

“Gujarat Pipavav Port Limited 2QFY16 Post-Results Analyst Conference Call

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MANAGEMENT: **MR. KELD PEDERSEN – MANAGING DIRECTOR, GUJARAT
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Moderator: Ladies and gentlemen, good day and welcome to the Gujarat Pipavav Port Limited Q2FY16 Post Results Analyst Call hosted by Ambit Capital. 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 for 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. Utsav Mehta from Ambit Capital. Thank you and over to you.

Utsav Mehta: Good afternoon. We at Ambit Capital are happy to host the management of Gujarat Pipavav. We have on the line Mr. Pedersen, Managing Director; and Mr. Iyer, CFO. We will begin with a brief commentary by the management after which we will have a Q&A Session. Over to you sir.

Keld Pedersen: Thank you very much. This is Keld Pedersen here, MD of the company. I would like to jump directly into the Key Highlights for Q2 September 2015: So we will start with the Container business. On the Container business we have for the quarter done 146,000 TEU. This is equal to a 24% decrease versus the last quarter. This is mainly caused by force majeure as stated in the last call, global slowdown and some of our customers realigning their services. Then we have on the Dry Bulk we have 39% decrease in volume and again this is mainly caused by force majeure and four vessels skipping the port.

On the Liquid, we are really happy to announce that we have an increase of 52% in volume versus last quarter and very importantly also we have started the RoRo operations in August and we have so far had the first five cars equal to 6,500 cars. So all in all that take us through 764 million EBITDA equal to 51% EBITDA margin, mainly impacted by the lower Container and port volume. Then we have an impairment reversal of 604 million and that again take us to 531 million in profit after tax which is lower by 34%. The lower operating volumes, one-time impairment and also our deferred tax liability coming in now. This I will take you through in a very few minutes.

I am however happy to announce that we have also reached a new milestone in the company’s history where brought forward losses are fully set off in this quarter.

If we turn to the Operational Highlights, then you will see for the quarter that we did our 146,700 TEU and here we had an ICD volume of 105,550 trains in the quarter and this is again numbers coming out of the force majeure on the trains. On the port volume and the decrease of 39% to 0.63 million this is equal to force majeure and the four vessels skipping and again that has a direct impact in the total reduction on weight volume in terms of tonnes.

If we go to the infrastructure developments this is just to show you a few of the things that we have completed. The important one is Gate Complex which is significantly improving our safety and security at the port and on the next page you will see how we are progressing on the projects we have initiated earlier this year.

Now, I will hand it over to Hari to take us through the Financials and I am sure there will be some questions in this context.

Hariharan Iyer:

Thank you, Keld and good afternoon to all. Let me take you through the key financials for this quarter: Income from the operations in this quarter at 1404 million is lower by 19% than the first quarter due to lower container and Bulk volumes that was touched upon by Keld a little while ago and container volumes at Pipavav were impacted by the force majeure due to the rail disruption during the last week of June which extended until July. The Container Shipping business globally is also experiencing general slowdown and this has also impacted the Container volumes in India too. The Container market over the last several quarters have remained generally flat resulting in shipping lines rationalizing their network capacity to adjust to the market conditions.

During this quarter in Pipavav service to the Middle East was discontinued and another service FM3 into the Far East moved out of Pipavav during September 2015. Bulk volumes were also primarily impacted by force majeure and ended the quarter at 628,000 metric tonnes, down 39% from the previous quarter. This was largely due to two coal and two fertiliser vessels which had to be moved or shifted during that time.

Liquid volumes are slowly ramping up and during the current quarter we handled 163,000 tons, up 52% from the previous quarter. As Keld mentioned, this was also the quarter in which the RoRo operations commenced in August 2015 and we handled five vessels by the end of this quarter.

Operating and other expenses during the quarter were lower reflecting of the lower volumes handled during the quarter. Previous quarter included a one-time maintenance dredging of INR 90 million which is not there in the current quarter.

Coming to the EBITDA at 764 million, a margin of 51.3%, these are reflective of the lower volumes in Container and Bulk business though marginally offset by growth in Liquid volumes and commencement of RoRo Services. Both these businesses are still in very early stages and therefore as yet constitute only a smaller part of the total revenue.

The exceptional item of 604 million that you see this quarter represents the writeback of impairment. This is in accordance with the Accounting Standard 28. The company in consultation with the statutory auditors has reassessed the impairment provision in the books and based on the business outlook and future projections have written back the impairment.

Coming to the next part on the deferred tax: Until the year ended 31st of March 2015 the company had a deferred tax asset position as reflected in the notes to accounts. This was mainly due to the carry forward losses of the previous years. With the positive net results over the last few years, the carry forward past tax losses have come down significantly and the position for the current year ending 31st March 2016 is changing into a deferred tax liability, mainly constituting the timing difference of book depreciation and tax depreciation. In

accordance with the Accounting Standard 22 the deferred tax liability of INR 681 million for the first half year ended 30th September 2015 appear as a tax charge in the current quarter. Going forward the P&L will continue to have this tax charge until 31st March 2017 and thereafter will start unwinding post the tax holiday period. However, this does not change the MAT payment and the company continues to be under a tax holiday period until 31st of March 2017. There are no major changes to the balance sheet as of date.

In summary, the operating net results for the quarter were lower due to the drop in Container and Bulk volumes as elaborated earlier, and during the quarter the key milestone that was achieved the company has now fully set off past carry forward book losses.

Now the floor is open for questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. Our first question is from the line of Amit Sinha from Macquarie. Please proceed.

Inder: This is Inder here. My first question is regarding this force majeure. Can you give some numbers regarding both in Bulk and Container, how much of the volumes were lost because of the force majeure? And specific to within Container, how much is the impact of the realignment and how much is this force majeure? And would it be safe to assume that if those volumes would have been there, that our margin numbers would have been closer to the run rate that we have been witnessing for some time now closer to that 55-60% band?

Keld Pedersen: In the services I give you the number on the Container volume. If you split, it came down in approximately half-half, and then we would say 25,000-30,000 TEU is caused by the force majeure and the other part of it is due to a realignment of the services. Of course, you also have to take in the global slowdown here where there is a public news that the overall market has dropped with 1%. On the Bulk, you can consider four specific vessels during the Force Majeure.

Inder: So in the Bulk the entire decline because of Force Majeure?

Keld Pedersen: It is two coal vessels and two fertiliser vessels that had to skip and go elsewhere during the force majeure.

Inder: So the volumes could have been closer to 1 million tonne if that would not have there?

Hariharan Iyer: In about that range, Inder, because there were two vessels have already nominated and they had to be diverted and two more which were on the way had to move out because due to force majeure the lines were not operative and all are dependent on rail movements.

Inder: The impact on the margins if these events would not have been there, would have been back to normalised margins?

Hariharan Iyer: Yes, because in terms of realisations and in terms of cost, you would have seen that there is no significant change.

Inder: My second question is regarding the milestone that you talked about that we have kind of completely used our carryforward losses. Now, just related to that, two things – one is can you spell out even maybe in broad terms that now given that there is no restriction on us in terms of dividend payment, how is the kind of the board and the management thinking about it? And the deferred tax that you mention, what is the rate at which this deferred tax would be provided going forward?

Hariharan Iyer: On the dividend part of it, discussions are ongoing with the board, and at an appropriate time the company will come out with a plan. Yes, with the milestone being achieved that the past losses have now been fully written back. There is no restriction with respect to payment of dividend, but dividend have to be paid out of current profits and these are discussions which are ongoing with the board. On the second part of it with respect to the deferred tax scenario, the deferred tax is computed at the same rate at what the corporate tax rates are computed. It takes into account the timing difference with respect to the change in the depreciation rules from a tax perspective as well as from an accounting perspective.

Moderator: Thank you. The next question is from the line of Pranav Gokhale from Religare Invesco. Please go ahead.

Pranav Gokhale: Just a clarification; you said one services gone for Middle East and the other one has gone in September for the Far East. Could you give some indication as to what could be the quantum of that service which has gone out in September '15 like in terms of what could be the TEU impact anticipated?

Keld Pedersen: We are presently undergoing an expansion of the port and the expansion of the port will be finished in February-March 2016. So in this specific context in September we did not have the capability to offer restructuring of our berthing program. So we did not have space for the berthing window requested by the customer. In terms of quantum, the service would be in the range of 70,000 to 80,000 TEU, but again we cannot say how much of the volume are moving around to other ports or remaining in our port. So we can give you the number of what is equal to in the service but not how much we will retain in Pipavav and what the net number would be.

Moderator: Thank you. The next question is from the line of Ateek from Capital Matrix. Please go ahead.

Hardik D: First question was sir, Hari, in last conference call you said that two vessels were gone for Bulk as well because of the force majeure but the impact was 120,000 tonnes I think you had described, has it went up further?

Keld Pedersen: We had totally four vessels in the quarter. The force majeure went on from the previous quarter June into July and after we have restarted the Railways in what is considered a short

time in the market then of course there was still a clean up to do after that and to get back and completely normalise the business.

Hardik D: Any replacement business that are on track for replacing this service line going out?

Keld Pedersen: We are continuously in a very close dialogue with all our shipping line customers without exception and we are also in very close dialogue with all the cargo owners using our port, but it is a very tough market environment right now for the shipping lines, the rates have gone significantly down after the summer and of course they are reviewing their set up on a continuous basis, but specifically, for us we are always very close to the customer and in continuous dialogue on what can be done.

Hardik D: We have done 146,000 TEU this quarter. So, in last year same quarter it was 194,000, which is a decrease of 24%. So let us say 30,000 also came from the force majeure then also there is decline in volume even after adding that. So how do you see going forward and why this happened?

Keld Pedersen: I said 25,000-30,000 TEU was caused by the force majeure and the remaining part contributing from realignment of the services.

Hardik D: The entire part will be attributable to the service moving out?

Keld Pedersen: Yes, the realignment of that.

Hardik D: For that we are continuously looking to replace the business, but as of now there is no concrete evidence as to what will be replaced?

Keld Pedersen: That is true. I cannot go into the commercial details. What I can say all is that we are very close to our customers and it is a continuous dialogue.

Moderator: Thank you. The next question is from the line of Akshay Soni from Morgan Stanley. Please proceed.

Akshay Soni: On the Middle East cancelation that has happened, could you give any detail on that service?

Keld Pedersen: What we can say is that we have had a service that has discontinued in its present format and we have had and we still have ongoing dialogues as to how we can restart new services again. So that is the detail I can give you on that one.

Akshay Soni: What I am trying to understand is basically you lost the Far East vessel on September 14th, so you had about 15-days of impact in this quarter and then there was Middle East vessel where the service was discontinued. Now, both those put together, roughly if I take 25, as the force majeure bit then they seem to have accounted for about 23,000-25,000 TEU loss for you. So I was just trying to understand whether it was mostly coming from the Middle East discontinuation in the current quarter?

Hariharan Iyer: To some extent you may be right, but the point is that it is very difficult to really get into so much granular details to really decide how much of it is actually shifted out or how much of it is moving to another vessel. As a port operator, we do not get details into so much level in a very immediate basis. It takes over a period of time after we study the trends. The point is that we did have a service. This service is no longer existing in the market today. I will try to explain that there are dialogues which are ongoing to see how this will come back to again in a different format than what it currently is today. That has certainly resulted in some impact in terms of total volumes. #2 is with respect to the FM3 service that moved out of the port, that also has impacted on the total volumes; and #3 of course will be force majeure that we talked about. To a great extent we are trying to give you an indicative about how much of this. On the force majeure part of it we can get more closer to that numbers because we can identify the number of vessel calls or the things that have been affected, but with respect to the other two services on a more short term basis may be a large part of it could be attributable to those calls being moved out. However, how much of it on a very granular detail is very difficult to really determine.

Akshay Soni: Given the slowdown that you are talking about again given that the numbers reported for the month for Containers are actually down, what is the Container outlook that you have both for your business as well as from an India perspective? I am not asking for a quantifiable number, I am just asking for a general outlook.

Keld Pedersen: We as a port operator being in Gujarat Pipavav Port, we recognize that the overall market is a tough market environment now. I also think there have been a lot of movements over the last quarter in terms of becoming worse. But, as to how it helps the market outlook, I think it is very difficult for us to say at the moment and it would probably be more relevant to approach the customers of the port to get a clear indication to the expectations, but there is no doubt that the market is in a tough environment right now.

Hariharan Iyer: If I may add to what Keld has said now just to build on the same point, the shipping lines are going through a scenario where the rates globally have really plummeted to low levels. Especially the summer the last quarter rates have also significantly dropped down. That has put a lot of focus on the shipping lines to keep looking at rationalizing their services and trying to take cost out. In a scenario like this things are a little bit fluid. We are closely in dialogue with our shipping lines as well as our final customers to see what the problems are. May be the coming few months would give a better picture about what the trends would emerge.

Moderator: Thank you. The next question is from the line of Pawan Kumar from Unifi Capital. Please proceed.

Pawan Kumar: Can you give me a picture of how much of bulk volumes were actually lost due to force majeure?

Hariharan Iyer: I think we addressed this earlier in the call. There were two calls which were already nominated and on their way to Pipavav that had to be diverted and there were two others which

were on the pipeline which had to move on. So therefore basically four calls - two coal and two fertilisers - that were impacted by the force majeure.

Pawan Kumar: So how much volume would it be?

Hariharan Iyer: It would roughly be in the range of about 200,000 tonnes to 250,000 tonnes.

Pawan Kumar: I wanted your outlook from rather a pricing perspective and the competition in the industry for regaining whatever the container growth presently?

Hariharan Iyer: This is something that we need to closely be engaged with our key customers which are basically the shipping lines. There will definitely be pressures at the current scenario, but we do not see that as a very significant part of it. It is more about how the overall market develops with respect to volumes. That will continue to remain the key.

Pawan Kumar: So we are going forward with the CAPEX that was planned?

Keld Pedersen: Yes, we absolutely go forward with the CAPEX. The CAPEX is in progress as planned and is expected to complete by the end of Q1 which will add an additional half a million TEU capacity to our port and we will in this context be very focused on volume.

Pawan Kumar: If we come up with new capacity, would it help us in retaining our customer base and give the new shipping lines some additional berthing space because you have already mentioned that one of the lines were majorly lost due to berthing space not available at the right time, right?

Keld Pedersen: It will absolutely give us more flexibility in our operations. There is no doubt about that.

Pawan Kumar: Are you planning to give any discounts as such?

Hariharan Iyer: These are commercial things which have to be taken into account based on what the volumes which come in.

Moderator: Thank you. The next question is from the line of Nitin Arora from Emkay Global. Please proceed.

Nitin Arora: You said that there is a Far East Liner which moved away from us. I think it must be NMG because we acquired that Liner from Mundra in Q3CY14. That must have given you the full year numbers in CY15. So, can you throw some light with respect? I do not want to quantify that numbers, it should be somewhere in the range of around 20,000-30,000 boxes because FM3 you gave us a clear guideline that volume which used to come from FM3 was in the range of 70,000-80,000. So can you quantify somewhat what NMG used to give you?

Hariharan Iyer: You are right, it was in the range of about 20,000-30,000, this was evolving service which was happening.

- Nitin Arora:** Can you give us more sense because absolutely as you mention that there has been a slowdown globally if I look at the Shanghai Freight Index that has collapsed completely about 50-60%. We have seen the Far East Liners cutting down their sailing to Europe as well. Have you seen some sense for the Indian players and if that happens we are also seeing in that context a lot of containers getting stored at the port level or a lot of containers like at JNPT have started handling especially our own company APM Terminal have started handling empty containers, do you see that soften the realisations going forward for the port operators?
- Hariharan Iyer:** There will be a pressure on the rates. I do not see that immediately something that would be impacting. The impact of the volumes up or down will have a much larger impact. To some extent we are also offsetted by the exchange rates. So that kind of compensates from the realisations. So the concern is more on the volumes today.
- Nitin Arora:** Sir, can you share some light on the RoRo side, any revenue got booked in this quarter because of that cars got handled or...?
- Hariharan Iyer:** These are very early stages. So that puts it into commercially sensitive information at this point of time. When it reaches a reasonable level then we will be able to share more details on that. Today, it is still very-very small numbers. I gave you the overall number. There were five calls at about 6,500 cars now. So these are beginning stages now.
- Nitin Arora:** Can you give us the Container realisation and Bulk realisation for the quarter?
- Hariharan Iyer:** The Container realisation has been in a similar level as the earlier quarter, it was in the 6500 range, that has not changed anything much, and on the Bulk again it is depending upon the mix of the cargo but in the range of about 400-450.
- Moderator:** Thank you. The next question is from the line of Bhavin Gandhi from Batliwala & Karani Securities. Please go ahead.
- Bhavin Gandhi:** Can you comment a little bit on how is the NCR market shaping up and how has been our market share there?
- Hariharan Iyer:** The NCR market continues to remain at more or less the similar level that we have seen. As Keld mentioned to you briefly there was a drop on a quarter-on-quarter basis but if you study over the last four or five quarters the overall market has remained pretty much flat. Yes, there have been changes between the ports because of the shiftings that we talked about now. So gain in some and loss in some, but otherwise the overall market has remained pretty much flat.
- Bhavin Gandhi:** Just one clarification question; if you were to declare a dividend, can you declare a dividend in FY16 itself or it will be only in FY17 when you can consider?
- Hariharan Iyer:** From a statutory perspective then we are in a position to declare dividend from the current profits because now we have returned back all the carry forward losses.

- Bhavin Gandhi:** One clarification; on dividend from Pipavav Railway, generally comes into the second quarter. It does not seem to have come in this year.
- Hariharan Iyer:** There was no dividend declared by the board or the shareholders of PRCL.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Sir, wanted to understand, if you could give some idea about the import/export mix? Would it be able to understand what would be the mix of US, Europe and Far East in that?
- Keld Pedersen:** In very general numbers then the split is 50:50.
- Achal Lohade:** How about the regional mix?
- Keld Pedersen:** It is almost the same, you can take a few percentage here
- Achal Lohade:** Why I was asking was we keep hearing that US and Europe slowdown is pretty much visible and even now China is kind of slowing down. I am just trying to understand would it really have a significant impact on us given we would be more of Far East import/export-driven?
- Hariharan Iyer:** Our imports are largely from the Far East. Our exports still continue to remain dependent on US and Europe. So to that extent we are also impacted by the global trends.
- Achal Lohade:** If I look at the topline number Rs.140 crores and the volume number 2.84 million tonnes, the revenue per ton is about Rs.495 as against Rs.450 in immediate quarter. What I am trying to understand is what has driven this increase sequentially because the exchange rate seems to have been pretty much stable at about Rs.64. What has driven this 9.7% increase QoQ – was it function of the loaded empty box mix or was there any tariff hike angle or anything else?
- Hariharan Iyer:** No, there are no tariff angles in this, tariff hike is already fully included in this. There is some element of mix here. The product mix will also make a difference. We have more fertilisers than coal in this current quarter and therefore that will have a mix in the rates and plus of course you have the other business areas also coming into the picture now.
- Achal Lohade:** This RoRo volume you said 6,500 cars. Is it included as part of Bulk volumes – where it is reflected in terms of volume?
- Hariharan Iyer:** In volumes it is neither a part of the Bulk volume nor the Container. That we showed you separately that this is 6,500 cars that we did for the current quarter.
- Achal Lohade:** I am sure it will have the impact on the revenue per ton working?
- Hariharan Iyer:** That is correct.

- Moderator:** Thank you. The next question is from the line of Abhijit Vara from Sundaram Mutual Fund. Please go ahead.
- Abhijit Vara:** I have two questions; one is earlier there was a statement given out in response to one of the queries that when this FM-3 try to request for alternate window, you guys could not provide. So, does that mean the effective capacity has come down?
- Hariharan Iyer:** No, it is not like that. When they had asked for a change in the berthing window the day on which they asked was already allocated to another shipping line and they were calling in. So it becomes difficult to make that realignment. That was the reason for it and therefore when Keld mentioned when the project is complete and we are ready with it say in the first calendar quarter of 2016 then we will have that much more flexibility, that much additional berthing window can come into play. The capacity has not changed, it still remains the same.
- Abhijit Vara:** Any progress on coastal shipping you can give us?
- Keld Pedersen:** There is also a continuous dialogue going on. I think that is the best I can say is that we have focus on this.
- Abhijit Vara:** In the current quarter's volumes how much would be contributed by coastal shipping?
- Hariharan Iyer:** I do not have the details right now with me to that level, Abhijit.
- Abhijit Vara:** JNPT also has commissioned some capacity, you are also trying to expand, so, there is competition brewing on West Coast. I am sure you are trying to market yourselves but any broad idea you can give us what is the plan to ramp up capacity utilisation maybe 2-3 years down the line?
- Hariharan Iyer:** Abhijit, these are continuous processes, right. As Keld mentioned earlier the dialogue is on with not only our shipping lines who are our customers but also with the beneficial cargo owners in each of these locations. We are having our commercial team sitting into the pockets where the cargo is actually generated, having a dialogue with the final customers who are actually utilizing the services of the port and we continue to present to them the value proposition that Pipavav brings in by way of capacity on the roll, by way of turnover, by way of productivity and by way of customer satisfaction. These are things that we present. We have multiple road shows. So there are many aspects under which we are trying to work closely with our customers to see that the volumes get into the port.
- Abhijit Vara:** The Liquid Cargo you handle, how many vessels would it translate to 163,000 MT?
- Hariharan Iyer:** 23 vessel calls.
- Moderator:** Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

- Rakesh Vyas:** First question is regarding our other operating income which has declined. I believe this normally is not related to the volume that we handle. This is primarily independent of that. If you can just clarify the reason for decline?
- Hariharan Iyer:** This is mainly reefer volumes during the reefer plugging and other charges that we get as additional income during the quarter. The reefer season is just beginning during the quarter. This is not the main reefer quarter. The coming quarters will see that rise. That is mainly the key component in the other income.
- Rakesh Vyas:** A clarification on the deferred tax that you have accounted for. This is for the first half Rs.68 crores. Is that the correct understanding?
- Hariharan Iyer:** Absolutely correct, you are right.
- Rakesh Vyas:** But then the tax rates seem to be very high on this particular component when it is accounting for the first half. So if you can just clarify, it seems to be around 40% rate?
- Hariharan Iyer:** No, it is not 20%, it will not be in a percentage term. I do not know what you link into, but it is based on the overall corporate tax rate itself and in conjunction with what the estimates are. So as of 30th of September... to answer your first part, yes, this represents the first half.
- Rakesh Vyas:** From here on we will on reported basis report a defer tax in P&L although on the payment basis we will continue to pay MAT no which in reported sense we will take MAT credit as well. So there will be a tax rate that will come in P&L. Is that the correct understanding now?
- Hariharan Iyer:** Rakesh, absolutely correct. As far as the actual tax payable is concerned and the tax holiday is concerned, nothing changes. We are still under a tax holiday until 31st of March 2017. As far as the MAT is concerned, yes, because of book profits we will continue to pay MAT and the credit for that would be received post-2017 when the full corporate tax come into the picture. And the third aspect of the deferred the tax liability, whatever the deferred tax liability that gets charged to the P&L until 31st of March 2017, we will start unwinding after 2017 when the same one will get offsetted against the future tax payables. This is purely based on the accounting standard the entry in the books.
- Rakesh Vyas:** The total volume loss does not clearly indicate or does not fully account for the FM-3 impact in the current quarter, right?
- Hariharan Iyer:** Yes, because it moved out in the month of September and then it does not have the full impact, but as we explained in an earlier question relating to the same subject, it is very difficult to really put on how much of it is actually moving or how much of it will move through another service or through another shipping line. Those are the things which will only be known over a period of time.
- Keld Pedersen:** For your information you would normally see volumes move out in the logistic chain it will take 4-6 weeks to adjust.

- Moderator:** Thank you. The next question is from the line of Adidev Chattopadhyay from Elara Capital. Please go ahead.
- A Chattopadhyay:** Just to understand now, let us say we commission the expanded capacity next year, so does it come onstream immediately and if it does will it impact our operating margins if we are not able to ramp up our volumes to that extent, just wanted to understand how the EBITDA margins will look like once that starts operating?
- Hariharan Iyer:** Yes, the capacity would definitely immediately come on-stream, we will be able to do that except of course the yard capacity which will gradually increase. So we do not see that significantly changing or impacting the capacity. So as such to answer your first part of the question, yes. The second part of the question is with respect to the cost. This is not significantly going to change the operating cost because what we are doing now is replacing the old cranes with newer cranes. And these newer cranes have better capacity and a better productivity. So therefore the cost will kind of get offset by the productivity. We do not see any significant change in that. There may be marginal changes. To what extent and how? Once this becomes operational, then we will have a better feel of it.
- A Chattopadhyay:** I believe we have berthed our largest container vessel during the quarter, I think vessel a of 10,000 TEUs. So, just to clarify whether it is an upsizing of an existing vessel or is it just a few other vessels it was consolidated into this vessel?
- Hariharan Iyer:** Yes, we did because of the changing patterns that we have talked about and the rationalization of services. We did get a call which was of 10,000 TEU vessel and Pipavav demonstrated that we were able to handle the large vessels that come into the port.
- A Chattopadhyay:** As a company does it give you a confidence of being able to attract more business going for a larger vessel in a tough market scenario, do you see vessels getting some volumes back because of demonstrating this capability?
- Hariharan Iyer:** Absolutely, both from a customer side as well as from a shipping line side then this gives the confidence that yes, Pipavav is capable of handling or will be able to handle the large vessels which call the port.
- Moderator:** Thank you. The next question is from the line of Lalitab Shrivastav from Dalal & Broacha. Please go ahead.
- Lalitab Shrivastav:** What is the capacity in the RoRo facility and how is the billing done – is this on per vessel basis or on a number of cars basis? Just a general guidance on assuming that the two service lines that you were not able to fill up those service lines, then roughly what will be the utilization impact we will be having for at least the next two quarters?
- Keld Pedersen:** I think on the utilisation we have said that our capacity on the Container side is roughly 850,000 TEU and now we move to 1.35 million TEU on the Container side. We do utilize the

same water front for our car business, and then we have allocated land for the RoRo business as well.

Lalitab Shrivastav: On this RoRo facility, how is the billing done – is this on a number of vessels basis or how is that?

Hariharan Iyer: There are two components to it -- one is the marine side of it for handling the vessel for the hours of stay that remains at the port just like any other container or a bulk vessel or a liquid vessel, and the other part of it is that we earn on a per car basis.

Moderator: Thank you. The next question is from the line of Chockalingam Narayanan from Deutsche Equities. Please go ahead.

C Narayanan: This impairment reversal, which investment does this pertain to – is this PRCL or anything else?

Hariharan Iyer: If you recall there was an impairment which the company took in the books as of 2004. There is a note in the accounts which comes every year where we detail exactly what this impairment is. To just to give a little bit of a history on that, impairment was taken in the year 2004 at the time when APMT acquired the majority stake. There was an impairment of Rs. 2165 million at that point of time. Over a period of time, as a part of the accounting standards, at the end of each year regularly reviewing what the impairment position is. As the company's activities becoming started growing then in the year 2013 we had taken a partial write-back of impairment because by which time the Container business has significantly moved up and we were also embarking on an expansion program; however, at that point of time the Bulk continued to remain a little bit uncertain and we were also building up larger capacity for bulk on the back of power plants which were expected around at that point of time. Therefore, on a more cautious approach a part of the impairment was taken back or written back while the other part remained.

Over the next few years, we continued to keep reviewing that. And as we speak now you all are aware that the total capital outlay on the project has significantly dropped because we are no longer adding capacity on the Bulk side. That is #1; And #2, as a port, as a single cash generating unit, we have newer businesses which have got added during the period. That is the RoRo as well as the ramping up of the Liquid. Now with these, the projections going forward based on the accounting standard then gives us a scenario that this impairment which is in the books, the balance impairment no longer requires to be in the books and therefore has been written back.

C Narayanan: On CAPEX, how much has been carried out till now in financial terms – is it about Rs.150-odd crores or is it higher than that?

Hariharan Iyer: It would be in that range. I can give you this number while I take the next question because many of them are in process now because some part of the payment have been done, the others

would actually fructify when the equipments really land, but, yes, I would reckon that about 30% to 35% of the total cost would have already been incurred.

C Narayanan: On realisations, was it only a mix change or does it have some take or pay income of any sort in the numbers?

Hariharan Iyer: There is no take-or-pay in the numbers at this point of time. The mix is more prevalent in the Bulk cargo not in the Container business.

C Narayanan: That is also the reason why the operating expenses also slightly higher?

Keld Pedersen: That is correct because the fertilisers as we have explained have a larger top line, at the same time the handling cost for fertilisers are also higher.

Moderator: Thank you. The next question is from the line of Rajshree Maitra from Axis Capital. Please go ahead.

Rajshree Maitra: On the strategy front, if I look at your overall performance, the volumes while they have dipped, the tariffs remain at quite good levels. So, going forward, is that the intent of the company to not compromise on tariffs at all even if you are finding incremental volumes more difficult to come by?

Keld Pedersen: I think that is a very difficult question to answer. I think we are in a tough market. We intend to grow our business and that is I guess the best of all tips I can give you. So there is no specific intention on any of these. So it is a matter with the capacity coming up and the continuous development of the port. It is a matter of giving the right balance between price and volume.

Rajshree Maitra: On the balance sheet, if I look at your long-term loans and advances, that has gone up to around 2.3 billion versus it was quite low earlier. So any specific reason for this?

Hariharan Iyer: I think these are the MAT payments which are there over a period of time because it does not hit the P&L, the reason being you will be able to claim the credits going forward.

Rajshree Maitra: The cost per tonne on a quarter-on-quarter basis it seems to have shot up quite significantly by around (+25%). Now, is there any one-time cost that are there or because of the force majeure any one-time cost or is it all part of regular expenses?

Hariharan Iyer: No, it is not there in this quarter, but you must recognize that a large part of the cost is fixed cost. So therefore on lower volumes then you will obviously see on a per TEU basis, the cost going up. There is no significant cost changes as such if you see on a quarter-on-quarter basis then our operating costs are lower by 20% reflecting more or less the lower volumes that we have got in the current quarter.

- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal investments. Please go ahead.
- Vipul Shah:** Can you give me more details about this RoRo service? Are we losing market share in any of the categories to the competitors?
- Hariharan Iyer:** Vipul, on the first part of it, the RoRo commenced operations in August, we did initial few trial shipments, there were five vessel calls that we handled until 30th of September roughly handling about 6500 cars all belonging to Ford and being exported out of India. As far as your second question is concerned, I think you said about the market share or change in the market share. Yes, with the shift of one of the vessel calls, there have been a drop in the market share overall if you look at it on a quarter-on-quarter basis.
- Vipul Shah:** So what we are doing from our side to gain back that market share which we have lost?
- Hariharan Iyer:** I think we explained that a little while ago on a different question that the dialogue is on with all the shipping lines as well as the final customers. We continue to present the value proposition that Pipavav brings into the picture in terms of productivity, in terms of connectivity, in terms of our customer satisfaction. Those are the areas that we work on along with our commercial team who are basically currently based at specific cargo locations across the northern belt.
- Vipul Shah:** Post completion of this expansion plan, what will be our TEU handling capacity per annum?
- Keld Pedersen:** 1.35 million TEU.
- Vipul Shah:** So expansion is totally on Container side, not on Bulk or Liquid side?
- Keld Pedersen:** That is correct.
- Moderator:** Thank you. The next question is from the line of Ankit Fitkariwala from Jefferies. Please go ahead.
- Ankit Fitkariwala:** A couple of clarifications; on the deferred tax side, as in the PBT everything remain same, I think you said that this deferred tax is for 1H. So on a quarterly basis, will we see half of this assuming everything remains same I am just talking hypothetically?
- Hariharan Iyer:** You are right more or less on a theoretic basis yes, that is how the situation would pan out at least for the current year.
- Ankit Fitkariwala:** Due to the exit of the SE-3 vessels, which is about 70,000-80,000 TEUs annually, we lost only 15-days in the quarter, right?
- Hariharan Iyer:** There were a few, that is correct, it happened in the first half of September, so about two or three vessel calls.

- Ankit Fitkariwala:** Second service is about 20,000-30,000 TEUs annually?
- Hariharan Iyer:** The second service is about 20,000-30,000 TEUs annually, that is correct.
- Ankit Fitkariwala:** That was completely discontinued, that is what you mean, so nobody else has taken it from us, right?
- Keld Pedersen:** Yes, that service does not exist today. So therefore, we are still in dialogue with the shipping lines with partners to see how you rebuild that service again.
- Ankit Fitkariwala:** As you said that the environment is benign and everything, so how do you see on a general level in India the Container volumes moving in say this year, next year?
- Keld Pedersen:** I think that is a very difficult question. I think if you look at the quarter overall India a drop of 1%. I think every month very much depend on the global economy and how things develop along us in the coming year.
- Moderator:** Thank you. The next question is from the line of Lokesh Garg from Credit Suisse. Please go ahead.
- Lokesh Garg:** A few clarifications remain; even if you just take this previous question and sort of project the deferred tax it would be Rs.34 crores. Now, if Rs.34 crores is the deferred tax, then it should originate from a depreciation difference of about Rs.100 crores. Now, that sounds very large on a quarterly basis. So, are we missing something out here?
- Keld Pedersen:** Lokesh, I would invite you to look at our Annual Report Page #73 on the 31st of March 2015 where there is a Note #13 'Deferred Tax Asset' which gives you the complete feature about what the total unabsorbed depreciation carried forward is, what is the total tax effect on the deferred tax asset as well as the deferred tax liability scenario. It will more or less be on a similar level. You will find that the deferred tax asset has gradually reduced based on the profits that have been generated over a period of time. That will go off and what would remain is mainly the deferred tax liability which is relating to largely the timing difference on the depreciation. So based on our current estimates these are in line with what we have provided for the first half in line with the accounting standards and as reviewed by the statutory auditors as well.
- Lokesh Garg:** This Middle East Line, can you name the service which lost and it is just 20,000-30,000 TEUs annually, so quarterly impact must have been much lower then?
- Hariharan Iyer:** Middle East service is NMG.
- Lokesh Garg:** So it was actually a small service only, right, running in this region only?

- Hariharan Iyer:** Every service is important to us Lokesh and therefore it does not matter whether it is small or big, but, yes, it was a new service, which was introduced to the Middle East, this does not exist in its current form today.
- Lokesh Garg:** In the RoRo volumes, could you give us some kind of understanding as to how we should understand revenue line from this business – should we take it as about Rs.1000-1500 per car or something?
- Hariharan Iyer:** Lokesh, these are two small numbers today to put this thing in because that would then put us into a commercially sensitive scenario. Therefore, at this point of time, I can only give you the numbers with respect to the total numbers. As the volumes grow, then we will be able to give you more representative number behind it. I can tell you that as of now, it still forms a very small constituent of the total revenue base.
- Lokesh Garg:** But in order of magnitude terms, are we thinking correctly or wrongly?
- Hariharan Iyer:** No, I cannot give you an answer on that because that would be like commercially sensitive information.
- Lokesh Garg:** Because obviously most of this disturbance that we are referring to relates to July month, so in August and September months we were back to let us say something like 70,000 TEUs per month range, right?
- Hariharan Iyer:** I have given you the total numbers this time 170,000. This is over a period of time happening. Yes, we are slowly getting back to our earlier volumes, except of course taking into account the changes that we have discussed during the call.
- Lokesh Garg:** But you do not want to break it up on what we were doing in September or something like that?
- Hariharan Iyer:** Not on a monthly level, we cannot go into so much granular details, Lokesh.
- Moderator:** Thank you. Ladies and Gentlemen, we will take our last question now which is from the line of Tanuj Makhija from Bank of America. Please go ahead.
- Tanuj Makhija:** Can you provide us what is your share of bulk volumes from coal? And given that coal imports have declined sharply, so would that imply that there would continue to be pressure on your pricing and margins in the Bulk category?
- Hariharan Iyer:** Within our port the coal for the current quarter is roughly about 35% of the total volume that we have done. And as far as the rates are concerned, you are already aware that we still have the rail freight differential challenge which is there as far as the upcountry coals are concerned. That still continues to remain and therefore puts a pressure on the overall rates for movement of coal upcountry.

Tanuj Makhija: You said that you will slowly ramp up your yard for the new expansion, so when would your new expansion capacity be fully available?

Hariharan Iyer: First Calendar quarter 2016.

Moderator: Thank you very much. Ladies and Gentlemen, that was the last question due to time constraints. I now hand the conference over to the management for closing remarks. Over to you.

Keld Pedersen: Thanks for the call. I hope we have addressed the key questions. As always we are open to be contacted. So please have a good day.

Hariharan Iyer: Thank you.

Moderator: Thank you very much, members of the management and Mr. Mehta. Ladies and Gentlemen, on behalf of Ambit Capital, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.