"Adani Ports and Special Economic Zone Limited Q1 FY21 Earnings Conference Call"

August 11, 2020

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MODERATOR:	**MR. ANKUR PERIWAL – ANALYST, AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Adani Ports and Special Economic Zone Limited Q1 FY21 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Periwal from Axis Capital Limited. Thank you and over to you, sir.

Ankur Periwal: Thank you, Neerav. Good evening, friends and thanks for dialing in for Adani Ports and SEZ Limited Post Result Earnings Call for the quarter ended June 2020. From the management side, we have with us Mr. Karan Adani – CEO and Whole-time Director, Mr. Deepak Maheshwari – CFO and Head of Strategy. So, as usual we will start with initial comments from Karan followed by some commentary on the financials from Deepak and then we will open the floor for Q&A session. Karan, over to you please.

Karan Adani: Good evening, ladies and gentlemen. Welcome to the conference call to discuss Q1 FY21 operational and financial performance of Adani Ports and SEZ Limited. All ports were operational during the quarter as the port services were classified under essential services. While we ensured smooth operations, strict measures were in place for maintaining hygiene, sanitation of workforce, workplaces and sites. Employee health and safety continues to be our top priority. Cargo volumes during first quarter of FY21 were impacted due to lockdown measures imposed by government of India. We achieved a throughput of 41.5 million metric tonnes of cargo at our ports.

Our strategy to focus on container business and diversify cargo mix enabled us to cushion the impact of downturn. Our market share in container segment increased from 36% to 38%. Cargo mix in quarter one of FY21 shifted towards container and other bulk cargo. Container now constitutes 43% while coal was 28%, crude was 10% and other bulk cargo 19%. This includes 1.5% for gas business. Mundra port became the largest container port by surpassing JNPT. The port handled 0.97 million TEUs compared to 0.85 million TEUs handled by JNPT in quarter one of FY21. As part of our cargo diversification plan, Mundra port handled 246,000 tonnes of LPG and 374,000 tonnes of LNG. Dhamra port handled a cargo volume of 6.36 million metric tonne signifying resilience in cargo and customer base.

In logistics, rail volumes increased by 37% from 56,060 TEUs to 76,925 TEUs. ALL currently operates 60 rakes and continues to be the largest private rail operator in India. We have received approval on Krishnapatnam port from CCI and expect acquisition to be completed in the current quarter. On Dighi port, Mumbai bench of NCLT has approved our resolution plan and we expect to complete this transaction by Q3 of FY21.

On Snowman, both the parties mutually agreed not to pursue the deal and has signed a settlement agreement. Adani Logistics Limited will continue to be a minority shareholder. As part of creating a platform for the rail tracks, we have decided to restructure our rail assets. Currently, we have rail assets in Dhamra and Mundra and we will be building in Kattupalli and in Hazira**.** So to create a platform, we have created a company called Adani Track Management and where we will be housing all these rail assets going forward.

Consistent and transparent disclosures resulted in CSR hub improving our ranking from medium to high level. Similarly, Sustainalytics have reduced the risk rating of APSEZ from medium to low. We continue to focus on reducing water and energy intensity, emission levels and reuse of waste water using 5R principles. APSEZ is the only port and few of the Indian companies to sign up with science-based target initiatives and with Taskforce on Climate Related Financial Disclosure for reducing carbon emission and with the commitment to become carbon neutral by 2025. We have further strengthened our board by inducting one more Independent Director and with this our Independent Directors constitutes 55.5% of the board.

Now, let me touch upon financial numbers briefly. Our strategy to diversify cargo mix, handle high value cargo and initiatives to reduce operating cost ensured a lower decline in revenue. While cargo volumes declined by 27%, consolidated revenue declined by 18% where our consolidated revenue stood at Rs. 2,293 crores in Q1 of FY21 versus Rs. 2,794 crores in Q1 of FY20 and port revenues declined by 21% to Rs. 1,904 crores in Q1 of FY21 versus Rs. 2,425 crores in Q1 of FY20. During this period, we relooked at fundamentals of port operations and optimized our equipment and resources resulting into substantial savings and maintaining our port EBITDA margins of 70%. Logistics achieved a revenue of Rs. 200 crores in Q1 of FY21 versus Rs. 181 crores in Q1 of FY20, a growth of 10% on year-on-year basis. We had seen a steady increase in cargo throughput across ports from July 2020. During the month of July 2020, APSEZ handled cargo volumes of 18.3 million metric tonnes, a growth of 6% on year-on-year basis and 31% over June 2020. This strength gives us a confidence that worst is behind us and going forward, cargo volume in FY21 is expected to stabilize. Deepak will take you through the detailed financials later.

Now, let me take you through few key ports performance. Coming to Mundra port, coal volumes were lower by 49% due to lower imports by Adani Power and Tata Power. PLF of Adani Power was down to 48% in Q1 of FY21 versus 81% in Q1 of FY20 and Tata Power's PLF stood at 69% in Q1 of FY21 versus 80% in Q1 of FY20. The demand for trading coal also impacted coal volume. Crude volume was lower due to lower imports by IOCL and HMEL. Share of container at Mundra port increased from 47% to 55%. A new container line, UIG Service with annual potential of 40,000 TEUs was added in Q1.

Coming to Dhamra, during May 2020, port operations were stopped for two days due to cyclonic storm Amphal**.** All precautionary measures were taken to safeguard life and property and no loss was reported during the cyclone. The port continues to handle new types of cargo and added new customers. During the quarter, nickel plate of 2000 metric tonne was handled for L&T Hydrocarbons Limited. The port signed a new contract with Sarda Mines Limited for handling iron ore mines which was finalized.

Coming to Hazira port, the port has operationalized Phase-III of liquid tanks by adding capacity of 45,631 kiloliters. With this, Hazira has 194 tanks on with a total capacity of 5.32 lakh metric tonne. Cargo volumes at the port declined by 29% due to lower coal demand by 50%. Container volumes were resilient with a decline of 8%. The share in overall cargo increased from 38% to 49%. Increase in liquid volume cushioned decline in revenue, EBITDA and margins. EBITDA margins improved by 275 basis points to 79%.

Coming to Kattupalli port, container volumes declined by 40% due to closure of auto ancillary units. However, the port has been able to maintain its market share in the region. While cargo diversification, high realization ensured revenue growth by 4%, operational efficiency ensured EBITDA growth of 11% and EBITDA margin improvement by 360 basis points to 63%.

On logistics, operations remained unimpacted. Rail volumes handled by ALL in quarter one of FY21 registered a year-on-year growth of 37% and consequently revenue grew by 10% from 181 crores in Q1 of FY20 to Rs. 200 crores in Q1 of FY21. Rail volumes were higher due to addition of rail capacity and addition of new routes and acquisition of innovative B2B logistics. Adani Logistics Limited operates 60 rakes and 5 logistics parks. ALL is also developing a logistics park in Nagpur and warehouses at Kattupalli, Taloja and Mundra which will be operational in H2 of FY21.

Coming to operations of Adani Agri Logistics Limited, despite lockdown imposed due to COVID-19, the company successfully completed procurement process during the harvest season and managed movement of 0.61 million metric tonne in Q1 of FY21. Currently, AALL has 8 Silo units under various stages of development. We have embarked on our journey to further strengthen our last mile connectivity to ports by adopting a dual strategy of improving efficiency, optimizing utilization of assets, lower turnaround time of our rakes, cooling period at our logistics park etc. and looking at inorganic growth. This strategy will help us to continue to gain market share and take us closer to our vision of being a truly integrated service provider in the logistics space.

In conclusion, I would just like to say that we are deploying advanced technology in our daily activities to keep the employees safe from harm’s way and remain focused on providing customer centric solutions. The focus continues on accelerating cargo volume growth by fast tracking value accretive deals mainly Krishnapatnam and Dighi. With rebound of cargo in July 2020, we believe that the worst is behind us. We expect cargo volumes to stabilize in August and September thus enabling us to guide on FY21 cargo volumes in October 2020. Balanced cargo mix and geographical diversification will enable us to progressively increase our throughput and achieve our stated goal of 450 million metric tonne by 2025. We are committed to maintain our investment grade rating, deliver port EBITDA margins of 70% and reduce CAPEX in FY21 to Rs. 1800 to Rs. 2000 crores.

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

Deepak Maheshwari: Thanks, Karan and good evening to everyone on the call. Hope you had sufficient time to go through the detailed operational and financial presentation which has been uploaded on our website.

Let me briefly take you through the key financial performance. The change in cargo mix and rupee depreciation has supported the business favorably. Despite the 27% decline in cargo volume, the consolidated revenue has declined by only 18% and port revenue has declined by only 21%. The optimization of resources improved efficiency, reduction in cost have resulted in savings which has ensured that port EBITDA margin continues to be at 70%. The addition of B2B logistics and new routes have resulted in a 10% revenue growth in the logistics business. EBITDA margin continues to be at a healthy 22%. Rupee appreciation over March 20 has resulted in a Forex gain of Rs. 37 crores compared to a gain of 3 crores in quarter one of FY20. However, the same is excluded while reporting consolidated and port EBITDA.

Tax for the quarter was 19.6% of the PBT as compared to 24.5% in Q1 FY20. The same is not comparable due to reduction in corporate tax rates from Q2 FY20. Going forward, we expect our effective tax incidence to remain in the range of 19% to 21%. The lower cargo volume has resulted in PBT of 943 crores and a PAT of Rs. 758 crores. We have also successfully placed a 7-year bullet dollar bond of US $750 million in July 2020 at a fixed coupon of 4.2% per annum. This will be used for refinancing of APSEZ existing debt or debt at KPCL. We will continue to focus on cost reduction, efficient capital management and a judicious deployment of our cash flows and ensure adequate liquidity. With this, we open the lines for question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir, my first question is, the July numbers are about 6% growth YoY. Can we say that evacuation issues have been completely sorted to a large extent as far as rail and road evacuation is concerned. And second is, given a decent set of numbers and better outlook, I believe that they are not giving any guidance as of now. May I know the reason?

Karan Adani: Yes, to answer your first question, yes, we don’t foresee any more bottlenecks in the supply chain. So we are seeing normalcy in terms of road evacuations as well as rail evacuation. And we don’t foresee any more issues arising out of that. As we mentioned, July has seen, a growth of 6% year-on-year. The reason we are not, we are reframing from giving an outlook is we just want to assess one more month to get an idea of how much growth the country is going to get back to and how fast it is going to recover. So we would look at October to give all of you a guidance.

Mohit Kumar: One last question, sir. Your realization per tonne has improved QoQ. So have we taken any tariff hikes during the quarter across all our ports?

Karan Adani: Yes, that is right. As Deepak mentioned, we have increased our pricing. As we keep mentioning that we increase our pricing by almost 2.5% on a per tonne basis that continues. Second is obviously with our reduction in cost, we have been able to substantially reduce our cost and realign our operational contracts. We have been able to move substantial amount of our cost from fixed in nature to variable in nature. And obviously the third one is due to the FX movement. As you know that almost 30% of our revenue comes in dollar terms. So because of that we have been able to increase our price.

Moderator: Thank you very much. Next participant is Sumit Kishore from JP Morgan Chase. Please go ahead.

Sumit Kishore: My first question is could you please share some color on the cargo handled in July. So what is driving the growth 6% across container, coal, crude and others and how would you look at the July number in terms of extrapolating it for the balance fiscal, could you please share some color?

Deepak Maheshwari: Let me take that, Karan. So in July, we have seen growth which is coming across all the ports. And there is a good mix in growth which is coming from the container business as well as from other businesses such as coal and bulk and crude as well. So across all the ports we have seen an increase coming through. Your second question about being able to predict, so we are being conservative in our view. There are certain variables which is still outside our complete control as to how the lockdowns, whether there are going to be any new lockdowns or not, what the full impact of the pandemic is on the industry. So we would want to be cautious and then provide an update as to how we see the full year cargos playing themselves up. We do see that July has been a good month, it also reflect certain amount of pent up demand or it could just be that industry is fully started. So there are some variables which we need to fully understand which during August and September we will be in a better position to completely determine the full output which is likely for the year.

Karan Adani: I just want to add over here is that we do firmly believe that the worst is behind us and so we do see whatever volumes will happen in an upswing from Q1, there won't be a degrowth. We don't foresee a degrowth there.

Sumit Kishore: And sir because we saw the major port data for July and overall major ports handled cargo volumes which were down 13% year-on-year for July. So you are saying that for container coal and crude, all these 3 categories you saw year-on-year increase in July?

Karan Adani: That is right.

Sumit Kishore: My next question is, given that you are going to close the acquisition of KPCL this quarter, would you be able to give us some color on how KPCL fared on cargo volume growth last financial year and in the first quarter?

Karan Adani: So, KPCL, in terms of Q1, their volume was more or less in line with what our other ports did. So there was a decline of almost 28% to 30% in volume over there and we are seeing a similar effect in KPCL for the month of July as what we are seeing in other ports.

Sumit Kishore: And how did they fare in FY20?

Karan Adani: So for last year FY20, KPCL had handled 48 million tonnes.

Sumit Kishore: And my last question on DFC connectivity at Mundra. What is the latest update?

Karan Adani: We have been keeping a close track on it and we expect the connectivity which was supposed to be done be completed by August. We do expect this connectivity now to be completed by November, but definitely by end of this calendar year we do expect Mundra to be connected on DFC.

Moderator: Thank you very much. Next question is from Paras Jain from HSBC. Please go ahead.

Paras Jain: I am having just a followup from the previous question. Particularly when we talk about the sequential recovery that we have seen in July, can you share in terms of trade routes, have anyone surprised you on one way or the other, especially I am curious to understand there are a lot of noise around geopolitical issues between India and China. Has it been felt at the port level, I mean are you seeing some sort of sequential softness in the cargos coming from East or coming from China in particular?

Karan Adani: So Paras, as you know that China based volume is from a container perspective, it is less than 5% of our total volume. So to be honest we would not be the right player to look at in terms of how the trade has affected. But I can tell you this that what surprised us is the way export has picked up in the country. So before if you see during the lockdown period, our trade balance was 80% import and export was around 15% to 20% and just after in the month of June and what we are seeing in July, what we saw in July is that there was a huge change in the trade pattern. We saw export becoming almost 60% of the volume movement of container and imports coming down to almost 40%. So there was a huge shift which happened, which took us by surprise because that shipping lines also had to realign empty containers and which was unprecedented for us also.

Paras Jain: And this increase in export is particular to any reason or it was wide across to Middle East and US and Europe?

Karan Adani: So for us, if you see between Mundra and Hazira, we are predominant towards the Western side, so Europe, US and Middle East. So we saw a good growth across the board over there. And if you see on the Southern side Kattupalli and Ennore that was predominantly auto ancillary. So as the factories keep opening up, we will see that trade picking up more.

Moderator: Thank you very much. Next question is from Apoorva Bahadur from Jefferies India. Please go ahead.

Apoorva Bahadur: Just a book-keeping question. In notes to accounts, you have mentioned 80 crores as COVID contribution. Could you please help us understand towards what entity was this?

Deepak Maheshwari: So, the 80 crores of COVID contribution which was made to the PM CARES fund and the CM CARES fund, 60 crores has been made from APSEZ standalone and 20 crores is from Adani harbor.

Apoorva Bahadur: And these are all tax exempted?

Deepak Maheshwari: Yeah. They have the same benefits as any other donations.

Moderator: Thank you very much. Next question is from Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi: Just a reconfirmation. Now that we have announced conclusion of the Krishnapatnam by the second half, the transaction value remains where it was, right, 13,500 odd number**,** that remains unchanged?

Karan Adani: That is right.

Bhavin Gandhi: And the debt number that will be 6200 crores?

Deepak Maheshwari: That is also correct.

Bhavin Gandhi: Sir, second part of the question was relating to the port EBITDA number. So if I add up the individual port EBITDA numbers that have been reported, that kind of doesn't add up to the reported 1324 EBITDA number that you reported, based on some reversal which has been taken for, any sort of reversal in any of this thing?

Deepak Maheshwari: Couple of things. So one is you have to just adjust that for 80 crores of the COVID related expense that will get you the same thing.

Moderator: Thank you very much. Next question is from Atul Tiwari from Citi Group. Please go ahead.

Atul Tiwari: Sir, my question is on the pricing and the realization comment that you made. So just wanted to clarify that you took a 2.5% price hike and then on top of that, there was a benefit due to currency or this 2.5% was realization increase because of the currency and the pricing on a per tonne basis was broadly the similar one?

Karan Adani: 2.5% price hike and then whatever benefit on the foreign exchange which was available.

Moderator: Thank you very much. Next participant is Amish Shah from Bank of America. Please go ahead.

Amish Shah: My first question is on Mundra port. There in one of the presentation slides, you mentioned that transshipment volume is 24% during the quarter, up from 18. So is this a one-off or should we expect that India is gaining more transshipment volumes over time?

Karan Adani: No, this is not a one-off. This is a structural change with the shipping lines realigning themselves. So this will continue.

Amish Shah: So I know in early days, but if there is some kind of an outlook or a number, we can ascribe and I am assuming that transshipment is predominantly Mundra port phenomenon and not across ports where you handle container, is that correct?

Karan Adani: Yes, it is predominantly Mundra port and to answer your first question, it is hard to give a guidance as of now to give you a number, but yes, it is predominantly Mundra port.

Amish Shah: My second question is on Dighi port, since you mentioned that that also can be concluded by third quarter of this fiscal, could you give us some update on what is really happening there and what are your plans with respect to Dighi port as well?

Karan Adani: Dighi port, as you know the NCLT Mumbai bench has cleared the order and it is in our favor and we are awaiting one approval which is from Maharashtra Maritime Board which we do expect that to come in matter of 30 to 45 days. Post that approval, we will have 30 days to take over the port, so that is why we do expect to take over the port by end September earlier October. As you know as part of our resolution plan what we have put in Rs 650 crores for acquisition of Dighi port.

Deepak Maheshwari: If I may just add to what Karan is saying, so over and above the 650 crores, we expect that we will need to spend around 150 odd crores to get the port operational and to make payments through any of the other vendor within creditors and thereafter we will be in a position to start operating the port and any major and further CAPEX requirements in Dighi will be based after we have started performing at the port for 6 to 12 months.

Karan Adani: And we would expect the port to get operationalized by end December.

Amish Shah: Just wanted to clarify, I was under the impression that Dighi is going to be a Greenfield asset, so is there some capacity which is already operating and if yes, what kind of cargo can be handled there by the end of this calendar year?

Karan Adani: It is already an operational port. It is a constructed port, there is a capacity of almost 8 million tonnes as of now. It is a multipurpose terminal, what they have constructed and we do expect to handle liquid, coal and container and steel over there to start off with and I think conservatively, for the first full year of operation, we would look at anything between 3 and 3.5 million tonnes.

Amish Shah: And my last question is related to SEZ income, meaning clearly this quarter is not the benchmark, but do we still expect close to the run rate that we generate from the SEZ through construction income during the year?

Karan Adani: Yes, that is right, 800 to 1000 crores is what we will see this year as well.

Amish Shah: Actually, if I can ask you one more question, so now we have a pretty large land bank across Mundra, Dhamra, Kattupalli, so if it is possible can you share some plans around, what are we planning to do with that land bank as well?

Karan Adani: So as you know that with whatever is happening between China and US, there is lot of activity and lot of industries which are looking to shift their supply chain out of China. Obviously, India is one of the potential market for companies to look at and we are looking at capitalizing those opportunities. It is a little long run process, it is not something where we will see an immediate effect in terms of next 3 months or 6 months, but we do definitely believe that we would be one of the few beneficiaries of this trade war which is going on and on a longer term basis, we do feel that we would be well positioned to capitalize on that opportunity and especially, when it comes to Mundra, we would look at petrochemical and large commodity based industries and including agri industries and when it comes to Kattupalli, we would be looking at electronics and more of the white goods manufacturing being attracted over there and Dhamra, we would be looking more in terms of the fisheries and the agri related development happening.

Moderator: Thank you very much. Next question is from Ankita Shah from Elara Capital. Please go ahead.

Ankita Shah: Sir, what coal demand seems and continues to be weak, so your outlook on that segments going forward and impact on Krishnapatnam Port because most majority of the volumes there is prominently coal segment?

Karan Adani: So Ankita, on Q1 yes, coal demand was low because of power plants not running at a higher PLF**,** but when you look at July numbers and even when we look at the August numbers, we are seeing that the power demand and the steel production has come back to almost similar levels to pre-shutdown and we are seeing that in July also, coal imports have increased and we do believe that coal imports will continue to grow.

Ankita Shah: And your earlier estimate on the growth on Krishnapatnam port remains?

Karan Adani: That is right.

Ankita Shah: And sir, secondly, on the promoter pledge, the plan was to decrease it over the next 18 to 20 months, so on that front if you can highlight?

Karan Adani: I am just going to ask Bala who is the group head of IR to respond to that question.

Balasubramanyam D: So Ankita, the promoters, the founders pledge has progressively come down. As we speak, it is 33.17% of their holding which is corresponding to 21% of the total APSEZ stock.

Ankita Shah: And it is on track to be reduced in the next 18 to 20 months, that is what?

Balasubramanyam D: That is right.

Moderator: Thank you. Next question is from Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: The question was that in light of weak volume, if you are able to report closer to 70% port level margin, if the scope of then, if you are guiding for higher levels as volumes recover?

Karan Adani: We are not guiding for a higher level because we are just trying to be little conservative, but yes, as the volumes increase, ideally we should see this margins increase, but we are not guiding for that as of now.

Aditya Mongia: As such, there isn't any one-off in 1Q number, so in spite of depressed volume, this is the number that might be sustainable?

Karan Adani: That is right.

Aditya Mongia: And the second question was more on the renewal of the concession at Mundra, now completing port to you in Gujarat have suggested that the end game may be near in terms of the renewal getting decided, any thoughts on that that you can share with us?

Aditya Mongia: So essentially the renewal of the concession, do you think it can be finalized soon and what directional it will be going to, would it to be bilateral kind of agreement?

Karan Adani: I think it would be bilateral. We do believe that renewal could happen in next 18 to 24 months because Gujarat government is seeing that the investment in the port sector is reducing because of the lack of clarity on the concession extension, so I would agree with what you have just said and it would be more or less bilateral in nature.

Aditya Mongia: Sir, last question from my side. You obviously shared your interest in bidding for Container Corporation. In light of current events which have happened, if the level of attractiveness for you bidding for CONCOR still the same and what kind of timelines do you think about this bidding process happening?

Karan Adani: To be honest, Aditya, we don't know when will government look at because we have been hearing about this bidding from January. I think as you know that for CONCOR, the most important clarity is the land and how government is going to view the land and the…

Aditya Mongia: The rentals?

Karan Adani: Not rentals, but in terms of the extension of the land lease or how it is going to be. I think that is going to be the most critical part and based on that the value, everything else will fall in place based on that. But yes, from a strategic point of view, we are looking at it and evaluating it keenly, but we have to just understand the risk associated with the land before we jump into this.

Moderator: Thank you very much. Next participant is Maggie from Hermes Please go ahead.

Maggie: Sir, I have three questions. The first one is on the volume recovery in July, do you think it is sustainable or it is more like a pent up demand?

Karan Adani: We do believe part of it is normal recovery. I think we will have to let August go to understand how much was pent up versus how much was actual recovery, so it is very hard for us to tell clearly how much was pent up demand out of that.

Maggie: And the second question is on the container portion, I understand the coal and crude volume declined in the first quarter, so the container volume portion looked very high, but just like on the structural basis, where would be the portion of container look like at the end of the current fiscal year or next fiscal year?

Karan Adani: I think container would remain at around 40 to 41% of our cargo mix even with the growth because we do expect growth in coal as well as other bulk commodities and especially as our Eastern Port Dhamra keeps expanding, the bulk volumes will keep increasing over there, so on a normalized basis, we do expect container to be around 40 to 41% of our cargo mix.

Maggie: And the final question is on Dhamra, why is the volume look so resilient compared to the ports in the West Coast?

Karan Adani: That is predominantly because of the end customers that we have been able to tie up with and also with our strategy of giving them uninterrupted supply chain. So as you remember, we have invested in the bulk rakes and providing end-to-end logistics to our customer and because of that, we have seen quite resilient volume from Dhamra. Second thing is, we have seen exports increasing out of Dhamra as the demand in the country fell, but the exports increase and the third, both on the iron ore as well as on the steel, so the ability to shift and adapt quickly was one of the big reasons why we were able to be resilient in Dhamra.

Maggie: And where would be the volume like for Dhamra without this new customers that you added for the quarter and also can you give us a bit of like a broad outlook for Dhamra, whether it is able to achieve like low teens growth for this year?

Karan Adani: It is very hard to give you again for Dhamra the guidance for the whole year. I think we will be able to give you guidance for it in October. I just want to say that it is a mix of both, even most of the growth has come from the existing customers, because they have also been able to re-structure their supply chain, so for example Tata Steel which is our large customer, their steel products rather than being consumed in the country, they were exported, so large part of the steel cargo were exported out of Dhamra. So those are the reasons why we were able to survive and continue with the growth.

Maggie: And how is the July volume look for Dhamra?

Karan Adani: We have seen an increase of 4 to 5% on a year on year basis in the month of July.

Moderator: Thank you very much. Next question is from Pulkit from Goldman Sachs. Please go ahead.

Pulkit: I have three of them. The first one is on your margins again, I mean it has been a pleasant surprise that despite volume decline, you managed to get 70% margin, now our understanding always was that this is a high operating leverage business, so can you give a sense of what kind of cost have you been able to convert from fixed to variables if you could talk about that a little bit?

Karan Adani: Pulkit, I am surprised you asked me this question that you are surprised with our ability to perform, but anyway coming to, lot of things during the lockdown period, it forced us to relook at some of our contracts and it forced the team to think out of the box, so a lot of our operating contracts which are mainly on heavy machineries as well as on the trailers, we were able to move them from a fixed in nature to variable in nature. Second, due to the lockdown we were able to negotiate with our vendors for a price reduction rather than a price hike and third is, as we had forecasted that because of lockdown, there would be a reduction in the cargo, we reoptimized our resources, so we relooked at how many equipment and how many dumpers or how many trailers or how many cranes we would need and based on that we were able to optimize ourselves and fourth is, we were in the period of April, we were able to reskill large part of our manpower to be multiskilled rather than being skilled in one area, so to give you an example, a large part of our workforce which worked on the coal terminal, we reskilled them because of the pool demand being down, we reskilled those labors and we used them for container operations because we saw that the container business was quite resilient. So these are a few of the reasons why we were able to maintain our EBITDA margins.

Pulkit: Sure, I think it is commendable. Sir, my second question is, because you spoke about such a big jump up in volumes in July, particular export driven, do you think some of these could have been because of the whole MEIS withdrawal from the government that exporters could be just pushing volumes out, so that they could get the benefit, I mean because it is again, the jump is pretty significant that we are hearing about in July, so just a sustainability of this?

Karan Adani: Did you mean MEIS?

Pulkit: Sir, the Merchandise Export Incentive Scheme, where the government has reduced allocation, it was that the reason that exporter just wanted to push it out, so that they are entitled to get that money, is that something that could be the reason?

Karan Adani: It is very hard for us to give comment on that because even we are not aware of it, but I can just say that as the economy opened up and we saw this as this region start opening up and as the industry has got more clarity in terms of whether there is going to be a shutdown or not, because of that we saw demand picking up and slowly the industry picking up and that is the main reason why we saw big jump on the export. I am not too sure about it. I would not be the right person to comment on the MEIS, what is driving them.

Moderator: Thank you very much. Next question is from Ashish Shah from Centrum. Please go ahead.

Ashish Shah: So, my first question is on the rail connectivity that we spoke about, so at Hazira, we have still not been able to establish that, so any indication on when do we get the connectivity there and hence the connectivity to the DFC?

Karan Adani: On Hazira, we are working with government of Gujarat. The Gujarat Govt. has formed a company which helps in the last mile connectivity, so we are working with them to get the connectivity at the port. I think the biggest issue for us at Hazira is not the technical part, but it is more on the land acquisition and actually not even the availability of the land, the cost of the land. So I think once we sort that with the government and with this company called G-Ride which government of Gujarat has formed, once we get the agreement in place, I think from there it would be 24 months to get the railway line up and running. In mean time, we have already taken all the railway approvals for laying the line and we have also taken environment clearance to lay the lines, so we are just awaiting this one agreement and one status in place and we should be able to start the construction.

Ashish Shah: Just on that, so does the absence of the connectivity constraint or container volume in any manner at this juncture or we are still too early where it stops constraining the volumes?

Karan Adani: I think we are still too early, I think Hazira by itself without railway line has a potential of 1.2 million TEUs, so we are still early to be constrained because of railway line.

Ashish Shah: And just a last thing from me, I know we have spoken on margins, but specifically on Kattupalli, sort of improvement in the revenue and the realization in the margin seems a little stuck, so which commodities have led to the increase in realizations and the margins?

Karan Adani: In Kattupalli, we have just commissioned liquid tank farms and we have commissioned liquid tank farm for Bitumen and which is a long-term contract with Puma Energy of Trafigura, so that is one of the big reasons why we have seen a big jump and it is take-or-pay contract for next 5 years.

Ashish Shah: Could you just tell me the volume under this take-or-pay?

Karan Adani: It is not with the volume, but it is with the tank capacity, so we have commissioned, if I am not wrong, 40,000 KL of capacity, but we will send you the exact number, but it is not linked with the volume, but linked with the tankage capacity.

Moderator: Thank you very much. Next question is from Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: My first question is on your timelines of Myanmar Phase-1, Phase-2 and has the work like really moved at Vizhinjam Port so just timelines on this project?

Karan Adani: Myanmar, we expect Phase-1 to be commissioned by December of this year, so we would be looking at operationalizing it by end December or early January and the project is on schedule. We have not seen any delay because of this pandemic and Phase-2, we will construct once Phase-1 has been, obviously when we see the volumes picking up and the capacity utilization reaching around 70%, that is when we will start Phase-2 construction in Myanmar. As you know, Phase-1 capacity is 0.6 million TEUs. On Vizhinjam, our breakwater work is going on and rock supply has increased and we expect Vizhinjam port, Phase-1 to be commissioned by end of calendar year 2022.

Prateek Kumar: And this Phase-1 is 1.2 million TEUs, right?

Karan Adani: Yes, that is right.

Prateek Kumar: And just on your volumes in like segmental performance, so this other segment has just fallen by around 1%-2%**.** So I guess this is a reflection of good growth in Dhamra, so you can just elaborate on the segments, I mean the categories which have cushioned the decline in this particular segment?

Karan Adani: Specifically for Dhamra or for?

Prateek Kumar: For generally, I mean generally overall, the other segment is down, just only 2% versus overall 27%?

Karan Adani: You were talking about Q1, right for the quarter 1?

Prateek Kumar: Right.

Karan Adani: So if you see most of the question, if you see Q1, our decline in container has been quite less compared to other commodity and that is the reason why our volumes have been protected in that sense. I think that is it.

Prateek Kumar: No, I am asking about the other segment which is like 8.5 million volumes which is down 2% year-on-year?

Karan Adani: The other segment which you are looking at is predominantly crude fuel and LPG operations out of Dhamra.

Prateek Kumar: Decent volumes from the segment have helped the segment?

Karan Adani: Yes.

Prateek Kumar: And one thing on promoter pledge, there was question discussed earlier, so recently there was additional pledge which was created, took up your pledge by around 5%, so this is expected to new projects which promoters are taking or this is expected to reverse soon?

Karan Adani: I think I will ask Bala to reply that offline to you if it is okay. Since it is a group question, Bala will reply to it offline.

Prateek Kumar: And just something on your new subsidiary formation for rail siding, is there any tax advantages on that or this is just for like simplification of a business?

Karan Adani: No, basically today, all our assets are quite fragmented, so we want to consolidate in one area, so we can bring a platform play in that sector and it is more from both helping us to manage our finance cost as well as at a later date if we do want to look at a strategic investor also, we can consider that, but the idea is to bring everything in one place rather than being fragmented in nature.

Prateek Kumar: And just one last question, your last year's gross debt was around 29,000 crores and net debt was around 22,000 crores, so post the completion of these two acquisitions this year, so what could be your peak net debt for FY21?

Karan Adani: Sorry, what could be the peak debt or net debt?

Prateek Kumar: Whatever, peak net debt?

Deepak Maheshwari: If you want to look at it through this particular acquisition which the KPCL debt will get added which is around 6200 odd crores and we will be funding most of the equities from our cash flow as we have mentioned earlier and Dighi is as Karan mentioned it is anywhere between 650 to 800 that can easily met through incremental debt or from our cash flow, so broadly these are the variables that you have to consider and netting off our overall cash flows for the year as well, so at the end of September, we will be the position to give you a very detailed forecast for 31st March.

Moderator: Thank you very much. Ladies and gentlemen, that will be last question for today. I will now hand the conference over to Mr. Ankur Periwal for closing comments.

Ankur Periwal: Thank you everyone for your participation and thank you Adani Port for giving us the opportunity to host this call. Karan, would you like to add any closing remark?

Karan Adani: No, I just want to thank everybody for the call and team is available for any further questions and thank you for your support. Stay safe everybody. Thank you.

Deepak Maheshwari: Thank you.

Moderator: Thank you very much. On behalf of Axis Capital Limited, that concludes this conference. Thank you joining us, you may now disconnect your lines. Thank you.