

“Gujarat Pipavav Port Limited Q1 FY19 Earnings Conference Call”

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**MANAGEMENT: MR. KELD PEDERSEN – MANAGING DIRECTOR,
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PIPAVAV PORT LIMITED}**

MODERATOR: MR. ASHISH SHAH - IDFC SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to the Gujarat Pipavav Port Limited Q1 FY19 Earnings Conference Call hosted by IDFC Securities. 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 this conference call, you may 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: On behalf of IDFC Securities, I welcome everyone for the Q1 FY19 earnings call of Gujarat Pipavav Port Limited. We have from the management Mr. Keld Pedersen – Managing Director, Mr. Santosh Breed, the Interim CFO of the Company. With this, I hand over the call to Keld and request him to give the opening remarks. Thank you.

Keld Pedersen: Thank you, Ashish. So good morning, good afternoon everyone. I would like to keep as much time is possible for the many questions that I am sure you have to our numbers then I will jump directly into the key highlights that you have in front of you. So, we did 195,000 TEUs of containers that was a decrease versus previous quarter of 5%. This is caused by lower transshipment volumes in the containers being transshipped. On the other hand on Dry Bulk we did 619,000 metric tonnes which is a 133% increase versus previous quarter. In this context I want to mention on the fertilizer of that in the last call we had a quarter ago, we said that for the full year 2017-2018 the market has dropped and fertilizes with 25% for the overall India. So, I think the numbers recorded on these from us for this quarter once again shows that there is not consistent trend from the fertilize volumes either. So, for liquid 160,000 metric tonnes it is a 24% decrease versus previous quarter also on the cars, 16,000 cars we have decrease of 31% and we would make a few comments as we get to the Q&A.

On the revenue side, we can report an increase of 6% to Rs. 1,760 million. Expense side, in line with higher fertilizer, the low margins and higher handling cost we have an increase of 17% which take us to an EBITDA of 914 million equal to 2% increase versus the previous quarter. So, margins ending up at 52% while keeping in mind on the expense side combined with the fertilizer we also had another quarter with 4.5 crores of Rs. 45 million of expense to dredging as we mentioned in the previous call.

So, getting to the bottomline, net profit 471 million which is taking us to a 3% lower than previous quarter, were of increase in tax rates by 1% is a part of cess. So, if we go to the next slide on volume development, so containers as reported 195,000 ICD volume at 124,000 or maybe more interesting on the other when we see this previous quarters development that we are reporting on now. Then its lowest liquid volume in 5 quarters and that is the same for the RoRo. We are however in this business with capital expenditures for the long term and obviously we do not like to see the numbers go down. But on the other hand we keep in mind here that it is just a quarter and we have no reasons to believe for the long term that we will not continue to see increases. On the other hand on fertilizer, despite showing the highest volume for the previous 5 quarters this is also not giving us the confidence that fertilizer will start to grow now.

So, this is all from my side. Before the Q&A, I would like to handover the voice to Santosh who will take you through the financials follow up by our question and answer session.

Santosh Breed:

Thanks Keld and good evening everybody. So, let me give you, all financials for the quarter ended 30th June, 2018. The total operating income for the quarter at INR 1,760 million is up by 6% from the immediate previous quarter because of the higher bulk business. Other operating income at 92 million was low on account of the reefer electricity income. Total expenses were at INR 846 million up by 17% compared to the previous quarter and mainly because of the fertilizer handling expenses with increase in fertilizer volumes. Operating expenses were at INR 391 million up by 51% as Keld mentioned just now about the fertilizers, so that is the one which is driving these operating expenses up. Employee benefit expenses have increased by 9% this is mainly due to the annual salary increments which has been affected in this quarter.

Other expenses at INR 307 million were lower by 7% compared to the previous quarter and this includes the maintenance dredging expenses of around 45 million. With this we have actually completed our maintenance dredging for this year. EBITDA at INR 914 millions now lower by 2%. EBITDA margin at 52% was lower by 400 basis points than the previous quarter. This again mainly because of the higher fertilizer volume which were handled during the quarter and the dredging expenses which has been incurred. Other income of 106 million is mainly on account of interest income on the bank deposit also at to draw the attention on the tax expense which is gone higher by 1%. This is mainly because of the increase in the CESS rate from 3% to 4% effective 1st April, 2018. Net profit for the quarter was 471 million was down by 3% over the previous quarter. So, that was the financial over view. We are happy to take questions now.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Indrajeet Singh Bhatia from Macquarie. Please go ahead.

Indrajeet Singh Bhatia:

My first question is, if I look at this cost increase in the operating expenses, I am just trying to kind of do a bit of Maths here, on a sequential basis our other operating expenses have gone up by 13 crores and principally our bulk volumes have gone up by around 0.35 million tonnes. Now going by historical track record of the kind of realization which used to be in the vicinity of around Rs. 450 odd on the bulk side, that means we have earned another 14 crores-15 crores and you have incrementally spend another 13 crores. So, that means we are actually not earning any margins on the bulk side on the incremental volumes. Can you just explain this part?

Santosh Breed:

So Indrajeet, I think we has also taken the earlier calls and when we look at an incremental fertilizer volumes as a proportion to the total commodity mix for us in handle it in the quarter we have always have seen this drop in the margins. Because fertilizer volumes come with a higher operating handing cost and that is the reason why we always see an increase in the operating expenses. However, though this is a lower margin business. We still continue to make money on this. So, it is not that we have not, we still have increase in our absolute EBITDA number because of the fertilizer business. So, it is not that we are not making any margin as such and just that higher volumes put pressure on the margins, on the overall margins.

Indrajeet Singh Bhatia: My second question is on the volume front. Now, what do you expect in terms of, so we in quarter 4 we had kind of given some guidance about FY19 volumes. So, if you could just clarify that and any specific reasons which led to lower liquid and lower RoRo in this quarter?

Keld Pedersen: Indrajeet, so we only have one customer on the RoRo to start and if we look at the 8 quarters or 10 quarters since we started up, they are bumps on the road and we still see as long term. You also know that a number of OEMs have set up the car manufacturing facility with expectation to car export from India where the total manufacturing of cars in India only equals 1% of the global market. We do not have any reasons to be concerned for the longer term but of course, we also do not like this quarterly number. But then again, we have to accept that it is a bit of a bumpy road and that we do not have any other OEMs except Ford and little bit of Honda at this point in time. But that has to do with the need for India to start exporting more cars which is the ambition both from the OEMs and the government. So, I hope it gave you the full picture and on the liquid side we do see more competition around us but then again considering the investments development and the tank capacity at Pipavav we do believe that we will see this business as a very healthy business in the long-term picture. But specific reasons for this quarter it drop now I do not have.

Indrajeet Singh Bhatia: So, we were looking at annualizing at quarter 3 run rates for liquid and maybe quarter 4 run rates for and do we still think that is achievable for the year?

Keld Pedersen: So, this is the first quarter of the financial year. We are of course, sitting discussing how we would make it to be on par for the full financial year. Or I think, we have concluded that if you see previous year's quarterly development, we had again on some liquid. We had a 50% drop quarter-on-quarter and then we have another quarter with 50% of 50%. And then the year ended we should maybe strong finish, so I would be hesitant to say that we do not expect fully to meet same numbers as previous year because of these let us say this quarter-on-quarter development that is going a lot of up and down. So, I think it is too early for the financial year but obviously we have it in previous year and we like to see the quarter numbers go up but I would not conclude that we will not reach numbers, but it could be, I mean I cannot say it will not. On the other hand, on the container business, I think we are very confident that we will meet, or maybe exceed what we gave you in the last investor call. Although a certain portion of it and increase portion of it is transshipment of empties with lower value realization. Then if we look at the quarter year-on-year for Q1 import export then we have actually grown 14% in the underlying figure.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Sir, I just wanted to understand whether the changes in Cabotage law, can in anyway help or hurt our container volumes going forth?

Keld Pedersen: Yes, so I think for our customers of shipping lines for the container part of the business, I think they are looking into this relaxation and I can't really say how exactly it will develop but I am

sure a lot of them must be doing customer models and whatever to make decisions on how they eventually time or feed them so on forth. But what I can say at least in the public domain right now it looks like so far it has been seeking in as an advance in repositioning empty containers. So, it was in the news day or two ago that the cabotage was so far mainly benefiting shipping lines in terms of positioning of empty equipment. But I am also very confident that they will for sure will be looking at how they can optimize the businesses and eventually improved transshipment of full cargo so on but for me it is only an expectations of what our customers are doing, I can of course say it for sure but so far empties and then we also see in the overall West Coast we see some growth numbers that where we know that path across growth numbers in terms of port. Port performance is borne by increase in transshipment volumes. So, on the line what we do now is we trying to figure out what are the exact split of empty transshipment or even full transshipment versus the actual underlying import export. I hope that give you the picture.

Anand Bhavnani: Yes sir, some bit, but I just wanted to understand whether our parent has any plans to in the bigger scheme of things to develop Pipavav as a transshipment or like a lot of other competitors of us have taken up joint ventures with Mundra and other developing taking up infrastructure and putting in investments to develop that as a transshipment hub. So, any indication from our parent in this regard?

Keld Pedersen: No we do not have, our focus remains on EXIM, but we do of course, welcome transshipment when as and as it is there. But I do not know if you know some of the previous calls, but it also maybe may be partly reflecting in our numbers here that transshipment is in across the globe. It is not the primary focus because of lower margins and as you said we will take it once if there and we will build it to fill up our capacity. But we do not have a specific plan to invest heavy capital expenditure on building new projects to only do transshipment.

Moderator: Thank you. The next question is from the line of Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi: Sir, would be possible to quantify the transshipment volumes and coastal volumes handled during the quarter?

Santosh Breed: So, the transshipment volume was around 7,000 to 8,000 TEUs and coastal volumes in the range of 18,000 to 20,000.

Bhavin Gandhi: And sir also the realizations during the quarter, in the dry and in coastal and dry in the containers?

Santosh Breed: So, we of course do not split by that split. But the overall container realization has been in the range of 6,000 to 6,200.

Keld Pedersen: And if I may just add a comment here, I think inline what I have just said before then transshipment volume and especially transshipment volume when it comes through empty containers it does have a lower realization. So, when Santosh reported these numbers you will

see quarter-on-quarter it can go down and it can go up depending on the overall split of empty transshipment volumes.

Bhavin Gandhi: The Rupee depreciation, so what is the impact

Santosh Breed: So, Rupee depreciation in the current realization, I think is around in the range of around 4% is what we have got in this quarter.

Moderator: Thank you. The next question is from the line of Paras Jain from HSBC. Please go ahead.

Paras Jain: Following on the same line, if you can help me understand on the container side, if we see sequentially it looks like your mix has improved with decline in transshipment, on the top of it you have a tailwind from currency depreciation. Does it mean that your container revenue quarter-on-quarter was about the same, so decline in volume was offset by yield improvement? And second question to this part is that, should we assume the entire 8% increase was pertaining to the bulk still it looks like your revenue grew by 120 million whereas, your cost or operating expenses grown even faster than that. Could you help me understand those two aspects? And the second question will be what is driving other operating income which has declined both sequentially as well as year-on-year?

Santosh Breed: So, first to answer your question on the container realization. So, if you refer to the last quarter the volumes on account of transshipment were much higher than what we have done in this quarter. So, that is one of the reasons why the realizations have some benefit because of that. Apart from that we also spoke about last time the coastal volumes which also comes at a low realization as compared to the EXIM cargo. So, that volumes also in the current quarter has gone down and that also helped the realization a bit. And the third component of course, is the exchange rate benefit what we got. So, that is on the container realization. The other thing about, the other operating income, so basically it is the other operating income includes mainly the reefer electricity income and this varies depending on one, the reefer volumes and second of course, the dwell time how long those reefers have stayed in the port. So, we have this drop which is there is one is reefer dwell time has gone down a bit this quarter. And in line with the season, that is right and so that is that key reason for this variations of other operating income.

Keld Pedersen: Can I put again just one comment on the expenses, please do not forget that there is 45 million part of the 846 that has been spend on dredging.

Paras Jain: No, dredging was part of other expense not operating expense if I am not mistaken.

Keld Pedersen: Yes true.

Paras Jain: But this going back to the first question, just so that I understood it well. So, you mentioned that the yield has improved because of the lower transshipment lower coastal and higher exchange, which means that your revenue per TEU quarter-on-quarter probably would offset any volume softness. Is it a fair estimate?

Santosh Breed: So that is why, if you look at the realization what we said you also last quarter is all in the same range of around 6,000 to 6,200. So, we continued to maintain those realizations and the revenue also has been even with the lower volume of around 7,000 to 8,000 TEUs we still continued to maintain the revenue at the same level.

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

Achal Lohade: The first question I had was with respect to the margins. So, if I look at the margins now even if I adjust for the dredging expenses we looking at about 54% as compared to even at the lower container volumes in the first half of last year. We were touching about 60%. So, given the scheme of things how do you look at the margins going forward? Do you expected to remain range bound or you think margin could head back to the earlier higher trajectory?

Keld Pedersen: So, I guess that one is for me, so last year we had an offshore project as a one-off that was very healthy for our margins because it contributes straight to the bottomline. But we are continuously exploring the opportunities to blend more of these offshore projects, we have continuous opportunities that we are working on. But to answer your question directly on the margin of 52% to be expected to be down in the range of 52 to maybe 54, so say without dredging. Now, we would target to continue to strive for the 60, but we also have to say that 60 is an ambitious target at least for the coming 4 quarters 5-quarters. But that is what we are doing and we have no reason to be believe we should be all the way down where we are this time.

Achal Lohade: And second question is with respect to the container volume growth, now this transshipment volume is it in the normal range what we have been doing or transshipment has been a fairly new phenomenon. And hence we could be seeing a volatile number as compared to what we have seen in fourth quarter to first quarter?

Keld Pedersen: So, I think we reported in the last quarter that it was interim but I do not think we can say that I think we expect it now to remain and integral part of the business at least for the coming medium term and when you what is actually even more important, so we have done some good numbers on coastal volume where it will increase India's domestic cargo handling through the sea where we say India has 5% to 7% of the domestic cargo and through on the coast compared to others like China maybe 40%-45% of the cargo is going out in the coast line. I think we have to see the coastal volume grow again it is somewhat lower margins, but we have grown as total year-on-year and if we take that number of coastal growth, combined with the EXIM growth than year-on-year previous year we did not have any transshipment number that all we have actual never had transshipment until. So, the underlying features shows us the growth of 14% without the transshipment volume and I think that, that is really our focus we had to take that transshipment as I said but we want to continue to grow as a well that is a huge potential for India.

Moderator: Thank you. Next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: When we look at your numbers and the containers, just wanted to understand because when you talked about transshipment and coastal, I think coastal is not a new phenomenon for you, you being doing that for quite long.

Keld Pedersen: Yes, but it has grown quite a lot from a small scale.

Nitin Arora: So that is something we should not account as a one-off it is a part of our business. Just wanted to understand to avoid this volatility of a mix change because that is initially should not be taken as a one-off it is a part of our business. What sort of guidance or what sort of trajectory you are looking for a container on a monthly run rate or an annual basis because at the end of the day you were still the same at 195,000 which is almost like what, I mean 65-64 average run rate. So, just wanted to take on that as my first question. The second question is related to the extension part. So, whenever we speak to the Gujarat Maritime board, they keep on saying that we have invited comments from the players, their thought process. Where do we stand according to your expectations that whether GMB will go ahead today or let us say in a year's time to extend or they will wait till 2025-2026 because extension still is almost 8 years away. Those are the 2 questions, thank you.

Keld Pedersen: So, on the volatility on the container part of the business, we like scale and we like to continue to grow even though transshipment and coastal, the bigger percentage of transshipment out of the total will impact our realization. But the number 195 and the decision for the lines to do some transshipment of empty containers, it will make it little unpredictable in terms of how the numbers add up. But again this transshipment only start in our part, the cabotage relaxation is still new and shipping lines are still organizing themselves around that new relaxation of cabotage. So, I would actually have a little bit of a hard time giving you a strong guidance for the next say 12 to 24 months on exactly how the dynamics in the market will play out in terms of empty containers or will there be more when somebody come and say like I can do few containers transshipment now for it is the best I can give you is that we do not expect our container volume to go down at this point in time actually we have come forward that we are on the right track and turning around the many quarters of declining container volume. But then on the other hand suddenly we have the RoRo and if it is coming in if the slow numbers for this quarter but again if we do guidance little bit more medium to long-term and we have a lot of windows. So that is the best I can give you to be honest. On the concession agreement I do not have any news. I keep saying it and I am completely aware that I have stated many times we do not have any red flags. But on the other hand, it is out in the public domain that Vice Chairman and CEO of GMB has changed here during June-July 2 times. So, we have to owe you an answer and as soon as I have more to report on it then I will do so but we still do not have any other indication that we have been participating in development of port policy, it is good to add that we have looked at draft policies and we are engaged and there are no red flags. But of course, the change of CEOs means that we have to start this contact and the new relationship will develop.

Moderator: Thank you. The next question is from the line of Rajarshi Maitra from CIMB. Please go ahead.

- Rajarshi Maitra:** Firstly, on this transshipment and this coastal cargo, you mentioned that the realizations are lower than the EXIM cargo. So, if you can just quantify roughly how much lower is the realization for these 2 segments? Transshipment and coastal?
- Santosh Breed:** So as I mentioned, we do not really break it out by the container type or so we have overall container realization number with us, which is in the range of around 6,000 to 6,200.
- Rajarshi Maitra:** Next question I have is this obviously Rupee has depreciated sharply so how much of your revenue, what proportion of your revenue is in Dollars?
- Santosh Breed:** So, close to 70% is in Dollar and as you said you have been cut off so to repeat that around 4% impact is there in this quarter because of the exchange rates.
- Rajarshi Maitra:** One last question, so on the full year guidance you maintain what you had said earlier, right in the Q4? Full year guidance for the volumes, container volumes, I mean.
- Santosh Breed:** Yes, absolutely.
- Moderator:** Thank you. The next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.
- Ashish Shah:** So, just coming back on the subject of realization. So, what we are saying is that for the containers the realizations were either maintain or improved from let us say Q4 to Q1 and plus there was also a benefit of currency depreciation. Even then when one looks at the blended realization, it seems like there is no specific benefit one sees of fertilizer cargo because while fertilizer cargo will entail higher cost it should have also pushed up the realization a little bit, I mean that is what we have seen in the past. But while the realizations have broadly been flat from Q4 to Q1, the cost have actually improved, cost have actually gone up because of fertilizers and so just something that probably I am not able to understand here.
- Santosh Breed:** So Ashish, one of course the realization for container what we said has been maintain, so though we also spoke about this 4% increase. So, this also the mix which keeps on playing on this realization, so that is one part. Second, apart from the fertilizer you also need to look at the other 2 business stream we spoke about the RoRo and liquid. So, when you see the combination of all these business stream then you will have the answer for the realization or the EBITDA to be lower than the last quarters. So, it is the commodity mix which is actually changing this EBITDA margin.
- Ashish Shah:** If I may ask what would be the bulk realization for the quarter vis-à-vis what vis-à-vis Q4?
- Santosh Breed:** So, the bulk realization remains in the same range, in the range of around 450 to 515 per metric tonne.
- Ashish Shah:** But that is despite fertilizers going up. So, something else would have kind of got it down.

- Santosh Breed:** Absolutely right, because of the commodity mix. So, once you have fertilizers going up and the coal and other going down in proportion of the total volume handle and then that has an impact on the realization. But what we are seeing is between the 2 quarters we continued to have a same realization right now.
- Ashish Shah:** Just if I may ask, I know we do not want to get into specific commodities. But just to get this part clear what would be the realization on fertilizers?
- Santosh Breed:** So, again we will be do not give this out by commodity. So, if you have to take this in the range of 450 to 500 for the entire bulk business.
- Keld Pedersen:** But I do not think I just want to add I do not think it is a big secret that fertilizer is under pressure on the price. And if we look at it on the relatively low margins on the fertilizer then we have to go back to look at the contribution margin and this is what priceless in this piece of that it is a contribution margin while the, when you take it down to EBITDA then it has not been a positive development over the years. So that is broad guidance that I can give you.
- Moderator:** Thank you. The next question is from the line of Ankit Panchmatia from B&K securities. Please go ahead.
- Ankit Panchmatia:** Can you just share the revenue mix in terms of container bulk and liquid?
- Santosh Breed:** Yes, so the container has been in the range of 65% to 70%, bulk in the range of 15% to 20% and others in the range of around 8% to 12%.
- Keld Pedersen:** In line with the drop on the quarter.
- Santosh Breed:** So, in line with the drop in the quarter volumes what you have seen on the liquid and RoRo.
- Ankit Panchmatia:** So, just to get your view on liquid and RoRo, we feel that is it more to do with seasonality or there is some volume change over there is some volume loss in terms of this quarter?
- Keld Pedersen:** So on liquid there is a competition in the market LPG in India is set to grow it will be very healthy, it is very healthy and it will be healthy for many years ahead and therefore there are many investments from scratch. There is a new capacity is coming up. So, it is very competitive market on the RoRo for the numbers I mean we do not have any against the only one we have is in terms of competition, there is no reason for how can I say it? So, it is not because of competitive market that we have dropped that is the way to say it.
- Ankit Panchmatia:** So regarding this, our competitor entering into a JV with NYK Logistics. That is I think more of into the RoRo volumes or handling more of it the car volumes. So, how that would impact because I think so NYK also calls on our port as well. So, would this drastically impact our RoRo volumes or we do not see such kind of scenario panning out?

Keld Pedersen: No, I do not think, we do not have the expectations at this point in time that this will negatively impact GPPL. A lot of opportunities in the car market for India, again so strong ambition for India to grow the global market share from a government perspective and there are huge opportunities to find more efficient ways of transporting domestic new cars across India. So, we do not foresee at this point in time at least then it surprises us with that would have any negative impact on us. We keep saying, we have our meetings we are very clean port, we have high regards from many OEMs car manufactures who have visited us and find us to be a good geographical location for car export. We do not have site issues like in some other ports when we have the car carrier along-side. So, no we don't have any reasons to believe that that is new joint venture partner to take anything away from us.

Santosh Breed: And just to add Keld, because what we understand at this is mainly for the domestic transportation. So, that is the reason why we don't think we have an impact on us because of this.

Moderator: Thank you. Next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: Sorry to harp on this point but I just fail to understand the realization part. So, on the containers side we are seeing realization sequentially has being flat despite that the mix of the containers and be more favorable towards EXIM and there has been a rupee depreciation benefit of 4%. So, what has led to this flattish realization?

Santosh Breed: So, as I mention see if you look at the composition which have been given on the transshipment and coastal volume. So, as compared to that yes the volumes are dropped but there is no significant drop as such. So, that does not really make a big change in the realization quarter-on-quarter.

Rakesh Vyas: So, that is even the 4%. So, what I am saying is even if let us say the mix per say remain same, the 4% INR depreciation benefit which is close to almost Rs. 200 to Rs. 250 should have started to reflect right in the realization which we are not seeing is because of what reason?

Santosh Breed: So this 4% exchange rate benefit what we have right. So, if I again go back to last quarter and when we said about this range around 6,000 to 6,200. So, this of course is for multiple type of containers what we handle. So, typically when we look at the transshipment volumes going up then this is on the lower side. So, in this quarter because the transshipment were lower though not significantly that has actually taken away some part of the benefit what we got from the exchange earnings. And that is what it is in the range of 6,000 to 6,200 this time which was closer to 6,000 last time. So, we are receiving some benefit but this is not really adding to the entire increase looking at composition.

Keld Pedersen: I think you are perfectly right at a bit of confusion around realization. Bottomline remains that we have not previously had transshipment. Transshipment is giving us lower realization and so as cost. So going forward two things on realization per TEU when you look at that – one is as

transshipment and coastal volume become bigger share then realization will be negatively impact. On the other hand, quarter-on-quarter transshipment should suddenly significantly reduce and coastal then you will see an increase in realization. So, you are right, so the depreciation of the Rupee is in upside and at the number and at the same time also want to flag that India for the first time ever is going in through a situation where the Indian west coast has over capacity. So, we see new capacity coming up or has come up in Nhava Sheva with the potential to top up the capacity Nhava Sheva we see some of our competitors in the west continue to increase capacity. So, there is and will be for time ahead overcapacity and that can have impact the business, it can impact the realizations per TEU . But on the other hand, we will have to figure out now where can we do better? Going to split it all in pieces and at the same time scale should again help us to create a better efficiencies with regard to cost. So, that is the situation.

Rakesh Vyas:

Sir, my question related to this operating expense itself. So, quarter-on-quarter, I mean I presume that fertilizer despite having higher cost should still earn at least around 35% to 40% of EBITDA margin. So, the quarter-on-quarter increase in operating expense seems significantly higher and I think Inder was trying to ask the same thing that if the bulk movement of volume is almost 0.35 million tonne assuming most of it to be fertilizer, the realization gain is equal to the operating expense itself which seems very counterintuitive to what historically has been the trend. So, even if I look at historically when the mix of container to bulk has been in similar proportions, the margins have been closer to 60% at EBITDA level, whereas this time on adjusted basis it is 53%-54%. So, quarter-on-quarter is the operating expense increased primarily reflective of the higher handling cost or are there other elements which are leading to a significant contribution to this increase.

Santosh Breed:

So, the significant contribution is purely because of the handling cost of fertilizer and so one other aspect need to be looked at is also the fertilizer mix. So, we do have multiple type of fertilizer being handled and that itself has also seen some element of change in the margin as well. Having said this, when I look at the other variable cost those which grows directly are attached to the volumes, so those like we have some additional cost what we incur when we make have to make some payment on the handling. So, those also will have some impact, but the significant impact has come from the handling side.

Rakesh Vyas:

Sir just for a benefit of all us, can you give the breakup of the volume between coal and or coal plus minerals and fertilizers in this particular quarter versus last quarter?

Santosh Breed:

Yes, so fertilizer we have at around 470,000 metric tonnes vis-à-vis 170,000 last quarter. Coal we have at around 144,000 metric tonne this quarter vis-à-vis 84,000 last quarter and others like minerals we are low at under 3,000 metric tonnes vis-à-vis 75,000 last quarter.

Rakesh Vyas:

And it is 3,000 you are saying this quarter?

Santosh Breed:

Yes, that is right.

Moderator: Thank you. Next question is from the line of Indrajeet Singh Bhatia from Macquarie. Please go ahead.

Indrajeet Singh Bhatia: Wanted to kind of check Keld made an opening comment that on containers we might end up doing better than what we were earlier estimating. Now, if you could just to kind of throw some light on as to what you expect or what you are kind of thinking in terms of what could be the full year transshipment coastal volumes and how much is the EXIM volume growth could be and may be a related question with this is where you think is the ramp up of the new lines which got added in mid of previous quarter and the start of this quarter. How far are we in terms of full ramp up of these lines?

Keld Pedersen: Yes, I expect the numbers should be even far better actually at this we are feeling comfortable that we have healthy development with regards to container volume. I cannot split that up but I can say that we continue to do transshipment we have at this point in time although we have seen many fluctuations on coastal cargo over the last three years I have been here we do see it increased and we believe it will continue to go that way on the coastal part. So, that is the best I can give you, I mean in terms of numbers.

Indrajeet Singh Bhatia: If you could just talk about maybe just the EXIM part, I think the other 2 are more volatile. So, if you just talk about how do you think about the EXIM volumes in this year compared to last year, I think that would be helpful?

Keld Pedersen: So, first with the new services, we obviously see an increase and as I mentioned in the underlying numbers for the EXIM for this quarter compared to same quarter previous year we have a 14% increase. But that includes coastal but exclude the transshipment. So, I see that as sustainable can we do another 14% up. I really cannot tell you, but we do not have any reasons to not believe that we can continue to grow the container volume. So, the new services you asked about, so they are still some ramping up but there is also fierce competition in shipping lines, so it is not always very predictable before or after a year. I do not know if you remember one of the service that discontinued it had healthy growth over 12 months and I guess by the time the consortium was split up and discontinued we could actually not even say after one year that we will see a ramping up. So, it is a bit loose I know that, but I hope by I have answered to the extent that I can here.

Moderator: Thank you. The next question is from the line of Rajarshi Maitra from CIMB. Please go ahead.

Rajarshi Maitra: Sir, you spoke about the intensifying competition in the region. Just wanted to check, has there been any tariff cuts, reduction in tariffs in the last 6 months? Or is there a possibility of the same happening over the next say 6 to 12 months on from your part?

Keld Pedersen: No, so, we have not cut any tariffs and we have also not increased what over 3 years now. We have said all the time that we have to achieve a target which will benefit the company more than the increasing tariff the clear target will be fill up our capacity. But underlying as again it is common to the market then if we look from our point of view then overcapacity will normally

create more sharp competition on pricing. But this is again a global statement in those markets where there is extremely fierce competition because of overcapacity and some go bankrupt because they do not get volume and so on. So, using that guideline we have had the question many times and on pricing our focus is on getting new volume, getting new customers and fill up our capacity and that we remain that way.

Moderator: Thank you. The next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka: So, just to understand sir, on the volumes front, so your bulk liquid RoRo volumes, I mean is there any minimum volume commitment by the customers or is more on spot basis?

Keld Pedersen: No, we do not have any volume commitment at all and it is not very common in the industry in general.

Amit Murarka: And sorry to ask this again my line got disconnected. Can you please provide the breakup of bulk volumes?

Santosh Breed: Coal for the current quarter was 144,000 metric tonnes. Fertilizer 472,000 metric tonnes and others 3,000 metric tonnes.

Moderator: Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: Sir, on the container side, if I look at the ICD volume and the number of trains, QoQ it implies almost similar volume with lower number of trains. So, is it fair to assume that there is a higher proportion of double stacking that is happening from the port as well as probably there is a better EXIM balance now compared to the earlier period? And if you can just throw some light as to how does it place us in the competitive land scape compared to the other ports on the western India?

Keld Pedersen: Yes, so it is correct and you have seen it completely correct. So, we have had a record in double-stack trains. With regards to this split, we are always working at getting a better split between import and export as well as empty and full containers because an equal split will be the most cost efficient for customers and the end users being the cargo owners. With the new sales has been added then we should still be better off in term of the split of empty versus full to the north. But of course new services skew the picture little bit for a while and we will have to see, so may be in next quarter I can be more firm on the exact split based on the ramp up and the changes that are happening in the market for this quarter.

Rakesh Vyas: But can you indicate how was the export import mix today versus let us say last quarter or a year back?

Keld Pedersen: Now we have seen, so we have over a long period of time we reported 60-40 where we have been working on getting in closer in the range of 55-45.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Ashish Shah from IDFC Securities.

Ashish Shah: We thank the management of GPPL for giving us the opportunity to host this call, also a big thank you to the participants in the call. Thanks a lot.

Moderator: Thank you very much, members of the management. Ladies and gentlemen, on behalf of IDFC Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.