"Adani Ports and Special Economic Zone Limited Q2 FY-18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Adani Ports H1 FY18 Earnings Conference Call hosted by Morgan Stanley India Company Private 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. In case 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. Girish Achhipalia. Thank you and over to you, sir.

Girish Achhipalia: Hello everyone and good evening and thanks for joining in. Today we are pleased to have the senior management team of the Adani Ports represented by Mr. Karan Adani – CEO & Wholetime Director as well as Mr. B. Ravi – CFO. We also have the IR team Bala and Hitesh. I handover the call to Mr. Karan Adani for his business update and which will be followed by Ravi on the financial side. Over to you, sir.

Karan Adani: Good evening ladies and gentlemen. Thank you for joining us today on this conference call. I am happy to present the operational and financial performance of APSEZ for the first half of FY18. We have also uploaded a detailed presentation on our website for your convenience and emailed it to all of you. First let me brief you on the operational front. APSEZ handled cargo volumes of 87 million metric tons in H1 of FY18 which is a growth of 2.2%. Additionally the ABPO the Australia operation company handled 13 million tons of coal.

Container volumes continue to remain strong. We have once again outperformed all India port's growth while the all India container volumes grew by 12% APSEZ container volumes grew by 19%. Our market share in container volume has increased to 33% compared to 31% in the first half of financial year 2017. Container volumes at Kattupalli grew by 29%, at Mundra by 18% and at Hazira by 17%. We are confident that we will be able to continue this outperformance in the coming years as well. The following new liners were added during H1 of FY18 at Mundra, IMX, AMED, CIMX and MESAVA and at Hazira IMX and AMED.

Other bulk cargo excluding coal grew by 12% of this the major contributors were agri products which grew by 79%, chemicals by 26%, minerals by 20% and edible oil by 6%. Crude volumes were lower by 21%, HMEL which is our key customer with a dedicated facility at Mundra Port was shut down for schedule maintenance for almost 90 days in H1. This resulted in reduced crude volume of almost 2.28 million metric tons. If we had handled HMEL crude volumes similar to H1 of FY17 levels, our cargo volumes would have been 5%. We expect that we will be able to handle around 9 million metric tons of crude for HMEL this year which is a little less than FY17.

However, as HMEL is in the midst of capacity expansion of 2 million metric tons, we should be handling additional volume next year onwards. Dhamra volumes were flat as one of the ports was shut down for expansion for 23 days in Q1 of FY18 accentuated by a mechanization of the existing port in Quarter 2 of FY18 which led to drop of 1.3 million metric tons of cargo volumes. With mechanization now complete Dhamra is handling cargo volumes at four ports, we are confident that the cargo volumes at Dhamra will be higher in H1 FY18 and from next year we expect it to grow by 20% to 25%.

Kattupalli which grew by 28% in fact in August 2017 Kattupalli handled container volumes of more than 43,000 dues per month. We expect 30% to 35% volume growth at Kattupalli in this year. For the last past two months that is October and November we are seeing actually an uptick in the cargo volumes compared to what we have been performing in H1. We are seeing a double-digit growth in our cargo volumes in October and we are seeing a similar trend in November as well.

Now on to the financial performance, Ravi would give you detailed financial numbers but let me give you a quick snapshot. In the first half of current financial year, operating income on year-on-year basis increased by 36% to Rs. 5,451 crores for the same period EBITDA increased by 31% to Rs. 3,493 crores. EBITDA margins increased by 200 basis points to 69% while profit before tax for the first half of financial year 2018 increased by 21% to Rs. 2,470 crores. Profit after tax for the same period was Rs. 1,751 crores thus translating into an EPS of Rs. 8.46 per share. We will continue to focus on reduction of CAPEX debt and ensure higher free cash flows in FY18 and beyond.

Coming to the outlook, our cargo growth is dependent on India's cargo growth. India's trade growth in H1 of FY18 had a few setbacks which we expect to slowly ease and which we have already seeing it. Consequently our performance both in cargo volumes and financials in H2 of FY18 will be better than H1 of FY18. In H2 FY18 we are likely to grow 1.5 times of India's cargo growth and in containers also we will continue to grow by 1.5 times of pan India container growth. We will increase our EBITDA margins to 70% in FY18 against 69% in FY17. As guided for FY18 our CAPEX will be in the range of Rs. 2,500 crores to Rs. 2,800 crores, net debt to EBITDA would continue to be below 3x and strengthening of our balance sheet will continue to be our focus area. I will now hand over to Ravi to take you through financials in detail.

B. Ravi: Thank you Karan. Good evening everyone. As we know this is a quarter as in half year and therefore it is not just the financials but also the balance sheet numbers that we would be putting and we have again strived to be as detailed as possible on the presentation which we have already put up on the website and I will just take you to the highlight numbers because most of the explanation and the calculations is all there which you probably would have already seen. First on the operational point and then I will give you the balance sheet numbers.

The operating revenue I am now talking about only the operating revenue right now, the port's operating revenue has grown in H1 by 5% to over Rs. 3,500 crores and that also has been good in the quarter 2 in spite of a lower the cargo growth in quarter as well as H1. We have in the quarter the port's revenues have grown by 3% to Rs. 1,808 crores the logistics also has seen an upswing and in the half year we have registered a 14% growth to Rs. 406 crores and even in the quarter we have had Rs. 195 crores.

The SEZ part of it I will take you through probably after this discussion, but we have recorded the entire CT4 which we have told you last quarter we have recorded the entire one in the half year but partially it was already completed in Q1 and because there are certain documents which were related to milestones which we had achieved in Q2 and therefore the balance was recorded in Q2. So Q2 grew to Rs. 545 crores on the income side as well as in the H1 it is about Rs. 1,165 crores. If you really go on the way we have always been doing the SEZ then you will have to net off the expenses also which were there in the expense side of Rs. 381 crores.

Therefore if you really want to see how much is the port development profit as such, that is about Rs. 784 crores on the CT4 part of it, and if you recollect we have always been telling that it would be in the vicinity of Rs. 800 crores. This is the one time entire amount has been realized to the tune of that Rs. 800 crores for CT4, apart from this of course there are recurring revenues for CT4 also by way of infrastructure usage charges as well as lease rentals and all that which should be accumulated and added to the already existing similar kind of lease rentals and infrastructure charges of CT3 and various other SEZ units. Now Australia also which is there in H1 of Rs. 206 crores and for the quarter it is Rs. 108 crores, other income is a very small portion of Rs. 93 crores and Rs. 50 crores in Q2.

And therefore total operating revenue grew by 36% to Rs. 5,451 crores and again to say if you net off that aspect of CT4 it grew by 27% to Rs. 5,070 crores. And in the quarter by 25% to Rs. 2,706 crores. The EBITDA has grown by 27% against in the EBITDA margin if you see after FOREX it is 68% that we maintain but the way we normally calculate as we do not take the gains of FOREX as well as the mark-to-market losses therefore if you see purely the operational EBITDA that has grown by 200 basis points it is now 69% as against 67% in the H1 and in Q2 it is 70% as against 67% in the corresponding Q2 last year.

And the port EBITDA margins in the quarter has jumped to 70% and for the half year we have 70% and if you again to draw your attention, we have always said that it is improving by at least 1% every year so it is steadily in the last two years you have seen it come from 67% to 70%. The PBT as a result of all this has grown by 21% to Rs. 2,470 crores and for the quarter 19% to Rs. 1,378 crores. The gross finance cost that is again the right way to look at it has been there mainly because of the opening it by Rs. 624 crores and the PAT there a drop of 8% again because of the full benefit of the entire PAT as Mundra however for MAT purposes it still continues to be only 21%.

Now coming to the balance sheet aspects which I have earlier said. Our free cash flow generation for the half year has been Rs. 690 crores let us say about Rs. 700 crores and this is only going to be increasing because certain parts of the CT4 income which we recorded in FY in this quarter the cash flows relating to that would actually be received by this November because that was their term, so they are giving us the cash in November so that cash flow would be higher by that. Our net debt has dropped by Rs. 737 crores it now stands at Rs. 17,864 crores in spite of the fact that there was an increase in debt because of the FOREX fluctuations of more than Rs. 100 crores. So therefore if you really have to see if that was constant that debt actually has dropped by over Rs. 850 crores or so.

With the result the net debt to EBITDA one of the parameters which we have given our guidance to in the beginning of the year now stands far below that 3x mark we said it now stands at 2.64x.

These are the broad financial highlights as I said the detailed highlights have already been there in the presentation so rather than we keep talking about it, I will leave the question session open and please feel free to ask any question or any clarification. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: But could you also please share the EBITDA that you have earned on the SEZ income in the second quarter and the first half of the year?

B. Ravi: You are talking about EBITDA absolute numbers, right?

Sumit Kishore: Absolute numbers for the SEZ on Rs. 1,241 crores to Rs. 545 crores.

B. Ravi: It is overall number of Rs. 784 crores as I said for the half year and that is on the port development and if you include the SEZ also the other normal income this is Rs. 859 crores for the H1 and for the half year it is Rs. 545 crores.

Sumit Kishore: Okay this is the revenue contribution should we assume that 90% of this or thereabouts flows to the EBITDA?

B. Ravi: No, this is the EBITDA contribution because as I told you the revenue contribution for H1 including the port development of CT4 is actually Rs. 1,165 crores which is included in the revenue portion. So when letting out the expenses of Rs. 381 crores for the CT4 and there is are expenses for the other income because that is full going into the EBITDA, so as far as port development is concerned Rs. 784 crores in H1 and around Rs. 500 crores in Q2 is relating to port development and balance of about Rs. 60 crores, Rs. 70 crores let us say around Rs. 80 crores for H1 as other SEZ income and the same thing for the quarter is about Rs. 45 crores.

Again if you recollect I have been saying that on a regular basis we already have got about Rs. 200 crores to Rs. 300 crores regularly as our port income, on the basic lease rentals and all this is the reflection of that. And plus of course the port development which keeps happening every year to year gives u the visibility of the SEZ and port development put together as a large number anything between Rs. 500 crores to Rs. 800 crores.

Sumit Kishore: Okay and so you basically completed recognizing SEZ income for CT4, but CT3 expansion would still be coming in the balance fiscal?

B. Ravi: That is right. We will need to see how it will be completed in that fiscal itself in terms of the full documentation or not and as and when we are ready with it, and if it is going to come we will be telling you in the next quarters.

Sumit Kishore: Okay my second question is again related to the statement you made on the growth of 1.5 times to India cargo growth, so could you please elaborate on what you see the India cargo growth particularly in relation to coal container and crude and the other bulk cargo?

Karan Adani: Actually if you see, last three years and if you see the pan India growth for the last three years it has been around 4% and I think we continue to see that kind of growth going forward at least on a basis for the next three to four years time. So 4% India cargo growth and container to be around anything between 7% and 10% as container growth for India container growth.

B. Ravi: See I would just like to add along with that see the last three years average that we have been we were watching it ourselves was all India cargo growth was about 4% I am talking about overall growth. And we always have out reaching them and we were double that growth. Right now what Karan said was that probably it will continue to be there but we do believe that as far as the container is concerned, the same 1.5 to maybe even 2 that will be the growth and rest of the cargo will follow the similar pattern which we have being doing in the last three years.

Moderator: Thank you. We have the next question from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Congratulations on generating free cash flow and reducing the debt in the company and making available a very detailed presentation. So that is the first part, the second part is on the CAPEX so how much was the CAPEX in the first half?

B. Ravi: About Rs. 1,100 crores.

Atul Tiwari: About Rs. 1,100 crores and sir you did mention that in October and November you are already seeing double-digit volume growth. So that is the overall growth or only the container growth?

Karan Adani: Overall growth we are seeing a double-digit. Container is much more.

B. Ravi: I would also just add that I said Rs. 1,100 crores of CAPEX but as you know we had said that this is grant which is coming in from Vizhinjam so from a cash flow angle if you really see we again got the grant from Vizhinjam of over Rs. 120 crores so the net CAPEX we have incurred is under Rs. 1,000 crores. That is about Rs. 980 crores.

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

Paras Jain: I just have a question stretching your discussion on FCF. If this similar trend continues and in an event of no obvious acquisition choice how far are we from considering rewarding shareholder whether in the form of hiking dividend or in the form of buyback? And my second question would be more with respect to the volume trajectory that we are talking about. To your point Karan when we talk about your volume forecast growing in the range of 1.5 or perhaps 2 when it comes to container, is it fair to say that if you unwind HMEL drag and Dhamra's loss because of mechanization and shutdown of both in first half you were pretty much running towards that 1.5 to 2 times number already? Thank you.

Karan Adani: Thanks Paras. So to answer your first question on FCF if the similar free cash flow is generated I think we will be looking at coming out with a policy for rewarding shareholders maybe as early as March. Obviously there are few debt positions that we need to unwind, which we are very confident of we will be finishing it off by end of this financial year. In terms of volume trajectory you are completely right that if you take the HMEL and the shutdown at Dhamra we would be very well within that guidance that we just spoke about.

Paras Jain: Okay and maybe one last question if I can touch upon, because in your last earning call you stresses about your plan to expand logistic business in terms of adding ICDs or rakes. How far have we reached in that aspect I mean are we close to identify the location or it is more like FY19 story?

Karan Adani: So we have already finished land acquisition at Bangalore and we have finished land acquisition in Tiroda. So we will be starting construction in both these places by next one or two month's time. In terms of rakes, we are running right now 21 trains and we are going to be placing an order for 15 more trains in next one month's time. So that part of the business is definitely increasing and whatever numbers we have given is built in with these CAPEX in mind.

Moderator: Thank you. We have the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Just one question. Could you just highlight when Vizhinjam is ready what is the kind of volumes that we would expect in say the first couple of years and in terms of trans shipment anything incremental that you have seen or you expect to see say over the next 12 months?

Karan Adani: So in terms of Vizhinjam we expect Vizhinjam to be ready by end of 2020 end of calendar year 2020 and when the terminal will be ready it will have a capacity of 2 million TEUs. We expect in first year itself we would be doing anything between 1.25 to 1.5 million TEUs of volume from first year of operations. In terms of next 12 months as you know that CT3 expansion is almost through the facility is almost ready so once that facility is ready we will expect transshipment volume of MSC to increase a little bit so I think we would see 10% to 11% more than what we have been doing last year.

B. Ravi: So we did about 9% last year as you know we probably we might end the year between 11% to 13% or so.

Moderator: Thank you. We have the next question from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: Sir, just two questions from my side. One is you mentioned that we also had a basically apart from the 23 days shutdown at Dhamra in the last quarter we also had some mechanization because of which the cargo at Dhamra was impacted. So would you be able to please quantify as to how much cargo we would have lost in the last quarter that is Q1 and in this quarter at Dhamra because of these two individual activities?

Karan Adani: The total for full half year we have lost 1.3 million tons at Dhamra because of both the issues.

Vibhor Singhal: And we basically are confident that we would be able to recoup it once we now we have done with it so we should be back to let us say more like 6 million tons of a quarterly run rate?

Karan Adani: So actually if you see in H1 of FY18 we did 10.22 million tons at Dhamra, and with this we should be going up our quarterly run rate should be much higher than what we are doing. I think anything between around 6 million tons to 7 million tons is what we are targeting.

B. Ravi: I would say Vibhor, we might we are looking whether we can fully recover that 1.3 or 1.5 million which we have lost, but surely in the next two quarters in Dhamra now that these things are a thing of the past, it should be recouped. So hopefully we would have recouped the 1.3 we will be having a much better visibility once we finish this quarter. First two months of October and November partially has been quite good.

I am refraining from giving away any specific numbers on this call because as you know we have not yet given it to the market but I can only say this much that the first two months have been far better than let us say September so we do expect that we will be able to recoup most of it in the next half year in Dhamra.

Vibhor Singhal: Sir, just my second question was mainly on the logistics business. So we were basically planning to increase the in fact double the number of ICDs that we currently have. So what is the kind of progress that we are doing and what is the kind of timeline and if there could be some quantifiable basically numbers that we could basically speak regarding those expansion plans of ours in the logistics business?

Karan Adani: So right now as you all know that we have three ICDs. We are in the midst of which are operational which is partly Kishangarh and Kila Raipur. We are now expanding our footprint in Central India and South India and also near in Ahmadabad region we are looking to expand. So by end of this financial year we should have another three ICDs which should be partially completed or fully completed and operational and we are looking to add and we are in the midst of identifying another three locations which we will be completing in next financial year. So I think we are well on target of adding doubling our ICDs every year.

Vibhor Singhal: Okay and sir what could be the CAPEX that we would be looking to do over the next couple of years for this activity?

Karan Adani: These are not a very CAPEX intensive projects each project is running more than Rs. 15 crores to Rs. 20 crores.

Vibhor Singhal: I mean I would probably assume that we have already have some part of the land required for them?

Karan Adani: Yes, we already have some part of the land and we just have to acquire a little bit of it.

B. Ravi: And therefore whether it is the rakes that Karan spoke about or these things we will definitely endeavor to be well within that CAPEX guidance that we spoke about of Rs. 2,800 crores or so. That is our endeavor anyway so to continue to generate the free cash flows.

Moderator: Thank you. We have the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: I will start my question. The first one was Karan, I just wanted to have your thoughts on the thoughts of your demon the upcoming container terminal which is going to come at JNPT and if you would consider it to be of any sort of risk to our existing container business on the West Coast?

Karan Adani: I think the JNPT terminal which is upcoming is actually beneficial for us from Mundra and Hazira point of view. Right now as you all know that Pipavav is handles about 650,000 TEUs of container volume annually and all of that volume is linked with JNPT of APMT, GTI terminal of APMT. So we are in talks with PSA to see how we can collaborate together and help in diverting cargo from Pipavav through using that alliance with PSA. So actually it is going to help us rather than be a threat for us in terms of diversions.

Aditya Mongia: Sorry I could not fully get the answer so how do we benefit out of this?

Karan Adani: So right now as I know it is 650,000 TEUs of Pipavav is all linked with GTI terminal. They are not naturally moving into Pipavav and actually the natural hinterland for that cargo is Mundra. So with the PSA terminal coming up we are aligning both of us together so to see how they can divert cargo from GTI and we can divert cargo from PSA from Pipavav so to give a one solution to the customers.

Aditya Mongia: Okay so if I were to be just clarifying the risk part over here you do not envisage any volume shifting out of Mundra to JNPT because shipping lines may consider going to only one port in the country?

Karan Adani: Yes, that is right.

Aditya Mongia: The second part is more on the logistics part and I understand that there was a fairly good offering on the West Coast for you to be investing in SEZ terminals. And then when you are talking about let us say investments in Bangalore and in South India I just wanted to get a sense of how are we positioning our logistics offering when we are competing with other players in that region?

Karan Adani: So actually if you see all the real cargo which is moving into Chennai is all Bangalore based cargos. So now with our Kattupalli port and Ennore terminal ready and railway line at Ennore terminal being there we are looking to give that same offering through our Adani Logistics of giving one stop solution to all the shipping lines from Ennore port into Bangalore. So that will actually give us an added benefit because in Bangalore the other competitor is only CONCOR. So actually that will help us in giving from a shipping line of point of view it is a one stop solution.

Aditya Mongia: Sure so again to clarify what we are trying to say is that even though the SEZ part is not with you at Kattupalli just a port offering by itself can be considered to be as a competitive advantage when we are trying to kind of marry the logistics offering in southern part of the country?

Karan Adani: Yes, that is right. And that will help in diverting more cargo into Kattupalli and Ennore because right now the rail bound cargo is still at Chennai. So once we start this offering that will actually help in diverting cargo into Kattupalli and Ennore much faster from Chennai.

Aditya Mongia: The last question if I may, I just wanted some clarity on the operating performance at Mundra, and the reason why I asked this question for the second quarter is that if I broadly take away whatever was the SEZ income and I think it is ultimately been booked at almost 80%, 90% EBITDA margin it appears as if the realization in Mundra have gone down in this quarter significantly and to me the way you are suggesting transshipment has not had a major role to play over here. So just thought I would clarify with you?

B. Ravi: No, I would say that in spite of that the cargo volumes have grown by 4% actually the revenue at Mundra continues to grow higher than that as we said about 6% or so. EBITDA at Mundra has been including margins and the numbers have been and has also grown in similar nature as the revenue. So even if you do knock off that you are talking about Q2 or you are talking about H1 also?

Aditya Mongia: No, I am just talking about Q2 and obviously the EBITDA number for Mundra?

B. Ravi: Let me give you the numbers of Q2. The Q2 the EBITDA is about Rs. 1,200 crores, right. Of that if you knock off the SEZ EBITDA as such is about let us say Rs. 500 crores which I just mentioned to you, you still have about Rs. 700 crores of EBITDA relating to the ports. So if you really talk about the same way correspond to that, that would be a 5% to 6% growth on a corresponding period the previous year or two. So Mundra actually has started to contribute to not just the top line not just to the cargo volumes but also to the profitability and the profitable margins the EBITDA margins that specifically have been extremely high. That has been really going up in a very steady manner.

Moderator: Thank you. The next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: First question is on the Kattupalli acquisition if you could just update on the status of that?

Karan Adani: So Kattupalli acquisition the MTSE order is through and now just the Tamil Nadu Government processes that of transferring shares to the demerged entity which we should be getting we have all the clearance should be thereby end up this calendar year. So we expect the transaction to finish maximum by January.

Ashish Shah: Right so sir secondly we have had certain new agreements with Dahej with RIL for Dahej and with SAIL at Dhamra. So have the volumes here you know started to come in a material way or you could give some indication on what these volumes were?

Karan Adani: So SAIL we have signed an agreement of 7 million tons in the course of next year. This year itself they will be doing more than what they are contractually obligated to do. And Reliance Industry we are seeing an uptick of poor volumes compared to last year but I think it is in the true essence the full entity volumes to come through I think it will take one more year till they stabilize their equipments.

Ashish Shah: Right so when you are guiding for a certain build up in volumes in Dhamra for the second half it includes the ramp up from SAIL?

Karan Adani: Yes, it does.

Ashish Shah: Right. Sir lastly, if you could give some number on the crude volume that we have handled in Q2 or the first half I know we mentioned that we lost a certain amount of volume but in absolute volume will help sir?

Karan Adani: So in Quarter 2 of FY18 we handled 4.7 million tons of crude.

Moderator: Thank you. We have the next question from the line of Salil Desai from Premji Invest. Please go ahead.

Salil Desai: Just a couple of bookkeeping questions. Sir, you mentioned gross debt has increased slightly in the quarter yet on a sequential basis. Sir, in that case interest costs have reduced sequentially. So how should one read this number or is there any component in interest cost which is reducing the total expense?

B. Ravi: Gross debt actually has gone down by Rs. 111 crores because of the if you consider as I have said about the FOREX loss of over Rs. 100 crores so therefore if you add that FOREX mark-to-market only then we are seeing almost a flattish one in terms of March to September, the numbers. Therefore sequentially it is actually come down by Rs. 111 crores. Also the refinancing which we did through the bonds in June also led to certain better interest cost, lowering of interest cost and certain amounts which we have refinanced.

So the impact of both these things and some of the impact which was there in March only for a period because there were some refinancing done even from the bonds which we took in January of 2017 which we have refinanced by the end of the month that was there from in that quarter for only a period now this is reflective of the year. So a combination of all these things will lead to a lower interest cost and as I said except for FOREX even the gross debt has actually come down in terms of the repayments.

Salil Desai: Sir, second question is the revenue numbers that you have given for each of the SPVs or the ports separately now if I add all of them up and see the difference that is there from the console number, for Q2 of this year we have a substantial Rs. 340 odd crores revenue which coming from the SPVs or the subsidiaries which are not either Mundra or Dhamra, Dahej, Hazira logistics and so on. This number used to be pretty small sub Rs. 50 crores, Rs. 60 crores in the past. So is there any material subsidiary add this year or has the marine stuff that you wanted to has that comes separately or anything?

B. Ravi: We have not outlined Kattupalli in this. If you see there is only four major, so if you just add Kattupalli that probably will explain the entire say at one go.

Salil Desai: Sir, but the Kattupalli accounting is now means how are we doing that exactly, does that come as service income not here or because the transaction is not completed is what I?

B. Ravi: But we have been doing that entire operations of Kattupalli from November 2015 itself. So the entire revenue is booked by us because we build that customer and we have paid out let us say last November we paid out to L&T whatever was required that Rs. 1,450 crores and before that we used to give some sort of a monthly charges to them and take the entire EBITDA and revenue to our books. Now in fact except for the shareholding transfer which has not happened and the full amount has not been paid effectively it is a 100% subsidiary of us from an operational front. So the entire revenue and EBITDA does get added to our top line and bottom line.

Salil Desai: Okay so may be under our subsidiary you are handling rather you are accruing the full revenues of Kattupalli right now irrespective of the fact that the shareholding has not yet been transferred?

B. Ravi: That is right. This was the arrangement right from day one. For some time we paid some charges, after that we stopped that charges also. So this is are only included in our overall numbers as a 100% subsidiary.

Moderator: Thank you. We have the next question from the line of Kushan Parikh from Emkay Global. Please go ahead.

Kushan Parikh: I just have a bookkeeping question. So basically we give out like a segregation of our income including port income on a quarterly basis on the PPP. So just wanted to understand basically I see some differences between the annual port income that we report in our quarterly presentations as against what is segregated as income from port operations in our annual report.

So if I just could give you an example for FY17 our Q4 FY17 presentation states ports' income to be around Rs. 7,028 crores as against our annual report income from port operations to be about Rs. 7,409 crores. So just wanted to understand what is it additional that we are recording as income from port operations when it comes to our annual report accounting?

B. Ravi: Yes, can I suggest one thing because this probably we will need me to explain to you by referring to more than one schedule in the annual report versus the way we present it on a quarterly basis. So I would prefer this to take it offline so that I can give as much time as you would like to not I will be able to explain. I can only assure you in this call that both these things numbers are absolutely correct in its own manner.

Probably there could be a classification which would have been done as per the requirements of accounting stands differently but we try to portray it as our business segment as far as their calls are concerned. Accounting might happen may be slightly in a different manner. So I can take you through that let me understand the question separately offline and I will give you a line-to-line reconciliation.

Moderator: Thank you. We have the next question from the line of Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: My first question is on the margins. You have talked about port margins expanding further. Any particular port which will contribute to this margin expansion and beyond FY18 do you think that there is more room for margins to expand?

B. Ravi: All the three large ports at Hazira, Mundra and Dhamra all of them are actually adding to the EBITDA margin. Now as in more and more of 100% mechanized handling happens in Dhamra there the EBITDA margins will be much higher from where it is. Hazira as you know always has been a 70% to 74% EBITDA margin. The composition of that growth of that being a larger portion let us say of the entire growth.

That will add to it and Mundra which is now back from the flattish growth to 4% growth which we already have registered there, there is no additional overheads as such in whatsoever manner and therefore the cost there being spread over a larger period the EBITDA margins will increase there too. These three put together is about 80% of our entire EBITDA margins and all. And if these three increasing it will automatically lead to 100 basis for an increase in EBITDA margins. I hope I was able to answer?

Inderjeet Singh: And any room for it to kind of go further from thereof?

B. Ravi: I think the way we are growing more and more of these mechanization as well as container being the larger portion and it is 41% I think we may be able to go up to 72% to 74% in the next three years.

Inderjeet Singh: Just one clarification on this volume guidance. Is it 1.5x to 2x of the overall volume growth which is roughly around 4% or container which is at 7%, 9% that will grow at 1.5x to 2x and other volumes growing at say 1.5x of 4%?

Karan Adani: I think the guidance is that overall APSEZ volume will grow at 1.5x of pan India volume growth. And container we see anything between 1.5x to 2x anything between that.

Moderator: Thank you. We have the next question from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Just wanted to understand how is the take or pay ramping up for Reliance Industries and whether we are receiving I mean in case volumes are not full whether we are receiving money that is getting recorded in revenues?

Karan Adani: This ramp up in terms of let me answer your second question. We are getting the if there is a shortfall we are getting the full entity commitment and the take or pay in terms of revenue. So that reconciliation happens at the end of the financial year and that we have booked last financial year as well both at Hazira and Dahej. So far they look like they will still be short by 10% to 15% in their volumes compared to entity.

Aditya Bhartia: And sir, entity is 2 million tons at both the ports?

B. Ravi: 1.8 million tons, 1.8 million tons so they are at 2 million ton. Actually it is 3.64 million tons two put together.

Aditya Bhartia: And given that we are seeing may be 15% short these ports I mean Reliance would still be contributing anywhere between 1.5 million tons, 1.6 million tons already to volumes, is that understanding correct?

Karan Adani: Yes, that is correct.

B. Ravi: And that is on a full year basis. So right now we were in the half year and it is only started this quarter onwards. So accordingly probably the whole thing might not dip the amount to as far as margin is concerned. One quarter went away without that as I explained to you last quarter itself.

Aditya Bhartia: And sir, Dhamra and HMEL shutdown that we spoken that may be pertain to first quarter, right?

B. Ravi: It was partially for Dhamra it was there also in the second quarter because the mechanization was going on in the second quarter. So therefore it was at HMEL it took off only towards the later part of the second quarter so effective there was a spillover effect on this. Now that is the reason why we have been able to make up quite a bit of it by September and as we speak we are recovering in HMEL month-on-month going closer towards their last year mark itself without a complete loss by the end of the year. So I think both these things were there in Q2 in more pronounced way and Q1 in a pronounced way and Q2 also continuing for some time.

Aditya Bhartia: And lastly, for HMEL you spoke about 2 million tons expansion happening. By when should we start seeing those volumes benefitting us?

Karan Adani: From next financial year itself.

Moderator: Thank you. We have the next question from the line of Nitin Arora from Aviva Life. Please go ahead.

Nitin Arora: Ravi, as you explained there has always been a recurring port income which you always account for. If I exclude that which we anyway which is forecasted on a recurring basis, the two SEZ income which came in the Q1 and the Q2 if I have to look at their contribution of this Rs. 1,240 crores income to the EBITDA, is there a sacrosanct number I can get?

B. Ravi: Yes, the EBITDA is about Rs. 800 crores both these things put together that is the contribution of SEZ. This port development of City Port and revenue is about Rs. 1,164 crores that is let us say Rs. 1,200 crores just to be on the rounding side.

Nitin Arora: Absolutely on a Rs. 3,430 crores EBITDA which we did in the first half at least 20% has been contributed by these two incomes, right?

B. Ravi: Yes.

Nitin Arora: How should be look at, I do not want a second half guidance but how should we look at let us say over the next two years this should be driven by other 20% as a percentage?

B. Ravi: Probably not exactly 20% as a percentage because on an yearly basis what we should look at more rather than on a quarter-on-quarter basis as far as these incomes are concerned. Having said that I can give you a definite guidance about what are all is still left to be taken as a part of this port development or SEZ. For example CTC extension is entirely left to be taken and that will happen in the next half year or quarter thereafter also probably.

Second one which is left entirely is the LPG which we are developing at Mundra that is entirely left. I am not giving any specific numbers because all that will come in as is unfold and LNG part of it which is there for JSPC that amount we have only booked only Rs. 200 crores that large portion of that is entirely left. So you still have three large ones which are put up which are yet to be accounted for as far as Mundra is concerned.

On the east coast as you are aware we are developing Thane LNG. So there again there is a similar kind of an arrangement that we have though it is not SEZ but it is a similar arrangement as you know we have done an MOU with GAIL and IOCL. So that also is likely to come in let us say next two to three years. So if you really see large portions of each one of them is likely to come in the half year, next one year or two years and therefore we had been always telling you that anything between Rs. 500 crores to Rs. 800 crores on a recurring basis now seems to be a certainty. As Karan has added it is next three to four years as such.

Nitin Arora: Now when we look at the shutdown part I am sorry someone asked it but just wanted to clarify. The HMEL you already lost out the 2 million tons in the first quarter. What you lost out is the additional just 0.28 million tons in the Q2. And Dhamra I think you should not lost more than 0.3 million tons in the Q2, correct me if I am wrong?

Karan Adani: In quarter 2 I think it was more than 0.33 million tons which we have lost out in Dhamra and about a 0.5 million tons is what we lost at Dhamra and in HMEL we lost around 0.5 million tons.

B. Ravi: That is around 0.25 million tons to 0.5 million tons. This analysis is quite there actually. It is not exact numbers but quite correct.

Nitin Arora: Just two more questions. One Karan, the agreement which we did with SAIL is it on a take or pay as of now or is it like if I am signing an agreement of a 7 million tons generally what our industry runs is like 60% on a contracted basis on a take or pay. If you can explain that?

Karan Adani: No, this is a take or pay contract 7 million tons over the course of three years' time. So as long as aggregate for the course of next three years they handle 7 million tons. So it is a take or pay that means like a take or pay there is no room for a percentage or in that what way what you have just mentioned.

Nitin Arora: And lastly, on the market which you have guided in the October we are seeing a double digit growth. We saw first time Hazira clocking a 51,000 TEU number. So I just wanted to understand from you is it largely to do with the containers because your CT3 has been doing great, your Kattupalli is reaching a run rate of what we have been doing in the monthly and Hazira has topped up a new run rate here. So the double digit is somewhat we are guiding only for the containers part, right I mean coal cannot be in the double digit?

Karan Adani: So coal we are not seeing double digit growth but we are seeing a single digit growth in coal. We are actually seeing an uptake in crude in the last two months. The container obviously will continue to grow to a similar target as we are seeing. Other commodities which are increasing is fertilizer and agri which is also contributing.

Nitin Arora: Just one question if I can press in. Is it possible to quantify the Adani Logistics' CAPEX in these Rs. 2,500 crores to Rs. 2,800 crores number?

B. Ravi: Yes, it would be in the vicinity of about Rs. 150 crores. May be around Rs. 125 crores to Rs. 150 crores, a few Rs. 10 crores, Rs. 20 crores here or there.

Nitin Arora: So that includes the new trains which you have bid out or you have tendered out?

B. Ravi: Yes.

Karan Adani: It includes everything, new trains, new ICD everything and existing ICD and expansion and all that.

Moderator: Thank you. We have the follow up question from the line of Paras Jain from HSBC. Please go ahead.

Paras Jain: No, my question has been answered. Thanks a lot.

Moderator: Thank you. We have the next question from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: In Kattupalli sir, would you be in a position now to give the total amount for the acquisition?

Karan Adani: No, we cannot give.

B. Ravi: We have worked now it is just a matter of month-and-a-half when we finish the transaction we will announce that we have completed it. May be at that time we can give out the numbers. But I can only tell you that it is close to that number we have already mentioned Rs. 1,800 crores to Rs. 2,000 crores it is very close to that number. No variation, no change in data.

Ashish Shah: Same ballpark?

B. Ravi: Yes, that remains.

Ashish Shah: Just coming back on sale take or pay so the way it works is that if I mean there is no quarterly run rate or a monthly run rate to that volume. So the assessment of whether they paid they handled the 7 million tons or not happens after three years and any revenue accounting that you want to do on account of a shortfall will happen at the fag end of the contract. Is it that or there is an accrual basis to it?

Karan Adani: You are right it happens at the end of three years so it can very much be that one year they can do 1 million tons and they can catch up on all of that in the second year.

Ashish Shah: And at the end of three years if they have not done 7 million tons then you will get a one lumpsum compensation for the volume not done?

Karan Adani: Yes, but the way right now the way it looks is that they will maintain a uniform run rate for the next years' time because it is backed with their key plants.

Ashish Shah: Sir, you mentioned about the SEZ the potential waterfront development incomes on an aggregate could you give some number that all of these which are yet to be booked how much would they total as an aggregate?

B. Ravi: It could be I am not including Dhamra in this but other than that I think it will be close to about Rs. 2,400 crores.

Ashish Shah: Yet to be booked?

B. Ravi: Yes.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Girish Achhipalia for closing comments. Thank you and over to you, sir.

Girish Achhipalia: Thank you everyone. Just wanted to thank the management team for taking out time and Karan, if you would like to make any closing remarks, please?

Karan Adani: Thank you everybody and look forward to your feedback if there is any. And look forward to the quarter 3 conference call.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Morgan Stanley, that concludes this conference. Thank you for joining us and you may now disconnect your lines.