"Adani Ports and Special Economic Zone Limited FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day. And welcome to the Adani Ports and SEZ FY20 Earnings Conference Call, hosted by Kotak Securities 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. I would now like to hand the conference over to Mr. Aditya Mongia from Kotak Securities Limited. Thank you and over to you, sir.

Aditya Mongia: Thank you, Lizann. Thank you to everybody here on the call to cover FY20 Adani Ports and SEZ call. From the management side we have Mr. Adani – the CEO; and Mr. Deepak Maheshwari – the CFO and Head of Strategy; Mr. Robbie Singh – Group CFO; and Mr. Jeet Adani – VP, Adani Group, as well as other members of the management team.

At the onset, I would want to, first of all, congratulate Adani Ports for a fairly good performance, both in volumes as well as on the balance sheet. And would also want to thank them for the increased amount of disclosures which are now there as part of the presentation. I would now hand over the call to Mr. Karna Adani, and followed by Mr. Deepak for their opening remarks. After which we can start the Q&A session. Over to you, Karan.

Karan Adani: Thank you. Thank you, Aditya. Good morning, ladies and gentlemen. Welcome to the conference call of Adani Port and SEZ Limited to discuss operational and financial performance for the year ended March 2020. We have uploaded a detailed presentation on our website and hope you had sufficient time to go through the same.

Financial year 2020 was a transformational year for APSEZ wherein we completed our first buyback of Rs. 3.92 crore equity shares at an offer price of Rs. 500 per share. We embarked upon our international journey with the construction of first international container terminal at Myanmar. We have also completed the acquisition of B2B Innovative Logistics during the year and commission an ICD in Bangalore. We have signed a definitive agreement to acquire Krishnapatnam Port, and operationalized our first LNG and LPG terminal at Mundra.

Our strategy to diversify and ability to handle all types of cargo enabled us to outperform and report another year of stellar operational and financial performance. In our core business, we achieved a throughput of 223 million metric tonnes, thus translating into a year-on-year cargo volume growth of 7%. This is against 5% cargo volume growth registered by all India ports. Composition of our cargo remains similar to last year with coal at 32%, container at 41% and crude at 11%, and other bulk commodities at 16%. In terms of container volume, APSEZ registered an all-time high volume of 6.25 million TEUs, a growth of 8% against 3% container growth by all India ports. Container volumes at Mundra port grew by 6%, Hazira Port by 8%, Kattupalli by 17% and Ennore at 129%. During the year, we have commenced both our LNG and LPG business at Mundra, and we were able to handle substantial quantity in a short period. In FY20, we added 300,000 tonnes of LNG and 400,000 tonnes of LPG into our cargo portfolio.

In terms of additional capacity:

We added 56,000 KL capacity of liquid handling at Hazira Port and created a new facility with 60,000 KL capacity at Kattupalli Port. The consistent outperformance reflects our resilience and ability to grow across all our operating ports. Our results, both in terms of operational and financials are within the guidance range. The share of our southern and eastern ports continue to increase. While western ports continue to grow, southern and eastern ports grew 40% and 44% respectively. This enables us to achieve east-west coast parity and not depend on a single port for growth. Our efforts to address evacuation issues resulted in a record 44% cargo throughput growth at Dhamra Port. Average rake availability has now increased from 15 rakes in FY19 to 20 rakes in FY20. This is through a strategy laid out at the start of the year.

In our Logistics business:

Rail volumes handled by Adani Logistics Limited in FY20 registered a year-on-year growth of 115%. The total rail volume handled by Adani Logistics Limited for FY20 is 325,000 TEUs. This is against 150,000 TEUs handled in FY 19. This was due to additional rail capacity, new routes, and acquisition of Innovative B2B Logistics. ALL is currently operating 60 rakes, this includes 43 container rakes, 9 rakes under General Purpose Wagon Investment Scheme, 7 grain rakes, and 1 auto freight train rake handled under the JV of Adani NYK logistics. ALL is currently operating 5 inland freight terminals with a capacity of 500,000 TEUs per annum. And is developing a logistics park in Nagpur and warehouses at Kattupalli, Taloja and Mundra which will be operational in FY21. Currently, we have a warehousing capacity of 400,000 square feet. Adani Logistics is thus on track towards its strategy of expanding logistics footprint across India, building multimodal logistics park, warehousing, rail network and distribution in order to be the leading integrated logistics service provider in India, moving from port gate to customer gate. The company continues to explore opportunities for acquisition of similar nature in India. Presently, although India is in a state of lockdown, Adani Logistics have been managing operations with essential stuff taking all necessary safety precautions to keep the supply chain running.

Now just a brief overview on the financials for FY20:

The operating revenue grew by 9% to Rs. 11,873 crores, consolidated EBITDA grew by 7% to Rs. 7,565 crores, port revenue and EBITDA during the same period grew by 8% and 9% respectively. Port EBITDA margin expanded by 100 basis points. Logistics revenue grew by 65% to Rs. 964 crores and EBITDA grew by 159% to Rs. 234 crores. And EBITDA margins in Logistics business improved to 24% in FY20 from 16% in 2019. We have been able to manage growth without compromising our credit quality. All our key ratios continue to be healthy. Our net debt-to-EBITDA of 2.9x is below our desired range of 3x to 3.5 X. The return on capital employed at consolidated level is amongst the best in the industry. We expect the return on capital employed to continue to improve due to increased contribution of maturing ports like Kattupalli and Dhamra which we acquired a few years back. During the period, APSEZ has declared a dividend of 160% amounting to Rs. 650 crores. Deepak will share more financial details later on.

Now, just to give you an update in terms of COVID-19 and our preparedness:

As you are aware, ports fall under essential services. And as such, all our ports are operational. We have announced force majeure in order to mitigate the risk associated with inability to meet the operating standards expected from our ports. We are implementing Government of India operating procedure at all our ports with safety of the workforce as a top priority. Operational staff is quarantined at ports with necessary arrangements in place for safe work environment. Hygiene and sanitation of workplace at sites are top priority and has enabled 100% thermal scanning. Majority of our administrative staff is working from home. Cargo volume is impacted due to logistics bottleneck and constraint in supply chain. With the proactive steps taken by Government of India to run empty container rakes without surcharge, we have been able to divert some of the road traffic through rail.

To conclude:

I would like to say that considering uncertain times in FY21, our focus will be to maintain adequate liquidity and conserve cash. We are reorganizing our operational contracts to optimize cost and boost our margins. We are realigning the assets to be deployed optimally to avoid further expenditure. Discretionary CAPEX will be curtailed from an original CAPEX outlier of Rs. 4,000 crores to Rs. 2,000 crores. This includes maintenance and necessary capacity expansion at Myanmar and Vizhinjam Port**.** This outlay can be further reduced looking at the situation going forward. Projects under port development are on and expecting same amount in FY21, which is in the range of Rs. 800 crores to Rs. 1,000 crores.

As far as ongoing acquisitions are concerned, KPCL and Dighi Port acquisitions are in various stages of approval and are expected to be completed in quarter three of FY21.

Now I request Deepak to take you through the financial numbers.

Deepak Maheshwari: Thank you, and good day to everybody, to all our participants. Brief highlights on the financial side:

Our operating revenues grew by 9% to Rs. 11,873 crores on the back of 8% growth in port revenue and 65% growth in the logistics revenue.

Consolidated EBITDA grew by 7% to Rs. 7,565 crores, on the back of 9% growth in ports EBITDA, and 159% growth in the logistics EBITDA. Port EBITDA margin expanded by 100 basis points to 69% in FY20, versus 68% in FY19 because of increased operational efficiency and change in cargo. Depreciation in FY20 has increased by Rs. 307 crores due to capitalization of assets at Mundra, Dhamra and Kattapulli in addition to the acquisitions in the Logistics business.

During FY20, the interest costs increased because of the increase in the gross debt from Rs. 27,188 crores to Rs. 29,463 crores. The increase in gross debt is mainly on account of restatement of foreign currency debt by Rs. 1,768 crores and additional debt on B2B Logistics to the extent of Rs. 285 crores.

The depreciation of the rupee against the dollar from Rs. 69.15 to Rs. 75.67 by March 2020 has an impact of Rs. 1,626 crores and has resulted correspondingly in lower PBT and PAT. However, as you are aware, this does not result in any incremental cash outflow as the business has a natural hedge.

Capital expenditure as guided during FY19 was under a guidance number of Rs. 4,000 crores, we came in at Rs. 3,615 crores. The CAPEX includes Terminal 2 at Mundra, which includes the cranes as well as cross-country pipeline for the LPG business. Liquid tank farms at Hazira, the liquid tank farm at Kattapulli, Dharma birth 3 and 3A, purchase of rakes with GPWIS and Myanmar Container Terminal.

During the year, we have generated free cash flow after adjusting for working capital changes and after investment activities of Rs. 6,650 crores. The free cash flow includes increased cash flow from operating activities, including lower tax outflows. Reduction in the CAPEX and capital management program, reduced equity contribution for acquisitions and reduction in financial assets.

Coming to our balance sheet:

We were able to maintain the net debt to EBIT at last year's level of 2.9x, which continues to be within lower than our target range of 3x to 3.5x. We have been able to elongate our debt maturity to 5.2 years in March 2020 as against 4.1 in March 2019. Currently, 95% of the debt that we have is long-term in nature.

We continue to maintain a healthy mix of FOREX to INR debt in our portfolio, which is guided by our dollar denominated revenue every year. In FY20, we have earned USD430 million denominated revenue. All our key rating related ratios continue to be within the specified range for an IG rating. The total amount of debt repayments in FY2020 are approximately Rs. 3,300 crores. And this is adequately covered within our cash balances.

In summary:

FY20 has been a transformational year for APSEZ, as Karan mentioned, where we have taken the steps to achieve our strategy of becoming a largest integrated logistics service provider in India. And we enter FY21 with a very strong balance sheet. And considering the uncertain times where the full impact of COVID-19 is still to be completely understood, we have redrawn our entire CAPEX program to conserve capital and implement even tighter cost control measures.

With these opening remarks, we can now open the line for question and answers.

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 Mohit Kumar from IDFC Securities. Please go ahead

Mohit Kumar: Congratulations on a decent quarter in a tough environment. I believe that you are not guiding for your FY21. And I do understand it's very, very challenging right now to forecast any sort of numbers for FY21. But having said that, is it possible for you to touch upon, you know, give some broad outlook on cargo wise or port wise, some kind of commentary for FY21 and the quarter?

Karan Adani: Thanks, Mohit. To be honest, it's very difficult to give any sort of commentary on it, because every day is a changing situation and evolving situation. I think what we can say is that we are not letting go of any cargo, whatever ships and whatever cargo is coming we are handling. The bottleneck does remain in terms of the supply chain, that's mainly because the factories are shut. So the cargoes are coming but the cargo evacuation is becoming an issue. But at the same time, we are not letting go of any cargo. I think it would all be a factor of when the lockdown gets lifted in the country, then it will give us a good idea in terms of what kind of cargo projections and what kind of volumes we can expect this year.

Mohit Kumar: Understood. And sir, is it possible to touch on the progress on DFC, when is it expected to get commissioned?

Karan Adani: So, originally DFC, before the lockdown, the expectation of DFC to connect to Mundra port was in June of this year. I think this will definitely get pushed down to maybe two or three months. But I would expect DFC to be commissioned by the end of this calendar year at least to Mundar Port.

Mohit Kumar: Okay, understand. Last questions, sir, is there any offtake agreement for our LPG terminal except for IOC?

Karan Adani: For LPG terminal?

Deepak Maheshwari: Yes.

Karan Adani: So LPG terminal, we have three offtake agreements. We have one with IOC, one with HPCL and one with BPCL. So all three have an offtake agreement of five years on a take or pay basis.

Moderator: Thank you. We take the next question from the line of Venugopal Gare from Bernstein. Please go ahead.

Venugopal Gare: Firstly, if you could give us some perspective on sort of volumes as to how they are shaping up, what you have seen in April? And I understand probably the peak of the lockdown period may not necessarily be that presentative, but probably more around coal, liquid versus container as to how resilient one is versus the other? And also wanted to understand, if you could elaborate evacuation challenges a bit more, and particularly around which ports that is being witnessed.

Karan Adani: Sure. Let me answer the evacuation issue first and then maybe Deepak can answer the volume, on the April what is the sort of the mix looking ahead. So on the evacuation, the biggest challenge is on these road part, it is not on the railway side. So rail side we are getting enough rakes in terms of evacuation as much as the customers want and as much as we want. Also, we have seen is because the surcharge on empty rakes being removed at this period, we saw a lot of diversion of road cargo moving to rail, especially on the container side. So just to give you an example, we have seen Reliance Jamnagar refinery which was running, evacuation was 80% on road and 20% on rail, there we have seen in this period a complete opposite shift. We saw 80% moving by rail and 20% by road. So those are the kind of effects we are seeing.

In terms of evacuation, the major challenge, as I said, was on the road, and that's mainly because of the interstate borders and the sort of stigma around people working during COVID-19 and then ability to go back to homes and to villages. That's one of the reasons why there is enough trucks available. But the issue is that there are not enough drivers available to move the cargo. I think that that is one. And second is, the cargo is getting evacuated to ICDs or to the plants. But then over there also we have seen that after 15, 20 days those hours are getting choked, because there is not enough storage space available. So it's a combination of both the things, operation of the plants as well as evacuation being quite slow on the road front. This this is a challenge we have faced across all the ports, it's not just this it's limited to one port. And let me put it this way, it is also not a challenge which is only faced by us, this is sort of an industry challenge that all the ports, including major ports are facing right now.

Venugopal Gare: Got it.

Deepak Maheshwari: Venu, I will take the question on volume. This is Deepak here. So overall, if you look at the month of April, the cargo volumes as compared to what we would have anticipated in the range is now 20% to 25% lower. The drop is across the various cargo types. But having said that, one can see that the drop in coal and crude is more as compared to that on container and liquid and other bulk. So, it's a broad base drop, at this point of time there is no point differentiating between what is 20% and what is 25%. And we expect that with the economic recovery coming through the volume will rebound across all the different types of cargo categories that we have.

Venugopal Gare: If I may ask another, just last question from me is in the margin front. Port margins are flat, I would say, broadly Y-o-Y, but normally lower than your 68%, 70% trend. So what is the driver for that? And do you expect to normalize that to the typically target of yours?

Karan Adani: Sure. So I think a lot of it is a function of course of the cargo mix and I can give you further details about it. But our typical approach has been that our overall target for the port EBITDA continues to be in the 69% to 70% area. And we continue to target that. And that is the kind of number that you expect to achieve in any particular year, though, you might find that certain quarters could have a slightly lower or a higher EBITDA margin, as compared to the average. But it's the full year number that we typically drive the business on. And we are on the same ballpark or the benchmark that we have set ourselves for it on the overall EBITDA margin for the year.

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

Nishant Chandra: Deepak, just a quick clarification on the cash flow from operations. So, in the net cash generated from operating activities of Rs. 7,402 crores, what is the cash tax paid?

Deepak Maheshwari: Rs. 850 crores is the tax paid.

Nishant Chandra: Got it. And the second one is that the Rs. 3,600 crores roughly of CAPEX, so this negative Rs. 750 crores of cash outflow, it subsumes Rs. 3,625 crores of CAPEX, right?

Deepak Maheshwari: Yes.

Nishant Chandra: Okay. Understood. So, the residual is basically divestment of monetizable assets that you have on your balance sheet, like financial instruments to generate the cash flow?

Deepak Maheshwari: That's the way to think about it.

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

Paras Jain: I have a few questions, maybe first for Deepak. Deepak, for the last two years we have seen volatility in the EBITDA margin, especially in the fourth quarter. But before that it was not the case. Is there anything, like some sort of discount being clubbed towards the end of the year? If we can throw some colour on why the variance in EBITDA margin on a quarterly basis? And the second question is with respect to what is going on? Are you seeing a lot of your customers are asking for a longer credit period, and what does it do to your working capital cycle?

And finally on the overall business, I mean, I understand nobody knows how things will shape up. But as we have seen that few countries have gradually started to open up, particularly in China where India trades quite a lot. On a sequential basis, like, are we seeing any signs of stability, let's say, in India-China cargo, I don't know, on a fortnightly basis or on monthly basis? And between the three key commodities, do you have any sort of conviction on one way or the other which could do better compared to any other cargo? Thank you.

Karan Adani: Deepak, you want to answer the first one?

Deepak Maheshwari: Three different questions, currently do you want to talk about the cargo while I will address both margins as well as working capital.

Karan Adani: Okay, fine. So, Paras, on cargo, right now it is quite balanced what we are seeing in terms of the volumes. I think if you ask me from our point of view, as you know that 60% of volume is tied up on long-term nature, which is 100% of the crude is tied up on long-term nature. So, even though the volumes might not be there in, let's say, first quarter because of the lockdown lead, we do expect the volumes to pick up and those volumes to be fulfilled by the end of the year. The same is on the coal front, there are certain contracts that we have which are not take or pay nature. So, we do expect at least the coal which is linked to, let's say, Adani Power, Tata Power or to Tata Steel and Dhamra, or Steel Authority of India or Reliance in Hazira and Dahej. We do expect those numbers to be there. So, I think if you see between crude and coal, the volatility, it could be more of a timing related. But at the end of the year we do expect the similar volumes to be there, as what we did last year. Container is something, to be honest, it's very hard to predict right now because it's always subject of when the lockdown is lifted in the country. And what I can tell you is that during the lockdown the imports have still continued to come, what has been affected is the exports. So I think that is one thing we will have to see when the lockdown gets lifted and based on that the export pickup which will happen, is something that we have to keep a track on.

I just want to answer on your customer for longer credit. So, actually we are moving in the other direction. Actually most of the places we are tightening our credit, instead of customers asking for a longer credit we are actually reducing that. And we are taking that as a priority over the cargo volume. So, we are okay to lose 1% or 2% of the cargo if we have to ask for a title credit. So, that's where we are focused on and that's where we are okay. And we have implemented some measures in terms to control our credit, so measures like bill discounting has been put in effect in order to make sure that our credit is under control.

Deepak, you want to answer on the EBITDA.

Deepak Maheshwari: Yes, Paras, Deepak here. So, just looking at it, as I said earlier in the previous questions as well that the focus is on the full year EBITDA. But there are certain items which, let's say, if one looks at this particular quarter, which are more relating to Dhamra because of certain increase in admin expenses or certain impairment of assets because of the work which has been continuing out there. So all of that comes to around Rs. 20-odd crores. So, some of these items can be there. Typically, we look at, as I mentioned earlier, we do look at the full year. And over the full year is the target that we have, and I think this is only by chance that happened two quarters is not by any intent.

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

Pulkit Patni: Actually, sorry to harp again on the margin bit, but what I am trying to understand, Deepak and is, that typically when we look at these businesses, there is an element of high operating leverage. Now what we have seen in our case is that margins have pretty much been stable in a 3% to 4% range for the longest period ever. But now as we head into a year where there is going to be uncertainty, and we do not know what volumes we might actually do, can you just talk about how the margin profile would look like? And what are the key measures where we can actually cut costs in the interim, in order to protect those margins? That would be my first question.

Karan Adani: So, Deepak, I will answer then you can add on to this. So, Pulkt, if you see from our total cost structure, 30% of our cost is fixed in nature, 70% is variable in nature. So 70% is where we have the opportunity to keep reworking them looking at the volume and the volume forecast that we have. I think the margins, we will see margins to play anything between 68% to 70% even during the uncertain times, because looking at our cost structure and looking at some of the volumes which are coming in and the cargo mix that we have. So we don't expect margins to drop drastically because of uncertainty, it will be in the range of 68% to 70% is what we would expect. Deepak, you want to add on to this.

Deepak Maheshwari: Yes. I think just to add on to what you mentioned, we had for having the mix between fixed as well as variable. So we are seeing a number of changes which are taking place clearly. And within our variable cost as well we have electricity and fuel as important consequence of the cost structure. So we see considering where we are right now and how the cost of electricity as well as fuel is changing for reducing over the last, I would say, six weeks, we do stand to get the benefit of reduced electricity costs as well as reduced fuel charges and fuel costs. Also separately on the fixed cost, we are in the process of relooking at all our operating contracts, whether they are for equipment or for manpower, those constitute a significant portion of the fixed cost. And within that also we are looking at flexibility either on the hiring and rehiring of equipment, as well as seeing as to how the manpower can be up optimized. As you can see, we are running the ports even with reduced manpower at this point of time, maybe this will have new learnings for us as to hope further costs can be controlled. We are increasing technology to see as to how processes can be applied, that's an ongoing exercise, there is more focus on it at any point of time and more so in this year. So, there are various streams of activities that we have already identified in order to be able to control the cost and to maintain the margins.

Pulkit Patni: Understood. So we should assume the 67%, 68% to 70% kind of a range even for next year?

Deepak Maheshwari: Absolutely.

Pulkit Patni: Okay. My second question is, while I totally appreciate you can give no guidance on volume right now, any guidance you will have for how should one look at the SEZ income for the next couple of years?

Karan Adani: So, Pulkit, as said earlier also, we have certain projects which are ongoing which are linked to port development and port development income. And as guided, Rs. 800 crores to Rs. 1,000 crores we will still expect this year from the port development income. And apart from that, the lease income and the lease income that we typically get, that will continue to be there.

Pulkit Patni: Okay, understood. And just last question from my side, what is the status of the Snowman deal right now, if you could talk about that?

Karan Adani: The status of Snowman deal is, we have acquired 26% from the market as part of open offer. We have kept on hold the stake of 40% that we have to buy from promoter. We are reevaluating the deal looking at the current situation, and we want to just reassess what is the impact on coal storage business because of COVID-19. I think, looking at it, the possibility of deal happening would be between October and December of this year.

Moderator: Thank you. Next question is from the line of Nishant Chandra from Tamasec. Please go ahead.

Nishant Chandr: A couple of questions. So one is, there was a recent news article on pricing increases for railway handling. Can you provide some colour on that? And the second one is, how is the evacuation bottleneck for, let's say, Mundra versus JNPT? On a relative basis is Mundra better off given all of the benefits it has? That's it from my side.

Karan Adani: So, Nishant, we keep evaluating various measures in terms of to look at ancillary revenues. So part of that we have introduced a new charge which is towards rail handling. And basically it is to further optimize our railway assets and our railway costs over there. So it's a charge to CTO operators looking at the kind of productivity they have and the kind of volumes that they can bring in, based on that the charges are decided. And it's an individual charge, it's not a charge across all, it's a charge which is negotiated one on one between individual CTOs. In terms of evacuation, if you see, our rail evacuation is much better off than what JNPT is. And if you see the volume pendency that we have versus JNPT, our pendency is much lower. And we continue to focus on evacuation more through rail as much as possible over here.

Nishant Chandr: And has that led to any market share increase for us versus JNPT during this period?

Karan Adani: It's very hard to say because we are still awaiting data of JNPT for month of April. But I do believe, if I am not wrong, I do believe the gap has narrowed between JNPT and Mundra.

Moderator: Thank you. Next question is from the line of Priyanka Vishwas from Nomura. Please go ahead.

Priyanka Vishwas: So, I have two questions. So, one of the thing is that, what I observe is that your free cash flows have increased from roughly Rs. 1,600 crores in FY19 to almost Rs. 6,500 crores. So what my first question on this is, what were the drivers that led to this massive jump? And which of these factors do you think are sustainable factors that should continue into the coming years? So that's one.

And second is, it seems that post the fourth quarter there has been a substantial reduction in the promoter share pledges, I mean, in the last month. So has there been a big debt repayment by the promoters? And if so, if you can quantify that how much debt would have been repaid?

Karan Adani: Deepak, why don't you answer the first one and then Jeet will answer the second one.

Deepak Maheshwari: Yes. So, during the introduction I mentioned the four factors which have led to the increase in the FCF. And it's a very well rounded aspect about how different parts of the capital structure in the business have contributed to it. The changes that we have seen and the sustainability arises because it has improved cash flow because of operating activities and the LPG and LNG businesses that we have set up has contributed to that, there has been lower tax rate. So all of that is a consistent element, because we will keep having cargo flows as well as developing newer projects at our site. The reduction in CAPEX and capital commitment is also something that we are very carefully looking at. And you can see for this particular year also, that we have changed our overall guidance of Rs. 4,000 crores to Rs. 2,000 crores. In the last year there was reduced equity contribution for acquisition, clearly that's a function of what we acquire. And in the years that we have larger acquisitions coming up, this number can be different. However, it's important, I know you realize that all the acquisitions that we make, we do make them in order to have an IRR of more than 16%. And hence that's a number which can change depending upon the acquisition strategy for that particular period. And there is a reduction in financial assets which is also an ongoing exercise in order to monetizing these assets. So all over, different parts of the balance sheet, not one specific thing. But all steps in the right direction and with the focus to keep converting what has happened this year into a sustainable number. That's for Jeet to talk about the founder pledge.

Jeet Adani: So, I think over the last three, four months has been significant repayment of the share backed loans that we have at the promoter level. I think as a figure, we have repaid about Rs. 4,500 crores of share back loans, which has caused, as you see, drastic reduction in the share pledges. I think going forward, our aim at the promoter level is to take this number to zero. We view this is a type of financing strategy that we do not want to continue going over in the future. You can expect in the next 12 to 18 months for this entire promoter pledge saga to get over.

Moderator: Thank you. Next question is from the line of Ajinkya Bhatt from Macquarie. Please go ahead.

Ajinkya Bhatt: Sir, I just have one question on the sticky cargo. In your presentation there is a chart with the breakup of sticky cargo, and it looks like nearly half of the sticky cargo is coming through you. So my first question is, when you say sticky cargo, is it all take or pay contract? Or does it also include, say, your customers like manufacturing plants in your natural catchment area and so would be importing and exporting through you? And secondly, could you just tell us which are the key industries or key customers who are included in this sticky cargo for containers? Thank you.

Karan Adani: So, Ajinkya, two things. If you see, 60% of our cargo is sticky in nature. I would not say that it's mainly dominated by container, actually, I would say a majority of it would be between bulk and crude business. So, if you see our sticky cargoes when we classify, it is in take or pay nature. All places where we have will be long-term contracts, so anything about five years is what we classify as sticky cargo. So just to give you example, the way we classify it is like people like Tata Power, Adani Power, Reliance Industry for their coal handling, or IOCL or HMEL for their crude handling, HPCL for their POL handling, Tata Steel and SAIL and Dhamra for their cooking coal handling. So, all of them we would classify as sticky cargo. On container, the way we classify sticky cargo is basically shipping lines where we have more than five year contracts at any particular location, or we would look at shipping lines who have taken an equity stake into the container terminal because those shipping lines are bound to come to that.

Ajinkya Bhatt: Okay. But that essentially means that there is no volume guarantee because there is no take or pay, you are actually saying there could be a long-term contract with a shipping line. And if they have a JV state, you are saying, whenever they bring volumes, they are likely to bring it through your ports. But, let's say, if the economic growth is down and the volumes themselves are going down, then that carries a risk. Would that be a fair assessment?

Karan Adani: That is true for containers. But as I said that container from our basket of sticky cargo, container share is quite low. I would say from the 60% container would contribute, let's say, maybe 15% to 20%, not more than that.

Ajinkya Bhatt: Okay, fine. I think there was a chart in presentation where container was actually 49% of squeaky cargo, maybe I will recheck. Thank you.

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

Bhavin Gandhi: Firstly on the on the acquisitions, so I believe when we had announced the acquisition of Krishnapatnam, we had given a guideline of about 120 days. So, if you can elaborate a little more as to what is the confidence around this third quarter number? And also, is the acquisition price kind of freeze or there is any room for negotiation there as well?

Karan Adani: I will answer the confidence on Q3 and then Deepak can answer on the price and how we are working between now and the closing. So, if you see, originally we had 120 days, but this has pushed out because there are 51 CPs that the sellers have to complete between state approvals to lender approvals to various others approvals which are pending. From the 51 they have only completed eight as of now and we do expect that with the lockdown, a lot of these approvals will take time to come. From the buyer side, a major approval for us is the CCI approval. CCI, we have already finished two rounds of discussions with them and queries, and we do expect the CCI approval to come in place in next anything between a month or a two. But till the time seller CPs are not completed, we will not be in a position to complete the transaction. So we are very confident that the transaction will not be done before October, November of this calendar year. Deepak, you want to answer on the price and…?

Deepak Maheshwari: Yes, I will do that. So, as we mentioned earlier as well, we see that the Krishnapatnam acquisition is quite transformational for APSEZ as a company, and it helps us achieve our stated objectives around parity of cargo, both on the east coast as well on the west coast, and to service much larger economic hinterland in the country. Clearly, there has been a significant change, at least in the very short term on the economic conditions and the cargo flows across all ports and across all businesses in India because of the lockdown situation. I think we have to wait for a bit to see as to how this takes shape. And whether we renegotiate the acquisition price or not, that's to be seen in the future. And at this point of time, there is SPA which we have signed and that's the price what it is. And if there are significant changes in the market, of course, one can look at it. But till the time that we don't decide that we cannot be talking about it as well.

Bhavin Gandhi: Sir, my second question is relating to evacuation, and given that we have seen significant constraints on road and driver availability, which might not kind of correct itself in a short-term, are we seeing a mindset change from the customer to switch to rail? That is one. And if you can highlight what is within containers, what is the rail evacuated component for us?

Karan Adani: Sure. So, in Mundra our rail competent for container is almost 30%, 30% of the volume moves by rail. I think mindset change, it's also a combination of pricing. It's not just a mindset, I think what we have seen in certain critical parts of supply chain, people are rethinking in terms of moving them by rail. But which is more in commodity nature, I think it is all a subject of economics. I think it all depends on how railway is going to form its policy post lockdown, that will determine how much further shift can happen from road to rail. As of now, we are seeing 30% of the volumes moving by rail.

Bhavin Gandhi: And just one last thing, Container Corporation has announced letting go of relinquishing of 15 ICDs and there can be more in the pipeline. So, are we kind of looking at any of those for Adani Logistics?

Karan Adani: As of now, not really. Because if you see the ICDs which they have let go, these are all in the heart of the city and where they have already created an alternative within the city, I mean, within the limit. So, for us, it really doesn't make sense to take those assets.

Moderator: Thank you. Next question is from the line of Amish Shah from Bank of America. Please go ahead.

Amish Shah: , Deepan, I know you guys did answer about the road to rail mix. But could you give some numbers on what were the earlier verses in the COVID area? Both for Mundra Port and the other ports where it's relevant?

Karan Adani: The rail volume is more relevant towards Mundra only, because on Dhamra it's 100% rail movement which is happening and Hazira and Kattupalli does not have rail connectivity as of now. So if you see, Mundra in the month of April, we saw a jump of around 5% to 6% on rail cargo evacuation than what it historically does.

Amish Shah: So , just to understand, the cargo that is road bound, is it just creating pendency at ports or is it getting evacuated but at a very slow pace?

Karan Adani: It is getting evacuated but at a slow pace. What is happening is at least it is creating pendency at the CFSs, not at the port. So it is getting evacuated out of the port, but it is getting stuck at the CFSs.

Amish Shah: And for the bulk cargo, in the Mundra port I know that for Tata Power and Adani Power you have a conveyor belt to evacuate that kind of a cargo, but generally how is the bulk getting evacuated that does not normally go to rails?

Karan Adani: Bulk cargo if you see, fertilizers is 100% by rail, so that is continuing by rail, there is no issue over there. Coal, we have a very small amount of coal volumes which is going by road, so it's around 1 million, 1.5 million and Mundra Port, so there there is no issue as of now. Otherwise, on the bulk side we are not seeing too much of an issue because it is not an interstate movement, it is basically within the state movement. Where we are seeing issues happening on road movement is basically any cargo which is moving interstates.

Amish Shah: Makes sense. And you did speak about imports getting impacted more than the exports. So generally…

Karan Adani: Sorry, I just want to correct, exports are the ones which are more impacted than imports right now.

Amish Shah: Okay. So prior to COVID the import-export mix was 60:40, what would it be now?

Karan Adani: Right now it's like, I would say, 80:20, 80% import 20% export.

Amish Shah: Okay. And on the CAPEX curtailment that you guys spoke about, is the CAPEX curtailment predominantly towards maintenance? Meaning, obviously, during the COVID period one cannot construct anything, but once the lockdowns are over, is that understanding right that you said that they will continue to incur CAPEX at Vizhinjam, Myanmar, all of the proper CAPEX that you were planning to do, so only maintain goes down. Is that right?

Karan Adani: No. So, basically where we will be doing CAPEX is in Myanmar and Vizhinjam. Any further capacity enhancement this year we are keeping on hold, and we are looking to squeeze more volumes out of our existing capacity. And maintenance CAPEX, it has come down but it is not the one which is moving the needle. What is moving the needle is basically a curtailment of CAPEX on part of growth.

Amish Shah: So, specifically, the gas terminals relative CAPEX at Dhamra goes on hold for the moment, is that how should we think about it?

Karan Adani: No, gas terminal it's on a tape or pay basis, so that continues. Basically, any capacity enhancements, so there were capacity enhancements at Hazira, in Kattupalli, in Dhamra for further capacity enhancement, all of that is kept on hold for time being. And we would relook at that in next year.

Amish Shah: And last question, you did review your tax policies, and there is a write-back this quarter as well or this year as well. But is it possible to give some colour on whether the new or the old policies you are following it across with subsidiaries?

Karan Adani: Deepak, do you want to answer this one?

Deepak Maheshwari: I think we will get Akash to send a response to that. I can see that there is a long list of question, this is something that we will take offline.

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

Ashish Shah: Quickly, I know you have touched on the margin a few times in this call. But I just want to check if there is any one-off or any expense maybe of a CSR nature which has come in the quarter, because I am just saying on a quarterly run rate of about 55 million to 36 million tonnes of cargo we were doing an EBITDA of roughly Rs. 1,650 crores to Rs. 1,700 crores. Our EBITDA for 58 million tonnes is about Rs. 1,550 crores. So, I mean, apart from the mix issue, I just wanted to check that if there is anything else that we need to take note of in terms of one-off or maybe this is some sort of aberration in the quarter?

Karan Adani: Deepan, you want to answer this one?

Deepak Maheshwari: So, as we mentioned, and we will just give you any further details that you want, but the annual numbers still continue to be in the same range of anywhere between 68 to 70. And there can be quarters in which because of certain mix issues or certain other cost items that can be different. But overall the run rate should be similar.

Ashish Shah: Sure, fine. Sir, also on the balance sheet, under the current assets we have a loan component which has gone from Rs. 1,278 crores last year to Rs. 1,785 crores this year. Typically, under this item last year in the annual report we have ICDs of about Rs. 1,100 crores odd. So, I just want to check if that has increased or something else has increased here?

Karan Adani: So this also just increased specific secured loan, which is to the promoters of Nav Yuva Group.

Ashish Shah: Okay. So it kind of could be an advance for the asset, can it be taken that way? Advanced consideration for the APSEZ asset?

Karan Adani: It's just a support that we have given to the group.

Ashish Shah: Fine. Okay. So on what terms is that, if I may ask, in terms of the rate of interest?

Karan Adani: No, it's secured and rate of interest is in the low around 10% or something in that range. So it is a commercial thing.

Ashish Shah: Okay. And the consideration should be about Rs. 500-odd crores and the loan should be about?

Deepak Maheshwari: Rs. 650 crores.

Ashish Shah: Okay. Fine. Also sir, lastly, you did touch upon the realization point, but I just want to check if the INR depreciation which has happened, are we in a position to retain that entire benefit through FY21 or we can we could be making some changes as we will be passing on part of that benefit to the customer, given that the cargo overall remains weak? That's all from my side.

Deepak Maheshwari: So not really. I think we are very clear about our pricing. And, in fact, as mentioned, we have already taken steps in order to ensure that we are in a position to increase the spacing at the right time. There will be a benefit to us because of the rupee depreciation, but also at the same time those contracts are all negotiated in dollars. And so we will continue to have them in dollars, there is no specific plan to provide any discounts or any rebates on the pricing that we have agreed with the various customers. So there is a natural benefit of the real estate or the location of the ports that we have, and that there are inherent advantages on the overall logistics chain. So, we captured that, and we will continue to do the same.

Ashish Shah: Sure. So basically we will retain the INR depreciation benefit and that should be cushion the realizations and margins to that extent?

Deepak Maheshwari: Surely.

Moderator: Thank you. We take the next question from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: My first question is regarding SEZ revenues. So, sir, it has been mentioned that because of difference in timing of booking, we couldn't book higher revenues in this quarter. So does that mean next year SEZ revenue could be Rs. 800 crores to Rs. 1,000 crores plus, Rs. 200 additional crores for SEZ segment?

Karan Adani: I would not say that, but I think you can take Rs. 800 crores to Rs. 1,000 crores at least for this year. It's all the timing issue, so it's very hard for us to say that it will be Rs. 1,200 crores this year.

Prateek Kumar: Right. And margins also, although this overall number is very small, but the margins also were very less or around 17% this quarter in SEZ segment. Any specific reason there?

Karan Adani: That's largely because there is not that much SEZ income this year, in this particular quarter. So resultingly obviously the margins are also lower.

Prateek Kumar: Okay. And my second question is on logistics segment. So logistics segment despite adding like Adani Agri, which is a very, very high margin warehousing business. So margins in the segment has also again come back to like what we were doing last year around 17% range in current quarter. So, is there any one-off here or how should we see that? The segment margin is very volatile, it used to be like 28%, 29% first half, came to 24% and now 17%.

Deepak Maheshwari: , do you want to take that or do you want me to take that?

Karan Adani: You answer this one, no problem.

Deepak Maheshwari: So, I think on the logistics we should assume that the overall margins that we will be targeting, EBITDA margins will be in the range of 20% to 22%. And that’s was typically we will achieve. And I think this also you can see that the AA LL margins are likely to be higher because that's a business which has 70% EBITDA. And so now that we have had a full year of AA LL, as well as nearly a full year of B2B, you will see that the logistics margin will be that much more easier to predict, as compared to previous year's because of that it's not exactly being incorporated into our business, there would have been a difference.

Prateek Kumar: Right. Just a couple of questions more. On CAPEX, so when you say that we have curtailed the CAPEX, so like in Rs. 2,000 crores what is the maintenance CAPEX for the year?

Deepak Maheshwari: Shall I take that, ?

Karan Adani: Yes. Sure. Go ahead.

Deepak Maheshwari: So the overall composition of the CAPEX is around Rs. 850-odd crores for our existing ports, which includes maintenance CAPEX plus completing any of the projects which are smaller projects which are already ongoing, so it is complete. Then we have a similar amount which is required for Myanmar as well as for Vizhinjam port. And a number in the range of around Rs. 600-odd crores, which is for SEZ as well as any logistics acquisitions I think in that order. So, as we have always maintained that we have a number of projects which are discrete and discretionary and growth oriented projects, so at this point of time when growth to a large extent is questioned, then we have to stop or take a pause for all of that time and focus on completing what we can, what I just discussed and described. And use any CAPEX requirement only after the growth is more certain.

Prateek Kumar: Right. And just last question on receivables. So we can see the total receivable numbers is around Rs. 2,600 crores for the quarter. What was the receivable related to related party which was Rs. 950 crores last year?

Deepak Maheshwari: So, typically the question that we have typically been asked is what is the receivable from Adani Power? The Adani Power number used to be around Rs. 425 crores, that's down to around Rs. 390-odd crores.

Prateek Kumar: But overall numbers would have been roughly similar?

Deepak Maheshwari: Yes, similar.

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

Vibhor Singhal: Sir, just two questions from my side. One is, , just wanted to understand on the basic premise of the take or pay contract that we have. So I am assuming that the take or pay contract that we have with various clients, they would also have something like a force majeure clause which we are looking to basically implement with our clients, which are as per state rules and other government authorities. So what I wanted to understand was, how enforceable are these take or pay contracts? So even in an environment like this, in which there is an external event which is kind of impacting their ability to take that cargo, would they still be liable to pay? Or is there some clause in those arguments which can help them mitigate that thing and work around that and not pay up for that? And do you believe that we will be enforcing that take or pay contracts in this times and they wouldn't all be paying up, even if they are not taking up the cargo?

Karan Adani: So, there are force majeure clauses in take or pay contracts. But so far none of the clients have invoked force majeure on account of volume offtake. End of the year we will be expecting to enforce these take or pay contracts, because we have created infrastructure based on their requirement. So, we won't see in terms of not enforcing the take or pay contract.

Vibhor Singhal: We don't see any risk of these clients resorting to the force majeure clause and hence not paying up?

Karan Adani: No, we don't foresee that as a risk right now.

Vibhor Singhal: Sure. Just my second question is on the pricing front. I understand, Deepak just mentioned that we will probably keep the benefit of USD INR depreciation along with us. But given the current environment in which shipping volumes are low and, as you mentioned, in April itself we ourselves were down around 20%, 25%. So, is there kind of negotiations or talks happening with various clients in which they are asking for some kind of a lower realization of pricing cut or some that sort? And what is your view on the overall pricing that might evolve over the next 8 to 10 months? Do you foresee maybe some relaxation that we might have to give, not on the rupees depreciation part but as an ongoing business practice because of this entire corona pandemic, do you foresee some realization hit that we might have to take at some part of our portfolio?

Karan Adani: Okay. So, let me just answer that. First of all, all the take or pay contracts that we have, there the escalation is already built in, so that is being enforced and that we are very confident of achieving. Places where we don't have 'take or pay' contracts, yes there are continuous discussions which happen with clients or in terms of rate reduction and to look at ways of reducing rates. So far we have not reduced any rates across the board, we are looking at increasing rates, we are looking at the range of anything between 2% to 3% on a per tonne basis to increase our rate over the course of next 8 to 10 months. And we will do it gradually looking at plant to plant. So plants were where they fall under our hinterland and they have no option but to come to us, there we will definitely be targeting increase. And places where certain customers have an option, then we will take a call based on the situation at that time. But overall, I think you should take that 2% to 3% rate hike is doable this year.

Vibhor Singhal: Sure. I just have a small bookkeeping question for Deepak. So Deepak, just two questions. One is on the right of use asset that we have basically introduced in the balance sheet. This is just the IndAS accounting or is there some other connotation to it?

Deepak Maheshwari: We can take it offline; I am just conscious of the time.

Moderator: Thank you. We take the next question from the line of Sanjay Parekh from Nippon Mutual Fund. Please go ahead.

Sanjay Parekh: First is, clearly this reduction of pledge and planning to take it to zero is a very big positive. Second question I have is on the debt-to-EBITDA which we have said it will remain in the band of 3x to 3.5x. And we have an acquisition to complete. So, clearly for a FY21 I appreciate that. But if we take FY22 to FY25, given that we have almost covered most of the acquisitions that we could have done, can we say that directionally it will get lower and lower, without committing a number?

Karan Adani: Yes, you are right. Once the acquisition is done, directionally the net debt-to-EBITDA would be coming down. And actually you will see that immediately in six months' time that it will come down after the acquisition. And over the course of year, I think a couple of years it would keep coming down and it would remain stable in the range of 2.8x to 3.5x, it will stay in that range itself.

Sanjay Parekh: Okay, fine. The other question I had was on the container side, where you said the hit is more, if you can give us some more granular details in terms of essentials in container versus non-essentials. And now that we have green zone in certain aspects, how do we see what part of a container revenue will start or they have been normalized and which sectors or which part you think as things open up, will get better? Just a little more granularity around container will help.

Karan Adani: Can I take that offline, Sanjay, because it will be a little long.

Sanjay Parekh: No problem. Thank you very much.

Moderator: Thank you. We take the next question from the line of Girish Achipalia from Morgan Stanley. Please go ahead.

Girish Achipalia: Sir, just a couple of questions. On the import and export side, if you see for FY20 which would be the larger countries and what percentage of the total cargo mix would they be contributing to? And just the second question was on containers, what would be the largest sectors that would be driving these volumes? Those are the two questions. Thank you.

Karan Adani: Can you repeat the first question?

Girish Achipalia: The country wise breakup, some colour there.

Karan Adani: So as a country and especially for us, the major imports happened from Far East. So basically anything from Japan, Korea and China, that's where the majority of our imports come in. And they are mainly in terms of finished goods, white goods and, if I may say so, the components basically which then gets assembled and gets converted into finished goods in the country. The major exports for us is U.S., Europe and Middle East, those are the major exports, they are basically food products, pharma, finished goods like textiles and auto, these are some of the larger industries which contribute to the exports over there.

Girish Achipalia: And anything on the container side specifically or what could be the key sectors here?

Karan Adani: So, containers, as I said, the majority of the imports in terms of white goods, which are basically consumables in nature, you have components which gets assembled, which could be for auto components, which could be electronic components which gets assembled into the country and then either its consumed in the country or exported. On the export side, it is mainly textiles, pharma, auto and agriculture which are the large drivers.

Moderator: Thank you. We take the next question from the line of Ankur Perival from Axis Capital. Please go ahead.

Ankur Perival: Most of the questions have been answered, just one question on our CAPEX. Now you did mention preference for Myanmar and Vizhinjam and sort of some bit of capacity expansion across the other ports wherever required. We do have plans to expand the logistics space as well in terms of new logistics park or terminals. Does that stand deferred? That is one. And secondly, your thoughts on conquer, given we had expressed our interest earlier to look at that asset, but given the current scenario as well as the overall liquidity focus, your revised thoughts on that, if at all. Thanks.

Deepak Maheshwari: So, the CAPEX plan that we have includes our plans for investment in warehouses and rakes as per the business equipment.

Karan Adani: On CONCOR, I think it's too early to say anything, we will keep evaluating the opportunities. And we will look at it more from a return perspective. And we have always said in our capital allocation policy, that anything above 16%, if we were able to generate an IRR of 16% plus, those are the investments we would look at. So I think it's too early to say whether Concore will happen or not, but I think we will keep our interest on as of now.

Moderator: Thank you. Next question is from the line of Varun Ahuja from JPMorgan. Please go ahead.

Varun Ahuja: Most of my questions are answered, so just a couple of things. Firstly, if you could comment on potential market share improvement, like do you see any low hanging fruits in this environment and would you be able to increase market share? And from that perspective, the volume will not see the same level of trough as what it could be for the industry. So anything you can guide on that? And secondly, just on this FX hedging, I understand that you do have some natural hedges in place, but with almost like 65%, 75% of your debt in FX, I am thinking about your hedging strategy, whether it makes sense to actually take explicit FX hedges there? That will be my two questions.

Karan Adani: Deepak, you want to answer both?

Deepak Maheshwari: Yes. So let me answer the FX question first. It's always the wrong time to change the hedging strategy when things go adverse, and it's a strategy that we have been following for the last many years, more like five to seven years now, since the time that the company did this first bond issuance. And if you look at it over a period of time, it has paid dividends to the company. And so the strategy here does work. And we continue to look at going forward as to what is what is really required, both from what are the inflows and what are the outflows. Now, even if you were to look at this particular year, the total inflows that we had was around 430 million as compared to the total outflows that we had, which was in the range of around 300-odd million. So, even if you look at FY20, there has been a benefit of this particular strategy from a cash flow point of view. Of course, there is an impact on the P&L because of the mark-to-market. But over a period of time, it averages out because of the natural hedge that we have. So we continue to believe in the strategy. And if you look at the total amount of inflows that we have to the total amount of debt, the total amount of dollar debt, that also falls within the similar guidelines of what we have to gross debt. So with that overall metric as a consideration, we continue to believe that this strategy still works for us. On the market share, I think your question is quite pertinent, we have our marketing teams as well as our operational teams, we think that we have more operating efficiency and our marketing teams are more focused. So yes, there is an ability for us to increase our market share. But achievements of one month cannot be used by us to predict as to what the overall outcome will be. And so, yes, we are more focused possibly as compared to other players and that should surely help us.

Varun Ahuja: Okay. Just a couple of follow- ups, quick ones there. I missed the part on the shareholder pledge, like what did you guide in terms of the absolute loan level? How much it came down and by when are you targeting to take the share price to zero? And secondly, one housekeeping thing in terms of unutilized revolving credit or bank lines, that you could give that number as well. Thank you.

Jeet Adani: Yes. So in terms of the share pledge, we were in September of 2019 around Rs. 13,000 crores of underlying loans based on the share pledges. We have reduced that to around Rs. 8,000 crores, so almost a Rs. 5,000 crores reduction in the underlying loans. Now, given that the average covers on these loans are almost 2x to 3x, that has resulted in that much release of share pledges. So if you see because of the market volatility, the share pledges had peaked in March to almost about 50%, 55%. We have brought that down to the current level of about 33%.

Varun Ahuja: LTV right, you are saying?

Jeet Adani: Yes.

Varun Ahuja: Right. So Rs. 8,000 crores gross outstanding versus the LTV currently is 33%, right?

Jeet Adani: Correct. And going forward, our plan is that in the next 12 to 18 months, we want to take this number to zero.

Varun Ahuja: The unused banking lines?

Deepak Maheshwari: So from a company perspective, we don't keep banking lines and we don't end up paying commitment, we carry significant amount of cash liquidity in our business in any case. Plus, we have strong banking relationships because of which we are in a position to raise short-term capital or long-term capital, if we needed to be.

Moderator: Thank you. We take the next question from the line of Abhinav Bhandari from Nippon India Mutual Fund. Please go ahead.

Abhinav Bhandari: Just one quick one. On the notes to accounts there is an ongoing arbitration at the Mundra project for the LNG project that we have, so just to understand the nature of dispute here. And secondly, there is some Rs. 670-odd crores of income which has not been recognized. Does that form part of that Rs. 800 crores to Rs. 1,000 crores development income this year that you are guiding? Or it could be over and above that number? Thank you.

Karan Adani: Sure. So, as you know that Mundra LNG terminal is developed by GSPC. And part of that the jetty dredging and the land lease is to be given by APSEZ to GSPC LNG. And there is a dispute over there in terms of what should be the amount, and that's where the arbitration has been invoked. The part of the arbitration invocation, they have paid a one-time fee of Rs. 666 crores so that the terminal can be operationalized, in the meantime the arbitration can continue. So actually, yes, you are right, the Rs. 666 crores is part of the port development income. But we cannot recognize it till the time the arbitration is not over, because there is a dispute amount which is much larger than what has been paid.

Moderator: Thank you. Next question is from the line of Bharti Sawant from Mirae Asset. Please go ahead.

Bharti Sawant: Just wanted to check, though you have answered this, but then I just had a confusion. The CAPEX does not include any payout related to the acquisitions, right?

Karan Adani: That is right. Rs. 2,000 crores does not include the acquisition.

Bharti Sawant: And also wanted to check on this movement part, where you said that you are evaluating the deal again, but you may have already acquired, you have already done the open offer and we have already acquired 26% stake. So is there a probability of cancellation of the stake from GDL? Or it will be just renegotiated?

Karan Adani: I think it's a mix of both, we are relooking at the industry itself and whether the coal chain business makes sense in this current environment. And if it does make sense, then we would be looking at renegotiating the pricing term.

Bharti Sawant: Okay. But if it doesn't make sense, as in if you come to the conclusion that it doesn't make sense, so we will not go ahead with the deal?

Karan Adani: That's right.

Bharti Sawant: Okay. And by when should we get clarity on this part?

Karan Adani: It won't be before October.

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

Achal Lohade: Just a couple of quick questions. One is, with respect to realization, would it be possible for you to share for FY20 what would have been the realization for container and the bulk at blended level?

Karan Adani: Deepak, you want to answer this one?

Deepak Maheshwari: Okay. What are your other questions?

Achal Lohade: And the second is, given now we are looking at the commissioning of the DFC by end of December, is there any clarity with respect to what targets we would have once the DFC will start?

Deepak Maheshwari: Sure. On the DFC, we do expect the tariff will be in the line of what railway is charging right now, we don't expect it to be higher than that. We are working with the railway to see if that tariff can be brought down, keeping in mind the efficiencies that the DFC would be having. And because of the turnaround time reduction which can happen due to DFC, we are working with railways to see if the tariffs can come down as well. But on a worst case scenario, it will be in the same lines as what railways are charging currently.

Achal Lohade: Great. And just a clarification with respect to the container outflow, given the dependence of exports on the developed market and the imports with respect to domestic economic consumption, is it fair to say that the container volume could fear decline for the industry as well as for us for FY21? And given the current situation could that be a possibility?

Karan Adani: I think it would be too early to say that to make that statement, I think because we have just been in the first month of lockdown. I think it all depends on when the lockdown is being lifted and how fast it's being lifted. I think if the lockdown is lifted by end of first quarter then we would see a recovery which will be much faster. But it's all a function of when the lockdown is lifted.

Achal Lohade: Thanks so much. I will wait for the realization part. Thank you.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Karan Adani: Thank you, everybody, for coming on to the call. And if there is any other further questions, more detailing, team is available to answer any questions. Thank you so much.

Moderator: Thank you very much. On behalf of Kodak Securities Limited, we conclude today's conference. Thank you all for joining us. You may now disconnect your lines.