

## **MANAGEMENT DISCUSSION AND ANALYSIS**

*For the year ended 31<sup>st</sup> March 2018*

### **Introduction**

The Company is presenting Ind AS compliant financial statements as per the requirement under the Companies Act and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The following discussion and analysis of the financial performance and activity of Gujarat Pipavav Port Limited is intended to provide an analysis of the business and the financial statements for the year under review, with selected comparative information for the year ended 31 March 2017. This section has been prepared by the Management of Gujarat Pipavav Port Limited (referred to as "APM Terminals Pipavav" or "the Port" or "the Company") and should be read in conjunction with the financial statements and the notes thereon, which follow the section.

The Company holds 38.8% shares in Pipavav Railway Corporation Limited (PRCL) and in view of the provisions of Section 2(6) of the Companies Act, 2013, PRCL is an Associate Company and pursuant to the provisions of Section 129 of the Act, its accounts are to be consolidated with the Company's accounts. More than 50% of PRCL's shareholding is held by Government/ Public-Sector Undertakings so PRCL is required to accomplish Statutory Audit followed with the CAG Audit. As on the date of this Report PRCL's Audited Financial Statements are not available, therefore the Company has prepared its Consolidated Financial Statement based on Unaudited financial statements provided by the PRCL Management.

The financial statements have been prepared on Going Concern basis and on Accrual basis of Accounting under the Historical Cost Convention and in accordance with Ind AS.

### **Background**

APM Terminals Pipavav, India's first private sector port, operates an all-weather port located on the Southwest coast of Gujarat at a distance of 140 kms Southwest of Bhavnagar and around 152 nautical miles North-west of Mumbai. The port lies on a strategic international maritime trade route which connects India with the Far East, Middle East, Africa, Europe and the US. The Port's Container handling capacity is 1.35 Million TEUs. The Bulk Cargo capacity is approximately 4 to 5 Million MT per annum depending on cargo mix and Liquid Cargo capacity is approximately 2 Million MT per annum. The Container berth is also used for handling the RO RO vessels.

APM Terminals is the Lead Promoter and holds 43.01% of the total shareholding of the Company. APM Terminals operates a Global Terminal Network of 22,000 professionals serving 74 Port and Terminal facilities and 117 Inland Services Operations in 58 Countries around the Globe and provides Port Management and Operations to Shipping Companies which serve the world's leading Importers and Exporters.

### **Economy & Port Sector**

As per the IMF estimates released in January 2018, the global economy is expected to grow by 3.9% in Year 2018 and 2019. It expects the two fastest growing economies of the world namely India and China to grow by 7.4% and 6.6% respectively. The revival of demand in Indian Rural market and increased spending on Infrastructure is likely to drive the country's growth prospects.

During the Year 2017 the global trade grew 3.6% and Imports into India continued to remain strong but Indian exports remained subdued due to domestic disruptions while many Asian countries reported strong growth numbers. India missed the opportunity of participating in the export growth in Year 2017, but the positive news from IMF of the global economy growing even stronger in Year 2018 provides India another opportunity of participation in export growth. The Government in its review of Foreign Trade Policy in December 2017 announced several measures for encouraging Exports from various sectors including Leather, Textiles, Handloom, Gems & Jewelry. These should put India in a better position to participate in the global economic and trade recovery during 2018. But trade protectionism practices by countries, inflationary pressures in certain advanced economies and increase in global crude oil prices could pose a challenge to the global growth.

The conventional wisdom that India has poor port infrastructure, it does not have enough port capacity and the country's Exim trade is adversely impacted because of congestion at Indian ports is misplaced. India always had sufficient port capacity in fact with commissioning of new port facilities on the West Coast of India, the country is witnessing over-capacity which will remain until the medium term. The challenge has always been on evacuation of the Exim cargo which in turn leads to congestion at the Ports. Indian Ports are largely Gateway ports so the Exim cargo needs to move in and out of the ports into and from the large hinterland of the country. Therefore, efficient road and rail connectivity becomes critical. This evacuation challenge leads to in-efficiencies in the supply chain logistics, adding to the cost of shippers and making Indian exports expensive in the global markets.

The Indian Railway network has capacity constraint in operating freight trains, causing delays in hinterland movement of Exim cargo. These delays coupled with higher rail freight rates have caused shift in cargo from Rail to Road. Except for a few ports in the country, the Road infrastructure connecting the ports requires to be upgraded with top speed and on priority. Moreover, the quality of the Trucks carrying the freight in India has been poor leading to frequent cases of their breakdown, causing accidents/ delays in delivery of the cargo. It also results into damage and loss of cargo. It is extremely critical for faster commissioning of Dedicated Freight Corridor which should hopefully address all these challenges and improve the evacuation.

The consolidation process that commenced in the global shipping industry is yet to stabilize and its impact on the port sector in India remains to be seen. The global shipping lines in the meanwhile, continue to operate through various alliances in order to improve vessel utilization levels though any improvement in the freight rates for the carriers is yet to be seen.

The Government of India's focus on port led development by bringing the industries closer to the coast is gathering momentum with Gujarat Government's focus on developing the basic infrastructure at Dholera. The State Government has been actively engaging with the industries and is conducting Roadshows for attracting private sector investments.

The West Coast of India handling almost two-thirds of the country's Container business saw 12% increase year on year in financial year. But Dry bulk cargo comprising Coal and Fertiliser the two main commodities imported on West Coast has been consistently witnessing reduction in Imports. Coal imports reduced by ~10% and Fertiliser reduced by ~25%. The reduction in Coal Imports has been due to the Government's emphasis on higher utilization of Domestic Coal and its focus on encouraging renewable energy comprising Wind and Solar power. While the Fertilizer imports depend on the availability of the stock and seasonal fluctuation in demand, the Government's initiative of directing all the Ports handling imported fertilizer to carry out compulsory coating of Neem on the cargo has also reduced the imports.

### **Operations Review**

Container volume throughput for the year under review was 702,862 TEUs compared to 663,380 TEUs in the previous year. The increase in volume has been mainly on account of the addition of new services calling at the port.

The Dry Bulk cargo volumes at Pipavav are driven primarily by Coal and Fertilizer. The Port handled 1.82 Million MT during the year ended March 2018, compared to 2.11 Million MT during the previous year, due to significantly reduced Coal imports and the existing rail freight differential issues.

On Liquid cargo front, the Port handled about 1.02 Million MT during the year 2017-18 compared to 685,960 MT in the previous year ended 31<sup>st</sup> March 2017. The volume has been led mainly by the LPG imports with the Government's focus on providing LPG gas connection in the rural areas of the country.

The RO RO business continues to be promising as the Port handled 98,384 cars during the year against 83,607 cars for the previous year.

### **Financial Review**

#### **Dividend declared/ recommended and the Dividend Policy**

During the year under review, the Board of Directors had declared and paid an Interim Dividend of Rs. 1.70 per share in November 2017 and now recommend a Final Dividend of Rs. 1.70 per share subject to the approval by the Members in the Company's Annual General Meeting proposed for Thursday 9<sup>th</sup> August 2018.

The Company's Dividend Policy states as follows:

Dividend is the Company's primary distribution of profits to its Shareholders. The Company's objective is to sustain a steady and consistent distribution of profits, by way of Dividend, to its Shareholders while considering the following:

#### **(a) The circumstances under which the shareholders can or cannot expect dividend**

The Company shall endeavour to pay Dividend to its shareholders in a steady and consistent manner except the following circumstances:

- (i) During no growth or weak growth in the trade requiring the Company to retain its earnings to be able to absorb unfavourable market conditions and for meeting the business requirements;
- (ii) To meet its funding requirements for expansion and growth;
- (iii) The Company's Joint Venture with Indian Railways, Pipavav Railway Corporation Limited requires equity infusion from its shareholders.

During such times the Company may decide to retain the earnings instead of distributing to the shareholders. The distribution of Dividend can be by way of Interim Dividend and/or by way of Final Dividend.

**(b) The financial parameters that will be considered while declaring dividend**

The Company shall consider the following parameters while declaring dividend:

- i) Current year's profit:
  - a) after setting off carried over previous losses, if any;
  - b) after providing for depreciation in accordance with the provisions of Schedule II of the Act;
  - c) after transferring to reserves such amount as may be prescribed or as may be otherwise considered appropriate by the Board at its discretion.
- ii) The profits for any previous financial year(s):
  - a) after providing for depreciation in accordance with law;
  - b) remaining undistributed; or
- iii) out of (i) or (ii) or both.

In computing the above, the Board may at its discretion, subject to provisions of the law, exclude any or all of (i) extraordinary and exceptional income, generated from activities other than regular business (ii) extraordinary charges (iii) exceptional charges (iv) one off charges on account of change in law or rules or accounting policies or accounting standards (v) provisions or write offs on account of impairment in investments (long term or short term) (vi) non cash charges pertaining to amortization or ESOP or resulting from change in accounting policies or accounting standards.

**(c) Internal and External factors that would be considered for declaration of dividend**

The Company's Board shall always consider various Internal and External factors while considering the quantum for declaration of dividend such as the overall Economic scenario of the country, the Export Import trade of the country, the statutory and regulatory provisions, the Company's own performance, its profitability, its growth plans, the performance and funding requirements of its joint venture Rail Company and such other factors as may be deemed fit by the Board.

**(d) Policy as to how the retained earnings will be utilised**

The retained earnings would mainly be utilised for the purpose of the Company's growth plans, the funding requirements of its joint venture Rail Company and for all such activities that in the Board's opinion shall enhance the shareholder's value.

**(e) Provisions with regard to various classes of shares**

The Company currently has only one class of shares namely Equity shares. In case the Company issues any other class of shares, this Policy shall be modified suitably for stipulating the parameters for distribution of dividend to all classes of shares.

**Financial Results**

As mentioned hereinabove, the Company has presented the Ind AS compliant financial statements as per the requirement under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The Company's Revenue from Operations consists of Income from Port Services and other Operating Income. Total Revenue from Operations for the year ended 31<sup>st</sup> March 2018 was Rs. 6,489.00 Million against Rs. 6,831.04 Million during the year ended 31<sup>st</sup> March, 2017.

Income from Port Services consists of Income from Marine Services, Container & Cargo Handling, Storage services and value-added Port Services. Income from Port Services totaled Rs. 5,947.52 Million for the year ended 31<sup>st</sup> March 2018 compared to Rs. 6,233.20 Million for the year ended 31<sup>st</sup> March 2017. It was lower mainly because of drop in container realization arising from lower average exchange rate and the cargo mix. Also, Income from Project cargo and Offshore services of Rs. 275 Million during previous year is lower at Rs. 150 Million during this year.

Other Operating Income comprises lease rentals from sub-leasing of land to various Port users and other incidental Income from Operations. Other Operating Income was at Rs. 536.22 Million for the year ended 31<sup>st</sup> March 2018 as compared to Rs. 596.84 Million for the year ended 31<sup>st</sup> March 2017.

Total Expenditure consists of Operating expenses, Employee benefits, Depreciation and Other expenses. The Company incurred a Total Expenditure of Rs. 3,783.93 Million for the year ended 31<sup>st</sup> March 2018 compared to Rs. 3,710.29 Million for the year ended 31<sup>st</sup> March 2017.

Operating Expenses primarily include Equipment Hire charges, Handling expenses, Waterfront Royalty and Other direct costs. Operating expenses totaled Rs. 1,185.07 Million for the year ended 31<sup>st</sup> March 2018 against Rs. 1,212.88 Million for the year ended March 31, 2017.

EBITDA amounted to Rs. 4,111.16 Million for the year ended 31<sup>st</sup> March 2018 against Rs. 4,539.49 Million for the year ended 31<sup>st</sup> March 2017.

#### Other Income

Other Income consists of Interest on short-term bank deposits, Gain or Loss from foreign exchange and other Miscellaneous Income. The Other Income was Rs. 370.45 Million for the year ended 31<sup>st</sup> March 2018 compared to Rs. 353.59 Million in the previous year.

#### Debt

The Company continues to be debt free and is in a position to leverage its strong Balance Sheet for future growth opportunities as and when they arise depending upon the market conditions.

#### Deferred Tax Liability

The Company has been assessing its Deferred Tax position at each Balance Sheet date. Prior to the year ended 31<sup>st</sup> March 2016, the Company had Net Deferred Tax Asset position mainly due to carried forward tax losses of earlier years. The carried forward tax losses have been set off and the position of Deferred Tax Asset changed to Deferred Tax Liability during 31<sup>st</sup> March 2017, mainly constituting the timing difference of book depreciation and tax depreciation. Accordingly, the Company has started recording the Tax charge. During the year ended 31<sup>st</sup> March 2018 the total tax expenses was Rs. 1,087.44 Million compared to Rs. 971.19 Million in the previous year.

The Company was under Tax Holiday as per Section 80IA of the Income Tax Act, until 31<sup>st</sup> March 2017 and has paid Minimum Alternate Tax (MAT) on its book profits. From this year onwards, the company will be liable to pay the full corporate tax.

#### Net Profit

The Company has reported a Net Profit of Rs. 1,984.60 Million for the year ended 31<sup>st</sup> March 2018 as against Rs. 2,499.12 Million for year ended 31<sup>st</sup> March 2017.

### **Risk Management and Internal Control**

The SEBI Listing Regulations stipulate Top 100 companies to constitute a Risk Management Committee of the Board. But the Company has voluntarily set up a Board Sub-committee for review of the Risks and the Committee is responsible for advising the Board on high-level risk related matters. The Committee oversees the identification, mitigation and monitoring of the Company's material risks and exposures. The Risk Register provides a consistent and measurable management assurance metric on the broad risks involved and its impact on Company's objectives. The Risk Register is also reviewed by the Audit Committee and Minutes of the Risk Committee are presented to the Audit Committee and Board.

The Board has the overall responsibility to maintain a sound and effective internal control environment. The Company has put in place an internal control framework commensurate to the size of its business and it encompasses both robust internal controls, and an efficient and effective internal control monitoring and reporting system. The Audit Committee on behalf of the Board reviews the adequacy and integrity of the Company's internal control system. A firm of Independent Internal Auditors Mukesh M Shah & Co. Chartered Accountants, is retained to also review the Internal Controls. The Internal Auditors report directly to the Audit Committee of the Company.

The Statutory Auditors have reviewed the Internal Financial Controls, their adequacy and have found them in order and the Internal Auditors have reviewed the Business and Operational Control measures and their adequacy from time to time. Wherever suggested by the Auditors, the improved control measures have been implemented and their functioning is reviewed from time to time.

The parent APM Terminals Group's initiatives, the Audit Questionnaire (AQ) and the Control Manual are the overarching framework that sets out the Company's approach to internal controls. It provides consistency in the approach of the way activities are carried out on a daily basis within the Group. Looking at fraud prevention and reliable reporting through the lens of finance, these provide guidance to all departments on the minimum required controls in relation to a process flow. The Company's performance has been amongst the top quartile within the Portfolio of APM Terminals, towards the effectiveness and maturity levels of the internal control measures commensurate to the size and nature of the business.

### **Health, Safety, Security and Environment (HSSE)**

APM Terminals is committed to improving Safety performance at its Ports/Terminals and Inland Service locations. The Group's commitment to Safety has four underlying fundamental principles – *Safety is the license to operate; has no hierarchy, it means no compromise and all companies should be actively committed to it.* Facilities where APM Terminals has Operational Control have implemented Global Operational Standards for Safety, a set of Minimum Controls developed to manage the Top five risks identified to be related to 90% of the most serious incidents and fatalities occurring in APM Terminals namely, Transportation, Suspended loads & lifting, Working at height, Stored energy, and Control of Contractors.

With extensive focus on Safety standards and practices followed by the Company, it achieved a rare feat of over 1000 days of LTI-free (Lost Time Incident) Port Operations during the year ended 31<sup>st</sup> March 2018.

As a part of the Global initiative by APM Terminals all terminals within its portfolio observe Global Safety Day. This year too the Global Safety Day was observed on 2<sup>nd</sup> May 2018. The theme was “STRONGER & SAFER TOGETHER” with the aim of raising awareness amongst all the Company's employees and amongst the Contractor's employees. The port conducted several programs during the period including Safety Skit followed by Spot Quiz performed by various departments. The families of the employees were also involved in the program by organizing a Drawing Competition for the kids with Safety as a theme, Organising of the Photography contest. The employees are encouraged to submit the incident reports and top 3 reports were awarded. The event closed with winners being felicitated. The entire event was very well received and appreciated by the employees and their families, the Company's Contractors and their employees as it demonstrates the Company's commitment to the Safety and Security of all the stakeholders.

### **Corporate Social Responsibility (CSR)**

APM Terminals Pipavav sees CSR as an integrated part of the way the Company does business. In order to provide a meaningful change and contribution to the local communities and to support community development, the Port carries out a need based assessment before taking up any initiative so that the activity once implemented is well received by the local community.

The Company has formulated policies for social development that are based on the following guiding principles:

- Adopt an approach that aims at achieving a greater balance between social development and economic development;
- Adopt new measures to accelerate and ensure the basic needs of all people including health and sanitation and working towards elimination of barriers for the social inclusion of disadvantaged groups;
- Focus on educating the girl child and the underprivileged by providing appropriate infrastructure, and groom them as future value creators;
- Assist in skill development by providing direction and technical expertise to the vulnerable with special focus on women thereby empowering them towards a dignified and better quality life;
- Promote an inclusive work culture;
- Work towards generating awareness for creating public infrastructure that is barrier free, inclusive and enabling for all including the elderly and the disabled;
- Employee participation is an important part of developing responsible citizenship. Our company encourages and motivates employees to spend time volunteering on issues pertaining to CSR;
- At the time of local or national crisis, to respond to emergency situations & disasters by providing timely help to affected victims and their families.

### **Our Core Focus Areas are:**

- Education
- Health & Environment Sustainability
- Socio Economic Development and Social Business Projects
- Women Empowerment

During the year ended 31 March 2018 some of the key CSR Projects carried out were:

- Supply of Education Material, Upgradation of school infrastructure
- Providing Medical support, Provide Bio Gas units, Tree Plantation, Safety & Environment awareness courses
- Improving health and nutritional status of women and children, Conducting Skill Development followed by placement
- Livestock development, Construction of sanitation units, Installation of Water ATMs for providing clean drinking water, installation of solar street light, training for fisheries as livelihood etc.

The Company received a Certificate of Appreciation from Gujarat CSR Authority on 23<sup>rd</sup> February 2018 on a project related to 'Enhancing water resource management through Micro Irrigation System based Lift Irrigation' carried out in Kotadi cluster, Taluka Rajula, District Amreli.

### **Outlook**

As per the forecast by IMF, India's growth forecast is expected to be 7.4% during the Year 2018. As per the weather forecast the monsoons are expected to be normal during the current year. Also, the Government has been focusing on increased spending on Infrastructure. All these steps should revive the rural economy and the overall GDP of the country.

### **Human Resources/ Industrial Relations**

As part of the overall Global policy APM Terminals requires all the Employees to participate in its Annual Employee Engagement Survey which is carried out entirely in confidence by an External Agency to understand the requirements at each Port/Terminal. Based on the results of the survey, feedback is provided to the Management of APM Terminals which in turn is intimated to the respective Port/ Terminal Management for necessary action.

The survey score of APM Terminals Pipavav places it amongst the top quartile. The Management encourages its 492 employees to provide feedback in all the areas in order to carry out the necessary improvements on an ongoing basis in an effort to make the Company a better place to work.

APM Terminals globally also conducts an Annual Customer and Third Party Satisfaction Survey for all its 74 Ports/ Terminals within the Portfolio. The Survey evaluates the performance by the respective Port/Terminal in various areas of Commercial and Operational parameters. APM Terminals Pipavav has in the Survey consistently achieved high scores and has maintained its position amongst the Top Quartile.

### **Cautionary Statement**

Certain statements found in the Management Discussion and Analysis may constitute "forward-looking statements" within the meaning of applicable Securities Laws and Regulations. These forward-looking statements involve known and unknown risks, uncertainties and other factors that are difficult to predict and which may cause our actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements.