

“Gujarat Pipavav Port Limited Q1 CY14 Earnings Conference Call”

May 06, 2014

**MANAGEMENT: MR. PRAKASH TULSIANI – MANAGING DIRECTOR,
GUJARAT PIPAVAV PORT LIMITED
MR. HARIHARAN IYER – CHIEF FINANCIAL OFFICER,
GUJARAT PIPAVAV PORT LIMITED**

**MODERATORS: MR. ASHISH SHAH – VICE PRESIDENT - RESEARCH, IDFC
SECURITIES LIMITED**

Moderator

Ladies and gentlemen good day and welcome to the Gujarat Pipavav Port Limited Q4 FY14 Earnings Conference call hosted by IDFC Securities Limited. As a reminder all participants' 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. Ashish Shah. Thank you and over to you, sir.

Ashish Shah

I welcome the management of Gujarat Pipavav Port Limited for the Q1 CY14 conference call. We have Mr. Prakash Tulsiani – MD and Mr. Hariharan Iyer – the CFO of the company. I request the management to first start the call with initial remarks and then we can go to the Q&A session. Thank you.

Prakash Tulsiani

This is Prakash Tulsiani. I will take you through the key highlights of Quarter 1 2014. Let me say this quarter has been a good quarter in terms of our EBITDA margins; in terms of our EBITDA, overall revenue and also the net profit. Details of this particular quarter results are container cargo we have a 3% decrease in volume versus immediately preceding quarter which is Quarter 4, 2013. This is in line with the seasonality which we have and after a very good cotton season what numbers we have I think are good and that is why we have seen a 16% increase in volume versus quarter 1 which is the same quarter in the preceding year. The main reason for that is the organic growth of the carrier they have increased the volumes. They have upsized the vessels and then we have also secured additional services which are ramping up volumes which has helped us to see this increase of 16% versus immediately preceding year the same quarter.

Another good achievement has been the highest ever volumes on rail which is in terms of container business we have highest ever quarterly ICD throughput of 123,361. In terms of bulk and general cargo which we have seen over past few years the volume keep going up and down between the quarters however in this particular quarter if we compare ourselves with the immediately preceding quarter which is Quarter 4, 2013 we have a 29% increase and a 18% increase in volume versus Quarter 1 2013 that is immediately the previous year. Now this has been on the back of high coal volumes and mineral. But we were offset by low volumes on fertilizers. Now fertilizer sourcing by the Government of India has been on the lower end in this Quarter 1 which is under review.

Putting all these together financial results our overall revenue has been at Rs. 1,562 million and this revenue includes onetime Rs. 146 million take-or-pay which comes because we have the cycle where we assess our contract with the shipping lines where take-or-pay is there and if there is any shortfall they pay for the difference. And in this case we have Rs. 146 million we also had that in the quarter 1 2013. Then our EBITDA is Rs. 916 million. This is 61% higher than Quarter 1 2013. Our margins are approximately 59% and this includes the take-or-pay. It is 28% higher than quarter 1 2013. We have a onetime extraordinary item and that has been mobilization for dredging charged off because of the change in the expansion plans which we

had revised and we had brought in front of you post the meeting of 17th April 2014 where we had revised the expansion plans and for that we had to write off this mobilization of dredging charges. Net results is Rs. 610 million post the mobilization for dredging charged off. It is 21% decrease in PAT versus Q4 2013. Hari will take us through the details because there was onetime write back as far as previous quarter was concerned. So that is why it is a 21% decrease. Net results if we compare our PAT versus Q1 2013 it is a 73% increase. Excluding onetime both in quarter 4 2013 and in the current quarter under revenue our results of the bottom line is in line and what I mean is it is equal or almost similar.

The next slide is on volume development it shows how the volume have been developing. As I mentioned Quarter 4, 2013 has been the highest ever and Quarter 1 2014 have been marginally lower which is only 3%. But keeping in account the seasonality this number is a good number that we have achieved. Similarly in bulk where the seasons are unpredictable unfortunately right now because of the situation we are in specifically considering whole and also when we look at fertilizer they have been moving in between the quarters. The number has been I would say reasonable. Rail volumes is on uptake that is the increase as we discussed the container business did very well for the rail volumes going in to the ICDs.

Next are some pictures on infrastructure development. We have our new gate house in the Gate Complex entrance and this was in line with the road development which we had the road connecting in to our six highway which we have connecting to the port the road connecting there and in line with that road we also have the main gate complex. We also have developed road around tank farm as required because that business will kick off very soon. It has been slightly delayed due to some issues of approvals which the tank farm owners will have to take and obtain. So that is why those rules have been made now that development. Similarly port drain works this is exactly in that same area where the time farms are.

Now I handover to Hari for taking us through the financial numbers for this quarter. Thank you.

Hariharan Iyer

Thank you Prakash and good evening to everybody.

Let me start with an overview for the quarter:

The total operating income as Prakash mentioned at Rs. 1,562 million. We met the previous highest quarter in the previous quarter. The container volumes remain more or less steady during the quarter marginally lower by say 3% compared to our peak volumes in Quarter 4 we must remember that quarter 4 is generally our peak quarter. So in comparison to that we are pretty much maintained the similar kind of volumes and compared to the same quarter previous year higher by about 16%, the bulk volumes for the quarter higher by 29% mainly driven by higher coal and mineral volumes.

Net result includes – an exceptional item of Rs. 102 million charged to the P&L in this quarter. This represents an amount paid to the dredging company in January 2014 as the reimbursement of mobilization and other charges which has been currently written off consequent to the

change or revised project expansion plans which was approved by the board in April 2014. In the new plan the dredging is substantially reduced so therefore we do not require this large mobilization which we had paid for earlier.

The net result at Rs. 610 million for the quarter though lower in compared to the previous quarter is mainly impacted by the onetime exceptional charge and also in the previous quarter we had a favorable exceptional item relating to the write back of impairment, Excluding the impact of exceptional items in both quarters the net result is in line with the best quarter result so far and 100% higher than the same quarter previous year.

Moving to the specific elements in the financial result:

Firstly on the income side:

The container volumes for the quarter marginally lower mainly because of the tapering of cotton season. Compared to the same quarter previous year 16% higher driven by organic growth the upsizing of services and new additions which happened in the second quarter of 2013. The take-or-pay which Prakash mentioned Rs. 146 million. This is for the contract period April to March 2014 annual contracts with shipping lines typically involves scaling rate of rebate against a specific volume commitment. Some of these contracts which get completed during this quarter have resulted in write-backs or favorable write-backs of the accruals which were made based on the scaling rates of volume rebates.

Container realization during the quarter marginally lower than the previous quarter mainly because of the tapering of reefer season. The last quarter of 2013 that is the period between October to December is generally the peak for our reefers that tapers off until the next reefers season begins again sometime in the third quarter of each year. Higher coal volumes during the quarter mainly represent upcountry volumes. These do come with a little lower margins than the nearby vicinity, which is partly mitigated because of our rail freight differentials. Increase in the coal and mineral is partly offset by the lower fertilizers during the quarter. Overall the bulk volumes higher by 29% compared to the previous quarter and higher by 16% to the same quarter previous year.

Let us move on to the other operating income which largely constitutes lease rentals, reefer electricity and other miscellaneous income. These are lower mainly because of lower reefer during the quarter.

In summary – The total revenue at Rs.1,562 million the highest quarterly revenue so far 8% higher than the previous quarter and 25% higher than the same quarter previous year. On the expenditure side operating cost lower from the quarter mainly because of the change in the commodity mix in bulk. We handled more coal than fertilizers during this quarter. The change in the personnel cost reflect the employee cost; higher on account of higher performance incentive during this year as compared to the previous year and higher accruals on gratuity and retirement benefits to the employees based on actuarial valuations.

Current year also includes annual increment so in effect you will have typically in this quarter where you have the increments and the performance incentives which have come in to play. The previous quarter had a favorable write back on gratuity and retirement benefits and therefore you see a big difference. Other expenses during the quarter includes Rs. 13 million nonrecurring repair cost on account of bulk handling equipments mainly the cranes and conveyor belts which we had during this quarter.

Moving on to the EBITDA margin:

The EBITDA margin including the favorable take-or-pay write back for the current quarter at 58.6% is highest margin recorded so far. As a favorable write back is for the entire contract period that is between April to March spreading this equally amongst to the four quarters would result in the current quarter EBITDA maintained at around 56%, 57% levels in line with the previous highest quarter.

Other income represents interest on fixed deposits, sundry balances, the return back in exchange gains. Other incomes higher during the quarter mainly on account of higher interest on fixed deposits due to higher cash balances awaiting deployment for the expansion project. In summary, steady container volumes, better realization and higher bulk volumes have improved the total income and EBITDA compared to the previous quarter.

Moving on to the balance sheet:

There are no significant changes in any of these lines in the balance sheet. So I would close my March part of it at this stage.

If there are any questions we are open to take that. Thank you.

Moderator Thank you very much, sir. We will now begin the question and answer session. First question from the line of Aditya Bhatia from Espirito Santo. Please go ahead.

Aditya Bhatia Sir, operative costs have fallen in this quarter. In fact they are the lowest in last five quarters despite volumes having gone up sharply. So what is the reason for the same?

Hariharan Iyer It is mainly the mix of the bulk cargo. In this quarter we have significant amount of coal cargo. So if you see it quarter-on-quarter you see these differences. The main reason for operating cost is the handling charges.

Aditya Bhatia Freight slab realignment that we had last year because of that our bulk volumes were coming under pressure. But this quarter there seems to be strong growth in bulk volumes. So how are you tackling the issue of higher freight rates? Is it that we have to get certain discounts to customers or how exactly are we doing it?

Prakash Tulsiani You are right. There is a commercial negotiation which we had with the client and we arrived at a conclusion on a service level agreement which is on the efficiency as well as on a

commercial basis. So yes, indeed we secured one client over this and that was on the basis of these two that is efficiency plus some commercial negotiations we were able to capture them.

Aditya Bhatia

So this kind of long term contract that we are speaking about or these are all spot volumes?

Prakash Tulsiani

You are indeed correct this is for one or two quarters right now and we will have to see whether we can get it renewed as we go along.

Moderator

Thank you. Next question from the line of Amit Sinha from Macquarie. Please go ahead.

Inder

Inder here Macquarie. My first question is on this take-or-pay. What is the corresponding amount which you booked last year in the Quarter 1 of CY13?

Hariharan Iyer

Rs. 41 million.

Inder

The second thing is can you give us some details on to where does that liquid operations stand at this point of time?

Prakash Tulsiani

Liquid operations unfortunately have not yet started. They have some approvals to opt in from their commodity perspective that is whatever commodities they handle. And I expect that the tanks are ready first of all let me answer that first that is the tanks are ready. There are approximately 50, 60 tanks ready between two of the tanks farm operators. They are waiting to get their necessary approvals and as I understand that should be obtained shortly and immediately thereafter the commencement of cargo will begin.

Inder

My last question is regarding given that liquid will take some time to start in the meanwhile container how does the market looking like is there any change in the market and do you recently there was an I3 which got formed and we are just kind of consolidated its volumes at Pipavav. How is that shaping up is that stabilized or still in the phase of ramping up?

Prakash Tulsiani

First the market situation on the West Coast it continues to grow at the same levels as we saw in the in the last year which is anywhere between 4% to 6%. Secondly, on the I3 you are right there are three carriers who have come together on a Far East to India service and they are taking shape because typically they will take two to three months to settle down because the entire cycle has to go through of all the vessels changing, upsizing and whatever as they do. So far there has been no negative effect on us in terms of volumes.

Inder

Should I read it like even the any positive effects of that in terms of upsizing and everything even that has not played out if there are going to be any?

Prakash Tulsiani

Positives on the upsizing has been playing as we speak because it is not that it has happened completely in this quarter but it can happen some more as we go along.

Moderator

Thank you. Next question from the line of Nitin Arora from Emkay Global. Please go ahead.

- Nitin Arora** Sir, just wanted to know about the realization on the container side in terms of TEU how much we have gathered there?
- Hariharan Iyer** During the current quarter we had the realization in the range of about 5,500.
- Nitin Arora** And what is there on the bulk, sir?
- Hariharan Iyer** Bulk side it is a mix of all the commodities. It should be I will give you this number as we get along.
- Nitin Arora** Sir, how was the reefer income in this quarter because you mentioned that it was a little lower in this quarter so what was the amount if you can get it?
- Hariharan Iyer** The reefer volumes were marginally lower about 20% lower than what it was in the previous quarter.
- Nitin Arora** So it is partly due to some seasonality or there was like any operational issue?
- Prakash Tulsiani** No, it is purely seasonality.
- Nitin Arora** Sir, just a word I think one of the person asked this on the OPEX side we reported somewhere in the lowest OPEX from last 5 to 6 quarters and it is continuously declining the OPEX part. I just want to know what kind of synergies you have seen from last four, five quarters that suddenly I am increasing my volumes I understand the change in mix you are handling more of coal but every quarter it is declining. So I mean if you can explain us that what kind of synergies are you getting in there?
- Prakash Tulsiani** In particular there are two aspects, right. One is our coal business which is in the bulk. In that we are having in this quarter in fact a large portion of our bulk volumes as coal volumes and that is why the handling cost on coal is the lowest. While once you have handling of fertilizers there are multiple activities so that is why the handling cost goes up and that is what you see. In terms of container business as the volumes go up as we have discussed this also in the past fixed portion is approximately anywhere in the range of 75%. So obviously as the volume increase or remain where they are we get the benefit of higher as I say volumes in reducing the cost totally overall. And of course on the other hand lastly let me add that we also have taken cost out where we are having a conscious effort on looking at how we can do the same task at a lower cost. That is through the process excellence and Kaizen and whatever other methods that we use to help ourselves to reduce the cost.
- Nitin Arora** Sir, just a follow up on that. Let us say we had a Rs. 14 crores income this time coming in from the take-or-pay. Now if I normalize that no doubt we had in the last quarter as well and considering that cost might increase a little bit because fertilizer volume can come in keeping your coal volumes in tact 54% to 55% kind of an EBITDA margin is still possible for the company to take it forward?

- Prakash Tulsiani** If we continue to maintain these volumes you are right.
- Moderator** Thank you. Next question from the line of Yash Choksi from JM Financial. Please go ahead.
- Achal** Achal here from JM Financial. Sir, couple of things. In terms of the other operating income if I look at YOY it has gone up from Rs. 7 crores to Rs. 12 crores. Can we assume that there are no exceptional one off incomes here on YOY basis?
- Hariharan Iyer** No, there are no exceptional incomes this is purely with respect to the volumes or the reefers that we do. A large part of our other operating income is basically the reefers and we also have revision in the rates in the previous year. So there are many factors will contribute to that. So when you compare it on a Year-to-Year basis yes, indeed you will see this change.
- Achal** Second question is on the realization. You said the realizations are lower on sequential basis; was that correct on QoQ because of the lower reefer cargo?
- Hariharan Iyer** That is correct. If you recall the last time I told you the average realization was in the range of about 5,650 to 5,700. Now it is 5,500 purely because that the reefers have dropped.
- Achal** And on a YOY basis how are they looking like?
- Hariharan Iyer** They are on an increasing trend specifically because we have an increase in rate which became effective middle of the year 2013; August 2013.
- Achal** By any chance if you have the handy number in terms of 1Q13 what was the realization?
- Hariharan Iyer** I will give it you later part of the call as we continue I do not have it readily with me.
- Moderator** Thank you. Next question from the line of Gaurav Pathak from Standard Chartered Securities. Please go ahead.
- Gaurav Pathak** My question is on the margin front. If you take a slightly longer term view do you think your margins in terms of EBITDA margin or EBITDA per ton are they close to peaking out we had the right reasons for them to move up in the last two years but are all those levels played out now or you still think there is more scope of margin improvement?
- Prakash Tulsiani** In terms EBITDA margin once we get our liquid cargo coming in that will only go up. As we add more and more liquid volumes then the margins will go up. In terms of container business as the volumes again increase the EBITDA margin shall go up. But if the volumes go down then the EBITDA margin will also go down. So it is the volume game that we are in at the moment. And totally depended on how the volumes pan out as we go along in the current year, but yes, there will be a uptick or rather increase once we get our get liquid cargo stabilized
- Gaurav Pathak** In terms of EBITDA per ton liquid cargo would be a negative factor or a positive factor?

- Prakash Tulsiani** It will be a positive factor.
- Gaurav Pathak** Even on EBITDA per ton?
- Prakash Tulsiani** Yes.
- Gaurav Pathak** And given that incrementally you will also be increasing capacity would that dent your margins or do you think even after the capacity expansion your margins will still keep on expanding?
- Prakash Tulsiani** No, margin is volume dependent rather than on capacity dependent. Of course we need to utilize our fixed assets more and more but if the volumes continue to grow our margins will continue to grow.
- Hariharan Iyer** There was a question earlier Achal, I think it was yours where you asked me what was the average realization in Quarter 1 2013, is that correct?
- Gaurav Pathak** Yeah.
- Hariharan Iyer** And that is about 4,900.
- Moderator** Thank you, sir. Next question from the line of Ujwal Shah from Axis Securities. Please go ahead.
- Ujwal Shah** Sir, can you just quantify what was the growth in terms of coal cargo for this quarter in terms of Year-on-Year growth basically?
- Prakash Tulsiani** Year-on-year growth in terms of coal volumes are approximately I would say at 18% to 20% that is Quarter 1, 2013 versus Quarter 1, 2012.
- Ujwal Shah** Secondly sir, just wanted an overview on the global scenario because last year same time you had given an outlook on how do you see things shaping up on the global arena. So based on your experience can you give us some outlook on where do you see the global shipping industry heading and what is your outlook for the year ahead please sir.
- Prakash Tulsiani** Global shipping that is container business specifically they are shaping up. When I say shaping up is they are coming up in alliances; they are upsizing but I am using the number of services they operate. So there are carriers who have joining up sharing vessels slots but on larger vessels so that their unit cost goes down and this is a continuous process we have seen one happening in India and that was only on the China to India services. But otherwise in India services we have not seen that happening as yet while I expect as we go along in quarter 3 or quarter 4 this year we could see if the European markets improve that the Europe services would turnaround and become larger services and carriers will join hands.
- Ujwal Shah** So sir, that could be a good advantage for us as a port operators or upsizing of vessels we could be seen on a larger scale that is what you are trying to indicate?

- Prakash Tulsiani** Well, it has to be seen what are the equations they come up with or what are the plans between the carriers. So it is not that what they did in China to India would be same plot India to Europe. So it is to be seen what plans they crystallize or they finalize whenever they do that. So it is too early to say anything at this stage.
- Ujwal Shah** And lastly sir, you would say that all liquid cargo they are yet to get some approvals but tentatively when do you see your liquid cargo opening up probably which quarter of this year?
- Prakash Tulsiani** We should get it in the current quarter which we are in which is quarter 2 right now we should get it. I do not see they should be delayed beyond this because the tanks were ready. As I had mentioned in the earlier calls also the tanks were actually ready in February and they could have actually brought in cargo in the last week of March but that did not happen. So the tanks now also as I speak they are ready. They just need some technical approvals to get through so that they can start getting the cargo in to these tanks.
- Moderator** Thank you. Next question from the line of Jinit Mehta from Batlivala & Karani Securities. Please go ahead.
- Jinit Mehta** Sir, if you see the on the take-or-pay the amount has increased year-on-year. So is that understand correct that the percentage of committed volumes has increased?
- Hariharan Iyer** This varies because every year we have a revised commercial arrangements with our customers. So therefore depending up on what their volume commitments are it depends on that. So if they are able to meet that commitment they get their volume discounts. If they are not able to at the end of the contract period then you will get the take-or-pay part of it.
- Jinit Mehta** Approximately, what should be the number the total volume that will be handled the percentage of committed volumes?
- Hariharan Iyer** It should be in the range of about 35% to 40%.
- Jinit Mehta** What about the PRCL any numbers that you can give out for the year ending FY14?
- Hariharan Iyer** Those numbers are not yet published. It is still in the process of audit so we will not be able to share it now. Hopefully in the next quarter we will have that audited numbers available.
- Prakash Tulsiani** Because they follow the financial year that is March ending so they still will take some time before they get the audited numbers for us.
- Jinit Mehta** And just one more thing, sir. On the double stacking part if you can give out a number so how much percentage of the trains have been double stack correctly?
- Prakash Tulsiani** Today we are carrying approximately 30% to 35% of our total volumes which go on train for containers as double stack.

- Jinit Mehta** Just one last question if you can add in. You spoke about upsizing of vessels which could be possible once Europe starts revive and they could upsize the vessel size. So are we ready to handle such sort of vessels?
- Prakash Tulsiani** Absolutely and we are already handling the upsized vessels for I3 which comes from China in to India. So yes, we are absolutely ready to handle it.
- Jinit Mehta** So that would be close to 6,000 TEU capacity?
- Prakash Tulsiani** Yes, you are absolutely right 6,000 to 7,000 and we are ready. We already handled it so no issues, no challenges.
- Jinit Mehta** So we would not be require any more capital dredging or something like that?
- Prakash Tulsiani** No, because these vessels do not require the draft as what we have already. They require lower draft than what we are making it available today.
- Moderator** Thank you. Next question from the line of Atul Tiwari from Citigroup. Please go ahead.
- Atul Tiwari** Sir, my question is on the liquid farm. Could you throw some light on what kind of lease income or per ton charges that you could get from these farms once they become operational and what kind of volume could we expect say over next 6 months to 12 months?
- Prakash Tulsiani** On the commercial farms that is what is the lease rentals and what are charges per ton. Those are very much I would say commercial terms and I will apologize that I would not be able to share that for commercial reasons. As far as rates are concerned they are all published and you can get on the tariff card that if you want to get an idea that is always available. The volumes as we had said in the past also please let them start we also need to get a feel of how it works even though tank farms are ready they are unable to bring the volumes because of some technical reasons. So please give us some more time to answer your question. May be in the coming next two or three quarters we will get a better idea and we would be able to give you some numbers regards in the ballpark. Because what I will give you today may not be correct so I would reserve this and I will take the question next time.
- Atul Tiwari** But at least is it fair to assume that your revenue will consists of fixed lease payment as well as the per ton charge at least that much understanding right?
- Prakash Tulsiani** Absolutely that is the model we are following.
- Moderator** Thank you. We are going to take a follow up question from the line of Nithin Arora from Emkay Global. Please go ahead.
- Nithin Arora** Just one calculation I wanted to confirm from you. Sir, barring the Rs. 146 million number in the revenue which came in from take-and-pay your EBITDA comes close to 770 million. Now what Hari sir shared the number on the container realization is 5,500. Now assuming that you

get a 5,500 on a volume of 187 you get an EBITDA assuming you are taking a 60% EBITDA at container that give me a number of Rs. 640 million on the EBITDA on the container side. My point of asking this question is that whether we have seen this is the bottom of the cost because sir, I was not able to understand still that I understand there is a mix change but 60% EBITDA margin on the container and the remaining EBITDA remains 770 so you are making Rs. 130 million on the bulk so 40% margin you are making there. So in terms of the costing this is the bottom is that a correct reading to that?

Hariharan Iyer

You are of course dividing it and assuming several things in this whole process. I cannot go in to so much granular details with you for commercial reasons. However, let me explain that. We have indicated to you earlier that from a container perspective a large part of our cost is indeed fixed cost. So therefore the ability to have increasing EBITDA margins as the volumes increase as far as container is concerned is very much there. As far as bulk is concerned it has two components one is the commodity. The commodity of course each of those commodities gives us a different kind of margin and two, it is also depending on the volumes that we handle. As far as bulk is concerned a large part of the cost is variable cost so therefore there the operating leverage is much lower than what we have in the containers.

Moderator

Thank you. Next question from the line of Gautam Sinha Roy from Motilal Oswal Financial Services. Please go ahead.

Gautam Sinha Roy

I had a couple of questions. First one was that given that you have a very high take-or-pay number does that imply that your contracted volumes are much higher than what you actually did and you were negatively surprised in terms of the actual volumes that you handled?

Hariharan Iyer

This is a continuous process you can say that yes, there are tougher negotiations with people we expect larger discounts it should also result in to larger volumes.

Gautam Sinha Roy

So is this in the case that volume do not really pick up compared to contracts is this number which can be sustained or if volumes do not pick up this number will also come down?

Hariharan Iyer

See every year this contract period it changes between April to March so therefore when the commercial of our office along with the customers they sit together they also take in to consideration what the market realities are and that will determine basically what the quantum of these volume rebates would be and therefore correspondingly what would be the take-or-pay. So it will be difficult at this stage to really tell you what would be the actual numbers.

Gautam Sinha Roy

So this could be a more of exceptionally high number that we are seeing in this quarter is that a correct way to interpret the number?

Hariharan Iyer

As I told you earlier it is very difficult to really say that. It could very much be possible that you have an even higher number depending upon what the contract arrangements are in the coming years or it could be the other way around. We have seen that trend from the last year to this year. Last year we have seen 41 million this year it is 146 million.

- Gautam Sinha Roy** And the other question was clearly you have taken that Rs. 10 crores provisioning on the dredging cost which is fine but is that dredging that you have done not going to be of any use to you why have not you been able to book it on your balance sheet directly?
- Hariharan Iyer** No, actually this is not even there is no dredging activity actually done if you recall. We had already started our activities with respect to our earlier project plan that was in the middle of last year just before the closure of the monsoon sometime in the month of August where we mobilized the dredging and almost around the same time our coinciding around the same time was this activity with respect to our environmental clearance being held back in abeyance. So therefore the dredging company had already mobilized at that time in order for them to start the dredging activity post monsoon. That did not happen so it was important for us to compensate them for their mobilization.
- Gautam Sinha Roy** So this is for that actually?
- Hariharan Iyer** It is for that they have not done any activity with respect to dredging.
- Prakash Tulsiani** Because they could not have done any activity because there was no environment clearance exiting at that particular point in time because it was kept in a bay.
- Moderator** Thank you. Next question from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.
- Rakesh Vyas** Sir, few questions from my side. First, just wanted to understand this rebate reversal is it restricted to few number of clients itself or it is on a broad base basis that these negotiations go on?
- Prakash Tulsiani** It is few clients.
- Rakesh Vyas** Can you specify just a broad number as to how many of them will be there?
- Prakash Tulsiani** No, I would like please reserve that, very commercial rates.
- Rakesh Vyas** If I may ask is large part of it because of the parent company?
- Prakash Tulsiani** I will again reserve that. Like I do not want to reveal the details of the client.
- Rakesh Vyas** Sir, this P3 alliance which is taking shape it is not going to impact Indian cargo is that a correct understand?
- Prakash Tulsiani** Absolutely correct. It is for China to Europe.
- Rakesh Vyas** It also specifies Europe to Asia and that is why I was just wondering that that is not part of it?

- Prakash Tulsiani** Rakesh, good question. Whenever they say Asia actually they mean and North-Asia. And whenever they want to refer to India they will typically say Indian subcontinent even though we are in Asia. You have right queries but in shipping they refer to us as India subcontinent or sometimes even Middle East.
- Rakesh Vyas** And sir, this I3 alliance were all three shipping lines part of our initial arrangement itself or have we seen change in this mix?
- Prakash Tulsiani** No, you are right. They were already calling at Pipavav separately.
- Rakesh Vyas** And sir, for the CAPEX that we are wanted to incur how much would be incurred in CY14 if I may ask?
- Hariharan Iyer** Roughly about 20% to 25%. These are the initial advances that you do as soon as you start mobilizing the activity.
- Rakesh Vyas** And sir, this question I think has been answered but just wanted to understand this OPEX even QoQ is lower I understand the mix part of coal etcetera but I am just wondering as to the earlier benefit of RMGCs etcetera is already been seen in the reduction in cost. So are there enough levers even now for us to reduce this OPEX?
- Hariharan Iyer** Yeah, you will continue to get that because even in RMGCs while we have seen this improvement Quarter-on-Quarter from the time when we did not have the RMGC to the time we have the RMGC. You see you have actually experienced a much larger reduction. So going forward as the volumes increase this will only make the things better for you.
- Rakesh Vyas** So no new CAPEX required till that time we hit a raw optimal volume of 85% or something like that on this aspect?
- Hariharan Iyer** Absolutely until the time that you reach a certain threshold of volumes you will continue to gain on the operating leverage.
- Moderator** Thank you. Next question from the line of Sahil Desai from Premji Invest. Please go ahead.
- Sahil Desai** See again going back on this the dredging thing so now when you say you do not need dredging in the new plan why is that exactly not require now?
- Hariharan Iyer** See as far as the dredging is concerned in the earlier plan we had a plan to build a birth number 5 as well as an additional for the shifting of the liquid jetty. That requires a much extensive dredging whereas in the new plan it is about strengthening jetty number 3 so what you require is a much reduced dredging you only require it at the dredging pocket.
- Sahil Desai** So the bulk dredging is still required but you would not need extensive dredging from the new jetties that you would have constructed?

- Hariharan Iyer** So first, there is no dredging required because the existing birth will be strengthened and that does not require dredging because we already have the required depth all you need is probably only the dredging at the birth pockets. So the dredging has substantially reduced in fact reduced by almost 80% to 90%. And of course there are reasons why you have a very significant lower CAPEX as compared to the earlier plan.
- Sahil Desai** And any idea what was the dredging amount that was budgeted in the earlier CAPEX? If you could just refresh that?
- Hariharan Iyer** I will have to check back in to my numbers. Can we take the next question while I get that information?
- Sahil Desai** No, that is not urgent may be I will call you back later.
- Hariharan Iyer** In fact you could get it even in our website because we have given the breakup of that or the earlier one are probably not now anymore. But I can you back that is I do not have it readily with me.
- Sahil Desai** And sir, second is how do you see the competitive scenario in the West Coast now that JNPT 4 has already been awarded. There are some news that Mundra might also look at adding some container capacity whereas in our case we will be adding something. So do you think that the growth can sufficient to take care of all the expenses which are coming up on the Western Coast say in the next 3, 4 years or do you think we might see a lower capacity situation?
- Prakash Tulsiani** What one has to also see that what has been added as capacities on the water front. And the volumes which come to India are all as I always say is the volumes which are gateway cargo which goes in to the hinterland. So one has to also see and review what are the capacities available at the backend. For Pipavav we can draw 100% on the backend specifically on the railway line. So what is important is for the shipping lines to see that whatever capacity may be increased in the West Coast ports but who is increasing or having the capacity on the backend which will be a key determining factor for the volumes as we go forward.
- Sahil Desai** So you are saying that an expansion which is coming up with some value addition or proposition for shipping line versus an expansion which is just on the water front so that is a huge differentiate your port?
- Hariharan Iyer** No, we have also expanding on the waterfront but what are key is that we also have the backend capacity.
- Moderator** Thank you. Next question from the line of Bhavin Gandhi from Batlivala & Karani Securities. Please go ahead.
- Bhavin Gandhi** Sir, specifically with related to double stacking operations is there any constraint on the hinterland site to evacuate double stack train? From what we understand Container Corporation

can only do it from Jaipur and Khatuwas and Gateway could do it from Garhi. So is that a constraint to us for doing more double stack volumes from Pipavav?

Prakash Tulsiani Well, as you said is right that is in at the back when I say at the NCR region please remember the trains do not go double stack to the final destination whether it is TKD or whether it is Dadri or nearby locations because they are on electric traction and they are incapable of handling the double stack trains. So they go to a particular point where they are re-handled by the train operator whoever the container rail operator would be. So yes, they are working towards increasing the volume. As we started we were only a 12% to 15% now we are already touching 30% and I am hopeful and I can see that efforts are being made by the rail operators to increase this number because all benefits in this and I am of the firm believe that this will increase as we go along.

Bhavin Gandhi And sir, would you have any update on the Hazira rail connectivity part?

Prakash Tulsiani What I know off is that as of now they do not have a direct connectivity and that is the update I have right now.

Bhavin Gandhi And sir, if one was to start have the already approvals in place typically how much time would it take to have a rail connectivity in place?

Prakash Tulsiani I think it depends on each situation because there is an acquisition, there is land within the port there are very variables very many factors. So sitting at Pipavav I will not be able to get that.

Moderator Thank you. Next question from the line of Amar Kedia from Nomura Securities.

Amar Kedia I have a question on the tax part of it. So you have almost Rs. 11 crores of MAT that was paid during this quarter and this is almost working out to 20% tax rate which is where the MAT rate is and this I believe is your first quarter where you are paying such kind of tax. So basically what I want to know is all your depreciation setup and all those things now fully done and from this quarter onwards you will likely see a 20% kind of tax outgo every quarter?

Hariharan Iyer Actually, we started paying MAT in the Quarter 3 2013 so Quarter 4 and now of course the first quarter of 2014. So yes, we are now fully used up our unabsorbed depreciation and therefore to that extent now it will be a full MAT payable. And we of course get the credit for that. So going forward we will be able to claim that.

Amar Kedia No, of course you started two quarters back what I meant was in terms of full MAT tax rate it is 20% I think that is the first time that we have seen in this quarter. So I think from here onwards you are going to most likely to look at that kind of a number, right?

Hariharan Iyer Yes.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor to Mr. Ashish Shah for closing comments. Thank you.

Ashish Shah On behalf of IDFC Securities I thank the management of GPPL for giving us the opportunity to host this call. Thank you Prakash; thank you Hari.

Moderator Thank you, sir. On behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us; you may now disconnect your lines.