

“Gujarat Pipavav Port Limited Q3 CY14  
Results Call”

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**Operator:** Ladies and gentlemen, good day and welcome to the Q3 CY14 Results Call of Gujarat Pipavav Port Limited hosted by Emkay Global Financial Services. We have with us today Mr. Prakash Tulsiani, Managing Director, and Mr. Hariharan Iyer, Chief Financial Officer of Gujarat Pipavav Port Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Nitin Arora, Research Analyst of Emkay Global. Thank you and over to you, Mr. Arora.

**Nitin Arora:** Thanks. Good evening, everyone. Thank you for joining us today. We would like to welcome the management of Gujarat Pipavav Port and thank them for giving us the opportunity to host this call. Without taking much time I would now like to hand over the call to Mr. Prakash Tulsiani, the Managing Director of Gujarat Pipavav Port. Over to you, sir.

**Prakash Tulsiani:** Hi. Good afternoon. This is Prakash. And the results, of course, are out and I know the exchange just closed today, but we have put up this presentation on our website of Gujarat Pipavav Port, so I am sure most of you must have already got a chance to go through it, but anyway I will take you through. The key highlights for quarter 3 2014 is that the container cargo while we have a 4% decrease in quarter 2 it is because of the lower exports. And when I say lower exports, it's a slowdown which is typically there in the monsoon quarter. So this was the monsoon quarter for us and lower exports led to this 4% decrease in volume. However, if we compare ourselves with quarter 2, 2013 in the preceding year, we have 19% increase in the volumes and this is on the back of, A, the two new services which we added. There was upsizing of one vessel in this one year and there is organic growth. The market presently is growing at 9% in terms of export-import cargo and year-to-date, of course, the market is growing at 10%. But during the quarter, it grew at 9%.

Then one good highlight or the highest ever what we have done in terms of our rail volumes the volumes which go into the inland container depots is 72% of the throughput. This is due to the high festival rush that we have seen in imports that we handled coming via the port. Bulk in liquid cargo 23% increase in volume versus immediately preceding quarter that is quarter 2, 2014 it is on the back of good coal volume and fertilizers. There is increase of 3% versus the same quarter in the previous year and this is due to the commodity mix, higher coal and fertilizer lower minerals on the other hand.

One good thing which we have been talking about over in last few quarters is about our liquid cargo. The liquid cargo two tank farm owners have already started operating at the port. The third one is expected to start sometime in the early next year. We did close to 100,000 tons on this new business of liquid cargo and that in my opinion is a good start.

Coming to financial results, we have INR 959 million as our EBITDA. It is compared to the immediately preceding quarter that is quarter 2, 2014 the 3% decrease. But margins are in line and they are in line with the previous quarters. In previous quarters there were some one-time

items which Hari will take us through and excluding those one-time items are performance or margin in line. We have a 56% increase in EBITDA and 16% increase in margin versus quarter 3, 2013. INR 152 million interim dividend was received from PRCL our company where we have investments and this is also included in the current profit and loss. It was received during the quarter. We paid all our loans, so today we are a debt-free company and this happened in August. We are advised about this in the previous call also that the company would intend to do this and now it is all concluded and the balance sheet is clean of any of these debts. Our net profit, profit after tax there is a 103% increase versus quarter 3, 2013 and versus immediately preceding quarter it is 11%.

Then taking you through to the next slide which talks about our operational highlights the drafts which we have that. We have got in quarter 3 the volumes it is because of the quarter 2 festival **season** and also the backlog which was created at the port because of some ICDs that is Inland Container Depots which are located somewhere in an around New Delhi. We saw a small decrease in volumes in the current quarter under review. Bulk volumes on the other hand versus the previous quarter have done well and I would say these volumes in bulk are depending on the sourcing and the raw material requirement of products and units, so it keeps changing and the quarter 3 has a very good number and result.

In terms of rail volumes, as I said, this was the best ever in terms of container business. We have done total of bulk as well as containers on rail volume total of 2.6 million tons. ICD volumes we talked about it. It is a good increase with a 6% quarter-on-quarter and we are doing more and more double stacks which is very good because this is what we had invested into and now that is giving us good results.

Social infrastructure – We continue to develop at the port. Today, we are embarked on two important social infrastructures as I said initiatives. One of them is the construction of the clubhouse. You can see those pictures. It is developing fast. And then we are developing some residential colonies also. Now, we come to financials and I hand over to Hari to take us through, please.

**Hariharan Iyer:**

Thank you, Prakash, and good afternoon to everybody. Starting with an overview for the quarter. Total operating income at 1701 million in line with the previous best quarter, in fact, this is the best quarter top line revenue so far. Quarter-on-quarter, the volumes on the container business were marginally lower by 4%. Prakash explained that this mainly is the lower exports, while the bulk this month we did close to a million tons which was higher by about 23% than the previous quarter on account of higher coal and fertilizer imports. We also handled 100,000 tons on the new revenue segment that is liquid during the quarter. In comparison with the same quarter previous year the total revenue was increased by 35%. And during this quarter, the company also received dividend income of 152 million from PRCL, so the net results at 895 million is by far the highest and is higher by 11% from the previous quarter and double that of the net result in the same quarter previous year.

Let's take a little closer view on the more specific elements in the income side. The container volumes while it was marginally lower by about 4% compared to the same quarter of the previous year it has grown up by 19% mainly driven by organic growth. We had upsizing of certain vessels and new additions during the period from the last year to the current year. During this quarter, the west coast ports faced severe congestion due to backlog in ICDs in the north India. This resulted in increase in the dwell time of containers at the port and consequently also helped us earned marginally higher revenue on the storage revenue as well.

Increase in coal and fertilizer volumes partly offset by lower agri and minerals during the quarter, but overall we had an increase higher by about 21% compared to the previous quarter and in line with the same quarter previous year. On the other operating income, no significant change. In summary, the total revenue at 1701 million is highest quarterly revenue so far marginally higher than the previous quarter and 35% higher than the same quarter previous year.

Looking at it from the 9-month period, the net sales and income from operations for the 9-month period has grown 33% mainly driven by higher container volumes it was up 25% year-to-date and better realizations. Bulk volumes for the 9-month period is in line with the previous year, but the commodity mix has changed with higher coal and lower minerals during the current year. Looking into the expenditure side, the only thing in this current quarter is that the operating cost or the operating expenses we had additional equipment hire to cater to the backlog that I explained a little while ago on account of congestion in ICDs. Revision in the trailer higher contract we had a trailer higher contract the movement of trucks within the port. That has been revised after three years, so there is some incremental revision on that and increase in the bulk volumes resulted the higher operating expenses during the period. The other cost are more or less in line with the previous quarters. On the margin front, EBITDA at 959 million very marginally lower mainly because of the 99 million one-time upside that we had in the previous quarter. EBITDA at 56% mainly driven by higher cut in volumes. The margin at 56.37 is in line with the previous quarter excluding the favourable write-back of 99 million. For the 9 months, the EBITDA at 2868 million is higher by 65% and the year-to-date margin has improved 25% from the previous 46.5% in the previous year to the current levels of the 8%.

Other income represents interest on fixed deposits and sentry balances and the current quarter includes also 152 million of dividend which we received from PRCL. In summary, the net result is higher by 11% including the dividend income and for the 9-month period up 100% on the back of higher container volumes, better realizations while the total expenditure remaining more or less at the same level on a 9-month period compared to the previous year.

Moving on to the balance sheet. The only significant change is basically the repayment of the debt. The Indian rupee debt has been fully repaid as of August 2014. There are no other significant changes during this quarter. With this, I end my part of the financials. Now, we are opened to questions.

**Operator:**

Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question may press \* and 1 on their touchtone telephone. If you wish to remove yourself from

the question queue, you may press \* and 2. Participants are requested to use handset while asking questions. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Our first question is from the line of Aditya Bharatiya from Esperito Santo. Please go ahead.

**Aditya Bharatiya:** Hi. Good afternoon, sir.

**Prakash Tulsiani:** Good afternoon.

**Aditya Bharatiya:** Sir, my first question is on the capacity expansion front. Just want to check if our capacity expansion plans are getting delayed and the reason why I am asking this is because fixed assets have remained flattish over the last three quarters or so.

**Prakash Tulsiani:** No. The expansion plans are on track and they are proceeding as planned, so there is no delay at all. And the second question of yours was?

**Hariharan Iyer:** I will take that second part of it. You said that fixed assets have not significantly changed. You are right because now it is currently at the planning stage. As soon as we conclude and start placing orders on the project, then you will start seeing this changing.

**Aditya Bharatiya:** Okay. So we should expect the bulk of Capex to be happening next year?

**Hariharan Iyer:** That is correct.

**Aditya Bharatiya:** Okay. And, sir, staff costs have fallen sequentially in this particular quarter. Is there any particular reason for the same?

**Hariharan Iyer:** We had a one-time cost in the previous quarter and that's why that is not there, otherwise, it is more or less in line with the previous quarters.

**Aditya Bharatiya:** Okay. And, sir, any change in tariffs that we have undertaken in the last few months?

**Prakash Tulsiani:** No. There has been no change in tariff. Tariff change last was in August 2013.

**Aditya Bharatiya:** Right. Okay. Thanks a lot, sir.

**Prakash Tulsiani:** Yup.

**Operator:** Thank you. Next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal:** Good evening, sir.

**Prakash Tulsiani:** Good evening.

**Hariharan Iyer:** Good evening.

**Madan Gopal:** Congrats on good set of numbers.

**Prakash Tulsiani:** Thank you very much.

**Madan Gopal:** Sir, first on liquid volume. How many months of operation was that 96,000 tons that you have mentioned?

**Prakash Tulsiani:** It is in the last quarter for three months.

**Madan Gopal:** So for the full three months they were operational, is it, the two of the liquid berths?

**Prakash Tulsiani:** See, two liquid – It's not the two liquid, but the two tank farm owners. So this is we are talking about the tank farms which are owned by two, one is Aegis Logistics and the other one is IMC. They both commenced, but they commenced with few tanks to start with and then they kept on increasing it. So it was I would say July a shop start and then a slow ramp up thereafter.

**Madan Gopal:** So what sort of, I mean, from the current run rate whatever you are seeing in this month should we see a good jump sequentially in Q4?

**Prakash Tulsiani:** See, as and when the third operator also comes in, we expected the third operator to come in sometime next year beginning. And as the current tank farm owners also keep on adding, you know, more and more tanks which they are constructing at the port, then we will see the volumes increasing. So it will take some time before the volumes really grow and on the other hand you will see a continued hopefully improved, you know, as I said, capacity injection and that should bring the volumes up.

**Madan Gopal:** So volume should be better as we move on even in Q4 as well?

**Prakash Tulsiani:** Yes. That's the hope we have, but again this is a new business.

**Madan Gopal:** And realizations here are much lower compared to container or how is it, sir, in terms of per ton?

**Hariharan Iyer:** See, in terms of, you know, it is a little bit too early to really talk about realizations on a per ton basis because the tariffs are varied for the liquid depending upon the kind of the liquid; depending upon the kind of the commodity that is actually coming in. If you see our tariff, the **vessel related charges**, which is one of the key component is anywhere between Rs. 250 a ton to Rs. 550 a ton. Secondly, all the tariffs with respect to the vessels are more or less in line with all the other be it a container or a bulk vessel mainly dependent on size of the vessel and the number of hours stay or the days of stay at the port. So it's a little bit too early to put a number behind the realizations because once the cargo starts flowing in, then we will have a better picture about on a more average basis.

**Madan Gopal:** Well, last question on this. You highlighted there was a congestion in the north terminals, so what is the issue and has it been solved? Is there anything that will constrain us in terms of rail movement because of this?

**Prakash Tulsiani:** See, what has happened today is that the cargo gets into the CFSs in the north region. Now, the CFS capacity in the north region where the railheads finally go and deliver the volumes have not expanded in capacity. So what we have done is we have created more space at the port in the mean time till they get railed out. And till the railing can happen of this cargo, the cargo stays at the port. So, Yes, it is not going to affect us. The only effect we have is that we will have to create some space to keep them.

**Madan Gopal:** Okay. So with this our rail volume has been 72% of the throughput or it would have been much better?

**Prakash Tulsiani:** See, the volumes which are waiting for the rail will get onto the rail.

**Madan Gopal:** Okay. Okay. Thank you, sir. Thanks for taking my question.

**Prakash Tulsiani:** Yes. Thanks.

**Operator:** Thank you. Next question is from the line of Swanand Kelkar from Morgan Stanley. Please go ahead.

**Swanand Kelkar:** Hi, Prakash. Hi, Hari.

**Prakash Tulsiani:** Hi, Swanand.

**Swanand Kelkar:** Congrats on great business performance.

**Prakash Tulsiani:** Thank you very much.

**Swanand Kelkar:** So my question was regarding PRCL, you know, declared a significant dividend this year for you could you give us some sense of what the overall profitability of those subsidiaries maybe the F14 numbers and will you eventually account for it as an associate in your consolidated books since you hold 38%?

**Hariharan Iyer:** The consolidation of this is not in the cards at this point of time, maybe, at the later date we will consider doing that because we need to synchronize. Now, we follow a calendar year, while they follow a financial year. So over a period of time once that thing gets resolved for us and we will see the possibilities of getting it sink, then we will be able to consolidate that and put it in, but not at the moment. That's not in the cards. Therefore, we don't have actually the latest numbers also, the latest numbers as far as PRCL is concerned. But on an overall basis, I could say that, you know, PRCL...

**Prakash Tulsiani:** We are just opening up the figures, so please give us a second.

- Swanand Kelkar:** Sure. No problem.
- Prakash Tulsiani:** Let me actually take you through on the margins. Their margins have remained in line with what the expectations have been. They are a debt-free company today and, of course, there are unaudited numbers that we have in front of us. I think what they are doing is they are performing to increase total income of approximately 21% year-to-date compared to the previous year, so the company is on track and doing well. What happens with them is that if the rail freight by the Indian Railways go up, they also tend to benefit. What we have seen is that profit after tax has grown by 74% for the period April 2012-13 and comparing it to the current April 2013 to March 2014, I mean, that audit period full year.
- Swanand Kelkar:** Profits for FY14 is up 74% for PRCL?
- Prakash Tulsiani:** Yes. That's right. For March 2014, they had a 80-crore profit.
- Swanand Kelkar:** 80 crores profit?
- Prakash Tulsiani:** Yes.
- Swanand Kelkar:** Understood. And broadly to understand their drivers in terms of growth would be similar to you, right, I mean, they **complement** your business? They have a largely fixed cost operation, so you do well broadly they do well?
- Prakash Tulsiani:** Yes. But on the other hand, let us also remember if assuming on this rail track, there is some other business which wants to, you know, transport cargo. Of course, we will welcome it more than anything as long as it doesn't affect the port cargo movements. So, for example, they do 5% of the business from other than the port business.
- Swanand Kelkar:** Right.
- Hariharan Iyer:** But largely to answer your question, Swanand, you are right that this will be driven by the port volumes.
- Swanand Kelkar:** Absolutely. Understood. My second question was more about the balance sheet. Now, that you are a debt-free balance sheet this quarter and congratulations for that. What is the plan next year when you embark on Capex? Will you again incur debt or as per your calculations internal accruals will be sufficient to fund the Capex?
- Hariharan Iyer:** At this point of time, the plan is that we will actually the original plan was to substitute the high cost debt with low cost debt or US dollar debt which is what we have already got a sanction on. And we will for the purposes of our new project embark on drawing up on that particular loan.
- Swanand Kelkar:** And just remind me once what is the ECB limit that you have and what could be cost...?



- Hariharan Iyer:** We have a 60-million dollars ECB approval as far as the project is concerned and pretty much take care of the Capexs over the next two years for the project.
- Swanand Kelkar:** Fantastic. And the other key thing in the result, as Prakash mentioned, was the ramp up in the railway volumes. Can you also share some operating matrix in terms of the number of risk, how many are double stack and basically how much more headroom does this have in terms of rail evacuation from the port?
- Prakash Tulsiani:** Sure. Our rail capacity today is 24 trains in a day and we do approximately 12 that includes bulk and container both. In terms of our business we do approximately 220 trains in a quarter. And out of that, 45% of the trains are double stack. So, you know, the double stack trains are improving. If you see our numbers over a quarter, I would say in the sense of last 4-5 quarters the number of trains we've handled is almost meaning stagnant or same, but the number of trains on double stack is constantly increasing and that's the reason we don't need more trains, but what we need is more double stack.
- Swanand Kelkar:** Absolutely. And just to get a sense, this 45% double stack a year ago would have been how much?
- Prakash Tulsiani:** 17.
- Hariharan Iyer:** 5%
- Swanand Kelkar:** Sorry?
- Prakash Tulsiani:** A year ago was exactly if you take third quarter it was 17, but prior to that was 3% in quarter 2, 2013. Quarter 3, 2013 we were at 17.
- Swanand Kelkar:** Fantastic. Final question from me. The expected capacity increases at Nhava Sheva for containers do you think it will have any affect on your business model?
- Prakash Tulsiani:** Well, the capacity has been increased on the water front, not on the evacuation. So evacuation on the road and rail still continues to remain a challenge at Nhava Sheva and our product or unit selling proposition is the railway, so that remains intact for us. And the rail evacuation is mainly for the north cargo. So any growth in the north cargo has to go via the Gujarat ports.
- Swanand Kelkar:** Understood. And the water front capacity expansion will come up in the next 12 months I think?
- Prakash Tulsiani:** In where?
- Swanand Kelkar:** At Nhava Sheva.
- Prakash Tulsiani:** In Nhava Sheva no, no, no. That will take approximately, in my opinion, almost four years before we can see any capacity expansion there. There is a 330 metre which is being developed and that I suppose will be ready by next year sometime in the first quarter or end of first quarter.

**Swanand Kelkar:** Understood. Thanks a lot, guys. Wish you all the very best.

**Prakash Tulsiani:** Thank you, Swanand. Thank you.

**Operator:** Thank you. Next question is from the line of Salil Desai from Premji Invest. Please go ahead.

**Salil Desai:** Hi, Prakash, Hari.

**Prakash Tulsiani:** Hi, Salil.

**Hariharan Iyer:** Hi, Salil.

**Salil Desai:** Two questions. One is on this liquid the tank farms. Now, you would be collecting rent also from the three users, right?

**Prakash Tulsiani:** Yes.

**Salil Desai:** Now, has that also commenced or that are already commenced in an earlier period and all the volumes are coming now?

**Hariharan Iyer:** That was already there, Salil, existing in the earlier period.

**Salil Desai:** Okay. All right. And second is, you know, two statements in the presentation, one is the exports increase and that you've added two new services, so are these two related in the sense that you've added the services because exports have started picking up or these are two independent events that happens?

**Hariharan Iyer:** I think, Salil, you know, the exports as far as a quarter-on-quarter concern our reference was that exports actually marginally dropped in this quarter as compared to the previous quarter. That we have experienced across all ports in this region. And the second part of your question was that we added new services that were in relation to the comparison from the previous quarter from the same quarter of previous year to the current year. So over the period of time, yes, we have added additional services, we have upsize of services and, of course, we also had organic growth.

**Salil Desai:** Okay. Okay. That's my confusion. Okay. Thanks a lot for clarifying.

**Operator:** Thank you. Next question is from the line of Atul Tiwari from Citigroup. Please go ahead.

**Atul Tiwari:** Good afternoon, sir.

**Prakash Tulsiani:** Hi. Good afternoon.

**Atul Tiwari:** Sir, in your bulk volume of about a million ton is this 100,000 tons of liquid included or is that separate?

- Prakash Tulsiani:** No. It is different. It is excluded. They are separate items.
- Atul Tiwari:** Okay. And any idea about how much of the revenue in this quarter came from liquid if...?
- Hariharan Iyer:** At this point of time we cannot give you a breakup individually for each business segments because that puts us into a commercially, you know, sensitive area.
- Atul Tiwari:** Okay, sir. Okay. No issues at all. And, sir, in remaining six months of the year, I mean, any idea about how much Capex will be doing on our Capex plan in this year in the last quarter?
- Hariharan Iyer:** In the last quarter we expect that about 10 to 15% of our project Capex which is roughly, say, about 30 crores of rupees, 30 to 35 crores of rupees, you can say a maximum of Rs. 50 crores would be there in the last quarter. That's our expectations at this point of time. As soon as the various contracts are finalized, then we would probably have to pay the initial 10 or 20% of the fees. That's our expectations now.
- Atul Tiwari:** Okay. And, sir, my last question, I mean, your margins have obviously been very good and despite, you know, some fall in container volume, so do we expect to see margins going up even further to, say, 60%?
- Hariharan Iyer:** See, traction on margins will continue to happen as we see, you know, better container volumes we will continue to benefit from that and plus as we talked about that in this quarter we started the liquid business hopefully as that ramps up we will also see a positive traction on the margins on account of liquid.
- Atul Tiwari:** Okay, sir. Thank you, sir. Thanks a lot for answering my question and best of luck.
- Prakash Tulsiani:** Thank you.
- Operator:** Thank you. Next question is from the line of Shashi Kiran Rao from Standard Chartered Securities. Please go ahead.
- Shashi Kiran Rao:** Thanks for taking my question, sir. My first question is regarding the PRCL. This the first time you are getting a dividend from or have you got it before?
- Hariharan Iyer:** We got dividend in the last year, but was at one-fourth of what we actually received this time. This is the second time we are receiving the PRCL dividend. Last year we received 3.8 crores. Today, we receive 15.2.
- Shashi Kiran Rao:** Okay. So that is housekeeping question. Second question is regarding the PRCL itself. You mentioned that the earnings have grown 74% in FY15 or FY14 you mentioned?
- Hariharan Iyer:** FY14.
- Shashi Kiran Rao:** Okay. Okay. And any idea how the run rate in the financial year so far has been?

- Hariharan Iyer:** I think it is also, you know, reflective of how we see the container volumes in GPPL. We have had, you know, steady volumes and steady growth in the volumes in GPPL as well, so it will also reflect positively on the PRCL numbers.
- Shashi Kiran Rao:** Okay. My other question is regarding the tariff. You had mentioned about at least couple of quarters back that tariff **increase is** a function of your demand outlook. So your demand seems to be quite good, even the container is terrific, but you have not **increased** the tariff in any form. So my question was what's the competitive scenario in this?
- Prakash Tulsiani:** See, the tariff was rationalized and it was done in the month of August 2013 and that is just a year ago. While other ports in the region that is in the west coast have not touched their tariff for more than three years now. So we have taken in the meanwhile two rate actions, one in 2013 and one year prior to that that is year before year 2012 also. So we will have to see how the market develops and we can take quick action. So depending on how the market develops, we will take appropriate action. Hello? Can you hear us? Hello?
- Operator:** The participant has disconnected, sir. We will take the next question which is from the line of Mr. Janaki Raman from Franklin Templeton. Please go ahead.
- Janaki Raman:** Hello, Prakash. Good afternoon.
- Prakash Tulsiani:** Hi, Janaki. How are you? Good afternoon.
- Janaki Raman:** I am fine. Thank you. Couple of questions. Can you help me understand this cost trends, for example, this first 9 months you had a fairly robust growth in volumes. But if I look at the overall cost, that's up only about 4% year-on-year, so what has helped you achieve this kind of cost control?
- Hariharan Iyer:** Janaki, this is Hariharan here.
- Janaki Raman:** Yes. Hi, Hari.
- Hariharan Iyer:** Hi. See, you will know that almost 70% of our cost as far as the container business is concerned it's pretty much fixed cost. So therefore while we have seen the increase in the revenues and business, this has mainly been driven by container business. Our bulk business has more or less remained flat, number one. Number two, the composition of the bulk commodity-wise has also changed a bit more in terms of coal; we handle more coal than fertilizers. Fertilizers in terms of operating cost is much higher than coal. So there are two factors. One, container business; the volumes increase, so therefore the increase in the cost is more or less not in the same line. We are therefore having the operating leverage on that. And number two, the composition of bulk, which is more in terms of coal rather than fertilizer as we handle, therefore, our overall cost did not increase in the same manner. These were two key elements while we continue to, you know, have very effective cost control measures in the normal course of operations of the business.

- Prakash Tulsiani:** And let me also add that there were certain good contracts we were setting on specifically on the equipment, higher charges and others which also benefits us.
- Hariharan Iyer:** Absolutely. In fact, the revision on the trucking and all that stuff actually happened after over three years and that's the first time that you are actually seeing some increase in the cost in the operating expenses in the current quarter.
- Prakash Tulsiani:** So in the current quarter if you see the operating expenses, you will see that it has gone up by 17%; it is because of the revision of a contract which was signed three years ago and typically we signed these contracts for long-term periods, obviously, then we can lock in our cost element.
- Janaki Raman:** Okay. Okay. Fair enough. And on the tax centre how much more remains unexhausted, unused?
- Hariharan Iyer:** See, we are in the tax holiday scheme until 2017-18. But prior to that, of course, the MAT we have already started paying MAT, but the MAT we will continue to enjoy the MAT credit for a period of time. So I think at least until 2017-18 you will see zero tax in the P&L. There will not be any P&L impact. And thereafter whatever the credits that we will get on the MAT we will continue to enjoy subsequent to that as well. So it will be not until a full tax rate for a period of time.
- Janaki Raman:** Okay. Fair enough. Thank you. Thanks, Hari. Thanks, Prakash.
- Prakash Tulsiani:** Thanks. Thank you.
- Hariharan Iyer:** Yes. Thank you.
- Operator:** Thank you. Next question is from the line of Mr. Nitin Arora from Emkay Global. Please go ahead.
- Nitin Arora:** Sir, just wanted to get a sense on the container realization and bulk realization if you can give us that number?
- Hariharan Iyer:** Container realization is more or less remained at the similar level. During this quarter, of course, we were marginally up because of the additional storage revenue that I briefly discussed to you about, but otherwise we are in the 5500-6000 range. And as far as bulk is concerned, more or less also in the similar level anywhere between, you know, about Rs. 300-350 per ton on a consolidated basis both for fertilizers and coal.
- Nitin Arora:** Sir, as you said, there was an additional storage revenue. Will it be possible to share the number how much would that come up?
- Hariharan Iyer:** I think in this quarter it would be roughly about Rs. 300 at least or something like that in that range.
- Nitin Arora:** On the total volume handled?

- Hariharan Iyer:** On the total volume handled.
- Nitin Arora:** Sir, as you mentioned that there were lower exports, you know, what we witnessed in this quarter what is that pertaining to, any specific commodities because what we hear from the market is that Iran has stopped taking wheat and rice import from India and cotton also not being getting imported from India to China, so is it specific related to these commodities just wanted to get a sense from you?
- Prakash Tulsiani:** The quarter under review did not have any chance for cotton export because cotton export starts now. But your information is correct that cotton exports have not been that robust as it was last year. China already has some stock available and their uptake or their demand is not as strong as the last year. About Iran, you are also right. The rice shipments were not many, however, I think it's the overall export effect which was there in the last quarter where we did not see the demand coming out of China and the western countries. It was not as strong as we had expected.
- Nitin Arora:** So, sir, these two commodities as a percentage of our container volume amounts to how much, I mean, if we can get a sense, I mean?
- Prakash Tulsiani:** Cotton is very seasonal. It starts only post monsoon and it is from the months of October until the month of March that we have. And they add approximately I would say 10 to 12% of our total volumes in this month.
- Nitin Arora:** Okay. Sir, just one more question on that. You know, what we keep on hearing also from market that lot of these plants which are coming up near Sanand for export and, you know, what we hear is that Gujarat Pipavav will set up **Ro-Ro** facility at the port and, you know, might be doing some export volumes for these auto companies. So just want to get a sense on that that we will be doing some stevedoring work for this and, you know, any drawing plan on that of taking these export volumes?
- Prakash Tulsiani:** We are working very closely with these OEMs and also with stevedoring company on the car manufacturer who are located in Sanand and that is work-in-progress. And once we have finalized anything, we will let all the shareholders know.
- Nitin Arora:** That's it from my side.
- Operator:** Thank you. We have the next question which is a followup question from the line of Mr. Shashi Kiran Rao from Standard Chartered Securities. Please go ahead.
- Shashi Kiran Rao:** Sorry, my question dropped off – I got dropped off earlier. So my question regarding your margins in terms of your liquid cargo we will be seeing a significant step up, so I think your margin should have seen a much higher uptake from here, so is the pricing pressure playing up on your margins in some manner, sir?
- Prakash Tulsiani:** Are you referring to the current quarter margins?

- Shashi Kiran Rao:** In this current quarter, yes.
- Prakash Tulsiani:** Yes. Yes. But please, as Hari mentioned, to start with in the previous quarter that is quarter 2 2014 we had one-time gains on the top line and that is why our margins were higher. But if you take that one-time off, then our margins are in line with what we have and slightly improved, in fact.
- Shashi Kiran Rao:** Okay. So with the liquid coming in most significant way in a sense if I could **factor the increase.**
- Prakash Tulsiani:** See, it will improve our margins as we go along. But today liquid volumes are very insignificant and small in number overall basis.
- Shashi Kiran Rao:** Okay. Sir, . As I see in the last four quarters your EBITDA margins have been in the range of 58 odd per cent, so I was thinking that it would be higher at about 60% this year.
- Prakash Tulsiani:** But if you recall the last two quarters, we have actually come out and said we have had one-times gains as we would say on the top line because of certain contracts we had with these carriers and there we gained out of them because of their volumes not reaching the target, so there were these write-backs and that's what got our EBITDA margins up. But you are right. Once we are having good volumes of liquid cargo and container volumes keep growing, yes, certainly the EBITDA margins will go towards the range of 60 and above.
- Shashi Kiran Rao:** And how is your Reefer volume this quarter?
- Prakash Tulsiani:** Reefer volumes have just started and that the season starts post monsoon, so it just started. Reefer volumes have started in this current month.
- Shashi Kiran Rao:** Okay. Great. Thanks a lot.
- Operator:** Thank you. The next question is a followup question from the line of Swanand Kelkar from Morgan Stanley. Please go ahead.
- Swanand Kelkar:** I had a quick question on the bulk volume. So for the past four quarters we are seeing a sequential improvement in the bulk volumes for you guys. How do you reach the sustainability of this and in that context in your revised Capex plan you had reduced the spending for the bulk terminal, are you reassessing that as well?
- Hariharan Iyer:** Swanand, if you look at it on a full year-on-year basis, then our volumes as far as bulk is concerned has remained pretty much flat. It is about 3.2-3.3 million tons in the year 2013 and as we see the current trends, we are more or less in a similar kind of a trend. There are swings between one quarter to the other when you look at it, but that's mainly because, you know, either one or two shipments have come in the previous quarter or one or two have gone over to the other quarter.

**Prakash Tulsiani:** And it also depends on the production pattern of our client. Suppose, power generation sometimes we get coal locally, so they don't get it from overseas and sometimes there is a big rush for overseas coal and similarly it's fertilizer seasons depends on the sourcing of the government. Now, with the dollar exchange rate versus Indian rupee being very stable or in the range the government companies have also come out and started sourcing fertilizer while they had kept it on hold in the first two quarters. So this particular business is unpredictable, let me say that, shifts between quarter and quarter and, maybe, in the previous 2 years quarter 3 and 4 would be one of the best quarters. Certainly in the current year it could be quarter 1 and 2 which could be very good and it has happened with us over the last 3 or 4 years.

Your second question of, you know, whether we will review our Capexes I would say we don't have a clear visibility on the bulk business as yet. As and when we know exactly how these power plants, the fertilizers and the minerals will, you know, or the production or the growth or the GDP of India where it is heading towards, we will go and invest. Right now, our capacity is available and we are able to just reach in and around that, so we are fine with what we have today.

**Swanand Kelkar:** Fantastic. Thanks guys.

**Operator:** Thank you. Next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

**Ashish Shah:** Yes. My questions have been answered actually. Thanks, Prakash. Thanks, Hari.

**Prakash Tulsiani:** **Thank you.**

**Hariharan Iyer:** Thank you.

**Operator:** The next question is from the line of Achal Lohadia from JM financial. Please go ahead.

**Achal Lohadia:** Yes. Congratulations, sir. Just couple of questions, one on the interest cost. You said you've actually repaid 300 crores of loan in August. I was just wondering about 9 crores of interest cost, is it anything to do with any prepayment charges or any insurance cost relating to that?

**Hariharan Iyer:** No. No. You are right, Achal. I mean, the finance cost that you see in September of 92 million includes our, you know, the amortization that we have done on the initial part did fully written-off now.

**Achal Lohadia:** And what was the quantum if you could?

**Hariharan Iyer:** It's about 70 million out of this. So you have only interest for one month. Going forward, you will not have that thing.



**Achal Lohadia:** Understood. Second, on the double stacking almost 45-50% of our volume now is double stack, can you elaborate a little bit, so how does it help? Does it help in terms of the profitability for us or in terms of volumes or how does the double stacking impact us?

**Prakash Tulsiani:** Double stacking is helping us in our efficiency and end product to the client. That gives a lot of confidents to the end customer and the shipping. The question was on the double stack how does it help us. One is that it helps on utilization of the assets. We don't need more trends and with the limited number of rail wagon availability this helps us to evacuate even more. Secondly, it gives a lot of confidents to the end customer and the shipping lines that we have that capability and capacity while other ports are either very marginal or they do not have that, so they know that when the cargo reaches Pipavav, it will get to the destination quicker than many other ports and finally it helps us on our efficiency because then we are evacuating lot more in one go rather than, you know, keeping it stack in various locations.

**Achal Lohadia:** Any monetary impact if you have done any internal calculation in terms of the impact on the profitability?

**Prakash Tulsiani:** No. Actually on the profitability, no, because it definitely pushes more volume towards Pipavav. So that is what then helps us indirectly and that is the reason also we invested in our equipment called RMGC and the special handling yard for double stacks because we have then gone and created, you know, capacity in order to handle this more and more double stack range.

**Achal Lohadia:** Understood. Sir, one more question on the congestion part. You said it's obviously helping us in terms of storage income. Is the congestion continues, do we imagine preponing certain amount of Capex for increasing this storage capacity, the yard capacity?

**Prakash Tulsiani:** Well, we are closely watching this and you are right. If there would be a need, then we'll have to make some more yards. You are right. There will be more yard space, but we are closely watching it because the festive season is just over. We want to see whether this continuous as we go forward.

**Achal Lohadia:** And that is already built in our Capex plan if I understand correctly?

**Prakash Tulsiani:** You are right. The yard is already included in our Capex plan.

**Achal Lohadia:** Just last question. Maybe, a little too naïve to ask. Sir, if I look at the website, I see the vessels schedules. I don't see much of liquid actually or any liquid vessel actually coming in. Is it that liquid vessels are very patchy at this point in time, you know, because I see coal, fertilizer and the containers, but I don't see any liquid vessels actually on the website?

**Prakash Tulsiani:** See liquid cargo typically comes from very close by which is the Middle East region and what happens with this typical commodity is that they have actually multiple ports of, as I say coal, so when they leave Middle East and they are coming into India, they may call at two or three ports. That's why maybe we have not captured it. And on the other hand, they are also calling ports at a very short notice. That could be the other reason.

- Achal Lohadia:** Understood. And just one more in terms of seasonality, is it typically 3<sup>rd</sup> quarter we have slightly weaker volume compared to 2<sup>nd</sup> quarter and 4<sup>th</sup> quarter is typically the best?
- Prakash Tulsiani:** Yes. You are right. Actually the 4<sup>th</sup> and the 1<sup>st</sup> quarter are the very good quarters because of the monsoon season effect that means, A, the Reefer cargo, B, the export of agri commodities starting with cotton.
- Achal Lohadia:** Understood. That's all from my side, sir. Thank you so much.
- Prakash Tulsiani:** Thank you.
- Operator:** Thank you. Next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.
- Rakesh Vyas:** Yes. Hi, Prakash. Hi, Hari.
- Prakash Tulsiani:** Hi, Rakesh.
- Hariharan Iyer:** Hi, Rakesh.
- Rakesh Vyas:** Great set of numbers, sir. Few questions from my side. First, can you elaborate on what is the export-import mix currently at the port and has it changed and what the impact does it normally have?
- Prakash Tulsiani:** See, there is no impact of this change. The only thing is that if there is a congestion in any of the inland container depots which are in the north of India where we have no control because they are controlled either by one of the private operators or they are controlled by some rail operators. That is what may affect the backlog at the port of imports; that is the cargo which is coming into the country. Today, yes, the ratio has gone a bit higher on imports obviously because of the seasonality or the festive season that as we have and that is what has then taken imports higher versus the export which we have and exports on the other hand have not kept pace with the volumes that we had anticipated. So this time, yes, the exports are lower and imports are higher.
- Rakesh Vyas:** Is it possible to quantify, sir, in approximate ratio?
- Prakash Tulsiani:** I would give you an estimate. It could be anywhere in the range of 45-46% for exports and 55% on imports.
- Rakesh Vyas:** Great, sir. Sir, my second question pertains to, say, clarification. The tax rate that we report in P&L post the FY17 or calendar 2017 when we get out of this tax holiday, what would be the tax rate that will get reported in P&L?
- Hariharan Iyer:** I wouldn't know that rate at that point of time assuming that everything remains the same as what the current corporate tax rate is. We will certainly not have the full corporate rate. The reason being is that we will have some credit of the MAT that we would have paid which will

continue for some more years even after 2017. So, maybe, the effective tax rate would be lower than what the full corporate tax rates would be.

**Rakesh Vyas:** Sir, but that MAT credit we are already utilizing currently, right?

**Hariharan Iyer:** Yes. We are utilizing and we will continue to utilize even after that period because there are some carry-forward tax losses also which are there in the books.

**Rakesh Vyas:** Okay. Got your point. And, sir, third, anything that you have heard on TAMP post in new dispensation that has come, any update that you can just provide?

**Prakash Tulsiani:** No, TAMP what we are hearing is that there is only one which has been passed in 2013 and there is no other changes that we have heard of, so the current ports which are operating they are operating in the old model.

**Rakesh Vyas:** Okay. So the earlier thought process about changing or abolishing TAMP, et cetera, all these still are not under discussion anymore?

**Prakash Tulsiani:** That we don't know. I think the government is looking at it or the shipping ministry is looking at it. There is a lot of representation from the existing ports which are in the major ports and there's no finality to it as yet. So I think the discussions are on. It is not that the discussions are completely.

**Rakesh Vyas:** Okay. Even under the new dispensation that is currently going on?

**Prakash Tulsiani:** Yes. Yes. It is still on.

**Rakesh Vyas:** Okay. Great. Good. Thank you so much and best of luck, sir.

**Prakash Tulsiani:** Thank you.

**Operator:** Thank you. Next question is from the line of Inderjeet Singh Bhatia from Macquarie. Please go ahead.

**Inderjeet Singh Bhatia:** Hi, Hari. Hi, Prakash.

**Prakash Tulsiani:** Hi, Inder.

**Inderjeet Singh Bhatia:** Thanks. Thanks for the opportunity. My one question is on PRCL. You talked about 80 crores profitability in FY14 and the dividend that you have booked is around 15 crores, so can you share some point what is the dividend policy of PRCL is concerned? Is it paying out 100% or still retaining some part of that?

**Hariharan Iyer:** See, this is the start as far as PRCL is concerned now. As we speak, it's a debt-free company, so a major part of the surplus cash which is available would largely be distributed by dividend. Our

PRCL also has to look at, you know, if there are any Capexes or other things which are there, this will be an ongoing process.

**Inderjeet Singh Bhatia:** Okay. And this is an...?

**Prakash Tulsiani:** But there is no such dividend policy. I think we are just finding up as I say feed around it because the reason I would is because we are along with the other partners in it which is Indian Railways and other investors. So over a period of time, I think we will formulate something.

**Inderjeet Singh Bhatia:** Okay. Second question is actually on the initial comments you made that there is certainly one-times regarding operating expenses. So is it only related to the increase in the hiring charges that we have or is it really one-time item in the expenses side in this quarter?

**Hariharan Iyer:** Inder, there are two components. One is a result of a revision in the contract, the trailer contract that we have got. And two is indeed some part of it is one-time because we had to hire additional equipments during this particular quarter to cater to the ICD volumes which remained at the port for a longer period of time.

**Inderjeet Singh Bhatia:** Okay. Can you quantify that?

**Hariharan Iyer:** I think roughly about, you know, out of the 17% increase that we talked about, about 7-8% would be a one-time part of it.

**Inderjeet Singh Bhatia:** Okay. So only 10% should be looked as the current increase I would say?

**Hariharan Iyer:** That is correct.

**Inderjeet Singh Bhatia:** Okay. Thanks. And third thing is on the bulk volumes. I think Swanand did ask this question about sequential increase in the last three quarters or so. And other that the customer' requirement is there also some kind of discounts and that we were offering because of the differential trade was that part of or reason for increase in the volumes?

**Prakash Tulsiani:** I think, no, it is a sourcing pattern because our tariffs have not changed. Our way of charging or our efficiency of production numbers have not changed. So it is a sourcing pattern purely.

**Inderjeet Singh Bhatia:** Okay. Okay. Thanks a lot. Best of luck. Happy new year and happy Diwali.

**Prakash Tulsiani:** Yes. Thank you. Same to you.

**Operator:** Thank you. Next question is from the line of Abhijit Vara from Unifi Capital. Please go ahead.

**Abhijit Vara:** Yes. Thanks for taking my question. My question is on the container cargo volumes you are handling as of now. Last year it used to be about 140-160,000 TUs per quarter, now it has moved to 180-200,000 TUs per quarter. Mainly this might be because you gained on two services, but from here on to grow can you give us an idea whether, you know, new services you are looking

at any new services, you know, what can we expect from here on in terms of quarterly run rate, otherwise, my concern is that the container volumes might stagnate?

**Prakash Tulsiani:** Well that search for new clients is always on that is ongoing effort that our commercial team is always embarking on. We should also, you know, look at our capacity. Our capacity today is 850,000 TEUs, so our run rate, as you said, will depend on how the volumes pan out and specifically the organic growth that we have while we continue to look for new clients. So all that is on going and there can be carriers who consolidate, there can be carriers who upsize, so depending on the trade will these volumes take place.

**Abhijit Vara:** Yes. But for the next immediate year CY15, can we expect new services to call at Gujarat Pipavav, some indication public?

**Prakash Tulsiani:** No. I can't say that with any certainty, but I can certainly say that well we are always on a lookout for new clients to add into the portfolio.

**Abhijit Vara:** Right. Thanks, sir. That was my question.

**Prakash Tulsiani:** Thank you.

**Operator:** Thank you. The next question is from the line of Shankar K from Edelweiss. Please go ahead.

**Shankar K:** Good evening, Prakash. Good evening, Hari.

**Prakash Tulsiani:** Good evening, Shankar.

**Shankar K:** Yes. Thanks for taking my question. I just wanted to get the colour on basically on the operating expenses you said 10% is a recurring one. Now, is it something which you incurred for the entire quarter of last year or it happened somewhere in the middle midway or something of that sort for the part of the quarter?

**Hariharan Iyer:** No. It was for the entire quarter.

**Shankar K:** Okay. So that we can assume as some of the amount of the base numbers going forward?

**Hariharan Iyer:** Yes. That's correct.

**Shankar K:** Okay. Secondly on the Capex front, if I look at the balance sheet also, now we normally have a 70 odd crores of recurring Capex that we incur annually and over and above we were expected to incur for the capacity expansion. Now, I noticed in the balance sheet there is increase in long-term loans and advances, I believe this could be advances for Capex, am I right in that?

**Hariharan Iyer:** That is correct.

**Shankar K:** Now, do these advances pertain to the recurring Capex or the capacity expansion Capex?

- Hariharan Iyer:** No. There is nothing incurred on the capacity expansion Capex as of now. We are concluding on all those contracts. These are of the regular Capexes that are ongoing.
- Shankar K:** Okay. And, lastly, can we expect a tariff increase, I'm not asking from a guidance perspective because historically in the last couple of years you have been always doing it on the Independence Day of India, so just wanted to know that are we for a New Year surprise?
- Prakash Tulsiani:** Well, that, as I said earlier, depending on the market it is definitely depending on the demand and supply and it is definitely on how the western ports in our area are doing and what are their steps also they take. End of the day we have to be competitive. So it is continuous evaluation and as in when we do it, we will let you know.
- Shankar K:** Yes. I understand. But is it something that you have completed your discretion just not necessarily in the monsoon period of India that you do or you can do it at any point of the year?
- Prakash Tulsiani:** Yes. You are right. It is at our discretion. We can do it at any point in time. You are absolutely right.
- Shankar K:** And all you are required to give is around 40-45-day notice?
- Prakash Tulsiani:** Exactly. Exactly. Actually it is 30 days notice, but you are right.
- Shankar K:** Okay. That's all from my side and congratulations for **good results**. All the best for the future.
- Prakash Tulsiani:** Thank you.
- Hariharan Iyer:** Thank you.
- Shankar K:** Thanks.
- Operator:** Thank you. The next question is from the line of Kaushik Dhanuka from Dhan Commercial. Please go ahead.
- Kaushik Dhanuka:** Yes. Good evening, sir. Are you expecting Hazira port to be of competition to you?
- Prakash Tulsiani:** Well, Hazira port has already been there for more than 1.5 or almost 2 years now, so, Yes, they are a player in the region. They are our port in the western coast like any other port that we have and we have continued – You can see our numbers. So, yes, they are a competition to us.
- Kaushik Dhanuka:** And, sir, any feedback on the concession agreement you have? Any progress on that front to give you the **extension**?
- Prakash Tulsiani:** Sorry, I didn't get your question clearly. Please, can you repeat?
- Kaushik Dhanuka:** You have that concession agreement till 2028 for the port, right?

**Prakash Tulsiani:** Yes. You are right.

**Kaushik Dhanuka:** So any progress on renewing or extending the agreement if you can share with us?

**Hariharan Iyer:** This is actually an on going dialogue with GMB. As we speak now, we don't have anything specific in writing with the respect to any extension of the concession agreement. But when you look at on the BOOT policies of the Gujarat Government or GMB is concerned, then we are looking at a 30 plus 2050 years of concession. So we are in dialogue with GMB, but we don't have anything concluded at this point of time.

**Kaushik Dhanuka:** You are pretty optimistic based on present policy that you think will be extended for, say, another 20 years or something?

**Hariharan Iyer:** I would not say whether I'm completely optimistic or not, but I think it is moving in the direction that we believe we should be also able to get the concession.

**Prakash Tulsiani:** No, but the point what Hari is making here is our concession ends in 2028, yes, we have made a representation to the GMB and it will take time before it get settled.

**Kaushik Dhanuka:** Okay. Okay. Thank you. Bye, sir.

**Prakash Tulsiani:** Okay. Hello?

**Operator:** Thank you.

**Kaushik Dhanuka:** Yes. That's it from my side. Thank you.

**Operator:** Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Nitin Arora from Emkay Global for closing comments. Over to you.

**Nitin Arora:** Well, once again, on behalf of Emkay, I would once again like to thank you all for joining this call today. Have a great day and thank you Prakash, sir, Hari, sir, for this.

**Prakash Tulsiani:** Thank you, Nitin. Thanks. Bye.

**Hariharan Iyer:** Thank you very much. Bye-bye.

**Operator:** Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.