“Adani Ports and Special Economic Zone Limited Q2 First-Half FY 2017 Earnings Conference Call”

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MANAGEMENT: **MR. KARAN ADANI – CHIEF EXECUTIVE OFFICER, ADANI PORTS AND SPECIAL ECONOMIC ZONE LIMITED**
MR. AMEET DESAI – GROUP CHIEF FINANCIAL OFFICER, ADANI GROUP
MR. RAJEEV NAIR – DEPUTY GROUP CHIEF FINANCIAL OFFICER, ADANI GROUP
MR. B. RAVI -- CHIEF FINANCIAL OFFICER, ADANI PORTS AND SPECIAL ECONOMIC ZONE LIMITED

MODERATOR: **MR. SHIRISH RANE – HEAD OF RESEARCH; CONSTRUCTION, POWER, IDFC SECURITIES LIMITED.**

Moderator: Ladies and Gentlemen, Good day and Welcome to the Q2 and First-Half FY 2017 Earnings Conference Call of Adani Ports and SEZ Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note, that this conference is being recorded.

I now hand the conference over to Mr. Shirish Rane from IDFC Securities Limited. Thank you and over to you, sir.

Shirish Rane: Thank you. Good evening, everybody and welcome to Adani Ports and SEZ Limited Q2 and First-Half FY 2017 Earnings Conference Call. Today we have with us Mr. Karan Adani -- CEO of Adani Ports and SEZ Limited; Mr. Ameet Desai -- Group CFO, Adani Group; Mr. Rajeev Nair – Deputy Group CFO, Adani Group; and Mr. B. Ravi -- CFO, Adani Ports and SEZ.

To start the call, I will hand over the call to Mr. Karan Adani who will give us his opening remarks then we will follow it up with Mr. Ravi's detailed financial analysis and then we will open the call for question-and-answers.

Over to you, sir.

Karan Adani: Thank you, Shirish. Good evening, everybody. Welcome to the Analyst Call. I am pleased to announce our operational and financial performance of APSEZ for the half-year ended 30th September, 2016.

It has been a very satisfying first-half for us. On a year-on-year basis in H1 FY 2017 while our cargo volumes grew by 12%. Our revenues for the same period grew by 14%. Similarly, on a year-on-year basis in quarter two fiscal the FY 2017 cargo volumes grew by 17% while our revenues for the same period grew by 21%.

For the half-year ended 30th September, 2016 on a year-on-year basis, our EBITDA grew by 14% while our PAT grew by 46%.

Financials details will be discussed with Ravi our CFO in greater details later.

We have reduced our related party loan by Rs. 1,035 crores in half-year FY 2017. As committed earlier we target to reduce it entirely by this financial year end.

Now, let me give you a brief outline of our operating performance, container business SEZ development activities and logistics business. As said, out consolidated cargo volumes grew by

12% from 76 million metric tonne in H1 of FY 2016 to 85 million metric tonne in H1 of FY 2017.

On a year-on-year basis we have once again outperformed all India ports growth while Indian cargo grew by 5%, Adani Ports grew by 12%.

Similarly, in quarter two of FY 2017 all India growth was 6% while Adani Ports grew by 16%.

In quarter Q2 FY 2017, cargo volumes grew by 17% from 36 million metric tonne in quarter two of FY 2016 to 43 million metric tonne.

For the half-year ended 30th September, 2016 while coal constituted 37% of our cargo containers was 35% and crude plus other cargo was 28%. Container volumes grew by 28% as against 10% growth registered by all India ports. Agri products, iron and steel, minerals and chemicals registered more than double-digit growth.

There has been all around growth in the various types of cargo we handle. Mundra portfolio registered 5% year-on-year growth in H1 of FY 2017. All other ports registered double-digit growths. Kattupalli, Hazira, and Dhamra are today our fastest growing ports. We are now doing around 32,000 TEUs per month at Kattupalli. Hazira has grown by 36% while Dhamra has grown by 37%.

Container cargo, postal shipping of coal, mineral and steel, and handling of other high value cargos like pulses will continue to be our focus areas.

Dahej and Dhamra will start handling fertilizer agri products from Q4 of FY 2017. Having registered a 12% year-on-year quarter in the first-half of FY 2017 we are well on course to achieve our full year guidance. The takeover of Abbot Point Bulk coal, Australia has been completed. Consolidation of its results with APSEZ will start from Q3 of FY 2017. We have a bid for our Greenfield portfolio in state of Andhra Pradesh called Bhavanapadu and we have emerged as the sold trader. We are awaiting the outcome of the same.

We have operationalized container terminal ports at Mundra port with a capacity of 1.3 million TEUs berth 3 at Dhamra is also now operationalized.

Now, let me give you a little bit more detail on container business. Currently we have our container operations at Mundra, Hazira and Kattupalli. These ports are future ready and geared up to handle larger share. New services are added during the Q2 of FY 2017 and they are as follows. At Mundra we have added three new services one is for the Far East sector by COSCO, PIL, Evergreen and Wanhai. The second is an Africa sector service by MSC and the third is the south Africa and east Africa sector of CMA CGM.

At Hazira we have added Far East to Mediterranean line of **AME**. Regional containers and RCL adding vessel calls in Hazira on the GALEX service which is a Far East sector of CMA CGM and united shipping.

Similarly, Maersk line has shifted its service from Chennai to Kattupalli. Kattupalli has the potential to become the preferred gateway port for auto manufacture. We aim to handle higher container volumes at the ports and are truly on our way to become the highest container volume handler in India by FY 2017.

Operations at Ennore portfolio is likely to commence during quarter four of FY 2017 and we intend to start handling container at Dhamra from Q4 of FY 2017.

Now, let me give you a little bit brief on SEZ business. Mundra port is the largest multi-product based Special Economic Zone in India. Mundra SEZ has a notified land bank of over 8,000 hectare. Diverse key sectors mainly agri products, textile, heavy engineering, chemicals, food processing, auto ancillary, electronics today operate from our SEZ.

“Make in India” strategy of government of India is working well and we are seeing big names with diverse business activities coming to our SEZ at Mundra. During the first-half we have been able to get a few big clients mainly Credo Minerals, Oilfield Warehousing Services and Britannia Limited. Due to excellent integrated rail, roads and airport connective thrust of government of India on coastal shipping we expect many more diverse industries coming up at our SEZ.

In this financial year more than 50 acres of land lease has been firmed up. We have realized an amount of about Rs. 200 crores from CT-IV development at Mundra. FY 2017 onwards the recurring revenue from infrastructure usage at SEZ would be in excess of Rs. 100 crores, this was steadily increased over the next 15 years to 30 years. Development of SEZ will lead to increase in EXIM cargo for our Mundra port.

On logistics business Adani Logistics is an end-to-end logistics service provider. Currently we have two ICD’s one at Patli in Haryana and second at Kishangarh in Rajasthan and both are working well. Today ICD Patli is the largest private ICD in the country in container volume. We have strategic partnership at Loni, Bawal and Wardha.

ICD at Kila-Raipur which is in Punjab will be commissioned in January of 2017. Adani Logistics Limited in volume terms is the largest private rail operator. We achieved a landmark figure of 100,000 metric tonne coil movement by rail in 2015-2016 ex-Mundra. We have added four rakes during half-year FY 2017 and currently operate 18 container rates.

Recently we expanded capabilities to offer warehousing and end-to-end supply chain solutions to clients namely - Maruti Suzuki, Honda, Adani Wilmar, Hanko, Ravago Shah Polymers, Winmar, Hero Motors, Aditya Birla and many more.

In half-year FY 2017 and in the month of August 2016, Adani Logistics Limited achieved highest ever terminal volume of 28,292 TEUs. Terminal volumes on year-on-year basis increased by 21%. Revenues in Q2 of FY17 grew by 17%. We foresee robust growth in our logistics business going forward.

I am also happy to inform you that keeping in mind the best corporate global practices we have for the first time released our sustainability report which has been uploaded on our website. I hope you have had the time to see.

With this background, I now request our CFO, Ravi to take you through the financial highlights of H1 and Q2 FY 2017. Thank you.

B. Ravi: Thank you, Karan. Our results and key operational performance highlights for the half-year and Q2 have been uploaded on our website. I am sure, you have had the time to look at it because that was done some hours back.

But let me take you through the details. In keeping our intension of giving as much details as possible the presentation has been fully put, everything has been there on that presentation as well as Karan has taken you through the entire operational details of all main businesses.

At the outset, let me mention that our financial results are better than the Bloomberg consensus analyst estimate in all parameters be it cargo, revenue, EBITDA margins and PAT. We had implemented IndAS from 1st April, 2016 as you know. PAT for the half-year as per IGAAP was Rs. 1,308 crores and the PAT as per India GAAP was Rs. 1,321. So there is increase of Rs. 13 crores. Our guidance of being able to realize additional foreseeable revenues from our port led developments for the next year to CT-IV, CT-III extension LNG and the revenues will substantially increase going forward as well as add to our operating cash flows.

If you see the financial highlights on a year-on-year basis. For the half-year, the total operating income stood at Rs. 4,010 crores which is a growth of 14%. The EBITDA was Rs. 2,621 crores an increase of 14% again. The EBITDA margins on a consolidated basis at 65% which is maintained. If you classify the ports only revenue and the ports EBITDA, ports revenue grew by 20% to Rs. 3,359 crores and the ports EBITDA again grew by 19% to Rs. 2,319 crores and the PAT as Karan said grew by 46% to Rs. 1,927 crores.

Similar numbers for Q2, the revenue increased by 21% to about Rs. 2,200 crores. The EBITDA by 23% to Rs. 1,452 crores and the EBITDA margin showed an increase of 100 basis points it went up from 65 to 66. And on the ports revenue side again for the quarter it showed a 30% increase and it stood at Rs. 1,726 crores and the port EBITDA showed a similar increase of 31% to Rs. 1,163 crores. The PAT was 61% higher and it stood at Rs. 1,091 crores.

The port EBITDA margin for H1 FY 2017 was 69% and Q2 was 67%. There was a capitalization of an expense of 64% in Kattupalli which earlier was capitalized now has been charged off. As a result, the EBITDA margin, if you do not include that the adjusted EBITDA margin actually stood for both H1 and Q2 at 71%.

Our CAPEX has been in line with our guidance for H1 it was about Rs. 1,220 crores, the major CAPEX as said earlier is being done at Hazira, dhamra port and partly at Mundra. Our earlier guidance of CAPEX around Rs. 3,000 crores still stand.

On the debt side, our net debt has come down by about Rs. 1,300 crores from Rs. 20,399 crores to Rs. 19,103 crores. It has always been our constant endeavor to keep our finance cost low thereby, adding to the bottom-line. It gives me great pleasure to inform that on a half-yearly comparison our gross finance cost has come down by about 180 crores and in terms of percentage, in terms of the basis points is down by 290 basis points.

The net finance cost has reduced by Rs. 348 crores since March 2016. We shall continue to work on this in future also. As per the Company's Act Schedule III of the Balance Sheet is now required to be done in new format. There is a regrouping of certain assets and liabilities. Comparative figures for March 2016 are not required to be given right now. However, we wish to draw your attention to the changes some of them which has impact to be able to show you a proper comparison.

From there, let me take you to the reduction in loans and advances. The total reduction in loans and advances as it is available on the balance sheet is Rs. 1,234 crores, Rs. 1,234 crores and as Karan said, of which related party is Rs. 1,035 crores and rest the other is non-related parties of 198.

The head of financial assets is shown in the published results has a sub item called other financial assets. This other financial asset corresponds to other non-current assets of previous year other financial assets also include non-trade receivables balance with government authorities and so on.

On a like-to-like basis, if you compare this what was there in March there is a reduction of Rs. 500 crores in deposit and an increase of Rs. 198 crores in non-current assets net amount therefore is there in the financial assets.

Now, this Rs. 500 crores relates to the related party reduction in deposits, this is also a head of other assets in this published results which is equivalent to the capital advance of previous year. The increase in that is because of our projects at Vizhinjam, Ennore, Dhamra, etc as we have spoken earlier.

Under the head current assets, there is an item called inventory. This relates to container terminal IV which is now ready for transfer and because it is now ready for transfer it have to be shown as inventory. The MAT credit entitlement which was earlier forming a part of long-term loans and advances has now been netted off with deferred tax liabilities as is required under IndAS and the new amount it shown as non-current assets.

So, you have seen that, this time in the call as well as on the website we have tried to cover and give as much details as possible and take up everything which probably the analyst might want to know.

However, if you still have any questions, I now throw open the line for Question-and-Answer. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Sumit Kishore from J. P. Morgan. Please go ahead.

Sumit Kishore: Sir, my first question is related to the port realization which seems to have improved quite significantly in the second quarter of FY 2017. Could you please give the related number as well as the JV port traffic for the quarter and the growth there in?

B. Ravi: When you say JV port traffic, you are talking about the volume?

Sumit Kishore: Yes.

B. Ravi: Okay. What else? Do you have any other questions or we should go ahead with that?

Sumit Kishore: And an explanation for what sort of improvement in realization per tonne has happened during the quarter in the first-half? Also, if I see your slide 16 if we look at the port EBITDA you have reported that quarter and I subtract that from the total EBITDA and if I take a very high margin on the SEZ income even then I find there is another Rs. 90 odd crores of EBITDA that would be from other sources which does not explained by logistics EBITDA so, just wanted to understand how that gap is getting explained.

B. Ravi: Okay. Now, first I will give you the numbers in terms of the JV. I think if I have understood the question correctly. The container terminals are with MICT which is not a JV business, it is independently operated that has gone up and you talk about quarters that has gone up by 17% and we handled about 284,000 TEUs and the one which we are handling is again it is for 205,000 TEUs. The CT-III has gone up by 6% that is that MSC joint venture which was stood at 276,000 TEUs. The CT-IV one has not yet been fully transferred so, in this quarter SEZ handled in our books because there is the completion of the transaction is yet to be done and there we have done an 81,000 odd TEU. So, there is an all ground growth at all these terminals. Hazira as you know it is our own terminal that has shown a significant jump of 34% and we have handle about 112 TEUs there and Kattupalli as you know has been doing well and that was almost 94,000 and more TEUs so, that is how the containers have grown all round and that is the reason why the growth at container has been higher. Have I been able answer that question so, I can proceed to the next.

Sumit Kishore: Yes.

B. Ravi: Okay. In terms of the margins, yes there has been if the margins are really absolute numbers and that we should be seeing because margins can always differ from the combination and the composition of the cargo. So, we have handled high value cargo, like what Karan has explained in his talks then the margins will be higher. So, what we use to really see whether the absolute EBITDA how it has grown and that yes, because of this composition of container and also the high value serials and may be other products which you said has actually gone up. All the ports at some ports the EBITDA margins are much higher so, Dhamra for example, the EBITDA margins have increased towards 69% so, obviously, that has got a big impact and Dhamra grown by 40%. So, that has got an impact on the overall numbers.

Sumit Kishore: Sure. And I had a second question in terms of the total EBITDA of Rs. 1,451 crores for the quarter, if I subtract the portfolio EBITDA of Rs. 1,163 crores and even if I take the entire SEZ income that you have reported into EBITDA there is still a gap of almost Rs. 80 crores - Rs. 90 crores which is from the other operating income and logistics. But the logistics EBITDA is not that high, so, just want to understand how that gap is getting explained?

B. Ravi: Yeah, see logistics EBITDA has increased over the previous year and there are normally this other operating and we also have certain contract income and all that there is no cost involved in that, that goes entirely into the bottom-line. And these numbers are as result of combination of all those two or three items put together. We have not trying to bifurcate every item separately we have taken only the main ones here.

Sumit Kishore: Okay. And finally, one data point on crude tariff in first-half how has that grown on a year-on-year basis?

B. Ravi: Crude, I think you should talk about crude as well as the total liquid in that because there is sorry, the POL that has remained the same it is about 11 million tonnes, it has remained the same year-on-year.

Karan Adani: 13 million tonne.

B. Ravi: 13 million tonne.

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

Inderjeet Singh Bhatia: My question is again related to this margins and that was mentioned in the presentation that we have booked some kind of revenues from the government side. Can you put a number to that which is the incentive income that we earn from the government?

B. Ravi: See, there is this service export from India scheme which was implemented from 1st April, 2015 but was eligible only in 2016 that amount related to that is total which we have taken in the first quarter is about Rs. 65 crores.

Inderjeet Singh Bhatia: Okay, Rs. 65 crores.

B. Ravi: First-half, yes.

Inderjeet Singh Bhatia: Another thing is the income that we have booked almost close to Rs. 200 crores on this services basically from our container terminal CT-IV, what kind of margins have been earned on that?

B. Ravi: That entire thing is a part of our margin, very little cost attributable to that because that goes into our overall cost as such.

Inderjeet Singh Bhatia: Okay. So, is my understanding right that it is also the part of our EBITDA margins or the portfolio EBITDA margins?

B. Ravi: No, we do not take as a portfolio EBITDA margin, we put SEZ always separately, so, when we say port EBITDA it does not include SEZ. Handling at CT-IV are you saying?

Inderjeet Singh Bhatia: Yes, the specific service income that we have earned from CT-IV that Rs. 191 crores…

B. Ravi: That is equivalent to SEZ and the entire thing goes to APSEZ and almost the entire thing as the margin.

Inderjeet Singh Bhatia: Okay. Last question from my side on the SEZ side what is the total lease land that we have already achieved in terms of acreage and mentioned about a 15 year to 30 years' long-term annuity type income can you just put a number to that what is the current lease rental that we are likely to get out of the SEZ contracts we have?

B. Ravi: Yes, sure the total number is about 3,000 acres or so and we had mentioned in the call about Rs. 100 crores is the recurring revenue which we see right now and it is only likely to increase going forward. I will also add, Karan is asking me to add one thing, he has said there is three clients or four clients who have come in to SEZ that income only one of them has been booked in this it is likely to balance that will be actually it is already there but there are certain government approvals as you know that will come in Q3 but the booking and all in terms of clients which have come into our SEZ has happened in the first six month but the entire income gone into our SEZ income.

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

Parash Jain: I had three questions and perhaps two pertaining Karan and Ravi and I will take advantage of your Group CFO being in the call. May be if I can reach out to Karan and Ravi. Similar to the line that we have seen elimination of related party loan gradually, would you like to comment on the receivables which has seen the increase at the same time and when I look at the gross number it is too far away from your total related party loans in terms of quantum and when I look at all the ports regionally this number looks abnormally high. Is it particular to your company because of the kind of business you are into in or this is something which you also realize that it is at a higher level and you would like to address in the subsequent quarter or years? Secondly, just sticking to the previous participants with respect to contribution CT-IV close to Rs. 200 crores so, I presume that is included as a part of revenue from SEZ, does that means that there is no other SEZ regular rental income. I am not if my understanding is correct. And finally, may be one for the Group CFO maybe you can blame you I recently started covering the stock, I recently concluded my global marketing and one of the feedback that I have received from investor was that no pretty much everyone is comfortable with the group's current leverage situation. I am not too sure how much you can share but is there something that you would like to share at this point of time which probably from our perspective would only help APSEZ? With that I will stop here.

Ameet Desai: So, let us start with the last question first about the group leverage. In terms of long-term debt that we have at the group level and I must clarify that we are disjointed independent listed companies so actually it would be inappropriate to aggregate this number but for the benefit of analysis the fiscal long-term debt stands close to Rs. 76,000 crores and if you look at the total EBITDA for the group it is close to Rs. 24,000 crores. So, if you look at debt to EBITDA number we are just about 3.15 - 3.02 which is very comfortable for infrastructure business. If you break this debt down to different business the only business where debt to EBITDA looks like a higher number is our power business and I think it is quite evident that in the power business we are awaiting the final outcome of our compensatory tariff order by first week of November from CERC post that as we explain that the call with the analyst and fund managers yesterday for the power company that post that the matter will go Supreme Court and we expect the favorable resolution by month of December or so. And therefore, once that matter gets resolved we believe that there will be fairly significant deleveraging of the power balance sheet. But all in all to answer your basic question about the group's leverage, I think to summarize we are at less than 3.02 is to 1 on an overall basis and if we leave power business aside I think the group is actually if I may say under leverage for the kind of infrastructure businesses that we are in. I hope I have answered your question.

Parash Jain: Yes, indeed, thank you so much.

B. Ravi: Yes, going anyway backwards we will go to the next one about the SEZ there is a trend, if we see the half-year there is SEZ income other than this one that is about Rs. 21 crores or so. So, that belong to the lease rentals. Not all lease rentals are booked at the beginning or at each of the quarter it can have that lumpiness because that depend on the time when the lease is done and when the lease rentals are due. So, there is a SEZ income other than Rs. 193 crores that is Rs. 21 crores in the half-year. Regarding the receivables I need to analyze that, you are talking about the Rs. 1,441 crores of receivable what you see in the balance sheet, right?

Parash Jain: Yes.

B. Ravi: Yes, see that includes the normal trade receivables as well as any SEZ receivables for example for example the one which we have just booked now these ones are payable over a period of time and therefore if you eliminate that which is about Rs. 600 crores including the present one balance will be about Rs. 1,100 and that is within what we are talking about in terms of our growth of revenue and growth in income it is in-line with that. along with that let me clarify quite clearly that the Adani Power receivables has been absolutely on dot the deferment which we had given to them earlier that was the only thing which is still showing as a receivable which is there again it is inline what the repayment schedule has been and that is the reason why you might see a little jump on that. Otherwise it is within the normal norms that it offers credit period.

Parash Jain: May be on that point, when do we see this getting normalized?

B. Ravi: By March because that the schedule of the receivables of March in terms of the deferment so, by March you should see that normalized.

Moderator: Thank you. The next question is from the line of Bharat Parekh from CLSA. Please go ahead.

Bharat Parekh: If you can help the group understand your strategy may be not for the next six months which you have articulated already but if you can articulate for us your strategy for the next two years to three years across the three Cs kind of which we see as the growth driver for the company especially the containers, the crude and the liquids including LPGs and the coal as well. Thank you.

Karan Adani: Thank you. I think for next two years to three years, we would be focusing as rightly said on coal, containers and crude which are our three biggest commodities. I think container will be our biggest focus we are adding new geographies and we hope to capture market share in these new areas so, like for example in this year we have started Kattupalli so, Chennai is a new region for us and we have been able to capture to a good market share in a relatively period of time. Our next stage is then into go into Dhamra to do a trail run and test the market what kind of volumes are available and if things go well and which we are very positive then that region will be region and we will be taking our market share from Haldia. Again, by adding new sites we will be capturing more market share of India's container volume in next two years to three years' time. In coal, there are two parts to our strategy. One is we will continue to focus on cooking coal because as you know cooking coal which is growing in India and that imports are continuously growing. The second part of the strategy would be to focus on coastal of thermal coal. Mainly the coast part will happen from Dhamra to southern parts of India so to Kattupalli and that region and that volume has been growing at a tune of 20% year-on-year and we do hope that we will be able to capture that market in the course of next two years to three years and that will add significant value to our ports. And the good part about that is that it will give us volumes on both side so, one tonne of cargo will be calculate twice and will give us 2x of revenue. In terms of liquids we are also under evaluation of to see whether we can add liquid terminal in Kattupalli as well as Dhamra in the course of next two years to three years. Obviously Kattupalli will be subject to the transaction getting completed and we are also evaluating to set up liquid terminal in Vizhinjam port as well and that we will take in Phase-II once we have completed the container terminal. I think LPG is again a new area that we are looking at we have started construction of LPG terminal in Mundra. We do hope to commission the terminal in mid-2018 that is a new business for us again, we are just a storage terminal so, we will only get the storage income. But the good part about LPG is that is that it will open-up a lot of opportunities for us to bring new industries in SEZ on backing of that and we are also looking at LPG terminal in Dhamra. In Dhamra we are looking to serve both the Indian market as well as to transshipment from Dhamra into Bangladesh for LPG.

Bharat Parekh: Sure, thanks a lot for this detailed answer. Secondly, if you can help us understand the broad contours of the Bhavanapadu bid the likely CAPEX and the timelines on that?

Karan Adani Bhavanapadu port we have just given a bid we do not know whether the bid will be accepted as we are the sole bidder. I think we will have to wait and see when the bid opens up and what the government of Andhra Pradesh takes the decision.

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

Pulkit Patani: I have two questions firstly this strong that we have seen some of the smaller ports. Could you just tell what kind of specific cargo was this contributed by particularly Hazira, Dahej, some detail on that would be really helpful?

Karan Adani: So, Hazira the major cargo growth has been liquids and container and Dhamra has been on iron ore exports and again coal has also increased over there. Dahej we have diversified volumes over there so, we have started handling rock phosphate and steel products so, that has also helped us in growing over there.

Pulkit Patani: Understood. And my second question is about Kattupalli so, if my understanding is correct by the time the Kattupalli transaction is consummated basically the cost that you are incurring what you pay to L&T goes away but does anything change in terms of the rest of the P&L after this acquisition gets completed?

B. Ravi: Yes, P&L today is only up to EBITDA because we do not own the assets so, after we have acquired the normal depreciation charge will be there and if there is any debt in that there will be an interest charge. So, whatever we are paying today could be replaced at a lower number by these things.

Moderator: Thank you. We have the next question from the line of Sukulingham Natrayan from Deutsche Bank. Please go ahead.

Sukulingham Natrayan: No, what I was asking on the CAPEX plans for balance of FY 2017 and FY 2018 FY 2019.

B. Ravi: No, I can only give you at this point in time balance of 2017 because for 2018 we will be doing it by November - December. Earlier I have given a guidance of Rs. 2,500 crores to Rs. 3,000 crores for the entire year of which we have just done as I said about Rs. 1,222 crores of CAPEX so, it will be within this number of Rs. 3,000 crores now. So, balance will be may be around Rs. 1,500 crores or so which will be in that. We have said that when we are saving a Rs. 300 crores, we are on that path.

Sukulingham Natrayan: Okay. And one clarification on the government incentive that you have received that is part of the port EBITDA or that is the part of the other EBITDA?

B. Ravi: It is a 64, it is a part of our port services, we have added into that.

Sukulingham Natrayan: In the portfolio EBITDA, and how much would it be for the Q2 and how much is it even a split?

B. Ravi: Rs. 64 crores is for the half-year there is no specific, we cannot bifurcate it between Q1 and Q2 as such because everything was combined. So, there is nothing specific for Q1 I can separate out.

Sukulingham Natrayan: No, the reason I asked is has it been booked in quarter one or quarter two is what I am asking?

B. Ravi: No, we have booked in quarter two only because it could be eligible in quarter two.

Moderator: Thank you. We have the next question from the line of Ajit Motwani from Bharti Axa life Insurance. Please go ahead.

Ajit Motwani: On this service income that you are referring to is this like sustainable, is it like once in a year or a how does it sort of recur?

B. Ravi: This is sustainable, it is not one-off, it is recurring one, it is based on the port services that we handle and therefore as the port services increases this income will actually increase.

Ajit Motwani: Okay. Got it. And in terms of when you say in a related party loans are round about Rs. 1,035 crores broadly can you highlight which is the entities that have sort of come down as compared to the March number?

B.Ravi: there are only three entities and all of them have shown a decrease, each of them has shown a decrease, all the three related party.

Ajit Motwani: All the three have shown decrease.

B.Ravi: All of them.

Moderator: Thank you. We have the next question from the line of Manish Aggarwal from Bernstein. Please go ahead.

Manish Aggarwal: Firstly, could you talk a bit about the new shipping lines broadly what is the potential and how much ramp up do you expeCT-In the medium-term?

Karan Adani: So, as I said earlier we have added three lines, in Hazira two lines and in Kattupalli we have shifted most of lines. I think if I look at the container volumes on year-on-year basis as total Adani we have increased by 28% we have clocking a million TEUs every quarter and I think going forward you will see minimum of this number if not more.

B. Ravi: Manish, could you get the answer?

Manish Aggarwal: Adding to this, this Hanjin Shipping Line have filed for bankruptcy recently and there were some restructuring of Hyundai T. S. Shipping Lines. So, has Mundra port benefited from it?

Karan Adani: From Hanjin and Hyundai? Hanjin was never our customer and Hyundai is also not our customer right now. So, we were not affected but yes, it has been beneficial because our existing customers are taking away that market share.

Manish Aggarwal: Okay. And secondly on Ennore port so, what is the broad volume expectation from it and have any shipping line agreed to call at the port or will it happen only after commissioning of the port?

Karan Adani: We are going to commission Ennore port in Q4 I think we will be able to give you a better view of Ennore when we are closer to commissioning.

Manish Aggarwal: Okay. Currently there is no shipping line which I believe to call at the Ennore port.

Karan Adani: No, right now most of the shipping lines are calling Kattupalli and we have not started that dialog with shipping lines because we are still under construction and it will take another three months to four months for us to finish our construction there is another 15 days - 20 days for commissioning.

Moderator: Thank you. We have the next question from the line of Akshay Soni from Morgan Stanley. Please go ahead.

Akshay Soni: Ravi you just said that this income that you have got from that export side that is sustainable and will grow along with your revenues or the port revenues. Did I understand that correctly?

B. Ravi: Yes, you understood it correctly.

Akshay Soni: But it will not be on a quarter-on-quarter basis. So, will it be half-years like you have started now or will it from like now be more like quarterly basis?

B. Ravi: It will be now more like quarterly basis from now because that was the first time and it will be accruing quarter-on-quarter.

Akshay Soni: Okay. So from hereon we should expect something which is not going to move the needle like it in the second quarter because you have to take the entire first-half in there, that would not happen again.

B. Ravi: Very true.

Akshay Soni: Got it. And one the coastal side, just wanted to understand where we are in terms of whether there has been any change in either new agreements signed or what the visibility is looking at right now and you know whether the 2020 target still stands?

Karan Adani: 2020 target still stands, we have not signed any new agreements. We are as we had said that at the start of the year we will handle 400 million tonnes of costal coal and we are well on that target. The reason we have not signed any new agreements right now is because we are short of capacity in Dhamra port once the new capacity gets added on we will add new contracts over there.

Akshay Soni: Understood, so around the first quarter of this year is when that comes out, right?

Karan Adani: Yes, that is right.

Akshay Soni: One last question if I can. Just wanted to understand I know you gave the break-up of CT-I to CT-IV but just separately wanted to understand what the level of transshipment was for the quarter?

B. Ravi: It was 9% for the quarter and that you know it is mostly all from MSC at CT-III.

Moderator: Thank you. We have the next question from the line of Lokesh Garg from Credit Suisse. Please go ahead.

Lokesh Garg: Sir, just wanted to ask you related to this related party transaction and obviously you have reduced that by something like a Rs. 1,035 crores. The three entities that you mentioned in the previous quarter essentially total Rs. 3,000 crores okay related party loans so, to that extent your promise is to reduce it entirely by end of this fiscal, do I understand it correctly or there needs to be a correction to this?

B. Ravi: The amount is to be stands corrected it is Rs. 2,500 crores and therefore the balance is Rs. 1,400 crores-odd now and that is what is expected to be reduced entirely what Karan said.

Lokesh Garg: Okay. Because March 2016 balance sheet seems to suggest an amount of Rs. 3,000 crores to start with.

B. Ravi: No, the related party even at that point in time was 2,552 so, it was not Rs. 3,000 crores it was Rs. 2,500 crores only of which we have reduced Rs. 1,035.

Lokesh Garg: Sure. Sir, in this year the CAPEX amount that you are spending which is Rs. 2,500 to Rs. 3,000 crores could you give us some sense of which assets this CAPEX is going for and in what quantum, essentially just need to understand the amount of capital which is getting deployed currently and in future for Ennore, Vizhinjam and asset additions at Dhamra?

B. Ravi: Ennore is almost complete so, there is not much left in the second-half. Dhamra yes, we are doing a Bearth 4 and therefore, Dhamra and Hazira and Vizhinjam because the construction has started and that is in full swing these are the three ports where the expenditure will be done and also normal capital expenditure at Mundra with such a big asset base also is included in this.

Lokesh Garg: I understand that subjectively, but could you share some numbers so, as to have a little bit more granularity around these things?

B. Ravi: Yes, so maybe in Vizhinjam we can take about Rs. 200 crores, at Dhamra it will be… I am talking about the balance six months. At Dhamra it could be about Rs. 400 crores, at Hazira it could be about Rs. 300 crores then at Ennore I will say about Rs. 100 crores these are all rough estimates I do not have that number in front of me but this is more or less the number.

Lokesh Garg: And Mundra regular CAPEX?

B. Ravi: There will be LC CAPEX also which will be added for the CT-III equipment which will be there in our book.

Lokesh Garg: That is another Rs. 300 crores - Rs. 400 crores.

B. Ravi: Yes.

Lokesh Garg: So, basically Ennore at this point capital deployed is about Rs. (+100) crores something?

B. Ravi: A little lesser then that, you are right. So, in the total it comes to around Rs. 1,200 crores that is why I said about Rs. 2,500 crores to Rs. 2,700 crores will be maintained plus of course the normal CAPEX if we add it will be about Rs. 2,700 crores in total because Rs. 1,200 crores plus Rs. 1,300 crores will be of Rs. 1,500 in the second-half.

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

Atul Tiwari: Sir, there is a line item in the consolidated balance sheet which is other financial liabilities under current liabilities of about Rs. 2,345 crores. So, what does it relate to? Asking because this is a new representation for us and you walked us through the other part of the balance sheet but only this was left out.

B. Ravi: So, let me get the numbers, you said that it is Rs. 2,494 crores right that is what you are saying?

Atul Tiwari: Rs. 2,344.88 other financial liabilities.

B. Ravi: Other financial liabilities, it consists of the capital creditors the retention money, the interest accrued and payable on borrowings, deferred infra current there is a current portion of the deferred, infrastructure income, there are certain statutory liabilities and also the current maturities of long-term debt that is the biggest number of Rs. 1,600 crores.

Atul Tiwari: Okay. So, this has the current majority of loan, okay.

B. Ravi: Yes, that is where it houses.

Atul Tiwari: And sir, just one more question on the presentation, obviously, the presentation has a lot of information and congratulations to the company for that now the disclosure levels are much higher. On slide number 16, the interest income has gone up quite a bit while the related party loans are going down in fact the interest income seems to have almost doubled so, I mean why this disconnect?

B. Ravi: That is because the loans, advances were towards second-half of last year and therefore there was no interest income related to that and in this quarter it came with full impact.

Atul Tiwari: Okay. And sir, just lastly because again this is a new format for balance sheet presentation what was the consolidated gross debt at the second quarter end and at FY 2016 end?

B. Ravi: FY 2016 end the gross debt was about Rs. 22,800 crores and it now stands at Rs. 21,400 crores.

Moderator: Thank you. We will take the next question from the line of Bharanidhar Vijayakumar from Spark Capital. Please go ahead.

B. Vijayakumar: My first question is on the sustainability of the container growth numbers at Mundra specifically MICT we had to mention that about 17% growth in this last quarter so and compared to the country's growth level of 10% even the company's group level numbers even if enumerate Kattupalli is higher. So, is the MICT growth specific to any reasons and if so what is the reason?

Karan Adani: **MICT** growth is mainly because CMA CGM had moved out their terminal originally CMA CGM was a big volume driver for MICT and when they moved up that created space and in that instead of CMA CGM MICT was able to pull Maersk into MICT and Maersk has been doing very good and they had moved out their volumes from Pipavav to Mundra. So, answering your question, you should take into account that MICT has a capacity of 1.2 million

TEUs and they will be able to fill up that capacity either by end of this year or by maximum by next year.

B. Vijayakumar: Sure. So the higher utilizations will in the double-digit growth we saw this year basically going forward?

Karan Adani: Yes, you will continue to see that.

B. Vijayakumar: So, basically the growth avenues for containers at Mundra would be from say CT-III and CT-IV primarily…

Karan Adani: From both CT-II, CT-III, CT-IV because even when CT-IV will start there will be a capacity in CT-II so, because CMA will then move from CT-II to CT-IV so, you should consider growth from all the three terminals.

B. Vijayakumar: Understood. And obviously above industry average growth in containers is most likely due to markets gains rather than the systemic level growth, am I right in assuming that?

Karan Adani: Yes, we have taken away market share, we have taken away market share from Pipavav as well as from JNPT and that is the one of the reasons why we are growing and you will continue to see this taking away of market share with increasing our footprint because we will be giving all access so, going forward we will be signing contracts which will help us in giving our clients access to all our ports and helping them to grow much faster in India.

B. Vijayakumar: One final question on coastal shipping. So the costal cargo specifically coal primarily moves from the Paradeep to the Southern ports like Ennore, Tuticorin, etc. So, the 4 million tonnes that we have signed with say TNEB is it a swap of volumes that has already been handled by Paradeep or are these new volumes?

Karan Adani: This is new volumes. This is nothing to do with Paradeep volume this is new volume which we handle from Dhamra to Ennore.

B. Vijayakumar: Understood. So, obviously there the potential completely depends on the higher domestic coal production and the ability of your Tamil Nadu and Andhra Pradesh power plants increased consumption and how do you see that potential growing?

Karan Adani: As I said, this volume we are seeing growing by 20% year-on-year and I think with the direction which government is moving on we do see these volumes will replace imported volume so, we will see growth in this market?

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

Salil Desai: Sir, one question again on the Bhavanapadu port so, in case this bid materializes then does that endure the target of your strategy of filling in all the gaps along the coast of India or you think there will be some more acquisitions on new ports that you would want to look at?

Karan Adani: Yes, in a way yes, it will help us increase our foot print. But, as we have always maintained we will keep looking at opportunities both Greenfield as well as acquisition and it will be purely a commercial decision, if it makes commercial sense and we are able to derive better value we will not shy away from looking at it.

Salil Desai: Okay. And sir, secondly on Dhamra, when you say by quarter four you will start handling container volumes so, I am assuming the Birth-4 is being developed as a dedicated container….

B. Ravi: No, Birth-4 is developed as a multi-purpose terminal so, we will be handling fertilizer, steel and container as one of it so, we want to just test the market see which commodities will increase and then once we have a little bit of base volume then we will create dedicated facility.

Salil Desai: So by say March 2017 what would be Dhamra's total handling capacity that you will have?

B. Ravi: It will be about 45 million tonnes to 49 million tonnes.

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

Nishant Chandra: Ravi, I have a couple of questions. Okay, so I had two questions first one is on the CAPEX of. 1,222 crores in the first-half I miss the split on the CAPEX in existing assets as maintenance CAPEX or replacement CAPEX and ones the newer terminals? The second question was around the debt situation, what is your assessment with respect to the rating outlook that was put out by the agencies and how does post the first-half results where do you stand?

B. Ravi: First, I will answer the question about the CAPEX. The amount of maintenance CAPEX amongst all operating ports which includes of course Dhamra and all which are also under capacity expansion all that put together will be in the vicinity of about Rs. 250 crores to Rs. 300 crores.

Nishant Chandra: Ravi, just wanted to understand when you say so, even within Dhamra there is an existing operating capacity and then there are newer capacities where you are putting in more CAPEX. So effectively what I am looking at is maintenance CAPEX was fresh CAPEX I am just trying to split it out from your Rs. 1,222 crores of total.

B. Ravi: Yes, that is what I was saying so, Dhamra the existing ones there is not much of maintenance, maintenance CAPEX will be mostly in Mundra, in Haldia and Dahej a bit so, Dhamra it is much lesser. So, I was talking about Rs. 300 crores in the entire year so, half-year will be Rs. 150 crores to Rs. 200 crores.

Rajeev Nair: Hi, this is Rajeev Nair. I just wanted to response on your comments about your question around rating agencies reaction to these numbers. We had met rating agencies late last week and given them a preview of these numbers which we will confirm after this call. I think if you go back to the rating **agencies,** by two agencies S&P and Moody's there were around concerns relating to volumes, coal volumes in particular as well as related party transactions and leverage. If you look at the first-half numbers I think all these issues raised by agencies have been very well-addressed. And our guidance for the second-half suggest that this trend will continue. We are very optimistic that rating agencies will act in response to these numbers in terms of timings of course, it is a difficult for me to predict when but certainly I think directionally we think we expect and we are confident we are heading back to a stable outlook from three agencies which as you know is our commitment.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was our last question. I would now like to hand the floor over to the Mr. Shirish Rane for closing comments. Thank you and over to you, sir.

Shirish Rane: Karan, do you want to add any closing comments before I close the call?

B. Ravi: No, well, I will take that. Thanks everyone for joining the call. This time we had opened far and wide so, we are glad that a lot of people had joined and a lot of questions were there and we also try to give as much information upfront as possible so, that has also been a change which we have try to attempt from our side, I hope that has been taken up well. So, look forward be taking to you in the next quarter again. Over to you, Shirish.

Shirish Rane: Thank you very much for giving us the opportunity to host the call and thank you everybody for joining this call on the second quarter results. Thank you once again and that is the end of the call.

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