

“Gujarat Pipavav Port Ltd Conference Call”

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**MANAGEMENT: MR. KELD PEDERSEN – MANAGING DIRECTOR,
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MODERATOR: MS. SHIRISH RANE – IDFC SECURITIES

Moderator Ladies and Gentlemen, Good Day and Welcome to the Gujarat Pipavav Ports Limited Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note, this conference is being recorded. I would now like to hand the conference over to Ms. Shirish Rane from IDFC Securities. Thank you and over to you, sir

Shirish Rane: Good afternoon, everybody. Welcome to Gujarat Pipavav Port Limited Q4 FY16 Earnings Call. Today we have with us from the management side Mr. Keld Pedersen – Managing Director of Gujarat Pipavav Port and Mr. Hariharan Iyer – Chief Financial Officer of Gujarat Pipavav Port.

To start the call, the management team will make opening remarks on the results and then will open the floor for question-and-answers. Over to you, sir.

Keld Pedersen: Thank you and Good afternoon. This is Keld. Pedersen here, Managing Director for Gujarat Pipavav Port. I would just like to start on the very front page here by the picture of our three new cranes and next to the three new cranes you see in the front, there we have three old cranes which we have now shipped out on the 5th of May for dismantling and scrapping in China, so those three old cranes with the boom up in the middle have been removed and the project is now completed.

So jumping into the key highlights. Our container volume of 177,000 TEU is in line with the previous quarter and we still see the global EXIM trade remain pretty subdued. We did however secure a new service in the middle of March and the volume will stabilize in the coming quarters and we will be able to see how much the service will provide in terms of business to us.

Then we continue to dry bulk, then it remains a challenge for us mainly due to the coal volumes, the import of coal volumes is down. So that affects our result with 15% negative previous quarter and we ended up doing 377,000 metric ton. But then we are happy to see continued growth on the liquid, we did 247,000 metric ton and this 30% up versus previous quarter so far. So it is the highest volume on liquid in a quarter.

For RORO it is the same case, we are also happy here to announce that our volume went up 96% over previous quarter and we did 8,700 cars. We should have however say it is still a business that is in the initial stage and gradually building up. In the volume here we also had a coastal movement of Hyundai cars in February.

So that takes us to the financial results where we have an EBITDA of Rs.991 million equal to an EBITDA margin of 62% and a profit after tax of Rs.498 million. So if we exclude a onetime expense of Rs.60 million which were for scrapping, dismantling of cranes that I showed to you on the picture then we would actually have had a margin of 65% which would be up 4% from previous quarter. So profit after tax is up 5% from previous quarter, container volumes remain

steady growth in liquid and RORO and then we have cost efficiencies as an explanation for the profit after tax.

And then finally on the highlights, I am very pleased to announce that a maiden dividend of Rs. 1.9 per equity share has been recommended by the Board today before Annual General Meeting that would take place in August.

If we jump in the operational highlight, then I think we already mentioned that the container volumes is in line with the previous quarter while the bulk volume in terms of metric tons obviously are going downwards over the quarter and it is as I stated, also mainly caused by the coal import. And on the rail volume for the quarter we hold steady performance quarter-on-quarter due to the fertilizer.

So that takes us through the next slide, it is really to show you a few pictures of our infrastructure development in the port. The cranes have been commissioned, fully operational and operations have started in terms of serving our customers. We have a new gate complex that is finished and then we have built internal roads as well as container yard that has also been completed as part of the project.

So now I will like to hand over the word to Hari as always who will take you through all of you along our financial performance. So here you go Hari.

Hariharan Iyer:

Thank you, Keld and Good afternoon to you all. Along with the financials for the fourth quarter March 2016, the first full financial year numbers after the change in the accounting year from the calendar year is being presented during the results overview. As the previous year's numbers that you see are for a period of 15 months, these are not strictly comparable. Having said that, in accordance with the provisions of the Companies Act we have also for the first time added the consolidated financial statements with the financial results of our associate company Pipavav Rail Corporations Limited and this is being presented alongside the standalone financial statements of the Company.

So let me start with the overview of the standalone financials for the quarter 31st March, 2016 and the full financial year end 31st march, 2016. The total income for the fourth quarter at Rs. 1,610 million is at similar level as in the immediate previous quarter. Container volumes remain at around 177,000 TEUs while the liquid volumes grew 31% and the RORO doubled from the previous quarter. This was of course partly offset by the lower bulk volumes, down 15% mainly due to continued trend of lower coal volumes quarter-on-quarter. Overall, the total operating income remained flattish with the other operating income lower on account of drop in Reefer volumes compared to the previous quarter.

During the quarter we added a new India Far East service, Keld mentioned about this a little while ago. This is a new service which commenced operations mid of March 2016 and therefore the impact is yet to be seen in the coming quarter. Low freight rates and larger capacities to fill in are impacting shipping lines worldwide. Closer home, the growth in the overall container

volumes in India and also the North-West belt remains at a low single-digit reflective of the global Exim trade. On the bulk front, coal volumes have been adversely impacted across competing ports consequent to the overall drop in imports due to the improvement in domestic coal and lower coal demand.

On a more encouraging front, the Company is steadily seeing growth in the liquid volumes with the quarter up 31% handling close to about 250,000 metric tons, the highest so far. On the RORO front, 8,700 cars, slowly growing but it still the early stages as mentioned by Keld. The Company continues to have a high focus on its cost and various take cost out initiatives have resulted in further improving the cost base and realizing cost savings. During the quarter the other expenses include a onetime charge, the three cranes that we have dismantled and removed, a cost of about 60 million is included in the other expenses for the decommissioning and taking out these cranes. Excluding this onetime charge, the total cost for the quarter would be at Rs.559 million which is lower by about 15% from the previous quarter as a result of these cost savings on account of various cost lines including the employee benefits that you see there partly on account of lower performance incentives that accrued during the year. Consequently, the margins have improved from the previous quarter to 62% and excluding this onetime charge touching 65% mainly driven by overall composition of the revenue and savings in operating and administrative costs.

Moving to the consolidated financials. As I mentioned earlier consequent to the company holding 38.8% in Pipavav Rail Corporation and in a view of this Companies Act 2013 PRCL is an associate company. Accordingly, the consolidated financial statements are being presented for the first time. The financials are based on unaudited financial statements provided by PRCL management as their statutory audit and CAG audit being a government company or a majority held government company is yet to be completed as of this date. In terms of numbers, an amount of Rs.317 million being 38.8% share of the net results for the year ended 31st march, 2016, is reflected as a share of net profit from the associate company. You can see it in the last column on the consolidated section.

The second impact is on the balance sheet side, if I take you to the next page. An amount of Rs.542 million, 38.8% share of the profit of PRCL for the period 1st April, 2005, being the date of the initial investment in PRCL by the Company until the previous year 31st March, 2015, is reflected under reserves and surplus and correspondingly added to the value of investments. Consequently, because the investment happened on the 1st of April, 2005, while the Company got incorporated in the year 2001-02, a goodwill arises as of that date on the date of investment and that is reflected as goodwill on consolidated and it also forms a part of the total investment.

Moving back to the standalone financials, in summary, for the full year 2015-16 the performance in the first half of the financial year was impacted by Force Majeure and moving of two services. And the second half regaining volumes lost on the Force Majeure and gaining up two new services. Liquid and RORO growing steadily which was partly offset by lower coal volumes. Overall, a mix bag with a net profit before tax at Rs.3,641 million, up 12% from the previous 12 months period. The net result was impacted by accounting of deferred tax liability of Rs.1,274

million which until the previous year was nil due to a deferred tax asset scenario mainly on account of carried forward losses for the earlier years.

Having achieved the key milestone of setting off all the accumulated losses for the earlier years, the Board of Directors have recommended a maiden dividend of Rs. 1.9 per share. This dividend is subject to the approval of the members at the Annual General Meeting on the 11th of August 2016 and upon approval will be paid on or after the said date within the stipulated time. In accordance with the prevailing accounting standard the proposed dividend payout is already reflected in the standalone financials.

I conclude with the update that the ongoing expansion project for the increasing of container handling capacity is now complete and with the new cranes installed and commissioned. We have already handled close to 35 vessels since commissioning of the new cranes at the berth number 3, the old cranes have also been decommissioned as I mentioned to you earlier.

With this I close. Thank you. And we are now open for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: My first question is actually on numbers, can you take us through little bit of this onetime cost and some more details on this staff cost being lower this time around?

Hariharan Iyer: On the onetime cost, other expenses of Rs. 248 million that you see here includes an amount of Rs. 60 million, this is a onetime cost in relation to the movement of the old cranes and dismantling of old cranes and decommissioning them, that is the onetime cost that we are talking about here. And as regards the employee benefits, we normally accrue a performance incentive and this of course is based on the individual performance and the overall performance of the company, that then gets reviewed at the end of the year and depending upon what the actual payout is, then there is an adjustment made, we have a favorable adjustment or a write-back close to about 40 million there.

Inderjeet Singh: Second question is on the business slide, now the big line of Far East got added in March but you have also added some other lines early through the year, was that impact also kind of delayed or not come through in quarter four because the volumes have kind of remained fairly flattish from a sequential basis on the container side.

Hariharan Iyer: Inder, the call that we talked about now got added in the Month of March, middle of March so the full impact is yet to come. And the other vessel that we talked about, that is a coastal vessel, so these are initial stages in the initial few months, so it is yet to pickup. So when you compare it on a quarter-on-quarter basis then we are not fully into these services being working at an optimal level.

- Inderjeet Singh:** Another thing is, again we understand that you have been now accounting for certain deferred tax liabilities, but again the rate at which it has been accounted for was like closer to 38%, so wanted to kind of just understand going into FY17 how would that look? Should we continue to look at 30% plus kind of a number coming there?
- Hariharan Iyer:** That is correct, but when you compare it on quarter-on-quarter it is indeed at a higher rate but you should look at it for the full year basis.
- Inderjeet Singh:** And last question is on the dividend policy, given that you have already announced maiden dividend and that looks to be roughly a shade below 40% or around 40% of our reported EPS, is that a number we should work with or as a Company would look to kind of ramp up the dividend payouts over the next few years?
- Keld Pedersen:** I think so this is our maiden dividend and this is of course subject to the discretion of the Board of Directors and I know that is very clear for you, that is no news. So we will just have to see how we move forward on this, right now I think we are very proud to announce that we did start at least although it is still subject to the AGM. But we do also have a policy, yes. So the policy is the Company's objective is to sustain a steady and consistent distribution of profits by way of dividend to shareholders supported by underlying earnings growth and subject to, one, availability of profits and funding requirements, and two, future funding needs as per the Company movements and then of course applicable laws and in accordance with the recommendation of the Board of Directors and approval of shareholders. So that is going to be our policy moving forward. In terms of number, I think we should focus on the number we have now and be able to do our best to pay dividend going forward.
- Hariharan Iyer:** And if I may add to what Keld said, the Rs. 1.90 which is arrived at represents the maximum dividend payout that we can do based on the loss that is available to us at this point of time, the applicable loss I meant to say.
- Inderjeet Singh:** So when you say applicable law what is the restriction or how does it work?
- Hariharan Iyer:** The law says that we need to pay dividend out of the current profits after having adjusted all our carry forward losses, so we have taken the total distributable profit which is available to us during the current year net of the carried forward losses that came in as of the 31st of March, 2015.
- Moderator:** Thank you. Our next question is from the line of Aditya Bhartia from Investec. Please go ahead.
- Aditya Bhartia:** Sir, it has been a few quarters since liquid operations were commenced. Will you be in a position to guide us how volume should shape up from here?
- Keld Pedersen:** I think if you look back at the previous quarter then it is steadily growing and improving. So that is also a continuous focus to deliver our operators, this is a normal course of business and we

would of course like to see that we fill up towards a full capacity but we right now are utilizing around 35% to 40%.

Aditya Bhartia: How much are we utilizing right now?

Hariharan Iyer: Based on the current quarter's numbers then it is closer to 50%, it is gradually growing from the 35% - 40% to closer to 50%.

Aditya Bhartia: And sir my second question is on the growth that we have seen on some of the competing ports, so when we speak about JNPT, Mundra, Hazira, they seem to have posted a stronger container traffic growth this particular quarter than Pipavav, what do you think this can be on account of and would you expect this trend to reverse in the next year?

Hariharan Iyer: The overall market when you study for the container business year-on-year for the year 2014-15 versus 2015-16 then the market has grown very low single-digit, close to about 3.3% to be precise in this region. So in terms of what the market trends are then we are in line with what the market trends are. However, what has impacted us if you recall is the two vessel calls or the two services that we lost in the previous half or the first half of the current financial year. Whereas the newer services have come much later in the second half of the financial year, so we have still not seen the full impact while the changes have happened with respect to the first quarter on the two vessels that moved out.

Keld Pedersen: That was in July and September last year approximately.

Moderator: Thank you. Our next question is from the line of Nitin Arora from Emkay Global. Please go ahead.

Nitin Arora: As you mentioned that we have taken the lower performance incentive for our employees of the Company, can you tell us how much would that be reversed in Q4, because it still looks a very lower number and what number we should work on the employee cost because I think this is the lowest employee cost being shown since Q1 CY11, so can you guide us that what number we should work with and how much was that revision in this quarter?

Hariharan Iyer: Actually the number is about 40 million that was reversed in this particular quarter, so if you put across all the four quarters then you would see that it is more or less in the same line as what the earlier four quarters have been.

Nitin Arora: So you are saying 1 million a quarter?

Hariharan Iyer: Yes, in that range.

Nitin Arora: So going forward we should work with an employee cost in the range of, I am saying on a quarterly basis, in the range of then again 90 million if I have to provide for incentive for the next year depending how we perform for our employees?

- Hariharan Iyer:** See, the numbers have been in the range of about 110 million - 120 million in the previous year's four quarters, is we look at the current quarters then it was in the range of about 124, 128, 130 in that range. If you spread this 40 over the entire year then you would find that it is more or less in the same line, if you look at the total numbers then we are in line for full year to full year equivalent.
- Nitin Arora:** Sir how much was the take or pay income being utilized towards Q4 ending?
- Hariharan Iyer:** Sorry, I did not get your question.
- Nitin Arora:** Sir, there must be take over, as we ended the financial year you must have adjusted the take or pay what we normally...
- Hariharan Iyer:** No, it is not adjusted on a financial year basis, it depends on when the contract ends, we do not have any upsides with respect to the thing and neither do we have any take or pay contracts, what we have are volume rebates or volume incentives that we have. And as you conclude cycle and that depends on when the contract is signed, then as of that time we then determine whether they have reached a certain threshold of volumes and therefore what that adjustment would be in terms of the volume rebates.
- Nitin Arora:** Then it means it can come in any quarter, I mean the total depends when the contract ends with the either?
- Hariharan Iyer:** Exactly.
- Nitin Arora:** Sir, with respect to your new line addition which I think happened in February to you was the K line.
- Hariharan Iyer:** Middle of March.
- Nitin Arora:** Now given that it has got about six vessels at this line itself and it has been calling tar port including I think Nhava Sheva as well, can you give us a sense how much, I do understand that it totally depends on the trade how it moves out next year but any rough sense how much it can add to our port?
- Keld Pedersen:** No, it is too early to say, I think we have to see how it delivers this quarter and the coming quarter before we have a number that we dare to talk about.
- Nitin Arora:** Have they started ramping up from April?
- Keld Pedersen:** I think we are coming on the March so that would have been middle of March, so we have the volumes for the first two vessel calls but it is a ramp up and we just have to give it a little bit more time.

- Nitin Arora:** Just one more question from my side, we actually I think there was a one liner which replaced our existing liner recently, I think that was which came to us and the existing liner got replaced I think that was Samudera of Indonesia. Plus I think there was some addition to the vessels to that particular service, I think earlier it was six now I think it is seven plus some new countries are being added, can you help us guiding at that as well, something no change in the volume per say or do you expect that because of the one vessel being getting added it can really lead to some addition of numbers.
- Keld Pedersen:** We cannot, I do not think we can guide you other than what is eventually has been in the news from our customers and I do not even, I do not know but I would not assume that they would know exactly what they would get out of that.
- Hariharan Iyer:** This is a continuous moving pitch and there will be organizations and reorganizations and vessels coming together. So we do not get into so much granular details, we certainly have to give you guidance with respect to what new vessel or new services have got added during the course of our quarter and how it develops.
- Nitin Arora:** Sir, can you share your realizations for bulk and for container in this quarter?
- Hariharan Iyer:** The realizations for the containers are in the range of about 6,500 in that range and the bulk is in the range of about average 450 to 500.
- Nitin Arora:** Sir, last question from my end, have you seen in the system because your Shanghai freight index has started to recover a little bit, we have seen again the sailing coming back from Far East towards the European belt to Rotterdam, that has increased a little, I would still not say that it has ramped up very fast. Are you still saying in the system that shipping liners are able to restore the rates from the customers which finally gives us the power to incrementally increase our prices in the system?
- Hariharan Iyer:** If you look at it on a very short-term basis, then yes there are signals which show that the freight rates are increasing, but what is key and important is how long do they sustain. So we have seen these efforts happen many a times but they have not sustained for a longer period of time. This only time will tell, we will have to wait, it is too early to really take a call on that, another couple of quarters and then we will know how long it sustains and whether these rate increases have stuck.
- Nitin Arora:** And as of now we have not taken any price increase during starting of the financial year, not even in the calendar year?
- Keld Pedersen:** That is correct.
- Moderator:** Thank you. Our next question is from the line of Bhavin Gandhi from B&K Securities. Please go ahead.

- Bhavin Gandhi:** Just one clarification, for the dismantling of the cranes do you think they in any way affect our operations and volumes as such?
- Hariharan Iyer:** No, that did not have any impact whatsoever, I think our project team as well as the operations team worked very-very closely with our customers as well and we tried to manage it in the most efficient manner. So there were no disruptions and or impact to the volumes because of the change.
- Bhavin Gandhi:** Just on the PRCL part, if I look at the overall volumes they would have been down and we did get some hike from the railway front, so is it possible for you to quantify the hike that we got on the PRCL side?
- Hariharan Iyer:** I do not have those numbers at this point of time, maybe I can take it a little later.
- Bhavin Gandhi:** And sir could you guide us on the CAPEX requirements going forward?
- Hariharan Iyer:** I think we have completed our projects so we do not have any immediate CAPEX requirements as such, what we would require would be a normal maintenance CAPEX, I would assume that it will be in the range of about Rs.50 crores - Rs.60 crores per annum.
- Moderator:** Thank you. We have the next question from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Just wanted to check in terms of if I have to look at from our customers' point of view, which region are we more exposed to in terms of whether it is Europe, Far East or US and what proportion roughly would that be?
- Keld Pedersen:** So we are predominantly serving Asia and the Far East in Pipavav.
- Achal Lohade:** And what would that proportion be broadly if you could highlight?
- Keld Pedersen:** So the proportion would be 60% to 70% in that range.
- Achal Lohade:** Followed by Europe?
- Hariharan Iyer:** No, followed by Middle East as well as the US, we do not have a Europe call at this point of time.
- Achal Lohade:** And sir in terms of the import, export mix for the quarter broadly if you could say what is that evenly balanced?
- Hariharan Iyer:** No, it should be in the range of about again 60:40 more to the import because largely your services are from the Far East which is mainly an import trade.

- Keld Pedersen:** This is pretty steady, so it is in the range for import of 55% to 60% while the export is 40% to 45% and there are no significant changes here.
- Achal Lohade:** And in terms of our given we have just commissioned our new capacity, is there any target we are setting up for ourselves for the current year?
- Keld Pedersen:** We are obviously and as always we are very focused on growing the port and also on filling our capacity that we have all invested in. So there is no change, we continuously work very hard on this part.
- Achal Lohade:** Just one more question in terms of the margins, if I have to adjust for the Rs.60 million towards the one-off cost, margins are significantly high at around 65% as you mentioned, do you think these margins are sustainable, is there any seasonality involved at all and can one see that kind of margin going forward sir?
- Keld Pedersen:** I think we have a very clear ambition to move around up in the 60% to 65% margin, that is for sure.
- Achal Lohade:** And given we have commissioned our capacity would there be additional overheads it is just a change or replacement of the cranes that can have incremental cost?
- Hariharan Iyer:** No, there are no significant additional overheads involved in that, no.
- Achal Lohade:** And sir if you could just give some sense in terms of the liquid cargo, what kind of liquid is being handled at the moment and how do you look at the volumes going forward?
- Hariharan Iyer:** We handle LPG and we handle several other liquid which are there.
- Achal Lohade:** So LPG would be the primary one, I mean the dominant one at this point in time?
- Hariharan Iyer:** It is difficult to really say month on month or quarter-on-quarter basis, yes we have a significant volume of LPG which gets handled and we also have certain other liquids. So when you compare it on a quarter-on-quarter basis then these proportions keep changing, we are still ramping up so it is not a steady state where we can say this is a kind of volume that we can expect.
- Moderator:** Thank you. Our next question is from the line of Gaurav Sanghvi from Bajaj Allianz. Please go ahead.
- Gaurav Sanghvi:** Sir my question is related to bulk volume which kind of we have seen decline in this year, so what is our overall strategy on that front?
- Keld Pedersen:** So the bulk is, it has quarter-on-quarter bulk has been a challenge, we are still working very hard on securing a bulk volume also as we have always done but it is of course something we keep an eye on in terms of in which direction it will go in the coming quarters and years.

- Gaurav Sanghvi:** And sir my second question is on the dividend payout policy, you mentioned in this quarter we have announced to pay the dividend which is maximum of what we can pay after the accumulated losses, so is there any percentage payout like we will pay 50% - 60%, any percentage we have set out because we do not have now incremental any major CAPEX, there is only maintenance CAPEX, so any percentage which is set in the dividend payout policy or how is it?
- Keld Pedersen:** No, there is no percentage set and I think with due respect to our Board of Directors then we just have to wait and see in the coming quarters how the dividend evolves and how it stabilizes eventually. But we do not say the percentage because of the reasons given in the policy where we would always, we need to be supported by the annual earnings growth and subject to availability of profit and funding requirements and future funding needs. So that would also entail that we would never update a fix percentage.
- Moderator:** Thank you. Our next question is from the line of Lokesh Garg from Credit Suisse. Please go ahead.
- Lokesh Garg:** Sir, subsequent to line addition in March there is news report of some line addition in May as well from which is CHS3 service, is that something that you can share?
- Hariharan Iyer:** No, we will restrict it to the first quarter now.
- Lokesh Garg:** In which case could you provide us more color on the YoY movement in bulk traffic which has come down quite a lot and what part of it is seasonality, what part is permanently seems to be affected now for a while?
- Hariharan Iyer:** See, as you know the main components as far as bulk is concerned is coal and fertilizers, as far as coal is concerned that is where the major challenges have been and we have seen a continuous drop. So when you look at it on a quarter-on-quarter basis it is mainly the coal that has significantly seen the change, the coal has dropped when I compare it from the previous quarter where we handled roughly about 150,000 tons, this time we handled half of it. And on the fertilizers, it is more or less on the same levels about roughly 250,000 tons as in the previous quarter, there is some level of seasonality involved, it is not something very fixed, it depends on more the time when the tenders are out. And we have seen, if you look at on a full year basis then the fertilizers have been more or less in the similar trends in the 1.3 million to 1.5 million range and that we expect that we would continue.
- Lokesh Garg:** Sir you have provide an explanation on a quarter three to quarter four movement which actually in percentage terms is 50% but in actual magnitude is small, but there is a very big movement between Q4 last year to Q4 this year, is that all accounted for by similar factors or there will be more granularity that you can add to that change?

- Hariharan Iyer:** Sure, the same quarter last year we handled close to about 400,000 tons of coal and this year we handled about 75,000 tons of coal, so that itself should explain to you why the big gap or the changes.
- Lokesh Garg:** There must be some other commodities which have reduced also on a YoY basis, right?
- Hariharan Iyer:** Not significantly, it is more or less on a similar level business, not very significant, there maybe a few. Of course you remember that we also had a 'Force Majeure' in the month of June and July where we lost a couple of bulk vessels which were scheduled to reach Pipavav. So other than that when we compare it then we are all in line with what our previous years' numbers have been.
- Lokesh Garg:** And you see at this point of time coal staying at roughly similar level, so to that extent there is some permanent impairment in bulk volumes to that extent till coal improves?
- Hariharan Iyer:** That is correct.
- Moderator:** Thank you. Our next question is from the line of Aditya Mongya from Kotak Securities. Please go ahead.
- Aditya Mongya:** Sir, my first question on the improvement that we have seen in the margins, obviously there is a benefit of initiatives from your side on the cost structure in terms of more efficiencies being added, do you think there is more room for increasing margins from hereon based on similar such initiatives in the near term?
- Keld Pedersen:** If I may answer that one, so in line with our continuous cruise on growing the port and adding volume is an ongoing effort, then we also do have an ongoing effort to reduce our cost and increase our efficiencies, this is nothing unique for this quarter or previous quarter or next quarter but it is an ongoing effort and that will continue.
- Aditya Mongya:** So as you have targeted to be in the 60% to 65% EBITDA margin band and then there is more scope coming from such improvements in the cost structure, is there a possibility that you would consider forcefully taking a hit on pricing in order to gain volumes for the added capacity that you now have or is it something that we should be ruling out for now?
- Keld Pedersen:** I think the way I would like to comment on this one is that our customers are obviously in troubled waters and a subdued development in the volumes and we have at the same time expanded our capacity and finalized our project, so this is also why we have chosen not to increase our prices but via focus on the filling capacity. If you look at it at a high level, then of course we are as a service provider we are under continuous pressure at all times to try to reduce our prices, but that being said then there are and has not been any specific plans on any such initiatives.
- Aditya Mongya:** Sir the second question was more on shipping lines and your interaction with them, are you seeing a lot of changes in terms of roads and let's say from that perspective scope of us gaining share from other ports because of such adjustments happening? And in specific, I was referring

to JNPT wherein obviously things are in a state of luck and external issues and internal issues are making it difficult for more and more cargo to be taken out of that port.

Keld Pedersen: So now they are running at high capacity at JNPT but I would rather say this way, coming back to Hari's comment on the year-on-year growth which is really what we will look at, so the year-on-year growth is 3%, or more exactly on the figures we have is 3.3%. So there are some movements of cargo between ports and there are also a number of movements within our customers as you would probably read in the shipping news every day, there are lot of new alliances and movement of customers in terms of partnering up with each other. So I think that is a best I can give you in terms of holistic picture of dynamics in the market right now.

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

Chockalingam Narayanan: The first question is regarding the new draft, what are the vessel sizes that our port can handle now?

Hariharan Iyer: The largest that we have handled was about 10,000 TEU vessel.

Chockalingam Narayanan: The second one was on, what was the completed cost of the CAPEX?

Hariharan Iyer: See, the CAPEX overall, the large part of the CAPEX which constitutes almost 70% - 80% of the CAPEX which was scheduled to be invested by this time was in the range of about Rs.350 crores to Rs.380 crores, there are some marginal things which still happen in the coming few months but those are not that very key, that is on a phased manner that it happens adding a couple of RTGs, adding the yard and other things.

Chockalingam Narayanan: So we completed a majority of this before March itself, so in April - May there is nothing much which was done?

Hariharan Iyer: No, the project was completed, the cranes got installed as of March, mid of March it was getting tested, by that time we had already started handling a couple of vessels, testing in the initial phases. By mid of April then these were all complete and then we are fully commissioned now and the old cranes have also left the port or decommissioned and the yard is ready. So there are multiple activities, these all happen at different point of time, but what happens in the water front has a much larger impact immediately.

Chockalingam Narayanan: The other thing was on the other operating revenue, last year you had a large SFIS income in the March quarter of about 123 million or so, so this year the other operating income has been relatively small, how should we understand this, is there any cargo mix which drives this or?

Hariharan Iyer: The component that you very rightly mentioned in the last year included the SFIS the government scheme on the SFIS changed to SEIS, so those are things which are still happening. And on the other part of it also includes Reefer plug in charges which depends on the season under which it is in, the Reefer plug in for the current season that is January to March then it

starts slowly tapering off, the peak season is of course October to December. Therefore, when you see it on a particular quarter, when you see it on a quarter-on-quarter basis that is basically the big change.

Moderator: Thank you. Our next question is from the line of Nitin Arora from Emkay Global. Please go ahead.

Nitin Arora: Just want to clarify, the Van Hai which came in May, sir it is not a new line addition, it is a replacement of an existing services from a new liner plus one vessel addition?

Hariharan Iyer: Can we stick to the current quarter numbers as of 31st of March, Nitin?

Nitin Arora: Sure sir. Sir one more thing, we have seen a good amount of consolidation is happening globally, we have seen CMA is going to acquire Neptune which runs a brand called APL, APL has been running good services to us, so any preciseness or anything you see as a risk going forward because CMA is going to commission its terminal in the next two months, it is already delayed by three months. So just wanted your take on that?

Hariharan Iyer: These are scenarios where the shipping lines continue to keep forming alliances, so as much as it is a risk it is also an opportunity and we believe that with the project in place and completed and additional capacity in place then we have a much larger flexibility in offering the kind of services that the customers would look at. So yes we can look at it, there are two sides to the coin, it is as much as it is a risk it is also an opportunity.

Moderator: Thank you. Our next question is from the line of Jinnat Mehta from B&K Securities. Please go ahead.

Jinnat Mehta: Couple of questions on the liquid side, sir how are we currently evacuating our liquid volumes?

Hariharan Iyer: Large part of the liquid volumes are currently evacuated by road. But it is a good question, we are also working very closely with our customers to see how we can bring the rail element to it, we have already started evacuating some part of the liquid by rail, we are in the process of getting permission to actually evacuate all classes of liquid by rail, when that happens then that brings us an additional edge over certain other hosts.

Jinnat Mehta: Speaking of which sir, Hazira sir has got the rail connectivity if I am right, so do you perceive any threats and if you can give us an update on that.

Keld Pedersen: I think we really put our main focus on developing the business in a successful manner under the market conditions, given market conditions. So when it comes to competition then I can only say we have deep respect for them and we keep an eye on them, but really expect to how well we can drive our business forward in Pipavav.

Moderator: Thank you. Our next question is from the line of Barindra Vijay Kumar from Spark Cap. Please go ahead.

Barindra Vijay Kumar: My question is on the competitive threat going forward, so given that more than 60% of your vessels are from Far East and PSA at JNPT is likely to complete their first phase by end of FY18, so how is this competitive threat going to develop given that your customers are not doing really well and I have also noticed that your per TEU realization has fallen quarter-on-quarter because last quarter I believe you said number 6800 versus 6600 realization this quarter. So is it really threat that you foresee and how will you handle that?

Hariharan Iyer: let me first answer the second part of your question that is realization, see the realizations are dependent also on what the kind of cargo that you handle. In the last quarter the realizations had gone up by a couple of hundred points, basically Rs.100, basically it is also the Reefer season. A little while ago I mentioned to you that it is a peek Reefer season so therefore your realizations go marginally up. I gave you a range, the range of what we did, so that kind of explains to you. We have not seen any significant change or a difference in the overall realizations for us. And coming back to your first part of the question, as far as a port operator is concerned it does not really matter where the cargo comes from or where the cargo goes because it is not based on the origin or the destination of the cargo.

Barindra Vijay Kumar: So the concern is that we have heard from PSA from JNPT telling shipping lines find it nearer from Far East when they come to call at JNPT than say go to Mundra or Pipavav, so in that sense if their capacity goes up by 2 million TEUs in FY19, given a tough scenario in trade, so is that going to be spanner in the wheels for our growth in containers?

Hariharan Iyer: Then if that is the question then let me explain that as well. It is that a large part of the cargo which comes into Pipavav goes to the northern hinterland and we will continue to be closer to the market where the cargos are destined to. So from a shipping lines perspective and the final PCO or the customers perspective then they would like to get to a port closer to where the real market is.

Moderator: Thank you. We have the next question from the line of Vignesh Srinivasan from Unify. Please go ahead.

Vignesh Srinivasan: Regarding the liquid side, how do we see the ramping up going forward, in the sense do we expect this quarterly growth rate to climb up? And can you just give an indication on what are the margins there?

Hariharan Iyer: See, we have I think given some indications earlier that this is in terms of cost that we do not have any significant incremental cost to us, we have largely the income arising out of the liquid operations mainly on the marine side of it. There is some component which is on the land side of it which is typically fixed. So I do not have a very clear proportion in terms of how much would be on the fixed side and how much would be on the variable side because this keeps changing, we have certain structures built in to further enhance the volumes. So having said that, it is really very difficult to predict how the growth is going to happen, we are steadily seeing the growth happening, it is in our endeavor to see how we can further grow this business. But to put a number to it on how it would grow it is difficult at this point of time.

- Vignesh Srinivasan:** And secondly with the new service that has come in our port in the second half of the quarter, what is potential that this particular services have to deliver in terms of containers?
- Keld Pedersen:** That is too early to say, I think you will have to follow up in this quarter and next quarter to see how it ramps up, that is the best we can say right now.
- Vignesh Srinivasan:** And employee expenses, you have said that going forward we should potentially factor in around 100 million to 120 million, right?
- Hariharan Iyer:** Yes, if you take the full year's cost then it would more or less be in the similar lines, now how it develops we will have to see.
- Moderator:** Thank you. Ladies and Gentlemen, as there are no further questions I would now like to hand the floor over to Mr. Shirish Rane for his closing comments. Thank you and over to you, sir.
- Shirish Rane:** Thank you everybody for joining on this Earnings Call. And special thank you to Hari and Keld Pedersen for giving us this opportunity to host the conference call. Thank you.
- Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of IDFC Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.