IN CONVERSATION WITH DHRUBAJYOTI DAS – EXECUTIVE DIRECTOR OF SAMUDERA SHIPPING LINE

In a highly cyclical industry like shipping, it would be a commendable feat for one to stay consistently profitable for a decade. As Samudera Shipping Line Ltd. ("Samudera") gets busy preparing its full year financial statement, we reckon 2007 would have been another profitable year for the Indonesia-owned regional container shipping company, making it its 11th consecutive money-making year since its listing on the Singapore Exchange in 1997. Nevertheless, the company has had its fair share of turbulence. In 2006, Samudera, which is named after the Sanskrit word Samudera which means ocean, was adversely affected by the capacity glut in certain trade lanes within the container shipping sector that led to depressed freight rates and earnings. In the very same year, in addition to rationalization of some of its liner routes, the company took further steps to reduce its dependence on earnings from the provision of container feeder services by adding two more chemical tankers and two bulk carriers to its fleet to grow its wet and dry bulk businesses. And it appears that its efforts are beginning to bear fruits. For the first nine months in 2007, Samudera posted a 158 percent increase in net profit to S$10.4 million (USD 7.34 million) attributed to an increase in revenue from its non-container vessels and a reduction in cost of services driven by a rationalization of its shipping services. Marine Money Asia speaks to the affable Mr. Dhrubajyoti Das, Executive Director of Samudera Shipping to bring you more of the insights.

Marine Money Asia: At the moment, we understand that Samudera operates five dry bulk vessels ranging between 4,700 dwt and 8,047 dwt. Last month, the company announced the acquisition of two 57,700 dwt bulk carriers from Korea's STX Shipbuilding for a total of USD 97.6 million which will be due for delivery in the first half of 2011. In view of the current high asset prices and concerns over an impending end of the dry bulk boom, could you share with us the reasons behind the acquisitions?

Mr. Das: We have actually made investments in five ships – three in containerships and two in bulkers. We have taken delivery of a containership last month which is a small 1,100 TEU ship and we expect two brand new 1,700 TEU resale ships from China to join the fleet this year. Coming back to the bulkers, our current ships are smaller units engaged in transshipment activities and coal transportation in Indonesia. Indonesia is one of the largest exporters of coal at the moment and quite a bit of trade is going on between Indonesia and India. India is increasingly energy hungry and the country has set up a number of coal fired power plants. We also notice quite a few Indian energy companies have bought stakes in Indonesian coal mines. Given the reasons above, we expect the Indonesia-India trade to be very active moving forward and we want to gear up our capacity to take advantage of this trend through these acquisitions.

Why invest in assets that will be delivered only in 2011? We do not think that it is right for us to pay a high premium for the prompt deliveries. Our thinking is that we would like to participate in the trade and offer our services to end users on a longer term basis. We are not really into asset play. Being a listed company, we are keen to generate stable returns so we cannot take investment decisions where returns are huge only in the initial years. We decide not to go for spot deliveries although the revenues could justify the investments in the short term. And if we talk about Performance Standard for Protective Coatings (PSPC) compliant ships, there are very few yards that can deliver. The majority of the Chinese shipyards cannot deliver PSPC compliant ships.

We have a very bullish view on the trade demand for commodities driven by China and India. With a longer term positive view on the sector, we felt it is alright to make a commitment at a decent price although the ships will only be delivered quite some time away in the future. Going forward, we feel that vessel prices are not going to come off too much for two reasons. Firstly, the majority of the shipyards, particularly the bigger yards who are building bigger ships, are full with orders up to 2010/2011. Even if there is a blip in the newbuilding interest in the near term, I am not so sure whether the yards will be pressured to take an aggressive pricing approach. They can always shift among sectors. Secondly, I don't think steel prices will come down to historical levels. With steel prices expected to remain fairly strong and the fact that shipyards are generally full with newbuilding orders, I do not think that the newbuilding prices are going to drop significantly. This is something that the industry has to probably come to terms with.

Marine Money Asia: Is the company sourcing for newbuilding financing in the market?

Mr. Das: Yes, we are in an advance stage of securing financing for our containerships and we are also in the middle of the process for the bulkers. The first containership, which we took delivery last month, was bridge-financed entirely with internal funds due to time constraints.

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Marine Money Asia: Are the ship financiers asking for higher margins and tighter covenants in view of the current sub-prime worries?

Mr. Das: I have not seen any changes in the loan covenants. The covenants that we gave earlier are pretty much the same as what are being asked from us now in these transactions. In terms of margin, there is room for improvement. It has not met our expectation but I can tell you there are a few other banks that are very keen to come up with certain structures to make it attractive. I am glad to say there are a few international names who are keen to work on those lines. I must say we still have some choices despite the general notion that the margins are getting bigger. While we see changes in the margin expectations from some ship finance focused banks, others are able to find ways to work around it by being more creative in coming up with attractive financing structures. We are now discussing internally whether we should group both containers and bulkers together or have them as two different facilities.

Marine Money Asia: Last year, we saw Indonesian Berlian Laju Tanker's tremendous success in tapping the public capital markets through the issuance of convertible and plain vanilla bonds. Any plans to look beyond mortgage financing?

Mr. Das: Yes, let me put it this way. When you look at our balance sheet, you must have seen that our gearing is very low. Therefore our first objective is to look at debt financing. Our immediate goal is to have the assets in our books and bring the gearing up to a reasonable level. Having said that, we are open to the various financing options as and when opportunities arise.

Marine Money Asia: We notice that the company relies on a large proportion of charter-in tonnage for its containerships. Moving forward, is this going to change? Any plans to acquire bigger boxships?

Mr. Das: In the past, we used to place a lot of emphasis on flexibility and therefore we relied mostly on chartered tonnage. In 2005, we had gone through a period of capacity crunch. We could not get our hands easily on desired capacity which was a hindrance to our growth. We want to see a better mix now – having one third of the fleet owned, one third on long-term charters and the remaining one third on spot charters from outside shipowners. This year, we will have five newbuildings on long term charterers joining our fleet. We are not in the Asia-Europe trade and neither do we have an ambition to be a long haul container shipping player. We will stay committed to our business focus as a feeder line for our customers in the long haul trade. 1,000 TEU and 1,700 TEU vessels are the right sizes for us.

Marine Money Asia: Glancing at the fleet list, we notice the company operates three offshore support vessels. Are there any plans to expand further into the offshore segment?

Mr. Das: Actually we have been in the offshore market for many years but our market presence is very Indonesia focused. Given our resources, we don't think we can be in every segment. We are participating in some tenders for offshore projects in Indonesia. In a nutshell, we do look at the offshore segment but in a very selective manner. We have quite a bit of ambition for container shipping and we are trying to go regional for our bulk business as well.

Marine Money Asia: What are the challenges that the Indonesia shipping industry is facing at the moment?

Mr. Das: One of the main challenges in the Indonesian shipping industry is the country's regulatory framework. The ambiguities and overlaps cause confusions. The second aspect would be the legal framework. Even today, you find it difficult to get international banks willing to finance projects with Indonesian flag. It's not that the money is not there. Banks need the confidence that their rights can be protected.

Marine Money Asia: Are Indonesian banks stepping up to the plate in ship financing?

Mr. Das: Yes, there are a few banks interested in ship financing but ship financing is after all a much specialised field. Not every bank has the expertise and the resources to evaluate and appreciate shipping risks.