Baltic Drybulk Indices					
Dry Index	8,044	17.6	(18.4)	(7.4)	57.1
Capesize	11,188	15.0	(23.5)	(7.6)	54.9
Panamax	8,137	21.3	(13.4)	(8.9)	62.9
Supramax	5,173	17.4	(14.1)	(1.2)	57.3
Handysize	2,476	18.8	(17.4)	(6.7)	48.6

Source: Great Eastern

Valuations

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