"Allcargo Logistics Limited Q4 FY18 Conference Call"

May 23, 2018

MANAGEMENT:	**MR. SHASHI KIRAN SHETTY – CHAIRMAN AND MANAGING DIRECTOR** **MR. PRAKASH TULSIANI – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER, CFS AND ICD** **MR. S. SURYANARAYANAN – EXECUTIVE DIRECTOR** **MR. JATIN CHOKSHI – CHIEF FINANCIAL OFFICER**
MODERATOR:	**MR. VIKRAM SURYAVANSHI – PHILLIP CAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and Gentlemen, Good Day. And Welcome to the AllCargo Logistics Q4 FY18 Conference Call, hosted by PhillipCapital (India) Private Limited. As a remainder, 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 this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

Vikram Suryavanshi: Good afternoon and a very warm welcome to everyone. Thank you for being on the call of AllCargo Logistics Limited. From management we have with us Mr. Shashi Kiran Shetty – Chairman and Managing Director; Mr. Prakash Tulsiani – Executive Director and CEO, CFS-ICD; Mr. Suryanarayanan – Executive Director; Mr. Jatin Chokshi – Chief Financial Officer.

Now I hand over the call to the management for their opening comments and then we will have question-and-answer session. Over to you, sir.

Shashi Kiran Shetty: Good afternoon to all of you. And I welcome all of you to the earnings conference call to discuss the Q4 FY18 and financial year 2017-2018 results and some of the operational highlights. I am joined by Mr. Suryanarayanan, Mr. Tulsiani and Mr. Chokshi in this call. I hope all of you have reviewed our financial results by now and you can also review the earnings presentation on our website.

As a company we stand strong owing to careful and calculated business decisions and adequate expansions and diversifications. We are proactively focused on the future and looking to capitalize on opportunities. Like any other business we have been facing challenges, but we continue to pursue excellence. I am happy to share that despite challenging environment we have been able to increase our volume in global MTO and CFS and ICD business in India in this quarter.

Our business model is scalable, resilient and flexible to changing economic and business environment. In the Global MTO business, we see an industry shift towards becoming more technology enabled. While our global LCL network is the largest in the world, we see the company moving to its next level of growth using technology as its enabler. Our goal is simple, to be customer centric and efficient.

Last year a special emphasis was laid on use of technology. Going ahead the company has several other projects in the pipeline that will help bring operational efficiency. The focus is to clearly integrate our global operations for customer delight. With this focus we have got onboard a group CIO to spearhead our IT rollout initiatives across the world.

In India there has been an increased focus on development of logistics parks as well as development of a robust, multi-model infrastructure network to enable seamless movement of goods and improve customer experience. We see our current CFS and ICD business transitioning slowly towards multi-modal logistics parks and we have taken the steps towards establishing India's largest logistics park and purchased approximately 93 acres of land at Jhajjar in Haryana in the first phase of our development. In addition to this, we are also working on a plan to develop our existing land banks in JNPT, Hyderabad, Bangalore. These will shape up in the coming years.

In our P&E business, we have been increasing our focus on project transportation where the current executable order book is around Rs. 160 crores. We also intend to explore opportunities in neighboring countries like Sri Lanka, Myanmar, Nepal and Bangladesh. There are some large projects expected to be tendered out very soon in India as well and we will be actively bidding for them.

There has also been a trend of increasing requirement towards professional and organized supply chain management which is increasing the demand for contract logistics. With the projected GDP growth of India, the logistics sector will play an integral role at the forefront. We plan to scale up our contract logistics business multi-fold with the clear aim of being a dominant player by 2022. The business model is asset light and will be build-to-suit model with focus on chemical sector, in which we are market leaders.

We are also quite active in the area of auto logistics, retail logistics and also plan to enter the Pharma and engineering services sector. We have witnessed a rise in consumer consumption. The after effects of the GST rollout also have settled down. Together, these two factors are expected to benefit our sector. The demand for grade A warehouse is rising. This service is expected to evolve in the near future and we foresee a lot of scope in it.

We have also engaged services of a CEO in the warehousing vertical and he has joined us onboard from a company called Milestone Capital. And he also worked for Indospace in the past. By the way, our CIO has joined us from, the last job was in Maersk Line for about five years.

On the financial side I am happy to give you a small update before handing over to our CFO, Mr. Chokshi, which is that we have maintained a very healthy balance sheet and our debt equity ratio is at 0.07.

Moving on to our quarterly update, our CFO Mr. Chokshi will take us through the financial highlights.

Just before I hand over to him, our warehousing development strategy is on two folds, one is to monetize our existing land which we had bought number of years ago and that land value has increased substantially over the years. We have 100 acres outside Bangalore and we are one of the only company, almost only company who owns such a land parcel and we seem to have good demand for that land and we are likely to sign up at least for 2 million square feet of warehouse over the next three to six months. Second is, we have 40 acres of land in Hyderabad where we started construction already and there we will be building about 600,000 square feet. And then we are going to develop Jhajjar as one of the logistics parks, largest in the country. These are the few developments. And we will talk more about the warehouse once we are ready with our plan. And the purpose of doing this is, one, not only to use our land banks, it is also to support our own contract logistics business where our requirement over the next three to four years is somewhere in the region of about 10 million square feet of warehouse which can even go up to 15 million to 20 million. So, it is a great strategy what we believe is to build these assets and also lease it to large multinational companies who are already customers in many areas.

As regards to the multimodal business, we will continue to grow both organically and inorganically, although we do not have anything to talk about inorganic, but that is something that we have continued to pursue.

On the CFS and ICD business, like I said before, there is a big restructuring that happened because of DPD. One private CFS was allowed to move all the DPD containers, that is now being dispensed with. Now it is the shipping lines and the consignees have got the authority to nominate whichever CFS they want to go to. And that now is fairly well established. All that issue of cloud surrounding with the CFS and DPD is now getting cleared and the business is back to normal. Except that, a lot of decisions will now also be made by consignees and we as a integrated logistics provider, our obvious offering is end-to-end and we have a greater possibility of attracting customer with higher margin because of multiple services that we could offer to them.

On the P&E sector, once again to emphasize, it is all about asset utilization and asset utilization has already moved up to over 50% and we have a very clear visibility because of the revival of the windmill sector, a lot more cranes are required, and we have already signed up with some of the large companies like General Electric and few others to supply these equipments to them in the coming months. And once they go to these sites normally they stay there for a number of years. So, the situation going forward looks good. Yes, we had a bad year last year which I think we have explained multiple times that we had DPD was one of the issues, we had one-time hit on some of the receivables and provision for doubtful debts. We had one-time hit on CWC Mundra, our delay in opening of Kolkata CFS because of the delay in the permission by the government because we are in the middle of DPD, that got delayed for about six months, and we had this impairment loss that we had to take which is obviously notional has also come and hit us in the same financial year. So, there are multiple things that came out together this year, otherwise our GP obviously has come down by about Rs. 70-odd crores. Our efficiency on staff and administration cost has come down by Rs. 10 crores, so the net effect is about Rs. 60 crores - Rs. 65 crores are the one-time hit on the GP this year. And business sometimes is cyclical, and I think as cycle changes margins improve. And in spite of challenging conditions you have noticed that our revenue has gone up to over Rs. 6,000 crores for the first time and we are very proud about that. And our FCL business has gone up by 35%, our LCL volume has gone up by about 7%.

So the business continues to grow and I think the churn has happened a little bit in the last financial year. And I think we are quite positive in the coming quarters and coming years. I will now hand over the call to our CFO – Mr. Chokshi.

Jatin Chokshi: Thank you. Good afternoon, everyone. Let me take you through the consolidated quarterly financial highlights.

The total revenue from operations grew by 12.7% to Rs. 1,536 crores for the quarter ended 31st March 2018. The growth in our revenues is mainly on account of volume and revenue growth in MTO business and the challenging global conditions and declining freight rates. The EBITDA for the quarter ended 31st March 2018, was Rs. 74 crores, a decrease of 30%, predominantly due to challenging global shipping environment, lower capacity utilization, subdued annual volumes and provisioning for the receivables by way of prudent accounting policies what we follow. Profit after tax for the quarter was at Rs. 13 crores.

Coming to the balance sheet as on 31st March 2018, the net debt declined to Rs. 129 crores. The net debt to equity has come down to 0.07 reflecting a healthy and conservative balance sheet.

I would now request Mr. Suryanarayanan to take you through our global MTO business performance for the quarter. Over to you, Suri.

S. Suryanarayanan: Good afternoon, everyone. I am happy to announce that the total revenue for the MTO division for the quarter was Rs. 1,370 crores as against Rs. 1,161 crores for the corresponding previous period, which is an increase of about 18%. Our EBIT was Rs. 56 crores for the quarter as against Rs. 50 crores for the corresponding pervious period, which is an increase of about 12%. Our MTO global volumes grew by 26% to 159,951 TEUs as against 126,833 TEUs for the corresponding previous period. This growth has come across key markets across the world due to more direct claims to our worldwide network, especially the intra-state trade and despite the challenging trade and freight conditions. Despite consolidation the capacities have remained unchanged and the freight rates have subdued in the container lines. We have continued to outperform the global LCL trade and I believe this trend will continue and we will remain market leaders in the LCL consolidation. In lieu of this we have added more direct claims to our worldwide network, especially in the intra-Asia trade. Our FCL business has also continued to grow healthily. The diversification of our business to more FCL continues to be high priority for us going forward.

I would now request Mr. Prakash Tulsiani to take you through the performance of our India business of CFS at the project and engineering.

Prakash Tulsiani: Thank you, Suranarayanan. So, starting with our CFS and ICD operations, the total volume grew 10.54% to 76,304 versus 69,738 in the corresponding previous quarter. The total revenue for the quarter was Rs. 106 crores as against Rs. 99 crores for the corresponding previous period, an increase of 7.1%. EBIT was at Rs. 31 crores versus Rs. 29 crores, an increase of 6.9. The multi-model logistics park in Jhajjar is underway and we have acquired the land in a phased manner with approximately 93 acres as on date acquired. At JNPT the DPD volumes remain in the range of 40%. We have accordingly changed our strategy to adapt to the changes in the business scenario. We have one of our JNPT CFS catering to the needs of the DPD boxes by offering end-to-end logistics coordination with other verticals in the group. This actually has helped us to gain the volume and that is how we see the 10.54% volume growth. I am also happy to announce that Kolkata CFS commenced operations in the last quarter is also doing well and we should see a breakeven shortly.

Coming to our projects and engineering business, the total revenue for the quarter ended 31st March 2018, was at Rs. 74 crores. EBIT was at negative Rs. 37 crores. The reasons were explained by Jatin on the provisioning and other matters. The decline in revenue was primarily due to decrease in asset utilization of the equipment leasing business and poor demand, especially for the wind and power sector which is now turning around. We are seeing a renewed revival in eight core sectors where our projects and equipment division operate is coal, crude oil, natural gas, refinery products, fertilizer, cement, steel, and power. These sectors will have a significant impact on the industrial project logistics movement and also spike the demand for all related lifting and industrial equipment in the coming months.

The crane utilization is on the rise. We have also been increasing its focus on project transportation where the current executable order book is around Rs. 160 crores. We also intend to explore opportunities in neighboring countries like Lanka, Myanmar, Nepal and Bangladesh. There are some large projects expected to be tendered out very soon in India as well and we will be actively bidding for that. The other good point is that our equipments are actually debt free completely, that is why our net debt is also at 0.07.

Coming to our contract logistic business, AllCargo is one of the predominant players in the contract logistics segment through its majority equity shareholding in our CCI Managing activities for key clients in chemical, pharmaceutical and food, auto, engineering, ecommerce, fashion and retail sectors. In this year we have grown from 1.5 million square feet to 3.1 million square feet across 45 locations with an aim of being a dominant player by 2022. These will be build-to-suit model and clear focus of course will be chemical sector where we are the leaders. It does not mean that we will not look at the other sectors, but this is a sector where we have a leadership position. So ACCI in short is an asset light business and the tilt is towards the long-term leases for the warehouses.

That is from our side. And we thank you very much and we open the floor for questions. Sorry, one more thing, Jatin needs to add.

Jatin Chokshi: And just to add what Prakash has said in terms of our equipment business, as on the March depreciated value of the asset in this division is Rs. 350 crores against the gross block of Rs. 800+ crores. So, with the depreciation going up and the book value of the assets getting lower with the increased utilization in the coming year we expect a better return on capital from this segment as well.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: A couple of questions from my side. First, can you just let us know what is the amount of write-off you have taken in P&E segment, a total Rs. 36 crores loss if I have to breakup there?

Shashi Kiran Shetty: And what is the second question?

Giriraj Daga: My second question is related to Jhajjar, have we decided the structure in which part this SAD have we got the rail approval there? And earlier we were thinking to put this into ACCI also, so what is the status there? And third question is on the MTO side of it, so we are witnessing decent volume but as usual the EBIT per ton is going down, so any thoughts there?

Jatin Chokshi: To answer your first question, as earlier we mentioned, consistently we are following provisioning policies of any receivables, not necessarily the bad debts, more than 180 days. We always provide as and when we recover out of such provision we reverse. In the earlier few quarters we have seen reversal as well. Coming to the specific answer, yes in this year we have made additional provision of close to Rs. 30 crores in this division, of which the bad debts, I will not say the bad debts but the haircuts what we have taken keeping in mind the long relationship with a few of our customers is close to Rs. 12 crores and balance all are recoverable in fact subsequent to March 31st we have already recovered Rs. 3.5 crores to Rs. 4 crores out of provisions we already made. So, there will be a reversal in this quarter.

Giriraj Daga: So, this entire Rs. 30 crores is taken in the fourth quarter?

Jatin Chokshi: Not entire thing in fourth quarter, this is for the year Rs. 30 crores. If you see earlier quarter also we have made some provision. So the net provision in the fourth quarter is close to around Rs. 15 crores.

Giriraj Daga: But sir still the numbers look large in terms of loss if I remove that.

Jatin Chokshi: No, that is the reason I said it is provisioning and there will be a reversal, it is not bad debts actually.

Giriraj Daga: No, I am not saying the bad debts number but if I remove 36 minus 15, Rs. 21 crores of loss compared to last quarter Rs. 11 crores, that might also have some provisioning number. So on a quarter-on-quarter when our revenue was flat we still made incremental loss of Rs. 10 crores - Rs. 12 crores.

Jatin Chokshi: No, that is the reason because we follow the policy of making provision of more than 180 days in certain cases depending on the financial conditions of the customer we take a prudent call. So the additional provision what we made in fourth quarter is nothing but the receivable crossing the threshold limit of 180 days to 270 days depending, so that is the reason, it is not that it is for the quarter.

Giriraj Daga: Okay. Second question?

Prakash Tulsiani: In case of Jhajjar, we have taken 93 acres of land. Along with that we have also got 27 acres of land for rail link. All the rail approvals are in place and that is the reason we were waiting to acquire the land. So now we are ready to go. We have to apply for certain approvals and permissions for the state government and then the work starts.

Giriraj Daga: The work starts only after the approval?

Prakash Tulsiani: And the rail starts laying the line in to the property which might take roughly about 18 months or so.

Giriraj Daga: So we got the railway approval, right?

Prakash Tulsiani: Yes, we got the approvals but for them to start the construction will take about anytime between 18 to 20 months.

Giriraj Daga: It needs to be part of standalone operations or how the structure of this entity will be?

Prakash Tulsiani: No, this will be a standalone operation, although the land is in a subsidiary which will allow us to bring in a partner at a later stage, strategy partner, we are not really looking at a financial partner because we need support coming from in terms of volume and in terms of the rail transportation.

Giriraj Daga: As of now it is 100%?

Prakash Tulsiani: Absolutely.

Giriraj Daga: And third question was on MTO side, EBIT per ton is falling, if you can throw some light.

Prakash Tulsiani: On the MTO, we had already mentioned that the volatility in the freight rates in the global market is putting big pressure on the margins, that is there. And it is one of the worst shipping cycles that the industry is going through, so we are all subject to that massive volatility. And second is we are increasing our full container load business, so that obviously comes with a lower margin compared to LCL. But overall if you look at our GP, it is flat on an absolute basis in terms of the amount of money what we earned on GP in spite of low margin on the LCL and thanks to increase in the volume of FCL our absolute amount is same while we are saved on the SG&A cost.

Giriraj Daga: I was particularly mentioning about EBIT per ton what we report the numbers, since last few years it was 5,000, last quarter was about below 3,500 EBIT per TEU.

Prakash Tulsiani: No, because the FCL business comes at a lower margin, that is why. And we had explained that even in the last quarter, similarly because obviously we earn slightly lower, we will earn lower on the full container loads.

Giriraj Daga: What is like FCL in overall TEU?

Prakash Tulsiani: FCL we would have crossed 175,000 containers, only export. And import will be another…

Giriraj Daga: For the full year you are talking about?

Prakash Tulsiani: Yes, so it is about 281,000 TEUs.

Moderator: Thank you Our next question is from the line of Abhishek Ghosh from Motilal Oswal. Please go ahead.

Abhishek Ghosh: Sir, just wanted to understand one thing. In terms of CFS how has been the response as far as the Kolkata CFS is commissioned?

Shashi Kiran Shetty: The response has been very good and very encouraging because we are the only national player there in Kolkata, there are totally in size wise reckoning our four CFS. So we have done well, as a start it has done well.

Prakash Tulsiani: I think as a start-up to breakeven in three months is quite a remarkable job in the current conditions.

Abhishek Ghosh: Sure. And coming to the JNPT part of it, now that the DPD volumes have stabilized, how are we seeing the ramp-up of the PSA four terminal? And what is the expectation of that for the CFS segment at JNPT?

Shashi Kiran Shetty: The terminal number four has commenced operations I think sometime three months back. They are only in phase number one. They have not yet gained all, I mean the full capacity obviously, they have got one or two carriers moved into their own terminal so that has brought in new services into Nava Shiva. And that is a good feature as far as CFSs are concerned, because that brings more volumes to India and to Nava Shiva.

Abhishek Ghosh: Sir just coming to the P&E segment, if you can just give us some color in terms of last year whatever we had seen some amount of impact due to this slowdown in the wind and power sector, how are things looking up in the next 12 to 18 months in terms of the overall demand outlook that will be helpful?

Prakash Tulsiani: The equipment business, like we said, compared to last year which was pretty bad we already have an order book of over Rs. 160 crores in the project division which is a part of the P&E reporting. And on the equipment side our utilization has already gone up from 35% to 50%. And I am sure, most of you are aware that the wind-mill sector is revived, and a lot of projects have been auctioned, there are a couple of new players also who have come in. And we have relationship with the top players like the General Electric, Vestas and also to some extent with Suzlon. So there is a revival of demand and we have signed up to supply equipments to some of them. And in the next months substantial amount of equipments will now start moving into the sites. And once they go then they normally stay for a much longer period.

Abhishek Ghosh: So is it fair to assume that come 2Q of FY19 we should see utilization levels moving up significantly from that of the average of FY18?

Prakash Tulsiani: Yes, that is what we expect at this point, absolutely.

Abhishek Ghosh: And just one thing on MTO part of it, while we have grown significantly higher than the market because at about 26% odd of volume, what is the expectation of average market growth rate and what would have been the market growth rate for the last quarter and the year of FY18?

Prakash Tulsiani: The global trade is growing at roughly about 4%, anywhere between 3.5% to 4 %. And our LCL volume has grown by 7%, so we are actually growing double than the global market growth. And FCL, you can imagine that from 4% growing at about 35%, so it is almost about 11 times. So there is a lot of catching up to do there and like I mentioned also in the previous calls 95% of the global trade moves in full container load and we have a global network and it is a new product that we have launched and we engaged services of lot more professionals who are specialized in this area around the world, particularly in Europe, Asia, China and also in

United States in India of course, and we are exploring new markets. Our more niche where we are able to make some more money, we are able to move cargo in-land, do value add looking at more project related containers and open top type of containers, flat racks where we can bring our expertise and skills. So that is one of the major growth will continue to happen in the future. And on top of that, like I said, our strategy is to consolidate our position both organically and inorganically, and on top of that build our digital platform is going to be the strategy on that.

Abhishek Ghosh: Okay. So we will be able to outpace the market growth rate for sustainable period of time because we have still way to go as far as the FCL penetration is concerned for us?

Prakash Tulsiani: FCL clearly yes, LCL we are bit of pick and choose of margin, the business does not give us good margin, many times we stay out of that kind of a organization discipline. So it may not grow in the way in the way FCL is growing, but I think over a period of time people who follow discipline always come out winners.

Moderator: Thank you. Our next question is from the line of Vijay Lohiya from Value Investments Principles. Please go ahead.

Vijay Lohiya: Sir, my question on the MTO business, we have continued to outgrow the industry in terms of volumes and with global growth sort of looking much better than at least a couple of years back, new shipping capacities is sort of growing, or sort of demand is outpacing the new supply addition, how should we think about pricing over the next six to 12 months and may be over next two to three years in terms of a longer-term horizon?

Shashi Kiran Shetty: About 60% to 70% of our revenue comes from land side, about 30% to 40% comes from the ocean. And more lower the ocean freight is lower the contribution of ocean freight in our business. So I think in a nut shell I think the challenge will continue till such time the overcapacity exists, but that will also force a tremendous consolidation of the industry. Once that goes through then the rate levels will start shooting up and that will give a big boost to the industry. So it is difficult to say when this can happen, I think it cannot happen too far away because companies start losing money and now we are talking about big money here. And the banks and the shareholders and everybody else is going to put more and more pressure on consolidation of the industry. So it is going to be a bit challenging for the next I think at least one year, maybe two years.

Vijay Lohiya: My another question is on the contract logistics, so the land acquisition at Jhajjar, as you said it might be 18 - 24 months away with rail permissions and all, but in terms of strategy and in terms of any commitments that you are receiving from any ecommerce companies any of your existing clients, once it is operational how are you sort of talking to some of the customers or clients which may have a potential interest in that?

Prakash Tulsiani: Jhajjar has three revenue streams, one is in-land container depot and the rail transportation. And second is PFT, that is private freight terminal. And the third is building the warehouses for our own requirement under ACCI or lease it out to third party multi-nationals or large Indian corporations. So there are three revenue models in this that is why we call it as a logistics park. So the rail engineering and construction will take about two years, so ICD cannot be operational before that. So we have not acquired the land yet for the ICD, but that land is already locked away, we have paid in advance and there is no other access to that land, so the land is locked, land is available for us to buy at the same price within the next one year or so. And by the way, we bought this land from Reliance Group in Delhi where they wanted to setup their SEZ. So it is a strong commitment about the land. And with the balance land, 29 acre was acquired for bringing the rail into the property and 92 acres is for setting up the warehouses. And there we have strong demand, like I said from ecommerce companies and multi-national companies and also the Indian corporation. So that is where we have hired services of a new CIO and he is coming from that background of company like Indospace and Milestone Capital. And we are currently working with number of customers who have specific demand about this facility. And one of the most important thing for warehouse is to have the land and buying land in India is more and more difficult and more and more complicated because of the previous land acquisition legislation which the previous government has passed, so it is even more challenging. So we have land in most strategic locations, biggest markets in the country that is Bangalore which is filtering to Chennai and to other neighboring B class cities. Bangalore is today one of the highest demand market and NCR as you know is one of the largest market in our country and highly industrialized, Bangalore and Chennai are also highly industrialized. You have new industrial clusters coming up near Anantapur, in Andhra Pradesh. So you have huge industries surrounding Bangalore and Bangalore is most ideally located for feeding the cargo for industrial purposes, auto industry is quite big and they are one of the big users of the warehouses. And obviously retail, Bangalore and neighboring cities have a huge demand for ecommerce and that is where we are quite bullish on both these properties. And Hyderabad, we are currently building and that is not such a big land parcel, and there also we see good demand coming in from ecommerce companies as well as industrial companies. The other land what we have is also in Nagpur and we have not yet decided what to do about that, I am sure as we move into the business far more greater detail there will be more demand coming up from that city as well, being the center of India and post GST.

Vijay Lohiya: So sir, just a related question, is it fair to assume that in Jhajjar the warehousing will start contributing to revenues before 24 months, the ICDs will take time when the rail links are set up, but the warehousing can start, is it the fair way to think about it?

Prakash Tulsiani: Yes.

Moderator: Thank you. Our next question is from the line of Nilesh Shah from Envision Capital. Please go ahead.

Nilesh Shah: Sir, I just wanted to ask you on this project in engineering division. I mean, what is really the long-term thought process on this division, because this division has really not been a very capital efficient kind of a division. And obviously it has kind of delivered a very poor year which has set the whole company back by about six or seven years in terms of the consolidated profit. So, if you could just give your thought process in terms of what is really the outlook, do you want to remain in this business, it is not delivering the right return on capital employed, if you could share your thoughts on that? number one. Number two, again on the same division you seem to have made provisions for not being able to recover receivables, is there any learnings from this experience of this last one year or this is business as usual where you basically give your equipment on lease and then hope that the money comes back. So have you kind of tightened your credit norms or the credit period, I think if you can throw light on both these questions it would be very helpful.

Prakash Tulsiani: Just to answer your questions, yes because of the asset centric business and working capital requirement the number or the ROCE what you are talking about is not up to the mark or up to the requirement. However, as it happens with any asset centric business and as I mentioned earlier, yes now the assets have depreciated to the extent of almost 70% of gross block and with increase in utilization and with every utilization or increased utilization always brings a better yield also. So we expect better numbers from this division going forward. And yes, the learning in the sense, as I mentioned to you earlier, entire amount is not bad debts or written-off, yes we could not recover or receive in timely manner that is a result we have made a provision by way of prudent accounting policy. And also I mentioned earlier, we have recovered a lot of amount in the past out of such provision which has been reversed as well, with interest in most of the cases. And with a totally debt free division and assets now there is no interest outgo, so going forward yes we definitely see very good numbers and we expect performance much better than what we have currently seen. And yes, the learning about credit and other things, yes as we know the sector itself, the division catering to all infra sector and unfortunately the uptick in all the infra sector predominantly to the wind sector is not up to the expectations which is now reviving and giving a good hope which has been seen in the increased utilization. And yes, the learning out of the credit and receivable is, we are becoming more prudent. And like Mr. Shetty mentioned earlier, we are picking and choosing in terms of margin and quality of customers in this segment. Also we have become a bit choosy in terms of with whom we should work because we are getting lot of enquiries, but yes we denied or decline unless or until we get either upfront money or by way of LC or those kind of things.

Nilesh Shah: So will this division be profitable in the coming year, because you had a huge Rs. 50 crores loss, will this division become profitable in FY19?

Jatin Chokshi: If you look at the last seven years IRR which we have calculated, the division has generated about 18% IRR.

Nilesh Shah: Well, I think it will interesting to understand those numbers later, I will take it offline, because I think the data that we have in last five years it does not seem to be the case. So I will be happy to take it offline.

Prakash Tulsiani: Please. Let us definitely do that. So what we believe is that last one year has been a bad year, this has never happened like this so bad. Even during the other financial crises our equipments were far better utilized in comparison to the last year. So that was one challenging year. This is unfortunate, if the equipment were to continue to get deployed in the same way as it happened in last seven years, we would have been had a great song.

Nilesh Shah: So, while I disagree with that, but we will take it offline. Thank you.

Shashi Kiran Shetty: I think it is the cycle that we are in, and we have been caught in the wrong cycle.

Nilesh Shah: Yes, last five years have been very bad and that is why I was asking you that is there a strategic thought process that when you have so much of other opportunities do you want to be in a business which is occupying Rs. 500 crores of capital employed, that is at least what your numbers say, and in which the profitability is so volatile that it affects the entire profitability of the company. So that was my question.

Prakash Tulsiani: I also want to bit disagree with you on that, it was not that bad for last five years. It is actually the working capital what was an issue. And any industry when they go through rough time this problem is there. We take a note of your question for sure, we take that very seriously, but I do not have a solution to that to give you right now. But one thing I can tell you that we have not invested any more money in that business in the last several years. We are trying to sweat the asset as best we can. Normally these assets by the way also do not depreciate like a car or a truck, these assets, if a book value is Rs. 350 crores their value is much more than that, when the markets turn and if you want to sell the equipments they go at a much higher price. So that is not factored here.

Moderator: Thank you. Our next question is from the line of Keyur Pandya from Prabhudas Liladher. Please go ahead.

Keyur Pandya: Sir, question on the P&E side. So, you mentioned the operational loss is Rs. 51 crores for FY18 and Rs. 30 crores is around the provision, which is a prudent policy. Still the rest Rs. 20 crores loss, any abnormality in that thing or is it because of the business cycle, how do you breakup that Rs. 50 crores?

Shashi Kiran Shetty: It is indeed the utilization which has put us down because if the utilization would have been in the range of 65 plus we would have seen better numbers, we were down to 35% - 38% and that is the reason it has shown on our numbers.

Keyur Pandya: And any outlook on that front?

Shashi Kiran Shetty: We are seeing better utilization already, we are upwards of 50% right now and we expect that the industry which lease equipment from us, specifically we talked about the eight core sectors, out of that we see that wind and power are coming back, including the fertilizers and steel and cement. So we should see the cycle turning soon.

Keyur Pandya: Second question on the Jhajjar logistics park, so if you can give the broad timelines, so if you breakup the timelines and the CAPEX and the other CAPEX which you mentioned on Hyderabad and Bangalore, so if you can give some color on what be the overall CAPEX over the next two years looking at the expansion in Hyderabad and Bangalore and all those things?

Shashi Kiran Shetty: As far as Jhajjar is concerned we have just bought the land and our plans are being made. So please allow us some more time because as our chairman mentioned that we have a new CIO already joined us and we are working out the plans. We shall share the numbers with you at a later date.

Keyur Pandya: And on this CFS front, so after this structural change of DPD what is your view or outlook for FY19 going forward? Is the worst behind us or you still see de-growth at JNPT and other ports, so how do you see things shaping up in that segment?

Shashi Kiran Shetty: As far as the volumes are concerned in India the imports are rising because of the consumption that we see in India. Now with the investment drive also we will expect certain inputs to come up. The port capacity has increased so obviously the volumes for JNPT should increase, likewise on the west coast we see that the volumes coming into India are increasing. What we expect on DPD is that we have released a steady state as far as we are concerned, and we have adapted our go-to-market strategy as far as DPD is concerned. And we should see from now we have also seen in the last quarter the increase in volumes with Kolkata also starting, I think we should see these numbers steadily going up.

Keyur Pandya: Just last question on the CFS front, with this change do you see any change of volumes, any change on the realization front or the revenue per TEU or amount that you can extract from the customer, can that go down?

Shashi Kiran Shetty: See, what has to happen has happened in the sense of DPD, because they come at a lower margin and that has already been incorporated in the current results.

Moderator: Thank you. Our next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: I have two questions, firstly on the CAPEX side. So if you can help us understand by the time we start sweating all these warehousing / logistics power projects may be in a period of two to three years, what would be the status of the balance sheet, what we are seeing is that if I am to assume current run rate of CFS and P&E operations, there is not much cash flows to fund the CAPEX program which we would have for the next two years. Where would that leave your balance sheet on the domestic side? That is point number one. Point number two, I also want to understand what is the status of the land / warehouse that we were investing in the trans India logistic parks, over the last year we have shown an investment of almost Rs. 40 crores and this quarter I see a write-down of Rs. 48 crores. So what happened to the warehouse that we are building out there? And is there any income that will accrue to the entity as logistics from that warehouse in future or it has moved out of the company?

Prakash Tulsiani: Let me clarify that yes overall CAPEX for warehouse and other initiatives, as we mentioned earlier, we are working location wise, area wise, customer wise, because most of the warehouses will be on build-to-suit, depending on the customers' requirements. However, we have already started construction at couple of locations with small amount at the moment, and our cash flow if you really see, I mean the free cash available is quite sufficient in terms of leverage is whatever we require till the time we finalize the plan. Of course, we will come out with a detailed plan very soon, and at that point in time depending on the CAPEX and other fund requirement we will have a proper judicious structure which could be a mix of debt and equity, which could be strategic partnership, we are open to all kind of structures. However, for the initial land acquisition and commencement of the construction of the warehouses we have enough leverage, as we mentioned our debt equity ratio is also very healthy in terms of immediately what is required to be done. And once you have the final plan ready we will share with everyone about our structures and going forward the funding pattern. So that is all about CAPEX as far as warehouses is concerned.

Regarding the TransIndia Logistics Park, see basically TransIndia Logistics Park was a 100% subsidiary of AllCargo and is still a 100% subsidiary of AllCargo. The only difference or the change is, instead of as a matter of policy you must have seen that we have the separate entity for our CFS or any other business, till the time there is an outside partnerships are there. Once we bought them 100% is owned by us, we merge in parent company. So following that strategy we have merged the existing business of CFS in TransIndia Logistics Park by way of slump sale into AllCargo last year. So Trans-India is still there, it has got some cash available. So we may strategically use that company for any further initiative, either in the rail link or multi-model logistics park or warehousing kind of thing. The company is very much there, but right now eminently we do not have any business plan for the immediate future, but yes we will structure well when the opportunity comes.

Jatin Chokshi: To add to that, basically the business of TransIndia Logistics Park has been slump sold to AllCargo Logistics, and certain amount of money has been to TransIndia Logistcs Park and that money is sitting over there. And we can use that money for our future expansion in the warehousing or land acquisition or whatever. So that money is available and that can be used. We have a liquid of about Rs. 38 crores or something like that.

Abhijit Mitra: So there was this 23 acres of land on which we are building the warehouse, so what happened to that, as in we have written down that investment, is the understanding right?

Prakash Tulsiani: See, it is like this. the entire land bank, when we did the slump sale including the land and building and all assets has been transferred to AllCargo. So the entire land is currently standing post slump sale in the name of AllCargo. So there is no question of 23 acres lying there. Yes, whatever the excess land is lying there we have already commenced construction of the warehouses because of the requirement and we already tied up this particular warehouse with one of the clients. So, this is the situation.

Jatin Chokshi: To the earlier question about the balance sheet, what we are going to do is we are going to have a analyst meeting somewhere in the first week of July after our first quarter results, and by then we would have worked out the entire cash flow and the cash required and we would present that to all of you and we will discuss that in detail in that forum.

Moderator: Thank you. Our next question is from the line of Manish Agarwal from JM Financials. Please go ahead.

Achal Lohade: This is Achal Lohade here from JM Financial. Just a quick question, for JNPT what has been our volume growth in the CFS business at JNPT port?

Prakash Tulsiani: 10.74% in the last financial year.

Achal Lohade: And for the quarter, sir?

Prakash Tulsiani: Sorry, 10.74% is for the quarter. And over the year we have almost remained stagnant.

Achal Lohade: So, if I look at JNPT port volume, it has grown by about 7% - 8% for fiscal year 2018, so clearly it means that we have actually grown at a lesser rate than the port growth. Is it largely to do with the DPD or you think it is to do with some market share loss to other CFS players?

Prakash Tulsiani: A, we are not losing any market share. And B, it is regarding DPD, it is across the board, that is the addressable market for the CFS has come down a bit because of the DPD. There are containers which move away from the port directly to the consignee and they do not see CFS

Achal Lohade: And just a ballpark number in terms of how much would be the JNPT contribution for us in the overall CFS business?

Prakash Tulsiani: I would like to keep that as a commercially sensitive, I would not like to breakup and give you exactly what is JNPT in our total business, but it is substantial and a good portion.

Achal Lohade: Just additional question on the same business, if I look at it the government seems to be pushing very hard with respect to increasing this DPD percentage from 40% to 70% - 80% as well, and probably they might look at doing so in all other ports as well. So in such scenario how would the CFS business we profitable or would make money for us, just wanted to get your thoughts on the same as well.

Shashi Kiran Shetty: You are right. What we had done is that as we have all learnt in DPD and JNPT it started here, so what we are doing is that we are offering end-to-end logistics in coordination with other verticals in the group, and that is why we have seen that we have been able to regain and we have seen a growth in the last quarter. So the idea is to continue to offer that and because as a integrated logistics company AllCargo is one of the front runners in offering that end-to-end logistics services, including the ocean freight if required.

Moderator: Thank you. Our next question is from the line of Jaikant Kasturi from Dolat Capital. Please go ahead.

Jaikant Kasturi: Sir, the number for this quarter for CFS was 76,304, what is including DPD volumes?

Prakash Tulsiani: Yes, indeed.

Jaikant Kasturi: Sir, and in terms of the change in cabotage low how much would it be beneficial for the MTO business, if you could throw some light on that?

Shashi Kiran Shetty: The cabotage law which you are talking about just came day before yesterday or yesterday, is applicable only to shipping lines. We do not own any assets or any ships, or containers business.

Moderator: Thank you. Our next question is from the line of Smit Doshi from Concept Securities. Please go ahead.

Smit Doshi: Sir, in 30th April communication agenda is to approve Rs. 300 crores debenture, but on May 22 you have approved Rs. 1,000 crores debenture. So any specific purpose to increase or any specific expansion or acquisition target apart from Rs. 500 crores action plan?

Prakash Tulsiani: No, this is just enabling resolutions what we are taking, because we do not know what kind of opportunity comes to us. And particularly, as we mentioned we have got good amount of

CAPEX plans and business plans. So this is just an enabling resolution to the extent of balance sheet permits, so we are seeking shareholders approval for that. Nothing in the pipeline, nothing finalized.

Smit Doshi: And second question is on the Jhajjar Logistics Park, out of Rs. 500 crores project how much would be incurred from internal accruals and how much would be from that? Any rough guidance?

Management: See, the point here is that as we mentioned that we are still working out the total plan, so please allow us and in the next quarter results when we meet and we discuss specifically lot more about our logistics park, we will be able to give you more. In the first phase we have only bought the land right not.

Moderator: Thank you. Our next question is from the line of Krupa Shankar from Spark Capital. Please go ahead.

Krupa Shankar: Sir, I just wanted to understand more about Avvashya CCI performance. What would be the FY18 performance figures and what are our expectations in the coming months with respect to the GST-led growth in contract logistics?

Management: Just to give you the broader numbers of ACCI in terms of financial year 2017-2018, the top-line is Rs. 372 crores which last year was Rs. 276 crores. The EBITDA for the financial year is Rs. 27 crores, EBIT is Rs. 32 crores and PAT is Rs. 14 crores as far as Avvashya CCI is concerned. And as you know, we cannot consolidate line by line, so we are just sticking our share PAT level, and that is how we are accounting. But yes, it is a growing company and we have five-year plans in place and currently everything is moving as per the plan. And yes, if anything further changes or any board approval or any kind of things, we will definitely share the details if there is a change in the plan. But yes, we are progressing as per the budget.

Moderator: Thank you. Ladies and Gentlemen, we take the last question from the line of Vijay Lohiya from Value Investments Principles. Please go ahead.

Vijay Lohiya: Sir, what was the operating cash flow and the free cash flow for the full year FY18?

Jatin Chokshi: We will take it up separately, it is not available in the public domain, so we will take it offline.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand over the conference over to Mr. Vikram Suryavanshi from PhillipCapital (India) Private Limited for closing comments.

Vikram Suryavanshi: We thank the management for giving us opportunity to host the call and taking time out for interacting with stakeholders. Thank you all for being on the call.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.