"Gujarat Pipavav Port Limited Q1 FY 21 Earnings Conference Call"

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MODERATOR: **MR. ASHISH SHAH – CENTRUM BROKING**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY 21 Earnings Conference Call of Gujarat Pipavav Port Limited hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Shah from Centrum Broking. Thank you. And over to you, Mr. Shah.

Ashish Shah: Yes, thank you, Margaret. On behalf of Centrum Broking, I invite all of you to the Gujarat Pipavav Port Limited's Q1 FY'21 Results Conference Call. We have from the management Mr. Jakob Sorensen -- Managing Director and Mr. Santosh Breed -- CFO of the company.

I now request the "Management to give their Opening Remarks", post which we can have the "Q&A." Over to you, sir.

Jakob F. Sorensen: We have the key highlights of the quarter-ended, right, that we have volumes of the containers that the one we are walking through here. So we had a decrease in the volume of 6% versus previous quarter as you can see in the report. I think the report is publicly available as well as on our website, right? What I would say is that the container volumes are slightly down over last quarter, and of course, as we have been discussing and everybody knows, this is the quarter where we are really into the lockdown period and COVID-19. So it is not surprising; however, if you are comparing with the general numbers for the Indian West Coast and for other ports as well in Gujarat, then I think it is a fairly acceptable minor reduction in volume compared to the market.

And if you are moving to the dry bulk, we are actually going higher, especially driven by coal. And coal has been a little bit of a spot business, but maybe our available coal yard was attractive for coal traders who are behind the spike in volume on the coal volume. So that is actually nice to see.

We still believe that we are also active and having some good outlook in other commodities such as fertilizer. So, that will come in the current quarter.

Liquids, we have seen a small decline in LPG, but what is a blessing in disguise is that our liquid berth has then been available for a number of smaller parcels of non-LPG cargo and that a lot of people took advantage of. So, we have also had onshore storage capacity which has been utilized by customers. So, we saw an overall increase of 10% in liquid volumes.

The automobile market is definitely not having a good period and that also reflected in our RORO performance. We do not see a recovery in the foreseen future; however, our investment in exposures also very minimal, we have the marshalling yards which we are looking to see if we have other purpose for useful. So, I do not want to spend too much time on the RORO here.

Santosh, if you will jump in and comment on the financials?

Santosh Breed: Sure, Jakob. So, on the financial results, overall revenue we have a 2% or lower and this is mainly because of the drop in the container volumes, which Jakob mentioned earlier. The expenses were 3% increase as compared to previous quarter. Here also I will like to highlight and I will speak in detail later that we have reduced our operating expenses and there has been an increase in the employee benefit expenses. This is mainly because of the annual salary increase as well as we have some reversal in the previous quarter on account of the long-term employee benefit. We continue to maintain our margin at 60%. So in midst of a challenging quarter with the lower revenue, we still have maintained our margin and the net profit is lower by 2%.

So, overall, I would say this is a satisfactory financial performance in a challenging environment.

And maybe Jakob we can take this slide on the volume. On the operational highlights, we have the container volumes as we mentioned earlier at 186,000 TEUs, of which 110,000 were for the ICD and we also have handled 622 trains. Now this quarter has been unique. So if you look at the train handled during the period you have seen a significant increase there, that is mainly because there has been a lot of single stack movement. So overall, the volumes were lower and that is why the train operator has taken a call to move single stack trains as well as there have been some movement of empty trains to pick up the export boxes as well as the import movements.

On the dry bulk, we are at 0.42 million. I think Jakob has already touch based on the coal volume what we got this quarter. So, I am not spending time there.

On the liquid, we are at 0.21 and I am happy to see this number. So, even with the lower LPG with all the other commodities which are supported, we are back to 200,000 plus MT of cargo in this quarter. So this is coming after a couple of quarters. So it is very good to see this number personally for me.

RORO, the muted performance continues. This is on the entire West Coast across India where we have seen a drop in the car exports. And as I mentioned earlier in my calls also, this is likely to continue for next few quarters. So we do not see an immediate return of these volumes in the next few quarters at least.

I will also quickly give some more details on the last slide which is the financial number slide. So to be very specific now, the total operating income at INR1,590 million is lower by 2% as compared to the previous quarter due to lower container volume as I mentioned earlier. Total expenses at INR635 million are higher by 3% as compared to the previous quarter. Of this operating expenses at INR248 million, lower by 2% due to lower container and RORO volume, as well as the cost initiatives which we have been taking over a period of time. So that is helping us now, to keep our cost lower in this challenging situation.

Employee benefit expenses at INR163 million are higher by 15% due to the annual salary increment. And as I mentioned earlier, long-term benefit expenses which were lower in the previous quarter.

Other expenses at INR224 million are higher by 2% due to higher repairs and maintenance, partially offset by lower power and fuel and administrative expenses.

EBITDA at INR955 million is lower by 5% and margin at 60% is lower by 200 basis points. And this is because of there was a one-off favorable items in the last quarter which we have mentioned also earlier, that is one-off rebate reversal which was there in the previous quarter. The reported net profit at INR464 million is lower by 2% as compared to the previous quarter.

So, this is a very quick overview of the financial numbers for this quarter and we are happy to take the questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: You did allude to the fact that you do not expect the cargo to come back in next few quarters. But sir can you portray some kind of situation whether it has decreased compared to Q1 in July and August and how do we see this cargo panning out in Q2 and Q3?

Santosh Breed: Mohit, my comments specifically of the volumes not coming back to normal was related to our car export volume, because the overall demand in the European markets has dropped where there was substantial export of cars from India. So, that is very limited comment for RORO business. And when we look at our container business or for that matter also our dry bulk and liquid, then we are certainly hopeful to have improved volumes in the next quarter. I cannot of course speak right now about specific volumes per se, but certainly we are seeing improvement in overall the volumes for the next quarter.

Mohit Kumar: Has the export-import ratio improved materially compared to Q1 and what was it in Q1 and what is it right now?

Santosh Breed: So there has not been a major change in our import-export ratio, it remains in the range of 45:55 where 45 is export and 55 is import which is almost same even in last quarter.

Mohit Kumar: My second question pertains to the CAPEX which the board has approved 97 million. So how much the capacity will increase if we incur this CAPEX what is the kind of timeline you are looking to complete the CAPEX and when we expect this GMB approval to come?

Jakob F. Sorensen: What I would say is first of all, the crane upgrade that we are looking to do is a capability upgrade. And at the moment, we are able to handle vessels with up to 18 containers wide and this plan is calling for container vessels up to 21 rows of container wide. And this means we would be on par with other terminals in the area, in terms of the size of vessels that we can handle. And therefore it is to maintain our competitive position. If we are looking at our container yard, the capacity is around 1.350 million TEUs and we plan also to upgrade the yard capacity to something like 1.6. In terms of the timeline, it is all up to the GMB. We have received the green light for spending of nearly $100 million in GPPL. But it is on the condition that we get the concession extended. We have had continuous discussions with the GMB and we have had good and constructive dialogue with them. But we are still awaiting for a green light for the concession to be extended, and it will be, I think, very appropriate for us to get this extension now that we have clearly signaled that we are ready to spend the money and expand the minute that we get the confirmation.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Coming back to the previous participant's question, you mentioned the capacity will increase from 1.35 to 1.6 million TEUs with the investments?

Santosh Breed: You are right, that is what a number what Jakob has given, but this will be a gradual development as per the requirements. So, the immediate upgrade what we are looking at is the investment in crane which will help us to enhance our capability of handling bigger vessels. So, that will be the immediate priority. And then of course, as we improve our capacity utilization, then we will keep on developing on the land side by creating the yard capacities.

Chintan Sheth: So, I was thinking that already we are utilizing our current capacity below 70% kind of rate and obviously, it all depends on as and when the GMB will approve the extension. But once you get the extension, what will be the timeline to ramp it up the initial phase and then the later phase, if you can break it up in terms of period post approval coming from GMB?

Jakob F. Sorensen: For the placing of the crane CAPEX orders, that would not take very long time, maybe one or two months. So the firm commitment from GMB of the concession extension to be signed, then we can get started very fast. And there is central shift then on the capacity adjustments on the yard. By the way, I like to say that the utilization has been in the 70s what you say, but it has been very, very good for us to have that yard capacity in the COVID situation. Just need to refer to some of the challenges with congestion in other ports. We have had the benefit of having no such congestions and also the linkage with the rail. We have been able to avoid to have any sort of congestion which is a good thing for the customers. But as soon as we can assess that the need is there to expand the yard, then we have the space and the capabilities and confirm the CAPEX to do so. So I think that is a very strong position. We are basically ready to respond to the needs of the market before it becomes a bottleneck and a challenge to the customers.

Chintan Sheth: So the $100 million you hinted, large part will be in the yard, right, crane would not take that much of CAPEX?

Jakob F. Sorensen: Cranes would be half and yard would be half, I think something like that.

Chintan Sheth: First half will come quicker once the GMB approval is in?

Jakob F. Sorensen: Let me say that I am hopeful that would be before the end of the year. I think we all hope these days, do we not?

Moderator: Thanks. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: The first question which I had was more on the outlook for the container business because when the concall happened a few weeks back, the thought process being shared was of a long U-shaped recovery that one would be on the container front. Numbers then have been better. So my sense is July would have declined further to 10% for the market as a whole. I just sort of hearing your view on whether you would want to think through recovering now happening faster or is July one off month and one should wait and watch?

Jakob F. Sorensen: I think I will stick to my metaphor of the long U-shaped recovery. Not to be too optimistic, but I am looking at not only India, but also on the rest of the world and so on. And you do see somewhere indications of a second wave and this and that. Santosh was also mentioning earlier here that there is some demand that are lacking in his example, it was automobiles. So, it will be too fast to conclude that we now have a sharp U-shaped or V-shaped recovery. It will be taking longer time to recover to where we would like to be. But I am taking your points that July was a turning point, and then maybe we should extrapolate a little bit on that June, July, August, and then you will probably find it that it is a very long U-shaped recovery.

Aditya Mongia: The second question that I had was more on the capacity expansion. Two parts to that question. First part is that on the expansion capacity that you are talking, today probably 50% utilized, maybe next six months is a bad time, but do you see meaningful growth happening over a two, three year period for you to be committing the CAPEX right now? The second part of the question is just on the GMB side of things, apart from other things that are holding the GMB, what needs to happen for the decision to be taking place -- was this that was holding them back segment is not as much forthcoming from a CAPEX perspective?

Jakob F. Sorensen: On the first question, the crane investments is to retain our competitive position. As I mentioned, it is depending on what size we think that shipping lines will upgrade the size of vessels that they are going to deploy on the Indian West Coast, and we want to be on par with JNPT and other ports in Gujarat in terms of the capability. With that, I mean, how far can the crane reach? How big ships can we handle? And this will be done with this upgrade here. On the yard side, we are actually in a fantastic situation because as I mentioned, we are evacuating most of our containers by rail. And with the DFC even though I do believe it has been delayed, but the DFC will be commissioned by first quarter 2021. We will actually have a good capacity to be able to evacuate, and therefore we have a very good position where we can at all time adjust our yard capacity to not only accommodate the volumes, but also to accommodate the vessel size and I do expect that the rate of evacuation will go up when the DFC starts getting in operation. As to your question about the GMB and what is holding them back, I really think that we are having a number of good discussions with them and we are giving them compelling business plans for how we want to proceed. But you can say, while the law is quite clear, and we as a minor port in GPPL, we fall under that legislation which gives GMB the authority to extend for 20-years. It is also fair to say that it has not happened before. So the practicality of how GMB should execute that is still something that they are working on. And of course, what is being applied to GPPL would also be applying for others who are applying for their extensions. So, I think they are just walking cautiously on doing the right things, and also no doubt that we are very competent people at the Gujarat maritime board. And in today's India, we need in India all the means of recovery that we can get and we are standing as an international company ready and willing to spend money and invest further in India. I think that will send very, very strong signals to others as well. And therefore, I do hope the GMB is getting our concession extended as soon as they can.

Moderator: Thank you. The next question is from the line of Sachin Shah from Emkay Investment Managers. Please go ahead.

Sachin Shah: So, first question is on the business side. As we all are aware that April and May months were very difficult months for the overall economy because there were a lot of lockdown, I know the port may not have got lockdown, but a lot of your customs house and a lot of other logistics challenges. So, can we say that the April, May, June whatever volumes that we would have done in this quarter will probably be one of the worst or the lowest quarter going ahead from here, in the sense that Q2, Q3, Q4 for this current financial year in most likely scenario should give better volumes as compared to the Q1, that was my first thing that I wanted to understand? And the second thing, which is on this CAPEX program. So, you did mention that the Gujarat Maritime Board has been in constructive discussions with you. But these discussions have been happening for a while now. Can you point out one or two things what has taken them so long or what is holding them back, what is the real thing which is going under their thought process, which is not allowing a very quick resolution to this extension or whatever we are looking forward to?

Jakob F. Sorensen: Mr. Shah, let me start with the first question. I do hope that you are right and we have seen here in the month of July, the volumes are increasing. And I also strongly believe that the volumes will be steadily increasing with this mentioned before will be a long U-shaped recovery. And I have to say that some of the volume that we have been doing, we have been adding a coastal service that has been strongly performing. We also have seen that because of the challenges in some of the other terminals on the west coast, we have gained volume. And now I just want you to check the news and you have seen that there has been an accident in JNPT within the last 24-hours, and there is no doubt that might also give us some volume benefit going forward because that is going to take time for that terminal to recover from that tragic accident. There is luckily nobody got hurt, but three cranes collapsed due to high winds. So these kind of things is also going to be benefiting a port like Pipavav which is located in a place where we do not have the same type of exposure. Regarding the GMB, I would really like if you ask them the question, but what I am speculating is that in the past, we may not have been so active in telling GMB of our future plans. In the past, we may have been discussing issues that in my mind is behind us and now, at least in the last two or three months, and we have a new vice chair and we have a new M.D. in GMB, it is a lady and she has so far shown great interest in understanding what business we are doing and she is due to visit the port also very soon. So, I think we have a renewed interest from GMB in understanding Pipavav. And then the mere fact that we have performed quite well also relative to other ports in Gujarat. I think that has caught GMB's attention and obviously, that should hopefully help us to get this process done and so we can see the green light.

Sachin Shah: One last follow up on that. Because of this DFC and if we do this CAPEX, do we have some internal thought process in what kind of market share we would have over a period of next two years, three years, five years on the West Coast?

Jakob F. Sorensen: I think it is very difficult to say because now you are asking me the combination of these two things, right, because how is the market itself going to grow, that is difficult to say. I hope India will recover soon after this COVID situation. But what I think is that we will have increased capacity and we will be good in our position because of the DFC, because we are so rail-based already and we will for sure have a head start over Maharashtra in terms of being linked to the DFC because we know that the tracks are very much developed from Ahmedabad up to Delhi and as we connect in Surendranagar and other places north of Ahmedabad, then we will essentially plug in as I mentioned Q1 2021. So there should be some good chances here of expanding our market share, but that depends also on how the market and how the volume will develop.

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

Bhavin Gandhi: The first one if you can share with us the breakup of EXIM, coastal and transshipment volumes?

Santosh Breed: Bhavin, we have not been splitting between EXIM, transshipment and coastal, right. So, we have always been giving only total volumes.

Bhavin Gandhi: Secondly, just wanted to check, like you mentioned the number of trains increased vis-à-vis the volumes, so, do we benefit because of the increased number of trains in terms of our overall realizations?

Santosh Breed: Not really, because as a port we earn only on the number of boxes handled on the train, so loading or unloading of the boxes on the train. By increasing number of trains certainly does not help us. So, as I mentioned, in the beginning, the increase is mainly because of some empty movement of rakes as well as a single stack train being run this quarter because of the volume challenges.

Jakob F. Sorensen: Let may qualify here as well to say that this still give us a more reliability in this current situation because what most terminals are struggling with is to get sufficient trucks and with sufficient drivers, and that is still a long-term problem whereas, obviously, you do not need as many drivers to drive one locomotive. So the number of trains that have been operating and so on I think is a good testament to what I have mentioned before when the DFC will be commissioned, it is going to give us a good competitive edge.

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

Nitin Arora: Sorry, I am going back to the capital expenditure plan what you stated on the crane side which I understand of handling more container boxes let us say an average mark of 19 to about gross 21 containers. That is more of a CAPEX on handling more higher vessel size. How does that change the overall dynamic in terms of volume? I can understand the number of vessel size because incrementally the vessel size are increasing, and consolidation is happening. Why 700, 800 crores CAPEX being put when our last year or I would say last 40 or 50 quarters or rather I would say our numbers have never crossed 65,000 or 70,000 on a monthly run rate, so, why putting such a huge CAPEX or you putting it because you see this monthly numbers has that capability to go up, is there some new line addition that can happen? And second part of it, this CAPEX announcement, is it a precedent condition to get your extension because last time when you gave your plan to the GMB, and obviously because of the external environment, it did not happen, they forfeited your guarantee, I understand we must be talking to them. But right now, when the concession has to get over by 2028, I do not have an ROFR, are you trying to tell the GMB that okay, look, I am going to put so much of CAPEX, so, do not go through an ROFR route and there can be an automatic extension that can come to you on a higher fees or higher royalty rate, just wanted to understand these two aspects based on the announcement what has happened?

Jakob F. Sorensen: As I said, the capability expansion and that is to be able to handle larger vessels is obviously both to check more volume in but maybe if you see it from another angle, it could also be seen as a little bit defensive move. Because if we do not do this, there is a risk that there will be larger vessels in the markets coming to the Indian West Coast, but people will then not look as reliable or even having the capability to handle these ships. So, we would not like to exclude ourselves for future plans, and therefore we think this is the right way to make sure that it is still a very attractive place to make a call. The second part of the question is a bit of financial in terms of return to investment. But it is clear that we are sending a very clear signal to GMB that we are in for the long-term and we want that concession to be extended and obviously, you are not spending this kind of money if you are just going to sit and can I say milk the asset for the next five, six, eight years. So, we are looking longer than this and that is a clear signal also to GMB to get the concession extended. And I would like to say we will start with this investment, there might be even more investments than if we are looking at a much longer horizon, that is for sure.

Santosh Breed: And Jakob, just to add to this comment, two things which you also have mentioned in the past that we have always been very diligent in our CAPEX spend as per the requirement, and as Jakob mentioned that we foresee now basis the inputs which are coming from the shipping line, there is a likelihood that the vessel size in India likely to go up. That is why we see this need of investing into better cranes or a higher outreach crane. So that is of course a trigger for this investment so that we are able to handle all the vessels which are coming to the ports in India. And Nitin, just to also answer your question, there is no such requirement from GMB on investment for the right of first refusal. So there is no criteria or condition in the concession agreement. So the investment is not related to any of such condition.

Nitin Arora: The crane, as you said that JNPT, because of the weather you are getting issues and some volume can shift, I was fully surprised that cranes at GTI terminal is not working from last three months properly, but still we did not see too much volumes coming to us, I mean, versus let us say peaked out at 40,000 a month, they have come to 50,000, but we are still there. So have we really lost market share here in the last two, three months whatever the recovery has happened because the other ports have recovered their volume versus ours, is quite low, so that is why wanted to ask you that?

Santosh Breed: Nitin, I do not know which data points you are referring to, but our analysis show in fact we are doing better than the market and if I have to speak about the ports on the west coast, so what we presented today a 6% drop as compared to previous quarter. So we are in the only port on the west coast, with a single digit drop. The rest of the ports have a double digit drop in volumes. So when I look at the West Coast, our analysis show there is almost 25% drop in volumes on the West Coast ports. So I am not sure about the data points you are referring to. And that is why we believe that we are doing much stronger in the current challenging situation.

Nitin Arora: Last part on the liquid side, can you throw some visibility here in terms of business because that number in between became quite volatile, but now again, it started ramping up for us and then again it went down… I understand because of the lockdown as well, how we should look at this business going forward any ramp up you see here?

Santosh Breed: Nitin, yes, we are back to this 200,000 plus MT of cargo this quarter which is a positive sign and the other positive which I see in this volume, this is mainly supported by commodities other than LPG. So, in the past, we had heavy dependence on LPG and that was our main commodity which is to handle. So, currently also, we continue to pursue those volume as well. But, in this quarter we have seen good volumes coming from other than LPG cargo. So, mainly is base oil and butadiene which we have handled in this quarter. And the inputs what we have, these volumes are likely to continue in the next few quarters at least. So, we hope to see this performance to be consistent in the next few quarters at least on two things -- one, as I mentioned about these non-LPG volumes to continue and then we are also working with our partners to have a rail evacuation infrastructure built in, we should be ready in the last quarter of this year. And with that, we also are hoping to have some incremental LPG volumes. So, on that background, we are quite positive on the liquid volumes in 2020 and as well as early 2021 as well.

Moderator: Thank you. The next question is from the line of Parimal Mithani from Credential Investments. Please go ahead.

Parimal Mithani: I have just three questions for you; one is what makes management change their view on the company in terms of showing CAPEX plans -- is there a change at the parent level or what does the parent think about Indian markets? Second question is with DFC coming around, what percentage of volume growth or any ballpark number you can give us you see in terms of efficiency wise in terms of markets, if you can throw some light to it? And third is in terms of dividend policy, are you going to maintain that policy, that constant dividend going ahead?

Jakob F. Sorensen: So that was three questions. Let us start from the question #3. I think the answer is yes, we want to be consistent on our policy on the dividend. If there is a change of hearts in our parent company Maersk about India, not long-term, but I think there has been in the past as you are probably also aware there has not been a very clear 100% commitment to GPPL. If we go a few years back in history, that is now crystal clear. And you may also be aware that actually our ownership has gone up in GPPL with a full percentage. So, that is also to send a very strong signal that we are long-term committed to India and to GPPL. So, that is a very clear signal which may not have been that clear in the past, but it is definitely something that we now say very clearly. And to your other question on operational efficiencies and in terms of volume growth, I can tell you that if you are looking at DFC, it is double track, it is double stack, it is with higher bearing loads, so that means trains can go twice as fast and it is also double stack plus it will be electrified powers which gives a lower cost running the locomotives rather than diesel. So if you add up all these multipliers, it is actually in theory capacity injection of 10x for freight carriage. The railways want to do with all this nice extra capacity. But as we all know, what is the biggest problem that companies are complaining about in India, it is the high logistics costs and railways have done this fantastic investment in the dedicated freight corridor. I do not think they are going to let that sit idle. My expectation is that the transportation cost by rail will go down and that should be helping India to be more competitive and that should again be helping us to grow the volume. And here I am talking about growing the cake, not just taking from somebody else, but really expanding the volume. So it remains to be seen, but I think again, if you are looking at the DFC, it is a really remarkable injection of more capacity. And I cannot actually think about something to compare it with, because it is really manifold in terms of the capabilities that the railways will be able to inject here when they get the operations started. And I think also I would like to add that one more time, it is going to be electric, which means much better environmental footprint and lower costs compared to imported diesel. So hope that answers question number #2.

Santosh Breed: Jakob, just to add to your comments, today, there is also a significant proportion of the cargo going by road and we expect now with DFC, and hopefully, it will be very-very competitive in terms of the pricing, we expect a significant portion of this road movement to get transported on rail. And that is why we see a good advantage for Pipavav because rail has been our USP and this will allow us to reach to some newer market as well. And that is where we also expect some increase in volume. It is very difficult at this point of time to really quantify how much in terms of percentage or what we are looking at, but we are quite hopeful that we will be able to access new markets and surely the volume will go up.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Sir, given the market share gains that we have seen and also the resilience of the business model with higher rail coefficient, is there a thought of increasing pricing in the system?

Jakob F. Sorensen: That would be tempting. But I think at this point in time, we also need to let the market recover. And I will not exclude there would not be adjustments in our tariff, and you can see actually other ports in Gujarat has done because they have been under pressure to do something with the revenue. But at the same time, as I said, we are looking at a long U-shaped recovery and I think it is good that customers have the time to recover as well from this big impact that it has, but I would not say that we would not do a little bit.

Abhishek Ghosh: As far as this CAPEX commitment is required, does it also require a global approval for this or can the board here can independently take this CAPEX decision?

Jakob F. Sorensen: Abhishek, it is a good question, but in this case here, we have actually done our homework and we have already got the green light from the head office. So with this board approval here now, we are ready to go. And I hope GMB is listening in here but I really want GMB to do the right thing and get going with our concession extension because we are ready.

Abhishek Ghosh: So it is not that post the GMB approval, you do not have to go to your global board and seek approval, global everything is in place from both global and local board here, is that the right understanding?

Jakob F. Sorensen: You got it.

Abhishek Ghosh: Just adding on to that, because when you are talking about this kind of CAPEX, you are increasing your capacity by bare minimum of 15% to 20% and that can only happen by addition of new shipping lines. That is an event that has not happened with Gujarat Pipavav Port for a fairly long amount of time. We were just trying to understand around that if you are increasing capacity by that 15%, 20%-odd, you will need to add new shipping lines to kind of fill up that capacity and without the help of parent which is almost contributing to 35% 40% of their overall volume, that is not possible. How should one look at the scenario whenever the extension kind of comes?

Jakob F. Sorensen: That is a good point. But on the other hand, the fact that we do this move and we show our commitment, will in turn attract more shipping lines and this combined with again our track record over the last few months of performance, our stability and predictability and the effect of the DFC, I cannot mention that enough, all of those things are in our favor. Of course, we are talking to shipping lines. And I think they also like to hear the story. The whole question is about this length of the U-shaped recovery. And the moment that we start to see that recovery happening, then I am not sure we could add some major shipping lines to be added to our coverage. I just want to say we have actually added the coastal capabilities and also a direct feeder service to Jebel Ali. So we have added more to our products.

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

Achal Lohade: First, I wanted to check in terms of the EXIM growth, can you help us with respect to the first quarter?

Santosh Breed: So, the overall volume what we mentioned, there is a decrease of around 6% in our container volumes and that is coming mainly on the EXIM growth, right. So, we have actually seen almost a similar drop in our EXIM volumes.

Achal Lohade: If you could help on the YoY number on the EXIM growth, would that be possible?

Santosh Breed: I will not be able to quote exact split of this EXIM, coastal and transshipment, but yes, there has been a drop in our YoY number as well. So on a total volume basis, there has been drop of around 16% on the total combined volumes.

Achal Lohade: I am not asking for specific numbers for EXIM volume, but just a growth?

Jakob F. Sorensen: There is no growth. Because of the COVID-19 situation, the volumes have actually dropped. So, as far as the EXIM is concerned, so we have almost a similar drop in EXIM. There has been a higher drop in our transshipment volumes as compared to the same quarter last quarter.

Achal Lohade: With respect to this CAPEX, even you are talking about higher vessel sizes, when you initiate this project, would there be any disruption in terms of handling as the things get delayed?

Santosh Breed: We do not expect any disruption in operations. So the entire project has been planned to ensure that the existing operations continue as is without any loss of services or discontinuing of services. So we do not expect any change on operation because of this project.

Achal Lohade: Would you require to spend on the dredging at the terminal or appropriate channel as you want to handle the bigger vessels ?

Jakob F. Sorensen: No, in fact, the existing that we have, I can take this bigger vessel. So we will continue to do the maintenance dredging which we generally do every alternate year. So that will continue but there is no capital dredging requirement.

Moderator: Thank you. The next question is from the line of Ajinkya Bhat from Macquarie. Please go ahead.

Ajinkya Bhat: Two questions. The first question is that in your annual report, there are multiple references to potential growth opportunity from the Dholera Special Investment Region that is coming up in Gujarat. I think it is about 200 Kms from your port. Firstly, if you could throw some light on that what kind of volume growth you are expecting or what kind of end market industries that you are expecting to come up there? And the second question is just a bookkeeping question. Can you provide us the exact number for your RORO volume because in 4Q presentation, it mentioned 3,000 units, in this 1Q it mentioned 2,000 units, but it also mentions QoQ decline of 8%. So is it like rather 2600 went to 2400, it was approximated upwards in last quarter and now it was approximated downwards this quarter, something like that, if you could just give that exact number?

Jakob F. Sorensen: So let me answer the Dholera question first because Dholera is coming up, as you say, 200 kilometers from the port and they are launching themselves with the smart production, I know there are some plans for batteries, for electric cars and other manufacturing that they want to do there. We think that is very interesting. And they are also looking to establish an ICD and we are following that very, very carefully. And why we are quite hopeful that this will add volume to Pipavav is obviously that in the vicinity, there is not a lot of alternative ports. So this will, in all fairness, gravitate quite naturally to Pipavav. But we do not develop it. We will just be working with them on the logistics. So it depends how fast that investors and manufacturing and all kinds of other things will come up and running. But if you look at a map, it is quite natural gravitation towards Pipavav. Santosh, you better answered the technical question on counting cars.

Santosh Breed: So the current quarter we have done 2,484 cars specific as compared to 2709 cars in the last quarter.

Ajinkya Bhat: On the Dholera, just one follow up. So, based on my understanding it would be at least four or five years before any new manufacturing will probably start at Dholera, right. So I just wanted to get that clarified because considering that there are multiple references to this aspect in your annual report, do you see to be like a near-term opportunity in the next couple of years or something?

Jakob F. Sorensen: I think it is fair enough that we may need to be more careful in terms of how many times we mentioned one particular thing. We look at many different things. But even before they come into manufacturing and have an output when you are establishing a special economic zone and new industries, there will also be container imports and there will be establishments. So, I think the horizon is not five years for us. We will see cargo coming into Dholera earlier than that. But how fast? I mean, this is again difficulty in predicting the future. But you can imagine of course, when people have to establish manufacturing and so on, there will be import of machinery and other things. So, we do believe that that we will see volumes faster than five years as you indicate.

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

Parash Jain: More importantly, if you can share light on performance route wise especially with this heightened noise around geopolitical tension between India and China and I presume India-China is one of the key routes for Gujarat Pipavav, have we start to see any impact whatsoever or this noise pretty much remains in social media and in reality, we have not seen any impact yet?

Jakob F. Sorensen: In regards to the second question, we have not seen any physical impact yet. But it is, as you call it noise, I think there is a lot of politics in this as well. And then it is also at a time when it will be potentially having a negative impact on India if we just shut down China business from one day to the other. So, we have not seen any actual impact yet except that we are ready, we have a customs in the port we have a full scanner, etc., So we can certainly do inspection of import from China to 100%.

Parash Jain: With respect to EXIM volumes and container, how has been the start of this quarter versus last 12 as we have seen a volume decline and more importantly if you can share some thoughts on China-India trade doing better than let us say India-Middle East or something around that?

Santosh Breed: As we mentioned earlier, of course, we have seen some decline in the EXIM volume because of the COVID-19 situation. But when I look at the month-on-month, so for us, of course, April was bit strong because we had some additional opportunities in month of April and then because of the lockdown, May volume had gone down. But as we move in the future quarter, then we are seeing some better volumes. So we do not really know whether we should term this as a recovery. But certainly we are seeing some improvement in the volumes in the coming months now. So that is the expectation on the EXIM volume. As far as the movement between India and China is concerned, of course, Jakob has already touch base on that, but to also give my view, I do not really see an immediate impact because of this, because it is very difficult to immediately adjust all the supply chain and we do not really see that happening in a short-term for sure. There has been a lot of discussion of companies moving out of China and then setting up a base in other countries, of course, India. Right now, we have not really seen any impact of that as well. So, I think it will take some time before we can really conclude whether there is some big change happening of the cargo moving from China into India. We also are believing that even if it moves out of China in the long term, it will be either India or some other Far East countries which will take share of these volumes. So for us, then we do not see a real impact of these changes even in the long-term. So that of course is our view.

Moderator: Thank you. The next question is from the line of Manish Agarwal from Edelweiss. Please go ahead.

Manish Agarwal: I wanted to understand the rise in our realization. So obviously we took a price hike last in April. But if I look on a quarter-on-quarter basis as well, our prices have kind of increased by around 2.5% to 3%. So, my first question will be regarding is there a substantial increase in price that we are seeing or this is a much more of a temporary phenomena?

Santosh Breed: So, if you are referring to the container realization specific where we have our tariff in US dollar, so we have got of benefit of the favorable exchange rate, of course, favorable for us because of the weak rupee in this quarter, almost around 5% is what we are seeing an improvement due to the exchange rate. There has been major change in the contracts or the tariffs as such during the quarter.

Manish Agarwal: So sir it will vary basically depending on the movement of exchanges?

Santosh Breed: Yes, movement of the exchange rate, also the cargo mix which we carry between EXIM, coastal and transshipment cargo.

Manish Agarwal: If you could give some broad idea of sensitivity that realization has with exchanges, maybe 1% can change our realizations, by how much?

Santosh Breed: So, for container business, whenever we see exchange rate variation, so, as I mentioned between the two quarters, there was a 5% variation, so that 5% directly flows into our realization because the entire tariff is in dollars. As far as the other business streams are concerned, bulk and liquid and RORO, then it is only on the marine side which is a dollar tariff, the rest contracts are in local currency. So, I will put it, is more or less in line with the variation what you see in the exchange rate, you should be able to get a very close variation also in our realization.

Moderator: Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: Sir, I have two questions: Firstly, you mentioned about the cost in your opening remarks, but are there specific steps you have taken like in this particular quarter to control the cost permanently like for future periods and a significant cost cuts which you have taken?

Santosh Breed: So for us, actually, this is a continuous process, we have been continuously focusing on our cost, but yes, because we are getting into a difficult situation and taking that into account, then there are some additional steps which have been taken. So, we have certainly relooked at those contracts for renegotiation and taken some rate cuts on that as well. And that is why you can see a reduction in our operating costs. So if you look at our operating cost as compared to same quarter last year, then you will also notice there is a substantial reduction. Some part of it is volume-driven, but the rest is basically the rate negotiation what we are doing with our vendors.

Prateek Kumar: Is it possible to quantify the permanent saving like 10% or 5%?

Santosh Breed: It is a mix of variable and fixed costs. So, it is very difficult to really quantify, but in general, we have taken in the range of 8% to 10% on the cost reduction on various initiatives not on quarter-on-quarter basis, but at least over a period of last one year.

Prateek Kumar: You mentioned that your competition has taken some price increase. That means there is no pressure on realizations related to volume weakness in the system?

Santosh Breed: Certainly not because before the price increase taken by the competition, our prices were lower than the competition as per the tariff comparison is concerned, the gap has further increased now. So we do not really expect any pressure on realization from the shipping line to us.

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

Rajarshi Maitra: Just going back to this concession renewal, is the renewal happens likely on the same term as of now or are you going to have higher revenue share or firm CAPEX commitments from your side, something along those lines?

Santosh Breed: So this is a good question actually, but then the commercial terms are not yet available, so it is very early. Our focus of course is to get the concession extended first. Having said this, we do not really expect a significant change in our concession terms. So, if you look at the way the ports in Gujarat operate are a bit different than the terminals which are operating at JNPT. So if you look at JNPT, the revenue share is much higher because the port authority JNPT takes care of the channel maintenance, dredging and all those big cost, even the marine services also provided by JNPT, whereas in the ports in Gujarat, the entire cost of operations is on the port operator. So, first of all, we do not really expect a significant change in the commercial terms and we believe that Gujarat been industrial-friendly state and port with the longest coast line, port business is a key business for them, we expect the commercial terms should be very competitive, we do not really expect substantial jump there, but we do not have any indication from GMB what those will be, whether there will be a CAPEX commitment or whether there will be change in the commercial, it is too early to say that now.

Moderator: Thank you. The next question is from the line of Deepak Krishnan from Goldman Sachs. Please go ahead.

Deepak Krishnan: Just continuing from the cost perspective, even though on a YoY basis, revenue is down 10%, but both your operating and other operating costs are down by close to 20%-odd. So wanted to see if there is any sustainable saving? And margins already at 60%, do you see like 100 to 200 basis points margin expansion to the cost initiatives that you have taken? And my second question is about two years ago, you had about 45 million dredging cost. So you expect a similar number to be there for this year because you do it every alternate?

Santosh Breed: There are two parts to this cost initiative; one is, of course, the implementation of the Indian accounting standard where certain part of our operating leases were reclassified to financial leases. So, that is one adjustment. That is why there is some impact on the margin because of that. Apart from that, as I mentioned earlier, we have taken a lot of cost initiatives in reducing the cost. And this is on two fronts; one, of course, reduction through building operational efficiency, there is a continuous process, improvement initiatives which have been taken internally, and the second is through partnering with our vendors, and also helping them to build their efficiencies and then do a rate negotiation with them. So, all these put together we have seen a good reduction in our costs and helped us to increase the margin from earlier range of 55% to 57% to 60% now and we hope to continue with this range going forward as well.

Deepak Krishnan: On the dredging expense, would it be similar to the one that you had seen in FY'19 or…?

Santosh Breed: Almost in the same range, that is right.

Deepak Krishnan: In the next two, three quarters that should come into our numbers, right?

Santosh Breed: Absolutely, that is right.

Moderator: Due to time constraints, we will take one last question which is from the line of Mohit Pandey from Citigroup. Please go ahead.

Mohit Pandey: My first question was related to the CAPEX. So currently, what proportion of the industry volumes would be on the larger size vessels which we plan to cater to in the future with CAPEX whenever it happens?

Santosh Breed: Let me clarify one. So, at this point of time, we are able to handle all those vessels which are calling on the West Coast of India. So, there is no challenge as such in handling any vessel. What we are looking at is the future where we expect the shipping line to increase their vessel size. To be ready for that, we are looking for this investment. So, just to answer your question in terms of volumes, whatever volumes which are coming to Pipavav or on the West Coast, we are quite capable of handling that.

Mohit Pandey: Secondly, possible to quantify currently what proportion of volumes originate from China broadly?

Santosh Breed: Basically we look at more of the Far East services, it maybe China and other Far East countries from where we do get import. So roughly I will estimate around 60% to 65% is our Far East services. We do also have services to US. As far as now the coastal service is to Middle East connection. But major part of course is from Far East. Very rough estimate is around 60% to 65%.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Mr. Ashish Shah for closing comments.

Ashish Shah: On behalf of Centrum Broking, we thank all the participants for the call. We also thank the management for giving us the opportunity to host the call. Sir, any closing remarks from your side?

Jakob F. Sorensen: No, not really. I appreciate all the interest and questions. There were quite a lot of questions this time and I am quite pleased with the fact that it has been noted that we have a green light for investing further in the port subject to the concession extension. I think our performance in the last quarter was noticed. And what you have also seen is that we have done relatively better than the markets. So to be said again, a long U-shape recovery means that we are not out of the woods when it comes to COVID and let us see again here when international flights and so on will take place in India, because, of course, we need to get the business going again which has a direct impact to our volume recovery. But I wish for all investors who have been listening in here and asking questions, please take care of yourself, your families and stay safe.

Moderator: Thank you. On behalf of Centrum Broking Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.