



“Allcargo Logistics Limited
Q1 FY2020 Earnings Conference Call”

August 09, 2019



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Moderator: Ladies and gentlemen, good day and welcome to the Allcargo Logistics Limited Q1 FY2020 earnings conference call hosted by BOB Capital Markets. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sayan Das Sharma from BOB Capital Markets. Thank you and over to you!

Sayan Das Sharma: Thank you Stanford. Welcome and a very good afternoon to everyone. We are glad to have with us today the management of Allcargo Logistics represented by Mr. Prakash Tulsiani, Executive Director and CEO, CFS & ICD Business, Mr. Suryanarayanan Sivaramakrishnan, Executive Director, Strategy & Finance, and Mr. Deepal Shah, Chief Financial Officer of the company. We thank the management for giving Bob Capital Market the opportunity to host the call. I now hand over the call to Mr. Deepal Shah for opening remarks. Over to you Sir!

Deepal Shah: Good afternoon everyone and welcome to today’s earning conference call to discuss the Q1 of FY2019-2020. Along with me we have Mr. Prakash Tulsiani, Executive Director and CEO of CFS and ICD division and Mr. Suryanarayanan Sivaramakrishnan, Executive Director, – Strategy & Finance. I hope you have had a chance to review our financial statement and the earnings presentation, which have been available on the exchanges and our website. Let me take you through the key consolidated quarterly financial highlights first.

The total revenue from operations stood at Rs.1815 Crores for the quarter ended June 30, 2019 as compared to Rs.1626 Crores for the previous corresponding period, which is an increase of 12% mainly on account of PAD division and continued improvements in the MTO and CFS businesses. The new logistics parks business has become a reportable segment from Q4 FY2019 as per the Ind-AS consequent to which the company has reclassified the amounts reported in the earlier periods. The total revenue in this segment was Rs.1.8 Crores for the quarter ended June 30, 2019 as against Rs.0.8 Crores for the corresponding previous period. EBITDA for the quarter was at Rs.141 Crores as against Rs.75 Crores during the corresponding previous period, which resembles an increase of 37%.

The group has adopted the new Ind-AS 116 leases with effect from April 1, 2019 using modified retrospective approach, accordingly previous periods information has not been reinstated. This has primarily been the reason for the increase in the finance cost, depreciation and amortization expense against the corresponding period. This has resulted in recognizing in right of use asset amounting to Rs.2450 million and a corresponding lease liability of Rs.2318 million and a decrease in the net profit



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after tax by Rs.8 million. Profit after tax was reported at Rs.64 Crores for the quarter as against Rs.54 Crores during the corresponding previous period, which is an increase of 19% on a YoY basis. EPS was Rs.2.5 per share for the quarter ended June 30, 2019.

A quick highlight on the balance sheet front. As on June 30, 2019, the total equity was Rs.2077 Crores and the net debt was Rs.475 Crores. The net debt to equity ratio was at Rs.0.23 Crores as on June 30, 2019. The return on capital employed for the financial year stood at 14% as on June 30, 2019 on an annualized basis. Now may I request Mr. Suryanarayanan Sivaramakrishnan to take us through the key operational highlights of the global MTO business? Over to you Suri.

Suryanarayanan S:

Thank you Deepal. Good morning to everybody. For the Q1 of financial year ended 2019-2020 the business has clocked a total volume of 184342 TUs for the quarter ended June 30, 2019 as against 174043 TUs for the corresponding previous period, a growth of 6%. The total revenue has grown by 10% over Rs.1455 Crores for the corresponding previous year's period to Rs.1599 Crores. Our EBIT has grown by 4% from Rs.58 Crores to Rs.60 Crores for the quarter ended June 30, 2019. The return on capital employed for the MTO business stood at 30% on an annualized basis. Our MTO business witnessed a volume growth of 6% despite a slowdown in global trade due to various issues like the ongoing US trade restrictions on China and Iran, reduction in global container trade and also an oversupply situation in the shipping industry. The company has continued to gain global market share and witnessed volume growth. That is all from my side. I now hand over to Prakash to take us through the India business.

Prakash Tulsiani:

Thanks Suri and good afternoon everyone. Let us start with the CFS and ICD business segment. The total volumes for Q1 is at 85000 versus 82000 in the corresponding previous year. There has been an increase of 3% and all driven by Mundra, Kolkata and Chennai operations. The total revenue for the quarter ended June 30, 2019 is at Rs.119 Crores as against Rs.110 Crores, an increase of 8%. EBIT is at Rs.37 Crores versus Rs.31 Crores for the corresponding previous period, an increase of 18%. The return on capital stood at 33% on an annualized basis. In the CFS segment, Allcargo gained market share in the CFS addressable market in various segments focusing on value rather than on purely volumes. So in this particular quarter, we look at also the yield that we would get on the business that we generate. Surge in volumes helped us to grow 8%, but most importantly, the cost reduction initiatives rolled out by the company in Q4 FY2019 started showing results due to which margins improved. The company's allied value added services to its clients have further aided our leadership position in this segment. Allcargo has swiftly adapted to the overall DBD impact and continue to demonstrate growth and stickiness with the customers.



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Now to our P&E division, the total revenue was Rs.117 Crores, an increase of 62% versus the previous quarter where we had Rs.72 Crores and this is because of the increase of the schedule order book for our equipment division that is Engineering Solutions and also in Project Logistics segment. EBIT was a profit of Rs.8 Crores versus a loss in the previous year and also for Q4 as against the loss of Rs.6 Crores for the corresponding previous period. The current executable order in Project Logistics is more than Rs.130 Crores. The Project Logistics and Engineering Solution business has managed to turnaround in the last few quarters and grew by 62% in this quarter on a year-on-year basis due to improved utilization.

We are witnessing a turnaround in the wind and power segment apart from other sectors like coal, oil and gas, fertilizers, cement and steel. Project Logistics secured its first project in Africa and we are in discussions for multiple projects in Eastern African areas. Our current order book stands at Rs.130 Crores in Project Logistics and in the equipment leasing business, our asset utilization has increased to 65% to 70% on an average versus 45% to 50% in the corresponding previous period.

Finally coming to our Logistics Park business, the total revenue was Rs.2 Crores for the quarter ended June 30, 2019 as against Rs.1 Crore in the corresponding previous period. The total investment made by this segment so far is Rs.115 Crores in the Q1 and on the Logistics Park segment; the company witnessed significant growth in revenue as compared to corresponding previous period and is targeting a nationwide warehousing footprint of 5 million square feet by 2021 with strong connectivity to industrial hubs and transport routes. In the first phase, the company would construct build to shoot centralized grade A warehouses across Hyderabad, NCR, and Bengaluru and already has executed contracts for pay lease close to 4.2 million square feet with various multinational companies.

Lastly, an update on our contract logistic business through a joint venture with CCI the company is targeting to expand its warehousing facilities at the need of the clients demand. That is from our side. Thank you very much and we open the floor for any questions that may be there.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: Thank you for taking my question and congratulations on a very good results in a tough environment. I wanted some clarity on the logistic parks and warehousing segment? I just wanted a sense of the capital you have invested till now and the total capital that you will invest to get to 5 million square feet and what would be the revenue potential on this 5 million square feet and what it would be from



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the 4.2 million square feet already pre-leased and what would be roughly your fixed and variable cost per square foot per annum in your overhead costs for us to have an idea of what your margins could be here?

Suryanarayanan S: The total investment so far if you look at our segmental reports is roughly about Rs.562 Crores so you can take it an approximate of about Rs.600 Crores is the investment there and then on a full basis it would cost another Rs.500 Crores to finish the balance construction and on an annualized basis, the rental would be above Rs.100 Crores. Now to break it up into variable fixed and all would be very difficult, I would not want to give you into all of that, but on an annualized basis when everything gets completed, our rental income would be in excess of Rs.100 Crores per annum.

Nagraj Chandrasekar: Any sense of what margins or returns you are looking at on this you are talking about around Rs.1100 Crores of total investments any sense of what returns you see as of now from this investment?

Suryanarayanan S: When you speak about returns means it depends on how you want to see the returns because if you look at the yield return. It would be in excess of 12% and above.

Nagraj Chandrasekar: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Shalu Asija from Nvest Researchers. Please go ahead.

Shalu Asija: Good afternoon Sir. Thank you for giving me this opportunity. Sir my question is net debt has increased by Rs.143 Crores this quarter, so whether it is related to the logistics investment?

Suryanarayanan S: Yes it is basically towards that segment.

Shalu Asija: How much growth we are expecting this year like overall?

Suryanarayanan S: Growth in where?

Shalu Asija: Overall?

Prakash Tulsiani: In terms of growth and looking forward we have always we have always maintained that of course we are in the market place, which is in the global market and as well as the Indian market. Looking at these market places what we can give a guidance that we will ensure that we grow higher than the market so we continue as a team, which is being guided by professionals, which is very much driven at looking at efficiencies, customer delight and that is how we will grow higher than the market.



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- Shalu Asija:** Sir like this quarter we have shown a growth of 12% so this is sustainable for the whole year?
- Prakash Tulsiani:** No. When you are referring to, I think you are referring to the consolidated revenue growth and there we have grown by 12% year-on-year. As we said given the market situation if this remains similar we will grow in the range what you have seen so far.
- Shalu Asija:** Sir for logistics park you have said 5 million square feet what will be revenue like Rs.100 Crores revenue?
- Suryanarayanan S:** On an annualized basis.
- Shalu Asija:** Thank you. That is it from me.
- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Sir logistic park question again so Rs.1100 Crores is mainly in buying the land and doing the basic construction right? Mainly it will go into land right?
- Suryanarayanan S:** No it will go into construction.
- Dheeresh Pathak:** So what sort of infrastructure are you constructing?
- Suryanarayanan S:** A grade warehouses built to suite.
- Dheeresh Pathak:** How much of this Rs.1100 Crores is into land?
- Deepal Shah:** Land we already have on our books. It is around close to Rs.225 Crores of land what we already hold on our books. So if you look at our balance sheet we already had the land. We are trying to now put to use that land.
- Dheeresh Pathak:** That is what I want to understand Rs.1100 Crores includes Rs.225 Crores of land right or land is over and above the Rs.1100 Crores?
- Deepal Shah:** Around close to Rs.1100 is the construction cost plus there is the land on the books, which the total cost, will be around Rs.1300 Crores.
- Dheeresh Pathak:** This is the historical value of the land Rs.225 Crores or this is the current market?



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- Deepal Shah:** No that is the historical value, but there are some small parcels, which if they are required we kind of attach them as we go along.
- Dheeresh Pathak:** So Rs.225 Crores is the historical book value?
- Deepal Shah:** Majority of it is historical book value. Some of this the adjoining parcels if they are required to kind of make a larger warehouse or it is available then that will be at the current price.
- Dheeresh Pathak:** So on a market price, this land would be worth how much instead of Rs.220 Crores?
- Deepal Shah:** That we do not have.
- Prakash Tulsiani:** We have not done any valuation. It will be much higher than what the cost is obviously, but we have not done a valuation.
- Dheeresh Pathak:** At Rs.100 Crores of rental income if even 100% falls to EBITDA line then you on Rs.1100 Crores excluding land even Rs.1100 Crores of investment assuming no investment in working capital you get 9% yield and this is pretax? Then post tax again you get 70% of that?
- Deepal Shah:** The Rs.100 Crores is only for the 5 million so Rs.1000 Crores is more than 5 million what we are going to build.
- Dheeresh Pathak:** So what is the total maximum capacity on this Rs.1100 Crores of spending? Meanwhile I will ask another question, so Rs.100 Crores of rental on 5 million square feet this looks like very low rental value, so these are like at the very outskirts of city? What kind of warehouses is this?
- Prakash Tulsiani:** These are grade A warehouses. These are built to suite. These are actually the state of art warehouses where our customer actually decides what exactly they need and that is how we build it. These leases also go for a very long term. Some of them start from seven years to even 11 to 12 years, so this is how the warehouses are being built. These are need of the day because of the change in the logistics pattern of most of the large customers who are multinationals and large units that we have and accordingly that is why they are built in a way that they meet the requirement of high end logistics.
- Dheeresh Pathak:** On one square foot basis just works out to be less than Rs.17 per square foot per month, so is it the best use of that land and best use of the assets that you have?
- Prakash Tulsiani:** Well again please let us remember that we are into other parts of the logistics chain also, so it is not only that we will give the lease, but we will also target the customers to be in our portfolio under the



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contract logistics, so the goal is to have end to end services while also offering a warehousing services in between. The goal is to have the stickiness from the origin if required that is we give them the freight. We bring it into our CFS. Then take it to the warehouse and for local or domestic cargo to ensure that they come into our warehouses where contract logistics comes in and steps in and delivers the service what is needed by the client to add value to their entire chain.

Dheeresh Pathak: Can you give me the answer to the earlier question?

Prakash Tulsiani: The finance team members are working on it. Why do not we go to the next question? We will come back.

Dheeresh Pathak: Alright. That is it from me.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Good afternoon Sir. Sir other expenditure was there any one time adjustment or something because typically every quarter run rate was around Rs.100 Crores and we have almost like Rs.84 Crores in this quarter?

Prakash Tulsiani: Once again can you repeat your question please.

Vikram Suryavanshi: Other expenditure amount in this quarter result is around close to Rs.84 Crores? If you look at our earlier quality run rate was close to Rs.100 Crores so is there any one off item or any one time, which has impacted the other expenditure in this quarter?

Prakash Tulsiani: These are small changes in my opinion. It is not significant. Nothing significant. It is in the range. Vikram it is in the range.

Vikram Suryavanshi: Got it Sir. How is the scenario in terms of DPD has it stabilized because what numbers we have got is like now it has been almost like 50% to 51% of import is now through DPD, which has been relatively some improvement compared to earlier, which was stagnant around 40% to 43% so has that changed some profitability or how is the situation at JNPT post DPD or improvement in DPD numbers?

Prakash Tulsiani: You are right. There are DPD numbers, which you may be reading at 50%, but what is important is in the DPD also what are the percentage volumes, which go directly out of the port. They do not see a CFS. That is what we need to find out and determine. In our opinion, I think out of the total, total



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volumes of the port or the CFS addressable market, only 10% goes out of the port directly and does not see a CFS and in short, actually they may even turnaround and come into the CFS as a custom cleared cargo only for storage. Let us look at the whole picture while you are right the number of DPD customers is rising. DPD customers are customers, which have been identified by the custom authorities stating that you are DPD customer in short in a green channel customer. Now that customer may decide to take the cargo at the port or may take it at the CFS, so out of the total lot only 10% are taking delivery at the port, which does not see a CFS so the balance comes to us.

Vikram Suryavanshi: Got it, but if you look at the bargaining power of remaining 90% would be slightly different than typically when it was coming directly to the CFS so are we are seeing some kind of pricing as a industry even though it is 90% coming back to CFS compared to earlier scenario or where directly it is through CFS only?

Prakash Tulsiani: You are right. That effect has already come in one year ago, so there is no further effect on that right now, so whatever that effect was to take place I think it happened sometime in October 2017, so that is where the things changed and since then it has only come into a stable environment.

Vikram Suryavanshi: Got it and in terms of volume growth obviously there have been issues in terms of overall trade growth and economic, but will that 3% can we see improvement in the coming quarters or how is the outlook on volume growth for CFS as well as MTO?

Prakash Tulsiani: Vikram as I mentioned earlier we are a part of the entire market right. As the trade continues to grow we will grow and we will grow higher than the market growth, so that is what I would like to maintain and we will continue to grow in terms of what we have seen so far. We have delivered a good result. I think this is in fact not good, but very good result and we continue to be positive and optimistic.

Vikram Suryavanshi: Lastly just to clarify Sir obviously we are outperforming the overall market and that is really great achievement? Into MTO like for 5% to 6% growth can we have some reference numbers whether the overall global trade was down or what is it like 2% to 3% growth?

Suryanarayanan S: I think the overall global trade level we are growing faster than the market. I think the overall container plus others if you take it is around about 2% to 3% and we are at about 6% so obviously we are growing greater than the market.

Vikram Suryavanshi: Thank you Sir.



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- Moderator:** Thank you. The next question is from the line of Preet Madarseth from Wealth Finvisor. Please go ahead.
- Preet Madarseth:** I wanted to better understand if you are seeing any pick up in July, this quarter especially related to last quarter? Could you share some insights into that and how do you see the environment panning forward?
- Prakash Tulsiani:** As far as trade is concerned I think since May until July right now as Suri also mentioned the world trade is growing anywhere in between 2% and 3% and in India also we see that trade stagnating. In fact on the export side, we see some pressure coming in and overall the numbers are almost there in the sense of around the growth of 5% to 5.5% to 6% in that range in India EXIM rates.
- Preet Madarseth:** With some of the DFC services starting soon enough right the direct freight corridor how do you envisage that impacting your business?
- Prakash Tulsiani:** DFC we have to recognize that how have the shipping lines played this. Already the volumes, which are supposed to go the North of India have moved to ports in Gujarat and this is not today, this has happened since 2013 onwards until today. Even though the capacity has come in Nhava Sheva or JNPT still the volumes, which are destined for North West of India that volumes are going by the Gujarat coast, so let us assume the DFC comes in. DFC will first come for the Gujarat Port and thereafter will come for JNPT. In short, the volumes, which come to the CFS, are actually the volumes, which go on the road and not on the rail. Even today if there is any rail volume, which goes from JNPT that goes directly on the rail from the port so it will not affect us.
- Preet Madarseth:** One more question was regarding in the current environment there are many companies available at much lower valuation? Are you considering any M&A activities?
- Suryanarayanan S:** I think in our business environment we always are looking at the competition, the peers and the opportunities available. We evaluate and if it fits into our strategic fit and if it is the right price then we may consider.
- Preet Madarseth:** Thank you and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Govind Sabu from IndiaNivesh PMS. Please go ahead.
- Govind Sabu:** Good morning Sir just a couple of questions. One is regarding the unallocated capital employed, so net capital employed as compared to Q4 FY2019, which is last quarter was Rs.357 Crores and it has



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gone up to Rs.454 Crores, so I just wanted to understand was there any Rs.100 Crores capex or why about this movement and the second question is regarding depreciation, so your depreciation expenditure has gone up significantly to Rs.55 Crores as compared to Rs.40 Crores last year's quarter, so these were the primarily two questions?

Deepal Shah: Deprecation we have already clarified. There is this impact of 116 so the 116 if the new accounting for the lease is you have to drag the right of use into the balance sheet and then you have amortize and depreciate over a period of the lease, so that is the new accounting standard applicable from April 1, 2019 so the depreciation has gone up because of that.

Govind Sabu: What is the total impact Sir amount wise?

Deepal Shah: So that is also mentioned in the note.

Govind Sabu: I will look through it Sir?

Deepal Shah: If you want I can read it out again. Around Rs.240 Crores of ROU has been created and lease liability of Rs.238 Crores has been created against that and impact into the P&L is around Rs.8 million.

Govind Sabu: So that is what I am saying so the increase in depreciation is Rs.55 Crores against Rs.40 Crores?

Deepal Shah: But the expenditure will gone down accordingly, so what happens is that in the new accounting the lease amount, which is in the expense portion goes off and instead of that the depreciation interest comes in, so your EBITDA goes up.

Govind Sabu: What is the incremental depreciation because of Ind-AS 116?

Deepal Shah: Rs.17 Crores.

Govind Sabu: Rs.17 Crores got it and impact on financial cost because some part of it also goes into interest?

Deepal Shah: Rs.3 Crores.

Govind Sabu: Thank you Sir. Thank you and my second question regarding the capital employed?

Deepal Shah: Can you repeat the question.



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- Govind Sabu:** So the capital employed, which comes under unallocable segment in our reporting that has moved by Rs.100 Crores in this quarter, so I was comparing Q4.
- Deepal Shah:** It is not Rs.100 Crores. It is around Rs.40 Crores to Rs.50 Crores, so we have some investments that we have made during the year. That is unallocable through the year. It is around Rs.45 Crores something, which is the movement from March end.
- Govind Sabu:** I will just check the numbers, so what are these investments?
- Suryanarayanan S:** Wherever we have treasury, our mutual funds.
- Govind Sabu:** Treasury got it and one Sir last thing the logistic park total investment, which has been incurred, is Rs.500 Crores right?
- Deepal Shah:** Total Rs.600 Crores and Rs.100 Crores for his quarter for Q1 of 2020 that is around Rs.100 Crores.
- Govind Sabu:** So total Rs.600 Crores has been invested and Rs.500 Crores are more going to be invested?
- Deepal Shah:** Approximately.
- Govind Sabu:** Rs.100 Crores per quarter is a safe assumption for this so in the next five quarters we are going to invest these Rs.500 Crores?
- Suryanarayanan S:** Yes that would be more or less an average.
- Govind Sabu:** More or less Rs.10 Crores to Rs.15 Crores here and there, but more or less. Okay Sir thank you.
- Moderator:** Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.
- Abhijit Mitra:** Thanks for taking my question, so on this logistic park just to refresh my memory total investment ex-land that has been communicated till date is around Rs.1500 Crores to setup a portfolio of around 10 million square feet right? That is the aim?
- Prakash Tulsiani:** No I think we have communicated that we will be 5 million and approximately Rs.1000 Crores and of course it can go slightly above that 5 million square feet number so I do not know from you get it.



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- Abhijit Mitra:** From your past con-calls only, but this 5 million was probably the area under development and the plan was always to sort of go up to 10 million square feet with a total capex of Rs.1500 Crores, which I think you are now changing, but anyways?
- Prakash Tulsiani:** Abhijit I think what will happen is as we go along and as the demand of our customers based on that we will continue to of course build and because this business is good we agree that logistics park is the future. We all in this logistics business agree that it is a great business to be in and of course based on the demand we shall continue to grow and then the investments should follow.
- Abhijit Mitra:** I think the development area as of now today is 5 million square feet?
- Prakash Tulsiani:** We are talking about 2021. Of course when we go further depending on the demand and the need of our customers we will continue to develop more if there is a demand and there is good returns on it.
- Abhijit Mitra:** And the capex that you see in this year is around Rs.450 Crores that number is maintained?
- Prakash Tulsiani:** Up to 2021.
- Abhijit Mitra:** I am saying the capex target for FY2020 would be how much?
- Deepal Shah:** Around Rs.400 Crores, so Rs.100 Crores per quarter is what we will be
- Abhijit Mitra:** And can you help me with your gross debt and cash position as of now?
- Deepal Shah:** Net debt is around Rs.475 Crores and the net debt gross around Rs.600 Crores is the gross debt.
- Abhijit Mitra:** Got it and last of all if I look at your segmental I think there is an increase in segment liabilities on the MTO side almost to the extent of Rs.200 Crores or more than that on a sequential basis, so this is built up of receivables or is there a cash flow issue that you see on the MTO side yet or it is all normal course of business?
- Deepal Shah:** It is 116 for the impact of the 116.
- Abhijit Mitra:** On the liability side? Got it.
- Deepal Shah:** Our assets had also grown to Rs.200 plus Crores corresponding liability on the other side yes.
- Abhijit Mitra:** Got it. Thanks. That is all from my side.



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- Moderator:** Thank you. The next question is from the line of Krupa Shankar from Spark Capital. Please go ahead.
- Krupa Shankar:** Thanks for the opportunity. I have a couple of question one on the project engineering segment is there any write back of provisions during this quarter?
- Prakash Tulsiani:** Yes.
- Deepal Shah:** Around Rs.2.5 Crores is the write back.
- Krupa Shankar:** Ind-AS 116 you had stated that the deprecation has increased by Rs.17 Crores and finance expense by about Rs.3 Crores what would be the quantum of reduction in other expenses, in your operating expenses?
- Deepal Shah:** So the net impact is Rs.80 lakh.
- Krupa Shankar:** But the majority of it has gone from other expenses is my understanding correct?
- Deepal Shah:** Yes.
- Krupa Shankar:** Also one more question on Avvashya CCI how has been the impact on operation due to this recent domestic slowdown because we are seeing that lot of pre-PL players are getting impacted especially due to the focus on auto sector, so just wanted to check how it performed in 1Q and what is your outlook for the year?
- Deepal Shah:** We are not highly dependent on auto, the Avvashya CCI these segments are a little heavy on the chemical side, which is very stable. We have partially little bit of auto, but we have not seen much of a kind of decline in our incomes on that side, so Avvashya CCI we are still building up the warehousing space. We acquired it in 2016. We formed the company and we moved up from 1 million square feet to 3 million square feet of warehousing space so currently we are in the investment phase and we believe that the revenues will clock in the coming years. It is building up the team. We are doing a lot of other things so these are the early stages.
- Krupa Shankar:** Last question if I may squeeze, around the segmental revenues I could see that on the logistic part segment there is a segmental EBIT loss of about Rs.38 million so just predominantly led by Ind-AS 116 so if that is the case you can share the EBITDA number?
- Deepal Shah:** Logistic Park the loss is just some expenses that we have been incurring and we are investing, so there not any revenues coming in on those so from next quarter or the last quarter of this year we will



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see the revenues kicking in, so these are just kind of early expenses, investments and related expenses to that.

Krupa Shankar: Thank you. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Rikesh Parikh from Barclays. Please go ahead.

Rikesh Parikh: Thanks for the opportunity. My question is on the Logistics Park, so these 5 million square feet what we are developing how much is already we have contracted of it?

Deepal Shah: Around 3.5 million square feet is what we have more or less we have announced that we recontracted.

Prakash Tulsiani: And we expect the total to go up to approximately 4.2 million square feet because those contracts are under negation right now.

Rikesh Parikh: Can you just help me with how much of the capacity will be coming live right now and in 2020 and 2021 out of this 5 million?

Deepal Shah: By the end of the year we expect around 4 million plus to be ready and useable.

Rikesh Parikh: My second was that within our existing land bank what more development we can do as per the demand or whichever way?

Deepal Shah: That we are evaluating. We will come back to you on that.

Prakash Tulsiani: On the CFS whatever land banks we have where are operating it is clear proposition to sweat the assets, so because how do we actually turn around more and have a larger or a bigger through put, so that is constant and that comes through our process excellence.

Rikesh Parikh: On the second part Sir can you throw some light a business highlight about your investment with Avvashya and how is that shaping up?

Deepal Shah: So Avvashya CCI primarily we wanted to get into the domestic 3PL activity and we acquired partially the CCI in 2016. At that time, we had 1 million square feet of space that we were managing. Now we are managing almost close to 3 million square feet, so these are early stages. This is phase one of the investment into that business and we expect it to be kind of generating a large amount of revenue in the coming few years, so it is a space where we are present largely in chemicals, a little bit of auto and e-com and all those kind of places, so we expect that the domestic warehousing business is going be



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very interesting place to be in so in the coming quarters or in the coming few years we expect that investment to kind of give us a fair amount of return.

Rikesh Parikh: Just last if I can squeeze in on the MTO side can you just share with us in general what you are seeing the actual movement on the trade side on the global front? Are you seeing any slowdown happening or is it picking up or something of that kind?

Suryanarayanan S: So far as far as our business is concerned we are still not got the slowdown impact. In fact we are growing in the China USA trade. We have grown marginally and at an overall level we have grown at 6%. The impact of flows are still not hit in a real sense because those trades are still happening, so I think when it will happen and how will it happen, but as far as we are concerned so far we have not felt it, but over the coming quarters if it really comes through I do not know, but so far we are still holding steady and growing.

Rikesh Parikh: Thank you.

Moderator: Thank you. The next question is from the line of Sayan Das Sharma from BOB Capital Markets. Please go ahead.

Sayan Das Sharma: Thanks for the opportunity so my first question is on the CFS business, you have mentioned on the presentation that we have taken some cost control initiatives as well as process excellence initiatives, which has resulted in a better EBIT for this quarter so just wanted to understand this a bit more one what initiatives are we taking and two where do you think this margin can stabilize in this segment?

Prakash Tulsiani: First let me take the question on margins. The margins we have stabilized and you would have seen it over the period of last three or four quarters we are almost in the same range, so we continue to believe that this should be the future also in terms of the margin. What do we do as process excellence that is a day to day activity where our team members have been trained into Kaizen and also looking at various methods of how they can become lean and mean and that is how we are working on all aspects of operations and anything connected with the customer, so it is also coming with digitalization, automation and so on and so forth so there are various aspects. There are a lot of details in that.

Sayan Das Sharma: Right thanks. That is helpful. The second question is on the PNA business Sir again in the presentation you have mentioned that order closure was a bit slower this quarter so if you can share some more color on that one and two Sir if we look at the overall private investment in India, it has not really revived so however our growth in the last few quarters have revived and the order book



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also, so if you can highlight, which specific projects or sectors that are driving this growth and how do you see the overall scenario panning out over the next few quarters?

Prakash Tulsiani: As I also mentioned during the presentation, in terms of our businesses it is in the engineering solution business it is all about coal, oil and gas, fertilizer, steel and cement apart from being in the wind and power. The investment from the private sector, yes it is slow. It is coming up slowly, but there is the government spending also. We did also mention that we have ventured out of India that is we have gone into Africa, we have gone into India subcontinent and that is what has helped us, so clearly yes, we are waiting for a big revival in the private sector investment and we will wait for that, but in the meantime, we have looked outside India also.

Sayan Das Sharma: Right and Sir lastly just to reconcile the numbers you mentioned the impact of Ind-AS 116 on PBT and EBITDA so the way I am rating this is PBT impact is about minus 8 million and depreciation has gone up Rs.17 Crores and interest costs have gone up about Rs.3 Crores so the overall impact on EBITDA is about positive of Rs.19 Crores to Rs.19.2 Crores right is that the current understanding?

Deepal Shah: Approximately yes.

Sayan Das Sharma: Thank you Sir that is from my side. I will go back to the queue.

Moderator: Thank you. The next question is from the line of Vaibhav Gogate from Ashmore. Please go ahead.

Vaibhav Gogate: What was the impact of Ind-AS on the capital employed in individual segments like MTO, CFS and P&E?

Deepal Shah: So you are asking for the P&L impact or the balance sheet impact.

Vaibhav Gogate: On page number 13 you basically disclosed segmental assets and segmental liabilities so my question was basically which segments have been affected the most because of this Ind-AS?

Deepal Shah: Actually NVO and CSF are the highest impacted. The rest are not much of an impact.

Vaibhav Gogate: If we look at your P&E business capital employed it has reduced from Rs.425 Crores to Rs.400 Crores right?

Deepal Shah: Yes.



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- Vaibhav Gogate:** But then there was a shape divestiture, which was of let us say around Rs.60 Crores to Rs.70 Crores so the capital employed here should have decreased by more than Rs.70 Crores, but it has reduced by only Rs.25 Crores so what is the reason for that?
- Deepal Shah:** No Rs.70 Crores where did you get that number. That is not the number.
- Vaibhav Gogate:** What was the impact of shape divestiture?
- Deepal Shah:** It is around Rs.14 Crores to Rs.15 Crores I guess.
- Vaibhav Gogate:** So if we break up the P&E business capital employed how much of it would be working capital?
- Deepal Shah:** It is around Rs.200 Crores are our assets. Around another Rs.50 Crores will be those other assets, so close to Rs.150 Crores will be working capital.
- Vaibhav Gogate:** So Rs.250 Crores will be the assets?
- Deepal Shah:** It is somewhere between Rs.200 Crores to Rs.250 Crores net assets.
- Vaibhav Gogate:** Did we record any gain on the ship sell off?
- Deepal Shah:** No. It was more or less very close to WDCR, minor loss, but not much.
- Vaibhav Gogate:** So net, net we have recorded a depreciation of around Rs.10 Crores in this segment in this quarter because Rs.15 Crores was because of ship and another Rs.10 Crores was depreciated right?
- Deepal Shah:** No. We will come back to you on the specific.
- Prakash Tulsiani:** I think can we take it offline because these are details on the depreciation part.
- Vaibhav Gogate:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Krupa Shankar from Spark Capital. Please go ahead.
- Krupa Shankar:** Thank you for the followup. I wanted to check on the timelines of ICD Jhajjar so what is the progress over there and when are we expecting it to get commissioned?



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Prakash Tulsiani: In case of Jhajjar we are already starting on our Logistics Park so we are starting with first the warehousing part of it and that is work in progress. We expect that within the next six to eight months we should be up on our warehousing part of the business in the Logistics Park while recently there has been a development on the railways. There has been a new company formed by the Haryana Government and the Indian Railways and we are discussing with them the details and modalities and once that is clarified, which we expect post the elections of Haryana everything to emerge clearly and thereafter we will start the ICD part of it.

Krupa Shankar: Just to get a clarification so the company in the subsidiary, which takes care of the Logistics Park, would it be predominantly your Allcargo Logistics and Industrial Park Private Limited or is there any other company apart from that?

Prakash Tulsiani: That is the main.

Krupa Shankar: Thank you. Thanks a lot and all the best.

Suryanarayanan S: There was a question from Goldman Sachs what I stated that the yields would be around 12% is correct. The only reason and do the arithmetic just because I said over Rs.100 Crores and divide it because there are timing issues right, so we will have to take it all put together, but if you take at a fully invested basis the yields would be around 12% so you can the arithmetic basis there.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Prakash Tulsiani: Thank you very much. We appreciate all of you taking out time to join us on this call.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of BOB Capital Markets that concludes this conference. Thank you for joining us and you may now disconnect your lines.