"Adani Ports & SEZ Limited Earnings Call hosted by Kotak Securities Limited"

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MANAGEMENT: **MR. KARAN ADANI, CEO AND WHOLE-TIME DIRECTOR, ADANI PORTS & SEZ LIMITED**

MODERATOR: **MS. TEENA VIRMANI, KOTAK SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Adani Ports & SEZ Earnings Call hosted by Kotak Securities Limited. As a reminder, all participants' 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Teena Virmani from Kotak Securities Limited. Thank you and over to you, Madam.

Teena Virmani: Good Evening everybody, this is Teena from Kotak Securities. We Welcome here today the Management of APSEZ for a call on full year results. We have with us Mr. Karan Adani, CEO and Whole-Time Director. Without much delay, I will hand over the floor to Mr. Karan. Over to you Mr. Karan now for the call.

Karan Adani: Good Evening Ladies and Gentlemen, Welcome to the conference call to discuss Quarter-4 and FY '21 operational and financial performance of Adani Ports and SEZ Limited. Let me start by giving you an overview. FY '21 was a year of transformation and consolidation for APSEZ.

We have demonstrated our strength once again with the capability to withstand COVID-like disruption. All our ports were operating normally as port operations were classified as an essential service. During this period, we not only maintained business continuity but also kept the supply chain running and stood by our customers to prove as a bankable service provider at all times ensuring stronger customer relationship and stickiness in cargo thus gaining the confidence of our customers. This also allowed us an opportunity to revisit our cost and restructure them. We focused on moving from fixed cost to variable cost wherever possible, renegotiated operational contracts by reengineering, reducing built-in escalation, redeployed manpower and machine. We have also relied on technology for digitalization of processes and improved resource utilization to achieve cost optimization. This had an immediate impact and EBITDA margins improved by 100 basis points. This EBITDA margin expansion will further continue as we look to expand margins by another 200 to 250 basis points due to an increase in volume in the next few years.

The uncertainty and volatility during the period presented us with a transformational opportunity to grow inorganically and complete four large acquisitions. We expanded our footprint in Maharashtra by acquiring Dighi Port, we also acquired Krishnapatnam Port and are in the process of acquiring Gangavaram Port in Andhra Pradesh, the second and third largest miner ports in India. In logistics, we have set up a new vertical of rail track business with the acquisition of Sarguja Rail Corporation.

Coming to the key highlights of operational performance in FY '21. APSEZ handled cargo volumes of 247 million metric ton, a growth of 11% as against a 5% decline registered by All India Ports. Our strategy to achieve East coast-West coast parity handle all types of cargo and diversified cargo mix ensured continuous gain in market share in India. In FY '21 on a year-on-year basis, APSEZ's overall market share in all India cargo volumes increased by 400 basis points to 25%. Similarly market share in all India container segment also increased by 500 basis points to 41%. Our cargo continues to be diversified with dry bulk constituting 44%, container 43%, and liquid cargo including crude constituting 13% of total cargo. You may refer to our operational and financial highlights presentation for port and cargo segment wise breakup. Coming to the recently completed acquisition of Krishnapatnam port, the port is now fully integrated into APSEZ's portfolio both in terms of operation and financial. We have demonstrated the success of our operating process, which helped KPCL to benchmark each activity to APSEZ standard and resulted EBITDA margin improving from 55% to 71%. The port in H2 FY '21 handled 20 million ton of cargo.

APSEZ also acquired 100% stake in Dighi Port for a total consideration of Rs. 705 crores through the insolvency and bankruptcy proceeding of NCLT. Dighi Port currently has a capacity of 8 million metric ton and is capable of handling bulk and liquid cargo. In April '21, Adani Logistics Limited announced a strategic and commercial partnership with e-commerce major, Flipkart, to strengthen its supply chain infrastructure. As part of this partnership, Adani Logistics Limited will construct a massive 534,000 square feet of fulfillment center by leveraging state of the art technology in its upcoming logistics hub in Mumbai. The center will have capacity to house 10 million units of seller inventory at any point and will be operational by Q3 of 2022. The center will support market access to several thousand of seller, MSME, and will enhance local employment for the region and create 2500 direct jobs and thousands of indirect jobs. Just to mention that this is just the start of the partnership and coming years we will look at expanding this partnerships into many more similar types of warehouses across India. We have been able to scale up and diversify our railway rolling stock business, the recent changes in the general purpose wagon investment scheme of Indian railways have allowed serving our customers not just from ports, but also from the mine. During the year, we were able to add contracts to operate 16 new rails for transportation of coal and cooking coal. APSEZ has successfully bagged a three-year maintenance dredging contract from Deendayal Port Trust through an open tender offer, this is one of the largest dredging contracts awarded by a major port in India and was earlier being done by one of the big port international dredging contractors, contract is worth Rs. 350 crores.

Let me now take you through cargo volume performance segment wise:

Coming to container business in FY '21 APSEZ handled a total container volume of 7.2 million TEUs a growth of 16%. This was led by Mundra which grew by 18%, Hazira which grew by 8%, and Ennore which grew by 53%. Mundra port continues to handle highest container volume in India and is now the premium container terminal. In FY '21, it handled 5.66 million TEUs, which is nearly one million TEU more than JNPT, its nearest competition. This is on account of our strategy of partnering with large ship liners of the world through our JVs and continuous gaining of market share through better connectivity in the hinterland. During the period, 10 new container services were added at Mundra, Hazira, and Kattupalli, which will contribute around 800,000 TEUs of container volume on an annualized basis. Coming to dry bulk in FY '21, total dry bulk volume cargo handled was 110 million metric ton, a growth of 9%. Within this segment, fertilizer grew by 35% and agri products grew by 67%. During FY ’21, we have signed several new contracts at Dhamra port to handle various cargos including gypsum, iron ore, and manganese ore. Dhamra port will handle an incremental volume of 11 million metric ton on account of these contracts.

Coming to liquids in FY ’21:

APSEZ handled liquid cargo including crude of 32 million metric ton, a growth of 2%. As part of our cargo diversification, we added LPG and LNG cargo into our portfolio. This was the first full year of operation for gas business by APSEZ. In FY ’21, APSEZ handled 810,000 metric ton of LPG and 1.75 million metric ton of LNG during the year. The volume in this segment will continue to grow to cater to the addressable market segment, which is set for growth as a result of Government’s favorable policy on the gas-based economy.

Coming to logistics business:

Adani Logistics is continuing with its strategy of expanding logistics footprint across India, building multimodal logistics for warehousing, rail, and distribution network to be the leading integrator logistic service provider in India. As you are aware, Adani Logistics currently operates 61 rails on the Indian Railway network and includes container, auto, grain, and bulk rakes under the general purpose wagon investment scheme. GPWIS is on the growth trajectory and handled 4.4 million metric in FY ’21 versus 2.7 million metric ton in FY ’20, a growth of 61%. We will continue to add new rakes next year under GPWIS to handle increased volume of bulk commodities for its customer in the power and mining sector.

On auto logistics, ALL is growing its handling and transportation of automotive on North-South circuit and is operating two AFTO rakes from Patli to Bangalore.

ALL has emerged as a successful bidder and received letter of award from DFCCIL for the development of freight terminals with exclusive station connectivity across eight locations. The eight locations are New Palghar, New Sanjali, New Dadri, New Chawapail, New Bhimsen, New Gholvad, New Gothamgam, and New Phulera, on western DFC and eastern DFC. Once developed these terminals on western DFC will have direct DFC corridor connectivity and will help in faster and efficient cargo movement leveraging the advantage of double stack container freight movement. Currently ALL has five logistic park and two logistics parks under development at Nagpur and Mundra. ALL has already signed MoU with the medical system for leasing of a newly developed warehouse of 56,000 square feet at Mundra logistic park.

Coming to the operations of Adani Agri Logistics, it is slated to achieve COD of Katihar project with 50,000 metric tons storage capacity in Quarter-1 of FY ’22. Currently AALL has five silo units under various stages of development.

Before discussing financial numbers, let me give you a brief on the latest acquisition and situation in Myanmar. In March 2021, we announced our intent to acquire 89.6% stake in Gangavaram port in two tranches. We have received approval from the Competition Commission of India for acquisition of the majority stake in Gangavaram port in April 2021 and completed the first tranche of acquiring 31.5% stake from Warburg Pincus and expect to complete the second tranche of acquiring 58.1% from the existing promoters by Quarter-4 of FY '22. We expect a cargo volume of 10 million metric tons in Quarter-4 FY '22 from this port. Simultaneously, we had announced acquiring 100% stake in SRCPL as it is related party transaction, necessary steps have been initiated as enumerated in our related party transaction policy and expect this to be completed in Quarter-3 of FY '22.

In April 2021, we have also announced the acquisition of balance 25% stake in Krishnapatnam port from the outgoing promoter at a value of Rs. 2800 crore. With this KPCL will become a wholly-owned subsidiary of APSEZ. We expect this transaction to be completed in Quarter-1 of FY '22. In April '21, we have also been able to take another milestone step in our international journey by foraying into the container terminal in Colombo port. This provides APSEZ to offer one more gateway to shipping lines and other potential port customers across South Asian water benefitting both India and Sri Lanka. All these acquisitions are part of our strategy to increase our hinterland reach and to achieve East coast, West coast priority and bring customers to our port gate. As you are aware, all these acquisitions are value accretive to our shareholders from day 1.

Coming to Myanmar, first and foremost, we would like to say that we completely condemn the violence which has happened in the country, the blatant violation of human rights. Coming to our project as you are all aware that we entered Myanmar in May 2019. We had got all the approvals through democratically elected Government over there which is Myanmar Investment Commission. As part of that deal, we had entered into a land lease agreement with Myanmar Economic Corporation which we had disclosed to all the stakeholders including the Government over there, including the stock market over here, and all the analyst as well as investors.

With the recent violence in Myanmar and the military coup, there is uncertainty and post that United States has also imposed sanctions on certain individuals as well as entities. One of the entities which is sanctioned is Myanmar Economic Corporation (MEC), so we just want to reiterate that our last financial transaction with MEC was in 2020 and post the coup as well as post the sanctions, we do not have any transactions and we do not plan to have any financial transactions, however, given that we have zero tolerance policies on sanctions and to make sure that there is no contravention of the US and other sanctions, we are approaching OFAC proactively. We have retained a US based council, Morrison Foerster, who specialized in sanctions and OFAC-related matters and we will update all the stakeholders once we have a clear view from OFAC. In a scenario wherein Myanmar is classified as a sanctioned country under OFAC or if OFAC opines that we have violated the current sanction, the company has plans to abandon the project and we will write down the investment in the project in full. The write down will not materially impact the balance sheet as it is equivalent to about 1.3% of the total asset of APSEZ. Just to reiterate that so far we have invested approximately US $ 130 million and by the time the Phase-1 which will be completed in June of 2021, the total investment would be around $ 180 million to $ 190 million.

Coming to the financial results of FY ’21:

Happy to share that even during these arduous times, we could achieve all our guidance in terms of cargo volume, revenue, EBITDA, EBITDA margin, and free cash flow while total operating revenue grew by 6% from Rs. 11,873 crores in FY ’20 to Rs. 12,550 crores in FY ’21. Port revenues increased by 12% from Rs. 9613 crores to Rs. 10,739 crores due to an 11% increase in cargo volume. APSEZ during FY ’21 earned Forex revenue of USD 474 million compared to USD 430 million in FY ’20 on increase of 10% which is on account of higher container volume which grew by 16%. Interest charged in FY ’21 was higher at Rs. 2255 crores compared to Rs. 1813 crores in FY ’20 due to additional debt of USD 750 million raised for acquisition of KPCL and other CAPEX requirements, however, the average cost of borrowing has come down from 6.9% to 6.7% due to new issuances and refinancing of USD 500 million at a lower coupon of 3.1% compared to 3.95%. During the year, we have been able to reduce the trade receivables from Rs. 2589 crores to Rs. 2386 crores resulting in a reduction of DSO from 82 days to 69 days. Receivables from Adani Power and Adani Enterprise has been steadily coming down every year and currently stands at Rs. 305 crores and 66 crores, respectively, an aggregate reduction of 37% on a year-on-year basis. During FY ’21, the company has generated Rs. 5800 crores of free cash from operations after adjusting for working capital changes, CAPEX, and net interest cost. This is against Rs. 3942 crores generated in FY ’20. Our net debt to EBITDA has come back to the expected range of 3 to 3.5 times in March ’21 and stands at 3.3 times. All our credit ratios are within the expected range and are a testimony to the disciplined capital management policy of the company.

Coming to the guidelines of FY ’22, based on our internal estimates we project cargo volume for FY ’22 to be in the range of 310 to 320 million metric ton, which includes 10 million metric ton for Gangavaram port in Quarter-4 of FY ’22. Consolidated revenue to be in the range of 16,000 to 16,800 crores and consolidated EBITDA to be in the range of Rs. 10,200 to 10,700 crores. Port revenues during the same period to be in the range of 13,000 to 14,000 crores. Logistics business to generate a revenue between 1400 to 1500 crores, SEZ and port-led development income to be around 600 crores. Port EBITDA margins to improve by 100 basis point and be between 71% to 71.5%. CAPEX for the period to be in the range of Rs. 3100 to Rs. 3500 crores. This includes CAPEX for logistics business of Rs. 800 to 1000 crores. With all these, we expect our free cash flow to be in the range of Rs. 5500 crores to Rs. 6000 crores and result in a net debt to EBITDA of between 3 to 3.5 times. The Board has recommended a dividend of 20% of PAT for the year, which is as per the dividend distribution and shareholder return policy.

To conclude – FY ’21 has been a transformational year for APSEZ, some of the key decisions we took this year has set the foundation for the coming decade. The recent acquisition and focus on increasing the hinterland reach of our existing ports will enable further consolidation and improve our market share. With the initiatives taken in the logistics business, it is said to grow at a phenomenal rate in the years ahead thus setting the path in the right direction to take APSEZ from a port company to a transport utility company delivering full logistic solution to our customers. We will continue to focus on cost optimization to improve our margins, practice prudent capital management policy to maintain our investment grade rating use cash frugally and responsibly to ensure adequate liquidity. With all this, APSEZ is well on its course to become a truly integrated transport and logistics utility and achieve 500 million metric ton of cargo throughput and ROCE to be in excess of 20% in FY '21.

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. The first question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Sir, thanks a lot and congratulations on yet another strong set of numbers. Sir just one question on Dighi Port now that it is part of the portfolio, how should we think about its volume buildup over next one or two years and what kind of say EBITDA or EBITDA per ton we can look forward to and we did see your press release talking about Rs. 10,000 crore of CAPEX at Dighi to position it as an alternative to JNPT, so could you throw some light on that aspect as well?

Karan Adani: Thanks Atul, so I think right now for the coming one or two years on a short-term basis, Dighi has a capacity of 8 million tons and we have just started the work in terms of cleaning up and to augment their current capacity. I think for the next two years I can say that the expected volume would be for the first year around 3 to 4 million and then the next year would be around 6 to 7 million. The margins would be right now to be in the range of 50% to 60% EBITDA margin, but I think as we start this year as well as start the project, I think the project will take at least 2.5 to 3 years to complete to increase the capacity from 8 million to 20 million tons and the idea is to diversify the portfolio over there so to handle liquids. There is a good potential of liquid business, container, and bulk business as well. The other big part of the CAPEX which will go in Dighi is also the connectivity, so the railway line which will connect the port to the main hinterland, but on a short term basis, I would say that this year we are targeting around 3.5 to 4 million and next year would be around 6 to 6.5 million ton.

Atul Tiwari: My question was on the mix of this cargo at Dighi port, this 3 and 6 million ton over next one or two years, this is container or bulk what kind of cargo?

Karan Adani: This will be predominantly bulk and liquid right now, today there is no container facility over there, so we are working in terms of to convert one of the existing berth into container which will take at least 24 months so in the near term basis, this volume is predominantly only bulk and liquid.

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

Pulkit Patni: Thanks a lot for taking my questions, I have two bookkeeping questions, firstly on this guidance of margins to be an improvement of 150 basis points, now I understand that the port margins also includes the margins which come from the rail assets which are associated with those ports and you will be splitting those assets out into a separate subsidiary, so when we look at the guidance, is this guidance ex of that or does it include those rail assets and if you were to split that out then how should we look at margins for the port business excluding the rail subsidiaries associated with those assets, that would be my first question?

Karan Adani: The margins on the rail assets are in the same range is around 69% to 70%, which is same as normal port operation margins, so regardless of whether we restructure them, the port margins will not change and our guidance does not change that.

Pulkit Patni: Got it Karan, reason I was asking for example Sarguja has a margin of 87%, but you are saying that the other rail assets are in the 69% to 70% margin range?

Karan Adani: The other rail assets are in range of 70% because they are under a different scheme of Indian railways.

Pulkit Patni: My second question is on harbor services, while we had volume growth, harbor services revenue declined, now I understand this is because it did not include Krishnapatnam, how should we look at harbor services revenue and margins for the next year-two years in terms of our modeling?

Karan Adani: This has predominantly happened because of upsizing of ships, so because the volume increases but we have handled more larger ships, so if you would see that the ship counts have come down compared to the volume what we did last year, so I think the way to look at it is not to be linked with the volume, but rather to be linked with the number of ships and the size of the ships.

Moderator: Thank you. The next question is from the line of Mohit Kumar from Dam Capital. Please go ahead.

Mohit Kumar: Good Evening Sir, congratulation on remarkable performance in a very challenging year, my two questions what is the kind of organic growth you are building in, my question is excluding KPCL kind of cargo we are looking at and what is the broad outlook on cargo wise volumes in the sales container while container looks good, I think there is a concern on the bulk side and coal side, given the COVID? Secondly Sir, what is the status of DFC connection, I believe there is a line which is still to be completely electrified and I think there is also doubling work which is still going on, when do you expect this line to commercialize and DFC to start contributing to our volumes and what is the current rail coefficient and what is the kind of improvement we expect?

Karan Adani: Let me answer your second one first, so on DFC as per the latest schedule we expect DFC to be connected by October of this year to Mundra. Today our current rail coefficient in Mundra is around 32% of the container volume and as DFC comes into play I think this coefficient will keep increasing, but I think it will increase gradually because there will be a shift of road to rail which will happen with the better operational efficiencies. I think our view is that this is another 4% to 5% growth that we can do on the rail coefficient, so apart from the volume growth we expect the rail coefficient to be around 36% to 38% of our total volume in Mundra. Just coming to guidance, we are assuming that the country GDP will be growing at around 11% and India trade will be growing around 9% to 10%, so that is how we have looked at our from a top down perspective. If I remove Krishnapatnam, the number that we are looking at is around, without KPCL it would be around 280 million tons is what we would expect. If I may the broad diversification would be remaining the same so container would be around 41% of our basket, bulk will be around 44, and liquid, crude, and gas would take up remaining part of our portfolio. The reason why our bulk is increasing or we are remaining stable is because KPCL last year was only half year projection that we had taken and this year we are taking full year volume and as you know in KPCL almost 80% of the volume is tied up on a long-term basis and predominantly bulk volume. The second is the 10 million ton that we will be adding in Gangavaram in Quarter-4. Again Gangavaram is a bulk port and they do not handle any containers, so these are the two reason and then obviously the natural growth that we are seeing in Dhamra with the expansion coming to an end and the natural increase that we will see in Dhamra port because of the hinterland growth over there.

Mohit Kumar: Sir, one more question, have you taken any tariff hike in April and what would be that number?

Karan Adani: Anything in the range of 2.5% to 3% on a per ton basis that continues, lot of those contracts have been executed and some of them are in the midst of execution but 2.5% to 3% on a per ton basis.

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

Ashish Shah: First question is on the Sri Lanka investment that we spoke about so if you can just briefly highlight what is the kind of investment that you are looking at timeframes and just one question that I had is with respect our Sri Lanka investment and the Vizhinjam project which is under construction so my thought was that when we were looking at Vizhinjam, the rationale was that we probably try to take our transshipment cargo from Colombo into Vizhinjam, now how does the Sri Lanka investment tie-up with this particular asset, so if you can just throw some light?

Karan Adani: The Sri Lanka investment we are investing in Colombo, it is West coast terminal. It is under a joint venture where we have to partner where APSEZ is holding 51%, John Keells is holding 38%, and then SLPA, that is Sri Lankan Port Authorities holding the balance part. The total project cost is in the range of $ 300 million to $ 350 million and our part would be around 150 to 170 million is what our commitment would be. It would be done in two phases, Phase 1 eventually with both phases completed the terminal will have a capacity of 3.5 million TEUs and it will be done in two phases of almost 1.5 million and then further. The way we look at between Sri Lanka and Vizhinjam is actually a complementary rather than as a competition because we would then be able to control price on both ends and especially on the transshipment side where we do expect that there is a lot of price war which happened, we do believe that having control on both sides, we will be able to, one, control the price, and second also the natural growth which is happening in Colombo apart from the Indian cargo, Indian subcontinent cargo is quite a lot so to cater to that growth we do believe that there is enough room for both to continue and both the ports to flourish.

Ashish Shah: Just on the same thing what is the time frame for this investment to be made, when do we start and what is the kind of cargo that we look at initially when you commence the terminal?

Karan Adani: We have just signed the BOOT agreement and it gives us six months from first of May to finish the financial closure and then we start the construction. The construction is anything between 24 to 36 months and as I said the initial first phase capacity is 1.5 million TEU and we would be looking at least on the first year to have at least 50% to 60% of capacity.

Ashish Shah: On Myanmar, we said that we have invested about 130 odd million Dollars, would we continue investing through the period where we decide what to do or you can say we are restricted at this point and are there any penalties for getting out of the contract, I mean when we say that we abandon the investment, would they have any contractual penalties to be honored if we do that?

Karan Adani: There are no contractual penalties if we do not honor and we can exit out because this will fall under the clause of political force majeure. Yes, today also we are continuing to invest because as I said that we expect the terminal Phase 1 to be completed by June. We have approximately 350 people working at site as on date as we talk and I think it is a matter of, we are very confident that we will not fall under the sanction but as a measure of good order we are taking this route to be extra cautious, but the project continues. We are going with the assumption that the project continues with the current course of action.

Moderator: Thank you. The next question is from the line of Priyankar Biswas from Nomura. Please go ahead.

Priyankar Biswas: Good Evening Karan, so my first question is regarding your volume guidance, so what I observe is that is the second half of the FY '21 which includes Krishnapatnam, the company has done something like 149 million tons of volumes, so if we go even by that run rate we should be ideally be reaching 300 million tons even without any major growth and on top of that if you put 10 million tons of Gangavaram that is where your guidance levels are, so are we saying that there may not be additional growth or is it a more conservative guidance you are giving at this point of time?

Karan Adani: As I said that last year as a country we had a degrowth, so when I talk about 11% growth we have to keep in mind that we are coming out of degrowth, we are coming from a year of degrowth, so in essence if you compare it with FY '19, the growth would be approximately 4% to 5% on a country level. The reason we have given this guidance of 310 to 320 is predominantly because there is uncertainty even today, but looking at how we see situations evolving, as of now we are very confident that we can achieve this volume, maybe in October half year looking at how the six months have gone, we can revise that estimates, but right now this is what we are confident of.

Priyankar Biswas: Karan if I read it correctly, you said that excluding this Krishnapatnam, the volume is 280 million tons?

Karan Adani: Yes, that is right.

Priyankar Biswas: I am saying from Krishnapatnam, I think in this year you had roughly 20 million tons, right?

Karan Adani: That is right.

Priyankar Biswas: That is from the half year, so ideally even if we have the same amount of volumes without any growth, so we can be possibly be doing 40 million tons for Krishnapatnam for the whole year in FY '22 even without any growth, but when you said about the guidance to a question from another participant, you said ex of Krishnapatnam the volume will probably be around 280, so ideally this Krishnapatnam should be adding at least 20 million tons extra, so somehow this number does not tie up, so that is what I was trying to clarify?

Karan Adani: If we look at even the existing quarter right excluding KPCL, we have done 63 million tons in Quarter-4 and even if I take that growth, even if you take Q3 also, Q3 we have done 66 and in Q4 we have done 63 so on existing portfolio we have taken without KPCL if I take that it would be anything between 250 to 260 is what the current run rate would be. What we are talking is 260 another 20 million ton that is 280 and then we have KPCL on top of that and then Gangavaram as well.

Priyankar Biswas: Karan, final question from my side. So, this is regarding Myanmar. So, what I see from the media especially like ABC News there seems to have like quite an extensive reporting on this. May be probably making an issue out of this and they refer to UN General Human Rights Commission of Fact-Finding Report etcetera like that.

But what we have observed is that there are other Indian companies including our big IT major mentioned as well. So, what is it that APSEZ has particularly been singled out for it? Can you throw some color on that, that Dow Jones took such an action?

Karan Adani: Yes, so I think two things. One is if you see the ABC report it has predominantly come out of Australia and that is because they are trying to malign the group with now that the Australia project is full swing, and they do not have any other aspect to attack the group. That is why they are looking trying to find and trying to connect kind of baseless things one to another and that is how if you see the report also which has come out.

It has come out from the NGOs from Australia and even on the Dow Jones side we believe that, and we are very clear on this that they have only taken one side of the story and they have not taken a holistic approach and they have not taken into account a lot of other things that the group and the company is planning to do.

Just to give you an example we have a commitment to be carbon neutral by 2025 and no other port company globally has given that kind of commitment. And when we look at these things we do believe that we have been wronged by Dow Jones on this thing but that is okay. We are going to be engaging with them proactively and we will rectify the situation in next 12 months. But this is predominantly come out of Australia and vested interest groups who are trying to find something or the other on the group to make sure that they keep the Australia project on hold.

Priyankar Biswas: So, it is more about Carmichael project to getting back on the Carmichael project rather than specifically Myanmar trying to hit that?

Karan Adani: Yes, that is right.

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

Paras Jain: I have few questions and I do not know how many I can ask but feel free to ignore whatever you do not think I can response. My first question is more on when you talk about your next year's volume guidance I just wondering that the recent wave did it have a knock-on effect on your growth focus that you would have thought six weeks back?

My second question is when we talk about the CAPEX numbers excluding logistic business, can you help us visualize what kind of capacity metric ton kind of are we penciling in against whatever Rs. 2,300 crores to Rs. 2,400 crores of CAPEX? My third question is with Sri Lanka terminal on track is it fair to assume that next logical state for the group would be to solve the connectivity bottleneck i.e., if the feeder connectivity is one of the bottlenecks for the coastal cargo in India is there an opportunity or is there a prospect where the group can look into invest into the feeder network or get into a long-term charter to solve that problem for your customer?

And lastly just on the Dow Jones' recent commentary on the group. You have partially explained that but how do you think it will pan out and where do you think that they misinterpreted it, or you need to do more to resolve that issue and get back on track?

Karan Adani: So, looking at the second wave based on that itself given a guidance. Our guidance is keeping that in mind not just second wave but even second and third wave but our assumption is that there would not be a nationwide lockdown but there could be mini lockdowns which could happen and that is how we are looking at the volume of 310 to 320. But if things improve then in October obviously we can revise this guidance and we are seeing little bit of effect of it in the month of April also if you see on a month-on-month basis we had a little bit of reduction and that is predominantly because of the current wave which is happening.

To answer your second question on the CAPEX number on the ports with this CAPEX we would be adding approximately 60 million tons of new capacity. This is predominantly in Dhamra, in Dighi, in Krishnapatnam and towards the completion of Vizhinjam port. So, these are the places where the majority of the CAPEX is going in terms of the expansion.

To answer your third question on Sri Lanka, no, we will not be getting into shipping business but what we will be doing is work with some of the feedering lines. Answering the third question which is on the feedering network and whether we would be investing into feeders. Answer is no. What we will be doing though is if we do believe that this becomes a bottleneck we have enough relationships with the shipping lines and we can work out sort of a strategic alliance to give priority to some of the shipping lines to create that network to make sure that all our port capacities being augmented.

To answer your fourth questions on the Dow Jones, first let me answer what better we need to do. I think what we need to do is explain our position better. I will admit that may be we have not done a great job in terms of explaining it to them. And that is one area which we do believe that we can do better and explain to them. I think the knock-on effect we do not personally see that this will continue because as I mentioned perhaps that we are going to be engaging with them in the coming few weeks and we do believe that, and we are very confident that this decision will be changed in their next review which we be in 12 months' time.

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

Vibhor Singhal: So, Karan, my question was just on the logistic guidance that we have given. So, firstly, just to understand the new track management services company ATMSPL that we are forming that will be a part of the Adani Logistics business, am I right about that?

Karan Adani: No, it will be part of APSEZ not Adani Logistics.

Vibhor Singhal: So, when we are giving the guidance for Adani Logistics revenue to be in the range of Rs. 1,400 crores to basically around Rs. 1,400 crores to Rs. 1,500 crores so this does not include the revenue from the….

Karan Adani: No, it does not include anything from track management. What it includes is the Agri business, the AALL business. The rake movement under the GPWI Scheme. The container movement that we do and the ICD business and the warehousing business.

Vibhor Singhal: So, I think that will be exact profile of the business right now as such. So, we are looking at around 57% growth which is completely organic there is no element of acquisition in that, right?

Karan Adani: No, no acquisition. There is only purely organic.

Vibhor Singhal: So, could you just throw some light as to why is that we are expecting such a big jump in the logistics in next year and if I were to let us say just ask you to basically give us some slightly longer-term kind of a horizon what is the kind of growth rate that we could expect in years beyond that? Not a quantitative number but let us say just a kind of a broad range that we could be looking at beyond FY22?

Karan Adani: Sure, so I think let me answer why we are seeing a 53% the growth that we are looking at this year. If you would see on the let me start with GPWS. On the GPWS as you know we are doubling our volume this year based on the contracts that we have signed in the previous year. And we are adding another 16 rakes so there will be automatically 100% growth in that business. On the container side we do expect market share to increase to almost 13% from the current 11% on the pan India basis.

And we are starting some of the new locations we are starting our business so like Nagpur we will be starting in the second half. We are starting in Bangalore as well. I mean Bangalore we are ramping up. So, some of the new locations which had started last year we are ramping up and that is the reason why we expect volumes to increase and the revenue to increase. The third is on the AALL. We expect by end of this financial year at least three new sites to be operational. The first site will be operationalized in Q1 and then correspondingly we expect by end of this financial year total three sites will be operational.

So, that will also add revenue and volume to the business. And the last is on the warehousing. On the warehousing front, we have commissioned last year we have completed almost 150,000 square feet of warehousing which are completely sold out. So, that is an additional revenue which will be coming.

So, all of these combined that is the kind of growth that we are looking at.

Vibhor Singhal: And my second part of about the longer-term growth that we are looking at?

Karan Adani: Yes, so I think longer term it is very as I told you that we are very bullish on this part of the business. Longer term it is very hard to give guidance in terms of because there are lot of moving parts even because if CONCOR acquisition does materialize and it is a very different ball game that we are talking about. But I can tell you that we are very, very bullish on warehousing business. Our target is 30 million square feet of warehousing to be done in next five years.

On GPWIS we want to expand this business quite rapidly and we do not see too many bottlenecks in expanding that because now lot of infrastructure is required and on the container side if CONCOR comes in to play then it is a very different ball game but if CONCOR does not materialize then we have different game plan which alternate game plan which we are working on. But eventually we do expect our goal is this business to be approximately 20% to 25% of APSEZ's balance sheet in the coming five years.

Vibhor Singhal: Just last question if I could squeeze in. In terms of the SEZ revenue that we are looking of around Rs. 600 crores next year, is it going to be phenomenally Mundhra again or do we expect some contribution coming in from may be Krishnapatnam or Dhamra itself?

Karan Adani: No, this is Mundra itself. These are some of the contracts that we are in the verge of signing.

Moderator: Thank you. The next question is from the line of Amit Shah from Bank of America Securities. Please go ahead.

Amit Shah: Most of questions are answered but I have a few questions from a long-term perspective. So, the first one is that under Sarguja Rail it is mentioned that the plan is to take PPP projects for railway. Just want to understand what kind of railway projects could this be meaning will they complete our existing ports and their connectivity, or could this be the futuristic DFC projects that are planned on PPP model as well? So, that is the first question.

The second I just wanted to again understand this Colombo container terminal not cannibalizing with Vizhinjam so put it differently the first phase of Colombo and Vizhinjam put together will be about 2.7 million TEU so just for understanding is it possible to give what could be the utilization of this combined capacity of 2.7 million TU once the first phase of both of these are operational?

And the final question is there is a plan to develop a pretty large port called Vadhaman Port in Maharashtra. This is a futuristic thing but just wanted understand is, is our Dighi port plan large enough to compete with Vadhavan port or it will be much smaller in comparison to Vadhavan?

Karan Adani: So, I think let me answer your first question that is on the PPP projects on railway. I think these are on both sides. These are on DFC as well as some of the critical strategic connectivity which could help in swinging customers some of the key customers from competing ports to our ports. And so, these are not, or it could also be giving an edge to move some of the volumes which are moving by rail to move them into coastal routes.

So, these are some of the projects that we are looking at. And these are backed by frights that we are confident that could be moved by us or could be transferred by us. On the Colombo container terminal and including with Vizhinjam I think we do expect both assets put together we would be running in the first year we would be running at 60% to 65% capacity utilization. The way we look at it is eventually one of the shipping lines will take a bet in Vizhinjam and the other one would look at Colombo.

So, I think that is how we look at it because in Colombo there are if you see there are four large shipping lines which operate. That is Maersk, CMA, MSC and Cosco so today other than Maersk the other three players do not have any sort of a home-based terminal. So, we do believe that we have a good chance with both these terminals we would be able to rope into two players into our terminal.

Coming to Vadhavan, in my view Vadhavan is a futuristic development we do not know when it is going to happen but regardless of that I think Dighi is going to be a full-fledged multi product port. So, we are not looking at just container, but we do see there is a huge potential for liquid bulk, LNG and container. So, I think that is how we look at. We would be focusing more on diversification and creating a true multi product port for the state of Maharashtra which today all said and done it is not there. So, we are very confident that regardless of Vadhavan we would be able to compete, and we would be able to grow Dighi quite significantly.

Amit Shah: Karan, just a couple of quick follow ups to each of these questions. So, since you said that under railways it could be DFC and some of the port connectivity project, so the port connectivity projects I am assuming has a potential of adding to the revenues within a couple of years or three years' time frame. DFC projects are obviously going to be much longer. So, without getting into specifics do you see there are opportunities for acquisitions to be made for rail assets that connect to the port? So, that was first.

Karan Adani: So, let me just answer that. Today there is no acquisition opportunity because there is no private player out there who is owning railway assets. It is all Indian Railways who own that.

Amit Shah: Okay so all the projects will be Greenfield whichever you planned to get in. And from a Colombo and Vizhinjam perspective given that both of these will be trans-shipment ports so assuming that the tariffs there will be lower and therefore margins should be around the 60% range as compared to 70% plus that we do at another ports. Is that the fair assumption?

Karan Adani: Yes, you are right. It would be in the range of 60% to 65%.

Moderator: Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: I had a few questions. The first one was on the terminals I probably missed a little bit on that. You said that there are eight terminals that you are planning to build on the DFC. So, would this be competing directly head on with CONCOR and what could be the CAPEX plan of this expansion in capacity? That is first. The second one was just around Gangavaram. How are you planning to pay them because we have just said that 3,604 so is it an all-cash deal or partly by shares and any decision has been taken on that?

The third one was on Flipkart. How big is this as an annualize opportunity I mean in terms of is it take or pay if you can provide any color here? And are you already in negotiation with other similar contracts? And fourth one was just on rail track. On capital employed in your current five-year projections what kind of balance sheet or capital employed are you asking for rail track that you would be adding in the next five years?

Karan Adani: Let me just answer the first two ones. So, on the eight terminals yes, these are when we looked at bidding these terminals out on DFC these are the terminals where we see CONCOR doing the maximum volume, and this is a part of to at least get an opportunity to position ourselves close to CONCOR and to be able to have at least a facility around that. So, most of the terminals that you see are where we see maximum volume potential.

The CAPEX over there phase 1 is approximately Rs. 100 crores to Rs. 150 crores per terminal is what we are looking at and then once the volume ramps up we would be plowing that back into the asset to keep growing the assets. But that is the initial CAPEX that we are looking at.

On Gangavaram, we are still working with the promoters to see how we will be doing the deal. As you know that Government of AP also has a stake in Gangavaram port approximately 10.4%. We are in talks with Government of Andhra Pradesh. If GOAP does decide to sell its stake on a cash deal then we would be looking at a merger of Gangavaram Port with APSEZ so the existing promoter that is Raju will be getting shares of APSEZ.

If GOAP does not decide to sell its stake then we would be going back to the drawing board to see what is the most tax efficient way of doing the transaction. But just to say we are open I mean we have kept all our options looking at both either a cash or swap deal on Gangavaram.

Girish Achhipalia: Third question was on Flipkart opportunity?

Karan Adani: Yes, so Flipkart as you know it is what we have a contract is a 15 year take or pay contract over there and the annual revenue that we expect over there is around Rs. 15 crores to Rs. 16 crores to start with day one and with an escalation build in of 3.5% every year. And we look at there is a huge opportunity to do similar things and as I said that we would be looking at this year we are working on transaction ways we would be closing with another e-commerce players as well as industrial players and this year our target is to sign similar contracts worth almost 2 million square feet and the idea is that in next 5 years to take it up to 30 million square feet in terms of the total capacity. But all of these contracts that we will do is on take or pay basis.

Girish Achhipalia: Sorry, this will be on Nagpur a multi modal park that you are already working on or this will be anywhere in the country?

Karan Adani: No, these are all over India so this will be in Ahmadabad, in Mundra, in Chennai, Bangalore, Hyderabad, Mumbai, Calcutta, NCR so it is predominantly these are the places where 90% of the warehousing happens.

Girish Achhipalia: And last one was just on capital employed for rail track do you have any color right now for a long-term perspective?

Karan Adani: You are asking for going forward new CAPEX in rail track or?

Girish Achhipalia: Yes, the capital employed that can happen in rail track new projects that you bid for what kind of because we have identified ports and logistics and rail track is the other third vertical so just wanted understand how will cash flows be deployed in these verticals? So, rail track will it become a bigger vertical than logistics as well or will it be at a certain level of balance sheet only?

Karan Adani: No, I think we looked at it more strategically. I think we are not capping it that depending on the opportunity we would be looking at developing some of these assets. Just to give you an example like in SRCPL we would investing another Rs. 1,000 crores in the coming five years to expand that capacity. Same way depending on the opportunity arising we are working on the rail track business for getting the rail connectivity into Kattupalli. We are working on getting connectivity at Dighi and in Hazira.

So, I think even just all these three ports put together we would be looking at a CAPEX outlay of around approximately Rs. 3,000 crores just for these three projects other than SRCPL and other projects under the PPP. But I think the idea is we would look at the volume potential and the kind of returns that we can generate, and I mean we are very confident that some of these lines can generate in excess of 18% IRR.

Moderator: Thank you. The next question is from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Just a couple of questions. Karan, firstly on the Kattupalli business just wanted to check there is usually fairly large volatility in terms of margins. So, I were to just look at Q4 there is substantial decline on a QoQ basis. So, could you just explain the driver for that and also Adani Logistics you mentioned about moving away from these low margin contracts. Is there any pricing pressure going on in logistics because we still see margin sequentially being lower? So, could just also highlight on this? So, this is my first question.

Karan Adani: On the logistics you are seeing margins being lower is predominantly because of utilization being lower but I think as we keep growing the volumes keep increasing we would see these margins coming back. On Kattupalli see what we have had is our container has dropped on year-on-year basis and even on a quarter-on-quarter basis our volume has been down by 11% on the container whereas what has picked up is our liquid business.

So, that is why you would have seen the margin changing over there percentage. But I think on a yearly basis I think we would be going forward above 60%. And also, we had a onetime R&M expense in quarter 4. That is the reason for the aggravation.

Venugopal Garre: Karan, secondly I just wanted to check on this Colombo, Vizhinjam sort of link you mentioned that eventually you could capture both side of the flow so you should probably be able to also get a pricing part of it. So, could you just elaborate this a bit more? More importantly given that from a time frame perspective I think Vizhinjam is going to still take time for you to commission. So, how different are the commissioning timeline for this and also from a synergy point of view how does the transshipment flow work for you?

Karan Adani: So, I think if you see on the transshipment side, the alternative for Colombo is Vizhinjam. And now having positioned on both sides as I said that three shipping lines are looking for a home base in this region and we cannot ignore this region because it is an established center both Colombo as well as and when Vizhinjam comes in including Vizhinjam. So, we look at both as an extension of each other.

And that is why we do believe that having control on both sides we will be able to maintain the pricing rather than getting into the price for. Just to give you example if west coast terminal was developed by not Adani then there would be price war between Vizhinjam and the third party.

But now with us being there on both sides we will be able to control pricing across the board. That is what I meant to say. And Vizhinjam we expect phase 1 to be completed by March 2023 is what we expect is and Colombo would be coming around the same time. So, may be five, six months here and there but it would be around the same time.

Venugopal Garre: Karan, if I may ask one or two last questions actually. One is on the slowdown perspective I think April you did mentioned that there were sort of early signs in terms of impact but given that Covid has intensified further I am sure that from a forward call perspective you would have idea of how things are shaping up especially more so in the near term because there is always a lag impact.

So, what are the areas that you are actually seeing if at all any incremental slowdown or is it like it does not matter that the volume front one core container or whatever is still going to be fine even at this level of Covid intensity and the reason I am asking is because your overall GDP growth that you worked with is 11% which is does not really factored in the Covid impact. So, near term is probably and I am more focused on the answer as to what is the extend of impact?

Karan Adani: Yes, so far we are not seeing any impact in terms of bookings or production levels or PLF levels at the power plants or in the steel plants. Actually, we are seeing a growth in these sectors. I think what you will see is due to the second wave you will see certain pockets where there would be disruption on the logistic side because of lockdown but I think now country is well geared up when we went through the first lockdown both the company as well as country geared up in terms of we know what to do if a lockdown happens in certain parts of the country.

So, I think those uncertainties are not there and we are not seeing on a near term basis any reduction in terms of cancelling or any cancellation of bookings or anything like that. I think it is just we are little cautious in terms of how do we see on a medium-term basis.

Moderator: Thank you. Due to the time constraints, we will be taking the last question for today which will be from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: I have three questions. Firstly, does the volume guidance include the Myanmar volumes which you earlier expecting for FY22?

Karan Adani: Yes, there is a volume of 100,000 TUs in that so approximately 1.4 million tons.

Prateek Kumar: Okay so only 1.4 million tons, okay. Secondly, so now with the revised CAPEX of Rs. 3,100 crores to Rs. 3,500 crores so this will be like this includes much larger CAPEX on logistics so this will be like more similar range we can expect for future years as well this range of CAPEX because we are very aggressively putting warehousing and logistics so that CAPEX will remain at Rs. 1,000 crores and overall number?

Karan Adani: Yes, logistics would be I mean right now I am going with the assumption that CONCOR is not happening so that is why I am giving you a range of I mean I am giving you a guidance of Rs. 1,000 crores every year but if CONCOR does happen then we have to relook at these numbers because then it would be creating capacity that is necessary for us so but right now with the assumption that CONCOR is not happening yes, Rs. 1,000 crores is a right number.

Prateek Kumar: And the total number for Rs. 3,100 crores to Rs. 3,500 crores this will be the total number as well I mean we have reduced this number to around Rs. 2,000 crores for FY21 so?

Karan Adani: Yes, I think I would not say to take Rs. 3,100 crores to Rs. 3,500 crores on a long term. It is just that this year we have certain capacities which we had kept on hold last year which are coming in. But I think once those capacities come in on an average Rs. 2,500 crores is a good number on the port side.

Prateek Kumar: And just one last question. This issue of 1 crores share to Warburg Pincus is it reflected in FY21 close balance sheet?

Karan Adani: No, the transaction has happened in April, so it has not been reflected in the balance sheet.

Moderator: Thank you. I would now like to hand the conference over to Ms. Teena Virmani for any closing comments.

Teena Virmani: Thank you Karan for your time and thank you participants for participating in the call.

Karan Adani: Thank you and the IR team is available if anybody has any questions that they would like to answer. Thank you everybody.

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