

"Gujarat Pipavav Port Limited
Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Gujarat Pipavav Ports Limited 2QCY14 results Conference Call, hosted by Ambit Capital Private 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 now hand the conference over to Mr. Nitin Bhasin from Ambit Capital. Thank you and over to you Sir!

Nitin Bhasin: Good afternoon, everybody and congratulations to the team of Gujarat Pipavav for posting such a good set of numbers. We have Mr. Tulsiani and Mr. Hari from Gujarat Pipavav today to give us more sense on what is happening in the business right now. Over to you Sir!

Prakash Tulsiani: Thank you, very much Nitin and good afternoon to everyone, thank you for this. Let me straight away jump into the presentation which is already available also on our website and I think most of you must have viewed it by now, if not then I will take you through any which way. I have the key highlights on Q2 2014. On the container cargo it is the best ever quarter we have had. We have handled 202,844 container TEUs which is the best ever quarter and generally Q2 for Pipavav is amongst the weakest quarter in the year and when I say Q2 we are of course calendar year, that is why we call this as Q2 and despite being the weakest quarter in fact it has posted the best ever results we could have imagined so it has been on the back of 8% increase in volume versus Q1 2014. It has been on the organic growth and new services, organic growth with strong intermodal volumes. We have been discussing about our proposition on railway, and than that has been the value proposition, which has played extremely well, and that has got us the extra volumes apart from the organic growth. Upsizing of two services, there were two services which were upsized during the quarter and also there was a consortium which started actually sometime in the month of March, which has paid high dividends and this consortium which is called I3 has brought extra volumes for this quarter.

Also we gained one line in the last quarter, apart from the one which we gained in the month of March. So, all put together, this has helped us in increase of 8% in volume versus Q1, but if we compare this with Q2 2013, that is Y-o-Y, we have a 42% increase in volumes and if we have to compare Y-o-Y, it is two new services, one upsize and organic growth. So new services which started during the second half of 2013, which we had discussed actually in the month of September last year if you would recall, that is also ramping up volumes and you know paying rich dividends. In terms of new services, we have talked about in the previous bullet and that is the two services which have started. Then we have 66% ICD throughput, no other port on the west coast has such a co-efficient of rail co-efficient, compared to the total throughput 66% of volumes go via the rail. In terms of bulk and general cargo, this was containers which we just discussed. In terms of bulk, we have 19% increase in volume versus Q1 2014 that is immediately preceding quarter and this is on the back of higher coal, fertilisers, and wheat.

Coal specifically upcountry coal and then newer plan gain. In terms of wheat, it is a good harvest last year, which is still continuing to be shipped out of India. However, if we compare ourselves with Y-o-Y we have a 19% decrease in this quarter, but if we take first half of 2013 and compare it to the first half of 2014, we are almost in line with the numbers what we have declared in the first half of last year. Financial results, we have Rs989 million as EBITDA, a 7% increase in the EBITDA. The margins have been steady at 59%. This is all compared to Q1 2014. We have highest EBITDA recorded so far which is Rs73 million higher than Q1 2014. Also, this is on the back of higher container volumes, better commodity mix, excluding one off margins, and they are in line with the previous quarter. That being said, if we compare ourselves year on year, there is an 80% increase in the EBITDA while 30% increase in margin. This is on the back of new services, upsizing and cost efficiencies with respect to equipment hire.

In terms of net profit, we are at 80 crores or 805 million. This is a 32% increase versus Q1 2014 and 128% increase versus Q2 that is Y-o-Y 2013. This is the best result so far excluding one-time dredging cost, if you would recall in the last quarter results we had talked about 102 million. This is a 13% increase over preceding quarter and Y-o-Y it is 102%. Let me take you to the next slide, which is an operational highlight. As discussed this is the best quarter ever, and if you compare with Q2 2013, this is a substantial increase and we are very pleased with the performance which the company has shown in this quarter. Bulk volumes as discussed, they are higher than the immediately preceding quarter but lower than Q2 2013, because the bulk volumes are unfortunately we cannot predict which quarter will the goods come in, but if I see as I said about the half year, then we are almost on the same number. Rail volumes are doing well and double stack is really helping last year by attracting more and more volumes, because we have been able to evacuate it faster and in a more efficient manner. So this is the value proposition which brings us here.

In terms of operational highlights, these are local volumes, robust volumes in spite of cotton and reefer season fading away that has been good. Overall growth in both export and import, and rail freight differential pays against that in terms of bulk volume, so we have generally done well, and all front, so good quarter to summarize. Infrastructure developments, we have port main road which we have done some works over there. We are doing some capex on securing the boundary by making the boundary wall. Then we are making some social infrastructure development with residential buildings and club house for the members staying at the port and also some other development on social infrastructure. This brings to the financials that I will request Hari, our CFO, to share his comments.

Hariharan Iyer:

Thank you Prakash, and good afternoon to you all. Starting with an overview for the quarter as Prakash mentioned during the start of the presentation the total operating income at 1,683 million in this quarter is best quarter revenue so far and beats our earlier best in the previous quarter by about 8%. In this quarter we handled the highest container volume so far in a quarter 202,844 TEUs, up again 8% from the previous best in the last quarter. Bulk volumes were also up in this quarter mainly driven by higher coal and fertilisers. EBITDA at 989 million is the highest quarter EBITDA so far. The margins at 59% range in line with the earlier quarter. The highest quarterly

net result at 805 for the quarter up 32% from the previous quarter and 128% higher compared with the same quarter previous year. The net result, for the half year ended when you look at it onto the first half of 2013 versus the first half of 2014, then the half year ended at Rs1,416 million as the net result for 2014, which is about 100% higher compared to the net result in the first half of 2013 at 706 million.

Moving to the specific elements in the financial results, first on the income side, container volumes, largely driven by strong intermodal volumes in growth in the local export cargo. Export of commodities like rice and wheat from Pipavav started picking up. Compared to the same quarter previous year volumes are higher by 42% both driven by organic growth, upsizing of certain vessel services which were there, and also newer services which were added during the course of the period from the last year to the current year. Similar to the previous quarter, we have a reversal of accrual of 99 million on account of commercial contracts which got completed during the quarter. Higher colon fertiliser volumes during the quarter, overall bulk volumes higher by 19% compared to the previous quarter, however, as mentioned by Prakash, when we look at it on half yearly basis, then we are more in line, partly there are movement on Q-o-Q basis, but on half yearly basis we are in line with what we did in 2013. The other operating income, no significant changes in the other operating income. This mainly consists of our lease rentals, reefer electricity, etc.

In summary, the total revenue at 1683, highest quarterly revenue so far up 8% from the previous best and up 38% from the same quarter previous year. On a half yearly basis, largely driven by higher container revenue, higher container volumes, better realisations, tariff revisions which happened in the middle of August 2013, all that has contributed to better margins, better realizations, and of course better revenue and bottom line. Bulk volumes remain more or less same at the previous year's level, while the mix of the commodities has changed. We have more coal and minerals and lower fertilisers during the first half of this year. On the expenditure side, on Q-o-Q basis, operating cost higher for the quarter on account of change in the bulk commodity handled. We had higher fertilisers and higher agro commodities during the quarter. Other expenses include a favorable write back in the previous quarter of 5 million. All other expenses are generally in line with the previous quarters.

Actually if you study the first half of 2014 versus the first half of 2013, then the expenses are more or less flat at the same level. This has resulted in a positive impact in the EBITDA and the margins whilst our revenues have grown up, therefore the EBITDA and the margins have seen a significant improvement of 71% and 30% respectively. Margins in the quarter in the 58% to 59% range while when we compare it with the first half of this year versus the first half of the last year, it has jumped from 45.41% in the first half of 2013 to 58.85 in the first half of 2014. Other income represents interest on fixed deposits, sundry balances written back, we have a filed amount of cash balances in the books and the other income mainly on account of higher interest in the fixed deposits awaiting deployment for the expansions and/or other plans which we will discuss.

In summary, the best quarterly performance so far with all key financials, revenue, EBITDA, PAT, registering new highs on the back of highest container volumes and steady bulk volumes. Moving on to the balance sheet, no significant changes from the previous quarter or the year end numbers of 2013. The only thing that I would like to bring your attention to is the cash balances that we have got deployed at this point of time. We have taken the next step forward in deploy this cash. What we have done is given a notice for prepayment of the loan which is currently in our books. So within a week's time, we would have repaid our existing term loan in full and with that we will be a debt-free company by the end of next week. The new project which is going to happen will come out of the new ECB funding that we have tied up with IFC that is also in place. So going forward any draw down, which would happen, would happen for the project from the ECB funding. With this I end my presentation and the floor is open for questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentleman, we will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentleman, we will wait for a moment while the question queue assembles. Thank you.

Nitin Bhasin: I will first go with a few set of questions. You have gained a lot of volumes in this quarter, so could you just give us a sense on what is happening in the overall western container trade market and the gain that you had is the market share gain over others or is it the gain in the industry by itself?

Prakash Tulsiani: Nitin, first of all, if I have to compare ourselves with Q1 2014 that is immediately preceding quarter, the market overall has fallen by 2% and we have gained, but if I have to compare ourselves with Y-o-Y there has been a growth in the market of 18%, but we have grown faster than that and higher than that at 42%. Despite market falling, we have gained by approximately 8%, immediately preceding quarter we have gained 8%.

Nitin Bhasin: Okay, great Sir, and most of this gain are you saying that it is between you and other competitors of large nearby, are they gaining on JNPT, is that the right way to look at it?

Prakash Tulsiani: Well, I think so it is because JNPT has remained stagnant, so we are gaining on top of them.

Nitin Bhasin: Okay, as well, if you could give a sense today how many lines are now calling on a weekly basis at the port for containers today and how much more can we add over the next quarter or two or three?

Prakash Tulsiani: As you would recall that we have come up with a capacity expansion. The reason for this capacity expansion is because yes, we are very close to our utilisation numbers, yeah, we can accommodate more services, it is not that we do not have birth space or yard, we can, but looking into the future and as we are expecting that the economy should turn around and we should do

better, we are preparing ourselves to meet that increased volume as they would come, let say a year or so from now.

Nitin Bhasin: Okay, so that means upsizing which you have displayed in this quarter, this upsizing should be one of the major drivers of volume growth whilst the new facility expansion that you are doing are underway, and before that upsizing will be the main driver with one or two more lines getting added.

Prakash Tulsiani: We are hoping to add lines, if they call on us, we will never refuse business, so I will not say one or two, we will continue to look for business and if there are opportunities we will grab all of them.

Nitin Bhasin: Okay. In terms of what would be the Maersk share today in container volumes?

Prakash Tulsiani: It remains almost the same in the range of 30%.

Nitin Bhasin: Okay and in this case, also because how many boxes are now moving by double-stack trains today?

Prakash Tulsiani: The double stack is gaining momentum as I would say, whilst our total volumes are increasing double stack also is continuing to grow and it is continuing to show this growth Q-o-Q. Presently, I expect approximately 35% of our volumes are in double stack.

Nitin Bhasin: Okay, and because the double stack makes more sense for North India interland connectivity, today what could be the NCR load that you are handling #1 if you want to share that and what is the advantage in terms of ours over IS, JNPT or the other competitors that you have around yourself?

Prakash Tulsiani: Let me say that I do not have the breakup in terms of what is only for NCR. For me everything is west coast and our volumes, so we consider anything going on rail which is important, because whether it goes to NCR or it goes to any other destination, it is equally important to give a very efficient and a fast service. So, we continue to focus on irrespective of the destination that we have and in terms of timing, I think we are in line with others and slightly better, that is the key reason that we continue to grow on our volumes on the rail.

Nitin Bhasin: Okay, and the last one from me would be what is the driver of this volume growth that you mentioned on a Y-o-Y basis of industry 18%. It is exports that is increasing or is it imports?

Prakash Tulsiani: No, it is both gaining traction with the stability in the US dollar rate versus Indian rupee, I think the imports have also started coming in because any trader would like stability because then he can determine what he can do with his goods which he purchases and similarly for exports also. So I would say, both have grown in tandem and the exports as well as imports are doing fairly well.

- Nitin Bhasin:** Okay, so would that be fair to assume that pretty much your volumes are balanced right now or you have a little bit more on the import side and lesser on the export side?
- Prakash Tulsiani:** Generally balanced.
- Nitin Bhasin:** Thanks a lot, we will now open the floor of questions, I think we have a few queue.
- Moderator:** Thank you very much. We have first question from the line of Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha:** Hi Sir, congratulations for a great set of numbers. Sir, my first question is now we are analysing at 0.8 million TEUs in container volume. So what is over and above our rated capacity that we can do?
- Nitin Bhasin:** Well, as I said, if there are volumes available we will grab them. Yes, there are short-term improvements we can do and we will continue to do that. So right now our rated capacity is 850,000 TEUs and I would maintain that for now. As and when we see that there is increase in volumes and we need to create more, we need to create more yards and we will continue to do that.
- Amit Sinha:** Okay Sir and according to our plans the new capacity will get added by Q1 of CY16, just wanted to ask because of the volume surprise are going to expedite the capacity addition programme?
- Nitin Bhasin:** That is already expedited and that is the reason we went in for a revised expansion plans and that was because we were getting delayed due to all this green tribunal issues, so it is expedited.
- Amit Sinha:** Okay, so again we expect before Q1 of CY16?
- Nitin Bhasin:** I think it is too early for me to give any date, because it is just commenced, so please allow us some more time and we will continue to update all the concerned stakeholders on where we are.
- Amit Sinha:** Sure Sir, and my last question is on the margins, now we have done around 59% of EBITDA margin in this quarter, how much more operating leverage do you think is there in the system, what kind of margins we should expect from the business given strong volume growth of 20% for the next two years?
- Prakash Tulsiani:** One of the key elements remains in the container business, as we see container business we will continue to see improvements in the EBITDA margins. One key element that will also come in to play is our liquid cargo which is yet not fully commenced in a manner we would have like to see in Q2, but we expect in the coming quarter that will pick up and that should also give us the traction for better margins.
- Amit Sinha:** Okay Sir, thanks a lot.

- Moderator:** Thank you. Next question is from the line of Aditya Bhartiya from Espirito Santo. Please go ahead.
- Aditya Bhartiya:** Sir, can you please tell us a bit more about the I3 consortium you talked about and how has it headed the port and growing its volumes?
- Prakash Tulsiani:** I3 is a consortium which is running between Asia, when I say Asia it is China and Far East to India. Three carriers have come together, they have pulled the resources and they have actually upsized the vessels. When they pulled the resources, they upsized the vessel, so they have actually gained the market share from versus the competitors and that is what has benefited us.
- Aditya Bhartiya:** Okay, and Sir, secondly what was the average realisation for containers at Pipavav Port in Q2 and if you could tell us how was it different from some of the competing ports?
- Prakash Tulsiani:** The average realisation I can tell you about our realisation, I would not be able to tell about you the competing ports, because this is not available in the number that is published. So it is about 5,500 to 6,000 range.
- Aditya Bhartiya:** Okay, It has broadly stayed within that range 5,000 to 5,500 is what we were having earlier?
- Prakash Tulsiani:** Yeah, now it is we shifted from 5,500 to 6,000, it is in that range.
- Aditya Bhartiya:** Okay, and lastly sir by when can we expect liquid cargo to start getting handled at the port?
- Hariharan Iyer:** In terms of liquid cargo, the trial shipment was held in June first week and we have already seen the volumes starting at the port in the current month that is July. So the volumes have begun though in a very small way, not in the expectations of us, but the volumes have started at the port in terms of liquid cargo and we will continue to see this growing as the months passed by and the tank firm owners complete all the tanks in the first phase.
- Aditya Bhartiya:** Okay, thanks a lot Sir.
- Moderator:** Thank you. Next question is from the line of Shashikiran Rao from Standard Chartered Securities. Please go ahead.
- Shashikiran Rao:** Okay, Thanks for taking my question. My question is regarding your traction on rates. Where do you see the container rates going from year? Do you see any upside on that front? Secondly, on overall EBITDA margin, apart from liquid where do you see the traction for improving the operating leverage and EBITDA margin coming from?
- Hariharan Iyer:** First of all in terms of our tariff, it is consistent and there is no revision, so the tariff will continue to apply as we go forward. Secondly in terms of EBITDA, as we continue to increase volumes we get the benefit of scale and because of the benefit of scale specifically in containers, the

margins will continue to increase if the volumes increase. The EBITDA margin will also improve once we see more volumes in the liquid cargo front.

Shashikiran Rao: Right, but in terms of your container capacity utilization, you are close to, I would say 90% capacity utilisation if you look at it from only on this quarter, am I right about that?

Hariharan Iyer: Yeah, we are in the range of 85% on in terms of our volume capacity, but as I said we will continue to accept all business, we will never reject anything, so as the volumes increase we will see the EBITDA margins also improving.

Shashikiran Rao: Okay, and in terms of expansion how would your operating cost change once your expansion is completed in FY2016?

Hariharan Iyer: There will not be any significant change in the operations in fact this could probably give us some more scale benefits, because what we are going to do is replace some old cranes with better and newer cranes. So that will improve our productivity and therefore have a better ability to turn around and that will give you know certain economies of scale as well.

Shashikiran Rao: Okay, thanks a lot, Sir. Thanks for taking my questions.

Moderator: Thank you. Next question is from the line of Nitin Arora from Emkay Global Financial Services. Please go ahead.

Nitin Arora: Thanks for taking my question. In terms of the new line addition, one was NMG, what was the second line addition that happened to us?

Prakash Tulsiani: There are few carriers and they are a part of the consortium, I would not like to name them for commercial reason, but there were two additions we had.

Nitin Arora: The consortium you saying about the I31?

Prakash Tulsiani: Yes, they partnered over there or they have added vessels in that. So they are not key members, but they are partners with one of the partners.

Nitin Arora: Alright, but Sir, then it must be more of a transshipment volumes that would be coming?

Prakash Tulsiani: No, these are all volumes which go into the interland of India and to the north of India.

Nitin Arora: Sir, in terms on the industry growth you know as you said we have grown about, the western coast itself has grown about 18%. There is no doubt that the new liners came into our system, whether it was MSE with Adani, with us and NMG coming in here. So what is your sense, I am talking in perspective of Gujarat Pipavav specifically, when we are seeing certain visibility on the western coast, then you know what was the need to reduce the capex at first just about three months back, there is no doubt we can still do a lot of work on the container side and we can

handle the volumes, but growing at 18%, we could have scaled higher and reached about 1.8 million TUs by building a new berth. So I just wanted an outlook on that?

Prakash Tulsiani: First of all, in terms of our expansion or in terms of creating capacity, if you will see in containers, we have not done any significant changes. We will expand and create a capacity of 1.35 TEUs. What we have done is that we have reduced our capex only. So the end product remains the same, the end-game as far as capacity creation remains the same, but at a lower capex. So we have not taken away any capacity out of the system.

Nitin Arora: Sir, what was the realisation on the ballpark?

Hariharan Iyer: The range of about 300 rupees per tonne.

Nitin Arora: Prakash Sir, actually my question was that there is no doubt that you have not changed in terms of the expansion, I was at the sea side at 1.1 now we are going to 1.3. My point was here that the berth which was 348 meters, if you would have getting such visibility on the system and we would have gone ahead with that Capex, I would have actually taken 650,000 TEUs kind of a capacity at my system, which would have reached 1.9, almost the same terminal which I have at GTI, the same capacity, so I am just asking from the perspective of the growth of the industry when such visibility is there.

Prakash Tulsiani: First of all, 1.9 is not the number, and even if we would have gone ahead and done the berth number 5, we would have gone a capacity of 1.5 million or 1.45 or something like that. So we are in line with that number. I do not know 1.9 number, because we have never ever said that we will get 1.9 by creating berth number 5. So the number is comparable, we were about to get 1.45 or 1.48 versus that we are going to get 1.35 and with a lot reduced capex. Again let me also assure you, that let assume for a minute that the volumes are going to have a runaway growth then we can always go and create the new berth. This is the immediate solution that is to go and create capacity at a very quick pace. The idea is to convert a current berth which is not being utilised fully, which is a bulk business, because of the issues. We have faced on the bulk cargo, we are utilising it for containers, so making the maximum use of our assets and sweating assets which we have today.

Moderator: Sir there seems to be a disconnection from the participant's line, so we will move on to the next question and that is from the line of Jinit Mehta from B&K securities. Please go ahead.

Jinit Mehta: Hi, Sir, congratulations for a good set of numbers. Just to clarify so on the point that the last participant was making so, a few hard to create on new berth right now, said the berth number 5, so that would add how much capacity, the 348 meter berth?

Prakash Tulsiani: That will add in terms of water front including the backend which will gain approximately 650,000 to 700,000.

- Jinit Mehta:** So the key side at 650,000 plus the backend. Okay, and this one more thing, Sir, I think Hari Sir mentioned that there is accrual of 99 million during the quarter, so that was due to a takeoff pay?
- Hariharan Iyer:** Yeah, similar to what we saw in the Q1 of 2013, so we had a sort of more commercial agreements which were closed and the new agreements came into place, so therefore we had an upside on that.
- Jinit Mehta:** Sir, if I am not wrong Sir last quarter was 146 million, corresponding quarter last year was 41.
- Hariharan Iyer:** That's correct, that was from the previous year.
- Jinit Mehta:** Previous year, and Sir just one more question, you talked about that we would be paying off our existing term loan and we will be that free and then we will drawing down from the ECB so what is the sort of difference in the interest rate if you can throw some light on that?
- Hariharan Iyer:** We will have a reduction in the interest cost of roughly in terms of rate, over 50%.
- Jinit Mehta:** Over 50% from the existing rate, okay, and just one last question, on the liquid front, I think I missed out, it has started volumes in this month itself right Sir?
- Prakash Tulsiani:** Yes, you are right, we had a trial shipment in the month of June, post that the volumes have slowly started and they are ramping up as we speak.
- Jinit Mehta:** Okay, and Sir, this one last question, Sir, you said that there was I3 consortium that started, are they still ramping up volumes, do we see an uptake in volumes further from I3?
- Prakash Tulsiani:** That is a good question because what happens is these vessels called Nhava Sheva as well as Pipavav, so the shipping companies balance between the two ports. So I will not be able to give a firm number whether there volumes will increase or go down, because that depends on the shipping lines how much they bring it for the north, so if they have a north volume, they will bring it to Pipavav first.
- Jinit Mehta:** So it could actually go down also if they bring it...
- Nitin Bhasin:** Yeah, it can go anywhere, because we are dependent on the shipping line to bring the volumes. If the market goes down, definitely we will be affected.
- Jinit Mehta:** Okay, one line that you gained in this quarter you are talking about this line itself or that was another line.
- Nitin Bhasin:** No, that's a different line.
- Jinit Mehta:** So what is the sort of vessel size?

- Nitin Bhasin:** No they have become a partner in I3 or an existing consortium. It is a new line for us and they have their own marketing team, they have their own volume, so they add up.
- Jinit Mehta:** But they are a partner in I3, okay. Got it Sir, Thank you so much Sir for taking my questions.
- Moderator:** Thank you. Next question is from the line of Pandit Vijay Kumar from Spark Capital. Please go ahead.
- Pandit Vijay Kumar:** Good afternoon Sir, My question is related to forex risk, am I right in saying that the marine portion and the non-marine portion of income for containers is fully dollar denominated and marine portion is denominated in dollars for bulk volumes. So that would be close to about 60% to 70% of our revenues would be in dollars, am I right?
- Hariharan Iyer:** That is correct.
- Pandit Vijay Kumar:** So in that light, if there is a sharp appreciation in rupee versus USD exchange, what is the policy or the strategy or the thinking at the company level that you are looking at?
- Hariharan Iyer:** In that scenario, we can revise our rates. We are not governed by any specific recommendations or regulations, so we would reassess ourselves and see if there is a possibility of increasing the dollar tariffs.
- Pandit Vijay Kumar:** Right, so you mentioned that currently the tariff is at a rate of 5,500 to 6,000 per TEU.
- Hariharan Iyer:** I gave you a composite rate because the rate is coming from multiple activities.
- Pandit Vijay Kumar:** So this is actually also a competitive rate vis-a-vis other ports in the country in the western coast specifically. So how much of leverage or commutative edge would you have in increasing your tariffs further if the exchange rate appreciates?
- Hariharan Iyer:** See this is a very dynamic thing we need to continually study the market and see how the capacities are available, where the cargo is moving and therefore what is the leverage that we will have with our rates. So it is not something that we can sit down and decide in any given fixed time. As things progress, if we find that there is capacity available in our port, we are able to move the cargo towards the northern belt which is a good value proposition for the customer and if we have the leverage for that we will be able to increase the rates.
- Pandit Vijay Kumar:** Okay, got it Sir. Thank you so much for your time.
- Moderator:** Thank you. Next question is from the line of Sachin Kasera from Lucky Investment. Please go ahead.
- Sachin Kasera:** Good afternoon Sir and congrats on a good set of numbers. My first question was regarding the cash utilisation. If I have a three- to four-year view you mentioned that there is sufficient cash

that will be prepaying the loan and for the capex we are looking at run the ECB. So going forward, are we looking in terms of starting to return cash in terms of dividends or any buyback programme, are we looking in terms of opportunities other than the existing port from a medium-term perspective?

Hariharan Iyer: On the first part of it, yes we would like to be a dividend paying company so we would like to look at the opportunity of paying back the money to the shareholders if and when the situation arises or when the situation arises and second is as far as deployment, we do have the ability to grow within the port that we are talking about significantly. So as and when we have a good value proposition in respect of investment within the port, then we will look at that option as well.

Prakash Tulsiani: And to add to what Hari said, in the current expansion plan also there is internal accruals that will have to go in.

Sachin Kasera: Yeah, but Sir, if you look at the current run rate at which we are in, the outlook in terms of sustaining and maybe growing the current momentum, the cash flows are going to be significantly larger than what is going to be the write down so in that context I was asking that?

Prakash Tulsiani: Yeah. Point taken, we are working on it. If there is extra cash flow we should give returns to the shareholders also.

Sachin Kasera: Just a followup on that Sir, are we looking at opportunities at Pipavav itself or all the opportunities always remain confined to Pipavav as a company?

Prakash Tulsiani: As we speak now, all options are open, but our focus is first on Pipavav. Our goal is that first we utilise whatever we can at Pipavav and then look outside.

Sachin Kasera: Sure and you mentioned that there has been some talking at the communal in terms of looking to maybe come back to dividend. So when can we expect some clarity on some, if there is on thought of coming after some consistent dividend payout policy or something on that, when can we expect some clarity on that?

Prakash Tulsiani: I think we will be able to clarify in one year from now the reason is because we still have some carried forward losses. As per the Act, first we have to get that completely wiped out and then we will be able to work on dividend policy. In the meantime, we would have also completed our project or rather advanced a lot in the project.

Sachin Kasera: My second question is on the bulk side, if you seek the last three quarters consistently there has been improvement on the volumes, based on the discussion that you are having with your clients, how do you see the outlook for the bulk volume in the second half of the calendar year?

Nitin Bhasin: As you know, bulk volume in our case has been very spot business. Unfortunately there is no indication for my clients also. As you have seen that sometimes it comes in Q1 the volumes, the

next year it may come in Q3. So it depends on the procurement of each of our client and I regret I would not able to predict because we also do not get any indication from our clients.

Sachin Kasera: Sure and Sir you mentioned on the tariff, that early it was in the range of 5,000 to 5,500. Now it is in the range of 5,500 to 6,000 and is also query on which you mention that you have not taken any price hike, so what is the key reason why without taking price hike, is it mainly because of you moved to the dollar pricing, what is the reason for this improvement?

Hariharan Iyer: I think you kind of misunderstood this a little bit. This was comparison of the rates from the previous year to the current realisation. We increased our rates in August 2013. So as a result the coming quarters we have started seeing those improvements in realisation, It was in comparison with the previous quarters.

Sachin Kasera: Normally Sir, we take tariff increase once in every year?

Prakash Tulsiani: No, it depends on the market situation, depending on what we can negotiate with the clients and given the conditions. Yes, we have been in the past taking every year, but right now there is no revision on that.

Sachin Kasera: Okay. Thank you very much Sir and wish you all the best.

Moderator: Thank you. Next question is from the line of Shashikiran Rao from Standard Chartered Securities. Please go ahead.

Shashikiran Rao: Hi Sir, I wanted check on there was a possibility of container service disruption at JNPT, because of the upgrade of the RNCs, did it happen this quarter or is it still to happen?

Prakash Tulsiani: As I am aware, I do not think the QCs were supplied to JNPT. So there has been no disruption.

Shashikiran Rao: Okay Sir, that flow of cargo can come in the coming quarter.

Prakash Tulsiani: Yeah, let us see.

Moderator: Thank you. Next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Good evening Sir, congratulations on the great numbers. Just a couple of questions, one is on the expansion you highlighted little bit, just an extended question on that, right now we are talking about converting the multipurpose into exclusive container. We still have the option to go for a new bird? I mean you think that we could probably look at that kind of scenario if the current growth rate sustains?

Prakash Tulsiani: Absolutely, all options are open. Whether we would like to develop a jetty for dry bulk, whether would like to develop a jetty for liquid bulk, or other we want jetty for a container business. We

have all the options open and we will embark on it as and when we have indications that we need that.

Achal Lohade: Understood. Sir, next question is basically you know more on the industry front. We see another private port is kind of going for another container terminal with a tie-up with another shipping line and also JNPT as awarded the fifth container terminal. Do you think there could be a possibility of capacity scenario let us say three or five years down the line?

Prakash Tulsiani: Well, at this stage, I believe that the ports specifically I am talking about JNPT right now, it will take another three to four years before that can come in and what matters is that, yes we are only looking at the water-front capacity. Again you know, that is half the story. The true story or the full story is that to look also at the evacuation. So that is the key part of India volumes, because we are gateway port, we are not a transshipment port, so we should not look at the port side development but the development on the land side equally and I do not see any development on the land side for the next five years.

Achal Lohade: Understood, by then, the DFCC probably would come in?

Nitin Bhasin: Yeah, it appears that DFCC will not be available until 2017 in that range. Unless the work really starts extremely fast and we see a lot of traction there but still we are not talking before 2016 any which way.

Achal Lohade: Understood. Just on the numbers, on the capex, can you give the little bit of clarity in terms of how much do you plan to spend in CY14-15?

Hariharan Iyer: CY14, see the overall capex for the new expansion in the first two years is expected to be in the range of about 350 crores of rupees of which we will have a small portion maybe about 20% in the calendar year 2014, 20-25% and the balance largely will be in calendar year 2015.

Achal Lohade: And this is apart from the maintenance capex?

Hariharan Iyer: This is apart from the regular maintenance capex, you are right. I am only talking about the expansion capex.

Achal Lohade: And since we kind of reached that 200,000 TEUs, do you think the additional capacity can be ramped up and how much time would it take and the capex for that?

Prakash Tulsiani: Yeah, yard capacity can be ramped up and we can do that in a period of approximately 10-12 month, so we can go up and face this.

Achal Lohade: Understood, and what would be the capex in that case, roughly?

Hariharan Iyer: That is the part of the xxxx.

- Achal Lohade:** Understood, last question, on the tariff you said, our tariff is dollar tariff, can you give some clarity as to how are other ports tariff, are they also dollar based or they are rupee based?
- Hariharan Iyer:** There are mixed things, there are some terminals who have dollar tariff, there are some terminals who have mixed dollar as well as Indian rupee tariff and there are also certain terminals which have purely Indian rupee tariff.
- Hariharan Iyer:** JNPT is operating on Indian rupee.
- Achal Lohade:** JNPT is the INR. Okay, all right Sir, thank you so much, I will come back.
- Moderator:** Thank you. Next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Good evening Sir. Can you just differentiate in terms of the P&L tax rate is 0 right now, but if there are any cash tax rate that we pay and how much is that and if we are not paying cash tax also and when are we going to start paying that?
- Hariharan Iyer:** We have already started paying MAT effective Q3 of 2013. So we do have the MAT. MAT currently is I think roughly around 20%, so that is the kind of cash outflow that we would have on the tax front of it. However, it does not hit the P&L because we will have the ability to take the tax credit going forward.
- Dheeresh Pathak:** Okay, so starting Q3 of 2013, you are paying 20% of your P&L, PBT as cash tax right?
- Hariharan Iyer:** Yeah, whatever is the taxable part of it.
- Dheeresh Pathak:** Okay, okay, and Sir on liquid cargo, what would be the realisation per tonne for liquid cargo?
- Hariharan Iyer:** It depends on the kind of this cargo. We have just started the operations now; give us a couple of quarters, we will be in a better position to give you an overview.
- Dheeresh Pathak:** Just ballpark, on an average sort of blended basis.
- Hariharan Iyer:** It is a little bit difficult at this point of time to give you that, because we would like to see the nature of cargo coming in and the composition of the cargo and we will be able to give you some guidance going forward.
- Dheeresh Pathak:** Okay, and I think you had earlier said that the water-front capacity is 2.5 million tones, storage capacity is some around 0.6 million tone, right Sir.
- Prakash Tulsiani:** No, we have a capacity on the water front at 2 million tonnes and in the first phase, you are right, they have created approximately 250,000 to 300,000 tonnage. They will continue to ramp up the capacity in phases.

- Dheeresh Pathak:** Okay, in terms of the end-user industry, what is that industry that is going to use this cargo?
- Prakash Tulsiani:** The products which are there are starting from gas to goods like, methanol, ethanol, and vegetable oil, and so they are chemicals as well as by-products of petroleum.
- Dheeresh Pathak:** Okay, so like in what time frame we can expect that your water-front capacity of 2 million tonne can get sort of good utilisation?
- Prakash Tulsiani:** We have just started, so please give us some more time to assess and see how these volumes develop, how do the tank farm owners perform and I think we will be in a better position sometime in the next year first quarter.
- Dheeresh Pathak:** Because this would be like a caped, because on bulk side, you said you do not have captive cargo.
- Prakash Tulsiani:** No, please remember these are tank farm owners, they eventually supply to one of the industries. So it can be or it cannot be. We do not know the details as yet. So as I said, please allow us few more quarters to come back to you to give you some more details. This is brand new business.
- Dheeresh Pathak:** Okay, great and Sir, you said that you took the price increase in August 2013, but if I remember, I think last quarter of this calendar year also you were mentioning container realisation at about 5,500 and now you are mentioning them as 5,500 to 6,000. So there seems to be some a single-digit price increase?
- Hariharan Iyer:** No, let me give you that, the reason is that there are also mix which are under play, the 20 foots and the 40 foots, the loads and the empties. We had significantly high at 20 foots during this quarter and also have larger loads during the quarter, so that kind of pushes up the average realisation.
- Prakash Tulsiani:** It is a minor one and it is because of the product mix.
- Hariharan Iyer:** And that will continue to happen Q-o-Q, on a loaded box the revenue is marginally higher than on the empty box. Similarly on a 20 foot and a 40 foot, a 20 foot proportionately will give you better revenue than a 40 foot, because the 40 foot is not exactly double of a 20 foot in terms of revenue earnings for us.
- Dheeresh Pathak:** Okay, but just to get a broader sense, on the west coast they given the current capacity and the current competition and the current economic cycle that we are in, do you feel that there is a lot of scope for price increase at this point?
- Prakash Tulsiani:** As I said, we are not going to take any action right now. We will assess the market situation, and we will assess how the development takes place and then take action as required.
- Dheeresh Pathak:** Okay, thank you so much, Sir. All the best.

- Moderator:** Thank you. Next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** Good evening Sir and congratulations for the very good set of numbers. I wanted some key financials regarding PRCL for FY14, could you share those?
- Hariharan Iyer:** FY14 we will get the numbers in the next couple of weeks. We are closer to finalisation of that. So I do not have the numbers updated at this point of time. The board meeting is scheduled in the coming month.
- Aditya Mongia:** Sure. Sir my second question is on the additional, these two services which have happened apart from the IE3 consortium that has ramped up. These two services would have contributed how much in terms of additional volumes and what is the likely upsizing which can happen on these two lines?
- Prakash Tulsiani:** This is just the initial stages. I would say they have contributed approximately 5% of the total volume, because they have just started. How soon they ramp up and whether they will ramp up is yet to be seen.
- Aditya Mongia:** Sure. Those are my questions, thanks a lot.
- Moderator:** Thank you. Next question is from the line of Sachin Relekar from LIC Nomura Mutual Fund. Please go ahead.
- Sachin Relekar:** The question I have is on the scalability actually, in terms of potential, how much of your capacity you are utilising on sea side. How much of your land is you are utilising as of now and on railways also. So how much that this port can become whether this will be like 5 million tonne container port or that way?
- Prakash Tulsiani:** We can continue to grow; we can go three times to what we have today. In terms of bulk, we can go up to 20 million, in terms of liquid cargo we can go to 4 million, and in terms of container business we can be at 4.5 million TEUs. So we have that capacity to grow and as the volumes increase and the market demands, we will continue to grow in the respective sectors or verticals we have.
- Sachin Relekar:** And this will also be matched by your evacuation capacity or land availability?
- Prakash Tulsiani:** Absolutely, in terms of evacuation, your question was on railway. Yes, the railway company had one more line if required and please remember, we have 269 km and on a single line to increase the number of trains we can add loops and by adding loops we increase the number of trains that can be handled on a single line.
- Sachin Relekar:** And liquid you said, there is a capacity on sea side about 2 million tonne as of now, which is actually installed as of now.

- Prakash Tulsiani:** Yeah, on the jetty front, yes you are absolutely right, that is installed.
- Sachin Relekar:** So as the volumes pick up, then you do not have to add capex over there, it is basically as the business grows that volume will come. All right Sir that was the only question from my side.
- Moderator:** Thank you. Next question is from the line of Saurabh Mishra from Barclays. Please go ahead.
- Saurabh Mishra:** Thanks for taking my question and congratulations on a really great set of numbers. More on your concession period and a long-term question, what my understanding is after 2028, you have an option to return this port back at a depreciative value to GMB or you have a right of xxxx, just wanted to understand in detail, what is the process that is going to be followed once the concession agreement gets over?
- Prakash Tulsiani:** I think, we have some more time to go before we can address this, but what happens is that closer to 2028, we expect that the Government should actually invite us and we will have a discussion with them and even if they do not invite we will approach them in the time period, let us say three years before, so very difficult to say what happens, because these discussions we continue to have with them, but there is no clarity on how the Government or how the authorities would review this. Because this is the first public-private partnership in terms port, so there is no experience of precedence available on this factor.
- Saurabh Mishra:** Why I was asking that is because correct me if I am wrong, but my understanding is that the concession for our port was signed before the GMB BOOT policy of 97, which probably puts some light on the extension of concession agreement, and given the fact that we were the first PPP partnership, I think our concession agreement actually dates prior to this GMB policy and that is why I had that slight doubt.
- Hariharan Iyer:** Our concession agreement was actually signed September 1998 and that is also the reason why we have everything until 2028 which is 30 years.
- Saurabh Mishra:** Okay Sir, this is covered by the BOOT policy, okay. That is all from my section, thank a lot.
- Moderator:** Thank you. Next question is from the line of Soumyajit Banerjee from ICICI Direct. Please go ahead.
- Soumyajit Banerjee:** Sir, my question on the tankage capacity, how much of the total tankage capacity that we expect to add and by till what time?
- Prakash Tulsiani:** We are expecting anywhere in the range of half a million ton as a starting capacity and it will be added over a period of time. So I think we will take another one year to add.
- Soumyajit Banerjee:** Great that, and Sir, what is the kind of revenue sharing agreement that we are seeing tank farm owners?

- Hariharan Iyer:** There is no revenue sharing arrangement with the tank farm owners. The model is basically that we perform their marine services, so basically everything which comes to the water front like any other vessel be it a container or a bulk, we will have similar kind of earnings on the vessel side of it. We also earn on the lease rentals of the land that we have leased to be tank farm operators and we get certain handling charges. So there is no revenue sharing arrangement here.
- Soumyajit Banerjee:** Okay, So what kind of lease rental that we can look at?
- Hariharan Iyer:** I cannot get into the commercial aspects of it because these are things which we cannot break it up into that level.
- Prakash Tulsiani:** But on the other hand, whatever lease rental we are receiving it is already there in our income.
- Soumyajit Banerjee:** Okay. Sir, then what percentage of our total revenue this tankage will give us going ahead?
- Prakash Tulsiani:** Our estimate is that going forward, when we are in full state of productivity or volumes, then steady state should give us approximately 15% of our total revenue.
- Soumyajit Banerjee:** Okay, Sir. Another one, we have seen the margin shifting from in the range of 45% earlier like a year back to now in the range of around 58%. So would it be safe to assume that going ahead this is a sustainable kind of margin?
- Hariharan Iyer:** Actually there are three key factors, which contributed for that, one was the volume front, the second was the change in the tariff, that we had from the last year to the current year, and the third is that the cost front remained more or less flat if you compare on a half year basis. If we are able to maintain these trends then obviously we will see similar kind of improvements in the margins.
- Soumyajit Banerjee:** Okay, but if the cost front changes then you have the flexibility to increase the rates for yourself?
- Hariharan Iyer:** Yes, we continue to have that, but that of course is dependent on how the market scenarios or situations are which are briefly explained a little while ago on another question.
- Soumyajit Banerjee:** Right, and Sir finally my question would be on the ECB funding front, when do you see this draw down happening because you say from the next week you are going to be debt-free company, so when that will start coming into our books?
- Hariharan Iyer:** I expect some amount of draw-down would happen in the last quarter of this year and from there going forward it depends on when our requirements are, based on the progress of the project.
- Soumyajit Banerjee:** Sir you give a breakup of 20% of the capex in CY14 and 80% in CY15, so would the draw-down be in that kind of ratio?
- Hariharan Iyer:** More or less, you can take that as a ballpark number at this point of time...

- Soumyajit Banerjee:** Do you see the complete funding through debt only or some equity also coming into picture?
- Hariharan Iyer:** In the first years, of course largely will be the total debt, we have tied about 60 million dollar for the total project. Simultaneously of course cash accruals will also happen, so depending up on how our position is then we will decide on how much to utilise out of the funding.
- Prakash Tulsiani:** But we will not bring in any more equity.
- Soumyajit Banerjee:** There is no equity funding. That is all from my Sir, thanks a lot of. Best of luck for your future endeavours.
- Moderator:** Thank you. Next question is from the line of Shirish Rane from IDFC Securities. Please go ahead.
- Shirish Rane:** Sir, couple of clarifications. Hari, whilst explaining the financials you were talking about this 99 million reversal of income, was it for the past quarter or there was a similar one in this quarter as well?
- Hariharan Iyer:** No, the reversal that I talked to you about was an accrual that we have made on certain commercial contracts. We had a similar reversal in the last quarter on take-or-pay scenario, which was 14.3% million at that point of time, 14.3 or 14.4 million and this time it is 99 million.
- Shirish Rane:** So these are basically the discount or sort of preferential rates you would have given to the shipping lines, because of certain volume commitments, which you have reversed because of volume commitment, would not have been made.
- Hariharan Iyer:** That is correct, these are take-or-pay arrangements which were there over a period of time then we need to reverse. We have made accruals based on certain assumptions and if it is no longer required, then therefore we reversed back.
- Shirish Rane:** Understood, the second thing was Prakash, you were mentioning this 18% market growth, was it for the second quarter or was it for the first half?
- Prakash Tulsiani:** No, it is the Y-o-Y, Q2.
- Shirish Rane:** Sorry, I am confused. You are saying as in Q1 your quarter ended March 14 to quarter ended June 14, there was 18% growth in the market, is that the right way to understand?
- Prakash Tulsiani:** Q2 last year, that is Q2 2013 versus Q2 2014, 2014 has grown by 18%, but if I have to take Q1 2014 versus Q2 2014, there is a drop of 2%.
- Shirish Rane:** Essentially, sequentially it has dropped, but Y-o-Y it has grown 18%.
- Prakash Tulsiani:** Yes, you are right.

- Shirish Rane:** Understood. Just a little bit idea on this growth, you mentioned that both exports, imports everything seems to have sort of picked up, what I am trying to understand is was there some kind of one-of activity you envisaged in this kind of market growth of 18% or you think this is more sustainable from the next 3-6 months standpoint?
- Prakash Tulsiani:** Well as of now, I think it looks sustainable, because typically we will see imports coming in for Diwali and the Christmas season, so generally I would say in the market, we see that the volumes remains steady going forward.
- Shirish Rane:** It is not like you have seen suddenly one quarter of huge growth and it is going to taper off, does not look like?
- Prakash Tulsiani:** It does not look like, because the quarter has just ended, in July it looked something similar, so I really do not know whether in August, September what will happen, but it looks to be stable.
- Shirish Rane:** I am just to asking your feel, because...
- Prakash Tulsiani:** Feel is stable.
- Shirish Rane:** Feel is stable, so it is not going to fall off substantially. Based on this, in the call somewhere you mentioned that there is no plan of price hike which we earlier have taken every time on 15 August to 16 August. Because of the volume growth being so high I mean any particular rationale or it is just pure commercial decision, looking at the market you are deciding not to?
- Prakash Tulsiani:** It is a pure commercial reason and that is what we have decided that for now we will remain stable.
- Shirish Rane:** But nothing prevents you from getting you price hike later on when you want to have it after say six months or three months you think?
- Prakash Tulsiani:** You are absolutely right. It is not that Independence Day and we decide that we will go in for increase, no, we can decide on any date.
- Shirish Rane:** Perfect. That is all I wanted to clarify. Thank you very much and all the best.
- Moderator:** Thank you. Next question is from the line of Amar Kedia from Nomura. Please go ahead.
- Amar Kedia:** Congratulations on a great set of numbers. I have a few questions. One is that you mentioned somewhere given the call that you would be looking at regarding inorganic opportunities in the sector. I understand that this could be done directly by APM terminals or is it that you would be competing with parent company for these opportunities?
- Prakash Tulsiani:** No, are you referring to a new boat somewhere else in the country? I have mentioned always that growth would initially and always at this stage would be at Pipavav and we want to grow here

because we are in the right location and we have good concession. We also have approvals on hand and we can continue to grow and take maximum advantage of the basic infrastructure which is actually very expensive to create. So, we would like to first focus on where we are and that is Pipavav.

Amar Kedia: That is exactly what I am trying to say because you say that first focus which means that you are leaving some scope of opportunities elsewhere Pipavav maybe even five, ten years later. All I am asking is that possibility at all or will it be done by the parent only?

Prakash Tulsiani: There is always a possibility, the options are opened, but right now our focus is Pipavav.

Amar Kedia: Okay, all right. My second question is that your competitor has in the past as well as recently signed or sought in couple of very large shipping lines as their partner in the container terminal. What I wanted to understand is that do you have exposure to these shipping lines specifically MSC and CMA CGM and if so what is the share broadly if you can guide us on that?

Prakash Tulsiani: Yes, they both do business with us, maybe we do not get that direct vessel call, but they do it via feeder network. I would estimate anywhere around 6% as their total volume in our book of business.

Amar Kedia: Okay, all right. Any idea on what MSC and CMA CGM put together would be for western coast put together?

Prakash Tulsiani: I do not have the real company's breakup, but I can only say that these are the companies which are in the top three carriers in India and worldwide.

Amar Kedia: Okay, all right. The last question is regarding the post DSP scenario, I know we have time on that, but my understanding is that the DSP network will be on a different gauge compared to the current gauge of the existing network and if there is a case then how does it work. Do you really get the benefit of DSP because the railway operators will have to change at some point the wagon, even the wagons will be different in my view then?

Prakash Tulsiani: As I understand, because we have been interacting with the Ministry of Railways. I have not heard anything about change in the gauge and if that would be the case, they would immediately advise one of their PPP projects which is PRCL where we are partners. I have not heard that there is a change in the gauge and if there would be then we will also as PRCL would require to go and change that, but I have not heard that.

Amar Kedia: All right, that is it from me.

Moderator: Thank you. Ladies and gentleman due to time constraints that was the last question. I would now like to hand over the floor back to Mr. Nitin Bhasin for his closing remarks. Over to you Sir!

Nitin Bhasin: Thanks Prakash and Hari for giving us the opportunity to host this and showing the patience of taking so many questions. It was really a great discussion. Thanks a lot for your participation.

Moderator: Thank you all. On behalf of Ambit Capital Private Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.