"Adani Ports and Special Economic Zone Limited Q3 FY'18 Results Conference Call"

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MANAGEMENT: **MR. KARAN ADANI – CEO AND WHOLE-TIME DIRECTOR, ADANI PORTS AND SEZ LIMITED**
MR. B. RAVI – CFO, ADANI PORTS AND SEZ LIMITED

MODERATOR: **MR. SWARNIM MAHESHWARI – EDELWEISS SECURITIES**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Adani Ports & SEZ Limited Q3 FY '18 Results Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. I now hand the conference over to Mr. Swarnim Maheshwari from Edelweiss Securities. Thank you and over to you, Sir.

Swarnim Maheshwari: Thanks, Karuna. Hello and Good Afternoon everyone. On behalf of Edelweiss, I Welcome you all to Adani Ports & SEZ Limited Q3 FY '18 earnings conference call. From the management, we have with us Mr. Karan Adani – CEO and Whole-Time Director, and Mr. B. Ravi – CFO. We will have the opening remarks from the management post which we will open the floor for Q&A. Thank you and over to you, Sir.

Karan Adani: Thank you. 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 third quarter and nine months of FY '18. We have also uploaded a detailed presentation on our website for your convenience and emailed it to you all.

First, let me brief you on operational front:

Our outperformance in gaining market share in cargo volumes and container handling continues. If you recollect, during our last call on November 13, 2017, I had commented that cargo volume in October and first half of November has rebounded and we expect a double-digit cargo volume growth in Q3. As expected, on year-on-year basis, cargo volume in Q3 of FY '18 grew by 16%. This is against 4.4% cargo volume growth achieved by major ports.

During Quarter-3 of FY '18, all major commodities handled by us registered a double-digit growth. Coal which grew by 13%, crude which grew by 10%, coal volumes at Mundra grew by 9%, at Hazira by 41%, and at Dahej by 70%. In container segment, our growth was 29% compared to major ports growth of 8%. Container volumes at Mundra grew by 26%, Hazira 31%, and at Kattupalli by 52%. The larger ports continue to grow, Mundra grew by 17% while Hazira grew by 9%, and Kattupalli grew by 45%. Dahej which had a de-growth in Quarter-2 is back on growth trajectory and registered a growth of 93%. We have started handling Agri products at Dahej port. Cargo volumes in Quarter-3 of FY '18 compared to Quarter-2 of FY '18 grew by 11%. This was again led by all-round growth in the major cargo that we handle. While coal grew by 22%, crude grew by 19% and container grew by 7%.

During the nine months of current fiscal year, APSEZ handled cargo volumes of 135 million metric tons, registering a year-on-year volume growth of 7%. This is against 3.6% growth registered by major ports. While containers grew by 22% other bulk cargo grew by 8%. Today, 62% of our volumes are stable and long-term cargo compared to 61% at the end of Quarter-2 of FY '18. Our strategy to diversify and handle all types of cargo at all the ports continue. We intend to handle containers at Dhamra port during the current quarter, that is Q4. Cargo volumes in the current month continue to be in high double-digit, we expect this trend to continue.

We are confident that our outperformance in gaining market share both in cargo volumes and container volumes will continue in the years to come. To reiterate, we expect our cargo volumes to grow one-and-a-half times of all India cargo growth and in container segment, our growth will be more than two times growth of container volumes on all India basis. We increased our EBITDA margin to 70% in FY '18 as guided earlier and CAPEX for FY '18 will be in the range of Rs. 2500 to 2800 crores. In FY '18 on a conservative basis, we will be generating a free cash flow of 1200 to 1500 crores against Rs. 670 crores generated in FY '17. In FY '17, we had distributed Rs. 315 crores as payout, which was 47% of our free cash flow. Next year, subject to board approval, we are looking at rewarding shareholders by distributing similar percentage of free cash flow. This will translate into doubling of FY '17 payout of Rs. 315 crores. The remaining free cash flow will be used to reduce debt and further improve our net debt to EBITDA ratio.

Now, on financial performance, Ravi would give you detailed financial numbers, let me give you a brief snapshot. On a year-on-year basis, operating income in Quarter-3 of FY '18 increased by 22% to Rs. 2689 crores while EBITDA after adjusting for Forex gain or loss increased by 26% to Rs. 1784 crores. Margins improved by 400 basis points to 68%, profit before tax during the same period increased by 48% to Rs. 1439 crores and profit after tax for the same period increased by 18% to Rs. 994 crores thus translating into a earnings per share of Rs. 4.8. Similarly, for the nine months ending December 2017, operating revenue grew by 31% to Rs. 8140 crores while EBITDA after adjusting Forex gain or loss grew by 29% to Rs. 5277 crores. Margins improved by 200 basis points to 68%. Profit after tax was Rs. 2745 crores, thus translating into an EPS of Rs. 13.26. I will now hand over to Ravi to take you through details of the financials.

B. Ravi: Thank you, Karan. Karan has already given the snapshot, I will give you the highlights both for Q3 and nine months of FY '18. As usual, I will be trying to bifurcate the operating revenue into the ports, logistics and the SEZ business. Once again, we have uploaded a very detailed presentation giving all kinds of explanation and also the ratio analysis on our website. I am sure you would have gone through it, some of which could be repeated in what I am going to say now. The ports' operating revenue in Q3 went up by 15% and registered 1940 crores. For the nine-month period, the same ports' revenue was up 8% to 5446 crores. The logistics income grew by 3% in the quarter and 10% for nine months; it was about 200 crores in Q3 and about 600 crores in nine months. The SEZ and port development as we say that combined in Q3 was 100% increase, it registered 400 crores and for the nine months, it was 1650 crores.

As you know, Australia's operating income is also being taken into our books for the last about a year-and-a-half, so that registered about 100 crores in Q3 and about 300 crores in nine months, and there is a small other income of about 48 crores in Q3 and about 140 crores in nine months. With this, the total income grew by 22% to 2689 and in the nine months, it grew by 31% to 8140. In the SEZ, there has been a small expenses of about 54 crores, so if you see the total income after adjusting the SEZ expenses, it is 2635 crores, a growth of 19% and about 7700 crores, a growth of 24% in the nine-month period. The total EBITDA registered a growth of 26% and stands at about 1800 crores in Q3 FY '18 and about 5300 crores in nine months, which is a 29% increase as far the nine months' period is concerned. The EBITDA margins, as always told and promised, have been increasing very consistently.

In the Q3 results, the EBITDA margin stands at 68% against 64% in Q3 FY '17 and for the nine months' period, it stands at 68% as against 66% in the nine-month period of FY '17, and ports EBITDA grew from 68% to 70% in Q3, another addition of 200 basis points and in the nine-month period, it again was 70% which grew up by 1% from 69, so again as we always had said, we will be adding at least 100 basis points to our EBITDA margins year-on-year we said and we are absolutely on course doing that in the nine months, it should be continuing for the 12 months also. The PBT, profit before tax, after the exceptional item and I will explain the exceptional item also in the call as well as what was put up on the web anyway, but the PBT after exceptional items stands increased by 48% to 1439 crores and for the nine months' period, it is a 30% growth very close to 4000 crores mark. The gross finance cost, the way it has been published is flat for the this Q3 and has shown a slight increase of 5% in the nine-month period, however, if you give adjustment of Kattupalli, that will show about 991 crores, which is there as per the published results, and PAT therefore you would see that for the nine-month period at 2745, which is about flat compared to previous nine-months in spite of a very large taxation incidence. In the Quarter-3, it actually registered an 18% growth to 994 crores. As told earlier, the cash outflow for taxation is still the MAT, and therefore even though that full taxation goes in to our P&L in arriving at PAT, still we have had a flat performance for PAT for nine months and a growth of 18%.

The port revenue is actually higher by 15% against the cargo growth of 16, so there could be a question about what it was, but I just have to tell you the adjustment is that last quarter CT4 volumes were all under APSEZ, we were operating that terminal in this particular period, but as you know from May '17 onwards, it is there in CT4, and therefore, the revenues are not consolidated and therefore if you go for that adjustments there, which is about 56 crores on revenue and 45 crores in EBITDA, if you adjust that the revenue growth actually is 19% against the cargo growth of 16% and this is again in line with we have always said that it is 3.5% about inflation is always there and the cargo composition mix always will give us a better revenue than the cargo growth itself.

Similarly, in EBITDA it is an increase of 23% against the cargo growth of 16%. The logistics front also, the revenue has grown by 10% in nine months and as I said 3% in Q3, this was an account of certain realignment of business model in terms of commodities to be handled in longer term, and therefore, though the logistics looks to be almost flat, this is actually a temporary phenomenon, we will continue to do much better in the years to come. One item which is being shown as an exceptional item in the results is the Vizag impairment. There were certain newspaper reports and there has been certain questions which some of you have asked us. Vizag as you know is not being profitable, we have not been operating it for some time now.

During the quarter, we have therefore taken the impairment of Vizag though of course the Vizag cancellation or surrendering of the terminal has not yet happened. We are going towards that maybe in the next quarter or five months, we probably might surrender that terminal and arrest the losses, and therefore in order to have a prudent accounting policy and in discussion with the auditors, we have recorded the Vizag impairment and that on a standalone basis and also on a consolidated basis has been taken. The impact at a consolidated basis is about 156 crores, however, you get a tax benefit on that of 72 crores, and therefore, the real impact on our P&L would be actually only 83 after taking the tax break of 72. In a similar manner, in APSEZ on a standalone basis because there is an investment from APSEZ into that company as well as a loan from APSEZ into that company, on a standalone basis that actually net impact is 225.

Why it does not go into the consolidation is because certain losses which were there in the Vizag terminal was already accounted for in the earlier period in the consolidated level, that is the reason why at this point in time, the net impact at APS' level consolidated is only 83 crores. I need to mention that after this, we do not expect any more impairment in that asset. On the contrary, the losses which were there at Vizag would be arrested and in addition to that, once that process is complete, we should be getting about 200 to 250 crores as a cash inflow for the money which we have put into it from the Vizag Port Trust. This is all I have for you. As you can see, it has been a very consistent and excellent performance, I am sure even after the results which have been put up on the web, we might be having some certain questions, so now I throw the line for questions. Thank you.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Venu Garre from Bernstein. Please go ahead.

Venu Garre: Firstly, congratulations on a good quarter. I just have one question, I just wanted to understand from you primarily the source of such a sharp volume recovery in Q3 and the reason why it is sustaining even in 4Q. The reason I am asking that is because we have seen some degree of improvement in market volumes too, but the gap that you have is it driven by certain liner new addition that you have had recently which gives you comfort even for the rest of the year, and the second point is, look this is a year where at some stage PSA is going to probably commence operations and also GPPV sort of got back one liner from us, so in putting all that in light, if you could just explain the market share argument both for December quarter as well as going forward for the year?

Karan Adani: Thanks, Venu, so our growth has primarily been dictated, first is by coal. We saw a sharp recovery in coal volumes and almost a 13% growth, which was usually going on a de-growth mode and we are seeing a change in the consumption pattern and also because of India mining not able to keep up with the consumption pattern, we are seeing an import of coal happening specifically thermal coal, and we do foresee that coal will continue for next year and year-and-a-half minimum, the growth will still continue. Second reason for coal increase is also the Pet Coke ban in North India due to environmental reason and that has also helped in terms of increasing the import levels of: coal. The second growth which came for APSEZ is from crude volumes. As you know that, HMEL which has a 9 million ton refinery in Bhatinda had gone for a shutdown and expansion in Quarter-1 and half of Quarter-2, so they have come online and they are increasing their production over there, and we expect that 9 million will be covered up in Quarter-3 and Quarter-4, and we expect a further growth over there of another 3 million tons next year onwards.

The third growth came from container. The container we saw growth primarily from because of the improvement in the manufacturing and the overall production in the country and the economy turning around, and the second part of growth in container we saw was from transshipment, so our transshipment growth in Mundra has been almost 40% growth in transshipment volume compared to last year and that is mainly because MSC has increased their vessel sizes in Mundra on their current services and also second reason is that they have added a new service in Mundra. In terms of your question on GPPV and PSA, I just want to add over here that, first is that in GPPV, the induction of CI6 service, that is a replacement of the existing service of HSX at GPPV, so currently MOL and Wan Hai operates the HSX service and HSX service will get replaced with CI6 as COSCO will replace MOL and will join Wan Hai. There is no additional volume which is generated out of that service moving into Pipavav. Second is that shifting of FI3 service from Mundra to GPPV, in turn Maersk is dropping the ME1 service from GPPV which does a volume of 65,000 TEUs annually. There is a resultant incremental increase of volume of GPPV will be only 65,000 and not 130,000 TEUs as what was reported by analyst in the reports.

The third thing is Hapag-Lloyd has only made an adjustment on one of its service named PSE. The service is expected to commence from April and this is not likely to increase the volume or shift the volume from Mundra to Pipavav and on terms of your question on PSA, PSA the berth is ready but we do not see that terminal, I do not know when it is going to come up but we do not see it happening at least till March and the second thing is as I had said earlier, we are working very closely with PSA to see how we can attract more cargo out of GPPV and into Mundra with collaborating closely with PSA, so actually it is not going to divert cargo, but help more in terms of shift cargo from competing ports from Pipavav and other ports to Mundra.

Venu Garre: On the side of this question that look is it like sort of a exclusive conversation you are having with them because we understand PSE is also discussing with others, so is it…?

Karan Adani: It is not an exclusive conversation, but we are working on a strategy towards that, so there is no agreement or anything in place in that way.

Venu Garre: My second small question is do you have visibility for CAPEX for next year, anything has been frozen in terms of a range now?

Karan Adani: CAPEX next year we are seeing anything between 2200 to 2500 crores.

Venu Garre: Most of that will be Vizhinjam?

Karan Adani: Dhamra, Kattupalli, and Vizhinjam.

Moderator: Thank you. The next question is from the line of Nitin Arora from AVIVA Life Insurance. Please go ahead.

Nitin Arora: My first question is when we looked at our volumes of 47.6 million ton, can you tell us how much was just because of this normalization of HMEL which is not a natural growth in this volume?

Karan Adani: 0.6 million.

Nitin Arora: Karan, just to ask you before I move to the financials to Ravi, just to ask you one more thing on the containers as Venu was asking, we have seen you already said that like MSE has increased the vessel size. We have seen after two years of consolidation, the vessel sizes to Indian ports have increased significantly, we have also seen despite JNPT not able to handle large size, but still the sizes are increasing for them and the port of call let us say a Jebel Ali and other areas have been reducing and Indians have been increasing, now do you see a scenario where let us say for this Calendar Year 2018, a natural growth comes to the port automatically because of this, because of the sizes getting increased, port of call globally have been reduced and increasing towards Indian ports, so do you see, I am not talking only perspective to Adani, but even for let us say a GPPV or JNPT and natural growth comes in at least for CY '18 because of this argument?

Karan Adani: So two things, I do not think so that will help in terms of natural growth the upsizing of the vessel, that will only help in terms of economies of scale and help in reducing the logistics cost and second thing is with the direct calls increasing, what you will have is less of coastal movement and less of feeder movement happening, and basically reducing transshipment at other ports. The only way the natural growth will happen and continue to grow is if the economy is growing and if the industrial production increases.

Nitin Arora: Now Sir, my next question is to Ravi, Ravi you talked about CT4, we need to adjust that, when we look at our CT1 or let us say CT3 which we do not operate, it always comes in a JV, so obviously that gets knocked off, so looking at the volume growth does not give a clear picture because if I look at your volume growth for this quarter is about 16%, but the revenue growth is not more than 15% because you are re-stating the previous quarter numbers because of the other income part. Now, if I look at your container growth for this quarter has largely come from JV terminals which is CT3 and CT4, which was recently commissioned so do you think that we should look at it adjusting the revenue growth makes sense to us because it is an Apple-to-Apple comparison now because every other of your terminal is anyway which is on adjusted basis?

B. Ravi: This explanation was only for the quarter in order to put it in the right perspective from the previous quarter where the kind of operation was different. Now onwards, you should take it on a normalized basis itself that when we talk about again in the full year, we would not be giving this kind of statement because most of it would have been on the similar basis, so as far as CT1 and

CT2 , it is already an established one for over a year, and therefore, it has already taken up in both of the quarters in a similar manner, so that will not give the anomaly and people have understood that, but in this particular quarter, I had to give an explanation because it was not there in the same manner in the previous quarter, but yes you are right, after this, it will be like any other JV terminal and/or like CT1, CT3 and CT4, except CT2 of course where there is also a growth and that CT2 is 100% operated by us, so anything which is there in CT2 will 100% go into our top line and EBITDA and bottom line, but in these other things only the volume gets consolidated, rest of the things do not.

Nitin Arora: My third question is Vizag now, can you state what are the remedial actions which can be taken now because we have seen one more case of PSA now getting challenged, even they want to shut down one terminal in India, so what is the remedy here, what we are saying to the VPG at this point in terms of cancelling this and what is written there in the contract which gives you the confidence that we will get back our cash flows of 200 to 250 crores?

B. Ravi: It is there in the concession agreement itself, there are provisions which say how in a case of termination or cancellation whatever you may say, how would the formula work in terms of giving back the loan amount which is outstanding, so it is from that angle. It is quite clear and we have been having discussions with them in the last month or so, we have met up with them in the form of a consultation notices which we have and reply is given and so from those discussions and from what is very clearly mentioned the concession agreement, we do believe that this is a certainty and we should not be seeing anymore impairment also for that matter.

Nitin Arora: Lastly, can you give us consolidated gross debt and the cash position and the CAPEX done till nine months?

B. Ravi: No, we do not have, as you know this is a Quarter-3 so we do not give out those numbers in terms of the balance sheet numbers as it is only P&L, but I think we have given the September one and in March you will see that I have already commented in my results that in March, the net position will be under 3, the way we have said, so I think that is a time when you will really get the entire details of the numbers.

Nitin Arora: Just one clarification, I think Karan mentioned about ME1 coming back to Adani, Karan when it moved from Adani to Pipavav, what we understood is lot of the volumes already stayed with Adani itself because there was no benefit we saw when the line got moved to Pipavav, they are even additional volumes that they got and I think today ME1 is not giving more than 20K to Pipavav as of now, because lot of volume was already shifted to Adani at that time?

Karan Adani: Yeah.

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

Aashish Shah: First question is we mentioned Kattupalli that we will go ahead with an expansion, we plan to handle coal and we set up a liquid terminal there, so could you indicate what is the CAPEX there and what is the timelines that we should be looking at and additionally for coal I thought we needed special permission at Kattupalli because originally it was not allowed, so if you can just explain these points, please?

Karan Adani: In Kattupalli, we will be starting expansion from next quarter onwards. We are in the process of finalizing the contract. Phase-1, we are going ahead with liquid tanks along with railway line construction and the bulk handling facility mainly for fertilizer, Agri, and steel products. Simultaneously, we are also going ahead putting environment clearance for further expansion of the master plan in which coal will be included, so once that environment clearance is through then we will start the construction of the coal handling facility. I think in Phase-1 that is the liquid tanks, railway line and the fertilizer and Agri and steel handling facility, we are seeing a CAPEX of not more than 800 crores to 900 crores over the course of two years.

Aashish Shah: Could you give the broad breakdown of containers across Mundra, Hazira, and Kattupalli?

Karan Adani: In Hazira, our total handling TEU for Quarter-3 was 131,900, for Kattupalli it was 127,500 TEUs, and for Mundra it was…

Aashish Shah: Sir, if it is not too much, if you can break it down by container terminals at Mundra?

Karan Adani: Sure, in MICT it was 275,000, in CT2 it was 264,000, in CT3 that is MSC terminal, 363,000, and in CMA terminal it is 150,000.

Aashish Shah: Just last thing, the tax provision, I mean I know we have come out of the tax holiday period and all, but if I still look at the tax provision as compared to Q2, it just looks a little higher, so is there any deficit in the full year arithmetic which has gone into this tax provision?

B. Ravi: It is slightly higher, it is about a percentage higher, instead of the 28 which we had got 28 and 28.5 is about 30 that is because of the SEZ income, the board development income that we got. On a normalized basis, let us say for the 12-month as well as for the future, in terms of any additional bulk incomes like what we get by SEZ might push it for that particular quarter, otherwise, the range will be around 28 to 29.

Moderator: Thank you. The next question is from the line of Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra: For the accounting EBITDA that is provided on the consolidated, so it does not account for the two terminals where we are 50% owner, so what would that number roughly be?

B. Ravi: We do not have it right away because we do not give it out, but I think if they also have about 60% EBITDA from what Karan just gave you the numbers of cargo, normally it is about $75 per TEU and about 60% to 65% EBITDA, we will tell you those numbers. I think for a year it is around 600, about 400 to 450 in CT3, so maybe it will be about 125 for this quarter, but we can send it that to you separately off-line.

Nishant Chandra: Just going forward because of this Ind-AS migration would it be possible for the management to include it because to that extent your reported EBITDA is understated and I guess the market is also valuating it based on EBITDA, it would be good to sort of have it as part of the investor deck itself is what I felt?

B. Ravi: Sure, we can do, we did debate this internally and we were probably looking at saying whether we will be confusing the market or will we be clarifying it, now that you have asked it, looks to be it would be better to clarify, we shall do that.

Nishant Chandra: The second one was the broad free cash to translation metric that you had articulated in the deck, so roughly the number that I was getting to a slightly higher than what you had in the deck, so I just wanted to crosscheck my Math, so I was looking starting with the EBITDA in the zone of let us say 7000 crores for full year and then taking out CAPEX of 2500 to 3000 crores and a tax of about 2000 crores, so that leaves me and I thought I was taking the higher end on all three end, it gave me about a 2000 crore free cash flow, your number was about 1500, so I was wondering if I am missing out any material item in this?

B. Ravi: Karan just added a small word before that conservative basis, and therefore, we may be aggressive, he was conservative.

Nishant Chandra: The point I was trying to understand was whether you are factoring any debt repayments in your free cash flow estimate because I am not, so I thought I will just check that?

B. Ravi: There are actually not much of debt prepayments left right now, this particular one we are doing a larger maturity, so that will not really move this number too much.

Nishant Chandra: The last one I had was just in terms of your articulation of growth from a cargo perspective especially for containers, are you seeing the growth to be higher on importing side or exporting side, so what would be the rough growth rates of exports and imports on cargo for container specifically?

Karan Adani: It is hard to give a growth import and export because each geography has a different parameter because in Hazira we are more export driven than import driven, whereas in Mundra we are quite balanced, in Kattupalli we are more import driven than export, so it will be hard to give, we can give you port by port on off-line if that is…

Nishant Chandra: Let us say just to get a directional sense in Mundra where again we have seen a reasonable container growth, I am trying to understand if it is import led or export led, if there is any bias to the growth that you are seeing, again directional sense would also be fine for me?

Karan Adani: It is actually quite balanced for us, if you look at Mundra the growth was quite balanced, it was not led by one or the other, both led the growth actually so both import had grown and as well as export had grown mainly a percentage here and there, but otherwise there were very much in line.

Nishant Chandra: Lastly, just in terms of the way the port would benefit from the Delhi-Mumbai corridor, so what will be the current status and what would be the pluses and minuses from the corridor for Mundra as a port?

Karan Adani: The corridor is expected to reach Mundra in 2019, that is Phase-1, Phase-2 by 2020 it to reach Hazira, and by '21 or '22 to JNPT. I think the biggest advantage of the dedicated freight corridor will be that higher capacity, so there will be a lot of shift of cargo which will happen from road to rail because it is double stack as well as double amount of wagons allowed on a single day, so from Mundra point of view, it will actually help decongest our roads as well as our entry points because a lot of cargo will then move on rail, and second this will also further solidify Mundra port for North India cargo because then it does not make sense for North India cargo to still go to JNPT. JNPT right now still 30% of North India cargo goes there, so these are the big two advantages for Mundra port. Hazira being also on the dedicated freight corridor, area between Ahmedabad and Hazira, the cargo which still flows into JNPT that can also come into Hazira, so that will be another capturing area which will be a growth for us.

Nishant Chandra: In the note, you had talked about CT3 extension, effectively it would be like a CT5 equivalent, right, that is how we should look at it?

Karan Adani: That is right.

Nishant Chandra: Any plan to kick of CT6 like entity now?

Karan Adani: We are in talks with few lines, I think once something is fructified, we will announce it.

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

Bhavin Gandhi: Sir, on page 24 of the presentation there is other port volume number, there is another section which is showing a 319 crore EBITDA, just wanted to clarify, there is no SEZ income in this EBITDA right, page 24, Q3 FY '18, the other section has a 319, this is purely marine income of Mundra, Hazira, and Dahej which has got booked?

B. Ravi: What we did Bhavin was that the marine business of Mundra, Dahej, Hazira, and Dhamra was demerged, so the other section comprises of this Adani harbor also, so largely this EBITDA is from the Adani Harbor. This is not SEZ income.

Bhavin Gandhi: Second is, Karan Sir mentioned about Dhamra starting container volumes from this quarter onwards, just wanted to get a sense of what potential do you see of container volumes at Dhamra?

Karan Adani: Right now, we are just doing a trial and on a conservative basis, we are seeing a one call in two weeks and to start off with, we are targeting a volume of 30,000 to 40,000 TEUs per year, but we believe that once the road infrastructure is ready over there, Dhamra port can easily handle anything between half million to a million TEUs of container.

Bhavin Gandhi: Just one final thing on the rail connectivity at Hazira, what is the status?

Karan Adani: We are still in talks with the government, I think it will take another, I personally see it will still take another year to crystallize something and then two to three years for construction.

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

Parash Jain: I have four questions, maybe first two if I can direct to Karan, Karan with respect to overall macro recovery be the rebound in global trade that we have seen in 2017, the commentary from some of the liner about how we have seen improvement with respect to container trade in India, which your number also reflects, is it pretty much the first time that you have seen optimism with respect to trade both import and export across the verticals be it bulk, be it liquid, be it container and if that is the case, what sort of commentary are you hearing if this momentum is likely to continue in the near-to-medium term? The second question is that, there is a reasonable amount of visibility with respect to your direction on the different part of the port businesses, if you can throw some color on how the pipeline looks like or rather if you can remind all of us how the pipeline look like for SEZ going into next two years and with respect to your aggressive expansion plan into logistic, where do we stand as we speak and then probably I will get back to Ravi on the other two questions?

Karan Adani: I think it is overall Quarter-3 we saw a very good optimism across the board whether it is not only in container but across whether it is bulk, liquid, and partly it is driven by I think the effect of GST and demonetization all of that has settled and now people are focusing more on industrial output as well as increasing the output at the factory, and the second thing I think what biggest thing we saw was overall trade scenario, the regional trade especially for India the regional partners, we are seeing a good strong upswing over there and I think that is the major reason why we are seeing such a huge growth and I think we are quite optimistic that this will continue at least till 2019, I do not see this momentum coming down. In terms of logistics, we are expanding quite rapidly. We are looking to double our capacity every year both in terms of ICDs and ALL, and we are on course on doing that. We have started a conception of our ICD in Bangalore, we have just placed an order for doubling our capacity of rakes, so we just placed an order for another 15 rakes, so we are quite bullish on this business and we do see this business growing by almost 100% every year on a continuous basis. I will just leave it to Ravi to answer the SEZ question.

B. Ravi: SEZ, we still have some portion of CT3 extension to be done subject to certain approvals we have not yet booked the entire CT3 extension portion as income. For the next year and maybe a couple of years, we still have the LPG and the LNG at Mundra yet to be booked in totality. As you know, we are working the LNG terminal at Mundra is almost ready, and next year, I am talking about the first quarter of maybe FY '19, we should be able to finalize the agreement there, and therefore, that is something which is still an upside. LPG also we are constructing there and that is likely to be there in joint venture which we are looking at, and therefore, that could be an addition and apart from that, even in Dhamra where there is an LNG terminal, there are some developments in that too and there is a planning going on where in it could be in the JV, so these are the probable ones so far as the port development is concerned. Apart from that, the normal land and getting the new people into our SEZ at Mundra that has been quite ongoing. Now, we will see for more traction in terms of interest in setting up manufacturing units which are actually almost dried up in the last couple of years. I think now there is an investment climate improvement, and therefore, we do believe that normal sense also which is maybe around, we have also done many a times 100 to 200 acres which is total to about 400 to 500 crores, even that should be coming back in the next year in not so big way, but not in a small way either, so these are the probable thing and when we have our budget and all for FY '19 completed, probably I will be able to give you a little more color on that, but all these things are definitely likely in FY '19 for sure. FY 20 at this point in time all the recurring incomes of all these terminals plus that lease rentals and all itself, at least will give a minimum of about 500 crores in FY '20 even without any additional port development and all, but port development which should happen like what Karan said we are working on CT6, so let us see if something comes up that could be coming up in FY '20.

Parash Jain: Ravi, just on financials given that CAPEX or the CAPEX is behind us and given your rapid deleveraging that we have seen, how much room do you see with respect to your gross financial expense lowering either by way of deleveraging or is there a room to further price them down, given the resurgent in your balance sheet as we speak?

B. Ravi: If you talk about the net interest income which is there, it definitely should be coming down, coming down because of deleveraging and therefore the interest cost going down in first, and second, the free cash surplus which may still be remaining after the repayment will also give us that kind of an interest income we have been earning on our free cash flow all this while, so I do not think a combination of both these things and plus the kind of the range which have already come and the way we have tightened the rate in the shorter term as well as the long-term on a consistent basis will further give us at least about 20 to 30 basis points of lower interest calculation, so I think a combination of all these things should lead to at least 50 to 75 basis points tightening of interest cost.

Parash Jain: One last, probably it is more of a housekeeping, help me understand if CT3 and CT4 are now under the new accounting are considered as a JV and given the amount of volume that you handle in those two, should we not see profit at that line, which I see flat for the third quarter, am I missing something?

B. Ravi: That is not being because of Ind-AS accounting standard neither the top line nor the EBITDA that gets consolidated with us, it is only PAT that gets consolidated with us and that to 50% of it, so you will not be able to see the growth. In the same volume terms, it is a turnover in EBITDA, that is the reason why there are two things that we are working on. We are trying to see whether we can do the consolidation of that EBITDA from next year onwards by whatever way with the agreement that we can look into with the partner one, and secondly, like what we just earlier we discussed, at least we will be mentioning the impact of the EBITDA in our results for you to be able to gauge as to what is the EBITDA addition is not happening and that will be there in our numbers, so both these things, either of these definitely in terms of the explanation we can say that this is EBITDA which has not been consolidated, that we will try to put it up in our presentation and put it in our calls, but whether we can consolidate and all, we still need to work on certain things before I can assure you that.

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

Salil Desai: Sir, this is a follow up to your commentary on coal volumes, now the Pet Coke ban has subsequently been lifted, so have you seen any coal benefits reversing since then, the volume benefits?

Karan Adani: No, so far in Q4 we have actually not seen any adverse impact of that. We are still seeing a growth in Q4.

Salil Desai: Any idea on why that will continue or these are some contracted quantities that are coming in and we will taper off?

Karan Adani: I think these are contracted quantities which are coming in and I think we will have to see in Q1 of next year, actually if there is any impact on us.

Salil Desai: Sir, there is one clarification, I am not sure if you gave out crude volume numbers for the quarter, can you repeat it please?

Karan Adani: For Quarter-3, crude volumes grew by 10% and on a nine-month basis, crude is minus 11.

Salil Desai: The absolute number would be about how much?

Karan Adani: Absolute amount is 14.24 in nine months and in Quarter-3, it is 5.58.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Most of my questions have been answered, just one question, just needed a quick update on the status on the Vizhinjam port, where are we in terms of CAPEX, how much have we spent and when do we expect it to start operations, and along with that if you could just give us the total CAPEX that we have incurred till date for the entire group portfolio as a whole?

B. Ravi: Vizhinjam is having a four-year schedule, and therefore, it should be completed in FY '21, maybe Calendar of 20 itself, that is what the schedule looks like at this point in time, 2021 for sure. The capital expenses could be about I think we will end this particular year about with about 650 crores or so. As you know, the total debt of our grant is about only 2400 crores therein and I think little less than one-third of that should be done by year FY '18.

Vibhor Singhal: For the whole group, how much is the CAPEX that we have done till now in the nine months?

B. Ravi: It is in line with about 2500 to 2800, I think it has been quite proportionate, I do not have the number, but I think it could be around 2000 crores.

Vibhor Singhal: For full year, we will still do those 2500 to 2800 crores of CAPEX for the full year?

B. Ravi: Yeah, we continue to say that, definitely it will be within that.

Moderator: Thank you. The next question is from the line of Kaushal Chandak from Catalyst Global Equity. Please go ahead.

Kaushal Chandak: Just one question, in Q3 we grew by 11% over Q2, but the revenue looks to be the same, is there any particular reason?

B. Ravi: You will have to see that between these two the only differential is the SEZ revenue which is not the same in both these periods, that is why, maybe I have to release the port revenue, it will still be consistently in the same way as the growth of cargo?

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

Achal Lohade: Just couple of questions, one was the SEZ income, we have booked about 400 crores for the quarter, what is it pertaining to, is it new lease of land or any port development income specifically?

B. Ravi: This is CT3 extension, Achal.

Achal Lohade: Okay, so the cost against that is only (+50) crores?

B. Ravi: Yeah, because majority of that was related to our infrastructure wherein we could not have a large cost on that.

Achal Lohade: Second, just a clarification, Karan said that the transshipment actually volume grew about 40% YOY, have I understood it correctly or is the 40% of the incremental volume he meant?

Karan Adani: 40% year-on-year on the transshipment volume, it was transshipment volume what we did last year versus this year.

B. Ravi: If you really have to, I think what your question probably is what could be the proportion of the transshipment of our total container volume, it is still in the vicinity of about 13% or so, that is how, we always said that it will be within that 11% to 13%, it still even with this growth, earlier it was 11%, now it is 13%, that is how it is.

Moderator: Thank you. The next question is from the line of Jaykant Kasturi from Dolat Capital. Please go ahead.

Jaykant Kasturi: Sir, just one question, I missed out on the container volume CT1 volumes and if you could provide me that number?

Karan Adani: CT1 volume for Quarter-3 was 276,000 and for nine months, it is 857,000.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, on behalf of Edelweiss Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.