



“Aban Offshore Limited Q3 FY16 Earnings Conference
Call ”

February 02, 2016



MANAGEMENT: **MR. C P GOPALKRISHNAN – DEPUTY MANAGING
DIRECTOR & CFO, ABAN OFFSHORE LTD**
**MR. S SRINIVASAN – SENIOR VICE PRESIDENT, ABAN
OFFSHORE LTD**
MR. RAVI K –DGM, ABAN OFFSHORE LTD

MODERATOR: **MR. AMIT MISHRA – SR. VICE PRESIDENT - OIL AND
GAS SECTOR - INSTITUTIONAL EQUITY RESEARCH,
AXIS CAPITAL LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Aban Offshore Ltd. Q3 FY16 Earnings Conference Call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Amit Mishra from Axis Capital. Thank you and over to you Mr. Mishra.

Amit Mishra Thanks Margreth. Good morning everyone. On behalf of Axis Capital I welcome you to Aban Offshore Ltd. Q3 FY16 Earnings Conference Call. We have with us Mr. C P Gopalkrishnan and Mr. Ravi. At this moment I would like to hand over to call to Mr. Gopalkrishnan for his remarks followed by a Q&A session. Thanks, over to you sir.

C P Gopalkrishnan Good morning ladies & gentlemen. I welcome you all to the conference call. To start with it you look at the quarter ending income has come down from \$152 million to \$110 million and has resulted in a profit after tax loss of 13.37 against profit of 19.15, mainly on account of lower utilization rate on account of on lower oil prices prevailing in the market today. Many of the rigs are lying idle and there is since uncertainty in the minds of many of the oil companies what to do next. So these are things and I will ask Srini to update you with the status of the contract and then ask whatever questions you have. Thank you.

S Srinivasan Good morning everyone. As far as the Indian company Aban Offshore the parent company Rigs are concerned, the Rigs Aban-II ended its previous contract with ONGC on 22nd October and during the remaining period of the quarter it was under refurbishment. It started its fresh contract with ONGC on 23rd January, 2016 and there is a reduction in the day rate. The previous day rate was around \$51,000, revised day rate for the new contract is about \$45,000. So that is the only change in Aban Offshore. Otherwise the rigs Aban-III, Aban-IV and Aban-Ice and Aban VI they were working for the full quarter. The rig Aban V and Sahara were not working. As far as Aban Holdings, the Singapore company's rigs are concerned, the rigs DD-1 and Aban Abraham they were working for the full quarter. Thereafter rig DD-2 was not working because it ended its previous contract sometime in September but fortunately we have been able to sign up a new contract in the current month so it has restarted work somewhere around January 25th but the revised day rate is around \$110,000 per day. DD-3 it ended its previous contract on 6th November, 2015 and currently idle. DD-4 it ended its previous contract on 14th October but we were able to renew that for a further one-year period without any interruption. But the revised day rate is only \$110,000 per day. And DD-5 as you know it ended its contract in Vietnam in April 2015 and has been idle since then. DD-6 completed its contract on December 1st and it has been idle now. The DD-7 Pemex made an early termination in August and the rig is idle since then. DD-8 completed contract on 7th December and it is idle since then. The rig Aban-VIII actually ended its contract on 19th January, 2015. It



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was operational for the full quarter last Q3. But in the current quarter it has ended its contract and it has been idle since then. That leaves them with Aban-VII which has been idle for a fairly long time but we got a short term contract. The day rate is \$65,000. This is in Oman. And it is for a one-will contract with the same parties with whom we had worked earlier sometime in 2013 or 2014. That is a one-will contract likely to last for about 90 days. They have some options.

As far as the new activity is concerned if you look at it now the rig DD-2 and D-4 they were working in Iran earlier, so we have been able to renew those contracts. And the rig Aban-VIII and Dd-6 have ended the contact. So we are looking for opportunities in the same regions for these two rigs. For the other rig we are marketing it around the world but in view of depressed oil prices the investment by these oil companies has not been encouraging. That is why I know it is taking time to deploy these rigs. That ends my presentation on the marketing side of the rigs. As far as the bonds are concerned we had a one series of bond which was pending, that is against the rig DD-1. The outstanding bond was about \$87.5. So in view of the market conditions we discussed with the bond holders and we have secured an extension of these bonds for a further 2-year period with an amortizing repayment. So we have to pay in 8 quarterly installments, this amount of \$65 million because we have paid about \$22.5 million upfront. So we have to pay around 8 million per quarter, most likely, it will be a self-liquidating proposal because the rig DD-1 is working.

It has a contract till September of current year. So the cash generated from that rig will be mostly sufficient to meet this bond repayment. So that is picking up and maybe I would like to give an update on the sanctions regime with respect to Iran, as most of you would read Iran signed a comprehensive deal with the five permanent members of the UN Security Council plus Germany and EU that is on 14th of July, 2015 which was adopted by the governments of all these countries on 18th of October, 2015. Thereafter Iran started fulfilling its part of the bargain that is namely removing centrifuges, the stock pile of Uranium and deactivating the Arak heavy water reactor. All these were accomplished by second week of January. So upon verification by the International Atomic Energy Agency all these US, EU and the other countries have lifted the sanctions with effect from January 16th, 2016. Consequently, EU has lifted almost all the sanctions except listing certain individuals and companies for the purpose of asset freeze. All our clients are not on those lists. So very few people related to missile technology and there are restriction on exporting proliferation related nuclear activity related material like missile technology and arms and all that to Iran and certain technology would require clear approval, licensing, something which can be used both for nuclear power plant as well as for building a bomb. So those require specific approvals. This is as far as EU is concerned. As far as US is concerned, US has removed all the secondary sanctions which are targeted at non-US persons, i.e. non-US persons, people like us are allowed to deal with Iran and even subsidiaries of US companies are allowed to deal with Iran. Of course there is a restricted list. There are certain people who are named for other sanctions like related to Syria



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or human rights abuse, all those list someone is mentioned in those lists we cannot deal with them. So this none of our clients is on those lists. Only restriction which continues to apply is US persons, people who are US companies or US citizens they are not allowed to deal with Iranian people or export anything or have any dealings with Iran. This applies to transactions in US dollars which are cleared through the US banking system. No payment related to Iran can be processed through the US banking system. So this restriction applies. And following US most of the other countries, EU countries like Norway and Germany, Switzerland and all these countries have aligned their sanctions regime in line with what is currently imposed by EU, that means it is completely liberalized. There are countries like Japan, Singapore, these countries also had some amount of sanctions, all those have also been lifted. So that is an update on the sanctions regime. So now I throw open the floor for questions.

Moderator Thank you very much. We will now begin with the question and answer session. The first question is from the line of Abhishek Agarwal from Macquarie Capital, please go ahead.

Abhishek Agarwal My first question is to do with the stress that is obvious because of weak oil prices, at what stage would we be starting to look at options like asset sales for example?

Management Asset sale, today when the industries capacity utilization is around 65%, asset sale does not make sense. We have a fairly long tenure of debt so the only thing like if the lenders are putting pressure then only it will make sense to sell the assets. So even then the value which you will realize will be very meager. So then it will put severe pressure on the residual system. Because see the person who is buying it – who is going to buy it when there is no contract, right? People like us, we are not able to deploy the rate, why would somebody buy it at a good value.

Abhishek Agarwal My question was basically from the point of view of whether lenders are actually trying to do something of this sort because -

Management No, as I mentioned to you the rig DD-1 it was basically offered a security for the bond holders so that is like the total bond value is about \$87.5 million. So we have secured an extension from them.

Abhishek Agarwal My second question was on the Iran sanctions that you have explained in detail what exactly the Iran sanctions regime being lifted does but could you give us a little more color on what impact it would have on us specifically?

Management The main impact we expect the receivables or the billings from Iran to be realized in a much more streamline manner because as we explained in the last call there was a build-up of receivables in Iran because they did not have avenues to make payments. So we expect this to get eased which will improve the cash-flow position for us. In terms of operating cost, we feel that some of the elements like insurance because which we will have a wider market to choose



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from because EU has completely lifted the sanctions on insurance, so all the EU entities are allowed to deal with Iran with respect to insurance, which was not available earlier. So that had pushed up the cost because we had to then resort to very narrower markets where the premium was very high. So when I am able to access the wider pool for insurance my cost of insurance is likely to come down. The other advantage I mentioned is in terms of cash-flow, in terms of realization of receivables. Third is, some of the operating cost like some spare parts which are available in Europe but we had to pay a higher cost because we had to source locally. Those spare parts I think we will be able to procure it in a much more efficient manner. Mostly the important thing is the stigma which is attached to doing a business with Iran that has gone now. Actually now we are not treated someone like for example there were several investors who were not investing in our company because we had dealings in Iran. Several banks were not willing to deal with us. So all that stigma will be removed.

Abhishek Agarwal

But can we go about quantifying let us say at least the insurance bit or would you be having some amount of -

Management

It will be very difficult. It is too early to call numbers because see everything cannot be attributed to a number realized because I agree that you would like to quantify everything into a number but it is too early to do that. It is only 15 days over since the sanctions have happened because the insurance normally now gets renewed on April 1st so we should know the premium from the other market, European market only around end of March.

Abhishek Agarwal

Okay , so that would be the timeframe in which we will be able to probably hopefully achieve something. My final question sir, these rigs that we are trying to market obviously the scenario being such it would not be easy, so which of these rigs or rather what segment of the market is where you think that the first signs of let us say a bit of revival could come through and why?

Management

See it is basically same across this market segment. If we look at Iran, so what we hope is you know probably within this quarter there is a good chance that some of the rigs which got de-hired from Iran i.e. Aban VIII and DD-6 will be able to deploy it back there. And as far as we have got one rig de-hired from Mexico in August so that we are targeting the same market where the rig is still stationed there. So the three rigs now which are in Southeast Asian region i.e. DD-3, DD-5 and DD-8, so probably it will take some more time. There are some leads but they are not as advanced as compared to the other regions, like Middle East and Mexico. There were opportunities in the other regions but I mean like we have participated in Indonesia and we have participated in Middle East and also in non-Iran we have participated for one or two tenders. But because of the oil prices decision making is taking time.

Moderator

The next question is from the line of Siddhart Saikia from Financial Express. Please go ahead.



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Siddhart Saikia Can you just give an idea in the Indian scenario that over the past one year with the fall of crude prices how much have the rig costs have come down for companies typically like ONGC maybe in a percentage manner?

Management It is very difficult because we are having only 4 rigs operative with ONGC. With totally no ONGC has nearly about 32 rigs, so we would not be able to have that kind of hit.

Siddhart Saikia Okay because sir ONGC sometime back told us that they have had new rigs at around 22% cheaper than that tender cost.

Management No, no, that must be compared to the previous tender. So that is probably right. They are the right people who can give data relating to ONGC. We cannot comment on their cost.

Siddhart Saikia Sir, I have another follow-up question with relative to ONGC's development in KG Basin. We know that it is taking some time but as an industry what fillers are we getting? Do you see any business coming out from ONGC's KG Basin Block?

Management We would not be able to comment on our clients.

Siddhart Saikia Okay, and one last thing, would you like to quantify how much is your outstanding payments from Iran?

Management We have nearly around I think about \$280-290 as of December 31st.

Moderator The next question is from the line of Amit Shah from BNP Paribas. Please go ahead.

Amit Shah So just one question, can you just give us the debt and cash figures?

Management Yeah, the debt figure is about \$2211 million.

Amit Shah And cash?

Management Cash is negligible.

Amit Shah And of this \$2211 million how much is due for not this financial year but for FY17?

Management Yeah, FY17 we have about \$120 million or something.

Moderator The next question is from the line of Harshal Mehta from ICICI Securities. Please go ahead.

Harshal Mehta Hello sir I would like to know what have been prices of assets in your category, how they have faired as compared to earlier years?



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- Management** No new transactions have happened here. With rig building as you know nobody has ordered new rigs because the markets are not very good. So we do not know the prices of new build also.
- Harshal Mehta** And with regards to our debt how much would be the rupee debt and how much would be the dollar debt?
- Management** Most of it is dollar, I mean hardly about 2-3% is in Indian Rupees.
- Harshal Mehta** And sir with regards to receivables how much do we see it coming down may be one or two years down the line with scenario improving?
- Management** No, basically it is too early to give a timeline to it. So we are taking steps like to realize these receivables because the main issue was the sanctions rejects. Now that it is lifted, so we are taking steps probably we are not able to – because it is only 15 days since the sanction was lifted. So we hope over some period this will come back to the normal level.
- Harshal Mehta** And with regards to the other debtors, how were they paired other than Iran? So our working capital -
- Management** Basically the clients in Southeast Asia there is no issue because they were always regularly. ONGC also paying regularly. So there is some issue in Pemex within Mexico. Basically I think Mexico not only for us I think for all their clients they have been negotiating an extended credit term. So I think the discussion is going on. I think they have not paid for quite some time not only for us but for all their clients.
- Moderator** The next question is from the line of Mahesh Sarda from Exide Life Insurance. Please go ahead.
- Mahesh Sarda** On this DD-4 I just wanted to understand the renewal happened you said for one year.
- Management** Yeah, renewal happened because the earlier contract ended on 14th October.
- Mahesh Sarda** So was it idle during this October to December period or it was working?
- Management** No, no it was working.
- Mahesh Sarda** Okay, and on the Iran cash-flows you said about \$280 million of cash-flows are there and receivables are pending. Just wanted to understand how has this increased over the last one year?



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- Management** Quite substantially. Last one year it has rather increased it to high, so they are finding it more difficult to pay those.
- Mahesh Sarda** What would be a steady-state cash-flow I mean just to get the perspective that over a period of next 12 months what are we expecting in terms of easing of -
- Management** See ideally before the sanction regime was there this figure would have been about 2 months billing, maximum all put together about \$50 million. So it is at actual level. But it slowly increased from FY13 onwards. The maximum increase happened in FY15 because probably it would have been around \$170 million or something in March 2015, because in FY16 there is an impact of both the sanctions as well as lower oil prices. So they were not allowed to sell their oil outside the countries like India, China, Korea and Japan and the money was to be used only for bilateral trades. So there was a lot of restrictions in arranging this payment. So that is why they could not do it but hopefully with the sanctions being lifted we should be able to access some of these funds.
- Mahesh Sarda** So basically it was about 5200 in FY12-13 and then it increased to 150 and now \$2280 million which is quite substantial account. And on this DD-3, 5, 8, I understand that DD-5 was also working in Iran about a year back. So would you look at with they are opening up over the next 12 months?
- Management** Our first focus is these two rigs which are in the same region Aban-VIII and DD-6, we are trying to deploy them there. Once you are able to deploy them so that we have other old rigs, so Aban-V is also stationed in the same. So these three rigs we are targeting initially. If we are able to get the contract probably then we can look at more rigs.
- Mahesh Sarda** Aban-V is also stationed in Iran?
- Management** Not Iran, Middle East.
- Mahesh Sarda** And you mentioned something on these 3 rigs, DD-3, 5 and 8, you were saying that you are looking at trying to deploy them.
- Management** It is the same region, like Southeast Asia region. There are some opportunities but see as you know the rig DD-3 has been working in Malaysia since it was delivered. That was delivered in October 2006, so now nearly for about 9 years it was working in the same country for the same plant, Petronas. Initially it was working for Shell thereafter for Petronas. So basically I think they do not have a job because they do not want to commit on exploration production activities now. So once we see some signs of improvement in the oil price probably they will look at deploying rigs again. So at that time we make it an opportunity.
- Mahesh Sarda** Okay, fair enough. So basically some stability in oil is required more than anything.



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Moderator The next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.

Miten Lathia Just wanted to check on this 280 to 290 million receivables, is it entirely Iran?

Management No, no, this is receivable from Iranian clients, so we have about another \$60 million from the other clients.

Miten Lathia And so basically the \$60 million of others is perfectly normal and this \$290 million goes to -

Management Yeah, even under that I mentioned about Mexico. Mexico also has not been paying for the last nearly 4-5 months.

Miten Lathia So there the over-dues would be another \$20-30 million or -

Management Yeah, I think around \$30 million left.

Miten Lathia And is there any visibility of that normalizing or how would that work?

Management See it is like they have gone ahead, they have gone and they are renegotiating the credit terms. So Pemex is renegotiating the credit terms with the people because of the lower oil prices, so I think we hope to get it soon because they also know that people need to be paid at some point of time.

Miten Lathia And 280-290 has there been any communication at all with Iran as to whether they have a schedule that they will follow or -

Management See we have been putting pressure to collect the entire thing upfront. But we hope to collect it over a period. But what will be that period at this stage it is too premature to comment on that. So once we start getting some inflows then we will be able to predict how fast it will come.

Miten Lathia So post sanction lifting there has been no dialogue on this.

Management No, no there has been dialogue. So we have to also now keep a dialogue on deploying the rigs as well. So the un-deployed rigs also had to be deployed. So it is only 15 days since the sanctions were lifted. So it is too premature to comment on how fast this will get paid.

Management: There is a continuous dialogue with them. They also know that we need to pay. We are also interested to pay. The sanction issues were there. We are going to resolve. Minor issues need to be resolved, the backing, communication, correspondence, all those issues have to be resolved.



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- Miten Lathia** So I mean Indian refiners has sort of overdue payments to Iran and they are now sort of releasing their payments. So is there a government mechanism that we can look at or is there no such dialogue on?
- Management** See we are trying through various alternatives here because we cannot openly comment on what we are doing. Basically we are using multiple channels to resolve this.
- Moderator** The next question is from the line of Pratik Poddar from ICICI Prudential. Please go ahead.
- Pratik Poddar** Sir I am sorry, I joined in a bit late. Could you just talk about why could you not re-contract the Iran rig which was due?
- Management** These rigs have completed 2 cycles of work in Iran, nearly 6 years. Most of it has been working for about 6 years, so they do not want to renew it without going through a tendering process. So that is what has been going on and moreover with lower oil prices, they are also redrawing their work program, how many wells to be drilled and which are the fields which need to be done. And they also would like to see whether they can get rigs from any other just to have a wider price discovery process.
- Pratik Poddar** My understanding was Iran would be looking to ramp up production, right? At least that is what -
- Management** You are right but not ramp up production means the rig it is not like driving a car out of a showroom. It is basically like you have host of other activities.
- Management** They need to go through their tender first.
- Management** Because these are all government entities. Earlier they had options when the markets were good they were exercising those options. Now those options are not there. So they are also now subject to so many audits. So they have to go through the tendering process and all that.
- Pratik Poddar** Has the tenders been open or have you applied for these tenders?
- Management** Yeah, we have applied.
- Pratik Poddar** Would you be able to talk about whether the tender would be lower than what you had earlier?
- Management** I have given you the rates. The rates for DD-2 and DD-4 are around \$110,000 currently, the revised rate.
- Moderator** The next question is from the line of Jimit Mehta from B&K Securities. Please go ahead.



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- Jimit Mehta** Sir could you just give us some sense on how many rigs would be working in Iran like globally all the operators put together?
- Management** 26 rigs.
- Jimit Mehta** And for the tenders that you are applying for how has been the competition because I assume that a lot of rigs would be coming to Iran now.
- Management** No, no, not much, I do not think the scene has changed. If we look at it the rig owners other than the Asian owners there are very few European owners. Mainly there are American owners. They have still not entered the market.
- Jimit Mehta** And so if say down the line if the oil prices remain where they are and if they do not pick up, do we foresee a situation where we need to coal stack some of our rigs just to save on cost? Is that a possibility like we did with Tahara?
- Management** No, no, what we have done is like the rigs which are in Middle East we hope to get the contracts, so they are actively marketed with a good amount of people there. So the rigs which we have DD-3, 5 and 8, all the three rigs we have parked in the same location. So that is why we are operating them with minimal people.
- Jimit Mehta** They have hedge that basically.
- Management** Yes. But we have saved on cost because all of them are in the same place.
- Jimit Mehta** Okay, understood. How long can one wait before you take a decision on whether to coal stack? Is there a timeline that you follow?
- Management** No, no more than the coal stack it is all basically on the cost, cost which we are incurring there it is not very high.
- Moderator** The next question is from the line of Sumit Pokharna from Kotak Securities. Please go ahead.
- Sumit Pokharna** Sir just a small clarity on the interest part that has increased marginally by say 5%. Can you give me some more light on that and also on the tax part?
- Management** See interest, it is basically like because some of the debts if you look at it they are all linked to Libor. The Libor has gone up. So that is the impact.
- Sumit Pokharna** And going forward any guidance on the tax part?



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- Management** Tax part if you look at it, it will be linked to revenues. Our consolidated revenues there are two components. Basically the Indian company's revenues, so there I think there would not be any major change in the tax but as far as the Singapore company's revenues are concerned it is basically a percentage on the revenues. So with revenues coming down tax also will come down. It will be very difficult to give a guidance on the actual rate because this is a blended rate. So the set of revenues component has rate based on revenues, tax rate, other one based on profit.
- Sumit Pokharna** One more long term in nature in question, government is looking for hiking the domestic gas price for the defaulter blocks. If it happens in this budget or near about that, do we see any opportunity in getting for deploying more rigs out there or is it still too distant a dream?
- Management** No, see our rigs can work both for oil as well as the gas well, but typically if you look at the Indian gas field is a deep water field. So we have only one rigs, like Aban Abraham just capable of working indoors. I do not know whether there will be much of opportunity there.
- Moderator** The next question is from the line of Amit Mishra from Axis Capital. Please go ahead.
- Amit Mishra** Just wanted some update if you have any in terms of new builds if anything is happening and what is happening to the contracts which were given for new builds which were expected to come in CY15 and CY16?
- Management** New build if you look at it, there has not been much of new orders in 2015. Most of the orders were placed in the previous years. As of now we have Jack-ups new build on order is about 126 there but most of these people are now, the people who have placed the order on deferring deliveries because one is now financing itself is a difficulty and they do not have any kind of contracts in the pipeline. So just to give you an update, this is on the total rig and in the year all classes, semi, subs and drill shifts put together, 2013 62 rigs were delivered, 2014 55, 2015 only 31. So I think the order placing has slowed down considerably.
- Amit Mishra** And are there any penalties or something that the companies will have to incur if they have ordered?
- Management** Yeah, you do not mind like see most of them are financed by the yards, most of these cases they are placed only an upfront deposit, I mean upfront payment, which is very-very meager, either 5% or 10% of the cost. So a lot of people are deferring it. If you are cancelling it basically it is very unlikely that the yard will refund any money but people are willing to forego that.
- Amit Mishra** And the other question I had was you mentioned during the call that the US operators are still not very aggressive in terms of going for recorders and all, so do you foresee that if Iranian tender comes the Trans Oceans or even the other competitors might come in or you -



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- Management** Fun is on the restrictions, as of now US companies are restricted. But subsidiaries of US companies can still operate. But it will take some because they are very cautious. Moreover, all these people work with US spares and all that so a lot of US citizens work there. So it will take a while before the subsidiaries of the US companies coming to this market. And in any case we are okay because we are competing with them in all the regions, even in Southeast Asia, India we are competing with all the major US companies.
- Amit Mishra** And the other part is around \$99 million of earlier banks once which we were restructured in due in CY16 plus \$30 million odd of the bond holders that have been renegotiated. So we have around \$130 million in the next 12 months or so.
- Management** CY16 16 I do not have the exact data. We have no data for FY17, so that is what I gave you. FY17 is about \$120 million.
- Amit Mishra** And most of it should come from your receivables only, given the weak environment in the rig side.
- Management** Yeah we are working, I mean basically both from the operational cash-flows because see realization of the old receivables is also an operational cash-flow only, right?
- Amit Mishra** Now, what I was coming to was that bond repayment schedule we have but what about this \$90 million odd of old restructured bank loan, what quarter or what month is it due?
- Management** This is the repayment schedule. There is no change is that, yeah.
- Moderator** As there are no further questions, I would now like to hand the floor over to Mr. Amit Mishra for closing comments.
- Amit Mishra** Thanks Margaret and thanks a lot to Mr. Gopalkrishnan and Srinu for taking us through and taking time out from their schedule to address investor concerns. Thanks a lot sir. Over to you.
- Management** Thank you Amit for organizing this and thanks to Margreth also. Thank you everybody.
- Moderator** Thank you. On behalf of Axis Capital Ltd. that concludes this conference. Thank you for joining us and you may now disconnect your lines.