



## “AllCargo Logistics Limited Q3 FY19 Conference Call”

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**MR. S. SURYANARAYANAN – GROUP CHIEF STRATEGY & FINANCIAL OFFICER**  
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**MODERATOR: MR. VIRAL SHAH – EMKAY GLOBAL**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY19 Results Call of Allcargo Logistics Ltd hosted by Emkay Global Financial Services. We have with us today Mr. Prakash Tulsiani – CEO of CFS and ICD Verticals and Mr. Suryanarayanan Sivaramakrishnan – Group Chief Strategy and Financial Officer. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Viral Shah of Emkay Global. Thank you and over to you, sir.

**Viral Shah:** Thank you Janice. Good afternoon everyone. I would like to welcome the management of Allcargo Logistics for Q3 FY19 Earnings Conference Call and giving us an opportunity to host this call. I would now hand over the floor to the management for their opening remarks. Over to you, sir. Thank you.

**Prakash Tulsiani:** Thank you Viral. Good afternoon everyone. This is Prakash Tulsiani and welcome to earnings conference call for Q3 FY19 which also includes the operational highlights. I am joined in by Suryanarayanan, i.e., Suri – Executive Director and Global CFO and Strategy (Head) and Deepal Shah – the CFO for Allcargo Logistics.

We are celebrating 25 years of good performance and commitment. Further, I would like to take a moment to mention that our chairman Mr. Shashi Kiran Shetty has been recently awarded with a Global Visionary Award by the Economic Times Family Business Awards. These awards are given to families for their outstanding performance. We all at Allcargo are very delighted and happy with these two events i.e. one, the Silver Jubilee and the other one the award which has been given to Allcargo Family through Mr. Shashi Kiran Shetty who has led this organization and with his vision we have reached where we are.

On the occasion of the Silver Jubilee, the board has declared a special interim dividend of 75% which is Rs. 1.50 per equity share of face value of Rs. 2. In addition to that, the Board has declared interim dividend of 100% thereby making the total dividend of 175% or Rs. 3.50 per equity share.

Now moving to Q3 FY19 Results – you can view the results along with us, if you go to our website you will see the Earnings Presentation. I would like to share a few highlights related to this quarter:

In our MTO business we are happy to share that the company continues to remain a market leader in the LCL product, and we are constantly looking at opportunities to leverage our network strength, to grow our volumes in both LCL and FCL and also along with this the allied services. And this is clearly demonstrated in our volume growth of 16% YoY basis. This

is despite a slow growth in the global macroeconomic environment as well as fears of trade restrictions. On the global level in the shipping market, average credit rates on major trade lanes remained stable in the last quarter. However, the existing capacity in the shipping industry will exceed the current demand.

Coming to the India business:

We have seen a lot of changes in positive initiatives in the past one year. We continue to witness consumption led growth which is driving the demand for specialized logistics services and that company is taking steps to participate in MMLPs including the grade A warehouses where the demand is growing due to consolidation of the inventory and specifically after GST. The growth in eCommerce is also fueling this demand and this has led to shift in demand from Grade B and C warehouses to Grade A. In the past few months we have witnessed increased inquiries for logistics services.

The CFS business saw growth in port volumes in slightly improved market conditions, which in turn helped us to improve our quarterly volumes in the business. We have gained market share in this segment. At Jhajjar we have acquired 93 acres of land plus the lease of long term for the rail connectivity from the Government of Haryana and we expect to start the construction work shortly. The warehousing segment in this Jhajjar area should be operational in the second half of 2019. We have also earmarked on developing our land-bank and construction for this has started in Hyderabad, Bangalore and JNPT soon to start. We expect this vertical to commence operations and start contributing to EBITDA by FY2020.

Coming to our projects and engineering solutions division:

We have seen improved utilization of our assets and for a project business there is a very healthy book of business and overall in this sector that is P&E we see good growth trajectory. We are committed to build technology enabled business models that synergize with the brand that is Allcargo brand and can scale up to the next phase of technology revolution. We are seeing signs of various digitalization initiative including blockchain, artificial intelligence, robotic process automation and these initiatives will further transform the sector.

Going straight to quarterly numbers we have our CFO recently appointed – Mr. Deepal Shah who will take us through the consolidated financial numbers and over to you Deepal, and welcome.

**Deepal Shah:**

Thank you Prakash. Good afternoon everyone. Let me take you through the key consolidated quarterly financial highlights. The total revenue for operations was at around Rs. 1803 crores for the quarter ended December as compared to Rs. 1418 crores for the previous corresponding quarter, an increase of approximately 21% mainly on account of volume and revenue growth in the MTO and CFS businesses. 90% of the revenues are from the global MTO business.

EBITDA was spiked at around Rs. 112 crores for the quarter ended December as against Rs. 93 crores for the previous corresponding period, an increase of around 20%. PAT was at around Rs. 50 crores for the quarter ended December as against Rs. 32 crores for the previous quarter, an increase of approximately 56%. EPS for the quarter ended December was at Rs. 1.94 per share for a face value of Rs. 2.00 per share. A quick update on the balance sheet front, as on December 2018 the total equity was at Rs. 2034 crores and the net debt was at Rs. 170 crores. The capital structure of the company remains to be conservative with net debt to equity ratio being at 0.08 as of December 2018. The return on capital employed stands at 13%. Coming to our businesses, Mr. Suri will take us through the Global MTO business.

Over to you Suri.

**S Suryanarayanan:**

Thank you Deepal. Good afternoon to all of you. We are happy to announce that the MTO business clocked total volumes of 167,000 TEUs for quarter ended December as against 144,000 TEUs for the corresponding previous period, an increase of 16%. This growth has come from all our products across the global trade lanes that we are operating in. Total revenue for the quarter ended December was Rs. 1623 crores as against Rs. 1327 crores for the corresponding previous period, an increase of 22%. Our EBIT was Rs. 59 crores for the quarter ended December 30<sup>th</sup> as against Rs. 55 crores for the corresponding previous period, a growth of 7.3%. The return on capital employed for this business stands at about 29% on an annualized basis.

Now Prakash you can take us through the India businesses.

**Prakash Tulsiani:**

Thank you Suri. To start with the India businesses, we will go through the CFS and ICD business segment. The total volumes were in the range of 82,000 for the quarter ended December as against 71,000 for the corresponding previous period, an increase of 15%. Total revenue was at Rs. 118 crores as against Rs. 95 crores. EBIT was at Rs. 35 crores versus Rs. 28 crores in the corresponding previous period. We are maintaining our share in the CFS addressable market and growing in certain pockets, i.e. certain locations and we continue to see strong growth in port volumes. The ROCE for this business stands at 31% on annualized basis.

In our P&E division the total revenue was Rs. 80 crores in this quarter versus Rs. 71 crores in the previous one, a growth of 13%. EBIT was at Rs. 3 crores for the quarter ended as against negative Rs. 11 crores i.e. there was a loss last year in the same period. We expect a revival in few sectors specifically the coal, crude, natural gas, refinery and steel, cement and electricity. The increased focus of company is yielding positive results. Increased focus in terms of market segments or sectors and with this the order book for the project logistics segment specifically, we have upwards of Rs. 185 crores. We have also witnessed uptick in CAPEX cycle and that is visible in our order book.

Lastly, an update on our contract logistics business:

Through our joint venture of Avvashya CCI we have emerged as one of the leading players in the sectors of chemical, pharma, food, retail and eCommerce and we have managed over 3 million square feet of warehouse in space. We have an asset-like model in the business and plan to grow organically and inorganically across the wide spectrum of business sectors all over India over the next 3 to 5 years.

Our earnings in Avvashya CCI is reported at the PAT level in a consolidated financial numbers. For a new business development MMLP as we mentioned earlier construction is in progress and we are looking over a long-term period – when I say long term period, for us it is 2-3 years. It will be up to 10 million. square feet and that is what we are working towards. That is it from our side. Thank you very much and we open the floor for questions.

**Moderator** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Vaibhav Gogte from Ashmore. Please go ahead.

**Ashwini:** Couple of quick questions. One is that in the P&E segment EBIT number a swing of (11) crores to positive 3 crores, is there any write back or bad debt that has been previously been provided for?

**Deepal Shah:** There is an element of the write back of the debt in the previous quarters but the key thing to note is our asset utilization has also gone up from a low of 35-40% they are now hovering at about 60%. So all of this has also got contributed to the growth in that number.

**Ashwini:** Yeah, but I am looking at the revenue numbers Rs. 71 crores going to Rs. 80 crores, if your utilization has improved from 40% to 60% I would have expected that revenue growth to be much higher.

**Management:** Yeah, you are right, there has been a write back of the provisions that we have made earlier also. So that has also contributed to this along with the utilization of the assets.

**Management:** No but again Ashwini, just to answer that even further, the utilization has increased month on month. So if you take an average we are coming to around 50-55%. And that is why you will not see that jump. In the month of October, we were still hovering around 45%. And after that we jumped up to 58% and we are hanging around there. So that is the reason we are getting an average of 55%. So, what happens is that, the effect of that increased utilization is probably available in one month and that is why you do not see in this quarter, but the coming quarters you will see that numbers incorporated.

**Ashwini:** So should we expect 60% as utilization rate for Q4?

- Management:** We should be in that range.
- Ashwini:** And could you share the EBIT number for the P&E Division before the write off or write back of these bad debts? So what is the operating EBIT for P&E?
- Management:** In one sense it is all operating EBIT now whether I put it in – because when I take the hit, I also take it at the operating level, when I write back also I take it at the operating level. The point of issue is you are right. To me to start segregating like that would not be the right way to do it but we can take this offline and then we can discuss this, that is not an issue.
- Ashwini:** Great. Second question is that optically the tax rate in the December quarter has gone up quite significantly and your commentary somewhere mentioned that there were some dividends from foreign company which required taxes to be paid or something, but even then at 36-37% that number appears to be too high. Could you help me understand that number a little bit?
- Management:** See what is happening is of course, there was a little bit of write back of a deferred tax asset that was created so that came into a little bit of an effect in this quarter but over and above that what happens in a dividend, it gets eliminated at the consolidated level but the dividend tax and the mat tax on that also needs to be provided. So that is why it goes up. But if you look at the next quarter it will be more or less equalized on a yearly basis. So I would not worry too much about this tax provision only for this quarter.
- Ashwini:** So from a modeling purposes, what should we take as the average tax rate for the year?
- Management:** I think you should take the average tax rate as whatever so far we have been doing between 20-22%, that is the right way to do it.
- Ashwini:** As we tax, which is to be applied to the PBT number for arriving at PAT.
- Management:** Yeah, that is the one. You can take roughly between 20-22%.
- Moderator:** Next question is from the line of Sayan Das Sharma from Bank of Baroda. Please go ahead.
- Sayan Das Sharma:** My first question was on the MTO business, so we have been growing up in volume terms quite handsomely for the last 2-3 quarters. So just wanted some more color on the LCL and FCL, if possible how much market share we have gained and what has been the growth in both the sequence if you can share?
- Management:** See we give out overall growth because it would not be proper to give individual growth in the market segment because the FCL opportunities is a huge number and we are very-very small player compared to the market size of the FCL business. So in that sense it would not even make any relevance in that but needless to say we are growing and the target segment that we

are doing is the same target segment of our LCL business. So in that sense it is the smaller freight forwarders and custom brokers, so those are the people whom we are targeting and they continue to be our target segment for our LCL business also. So in that sense it is all a part of debt, so that is how it is. And to give this split more into this is also a little bit commercially sensitive and that is why we are holding it back otherwise we would have given it.

**Sayan Das Sharma:** How do you see the growth of this business as a whole panning out over the next couple of years, maybe in FY20-21, what kind of volume growth are we seeing?

**Management:** I think we will continue to grow. If you have seen us over the last so many quarters we have continued to grow, we will continue to grow. Because at the end of the day you must realize that we are also gaining market share in some of the markets that we are operating in. It is a very competitive market but at an overall level we are gaining ground. On a YoY basis we will continue to grow and I think we will be growing better than what the market is growing because in my view the market is growing between 3-5% and I think we will clock better than what it is. So if you are doing a modeling you can assume some of these growths to continue to happen if you are focused over the next 2-3 years.

**Sayan Das Sharma:** And also if you look at because of the change in mix is what I understand because of the increase in actual share, our EBIT per TEU is kind of going down for the last 2-3 quarters. So where do you see the bottom?

**Management:** I would not worry about the EBIT per TEU coming down because in absolute terms the EBIT is growing, that is the key number because what is happening the FCL is running on an LCL network. I am not adding incremental cost to move through that. So as long as I continue to use the network capacity and to that extent we have already built that capacity and as long as I keep pushing through more throughput be it LCL, be it FCL, be it any other product in this, it will all only add value. So that is the aim of this.

**Management:** In short we are sweating out.

**Sayan Das Sharma:** Sir my next question is on the CFS business, so if you look at the realization per TEU, that has been quite good this quarter. Last few quarters were a bit muted. So what has changed? If I look at your competitors also, their realization or EBIT per TEU has not really been great. So we have clearly outperformed. So what according to you is our performance streaming from? So is it our Kolkata volumes that are contributing or is it something else?

**Management:** No, it is not only Kolkata, Kolkata has definitely performed very well for us and we have started well there. On the other hand, in each of the location we have gained some market and what we have done is that we are going for a product mix very well so that is helping us to ensure that we keep our volumes up (a), and (b), also look at the revenue side. Not only that with a increased volume because of high fixed cost model as we look at these facilities,

whatever comes in, helps us to reduce a unit cost. And that is exactly the model that we are working with, so that is why you can see that we are in the right track.

**Sayan Das Sharma:** So sir why I asked this question is if you look at our in JNPT the DPD volumes that you have been handling, so DPD typically has a much lower realization of profitability per TEU, so just wanted to understand, if you do not want to share the numbers that is fine sir, but if you can just give a sense on JNPT in absolute terms have we seen our realization go up per TEU?

**Management:** Yes indeed, and that is what it is. At the end of the day this will be unlike any other asset-heavy as we say CAPEX-heavy or capital-heavy industry where we can add more volume that will bring the unit cost down and we will also work towards the cargo mix or the business mix to ensure that we realize the best.

**Sayan Das Sharma:** And sir last question if I may, your other income has gone up from about Rs. 5 crores to Rs. 15 crores, so any one-off in there?

**Management:** Where did you see this number?

**Sayan Das Sharma:** Other income sir.

**Management:** For the CFS business?

**Sayan Das Sharma:** No, for the overall consolidated number.

**Management:** No, to us it is all part of operating income. There is hardly anything that, I think in one case there was a sale of land but other than that I do not see – it was a small amount, otherwise nothing much.

**Moderator:** Next question is from the line of Aejas Lakhani from Edelweiss. Please go ahead.

**Aejas Lakhani:** Sir I just wanted to understand, you have answered this that the EBIT realization for TEU for the MTO business firstly you mentioned it is not something you are looking at, but I wanted to understand that are the margins in the FCL business and the LCL business are they different? Can you give us some color on that?

**Management:** Indeed, the margins in LCL and FCL businesses are different. Obviously because in LCL it is a full product and while FCL is a product where there is a container that someone else is filling up, we do not do much of the activity and we sell to the same customer as we are selling the LCL. So as we said, as Suri mentioned earlier additional cost is almost zero. That is the market that we are in and that is how we operate.



**Aejas Lakhani:** So would it be fair to assess that as the FCL business which is where the management's focus is presently at, as it continues to build volume, the EBIT realization for TEU in this business was sort of moderate or be the present level?

**Management:** If you are asking it from a modeling purpose of your final modeling then you can sort of take it at this level but in reality and this is real, it is not that we are focusing only on FCL and then leaving the core product as it is. The concentration is across all the product segments and as I earlier told you the network is there and as long as you are able to pump all type of products through the network it will all add back to the volume. So I would not too much worry about the EBIT per TEU.

**Aejas Lakhani:** Fair enough. My second question is your share of associates through which you represent the Avvashya CCI, if you see the share of profits has come down significantly in quarter 1 and quarter 2 and considering that it is a warehousing business with relatively the variation cannot be so high, just wanted to understand and gain perspective on that.

**Management:** So we are making inroads into some of the new contracts and some of the contracts are from gestation period and there are some expenses around those, there has been a little bit of delay in getting into the warehouse operational. So those are some of the costs which are not CAPEX in nature, which have hit us whereas the revenues have not kind of matched up accordingly. In the coming quarters you will see a catch-up for all these numbers going forward.

**Aejas Lakhani:** And sir my last question is that, there has been a significant increase in the unallocated expenses from a capital employed perspective. Could you just sort of give your commentary around that?

**Management:** Sorry, can you explain?

**Aejas Lakhani:** So if you see in terms of capital employed in the business, you all give the capital employed, so assets minus the liabilities, your unallocated capital employed has gone up almost Rs. 90 crores give or take from second quarter to third quarter. So just wanted your perspective around that.

**Management:** This is what Prakash alluded in his opening speech where we are contracting and where we are constructing build to suit warehouses. So to some extent they are all sitting in this unallocated basis, and as we start moving forward then we will start making this as a separate segment going through.

**Aejas Lakhani:** And sir just wanted to understand that the recent warehousing announcement that you all made for Flipkart and Decathlon, could you just put some timeline from the project and are we just going to be sort of constructing the warehouse and giving it to them or will Avvashya CCI play a role in helping them warehousing management?

- Management:** See the constructions will happen in a very phased manner, so I think we will have to wait for some more time for the project to start moving in a far more faster pace. So I think it will all start happening from little bit on the next quarter and then it will start in the next financial year fully.
- Management:** Again, on this one what we expect in the year FY2020 we will definitely in the second half of the FY2020 we will see some income coming in that particular half year.
- Aejas Lakhani:** Okay, and sir will Avvashya or CCI play any role in helping them in warehouse management or it is too premature at this juncture?
- Management:** No, see we have to divide this to MMLPs and Avvashya CCI. Avvashya CCI is in the business of providing services of contract logistics so they will continue to do their business as a satellite model and they will continue to go and take space where their clients need them to acquire and deliver services.
- Moderator:** Next question is from the line of Anil Sarin from Edelweiss. Please go ahead.
- Anil Sarin:** Enough has been spoken about the MTO, FCL, LCL, now as the assets are getting sweated more, would the ROC of the MTO segment go up from the current level of 29% ?
- Management:** It should. We have seen it in the previous quarters to current quarter, we have improved slightly. So once we get more obviously that is at the EBIT we will certainly see these numbers climbing.
- Anil Sarin:** And also now coming to the CFS part, it already has a very attractive ROC of 31%, but now with the rising proportion of the slightly lower margin DPD forming a larger portion of the total revenue, what is the outlook for ROCE for the CFS division going forward into Fiscal 20, Fiscal 21?
- Management:** We have capacity available in each of our CFSs, so we can continue to go and increase our volumes and the strategy which we have adopted for the last few quarters is playing out very well and we will continue to do that to ensure that we deliver the shareholder returns as we have been doing today.
- Anil Sarin:** Okay, fantastic. And for everybody's benefit if you can clarify the warehousing business which is like under construction and which will start delivering revenue in the second half of Fiscal 20, what are the elements of land and construction etc? There are different figures that we have heard, if you can clarify what is the land element, what is the construction cost that you are envisaging for the complete 10 million square feet?

- Management:** On the land front we already have that in our land bank and then we are acquiring where we believe that we need to have assets because of our customers' needs. The construction cost, as you would know from elsewhere also, ranges anywhere around Rs. 1500 per square feet
- Anil Sarin:** So Rs. 1500 times 10 million that would be the total construction cost of what if you can just help me.
- Management:** See that is again as Suri mentioned earlier, we will go out in phases and we will arrange to develop that slowly. That is the overall number that we have in mind and let us come as and when we develop we will continue to advise you.
- Anil Sarin:** Okay, fantastic. Just one last thing while on the subject of warehousing, what is the base case kind of ROCE because we have discussed ROCE of MTO, we discussed ROCE of CFS, if you can throw some light on the potential for ROCE on the warehousing front?
- Management:** Anil, this particular one we would not like to divulge some information at this stage because we are in negotiation with few customers and we would like to retain this as a commercially very sensitive information.
- Anil Sarin:** Alright, completely understand. Thank you so much gentlemen.
- Moderator:** Next question is from the line of Vaibhav Gogte from Ashmore. Please go ahead.
- Ashwini:** Couple of questions. In the standalone results, there is a comment saying that there was a strategic review which included a write-off of about Rs. 48 crores. So when I look at the base year numbers they include that in the consolidated or they do not? I am slightly confused at this point.
- Management:** This was in March '18 figures, is it?
- Ashwini:** Correct, it was in March '18. So the base period, does that include it in the first nine months of last year or was that only in the final quarter of last year?
- Management:** It came in the final quarter of last year.
- Ashwini:** Okay. And second thing is that the other expenses line that you have which is now running close to about Rs. 25 crores a quarter, if I look at the long-term trend this number has been very volatile but somewhere in the region of, I would say a median of Rs. 15-16 crores. This has gone up significantly in the last couple of quarters. Any particular reason for that?
- Management:** Which number are you referring?

- Ashwini:** Unallocable expenses in your EBIT breakdown that you gave, the segmental results that you gave.
- Management:** Yeah, I think Suri did mention about that. That is work in progress, right?
- Ashwini:** That was capital employed.
- Management:** So which is this one?
- Ashwini:** This is the expenses, when you look at your EBIT breakdown, when you look at your segmental breakdown this is the unallocable expenses line.
- Management:** Okay, because some of these expenses belong to the team that is looking after the construction and other things. That is what I said, as we start moving deeper into these projects we will get back to you from first. Let us revert back on this one the next financial year.
- Moderator:** Next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.
- Vikram Suryavanshi:** Most of the questions were answered. Sir can you update on Jhajjar development, what kind of warehousing space we will develop first and also plan for ICD development going ahead?
- Management:** Jhajjar is our multimodal logistics park, in fact in the NCR region we are clearly the largest amongst the players out over there. So what we are doing is that we are starting first with the phase 1 where we have acquired a 92-acre land and there we are developing both, the logistics needs and also the warehousing. While warehousing being the bigger portion rather of the total and the idea is that let us start with where the demand is, immediate demand where we can go and lease out and also start the logistic services. So that is where we are. We are having a potential of 2.4 million on 92 acres and that is where we are going to develop that.
- Vikram Suryavanshi:** So in phase 1 itself will the 2.4 million sq. ft be developed or out of that 92 acres how many acres will be part of phase 1?
- Management:** Yes, indeed and then we will work towards the ICD and the development of the multimodal logistics park. That is a work in progress.
- Vikram Suryavanshi:** So out of that what is the CAPEX we are looking for FY20 and full FY19?
- Management:** No, that is total as we said and as we talked about the phased manner. Depending on what do we start, how we close the contract and based on that we will decide on the phase that we have. So you can easily take it anywhere between Rs. 400 crores to Rs. 700 crores.
- Vikram Suryavanshi:** And in case of CFS what is our Kolkata monthly run-rate or quarterly run-rate in TEUs?

- Management:** Over there we are presently doing very well on our export front. We have gained good market share. In terms of our import we are building volumes as we speak. We are clocking in anywhere in between 7500 to 8000 in a quarter.
- Moderator:** Next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.
- Abhijit Mitra:** Can you help me with the net debt number for the quarter?
- Management:** Rs. 170 crores.
- Abhijit Mitra:** Okay, so you have not spent much. So what would have been the 9-months CAPEX?
- Management:** Except for that little bit of the construction we have not spent much. And the land we bought last year.
- Abhijit Mitra:** And so if I heard correctly, the CAPEX guidance for next year is Rs. 400 crores to Rs. 700 crores, is what I heard it right?
- Management:** No, what you heard is right but this is an approximate number. As I said, it will be in the phased manner. We are giving you the outer numbers also. Of course, this can change. Again the market is very dynamic and depending on how the market needs are we will determine it. So we are giving you a ballpark number right now. As we go along in our quarterly results and discussions we will continue to update you.
- Abhijit Mitra:** And majority of the work is now focused in Jhajjar.
- Management:** No, it is also in Bangalore and also in Hyderabad.
- Abhijit Mitra:** And lastly if you can just help me with the amount of write-back that you have provided in P&E in this quarter?
- Management:** We will come back to you on this.
- Moderator:** Next question is from the Aejaz Lakhani from Edelweiss. Please go ahead.
- Aejaz Lakhani:** Just a follow-up for the logistics part at Jhajjar which you mentioned that on 92 acres you said about 2.4 million square feet is what you can do in warehousing space in the first phase. So sir if you look at converting 1 acre at 44,000 square feet odd essentially it works out around for 54 acres so when you say that 92 acres will take up the entire 2.4 million is that still adequate facility for expansion which is already built in?
- Management:** Please remember we are building Grade A facilities and for that you will need to provide sufficient maneuvering space, roads, parking areas, open areas depending on the local laws and

regulations. So it is not a clear number that one can give. It is also depending on the needs of the customer because we go for build to suit, so accordingly things develop. And you cannot have a ratio roughly.

**Moderator:** We will take the next question from the line of Prashant Jariwala, individual investor. Please go ahead.

**Prashant Jariwala:** I just wanted to know that from which segment we are getting traction for our P&E businesses? So is it like cement or petroleum? Which one is doing much better than the others?

**Management:** We are getting it from, of course wind has again started. We are getting it from fertilizers, we are getting it from electric i.e. power and oil & gas.

**Prashant Jariwala:** And what kind of wind capacity can be coming in this year and the next year? Is there any target?

**Management:** See I do not have complete details but what I understand is something like 60 GW or something like that. That is the number that we have been hearing in the market.

**Prashant Jariwala:** So we are getting traction from wind, now it is again coming in, right?

**Management:** Yeah, we are getting it from all as I mentioned about and wind is also coming in. It is not that it is mainly wind. Wind is also part of it.

**Prashant Jariwala:** Okay, I just wanted to know the traction like because last 2 years were very bad and major part of the P&E segment coming from the wind. So what kind of peak revenue we can expect from P&E segment?

**Management:** I think we will wait and tell you that because the segments are changing continuously and automatically this is something which is very dynamic. Let the utilizations go up and you will see the numbers.

**Prashant Jariwala:** So 50% utilization is a breakeven for us?

**Management:** Well I think it is in the range of 45%.

**Prashant Jariwala:** So now we are above the operating margin, right, positive operating margin.

**Management:** Yeah, that is what you can see.

**Moderator:** Next question is from the line of Sachin Pal from MC Research. Please go ahead.

**Sachin Pal:** Just wanted to understand on the outlook of the global trade because we have seen sharp decline in the shipping rates in the recent months, so I just wanted to understand what is your –

**Management:** Shipping as we talked about in the initial part of the conference call, the demand in the shipping world has remained constant while the supply is increasing. Even though there has been consolidation and M&A as we talk about, there has been clearly the number of lines of reduced but when they have consolidated themselves they have not reduced the capacity. And the new builds are still coming in. So there is clearly pressure on rates and then here comes the uncertainties in the world market in trade where the two large nations of the world are still not concluded on their deal as far as trade is concerned so definitely that puts pressure on the shipping companies.

**Sachin Pal:** In terms of volumes how do you foresee that?

**Management:** We continue to see that as Suri did mention earlier, the markets are growing at a particular rate we will grow higher than that.

**Moderator:** We will take the next question from the line of Anil Sarin from Edelweiss. Please go ahead.

**Anil Sarin:** Just a follow-up question. Thank you for the special dividend but are you in a position to talk about some dividend policy that the company might follow going forward unless you already have it?

**Management:** Well, we already have and I think we had talked about this in the past also and we had said that we will combine the profits of the boards that both the parts i.e. global as well as the India business and we did say that we will give approximately up to 25% of the consolidated PAT.

**Anil Sarin:** So in that case if you are thinking of spending between Rs. 400 crores to Rs. 700 crores if you take an average of Rs. 550 crores, then we will have to approach the banks for funding because the cashflow would be adequate especially with the dividend being given out for next year.

**Management:** It all depends on the projects and other things. But you are right, if we have to borrow we would borrow – because we have enough strength to borrow. The cashflow also weeds our requirement because the dividend as prompted rightly by Jatin to us was in the range of Rs. 80-85 crores, right?

**Anil Sarin:** Typically, your cashflow in a given year is between Rs. 310-400 crores odd unless there is a major uptick in this year and next year but in the past I am saying. So let us say have got Rs. 350 crores odd of cashflow and you pay out Rs. 85 crores of dividend and then there is tax associated with that, so that sort of leaves a bit of a shortfall at least for one year as you build out the Jhajjar facility.



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**Management:** Yeah, that is okay but for that you will have to treat it as a project itself. And that is how it will be done from a financing perspective, right?

**Management:** We can approach, I mean we have got sufficient headroom into this.

**Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

**Management:** No comments from us as we have given all what we had. Thank you very much for all you joining us at this call and we look forward to continued information as we would need to give to our shareholders and thank you very much for being with us for the 25 years journey and being a part of it.

**Moderator:** Thank you very much ladies and gentlemen. On behalf of Emkay Global Financial Services we conclude today's conference. Thank you for joining. You may disconnect the lines now.