



“Gujarat Pipavav Port Limited  
Q2 FY ‘23 Earnings Conference Call”

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PIPAVAV PORT LIMITED  
MR. SANTOSH BREED – CHIEF FINANCIAL OFFICER –  
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**MODERATOR: MR. ASHISH SHAH – CENTRUM BROKING LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Gujarat Pipavav Port Limited Discussion on Q2 FY '23 H1 FY '23 results hosted by Centrum Broking 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Shah. Thank you, and over to you, sir.

**Ashish Shah:** Yes. Thank you, Vivien. Very good morning to everyone. On behalf of Centrum Broking Limited, I invite you to the conference call of Gujarat Pipavav Port Limited for discussing the Q2 FY '23 and first half FY '23 results. We have from the management, Mr. Jakob Sorensen, who is the Managing Director and Mr. Santosh Breed, who is the CFO of the company. We will begin with opening remarks on the results from the management and then follow with the question-and-answer session. So over to you, sir.

**Jakob Sorensen:** Thank you very much and thank you for your interest as usual. And I hope you can hear on the tone of my voice that I'm in a good mood today because yesterday we had a fantastic board meeting in Ahmedabad and the results are kind of speaking for themselves. I would like to just point out that in the comparisons of the financial years, we do have 2021 on the 17th of May, we had the cyclone and then the subsequent interruptions that gave us in Pipavav. But I'm also very proud to say that we got out of that cyclone as a Phoenix, we have been rising.

And the results of this quarter has been cementing the fact that we are back to pre-COVID levels and that -- and we are firing on all cylinders here. So, I'm looking forward to your questions. And when they become a little bit more in the details and on the account of numbers, then Santosh Breed is the expert. So with that, I will hand it back to Mr. Shah and then let's get started with the questions.

**Santosh Breed:** Yes. So, before that, I'll give just a quick update. Just to give a key updates. The presentation, of course, is all there on the website. But to exchange some numbers here, the container volumes have grown by 19%. I'm referring to now a comparison between the current quarter versus the same quarter last year, where the volumes have grown by 19%. The Exim volumes were higher by 10% and the ICD volumes, which is the main market has also gone up by 7%.

The dry bulk volumes were lower by 7%, but here, again, it is mainly because of a significant import that we have seen last year for mineral, the overall volume for dry bulk as you see our presentation are above 1 million to 1.3 million metric tons even in this quarter. So there's a good run rate that has now been maintained consistently for dry bulk.

Liquid volumes were higher by 6%. This is mainly driven by the higher import of LPG. RORO were also higher by 5%. So we are seeing some gradual increase in our car export volume as well. And with that, we have seen a 17% increase in revenue. EBITDA is at INR 1.2 billion and higher by 11%. The interest income and the lower tax rate so both favourable has helped us to further improve our net profit, and it is higher than 56%. In our Board meeting as Jakob mentioned yesterday, the Board has also approved an interim dividend of INR 2.70 per share. and this will be paid by 1st December. That's the highest interim dividend the company has declared so far. So with that, we can take the questions now.

**Moderator:** The first question is from the line of Mohit Kumar from DAM Capital.

**Mohit Kumar:** Congratulations on a very, very good set of numbers. My first question is, of course, H1 has pretty good for us. But as we enter into H2, do you think the recession on global trade is going to have some kind of impact on container volumes in H2? Secondly, do you think the entire benefit of the DFC has kicked in now? And are you seeing any benefit?

**Jakob Sorensen:** Yes. So starting with the outlook. And yes, there is signs of recession somewhere in the world and there's elections going on, there's wars in Europe. But if I can zoom in on us in India, I think India is still in a very good situation and we continue to see growth -- and for Pipavav, I think we are entering into new markets. So you will see the fact that the container rates are coming down, it's probably going to be helping us because we see, for example, export of rice from India going back to containers.

And I think again, we are in a good spot in Pipavav. We are also not 100% exposed to North Europe or to the United States. We are the West Coast gateway entry from Asia to India. And as you mentioned, we have to link with the DFC to the NCR. We are also seeing exports strong to the Middle East, and we're going to start one or two new Middle East connectivities on the ocean part.

In this month, actually, we have a service that starts from Pipavav to Jebel Ali, which is going to be an express export service from India to the Middle East. So frankly, if you're asking for second half of this financial year, I'm remaining optimistic. And I think we are not fully exposed to all the bad news, but we also had some good outlook on the horizon.

And the second question is about the DFC. I actually had the pleasure of meeting Mr. Ashwini Vaishnaw, the Honourable Minister of Railways in Delhi last week. And the answer is really that, no, we have not seen the success. We've not had the opportunities and the benefits of the DFC is not kicked in yet. There's a massive, massive opportunity waiting for us there. And we've only begun. So this is going to be a long journey, it's going to be years of work, but I'm convinced that the conversion from road to rail is going to continue.

DFC has done a great job in building, they're going to continue to expand the network and this is going to -- this is actually the sort of concrete background of the Gati Shakti, combined with IT capabilities and coordination, but the physical road -- sorry, the physical movement from road to rail is propelled by the DFC and we're just starting it. So that's going to be a very, very exciting journey with our customers to build full advantage of that.

**Mohit Kumar:** Secondly sir, how do you see the bulk volume panning out? Of course, this quarter was pretty strong given that 1.4 million, 1.3 million tons is a good number for us. How do you think the H2? Do you think some there's weakness in the bulk volume as we go forward or do you think this kind of volume can sustain on a quarterly basis?

**Jakob Sorensen:** Yes. So we have a little bit of UTCL volume involved in that. But luckily, they have recovered now from the cyclone and rebuilt their own jetty. So, some of the volume will go away again. But I think the bulk volumes, both import and export remains strong. On import we have very, very strong fertilizer coming in and our operations. We know we're doing the import of fertilizer bagging it and then sending it out to India by railcars. It's going very well. And we have added one more baggage line in our warehouse operations for that.

We have also added new commodity wood pulp that's coming in. And reversely, we also see wheat, rice and guar gum and other export commodities, which are brand new that we have not participated in for a long time that's now starting to move as export. So I remain quite optimistic about the outlook for bulk, both import and export.

**Moderator:** The next question is from the line of Achal Lohade from JM Financial.

**Achal Lohade:** If you could help us with the EXIM growth for the quarter on a Y-o-Y basis or a Q-o-Q basis, if possible.

**Santosh Breed:** So EXIM volumes are up about 10% on Y-o-Y basis.

**Achal Lohade:** The second question I had, if you look at the EBITDA margin, they are about 53%, 54%. And we have seen that for the last few quarters, we have been between 53% to 55%, 57%. Can you help us understand how do we look at the margins moving forward, when do we start hitting the 60% plus, which is the aspirations, what we had indicated earlier.

**Santosh Breed:** So to talk why that's the aspiration, what we have and we continue to pursue the aspiration. What we of course seeing right now is because of the cargo mix, so you've seen our presentation also mentioned the container volume with the mix of EXIM and transshipment. So we also are handling some transshipment volume these have low realization. And then also the dry bulk cargo, where we have seen some consistent volumes. So these also done lower realization as compared to other business.

So because of this, we are seeing this variation in the EBITDA margin. But I think we're not really extremely worried about this because all cargo is still helping us to cover our fixed costs. And eventually, when we see an improvement in the container volume, mainly on the Exim side when we take that 60% margin.

**Jakob Sorensen:** And I would like to add to that, that on the container volumes, we have seen a steady, consistent growth month-on-month. It's not double digit, but it's a recovery that's strong. And as I said, it's recorded that every month, it's a little bit better than the previous months. And as Santosh said, in the meantime, what we are being helped is that the various bulk activities we're doing is helping us cover some of our fixed costs and so forth. So I think it's a very good sign that the whole balanced exposure and the cargo mix is helping us to continue to produce good yields and returns. And as you can also see, we are inching closer to the 60%...

**Achal Lohade:** So if I were to put it in a different fashion, X of the dry bulk and the transshipment would the margins be tracking that 60% plus...

**Jakob Sorensen:** That's right. Yes, the dry bulk, in some nature, it's less automated, and that means there's also variable costs for labour, etcetera, which if the volumes go up, then the costs go up as well, and you're right on transshipment's. -- this is normally a service in the container side, where we get discounts, whereas import export is, of course, the main bread and butter for that business.

**Achal Lohade:** So if I hear you out, you're saying that month-on-month, there is a recovery in the volumes and you are optimistic about the volumes. Now my question was from a longer-term perspective, given the way the trade is shaping up with respect to median transshipment terminal being set up, -- is there -- could there

be a risk to our business given currently the transshipment volumes, which are happening in Colombo are coming to our ports.

**Jakob Sorensen:** No, not really. And I think other ports in Gujarat are lot more into that business, and it's good that you have noticed that the transshipment is really a marginal business. Nobody is really making money on that. So we are a gateway port, and that means we are focused on import and export and then we love it when we also do coastal because that's supporting Sagarmala. But -- and then, of course, has been mentioned from the previous caller, we also linked on the land with the DFC. So we're truly an important component of an end-to-end multi- model supply chain -- this transshipment services is not really interesting, and it's not something we aspire to be part of.

**Achal Lohade:** And is there any update with respect to the DMCC location, Dholera, if I recall the name right. Is there any update on that, how it is progressing?

**Jakob Sorensen:** Not a big update, but you would have noticed that Dholera has gained a couple of really big investors and people are developing manufacturing there. I recall having seen the Foxconn confirming to be located there. Tata Power is going to do lithium batteries Renew energy is going to do solar panels. So I think it's a long term. But given the location, I actually also think that moving on with an international airport in Dholera, -- so given the location, obviously, Pipavav is the natural gateway port for that as well. And we are looking at the rail connectivity to Dholera, -- there's about 30 kilometers of new tracks that has to be built by the railways. But in fact, it's one of the things that's been discussed, but it will be a little bit longer term, give it a couple of years before that's really taking off, but we are in a good position for that as well.

**Achal Lohade:** And just one more, if I may, sir. With respect to the concession extension, is there any update you would like to share...

**Jakob Sorensen:** Yes. Actually, I have a very good reason not to share updates at this moment because we are into the blackout period due to the elections that's been called now in Gujarat. So we remain, of course, with a long-term view and optimistic about the extension and those discussions that we are having with GMB will resume again in December once we have the results of the elections.

**Achal Lohade:** Correct. Thank you so much. I'll come back in the queue for follow up...

**Moderator:** The next question is from the line of Priyankar Biswas from Nomura.

**Priyankar Biswas:** My first question is regarding this VLGC but that was under development at Pipavav. So this project has been going on for some time. So what's the status of that? And can you give some updates like what sort of uptick can we see potentially in the next financial year because of this possibly big volumes...

**Jakob Sorensen:** It's a good question. Thank you very much because we are very focused on LPG and liquid. And the upgrade is going well. The physical infrastructure is now ready. And we have had some challenges in certain parts that had to come in and some delays. And of course, we had to wait to finalize this after the monsoon, but we are operationally ready.

And we're also in the process of getting the firefighting system upgraded, which is, of course, to be in compliance with all rules and regulations for safety. So what we are specifically waiting for now is to get

the PESO approvals done. And we are hopeful to start VLGC on a partially-loaded VLGC carrier at least within this year, calendar year.

But the volumes will continue to be brisk. If you see our liquid volumes has been like 2 lakhs metric ton on a quarterly basis. And I think that will continue. So we are still optimistic about the outlook. And the thing with the VLGC is really going to benefit our customers because -- we continue to handle Handymax size vessel. But once you can do a VLGC, then the sea freight charges go down per ton. And that's, of course, something that the customer would happy about...

**Priyankar Biswas:** So my next question is a basic one. So has there any new liners or service lines added in this quarter? Or do you expect some more additions in, let's say, the coming quarter as well? So if you can throw some idea on the aspect.

**Jakob Sorensen:** In this quarter, we have not added anything, but we are just about to start a new service. I believe I mentioned it earlier this morning as well. We will have a new express service from Pipavav out to the Middle East that will start later this month.

**Priyankar Biswas:** So sir, previously, like if I recall, so while you had not lost out any of your customers, I mean the liners, but there was an issue of cancelled sailings. I mean I think last year, it was a huge issue. So what is your view on that? So are you seeing some easing or is it -- the situation is still the same. What are your thoughts on that?

**Jakob Sorensen:** What we can see is that the global network is becoming more stable. And the delays around the bottlenecks and the delays around in the system globally is easing up, and that has a positive effect on our exposure and the skip call has certainly gone down. So I think slowly, but steadily, and this is, of course, a major factor as well for us in recording that month-on-month growth on the container volume. So it seems to be stabilizing.

**Priyankar Biswas:** So at least in Pipavav, you are seeing reduced skip calls, like, let's say, versus a -- so that's the way. And sir, the last question from my side. So one of the larger port companies here is actually planning to develop into an end-to-end logistics player. So like essentially towards the delivery to the customers -- so what are your thoughts as APM terminals like how are you geared up to face this challenge? And what is GPPL's doing on this aspect?

**Jakob Sorensen:** Yes. I think it's a really good observation because we are also part of a global group, who has the same strategy of being end-to-end supply chain. And we, of course, as people are tough, we are located fantastic support with the DFC and with the ocean connectivity's we are having. So with our, what we call, Maersk, we call them our sister company, then we are actually already way ahead of the guys you mentioned in pursuing that integrated strategy globally and we are a true global player, and I believe the people you mentioned are more to be considered as a regional player. But are the ways, as we say, competition is good.

**Moderator:** The next question is from the line of Nikhil Abhyankar from DAM Capital.

**Nikhil Abhyankar:** Congratulations on a really good set of number. Our operating expenses are higher by 30% Q-on-Q, whereas the volume growth has been only 10%. So is it the reason because of bulk volume...

- Jakob Sorensen:** Yes, you're right it is mainly driven by the dry bulk -- what that in the fertilizer. In our presentation, you've also given the mix of dry bulk and there is a significant increase in the fertilizer volume. So that's the reason for increasing the operating cost.
- Nikhil Abhyankar:** Because of the fertilizer volume increase, you're saying there's a higher operating expense?
- Jakob Sorensen:** Yes. It's because again, I think I'll try to clarify a bit earlier that when you have commodities like fertilizer, then the variable costs are also going up because there's a less mechanization on that process. And therefore, again, it can be a little bit tricky to analyze the numbers because that growth in operational cost is a function of the volume going up on fertilizer. So there's a manual operation going on with the bagging there, which of course, is a little bit linear to the volume. So the more volume you have, the more bags you do and the more manpower is needed to load them.
- Nikhil Abhyankar:** And sir, we have again booked 53 million as an excess which you refer and maintenance related to the cyclone. So how much more such expenses do you expect in H2 and when will we recover?
- Jakob Sorensen:** I think Santosh is going to elaborate on it. But again, the cyclone has, of course, been a tough experience, but it's also given us the ability to renew a lot of things and upgrade and still stronger, and we're at the end of it. It's given us some extra work, but it's also meant that we've been able to rebuild the port. And some of the challenges has, of course, been with dealing with the insurance companies because we could not expect them to pay for upgrades and improvements of already written off facilities that got injured and damaged, of course, in the cyclone. But Santosh do you have some more specific on the recovery cost?
- Santosh Breed:** Yes. So we have actually completed most of our restoration. The work for the bund repair is going on. So that's what we expect to come in the coming quarters and that should be in the range of around INR 30 crores to INR 40 crores, which will be there. On the insurance, I think we are good there because all the submissions have been timely made on a monthly basis. And we do expect some settlement will happen in the coming quarters for . So we have already recovered around INR 30 crores of insurance in the past what spend and then further installment in coming in this quarter.
- Ashish Shah:** Yes, Vivian, I'll take a question. Ashish here. So sir, a couple of questions from my side. Any tariff hikes that may be you will be offering in the near term?
- Jakob Sorensen:** That's a good question. We have taken three adjustments in the last couple of years, I would say, three, four quarters, right? And the customers have actually now gotten to pay those increments. In the next quarter, I don't think we plan anything further at this moment. Also, if you take the outlook of the shipping rates are dropping and there is some discussions, the timing is not right to increase in the near term. So the question is probably no.
- Ashish Shah:** Sir, secondly, when I'm looking at our volume buildup in the last three quarters, we have seen the total container volume go up, but we have seen the ICD volume stagnate or remain flat at about 1,18,000 a quarter. So can one assume that the incremental volume, which has come in the last, let's say, two quarters or three quarters is largely attributable to transshipment or there is maybe some increase in the share of road bound containers as well at the port?

- Jakob Sorensen:** There is a slight increase of road bound containers and also a little bit on transshipment. As I said earlier, I still believe there's lots of opportunities in the intermodal with road and we are continuing to work with our sister company, PRCL on the DFC and the advantages of ICD Cargo there. But it's a long journey. But I agree with your observations, but I don't think it's necessarily an alarm clock that's ringing. It's just proving that it's going to take a long time to get the full benefit of the DFC. Incidentally here, I just want to mention that earlier this week, we flagged off a train for Maersk from Sonipath, North of Delhi to Pipavav. So we continue to build intermodal products.
- Ashish Shah:** Sir, maybe just last one from my side. We also have an ongoing sort of dispute with the GMB where they have encashed certain bank guarantees and they are asking for some more liquidated damages. So is there any update on that? How is that likely to shape up? And any views on how that might go ahead?
- Jakob Sorensen:** I think it's going to take a little while, but you know what, it's not a major dispute and it's slipping into a solution through some arbitration and we are following that development. But I mean, there's no animosity that's coming out of that dispute. It's a business dispute and we'll get it settled and solved. And I think we are in a good position in that dispute.
- Ashish Shah:** Yes. So that's it from my side. And operator, if there are any more questions you can take. Thank you.
- Moderator:** The next question is from the line of Vipul Shah from Sumangal Investment.
- Vipul Shah:** Congratulations for a good set of numbers. Sir, any plan to expand our container capacity in the near future?
- Jakob Sorensen:** Yes. Thank you for the question. Yes, we have plans for continuously being ready to expand our container capabilities and our capacity, but not in the near future. We are probably going to give ourselves more flexibility. As you have seen, we have upgraded now our liquid berth to VLGC. The next step we're working on is actually to expand into further capabilities on the liquid side. And that is, if you follow my business long term, it's not in the near future. But if you're looking at our ability to expand, it depends on how much waterfront we develop, and the idea is that we can convert our existing liquid berth to containers when we passed the trigger point in terms of our volume. And to enable us to do that, we, of course, don't want to give up the liquid, so we're also going to expand our liquid capabilities.
- Vipul Shah:** And sir, again, coming back to expenses related to cyclone. So just wanted to confirm they are recoverable from insurance companies or they are not recoverable?
- Santosh Breed:** They are recoverable from the insurance company.
- Vipul Shah:** Okay. Thank you.
- Jakob Sorensen:** But what we have done in connection with the cyclone is that we've taken advantage that we had to give you an example. When we've had an old warehouse that was damaged, we simply pulled it down, and then we are building it stronger and bigger and better. And that, of course, the insurance company will not recover when you build that kind of new facility from a damaged totally written-off facility, but that has come in as a capex on top of insurance compensation.

- Moderator:** The next question is from the line of Deepak Maurya from HSBC.
- Deepak Maurya** Particularly, I wanted to get some color on the revenue growth. A large part of your revenues are denominated in the USD and given that the USD have appreciated and the rupee has depreciated, I would have expected a faster increase in revenues versus the volume growth, and also given in the context that you had a tariff hike sometime in October last year and again in February this year. But the growth in revenues is largely in line with the volumes rather than above volumes. So if you could help us reconcile that, please?
- Jakob Sorensen:** So I think it's all in Santosh's department. You're talking about exchange rates and Santosh, what do you say?
- Santosh Breed:** Yes. So you obviously right, of course there's some benefit is coming up because of depreciation of the Rupee because we have our container tariffs in dollars. But also on the cargo mix because when you look at our container tariff in specific, then we have a different rates for transshipment, different rates for EXIM, we then also for the other mix like loaded and empty. So there is a bit of combination of this. And that's why when you look at these movements coming with a lower revenue in price transshipment or the empty boxes, then that entire benefit of the exchange rate is not seen.
- So I think it's more limited to the cargo mix that we are handling today, which is the resulting increase this revenue changes. But when I look at the future outlook, I think we are quite positive because if you remember, a year back when we had these challenges because of COVID, India had a substantial shortage of containers and the exporters were not getting containers. So things have changed now and there are a lot of empties which are coming in, which is good because when shipping lines bring empties, obviously, they have to go out of the country full. And that's why we expect that this empties what we are handling today will eventually result into loaded boxes for the future. So an outlook perspective, we see this again as a positive development.
- Deepak Maurya:** The other question which I had, and I think Priyanka previously had as well. So when we look at the global network being stabilizing, right, and the freight rates are declining on the main long-haul routes. So that kind of makes them less attractive. And could we see more services than coming back or the blank sailings stabilizing further? I mean when we look at the volume growth which you've seen the EXIM growth of 10% or so, right, how much of it is like underlying and how much of it is because of stabilization of network?
- Jakob Sorensen:** It's a good combination, but we are actually working on more services coming on the waterfront. And as I mentioned, this month, we will have a new service to the Middle East, and we are looking at one additional service from the Far East that comes in maybe in January. So, it's good news that the network globally is stabilizing the capacity and the availability of ships is stabilizing and that means that the shipping lines are really trying to get their products to becoming more reliable.
- They have been falling, honestly, in the global shipping lines, the on-time delivery has been I think below 50%. And that's, of course, not sustainable and this has given all this discussion about reliability on the supply chains. But what it means for us is keepers that yes, we are seeing more business and we're seeing more services coming.

- Deepak Maurya:** And then the last question from me. On the capex front, right? When I look at the cash flow statement, I see that the capex is almost 80%, 90% of what it was for the full year last year. So are we seeing some accelerated capex? Or is it just -- if you could guide us on the capex for this year and probably the next year?
- Jakob Sorensen:** I thought you from HSBC, would like to see the money in the bank. Maybe that's a trick question here. Sorry. Yes, we are working on some more capex. And obviously, we would like to reinvest the money that we are making. So it's just -- it takes a little bit more work to get the approvals through the system. We had some good discussion on the board level today, sorry, yesterday in Ahmedabad, and I believe our capex will go up in the coming quarters.
- Moderator:** Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Ashish Shah for closing comments.
- Ashish Shah:** Yes. So on behalf of Centrum Broking, I would like to thank everyone for participating in this conference call. And thank you to the management as well for giving us the opportunity to host the call. Any closing comments from you, Jakob?
- Jakob Sorensen:** I just want to say, we remain optimistic about India. And I think with some of the gloom and people are talking about that we are now getting headwinds and things are changing in the market with inflation and what we call it, less growth or recession in some economies. I continue to be seeing India as a shining place to be in this situation.
- And as I've also said, we are not so exposed to some of those markets as others are. We have both the Far East and we have Middle East and Africa exposed a bit to -- still areas where we see continued growth in the import and export. So I think combined with what we continue to talk about the dedicated freight corridor and the opportunities for lowering the overall supply chain and logistics cost in India, it will make India more competitive -- so we are in a good spot, but it takes time.
- And in the meantime as you can see, we keep improving quarter-on-quarter and we are making money. So while as time goes by and as we are having plans for the future, then it's good to see that we are still able to deliver some good returns, and we can issue some dividend to our shareholders and continue to bring a strong balance sheet that makes us ready for capex. So thank you, everybody, for your continued interest and your support. And I would say we are quite satisfied with this quarter's result in the half year of the financial year. Thank you,
- Moderator:** Thank you. On behalf of Centrum Broking Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.