"Adani Ports & SEZ Limited H1 FY '22 Earnings Conference Call hosted by InCred Equities"

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MODERATOR: **MR. RAJARSHI MAITRA – INCRED EQUITIES**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Adani Ports H1 FY '22 Earnings Conference Call hosted by InCred Equities. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajarshi Maitra from InCred Equities. Thank you and over to you, Sir.

Rajarshi Maitra: Thank you Steve. On behalf of InCred Equities, I Welcome you all to the Adani Ports H1 FY '22 conference call. From the Management today, we have with us Mr. Karan Adani, CEO and Whole-Time Director; Mr. Subrata Tripathy, CEO of the Ports vertical; Mr. Vikram Jaisinghani, CEO of the logistics vertical; and Mr. Satya Prakash Mishra from the IR team. Without further ado, I would like to handover the call to Mr. Karan Adani for his opening remarks post which we will have the question and answer session. Over to you, Sir.

Karan Adani: Good Evening Ladies and Gentlemen, a warm Welcome to all the participants from India and Asia, Good Afternoon to my friends from the EMEA region, and Good Morning to those from the Americas. Welcome to the conference call to discuss the operational and financial performance of APSEZ for the quarter and half year ending September 30, 2021. During the last few calls, I have shared with you my vision of making APSEZ the largest port company globally by 2030 and also the largest transport utility in India. To achieve that, we have adopted a multi-pronged strategy encompassing geographic expansion with a focus on higher growth regions, balancing cargo mix, expansion in the logistics business particularly rail transportation and foraying into Grade A warehousing segment. These actions will enable APSEZ's transition to a transport utility in our view. In the last one year or so, we have taken a series of action aligned with this strategy, which includes acquisition of Sarguja Rail, Dighi, and Gangavaram ports. Increasing our stake in Krishnapatnam port, signing an agreement for building a Greenfield port in Colombo, Sri Lanka, and entering into a strategic partnership with Flipkart for providing warehousing facilities.

Let me take this opportunity to brief you on the status of Gangavaram port and Sarguja Rail corridor acquisition. Firstly, the Gangavaram port. During the Quarter-1 result call, I have mentioned that APSEZ is interested to acquire a 100% stake in Gangavaram port. We have now acquired the 10.4% stake of Andhra Pradesh Government and we are expecting NCLT approval for the 58.1% stake purchase of DVS Raju and family before the end of the current financial year. Talking about Sarguja rail corridor, the transaction was put to vote in NCLT convened meeting, wherein all stakeholders namely minority shareholders, secured creditors, and unsecured creditors have approved the composite scheme of merger by overwhelming majority. The meeting outcome has been filed with the NCLT for approval. We expect the transaction to conclude in the current financial year. Given our FY '20-25 business growth targets, we have more work to do. In the next four years, we are targeting to double the cargo volumes to 500 million metric ton, grow rakes counts by over 3X to 200. On railway tracks of 2000 kilometers implying growth of over 200% and build 15 MMLPs, which is three times the current count.

Also, we have a target for warehousing capacity of 60 million square feet by FY 2026, which is significantly higher than our current capacity of 8 lakh square feet.

Our focus is sustainable growth and we are actively driving the ESG agenda at all levels within the organization. We have even created a new ESG head role and hired for the position. We continue to make progress towards our targets of achieving carbon neutrality by 2025. We have already achieved our FY ’22 targets on energy intensity, emission intensity, and water intensity, but more action is needed. We have estimated our scope one and scope two emission for 2025 and are taking necessary steps to mitigate them with focus on electrification of port equipments such as E-ITVs, dumpers, and locos and switch to 100% renewable electricity. For scope one emission where technology constraint limits mitigation, we are looking to offset the emission through afforestation. We have made commitments for 1000 hectares of mangrove afforestation and 250 hectares of terrestrial plantation, this contract is already awarded. We may even increase the plantation area in case we see a need for the same. Feel free to engage with our ESG head, Charanjit, for more details on the various ESG initiatives that I have just summarized and the way forward under consideration.

With a focus on strengthening the corporate governance at APSEZ, including monitoring of progress on ESG agenda, major restructuring of the Board committee have been announced. These are, the audit committee and the nomination and remuneration committee will comprise of 100% independent directors. The current share of independent directors in the two committees stood at 75%. The stakeholder relation committee and the risk management committee will comprise of at least 50% independent directors. Currently, the share of independent directors in the two committees is 67% and 33%, respectively. Corporate social responsibility committee will comprise of at least 75% independent directors. The current independence of this committee is at 33%. Two new committees will be formed namely the corporate responsibility committee with 100% independent directors and information, tech, and data security committee with 50% independent directors. Finally, the risk management committee will now have three new sub-committees, they are mergers and acquisition committee, reputation risk committee, and legal, regulatory, and tax committee. All the three sub-committees will have at least 50% independent directors.

I also have an update for you on the Myanmar container terminal project. As you may recall that APSEZ through its Singapore subsidiary had signed a build, operate, and transfer agreement in May 2019 for setting up an international container terminal in Yangon region. Considering the subsequent military coup in Myanmar and continuity of sanction imposed by the United States on the Myanmar economic cooperation. Since February 2021, the company based on the risk committee recommendation has decided to exit its investment in Myanmar, which we expect to conclude by the end of this financial year. We will update you on further developments as and when we have anything new to add. To refresh memories, the investment in Myanmar project is about USD 150 million and represents less than 1.5% of the total asset.

As we continue to scout for value accretive propositions, we are also getting financially ready for the upcoming opportunities. During July, we did a bond issuance of USD 750 million in the global markets, which is the first ever issuance by any Indian infrastructure company for unsecured dual tranche notes of 10.5 years and 20 years maturity at a fixed coupon of 3.8% and 5%, respectively. The issuance has helped APSEZ to increase maturity profile to 7% and is a reflection of the company's ability to raise capital from the international market at a lower cost and with a longer tenure. I hope you managed to look at our first half performance. The numbers can be seen as a testimony to our 2030 vision for APSEZ. Though we have just started our decade long journey, the first year itself is likely to be a milestone year for APSEZ. The cargo volume growth of 40% as we expect to achieve 350 million ton of cargo volume, while journeying to half a billion tons by 2025. We have now put together a very competent team that is all geared to take up this challenge and deliver.

On this note, let me invite Subrata and Vikram who will brief you about the operational performance of their respective verticals, thereafter, I will run you through the financials. Over to you, Subrata.

Subrata Tripathy: Thank you, Sri. Karan Adani. Hello everyone on the call. Let me give you an overview of the performance at the port vertical. I will start with cargo volumes. In the first half of FY '22, APSEZ handled a cargo volume of 144 million metric tons, a growth of 47% as against 16% growth registered by all India ports. All our larger ports have performed well and have seen volume growth in double digits with Mundra port having a growth of 22% and Dhamra of 16%. Our overall cargo market share stands at 28.6% thereby implying a market share growth of 310 basis points whereas our container market share has grown by 144 basis points to reach 42.5%. This growth is primarily due to our strategic focus on achieving Eastcoast and Westcoast parity and diversifying cargo mix. Let me now share some segment wise cargo. Our cargo basket constitutes 42% container share, 46% dry bulk, and 12% liquid cargo. Firstly on container cargo, during the six months, APSEZ handled a total container volume of 4.11 million TEUs, a growth of 42% compared to an all India container growth of 30% on a year-on-year basis. This was led by Mundra port, which grew by 40%, Hazira by 15%, Ennore by 277%, and the addition of Krishnapatnam with a volume of nearly 121,000 TEUs. Mundra port continues to stay at the top in terms of container volume and extend its lead in every quarter. In H1 FY '22, it handled 3.2 million TEUs, which is nearly 19% more than JNPT, its nearest competitor. Our strategy of partnering with large shipping lines through our JVs has helped with a continuous gain of market share. During this period, six new container services were added of which four services were added at Mundra port and one each at Hazira and Ennore port, which will contribute around 200,000 TEUs of container volumes per annum.

Talking about dry bulk cargos, in the first half of the year, the total dry cargo handled was 66 million metric tons, which is a jump of 59%. Within this segment, minerals grew by 78%, coking coal by 37%, and total coal volume registered a growth of 69%. As part of the diversification of the cargo basket, we have added two new cargo types, namely sulfur at Dahej port and dolomite at Kattupalli port. We have also added some new customers at Dhamra port including names such as Bhushan Power and Steel Limited. We continue to add new customers at the newly acquired Krishnapatnam port and this will go a long way towards achieving the full potential of the port since its accusation in FY '21. Moving onto liquid cargo, APSEZ handled liquid cargo including crude of 18 million metric tons implying a growth of 27%. This was led by higher volume handled at Mundra and Hazira ports. Kattupalli port registered over 200% jump in liquid volume. As part of our cargo diversification, we have added LPG and LNG cargo in to our portfolio.

In H1, APSEZ handled 730,000 tons of LPG and LNG. With the rise in demand for gas products as a greener source of energy, we expect to see volume growth in this segment also. Let me now share some insights on Gangavaram port and SRCPL. As briefed by Sri. Karan Adani, APSEZ is aiming to acquire a 100% stake in Gangavaram port. Our team is now on the ground advising the operating team of Gangavaram port on adoption of APSEZ's best practices. We are confident of achieving the performance benchmarks set by us at this port as well. Let me refresh your memory with some of the operational statistics of Gangavaram port. It is a 64 million metric ton capacity non-major port established under a concession from the Government of Andhra Pradesh that extends till 2059 and is the gateway port for the hinterland spread over eight States across Eastern, Western, Southern and Central India. This acquisition significantly expands APSEZ's access to several new markets as a deep draft modern, multifocus ports, capable of handling fully laden super cape size vessels of up to 200,000 DWT. GPL handles a diverse mix of dry and bulk commodities including coal, iron ore, fertilizer, limestone, bauxite, sugar, aluminum and steel amongst others. In the first half year of FY '22, Gangavaram port has handled 16 million metric tons of cargo with revenue of Rs.617 crores and EBITDA of Rs.419 crores and an EBITDA margin of 68%. The other recent acquisition, Sarguja Rail Corridor, SRCPL, is an annuity business with a take or pay contract having a sovereign equivalent counterparty. In the full year of FY '22, the business is expected to handle cargo volume of 19 million metric ton generate revenue of Rs, 543 crores and EBITDA of Rs, 467 crores. In this half year of FY '22, SRCPL has handled 7 million metric tons of cargo with a revenue of Rs, 203 crores and EBITDA of Rs, 171 crores and an EBITDA margin of 84%. I now take the pleasure of handing over to Vikram, my colleague to update you on the logistics vertical. Over to you, Vikram. Thank you.

Vikram Jaisinghani: Thank you, Subrata. Greetings to everyone on the call. Let me give you an overview of the performance at the logistics vertical. Adani Logistics is continuing with its strategy of expanding our logistics footprint across India. The logistics park at Nagpur is nearing completion and slated for commissioning in Quarter-3 FY '22. Furthermore, the logistics park at Virochannagar, Taloja, and Panipat are under development. This is in line with our vision to become an end-to-end integrated logistic service provider in India, by creating logistics infrastructure including multimodal logistics park, warehouses, grain silos, and complete rail solutions for container, liquid, grain, bulk, and auto cargo. Speaking about logistics operation in first half, Adani logistics witnessed a 23% increase in rail volume as compared to last year, 1,79,377 TEUs versus 1,45,986 TEUs. This has been achieved despite an illegal blockade of Kila Raipur logistic park. During first half FY '21, our Kila Raipur ICD facility was fully operational. We have successfully demonstrated road to rail conversion on short haul circuits, less than 200 kilometers, which is Morbi, Mundra catering to the ceramic industry. This is one of the largest road to rail conversions for the country and we will continue to identify new opportunities for road to rail conversion across the country in our endeavor to contribute towards lowering the logistics cost for the trade. GPWIS vertical continued its growth trajectory and we handled 3.04 million metric tons in first half FY '22, against 2.04 million metric ton in first half of FY '21 translating into a 62% YOY growth. Eight new rakes were inducted in the period and we have a firm induction plan for this year to take the total GPWIS rakes up to 25 within this year. New circuits with respect to movement from mines to power plants have been kick started and this is expected to gain further momentum. In Adani Agri Logistics Limited, we have four projects under construction each having 50,000 metric ton storage capacity with one each at Panipat, Kannauj, Dhamora, and Darbhanga. In warehousing our two lakh square feet warehouse at Taloja is commissioned and completely leased out. With this, we currently have warehousing space of 0.8 million square feet. Adani Logistics is on its trajectory to emerge as a leading company in Grade A warehousing, and towards this, we have initiated efforts on leveraging our land assets to build warehousing across the top 20 cities in India while also focusing on strategic acquisitions of warehousing assets. Back to you, Karan.

Karan Adani: Thank you Subrata and Vikram. Now speaking about the financials, consolidated revenue grew by 56% year-on-year to Rs, 8089 crores in H1 of FY '22 driven by 46% growth in port revenue, logistics revenue growth by 27% as well as higher SEZ and port led development income. During the corresponding period, total EBITDA grew by 46% to Rs, 4826 crores. Speaking about port operations, the revenue increased by 46% year-on-year to Rs, 6347 crores with Krishnapatnam port revenue contribution of Rs, 996 crores. In line with the revenue increase, EBITDA also grew by 47% year-on-year to Rs, 4458 crores with Krishnapatnam contributing Rs, 721 crores to this number. Overall, port EBITDA margin stood at 70%. Speaking of the logistics business, logistics business EBITDA stood at Rs, 135 crores, a growth of 41% on the back of 27% growth in revenue to Rs, 546 crores. EBITDA margins improved by 258 basis points to 25%. Tax incidence during the period was lower due to the lower composition of profit from the APSEZ standalone entity, which was impacted by Forex movement. During the half year ending September 2021, trade receivables reduced by 12% from Rs, 2386 crores to Rs, 2099 crores. This is despite a 56% increase in total revenue. Accordingly, DSO has improved by 26% from 69 days to 51 days. During the period, net debt to EBITDA remain within the guided range and stands at 3.27x. The same net debt to EBITDA does not include EBITDA and cash from Gangavaram port and Sarguja rail corridor. If included on a pro forma basis, the net debt to EBITDA stands at 2.87x.

Two of the three major international rating agencies namely, Moody's and S&P have a stable outlook for APSEZ. The company has been maintaining key ratios within the desired range while growing rapidly.

To summarize our performance for the first half of FY '22, the numbers demonstrate the growth story and validation of APSEZ strategy, which is leading to a continuous gain in the market share and enabling the company's transition to a transport utility. We are on track to achieving our volume target for FY '22, which will be a breakthrough for APSEZ.

The last six months have been a trailblazer trip set by APSEZ. We have acquired a 100% stake in Krishnapatnam port, completed the acquisition 41.9% stake in Gangavaram port and are in the process of acquiring the balance 58.1% from DVS Raju and Family. A testimony to the improving perception and robust governance framework was the approval of the acquisition of SRCPL by overwhelming majority of minority shareholders and other stakeholders.

During the period, APSEZ has also embarked upon expanding its logistics arm with an objective to simplify supply chain for the customers by increasing rolling stocks and moving into bulk cargo transportation through GPWIS scheme building multimodal logistic park at strategic location with state-of-the-art facility and superior connectivity to all modes of travel and foraying into build to suite Grade A warehousing, which is our next focus area of growth. Our warehousing business is slated to grow 150 times in the next five years with superior returns to the stakeholders. With these portfolio growth objects, we will charter a new course for the future of APSEZ. All the future business and investment of APSEZ are aligned with globally accepted ESG principle for sustainable growth. On the climate front, we have set ourselves an ambitious goal of becoming carbon neutral by 2025. We will be one of the first port companies globally to achieve this. We are constantly investing to integrate digitalization and automation into our operations and services, which will enable us to become one of the top ports of the world. I will conclude by saying that overall, our efforts to create the largest port company globally by 2030 and the largest transport utility in India are forging ahead. Sustainability is a key priority for us and we are working towards incorporating it into the organizations culture and day to day decision making. With this, we can open the lines for question and answer.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.

Swarnim Maheshwari: Sir, Good Evening and thanks for the opportunity, my first question would be Adani ports recently came out with the press release where they have said that we have actually stopped container operations from three countries or where Iran would be a significant one, so if you can just highlight what was the existing mix from Iran and what could be the impact over here, that would be the first question.

Subrat Tripathy: Thank you for the question, in the whole year, we have handled about 2596 boxes from Iran and considering the entire profile of the APSEZ container profile and specifically with relation to Mundra, this is an extremely insignificant volume that we handle, and similarly, from Pakistan itself we had handled just about 444 boxes in H1, so which is extremely negligible just to give you an idea of the total number of boxes handled on a profile basis.

Swarnim Maheshwari: My second question would be did you mention in the opening remarks that this acquisition of Gangavaram is yet to be concluded from the balance sheet perspective because the cash has actually piled up to the tune of about close to $ 1.8 billion, debt has also gone up, so just wanted to understand the reason for this because the cash seems to have gone up significantly?

Karan Adani: What we are gearing ourselves up Swarnim is for Concor acquisition as it is not for Gangavaram. Gangavaram is as you know the cash component is already paid out for the 41% for GoAP as well as for Walberg Pincus and DVS Raju family instead of cash they are getting shares of APSEZ through the merger scheme, but what we are planning and what we gearing our self is for acquisition of Concor.

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

Mohit Kumar: Good Evening Sir and congratulation on decent set of numbers, so my first question is how does the high prices of commodity is impacting our volumes especially in the bulk segment? I believe that gain in the current quarter, the Mundra coal volumes were declined very sharply somewhere around by 5 million ton, which affected our volume for the Mundra port, so how do you see the numbers panning out in the balance of year and have you seen an increased coal import at your port especially Mundra?

Karan Adani: In terms of coal you are right that with the high prices, we have seen generation of plant coming down both for Tata and Adani power, but we are seeing from this month onwards that both the plants are coming back online and we are seeing production happening. We do expect stabilization of volume to happen from mid-November onwards in terms of the volumes from both these plants. Just to refresh your memory from, we have a take or pay contract with both the plants, though volume point of view, we do get impacted but from a financial point of view, it does not impact us so much.

Subrata Tripathy: Permit to further clarify is that while we are seeing a situation in thermal coal as explained by Sri. Karan Adani, but you see the steel markets in India and the domestic demand as well as the exports are at all time high, so while we are seeing a little kind of dip in thermal coal, but we are seeing a very good growth in coking coal which is also part of our profile. For example, at our port in Dhamra, if I look & compare the H1 year-on-year basis, we have grown from 5 million to about close to 6.52 million in this year, so which does pronounce every two trends that are going in for coal, one, that we will see a recovery in H2 as far as thermal coal and generation go because the demand in India is picking up and the economic indicators are also indicating manufacturing and if you look at the balance of trades that India is going, in all accounts, power is going to be a requirement, we will recover. On the coking coal front, which is a very large basket in our dry bulk, our recovery is very strong and are two ports, Dhamra and Gangavaram which is in the process of acquisition has seen a growth from 1.73 in H1 last year to 3.72 coking coal in this year, so this is a very strong signal about coking coal and our alignment with the industries at large.

Mohit Kumar: Secondly, are we seeing more enquiry for our land or SEZ land due to manufacturing linked PLI scheme taking off substantially?

Karan Adani: Yes, we are seeing more enquiries coming in for port based industries to come in. We expect that by end of this financial year, we expect to sign two agreements one is on a copper smelter in Mundra and second is for manufacturing of solar panels, so increasing the capacity of manufacturing of solar panels in Mundra. These are the two big enquiries we expect to close by end of this financial year, but yes in general we are seeing more enquiries coming for setting up manufacturing to supply into India.

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

Ashish Shah: Thank you for the opportunity, so Sir first question is that in terms of our volume guidance we have maintained but could you just elaborate a little on what give us confidence because at the current run rate, there seems to be little difficult, so where do you see the incremental push coming, one part you did explain about the thermal coal in Mundra, you can just give some more color?

Karan Adani: I could barely hear you, but if I understood the question, you are talking about the volume guidance and how confident are we on achieving that.

Ashish Shah: Right.

Karan Adani: I think on volume guidance we are very confident of achieving what we have said from two aspects. One is if you see the volume we expect coal volumes to pick up in the second half and we expect to recover what we lost in Q2 on top of the growth what we are expecting. Second is on the Kattupalli port, we are in the process of shifting two services out from Chennai and we expect growth to happen in Kattupalli and apart from that if you see the container volumes are continuing to grow and we are seeing a more robust growth happening. Generally, if you see Q3 is where container volumes actually they peak and that is what we continue, so we expect container to do better in Q3 and Q4 then what we did in Q1 and Q2. Overall coal volume, we expect to recover and continue with the growth what we have done in Q1, and at the same time, we expect more market share to be taken especially in Kattupalli port from Chennai port, so these are three aspects which gives us confidence that we will be able to achieve. Also just to keep in mind that the 350 million ton also includes 39 million tons of guidance for Gangavaram port as well.

Ashish Shah: Also, if you can just elaborate a little on our plans in Sri Lanka in terms of the time frame, the CAPEX that will go in the kind of capacity that will come in?

Karan Adani: So Sri Lanka, the Colombo terminal as you know it is in a joint venture where APSEZ holds 51% and we have 49% held by John Keells which is a private company in Sri Lanka and Sri

Lankan Port Authority. The total berth that we get berth length is 1400 meters, which roughly gives a sort of a volume of 3.8 million TEUs is what will be the capacity of that terminal. We expect the construction of the terminal to start by December of this calendar year and we expect, so this will be done in two phases and we expect phase one to be completed by December of 2023, so that is 24 months from December and the total cost of phase one and phase two will be roughly $ 650 million.

Ashish Shah: Sure, so just to clarify here, the phase one and phase two will sort of be, phase two will start immediately after phase one or it will start after a gap?

Karan Adani: No, it will continue, but we will commission phase one in 24 months, but the construction of phase two will continue.

Ashish Shah: Phase one CAPEX could be how much?

Karan Adani: I would say take it half of 650, that is CAPEX for phase one.

Ashish Shah: Any color on the volumes that we may expect, let us say after December '22, the first 12 months or the first 18 months?

Karan Adani: Actually if you see Colombo is running short of capacity in terms of from the volumes that they are doing, so we expect first year of operation to do minimum one million TEU and then to keep growing.

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

Atul Tiwari: Thanks a lot, Sir just enquiring a little bit more on this very aggressive build up in gross debt and the cash balance for Concor acquisition, so we understand from the newspaper report that the Concor acquisition has been kind of pushed to the next financial year, the finance secretary kind of made a statement, so it is still like six-seven months at least away and then obviously once the process starts, it will take maybe a few months more to complete it, so is it not a little too early to kind of build almost 10,000 crore plus kind of cash balance or do you expect Concor acquisition to happen much quicker than what we are bidding on?

Karan Adani: I think we expect Concor acquisition to start in April that is what we believe it would be. From our point of view, we are building up the reserves from now so that by the time the acquisition comes to conclusion, we are not stretched on the balance sheet as well in terms of the numbers as well as on the ratios and more importantly, we want the normal such a large acquisition to be sort of a normal course of business rather than being stretched out at the last moment, so we are just preparing ourselves both not just in terms of the cash and the balance sheet, but even in terms of the organization and in terms of our strategy to use this next six months to prepare ourselves, so when we go into the bidding we are fully prepared.

Atul Tiwari: You very quickly mentioned about some agreements for copper smelter at Mundra and manufacturing of solar panel, so how much land uptake it could require etc., could we finally see substantial uptake of land at Mundra, which has been lying unused for quite some time now?

Karan Adani: I think between both the project, we expect roughly around 1000 to 1500 acres to be sold, however, as we have always said we do not give guidance on these numbers because these are one-off events, so we expect around 1000 to 1500 acres to go.

Moderator: Thank you. The next question is from the line of Ankita Shah from Elara Capital. Please go ahead.

Ankita Shah: Sir, this plan to exit Myanmar investments should we expect entire $ 150 million to be written off in this financial year?

Karan Adani: When we say exit, we are in the process of selling the terminal, not abandoning the terminal, so we will be running a process of selling and then obviously we would look at what is the best value we are getting from the buyers.

Ankita Shah: Sir, what is the status of Vizhinjam port?

Karan Adani: Vizhinjam, the construction is going on, the breakwater construction is going on, berth and the backup yard is 90% ready, we expect phase one which is 400 meters of berth length to be commissioned by December of 2023.

Ankita Shah: What has been the key reason for delay in this project?

Karan Adani: It is mainly because of availability of stones over there. The breakwater is a very complex execution which we have to do through land mode as well as through sea mode and the availability of rocks has been an issue, so as part of derisking or trying to, let me put it this way that to expedite the project we have rather than relying only on market for supply of rocks. We have got license to mine from five locations where we get captive supply of rocks, so basically it is the breakwater which is an issue rather than the berth and the backup yard.

Ankita Shah: One on the logistic side, what was the key contributor to the rise in the logistics margin?

Vikram Jaisinghani: There has been an all round increase in margin driven by all the segments. Primarily, the largest jump has come from the GPWIS sector that has been the number one contributor. Rail has also increased margin by about 150 basis points and we have done then on the warehousing front also where we are far better in margins and utilization as compared to last year, so all in all the segments has got contributed to the growth in margins where we are witnessing good growth all around and this will continue.

Ankita Shah: You mentioned you expect it to increase further to what levels can you see margins to improve?

Vikram Jaisinghani: I think currently between Q1 and Q2, we are at 25% EBITDA margin. We would expect this to continue for the balance part of the year also.

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

Vibhor Singhal: Thanks for taking my question, so just one question from my side and one clarification, the clarification just wanted to check in terms of the debt buildup, as you mentioned the part of the debt buildup is for preparing the war chest for Concor acquisition, but there are many parts that pertain to the payout for the Gangavaram acquisition, so whatever we needed to pay for Gangavaram that has been paid, right?

Karan Adani: Gangavaram acquisition was done through internal accruals. Whatever debt we have raised is, capital that we have raised is mainly to gear ourselves for Concor.

Vibhor Singhal: If I look at our net debt, of course our debt has risen by almost 10,000 crores and the cash also has increased, but our net debt has also increased by 7000 crores from March number, where would that number be going to?

Karan Adani: Can you just repeat that question?

Vibhor Singhal: If I look at our total debt, out total debt has basically increased by almost 10,000 crores from March '21 numbers?

Karan Adani: Which is the 750 million US Dollar bond that we have raised, that would answer your total debt number.

Vibhor Singhal: Okay, fair enough, so that means the total debt and out of that 7000 crores of course has increased in cash which as you mentioned is for the Concor acquisition that we are building up?

Karan Adani: That is right.

Vibhor Singhal: When do we expect to start consolidating the Sarguja numbers and Gangavaram also on a fully consolidated basis?

Karan Adani: Sarguja numbers will get consolidated December onwards from April 1, 2021, and Gangavaram we expect in Quarter-4, the consolidation to happen but as of April 1, 2021.

Vibhor Singhal: Just now the second question is on the current scenario in the shipping industry, we have heard lot about shortages of containers across the world and the freight charges rates are also shooting up, so any impact you are seeing of that on our overall cargo volumes in terms of and that of course is as mentioned in the last call let us say around four-five months, so any impact you expect of this entire global turmoil on our cargo volumes or on the business, any view on that will be helpful?

Karan Adani: If you see our performance, our container volumes have been very robust and even whether it is in Q1 or Q2, we have continued to grow and we do not see, if you see total container volumes have grown by 42% and that growth rate has not reduced whether it is in Q2 as well, so we do not see any impact in terms of due to the current freight market that is going on.

Vibhor Singhal: Not even in the coming quarter?

Karan Adani: No, actually we see Q3 to be more robust than Q2.

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

Prateek Kumar: Sir, my question is on just a follow up of that question when you say no impact which means this container shortage has been not there globally ever is the issue, route number would have been same?

Karan Adani: Yes, that is right. We are not seeing, let me put it this way if the freight was different, we are not seeing a growth which would have been much higher than what we are doing today, so if you see overall container volumes have grown by 16% even with the current market, whatever the freight market is happening.

Prateek Kumar: On CAPEX number, I mean including Sri Lanka warehousing the CAPEX number should stay at 3100 to 3500 for this year and next year?

Karan Adani: This keeps into account Sri Lanka as well as projects which are going in Dhamra, Krishnapatnam, Vizhinjam, as well as container terminal expansion in Gangavaram, logistics expansion on Greenfield basis. This does not take into account any acquisition that we would do on warehousing, readymade warehouses which if you recall we have said that we are looking at 30 million square feet of acquisition in the next five years on the warehousing front.

Prateek Kumar: One question on your leverage position which is currently sitting on 3,100 crores, like with Concor acquisition potentially for Concor acquisition, this can go to how much in your view on the higher side?

Karan Adani: Sorry, I did not get the question, can you say that again?

Prateek Kumar: Post the potential Concor acquisition, how much of this 3100 crore of net debt can go to like let us say by FY ’23?

Karan Adani: You mean 31,000 crores how much can it go to?

Prateek Kumar: Right.

Karan Adani: With the Concor acquisition, the net debt position will remain around 31,000 because we are using the cash to fund the acquisition.

Prateek Kumar: So cash will be used, so the net debt will increase?

Karan Adani: But you also have to take into accounting free cash flow that will be generated next year as well from the existing operations which will keep increasing, so we expect next year free cash flow to be in the range of roughly 8000 crores.

Prateek Kumar: Okay, our net debt will not increase per se even after Concor acquisition?

Karan Adani: That is right.

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

Amit Shah: Thanks, Karan just one question on after DFC commissioning, what has been your initial experience both from the ports business and the logistics business perspective?

Subrata Tripathy: Thank you, DFC has been partially commissioned. As on now, the Ministry of Railways holds that they would do the final commissioning by about June '22, but the section between Palanpur and Ajmer and to Delhi and the parcel commissioning has meant two things very important for us as far as Mundra evacuation is concerned. From a last year basis, we have from about an average of 17 container trains in and out for import and export, we are already at levels of 22. We have seen a growth of about 32% in this segment and we are hoping that by after Q3-Q4, we will go to a level of 35%. The second feature that we are seeing is with the electrification and the DFC coming in, our double stack which used to be at levels lower than about less than 3%-31%, we have grown up to 38%-39% and we have continuously growing on double stack. This basically means that we are able to evacuate and reach containers between the consumers and Mundra at a much faster rate and better availability, this is one feature of the DFC which has started opening up. As far as the segment from Palanpur to Samakhiali is concerned, the Kutch railway in which we are also one of the stakeholders there, we are seeing that the Kutch railway doubling as well as the electrification are in pace, but in line with that also we are electrifying our segment from Adipur to Mundra, so that we are in line that as and when the DFC and the feeder routes are electrified, it will continue to permit us to do double stack train under the wire as it were, this is the update on DFC.

Vikram Jaisinghani: As far as logistics is concerned, the one big impact that we are seeing is a dramatic reduction in the transit time from Mundra to NCR, from 45 to 48 hours before the installation of DFC, the average transit time is now 27 to 28 hours and therefore this has resulted in the improvement of the asset utilization of trains.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Thanks for the opportunity, Sir in terms of pricing have we taken any pricing increasing both on the port side or the rail side recently?

Karan Adani: Generally, our pricing increase happens in Quarter-1 and we maintain those prices. Other than that on Quarter-2, there is no major price increase so I think compared to last year, you would see on a per ton basis around 150 basis points increase on pricing.

Abhishek Ghosh: Anything on the rail side, have we initiated any price hike?

Karan Adani: No, right now we are working to see how we can increase the efficiency and that is how we generate more margins rather than just focusing on price increase.

Abhishek Ghosh: In terms of the model share at Mundra port, what will be the rail model share at this point in time?

Subrata Tripathy: As far as the container segment is concerned, we are coming to about close to 35% as I said and we are continuously growing from which was less than 31%-32% last year. We are growing up to 35% we are hoping to end the year and as I said this is on the back of the double stack trains and the number of trains that have grown per se from an average of about 17 trains in and out to Mundra last year as far as container flats are concerned. We are already consolidating at close to more than 22 trains per day, so this is a very significant increase and you add on that that there was an increase in the double stack, which means that we are making a penetration and as my colleague Vikram has clarified, so our outreach to the NCR from a level of about 40-45 hours has come down to 26-27 hours, and this has been actually a very telling fact in attracting containers to Mundra and improving their stickiness over there.

Abhishek Ghosh: Do you expect with DFC stabilizing in about a year’s time this model share can cross may be 40% and maybe in couple of years, it can be at 45%, any sense if you can give us of the range it will be helpful?

Subrata Tripathy: Without a doubt, we are looking to penetrate the 40% mark even without the DFC getting commissioned next year and as and when the DFC does come around and with the unique traction of the electrification and the continuous DFC for the feeder route, there is no reason not to look at the penetration of beyond 50% in this particular segment. I am very confident that in the coming years, we will consolidate about close to 39% to 40% this year and break the 40% mark next year without a doubt.

Abhishek Ghosh: Sir, just one last question from my side, in terms of the warehousing the whole showcase that you had done, will your area of focus will only be warehousing or will you also venture into third party logistics and other integrated logistics as far as the activities around warehousing is concerned?

Subrata Tripathy: I had clarified this earlier, we will be clearly in the business of leasing out warehouse and build to suit infrastructure. Also, I think it might be pertinent for me to add that warehousing just does not mean only warehousing, we are also create infrastructure for light manufacturing and other built to suit assets so that we get higher realization which was explained by me in my earlier call, so we would specialize in plug and play infrastructure for plants who will come wanting to kind of come and start their business straight away without much ado, but we will leave the operations for our customers to do as they deem fit in line with their operating standards.

Moderator: Thank you. The next question is from the line of Ankit Patel from L&T Mutual Fund. Please go ahead.

Ankit Patel: My question was regarding the Vizhinjam port and your plans to set up a terminal at Colombo, so in terms of the strategy, if you could throw some light in terms of obviously we would be targeted towards transshipment cargo, but would they not cannibalize each other in terms of the prospects, you would have some thoughts and strategy about it, just wanted to understand?

Karan Adani: Between Vizhinjam and Colombo, both will be attracting transshipment volume. Actually rather than cannibalizing, both will be complementing each other, and our strategy is actually to control capacity in this both the regions, combined we would be controlling around 50% of transshipment capacity over there, and as this region grows, as Southeast Asia grows between Vizhinjam and Colombo, the transshipment volume is bound to grow and we expect that by controlling the capacity we would be able to control pricing as well at the both ends and grow the business, so it is complementary in nature not a competing in nature.

Ankit Patel: Secondly, could you also tell us something about what you are planning at Dighi?

Subrata Tripathy: Thank you, Dighi as you are aware, we are looking to consolidate, if you look Dighi is basically to replicate the entire maritime ecosystem that exists in Mumbai today. The city based ports, which is not able to answer the needs of dry bulk and other cargos namely fertilizers as well as steel which is a very large consuming market in and around Mumbai and the industrial zones of Pune, Chinchwad and other places, so we are looking and the presence of Posco which has a very fine warehouse at Dighi, we are looking to consolidate steel volumes over there and make it a hub for entry into Maharashtra region to answer Mumbai as well as Maharashtra into the central Maharashtra region, two places that we are targeting and we are looking to Dighi not just to be a port but a center for business development and along with the vision that Maharashtra Government has through MIDC to build industrial regions in and around Dighi and as you get in and around the two places on the national highway on the Mumbai-Goa national highway, so we are looking to see that this port gets wedded as an intrinsic part of this large industrial cluster. Two cargos that we are looking is in POL segment, which is basically chemicals as well as POL. We are also looking to see forward movements to have developments in the LNG sector, in the

LPG sector, this is work in progress at the moment. We have received some very fine proposals assessing the potential of the place. This is also a place where we are having many kinds of rig repairs and also as I said break the cargo mainly it will be steel driven and liquids we have a very fine terminal over there and we are developing on that. We should see Dighi coming up in the next year in a much larger segment than what is happening today.

Ankit Patel: In terms of the capacity that would be built over here and over the next three to five years, where could this port be in terms of the overall volume that you could handle from here?

Karan Adani: Dighi once our revised master plan is approved, we are expecting to create roughly 300 to 350 million metric ton of capacity over the course of the concession, so over the next 50 years.

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

Vijay Kumar: Good Evening Gentlemen, I just have one question. When I look at our QOQ, that is quarter-on-quarter performance, I see containers lower by 3% especially coming in at Mundra and in Krishnapatnam, so any specific reasons there?

Karan Adani: Generally Quarter-2 is subdued when it comes to container if you see historically, so Quarter-3 and Quarter-4 due to the festival season we generally see a sharp rise in container volumes.

Vijay Kumar: I just was wondering whether this container shortage led positive impact that India and port like Mundra witnessed, is it waning or you think it will again benefit Mundra given as you said festival season and of course the supply chain shortages and bottlenecks have not eased across the world yet, so it will again benefit in the next two quarters?

Karan Adani: Yes, we are not seeing trade getting hampered because of this. We are seeing especially due to China closing, we are seeing a lot of export volumes coming to India and we expect this trend to continue and even with what the freights are, we expect the growth to continue and part of that from our point of view, all our ports are growing, so it is not just Mundra, but Mundra, Hazira, Kattupalli, Ennore, and Krishnapatnam, these are the ports where we handle container. We expect growth all around in all these ports.

Vikram Jaisinghani: I just said if you look at the economic indicators and you will see the recovery and as Karan has clarified, it is a subdued quarter but from September onwards, we are seeing a recovery both in the import and the export baskets of India and as I speak to you a non POL export of about 28.5 billion USD in September is a very fine sign of recovery. Similarly on the import, we have seen about 33.8 US billion which is non-POL, non-gold and silver, which is all driven by lot of containerized cargo, so the recovery is very, very fine and an economic indicator that is coming out is that we will perhaps have all time trade kind of thing of about 400 USD billion which either two India has never done in terms of exports and that will fuel a lot of container growth, it will come back. We are very, very confident that in Q3 and Q4, we will be seeing a great resurgence on the container volumes driven by large economic indicators as given by Government of India and RBI. For example, we are looking at manufacturing recovery of 5% to 6% in H2, which would mean that our ports and our container growth will be very, very significant.

Moderator: Thank you. Ladies and Gentlemen, we take the last question is from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.

Swarnim Maheshwari: Thanks for the opportunity, Karan if you can our net debt to EBITDA, this is a projected one after taking Sarguja and Gangavaram, it has now actually dropped below 3X, our guided range has been about 3 to 3.5 and we are right now at about 2.8, so just wanted to understand the sustainability of this and this is likely to be sustainable, so do you intend to actually change your guidance to less than three times net debt to EBITDA?

Karan Adani: I think the numbers, our guidance will continue. I understand that we are little bit conservative on our guidance based on the current trend, but right now we expect it to be around 3 to 3.5X. This is mainly taking into account any future acquisitions that we would do in warehousing or any other future course that could possibly come.

Swarnim Maheshwari: Okay, because I understand that Concor we just mentioned in that Concor is likely to keep your net debt stable at about 31,000 odd crores so that was a very big acquisition, we do not see any such big acquisitions which had actually changed the bid to done numbers materially so just wanted to understand on that part?

Karan Adani: Yes, I think as we said that we do not expect any big material acquisition, but keeping in mind warehousing business that we want to grow and as Vikram had earlier guided, we are looking at roughly seven to 10 million square feet of acquisition every year, so keeping all of these in mind, we just felt that right now it is not the right time to change the guidance on net debt to EBITDA, however, we can relook at it in December in Quarter-3.

Moderator: Thank you. I would now like to end the conference. Over to Mr. Rajarshi Maitra for closing comments, over to you Sir.

Rajarshi Maitra: I would like to thank the Management of Adani Ports for allowing us to host this call and sharing their detailed insight.

Karan Adani: Thank you everybody for the patient hearing and if there are any questions, Satya and Bala are there to answer your questions, and on ESG if there are any questions and Satya can get you connected with Charanjit who is our ESG head. Thank you everybody.

Moderator: Thank you. Ladies and Gentlemen, on behalf of InCred Equities, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.