



Mercator

Q4FY15 Earnings Concall Transcript

Hosted on : June 3, 2015

Mkt Cap.	Rs.39bn USD 609mn
52 Wk H/L	Rs. 40 / 15
BSE Sensex	26,589

Management Team: **Mr. Atul J Agarwal (Managing Director)**
Mr. Prasad Patwardhan (CFO)
Capt. Kowshik Kuchroo (President)

Moderator: Ladies and gentlemen, good day and welcome to the Mercator Limited 4Q FY 2015 Earnings Conference Call hosted by Dolat Capital Markets Private Limited. We have with us today, Mr. Atul Agarwal – Managing Director, Mr. Prasad Patwardhan – CFO and Captain Kowshik – President. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask the 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. Kapil Yadhav. Thank you and over to you Sir!

Kapil Yadhav: Thank you. Good afternoon ladies and gentlemen. Welcome all on behalf of Dolat Capital to the conference call with the management of Mercator Limited to discuss their Q4 FY 2015 results. Representing the management of Mercator are Mr. Atul Agarwal MD, Prasad Patwardhan, CFO and Capt. Kowshik. We now handover the conference to Mr. Agarwal for his initial comments after which we could move on to question answer session. Over to you Sir!

Atul Agarwal: Good afternoon and welcome everybody to this, Q4 earnings call for Mercator Limited and also the whole year results. Though you would see that there is an overall consolidated loss in the company and that too of a quite a large quantum, this primarily has come from the Dry Bulk division of the company which is Mercator Line Singapore, listed on the Singapore Stock Exchange. All other divisions of the company that is Tanker, Dredging, Oil & Gas, Coal everything else has turned money for the company for the year only the Dry Bulk division has lost money.

Even in the dry bulk division the primary reason for the loss is the large non-cash charge to the profit and loss account of excess of \$100 Million that has resulted into a very large loss. I am sure you have seen the results and they have been with you for some time. I am happy to take any questions from you on the overall results of the company.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Good afternoon everybody. You spoke about the impairment which you took in this Mercator Line Singapore wherein we incurred a net loss of I think 766 Crores so if we deduct that one-time item what was the profit that we made in the shipping segment in the bulk segment for this quarter and for the year, that is around 100 Crores?

Prasad Patwardhan: On an EBIT level there was a profit, a small profit but on an overall basis after charging interest and depreciation there was a loss.

- Saket Kapoor:** No Sir, as per your reporting you have reported revenues in the shipping segment at 327 Crores and loss of 610 Crores. Now if you skip of the item of the non-cash item of 700-some Crores, it comes out to be a profit of above 100 Crores in the shipping segment so is my assumption correct or I am making any mistake?
- Atul Agarwal:** Your assumption is correct. On the shipping side expect for the Dry Bulk business the tanker business and the dredging business has returned profits this year.
- Saket Kapoor:** But the numbers are very good Sir, if you compare quarter on quarter or any part if you compare same vis-à-vis the last quarter and even the March quarter the profitability has improved on it, it has turned the corner if you take the March quarter of 2014 it was I think around 23 Lakhs which we have reported and if you take the December quarter it was a loss of 12 Crores so instead of that if my calculation is correct then we have posted above Rs.100 Crores profit.
- Prasad Patwardhan:** If you look at only the standalone results of Mercator India then they are substantially better than last year. Last year we had earned a profit of only 9 Crores as against which there is a PAT of 50 Crores that is only standalone Mercator India.
- Saket Kapoor:** Right Sir. I am talking of the consolidated part only Sir.
- Prasad Patwardhan:** In consolidated also other than the Dry Bulk we have done better this year.
- Saket Kapoor:** Sir, when you divide the dry bulk part and tanker part separately in the terms of revenue and profitability?
- Atul Agarwal:** Well, in terms of revenue the tanker segment has contributed about 426 Crores this year and the dredger segment has contributed 216 Crores to the topline.
- Saket Kapoor:** In terms of profitability Sir, that you give the topline number 400 and 200 you gave?
- Atul Agarwal:** 426 and 220.
- Saket Kapoor:** 426 for the tanker segment.
- Atul Agarwal:** That is right.
- Saket Kapoor:** In terms of the profitability breakup Sir?
- Atul Agarwal:** Well, I can give you the EBITDA numbers. The EBITDA numbers would be roughly about 200 Crores of EBITDA.
- Saket Kapoor:** For the tanker segment?
- Atul Agarwal:** That is correct.
- Saket Kapoor:** For the bulk segment what are the losses?
- Atul Agarwal:** See bulk segment has an EBITDA for the year of about \$6 Million.
- Saket Kapoor:** Sir you come to the exceptional part of which has been reported in P&L the gain of around, exceptional item of Rs.116 Crores, what does that constitute about Sir?
- Atul Agarwal:** That is in respect of a long term contract and onerous contract in our Dry Bulk business so we have booked the loss on account of that contract during the year ending March 2015 and that value is about 116 Crores.
- Saket Kapoor:** That is also with respect to the same company the Singapore Company itself?
- Atul Agarwal:** That is correct.



- Saket Kapoor:** Then the total in this comes at around 726, which you have reported separately?
- Atul Agarwal:** That is correct.
- Saket Kapoor:** There are in the spot as well as the impairment?
- Atul Agarwal:** That is correct.
- Saket Kapoor:** Sir now what is the present market condition, tanker segment you are very bullish when we last spoke in the last quarterly results, how are the things now on ground Sir?
- Prasad Patwardhan:** The markets are quite firm at the moment but as we mentioned last time also, all our ships are on contract and charter going forward the ships are contracted till January. The first vessel that comes out is in January so we will continue to have nearly the same sort of revenue pattern, what we have been showing in the last couple of quarters.
- Saket Kapoor:** You mean to say Sir that, you had booked earlier one this in the January quarter?
- Atul Agarwal:** Tanker market is doing fine.
- Saket Kapoor:** Tanker market, for the booking part, which you have told we are already booked before hand before a quarter ahead, that means we have been booked as per the rate of the March quarter?
- Atul Agarwal:** Yes.
- Saket Kapoor:** So what are the spot rates now? How is the market condition as on date when you will be booking the next for the next quarter? When will the booking happen?
- Atul Agarwal:** The enquiry is coming presently to us show that the same trends will continue.
- Saket Kapoor:** What do you attribute this to the strength in the tanker segment?
- Atul Agarwal:** It is all over that the supply has gone down and the oil prices are low so there has been a lot of storage so that has basically taken tonnage out, the resultant is that the market has gone up.
- Saket Kapoor:** I did not get your point. That has taken the tonnage out means?
- Atul Agarwal:** There tonnage is in storage it has no trading. So there is lot of oil, which has been stored on arbitrage.
- Saket Kapoor:** The position in the dry bulk segment which has been trading has things improved on this front or things in China, until unless things in China improve it is difficult to ascertain anything?
- Atul Agarwal:** The supply side is still a concern. So unless the supply is arrested dry bulk is going to face challenges. I think we see in for the next 18 to 24 months it is going to be a challenging environment.
- Saket Kapoor:** That means there is an excess capacity in the dry bulk segment you are elaboration?
- Atul Agarwal:** Yes that is correct.
- Saket Kapoor:** Even the fall in the prices of iron and ore and other commodities has also attributed to the lower rates and all, has these also contributed to the same or it is vice versa?



- Atul Agarwal:** Well the commodity side has not made that much of an impact as much as the supply side.
- Saket Kapoor:** Where is this supply from if you can elaborate Sir?
- Atul Agarwal:** Supplies one or two are ordering more and more ships they are largely the bigger supply for today is China for dry bulk, number of ships coming out.
- Saket Kapoor:** Now coming to your other segment in the offshore, you also reported I think some discovery part a day or ago, if could you elaborate more on what have been our findings and what are the prudent results for the same?
- Prasad Patwardhan:** We have given a media release, which you might have seen. So this was the first oil that we have we have drilled. Actually the oil was drilled last year but this year we reentered the well to confirm for testing of the well, as asked by the Director General of Hydrocarbons to do and on testing the oil, we float the oils till the top. This has now been confirmed as a discovery. So this has shown extremely good results for us and in fact the results have been very promising. An international third party is evaluating the results and they will soon submit their report and only then we will be able to share what is the total quantum of oil in place or what is the quantum of discovery, but it is extremely promising and we are now drilling the second well.
- Saket Kapoor:** Sir, how many blocks there in offer in this?
- Prasad Patwardhan:** We have total two blocks over there and this is the first block that we are drilling and this only whatever oil we have discovered now is only a very small portion of the block so once we finish drilling for the entire block this could go up substantially.
- Saket Kapoor:** Your initial reporting says something you said Dr. Ravi Bastia the discovery of the very first exploration well reach of the volume and Sir that language is quite technical in nature if you could explain something more, the discovery pertains to very good quality in methane **(indiscernible) 12.06** with probability of more than 500 **(indiscernible) 12.11**?
- Prasad Patwardhan:** What it means is basically the area in which the oil is that has got good porosity if it has got good porosity means the oil flows very well. If the quality of the rock or the stand where the oils is if it is very dense then the oil does not flow easily, that is what he is trying to say.
- Saket Kapoor:** What are the terms and condition of this is it on a revenue sharing what terms are there?
- Prasad Patwardhan:** It is a revenue sharing model.
- Saket Kapoor:** First will be the cost recovered and then, then you will be sharing?
- Prasad Patwardhan:** Correct.
- Saket Kapoor:** What is the cost involved Sir? What have been spent on the two blocks Sir?
- Prasad Patwardhan:** Currently we have been spent about \$15 Million. There will be of course more expenditure to come.
- Saket Kapoor:** As you improve on this drilling?
- Prasad Patwardhan:** As we do more drilling obviously more expenditure will be incurred.
- Saket Kapoor:** What is the expectation Sir? How have we budgeted Sir?
- Prasad Patwardhan:** Total we have committed to the Government of India is about \$30 Million.

- Saket Kapoor:** 15 we have spent and 15 more we will spend that is including both the wells?
- Prasad Patwardhan:** Both the blocks.
- Saket Kapoor:** Both the blocks and they are two wells Sir?
- Prasad Patwardhan:** No, there are far more than two wells. Two wells we will not have this much suction, there are far more than two wells, total number of wells that we have to be drill is six.
- Saket Kapoor:** So now we have first time only drilled it and after that we will go further. How many wells have you drill in that block?
- Prasad Patwardhan:** We are going to drill 6 wells in the block.
- Saket Kapoor:** Six in the first block? Whatever be the reserve, which comes that, will be extrapolated into other blocks or there is a difference in the nature of all?
- Prasad Patwardhan:** No, it will be different in nature of others, but the geological formation remains the same, chances remain extremely high.
- Saket Kapoor:** Because area will be the somewhat the geography will be same so that one can estimate that?
- Prasad Patwardhan:** Correct.
- Saket Kapoor:** Sir, this should be a good money-spinner if things are on a prudent terms?
- Prasad Patwardhan:** Yes, we really hope so.
- Saket Kapoor:** The reporting is something like that only. You have got a good response.
- Prasad Patwardhan:** Yes, I do hope.
- Saket Kapoor:** Sir, now coming to your dredging part Sir, if you could elaborate how that, you were talking, you spoke about taking more dredges earlier in the last concall Sir?
- Prasad Patwardhan:** Yes, we are in the process.
- Saket Kapoor:** So what is the capital expenditure Sir in the dredge segment?
- Prasad Patwardhan:** Roughly about 25 million.
- Saket Kapoor:** How much we have spent Sir, or how much is staying left?
- Prasad Patwardhan:** Nothing has happened now, we have to pay for all once we purchase it.
- Saket Kapoor:** Okay, okay, when this all will come in picture and are you really committed to do this?
- Prasad Patwardhan:** No, we are committed to do it, it should happen in the next quarter.
- Saket Kapoor:** That is mainly aiding to this Ganga project and the inland waterways?
- Prasad Patwardhan:** No nothing this is only with the ports.
- Saket Kapoor:** This is all domestic money in the country itself for the port development?
- Prasad Patwardhan:** Yes.
- Saket Kapoor:** Which region Sir, which ports are we looking into?

- Prasad Patwardhan:** We currently have contract with the Navy. We have with the Goa Port, Paradip Port, Kandla Port, and New Mangalore port, that is it.
- Saket Kapoor:** And what sorts of revenue are we looking out Sir on an annualized basis or what could be the trajectory to look it to this business?
- Prasad Patwardhan:** Last year the total revenue from dredger was like 220 Crores this year you should see a jump of at least 20%-25%.
- Saket Kapoor:** With our investment of you told about \$15 million?
- Prasad Patwardhan:** Yes.
- Saket Kapoor:** With investment of \$15 million that means we are spending around?
- Prasad Patwardhan:** 25 addition?
- Saket Kapoor:** That means around 150 Crores.
- Prasad Patwardhan:** Correct.
- Saket Kapoor:** Sir if it is 150 Crore investment and it will contribute 225 to the revenue?
- Prasad Patwardhan:** No it will contribute additional almost 75 to 100 Crores in this year, because there will not be full year operation.
- Saket Kapoor:** This will take one more quarter, is not it? Now coming to your coal mining part. Sir in the coal segment there is lot of availability of coal now in the country, as being spoken from the Coal India and even the Coal Minister, the Coal Secretary, everybody is something on the ground and saying that there is a good availability and good availability at the power station, how much viable is our business, because we are importing it from our mines in Indonesia and supplying it to the industry users here, so as on date the import parity price since we are having a lower GSV of the quality is of the lower grade how well are we positioned now, the situation has not changed for the coal business Sir?
- Atul Agarwal:** See the situation has not changed dramatically, if availability of coal has increased then so as the demand and consumption of coal increase is dramatically. The government is also promising electricity for all 24/7, if they give more electricity, if they supply electricity 24/7 then obviously consumption of coal has to go up and also you must appreciate that in the last year, India had imported roughly 150 million tonnes of coal, last year, now only this is completed in March 2015, we have imported nearly 250 million tonnes of coal and going forward coal will continue to be imported, also there is another issue which you might be reading in the papers which the government of India is facing that is of the rail connectivity. All coal in India is primarily produced in the northeast and connecting it by rail to other parts of the country is becoming the major bottleneck. So all power plants which are on the coast or which can be served from the coast will continue to import, this situation is unlikely to change for the next five to ten years.
- Saket Kapoor:** You mean to say that the logistical advancement has to be made in correlated to the output?
- Atul Agarwal:** Exactly.
- Saket Kapoor:** That will take time Sir.
- Atul Agarwal:** Yes.

- Saket Kapoor:** Sir here users are also not having good time is that is to be concerned, that is the things which are you giving to the industries, they are also not making profit, so how are been the receivables being managed from them because there is lot of built up in inventory levels for all segments of the commodity for this matter?
- Atul Agarwal:** See currently all industries are facing some cash flow issues. It is not that only coal industry or power industry is facing. Most of the industry is facing cash flow challenges so we also are struggling and those challenges are being faced by everyone and so we are also facing those challenges.
- Saket Kapoor:** How I am trying to take a note of your customer's sense to save through this rough time. We are just trying to understand your receivable payables position as of March, if you take the receivable payable the trade payables stands at 1280 Crores whereas your receivables are around 2400 Crores? So there is a big mismatch or what is the nature?
- Prasad Patwardhan:** You are looking at the standalone numbers and the coal business the sale of coal is not being recorded in the standalone books of accounts.
- Saket Kapoor:** Even if you take the consolidated part also Sir, then the depreciation is better Sir, please explain the anomaly what I was making mistake Sir? I was looking at the standalone numbers and therein the receivable payable there was a big difference that was relating to the coal part only?
- Prasad Patwardhan:** The standalone financial do not have anything related to sale of coal. Standalone financials have only tankers and dredger operations. The coal offshore all these businesses will appear only in the consolidated financials of the company.
- Saket Kapoor:** Sir if we take the standalone part that means taking to your tankers and the dredgers only then there is a mismatch in terms of this payable receivable or we have longer cycles in terms of that?
- Prasad Patwardhan:** If you look at the receivables on the standalone basis it includes one large receivable from a customer which amounting to about \$8 or \$9 million which has been realized in the month of April, that is why you see the receivable position as of March on a standalone basis being a bit on the higher side.
- Saket Kapoor:** Sir \$8 or \$9 Million means it is about 65?
- Atul Agarwal:** About 60-odd Crores.
- Saket Kapoor:** But still Sir if you take the gap I am dwelling upon the point it is 1280 versus 2400, so 60 Crore is only 20%.
- Atul Agarwal:** See my trade receivables are 239 Crores which includes about 60 Crores which I told you we have recovered in the month of April. If we remove that then the trade receivables are about 180 Crores and that is comparable to what it was in the earlier years.
- Saket Kapoor:** So what is our cost of borrowing on a blended basis Sir?
- Atul Agarwal:** On a blended basis on a standalone basis that is the range of 8% or 9% on a consolidated basis it will be lower than that.
- Saket Kapoor:** Sir you also spoke about the announcement wherein we are looking for fund raising in some form or the other? What is the plan for it and is it basically to the wells only money where we will be utilizing or something else?
- Prasad Patwardhan:** We have not done any announcement on fund raising right now.

- Saket Kapoor:** Sir, if we look at the BSE site where in board meeting you have spoken about it?
- Prasad Patwardhan:** That is an enabling resolution.
- Saket Kapoor:** Around 125 Crores or 25 million I think something.
- Prasad Patwardhan:** That is an enabling resolution.
- Saket Kapoor:** That is pertaining to this discovery part only Sir, that?
- Atul Agarwal:** No.
- Saket Kapoor:** Then what is the purpose of this?
- Atul Agarwal:** The enabling resolution we have kept in case there is an opportunity during the year, then we encash it otherwise we will have to call for AGM again. That is for the AGM only.
- Saket Kapoor:** The enabling resolution...
- Atul Agarwal:** It is for the agenda for the AGM.
- Saket Kapoor:** Meaning in the near future if you see something then only you will enable the resolution, is it?
- Atul Agarwal:** In the near future, if we do not see then we will see it in the near future is not it. We cannot keep our eyes closed. If you analyze the stack everyday, then you will keep it in mind then we will also keep it in mind that if there are any opportunities coming up, it does not come up because we have an enabling resolution. You can encash it. You can enquire. We will get to encash.
- Saket Kapoor:** Sir going forward the debt levels have remained on the higher side and you have told also that they will remain so going forward if there is an improvement in the business we are comfortable with these debt levels Sir? What is the net debt level Sir, as on March?
- Atul Agarwal:** As on March 2015 the debt is about 3600 Crores. This is on a consolidated basis.
- Saket Kapoor:** Yes Sir. I was trying to understand what will it shape going forward will it remain at this level you are comfortable with it or there is a debt reduction plan going forward?
- Atul Agarwal:** In going forward obviously there is a plan for debt reduction. It is something about the comfortable and noncomfortable. We are comfortable and that is why we are able to borrow this much.
- Saket Kapoor:** In today's world the most biggest problem is if the market conditions do not improve how can you service, if you take on your interest servicing part we are paying around 213-214 Crore annually.
- Atul Agarwal:** Mr. Kapoor I suggest that if you want to keep on questioning in detail, let us give us opportunity to others also. You can come to office, we will give you all the details. Whatever is necessary for you.
- Saket Kapoor:** Yes, I am coming in the queue Sir. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Jaideep Merchant from Janak Merchant. Please go ahead.
- Jaideep Merchant:** Thank you for taking my call. Sir this consolidated debt, can you break it up between the companies? The second question I have is if you can give the guarantees, which

- Mercator standalone has given for the companies for the subsidiaries as of March 31, 2015?
- Atul Agarwal:** Well, the business wise breakup that we can give you offline, it is not readily available right now. We can give you a breakup between the standalone and consolidated debt. On a standalone basis the net debt was about 870 Crores and on the consolidated basis it was about 3600 Crores.
- Jaideep Merchant:** Fine. Can you give information on the guarantees or you want me to call you later and ask?
- Atul Agarwal:** I suggest you call us later and we will share this information.
- Jaideep Merchant:** Thank you Sir. That is all.
- Moderator:** Thank you. We have a follow up question from the line of Saket Kapoor from Kapoor Company.
- Saket Kapoor:** Sir my question is pertaining to your coal mining part only. Sir this year the revenues and the profitability has been a trending downwards. What is your guidance going forward on the coal part in the coming years, now the prices being I think are stabilized?
- Atul Agarwal:** The coal will continue to face challenging times in the coming year also. You know commodity prices are at an all time low now. So it is not only coal all commodity prices have dropped dramatically. We have managed to remain profitable during last year and we hope to continue that remain profitable this year as well.
- Saket Kapoor:** Sir the trend has been downward Sir, what was our average selling price for the coal is that the blended if you could share, and the comparative figure for March 2014 and 2015?
- Atul Agarwal:** The average selling price this year it has gone by that is year ending March 2015 was about \$41.
- Saket Kapoor:** For March 2014?
- Atul Agarwal:** Well, I do not have the March 2014 numbers readily available. It was slightly higher than this number.
- Saket Kapoor:** We are definitely higher because the profitability has gone around...
- Kapil Yadav:** Moderator any further question?
- Moderator:** No Sir, no more questions in queue.
- Kapil Yadav:** Sir, should I wound up the call?
- Atul Agarwal:** Yes.
- Kapil Yadav:** On behalf of Dolat Capital, we thank Mr. Agarwal, Mr. Patwardhan, Capt. Kowshik for taking out time for the call. We also thank all the participants and hope the call was fruitful for them. Thank you every one. Thanks a lot Sir.
- Atul Agarwal:** Thank you.
- Moderator:** Ladies and gentlemen, on behalf of Dolat Capital Market Private Limited that concludes this conference, thank you for joining us. You may now disconnect your lines.

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