"Adani Ports and Special Economic Zone Limited

Q2 FY '23 Earnings Conference Call"

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MANAGEMENT:	**MR. KARAN ADANI – CHIEF EXECUTIVE OFFICER & WHOLE-TIME DIRECTOR –ADANI PORTS AND SPECIAL ECONOMIC ZONE LIMITED** **MR. SUBRATA TRIPATHY – CHIEF EXECUTIVE OFFICER - THE PORTS BUSINESS – ADANI PORTS AND SPECIAL ECONOMIC ZONE LIMITED** **MR. VIKRAM JAISINGHANI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - ADANI LOGISTICS – ADANI PORTS AND SPECIAL ECONOMIC ZONE LIMITED** **MR. D. MUTHUKUMARAN – CHIEF FINANCIAL OFFICER – ADANI PORTS AND SPECIAL ECONOMIC ZONE LIMITED** **MR. CHARANJIT SINGH – HEAD OF INVESTOR RELATIONS & ESG – ADANI PORTS AND SPECIAL ECONOMIC ZONE LIMITED**
MODERATOR:	**MR. ASHISH SHAH – CENTRUM BROKING LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '23 and H1 FY '23 Earnings Conference Call of Adani Ports and SEZ Limited hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference call is being recorded. I now hand the conference over to Mr. Ashish Shah from Centrum Broking Limited. Thank you, and over to you.

Ashish Shah: Yes. Thank you, Yashashri for the introduction. On behalf of Centrum Broking Limited, I welcome everybody to the Adani Ports and SEZ Q2 and H1 FY '23 Earnings Conference Call. We have from the company management, Mr. Karan Adani, who is the CEO and Whole-Time Director of Adani Ports and SEZ, Mr. Subrat Tripathy, he's the CEO of Ports Business; Mr. Vikram Jaisinghani, MD and CEO of Adani Logistics, Mr. D. Muthukumaran, of CFO, APSEZ; and Mr. Charanjit Singh, Head of Investor Relations and ESG APSEZ.

Over to you, sir, for the opening remarks. And after that, we can have the Q&A.

Karan Adani: Thank you, Ashish. Good evening, everybody. Welcome to the H1 FY '23 conference call to discuss the operational and financial performance of Adani Ports and SEZ Limited. You will be pleased to know that despite the economic headwinds globally, APSEZ has delivered its strongest half yearly performance in the company's history, wherein we recorded our highest ever cargo volume, revenue and EBITDA.

Talking about our cargo volumes, APSEZ handles record 177.5 million metric tons of total cargo in the first half of the year, which is an 17% jump over the preceding six months that is H2 of FY '22. And on a year-on-year basis, the increase is 11%. The average monthly run-rate of April to September 2022 is well aligned to our full year volume guidance of 350 million to 360 million metric tons. APSEZ crossed the 200 million metric tonne of cargo throughput milestone in the initial 212 days of the financial year, which is another record for the company.

On the revenue front, we clocked the highest ever half yearly revenue of INR 10,317 crores, which is a 16% growth year-on-year. This revenue growth is not only supported by the volume increase, but also the improved realization given the renegotiation of contracts at the start of the financial year. We recorded the highest ever half yearly EBITDA of INR 6,551 crores, which is a good 21% jump over the corresponding period last year.

Our logistics business recorded a year-on-year jump of 470 basis points in EBITDA margin to reach 29%. To grow cargo volumes at the port, we are trying our targeted capacity addition based on the market requirements at our existing ports. In August, APSEZ commissioned a 6 lakh TEU container terminal facility at Gangavaram port, which will bring in a new cargo type at this port. We have also added assets across our logistics business, including 2 MMLPs, 3 agri logistics sites with a capacity of 0.1 million metric tons, 6 trains and 900 trucks for providing the last mile connectivity.

The MMLPs inducted into business include one at Taloja in Mumbai and the other one in at Vapi. The ICD Tumb at Vapi, acquired from Navkar Logistics, Navkar Corporation, is one of the largest ICDs of India with a capacity of 0.5 million metric tons. It has been integrated with Adani Logistics on first October.

In the last two quarters, APSEZ has been successful with various bids. We have signed a concession agreement from mechanization of around 5 million metric tonne worth at Haldia port in West Bengal, which takes our port footprint in India to 13. We have also received an LOI for a greenfield development at Tajpur port in West Bengal, which we expect to commission in the next five years.

On the logistics side, we have received LOA from Food Corporation of India to build silos across four locations in UP and Bihar with a total capacity of 0.35 million metric tons, which will take our total agri silo capacity to 1.53 million metric tons, and we have also been shortlisted as the H1 bidder for the Loni ICD in UP from CWC. With that, we -- our MMLP portfolio in India will reach to a total count of 10.

I'm pleased to note that the Honorable Supreme Court of India through an order on 5th September 2022, restore APSEZ's right to participate in the bidding of major ports, thereby putting to the rest the wrong decision of certain port authorities on disqualifying APSEZ from the bidding process of major ports.

In the last six months, we have carried out three large strategic acquisitions, two are now 100% concluded, which is Ocean Sparkle and Gangavaram Port. Ocean Sparkle is India's leading third-party marine service provider with over 60% market share. And Gangavaram Port is India's third largest private sector port, wherein we have acquired the remaining 58.1% stake from the promoters post the NCLT approval in October.

The third transaction, which is scheduled for completion within the next few weeks is the Haifa Port company in Israel. With all, in our organic and inorganic investment progressing well, our credit profile continues to be strong with net debt-to-EBITDA ratio at 3, which is well within our guided range.

In May 2022, I've announced about APSEZ signing a binding purchase share purchase agreement for the sale of Myanmar assets. The decision to divest was taken by the APSEZ Board in October 2021, which was communicated to all key stakeholders. In our May communication, we have highlighted that the asset sales will be concluded after the achievements of condition precedent that are incorporated in the SPA. Given the progress on the CPs, I'm expecting the divestment process to conclude in the coming few weeks.

Let me now invite Subrat, Vikram, Muthu and Charanjit for some more color on the operational ESG and financial performance. Over to you, Subrat.

Subrat Tripathy: Thank you, Karan Bhai. Good evening, and hello, everyone, on the call. Let me now give you an overview of the performance at the ports vertical. Talking about cargo volumes, APSEZ clocked record volumes of 177.5 million metric tons in H1 of FY '23. This volume growth has been contributed by most ports particularly Mundra, Krishnapatnam, Dahej and Kattupalli. Our flagship port Mundra has reflected an 8% year-on-year growth in cargo volumes.

The Port has already touched 94 million metric tons of cargo volumes. The port contributed about 46% of the total cargo share of APSEZ during H1. From the perspective of East Coast and West Coast parity, the cargo volume share remains unchanged at 61% for ports from the West Coast and 39% for our ports on the eastern coastline of India. This year-on-year cargo volume growth on the East Coast was higher at 13% versus 10% on the East Coast.

Looking at the cargo basket of H1, the dry cargo share is about 54%, containers contribute about 36% of the total volume and liquids, including crude, gas, is about 10%. Crude, gas is about 7.5% of the total volumes. Talking about containers, APSEZ handled about 63 million metric tons of container cargo during the first half. The volumes grew by 5% year-on-year. Mundra continues to be India's largest container handling port with about 3.3 million metric crews in H1 of FY '23 versus 2.6 million metric crews by JNPT, therefore, consolidating itself as the gateway port as far as exports of India are concerned, EXIM Cargo of India is concerned.

Our flagship port now handles 1/3rd of the country's total container cargo volumes. We believe that our focus on improving railway connectivity at Mundra, single-window service to the shipping lines, integrated supply chain solutions to end customers and a partnership model with large shipping lines through JV's approach is helping us to drive this volume growth at Mundra.

Talking about the dry cargo segment, the total cargo handled in the first half is about 97 million metric tons, which is a jump of 18% year-on-year. Within this segment, coal grew by 28% year-on-year, and agri products had a phenomenal growth of about 273% year-on-year.

Moving to liquid cargo. APSEZ had handled liquid cargo 17.5 million metric tons, which is about almost flat on a year-on-year basis. In the last two months to three months, we have signed several contracts for different cargo types. These include five new container services at Mundra and Hazira with a total cargo potential of about 2 lakhs TEUs per annum and four large bulk contracts at Gangavaram and Dhamra ports with a cargo potential of about 10 million metric tons per annum. We are also looking to get an additional coal volume of about 3 million to 3.5 million metric tons at the Krishnapatnam port, given the start and commissioning of the new 800-megawatt power unit at Nellore by APPDCL.

I would now thank you, and hand over to Vikram to update you on the logistics vertical. Over to you, Vikram.

Sagar Parekh: Thank you, Subrat. Good evening to everyone on the call. Let me give you an overview of the performance at the logistics vertical. Adani Logistics witnessed a 24% year-on-year growth in rail volume to 2 lakh 22,944 TEUs at a 43% year-on-year growth in terminal volume to 19,039 TEUs. This has been achieved with the ramp-up of operations at Kila-Raipur Logistics Park, the commissioning of Nagpur Multimodal Logistics Park at the start of the year, and the commissioning of Taloja Multimodal Logistics Park during Q1 this year.

With the acquisition of Tumb MMLP, the total count of operational MMLPs has increased to nine. Furthermore, the logistics parks at Virochannagar and Panipat are currently under development. GPWIS vertical continued its growth trajectory with cargo volume being doubled to 6.27 million metric tons on Y-o-Y basis. And with new circuits added from mines to power plants to integrated steel plants, the bulk cargo transportation is gaining momentum. That has enabled us to more than double the cargo versus the corresponding period last year.

In H1 FY '23, Adani Logistics handled 6.27 million metric tons against 3.28 million metric tons in H1 FY '22. We added six new rigs during first half, and with that, we now have 29 GPWIS rigs in our stable. Besides, orders have been placed for a total of 62 new trains under the GPWIS framework, which will be delivered over the course of the next one year.

Coming to Adani Agri Logistics, besides the three agri storage terminals with a total capacity of 0.15 million metric tons commissioned during H1, two more terminals, one at Darbhanga and another one at Samastipur are now under construction with commissioning likely in the next financial year. Additionally, Letter of Intent received from FCI for four silos with a total capacity of 0.35 million metric tons, which will take the total silo capacity to 1.53 billion metric tons.

In our warehousing business segment, we continued our journey to emerge as a leading player in grade A warehousing with focus on the commencement of new projects, including strategic acquisitions of warehousing assets. During H1 FY '23, another 0.6 million square feet of incremental capacity was commissioned, thereby taking the total operational warehousing capacity to 1.4 million square feet. Construction has been initiated on 10 million square feet of warehousing capacity across six different locations in Mundra, Nagpur, Moraiya in Ahmedabad, Ranoli in Baroda, NRC in Mumbai and Palwal in NRC.

We continue to work in line with our vision to become an end-to-end integrated logistics service provider in India, by creating logistics infrastructure, including multi-model logistics parks, warehouses, grain silos and complete rail solutions for container, liquid, grain, bulk and auto cargo.

I will now hand over to Charanjit to update you on the ESG performance of APSEZ. Over to you, Charanjit.

Charanjit Singh: Thank you, Vikram, and a very good evening to everyone on the call. Let me start with our first focus area of carbon neutrality. Here, we have three action points. First is about the electrification of equipment. By the end of this year, we are likely to complete electrification of most of the cranes. For a few other equipment's, we are already doing pilots for finding commercially viable low-carbon solutions.

Our second action point is of sourcing renewable electricity. APSEZ has now decided for 350 megawatts of captive renewables capacity and the work on the project has already started. Third action point is on Mangrove forestation, which is required for sequestration of the emissions net emissions. We initiated the Mangrove A forestation on another 800 hectares of land. This is in line with our increased target for Mangrove plantation from 4,000 to 5,000 hectares.

Coming to our second focus area that is of ensuring water supply from non-competing sources at all our ports. We are currently evaluating possible solutions at Hazira, Krishnapatnam and Dhamra ports. Once the solutions are implemented, it will take us to 80% of APSEZ's target of sourcing its entire water supply from non-competing sources. For the past 12 months, we have been regularly engaging with the ESG rating agencies. There has been a constructive result of this exercise with APSEZ significantly improving its ESG score in 2022. Pleased to highlight our progress on the ESG rating. Recently, we received our ESG assessment from S&P and Moody's. S&P has scored us among the top 10 in a peer group of 300 companies in the transportation and transportation infrastructure sector, while Moody has ranked us 1st among the transport and logistics emerging market players.

With this, let me hand over to Muthu for an update on the financial performance. Over to you, Muthu.

D. Muthukumaran: Thank you, Charanjit, and good evening to all of you. I'll first start off with a quick paragraph on our quarterly performance and then I'll move to the half yearly performance for FY '23. With cargo of 87 million tons, we have achieved a 15% growth year-on-year and a revenue of INR 5,211 crores. It's a 33% growth and a corresponding growth in EBITDA at INR 3,260 crores. And finally, in terms of our net profit after tax, it's a 65% jump at INR 1,738 crores. And after minority, and after OCI, the profit after tax is INR 1,677 crores. Our EPS stands at 7.77%. So that's for the quarterly number.

Now I'll move to half yearly. In terms of total revenue, we have achieved INR 10,270 crores, which is a growth of again 15%, like in the quarter, and this 15% is on a year-on-year basis. And this 15% is despite a decline of INR 555 crores, which is our revenue business segment from SEZ. And this reduction in the SEZ revenue is already factored in our full year guidance for FY '23. And the growth is supported by a 25% growth in port revenues and a 32% growth in our logistics revenues. Company's consolidated EBITDA for the first half increased by 21% on a year-on-year basis to INR 6,551 crores.

I'll now turn to port operations. For the first half, we have seen an increase of revenue by 25% on a year-on-year basis to INR 8,967 crores, and EBITDA also increased by 24% on a Y-o-Y basis, to INR 6,236 crores. Both of these were on the back of 11% increase in the cargo volume for the first half and an improved realization -- a significant improved realization. Overall port margins stood at 70%.

Turning to logistics business. Revenues from this segment is at INR 721 crores, which is a growth of 32% on a year-on-year basis and it is contributed by all its sub-segments, namely container rail, bulk rail, terminal traffic and agri logistics. The significant increase that you see in the EBITDA is actually a result of our all around efforts to diversify into bulk cargo, number one. And number two, to eliminate loss-making routes, and number three, to generally improve efficiencies across. EBITDA for this business grew by 57% to INR 212 crores, and the margin expanded by 470 bps, and the EBITDA margin stood at 29%. In terms of profit after tax for the first half year, it is INR 2,915 crores and that is a jump of 26% compared to a corresponding period of the last year. And this PAT is after a pretax charge of INR 370 crores of non-cash mark-to-margin FX loss.

Now in that context, let me now move to the next topic, which is an update on our FX and our risk management approach. Traditionally, we have been keeping all our bond exposure completely open against the natural hedge of our future revenues. Our annual revenues have always more than covered the maturities of the bonds of the respective year whenever they mature. Given the recent big exchange rate movements that we have seen recently, we studied the options which we can use within our existing risk management policies.

Following this study, we have embarked on two approaches. The first one is actively hedging, especially the near-term ones. And the second one is designating bonds against our future revenue exposure, like you see in some of the leading companies in the marketplace. In this designation exercise, bonds are first designated by mapping and earmarking revenues of immediately ensuing months as of the date of maturity of these bonds. And once this designation of revenue is done, any ForEx movement, either loss or gain post such designation date is no longer included in the extraordinary items, which is below the EBITDA, but is included in other comprehensive income, OCI, for short, in the P&L account, which is below the PAT.

As you will know, this OCI is not included in the EPS calculation. The net gains or losses, which are accumulated in this particular head will be moved to the revenue line as a gain or losses of the revenue in the months when the designated bonds mature and the revenues for those months crystallize. As we have commenced this approach now, we have given a lot more detail in the presentation that we have circulated in the form of annexure. And in that annexure, we have also included when the recycling will happen by the year and where we have designated the bonds.

With that, let me actually move to the next topic, which is actually cash flows. Our company has generated very healthy cash flows. And with that internally generated cash flows, we have met our enhanced level of capex, which is for the first half of INR 4,015 crores, and we have funded acquisition, which is to the tune of INR 1,500 crores. We have repaid loans, which is again covered full details in the cash flow statement in the presentation, close to INR 6,000 crores. And we are still left with cash flows in the company. And finally, after all these things, our leverage is 3-times that of EBITDA.

So after the cash flow, let me just quickly move to highlight that in terms of ratings, we continue to enjoy investment-grade rating by all credit rating agencies. And finally, before I conclude, let me point you to Page No. 28, which is actually the return on capital employed, and I wish to bring to your notice that we have improved our return on capital employed across all the ports and across all our business.

So with that, let me actually conclude the section on financials and hand it back to Karan bhai for concluding remarks.

Karan Adani: Thank you, Muthu. So let me just summarize our performance for the initial six months of FY '23. APSEZ has recorded the strongest half yearly performance in the history of the company with a record cargo volume, revenue and EBITDA. Our integrated business model with an end-to-end service from port gate to the customer gate is providing to be a material differentiator versus our peers and enabling us to win customers and improve their stickiness.

With India likely to be the best-performing economy globally in 2022 and '23, we remain confident on APSEZ's growth story. We continue to be on track to achieve our full year guidance of 350 million to 360 million metric tonne of cargo volume and an EBITDA of INR 12,200 crores to INR 12,600 crores, while also working on our organic and inorganic growth plans.

With focus on sustainable development, APSEZ is all set to emerge as a global force in the port and integrated transport utility segment. With this, we can open the lines for question-and-answer.

Moderator: Thank you, very much. We will now begin the question-and-answer-session. Anyone, who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have our first question from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: Congratulations on a very-very good quarter and making some successful acquisition. So my first question is on the financials. While the cargo has grown by 11% in H1, your revenues have grown by 24%. What explains this? Is it some -- is this to do with cargo mix in the quarter, or some non-port revenues, which can explain this jump?

Karan Adani: Sure. It's both. One is an absolute increase in our pricing, which we did at the start of the year. And a lot of the contracts, which got expired over the course of the last six months, we were able to get an absolute increase in the pricing over there. And the second is also because of the mix in the cargo. These are the two main reasons.

Mohit Kumar: Sir, has there been any update from the government on the process of CONCOR divestment? Has it moved? Have you received any input?

Karan Adani: No, we have not received any input.

Mohit Kumar: Sir, lastly, on the financials again. There's a loss on forex in consol and standalone basis there is a huge difference. So generally, the standalone consol forex also used to within the number. This quarter, we have 3 billion, 4 billion in consol, while in -- 4 billion in consol, standalone is 9 billion. Can you please help us reconcile this number?

D. Muthukumaran: Yes, sure. See, you might recall that all our bonds are sitting in actually the Holdco, whereas our FX designated income is across APSEZ as well as the subsidiaries. So the designated bond exercise that we have done, we have done only in the consolidated. So the INR 370 crores charge that you actually see, which is M2M loss is after actually the exercise of designated bonds. So what you see in the standalone, we haven't done the designation of bonds in the standalone financials. So the difference between the 9 billion and the 4 billion, which is INR 370 crores that I mentioned, it is actually in the OCI line in the consolidated business -- consolidated financials.

Moderator: Thank you. We have our next question from the line of Atul Tiwari from Citi. Please go ahead. Thank you. We have a next question from the line of Bharani Vijayakumar from Spark Capital. Please go ahead, sir.

Bharanidhar Vijayakumar: What portion of this USD 4 billion PAT is designated bonds?

D. Muthukumaran: USD 2.8 billion around number and out of the $3.9 billion outstanding.

Mohit Kumar: So the OCI portion of this forex impact of INR 404 crores that we see, that's related to that USD 2.8 billion decimated bonds.

D. Muthukumaran: That's correct.

Bharanidhar Vijayakumar: If we see the cash flows for the first half, there has been an INR 4,000 crores of capex and about INR 1,400 crores of acquisition being done, how much would this be for the full year, sir? The full year capex and the remaining acquisition for the year, how much would it be in that?

D. Muthukumaran: Yes. The full year guidance on capex, we have given INR 8,600 crores. So we continue to maintain at this point in time our guidance.

Bharanidhar Vijayakumar: And so that will be another INR 4,000 crores in the second half. So can you highlight in which assets it would happen?

D. Muthukumaran: So it will happen in both ports as a business as well as logistics. So it's spread across both. And we have given actually project-wise capex in our original guidance at the beginning of the year, and it's more or less the same at this point in time, there is no material change to that.

Bharanidhar Vijayakumar: And the INR 1,400 crores of acquisition is related to Gangavaram, and Ocean Sparkle?

D. Muthukumaran: Ocean Sparkle.

Bharanidhar Vijayakumar: So any such number that we can issue in the second half that will be related to Haifa Port?

D. Muthukumaran: Haifa Port. So Haifa Port funding will happen in the second half. And what we gave as the original guidance, we are still working towards that in terms of financing pattern and closer to the time when we actually do the financing, we will sort of update the market with any changes to the financing pattern.

Moderator: Thank you. We have our next question from the line of Chetan Shah from Jeet Capital. Please go ahead.

Chetan Shah: One quick question. Looking at the current global economic environment and also the trade activity, we do appreciate your guidance for the second half of current financial. If you can give us some sense on FY '24 and FY '25 your view on what can be the volume opportunity? And how do you see these two financial years looks like from a volume point of view that would be very helpful?

Karan Adani: Yes. So as you know that we had come out with our five-year strategic plan, and we had come out with 500 million tons of volume handling by FY '25. I think we are well on track to achieve that guidance. And we believe we are quite confident that we will reach that by FY '25.

Chetan Shah: And just one little broader question. In terms of the opportunity within India as a port, you spoke about few missing blocks. And there are a couple of things which are completely greenfield project, which we have won recently, we are expanding there. If you can give us some sense from a decadal point of view, which is the target opportunity, which you are looking, you may not want to name it specific but just give us some flavor in that sense, where are we seeing our sales both within India and a surrounding geography? This very-very helpful, please?

Karan Adani: Yes. So I think within India, we keep looking for opportunities, both within major ports as well as any private ports which come up for sale, within major ports, the government of India has laid out a very good plan in terms of the whole monetization and as part of Gati Shakti scheme. And we look for -- I mean we keep evaluating those opportunities and keep plugging in where we don't have a position.

On the private side, there are not much of opportunity, which we can talk about right now, but we keep evaluating as and when it comes. And we look at more from a value-accretive deals point of view. In terms of neighboring countries, right now, we are in Sri Lanka and Israel. We are looking at opportunities in Eastern Africa. We are looking at opportunities in Bangladesh and in some of the Southeast Asian countries, predominantly high-growth countries with high consumption or high manufacturing base. So these are the kind of opportunities we look out for, and we are actively scouting.

Chetan Shah: Just one follow-up last. Do we have any IRR or a payback in mind in terms of the future growth opportunity? Or will be kind of okay, to peak a little bit if the location is very strategic for us and we don't mind compromising a little bit in our IRR expectation?

Karan Adani: So as you know, we have a capital allocation policy, which is approved by the Board, and it clearly states that all new investments have to be generating a return of IRR of 16% and above. And unless it is very strategic. But so far, all the acquisitions that we have done, we look at 16% and above.

Moderator: Thank you. Reminder to participants to press star and one to ask a question. We have a next question from the line of Smitesh Sheth from Redan. Please go ahead.

Smitesh Sheth: Sir, my question with regard to the next year's guidance, and it has been nearly answered.

Moderator: Thank you. We have our next question from the line of Priyankar Biswas from Nomura Holdings. Please go ahead.

Priyankar Biswas: So my first question is regarding, can you just highlight certain time lines or something regarding, let's say, land sales or monetization from the SEZ angle, so we are hearing a lot of things like a copper plant, then probably some green hydrogen set up. So can you just provide some time lines and expected income flows maybe for the next two years, three years?

Karan Adani: So I think all the guidances that we have given so far does not take into account any -- I mean, a large part of those income. And the reason we are not giving those guidance is because it is bulky in nature and the timing of it is very difficult to give. But these incomes we expect in the next -- these lands to happen over the course of next three years to four years time.

Priyankar Biswas: So can you provide a quantum like how much land base available with you, let's say, across all the ports besides Mundra and potentially how much monetization in a, let's say, blue sky scenario that we can be looking at?

Karan Adani: It's very hard to give you that exact number. As you know, in Dhamra and in Krishnapatnam, we have roughly 6,000 acres of land other than Mundra where we have 40,000 acres. But as I said, that the land incomes are bulking nature, they are onetime in nature and it's very hard to give a prediction in terms of how much income we will generate out of it. But as I said, there are a lot of these opportunities which we are working on to develop the port-based ecosystem. And as and when we are confident or we have some visibility of when the income will come, we will give in our guidance and we'll give a sufficient time for all of you to put in to bake into the model.

Priyankar Biswas: So essentially, this INR 800 crores guidance that you gave, so this does not include any of these things right now?

Karan Adani: No, it is not, it does not include any land sales.

Priyankar Biswas: And the last question from my side. See, we have been the logistics business, of course, it has improved on the ROCE somewhat in this particular first half. So going forward, like all your businesses, you typically target like 16% ROCE types. So can you give us some sense of the trajectory, how we will achieve the 16% levels? And which are going to be the drivers in a big way to drive profitability?

Karan Adani: I'll request Vikram to answer but in detail, but just to give you broad headline, the GPWIS as rate business, where we are expanding aggressively the Agri Logistics business and the warehousing business. These three businesses will generate other ones which will push the overall logistics business apart from the container. But these three businesses will generate a ROCE hire of 16% in the coming years. And I'll request Vikram to add more on to it.

Vikram Jaisinghani: So I completely agree with what Karan has said, but the only thing is that to clarify the timing of this ROCE, which will be obtained will be different for the different verticals that we're talking about. The first one to hit the block and to see immediately uptake in the ROCE would be the bulk trade that will be introduced in the next one year because that will be instantaneous revenue, instantaneous gain in EBITDA.

And then it will be followed up by the ROCE improvements as and when we start putting on the lease and putting the agri warehousing silo projects on the block with FCI followed by all the warehouse construction, which is right now 10 million square feet in construction as and when they start getting put on lease, they will also start delivering the ROCE.

So the timing is different, but I think in the next two, three years, we should look at reaching our target upward of 8% to even 16%, which is ultimate and the end result that we have planned in this business model.

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

Parag Jain: I have two questions here. First one for Karan. And like our full year throughput guidance it's been quite courageous given -- so you...

Moderator: Sorry, you're not audible.

Parag Jain: Sorry, actually title is hitting Hong Kong. So am I better.

Karan Adani: A little bit better.

Parag Jain: I'll try to be very concise. So with respect to your full volume guidance, I mean, it seems quite courageous put a number at this juncture. What gives you confidence? Is it your view on India's ability to continue to import. Is it your at least to gain market share? Or is it more like any shortfall can be managed by inorganic acquisition? Or do you see any downside risk to those guidance? And that's my first question. Maybe if you can answer that, and I'll give the next question for Muthu.

Karan Adani: Yes. So first, I think our guidance of 350 to 360 we are very confident we are looking at a lot of the data from group companies as well as from our partners. And we do believe that India is in a very good space economically, and we don't see growth coming down anytime soon. I think we expect GDP to grow at around 7%.

And with that, we expect trade to grow at around 10% to 11%. I think these are the main reasons why we are very confident. And obviously, as the manufacturing base in the country is increasing and as the push for manufacturing is happening, we are seeing energy consumption increasing across the board and which, in turn, obviously helps the trade because India imports most of our energy. So that is one.

And then obviously, second is we are seeing significant amount of private capex happening, and we don't see a slowdown over there. So in which in turn, again, we do see a lot of trade movement happening. The nature of the trade might keep changing. So this year, in our view, we will see more growth on the bulk side than on the container side. But I think overall, we are very confident of reaching this guidance of 350 to 360.

Parag Jain: Okay. And that's very, very helpful. And then my next question to Muthu. On the slide that captures the ROCE. When we look at the ROCE of each of the businesses on verticals, they have seen a mass improvement, but at a consolidated level, it seems to subdued. So if you consolidate ROCE includes some of the businesses which are not building the return?

And secondly, maybe I could not hear you well. Could you please explain the rationale behind changing your way to recognize the FX losses from the past practice of this funneling through the P&L versus the new approach?

D. Muthukumaran: Sure. So to your first question, basically, we have lot of greenfield projects, both new projects as well as expansions that are happening in our current sites, which are sitting in CWIP or we are carrying cash to fund those expansions that we have already sort of announced over the next two, three years.

So if you back that out in the calculation, you will actually get a ROCE, which is a true picture of delivering projects. And these projects that we are currently undertaking will also start delivering in the next 3 to 4 years. So you will see a return on capital employed for the company as a whole improving at that point in time. These are planned capex. So therefore, they are tracking our sort of our plans.

In terms of FX, basically, you see the reason is with these significant movements in the FX rate that are happening in the market, all such movement call for actions, right? So we went to the drawing board and we said, what are the options that we have to actually truly reflect the underlying operating performance of the company? Are there any new sort of tools that we have to use that is within our current policy, but that we are not currently using. So two things that came out. One is active hedging. Where in a rising market like this, we have started sort of doing forward.

We will, as a company, build expertise and build on that active hedging as the time goes. But while we have done that, we also studied what other capital-intensive business in the marketplace is doing. The very underlying rationale for doing any bonds and then call it a natural hedge is because we do have dollar revenues. And by nature, these revenues will come in the future and liabilities are sitting, the bonds are sitting in our balance sheet today. So under the current accounting standard we need to provide for mark-to-market losses and that does not actually give the underlying performance.

So therefore, what we have said is to bring in the discipline of seeing which bond is designated against which peers revenue. So we picked the bonds from the portfolio totaling $2.8 billion, and sustained revenues against those bonds. And the moment we do that accounting standard demand that we move profit and loss or profit or loss for the period arising out of away from the current extraordinary line item to OCI line item. So that is what we have done under the Ind AS 109, which is a requirement. But the underlying reason is actually to map the revenues against the bond and to demonstrate the discipline of how we have spread out the maturity to match our underlying exposure.

Parash Jain: And then maybe one final question. With respect to disposal of your stake in Myanmar, how far have you raised actually timeline that will be done?

D. Muthukumaran: Myanmar, one of the condition precedents is completion of the project. It is underway, and it should get over shortly. I mean, once the project is completed, we would close the deal.

Parash Jain: By the end of this fiscal year?

D. Muthukumaran: Yes. Yes. I mean much before, but for sure, before the end of this year.

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

Pulkit Pathani: Just one question. If you could highlight what the interest cost for the next couple of years we should build in, given the rise in rates? I understand we have bonds. But if you could just highlight what is the interest cost we should bake in for the next two years based on the increased rates globally?

D. Muthukumaran: All of bonds in series, which is in rupee dollar bonds are fixed rates. So there is very, very little, which is actually the working capital type and that too is very, very small which is market driven and that also actually we still get very competitive rates. So there is no change in the interest rate compared to what you're seeing today. And at the company level, per annum, we are talking about INR 2,300 crores of interest approximately in that space. Only when we actually deploy more capital on the ground and if we borrow actually the absolute amount of interest will change.

Moderator: Thank you. We have our next question from the line of Mayank Agarwal from Quant Mutual. Please go ahead.

Mayank Agarwal: Sir, I wanted to know about the fact that the gross debt increased by 5%, but the net debt has increased by 27%...

D. Muthukumaran: So which page are you referring to, please?

Mayank Agarwal: No, sir. I'm calculating on a Y-o-Y basis, in September '21, the gross debt and net debt and in September '22, the gross debt and land debt. So gross debt has increased by 5% in -- compared to Y-o-Y, but net debt has increased 27%.

D. Muthukumaran: Maybe we can actually take you through off-line. That number doesn't sound right to me intuitively. Actually, our net debt, if anything as sort of gone down. The reason why our gross debt has gone up are twofold. One is we have borrowed marginally more for the new projects, but also there is a INR 2,000 crore increase in the gross debt on account of interim effects. But we can work offline with you and take you through. But that number doesn't sound right.

Mayank Agarwal: Okay. So I would like some guidance on that..

D. Muthukumaran: Yes, please. We can do that offline.

Moderator: Thank you. We have a next question from the line of Amish Shah from Bank of America. Please go ahead.

Amish Shah: My question actually is to Karan. When you spoke about the international inorganic acquisition opportunities, earlier, the thinking was to do only Greenfield projects in JV mode. Is that still the thinking? The reason why I ask is that that would effectively mean a percentage of capital deployed in international is only going to rise gradually? Is that the way we should think about it still?

Karan Adani: Yes. So majority of it is right. It will be inorganic Greenfield through JV mode similar to what we have done in Sri Lanka or something like that. However, if we do look at -- I mean, if we do get attractive opportunities like Israel, we would look at it. But those are there. Most of it we would be looking at is JV mode and Greenfield apartment?

Amish Shah: Okay. On Adani Logistics earlier, primarily, our growth was coming from handling domestic cargo as opposed to EXIM. Again, just a clarification is that still the way and the substrate question to that is that how much is the FCI warehouses getting converted to silos that you're doing a part of the domestic cargo growth within Adani Logistics?

Karan Adani: So let me just clarify over here, our Adani Logistics mainly did EXIM and not domestic. 80% of the volume was EXIM and 20% was domestic, and it continues to be in that sort of that range. In terms of Agri Logistics, as you know, that more and more silos are coming up for bidding. We've already got -- we won – we had the H1 for 0.35 million metric tonne of new silos, which are coming up. And we expect another 2 million tons of FCI silos, which will be coming up as part of the hub-and-spoke bidding. So we expect, as we had given in our five year guidance, that we look at bringing this business up to almost 3 million tons of storage. We are well within -- we are very confident we would reach that by FY '25.

Amish Shah: Got it. And my final question is actually on the major ports opportunities that you were talking about. So is that going to be a substantial part of our business as you think about the volume growth targets that you've put out for FY '25 or is it just one-off both opportunities that you would look at within major ports, and we will continue to look at landlord port models?

Karan Adani: No, sir, our FY '25 target of 500 million tonne does not take into account, it's from the existing assets. It does not take into account any new assets that we will add between now and '25. In major ports, we would look at selectively based on the kind of footprint and strategically where we don't have a presence, those are the places we would look at to help us consolidate in terms of our market, share. But it will be very selective in nature.

Moderator: Thank you. We have a next question from the line of Nikhil Abhyankar from DAM Capital.

Nikhil Abhyankar: Most of the questions are answered, just I've got 1 booking question. Can you give the revenue and EBITDA split for Q1 and Q2 FY '23 for ports and non-ports?

D. Muthukumaran: Yes. The total revenue, we saw was INR 10,270 crores, and out of which the port revenue was INR 8,957 crores. Sorry, you wanted to port, and this is for the first half. And if you wanted actually for INR 5,521 was the total revenue. Okay, let me just read out. The total revenue. Just a second, please. So if we cannot down the number, Q1 total revenue is INR 5,058 crores and Q2 total revenue is INR 5,211 crores.

Nikhil Abhyankar: Okay.

D. Muthukumaran: And then as far as the port is concerned, it's INR 4,510 crores for quarter one and INR 4,458 for quarter two. You wanted EBITDA.

Nikhil Abhyankar: Yes.

D. Muthukumaran: Okay. So port EBITDA is INR 3,170 crores for first quarter, INR 3,066 crores for second quarter and total EBITDA is INR 3,290 crores and INR 3,260 crores.

Nikhil Abhyankar: So if you have it in hand, can you also give comparable for Q2 FY '22?

D. Muthukumaran: Yes, yes, Q2 FY '22 is you want to start from revenue?

Nikhil Abhyankar: Yes.

D. Muthukumaran: So port revenue is INR 3,398 crores, total revenue was INR 3,923 crores. Total EBITDA is INR 2,483 crores, and core EBITDA is INR 2,379 crores.

Moderator: Thank you. We have a next question from the line of Pradyumna Choudhary from JM Financial Capital Private Limited. Please go ahead.

Pradyumna Choudhary: So just wanted to understand, like most of our volume increase in this quarter has come on an absolute basis, a majority of it has come from coal, increase in coal volumes. So do you see this as sustainable, especially concerning that container growth was quite soft 3% or 5%, I believe. So this is the first question. And can be you spoke about the mix change being one of the reasons why revenue growth has been higher than the volume growth. So can you throw a bit more light on this, what kind of cargo has a higher realization and I may be higher margin also. These are my two questions?

D. Muthukumaran: Yes. Thank you. First, on the cargo volumes. See as we have guided, the coal has seen significant growth and you've seen that the dry segment has grown from an FY '22 to an H1 and FY '23 from 50% to 54%. This is filled by a very strong rally in the coal and which is understandable with the high energy consumption, which has been at an all-time high in India. And also the fact that the growth we are looking to sustain it, a, we believe that the EXIM requirement of coal will continue to be high in H2. Also the fact that we've been able to garner new contracts as far as postal coal movement is concerned between what is on the rail come sea route from the landlocked mines in Jharkhand, Orissa, Chhattisgarh, to our ports in Gangavaram, Dhamra into the receiving ports at Krishnapatnam, which makes it at both our ports as well as into the other southern power houses consumption.

We're also working on the East-West transfer the government is talking of at a very nascent stage, but the growth is going to come primarily from these two EXIM as well as domestic coal. As far as the other volumes are concerned, container does look to be fairly flat, although there is a little bit of aspiration as to how it is growing. We've seen that the rally in the festival season has been good. So we have buoyed by the sentiment that the imports will start coming in and especially engineering goods, which has been a rally over the last two years as far as India's export performance is concerned, will certainly come back.

And if you look at the country's choices, we're getting into, as Karan had clarified, getting more into Southeast Asia, high consumption and high growth economies, and that should sustain the volumes. Yes, notwithstanding the global slowdown that has happened. So volume-wise, coal will be the driver without a doubt. In fact, the other aspect of coal is also the coking coal. We're seeing this market share consolidation mostly in our eastern ports. We are looking that the steel plants are on a -- the first half has been a little subdued, because of the consumption globally.

The second half is seeing a growth, and we are seeing the signs of recovery on coking coal, especially in the larger plants of Steel Authority of India as well as Tata Steel, both where we are very well placed in our ports in Dhamra and Gangavaram particularly and in Krishnapatnam as far as Jindal Steel is concerned for the Tormagalu plant. So this alignment and the choice of very strong bonds with the major consumers gives us the confidence that we'll be able to sustain this dry cargo growth. Your second question on realization of higher cargoes. Vikram, do you like to take that?

Charanjit Singh: See, with respect to the realizations, when Karan bhai mentioned about the change in the mix, it is also the change in the mix between the containers. So it is EXIM versus trans-shipment, and there is different realizations for the two. In the current year we have seen a very high share with respect to EXIM container. And that's the reason, the realizations are much better. I hope that answers.

Moderator: Line is disconnected. We have our next question from the line of Ashish Shah from Centrum Broking Limited. Please go ahead.

Ashish Shah: There just two questions from my side. One, if you can update what is the on-ground status as far as the Vizhinjam asset is concerned because we also keep reading a lot of news flow around local protests, etcetera. So any update will help, sir.

Karan Adani: Two updates on Vizhinjam. First, on the VGF which the Government of India has finally sanctioned. You are aware that we got a component of close to INR 814 crores of VGF. The government of India has finally sanctioned that. So we're expecting that to come in and so that the project is ongoing. As to the project execution is concerned you'll be aware that in the last year, we've had phenomenal progress. And normally, post monsoon is when we open up the line. The project has been commissioned both from the land and from the marine side. So we have 2 places, Gotla Puri and Kollam probably get the worry stones to do the breakwater all well set. As of today, we have seen every day the quarry stones coming into the two locations.

As far as the agitation is concerned, we are aware that it is slightly misled. We're also aware that the government of Kerala is entirely supportive and that there is a very affirmative action on behalf of the High Court of Honorable High Court of Kerala which have been very supportive and have given instructions that this agitation should be lifted for it. As we speak to you, we are expecting that this whole situation to be cleared in another order format.

And since the monsoon has seeded in just about a fortnight back. So we haven't lost time. And we've been very confident of the earlier guidance given that the port will be commissioned in the calendar year '23, and we have taken all the affirmative actions in line, the cranes, which are coming in, and it is going to be a state-of-the-art world-class terminal automated terminal. So we're well into line. These are small aberrations, and I'm sure we will be entirely over with that very soon.

Ashish Shah: Right, sir. Second question on the capex. So this year, we -- for the FY '23, we iterated INR 1,600 crores capex. But from a slightly medium term from a three year perspective, would we be looking at an annual capex of a similar range of let's say INR 9,000 crores to INR 10,000 crores? Is that a number onshore project?

D. Muthukumaran: I think the way to look at is ports will continue -- will have capex around INR 2,000 crores to INR 2,500 crores. The logistics business, mainly warehousing and agri logistics as we keep scaling up, that will continue to have INR 4,000 crores of capex. So I would say, on an average, you can take between INR 6,000 crores to INR 8,000 crores is what we will continue to spend in the coming few years.

Ashish Shah: Right. And this would include assets like Sri Lanka?

D. Muthukumaran: Everything.

Ashish Shah: Right. But not Haifa, right? Haifa would be an inorganic addition to this?

D. Muthukumaran: That's it.

Ashish Shah: Right. So yes, I mean, that's it from my side. And so on behalf of Centrum Broking, I would like to thank all the participants for attending this call and thank the management for giving us this opportunity. I would like to hand over to the management for any closing comments. Thank you, sir.

Karan Adani: So thank you, everybody, for joining. And if there are any questions, Charanjit is there to answer and the team is here to answer. Thank you. Have a good evening.

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