



“Allcargo Logistics Q3 FY17 Results Conference Call”

February 14, 2017



ANALYST:

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SECURITIES**

MANAGEMENT:

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LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY17 Post Results Conference Call of Allcargo Logistics Limited hosted by Motilal Oswal Securities. As a reminder, all participant lines will be in the listen-only mode. 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. Abhishek Ghosh from Motilal Oswal Securities. Thank you and over to you Sir!

Abhishek Ghosh: Thank you Tanvi. I on behalf of Motilal Oswal Securities welcome management of Allcargo and all participants to Q3 FY17 Post Results Conference Call of Allcargo. Allcargo today is represented by Mr. Prakash Tulsiani - Executive Director & CEO, Mr. S. Suryanarayanan - Executive Director EQ Worldwide, and Mr. Jatin Chokshi - CFO. Without any delay, I would now like to handover to Mr. Prakash for his initial comments. Over to you Sir!

Prakash Tulsiani: Thank you. Good afternoon everyone and thank you for joining us on the call. I have with me Jatin - CFO and Suryanarayanan - ED of EQ Worldwide on the call. I hope all of you have received our results and gone through the quarterly and nine-month financials by now. You can also view them along with the quarterly presentation on the website. Our numbers for this quarter and nine months have been regrouped as per the new IndAS accounting principle. Our country is a 2 trillion economy with the logistics market size of 130 billion. Our logistics space is forecasted to grow to 300 billion by 2020. While it contributes close to 5% to 6% to GDP, it has been growing at a CAGR of 11% to 12%. This sector has been in the range of one-and-a-half to two times of the GDP. The demonetization that happened in November changed the way India transacted business. In tech world it would be called disruption. This did affect businesses, but for a short span. While we were affected as logistics player during the quarter as our business is completely B2B, some of our clients were definitely impacted and this might cascade down to us briefly. To improve port clearances and bring in ease of doing business, government has introduced for a select few importers direct port delivery or commonly called as DPD. This has introduced a new segment of business for logistics companies like Allcargo, which provide integrated logistics solutions. DPD will also introduce a new mix of business for our CFS. Presently the DPD volume is in the range of 5% of the imports at JNPT. The DPD is only at JNPT right now. With respect to budget presentation by Finance Minister recently, I believe the government has focused on key aspects, which are helping our economy, which is the need of the day, primarily the emphasis on infrastructure like road, rail, and sea connectivity. There is a clear indication on the GST implementation. The fund allocation towards skilled labour development and education is yet another positive step which is much needed not only by our logistic sector, but also across the sectors in India. Looking at world shipping, this industry is undergoing drastic changes with mergers and acquisitions; however, overcapacity remains and so are the freight rates, which are subdued.



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Coming to our company, we have seen volume growth across our CFS and the MTO segment despite the sluggish growth in the industry. Our ability to offer complete and one-stop solution through the synergistic mix of our businesses has enabled us to become a preferred partner with our customers. Now, we will go to our quarterly update and numbers, and I request Jatin to please take us through.

Jatin Chokshi:

Thanks Prakash. Welcome everyone. Coming to the consolidated quarterly financials of our company, our total revenue from operations stood at Rs.1411 Crores for the quarter ended December 31, 2016 as compared to Rs.1329 Crores for the corresponding previous period, an increase of 6%. The volumes have grown in both our MTO and CFS businesses. The EBITDA for the quarter was Rs.99 Crores, a decline of 13%. This was predominantly on account of the cost arising from the rentals from the Kolkata CFS, which is yet to start operations and the expenses incurred in Q3 FY17 for managing the CFS at Mundra. During the quarter, we also saw a slowdown in our project logistics and shipping business, as there were no new projects that really took off ground. We also have consciously moved away from the lower ROC business and selling of hazard assets. This quarter we sold our ship, which was more than 25 years of its effective life, and one ship was under repair. Also there has been a transfer of similar business to ACCI, due to the IndAS this is reflected in PAT by way of JV accounting. All these factors affected our P&L. The PAT for the quarter was at Rs.49 Crores, a decline of 10%. This was mainly because of the deferred tax impact on account of the IndAS guidelines. Coming to the balance sheet, as on December 31, 2016, the net worth stood at Rs.1894 Crores. Our net debts stood at Rs.259 Crores. Hence our current net debt-equity ratio is at 0.14 reflecting a healthy balance sheet. The consolidated return on capital employed is at 14%. Last quarter, we had announced a buyback to reward our shareholders. In the month of January we completed the buyback at a price of Rs.195 per share. The total buyback size was 64 lakh shares that translate to approximately 2.54% of the total number of shares outstanding. The total amount was 124.8 Crores for this buyback.

Moving to the performance of each of the business, starting with our global business, Mr. Suri will take you through the MTO business. Over to you Suri!

S. Suryanarayanan:

Thank you Jatin. In our global LCL business, we continue to be amongst the world leader with a global network covering over 80% of the world, we operate out of 300 plus offices in 164 countries. The volumes have grown by about 14% Y-o-Y in our MTO business. We continue to outperform the LCL global market. We have seen growth continue to come from key markets, China, UK, Australia, and South East Asia including India. For the quarter, the revenue stood at Rs.1206 Crores, a Y-o-Y increase of about 11%. We did see some pressure on our margins. This pressure is temporary because of the global shipping crisis where the freight rates are extremely low at this point in time. Despite the low margins, because of our increase in our volumes, we have been able to maintain the EBIT for the quarter at Rs.42 Crores. The return on capital employed was around 28% in this part of our segment of the business. Our aim is to continue to



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maintain our global market leadership and focus on growth and strengthening our network across all the markets that we operate in. Now, Prakash will talk about our India businesses.

Prakash Tulsiani:

Thank you Suri. Coming to our India businesses of CFS and Project and Engineering, PES as we call, starting with our CFS and ICD operations, our expansion in CFS is well on track. With respect to our logistics park in Jhajjar we await final approvals from the Indian Railways for rail connectivity. This rail connectivity is a must for the project. Incidentally, we also read today that DRFC on the western corridor is expected to be ready only by 2020. So, the Jhajjar project is in line and it is dependent of course in the future on the DRFC. The setting up of our CFS in Kolkata is well on track and as per our targets. We expect to start operations by first quarter of the next financial year. This quarter, under review, which we are reviewing now, we started with managing operations of a facility in Mundra and this is an asset light model that we have gone for. So, we have leased the land of 40 acres and we are expecting our numbers to be ramped over the coming months. This particular new facility at Mundra will not only add to the volume numbers, but will also help in the P&L. Wherever possible, our growth model is to be asset light so that we can yield higher and once in steady state of operations we could see that effect also on the profit and loss. In this quarter, our volumes grew by 14% Y-o-Y to 75,787 TEUs and this is from all the five facilities including the new one which we have in Mundra. The volumes of the two ICDs, which are Dadri and Kheda for the quarter, grew by 13% to approximately 9000 TEUs. The revenue for the quarter grew by 1% to 111 Crores and the EBIT for the quarter was at 32 Crores, a decrease of 17%. This is mainly on account of lower dwell times, which we see in CFS business, rentals booked for the upcoming CFS at Kolkata as per the new IndAS guidelines and the expenses of managing the CFS at Mundra in Q3. The return on capital employed was 32%.

Coming to our project engineering and shipping business, our asset utilization of the crane fleet continues to be strong. In fact, we bought one new high-tonnage crane of 600 tonnes this quarter against a long-term contract with a large MNC. In our project logistics business in the quarter under review, we have continued to see a slowdown, as there has not been any kick-start in projects on the ground. However, in the past two months we have seen our order book developing and there is good traction. We expect to close two to three contracts shortly. These are good indicators that things are changing in terms of capital investment and allocation. As done in the previous quarter, we have a clear focus on moving away from low-margin business and in line with this we have been selling aged assets and which were generating lower yields. Our equipment leasing business continues to do well. In the shipping business, we sold one ship that was around 25 years and we may take a call on selling one more going forward. One of our other ships has been under repair and maintenance last quarter due to engine failure. This ship has been out of business for over two months and we expect this vessel back in sailing shortly. All the above factors contributed to a decline in revenue and profits from the shipping business. The revenue for the quarter was 111 Crores, a decline of 21% and the EBIT was at 5 Crores as against 7 Crores. To conclude, overall we continue to leverage our global network to consolidate



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our leadership in the LCL business by opening new offices in geographies to increase our footprint and scale alongside increasing our product offerings. In India, we will continue our focus on increasing our market share in CFS, ICD, and P&E business. We will also look at scaling up our contract logistics business. A lot has been changing in our logistics world and there are more to come. I do believe the key to emerge, as a winner is to innovate and reinvent, embracing these changes and improve our custom experience in all our businesses. Thank you very much and we are ready to take the questions.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Ashwini Agarwal from Ashmore India. Please go ahead.

Ashwini Agarwal: Good afternoon. I just wanted the breakup of other income of 18.27 Crores and what is this other comprehensive income is a negative number of 25.23 Crores? What are these two numbers?

Jatin Chokshi: The detailed breakup will be sent to you, but predominantly there is an exchange translation difference due to the restatement, which is mandatory of the loans taken globally due to Dollar and Euro exchange rates. So this is one of the things, and other income includes rental and other miscellaneous and other unclassified spread in income.

Ashwini Agarwal: Okay. I was just wondering because the other income has grown quite substantially in the particular quarter, so I was wondering if there is a one-of in there in the 18.27 Crore number.

Jatin Chokshi: As I told you, the predominant is because of the exchange translation on the loans taken globally.

Ashwini Agarwal: Okay, and the other comprehensive income, what is that number which is below the net profit line?

Jatin Chokshi: That is share in the JV and associates. As per the new accounting standards, we cannot consolidate it line by line, so the acquisition of shipping and others is what is that number.

Ashwini Agarwal: Could you help me sort of understand where this is coming from this negative line, which are the JVs, which are losing money?

Jatin Chokshi: None of the JVs are losing out actually.

Ashwini Agarwal: So, this is what minority interest?

Prakash Tulsiani: Because of the new IndAS, the JVs like for example ACCI are shown separately. There are not consolidated on the top line.

Jatin Chokshi: There is no JV losing money, but profit of different JVs and associate companies keeps on fluctuating, that is the reason otherwise none of the JV is losing money.



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- Ashwini Agarwal:** Okay, I will get into the details offline, I suppose. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Abhinil Dhahiwale from Motilal Oswal Securities. Please go ahead.
- Abhinil Dhahiwale:** Thank you for the opportunity. We have seen MTU realizations dropping this quarter. I would like to know the outlook going forward?
- S. Suryanarayanan:** It is very difficult to answer your question. All that we are doing at a fundamental level has continued to focus on sale, increase the volume, and the margin is an outcome of what is currently happening in the market and we believe this phenomenon is temporary and as the freight rates start kicking back in, I think we will be well poised to reap the benefits of that freight rates, but at this point of time we all know which way the shipping industry is and the freight rates currently operating, and that is the phenomenon that is there. From an operating purpose, we continue to focus, we continue to grow, and we are outgrowing what the market is doing. So in that sense you can continue to see the volume growth kicking in.
- Abhinil Dhahiwale:** Okay. In CFS business, we have seen a decline in volumes for quarter, any reasons for that?
- Prakash Tulsiani:** There is not any decline in volumes Q-o-Q that is Y-o-Y. If you see the 2016 versus 2017 there is no decline. It has gone up by almost 14%.
- Abhinil Dhahiwale:** Okay. Can I get the ICD volumes for the quarter?
- Prakash Tulsiani:** ICD also has gone up and the numbers have gone up to approximately 9035 TEUs and it is an increase of 13%.
- Abhinil Dhahiwale:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.
- Vikram Suryavanshi:** Can you share some more details about this acquisition of 49% stake in terminal and how much volumes we are doing there?
- Jatin Chokshi:** It is the in-principle approval board has given to acquire 49% and the combined volume of both the ICDs which are growing that is Kheda and Dadri that is 9000 TEUs, that is what has been mentioned.
- Prakash Tulsiani:** Kheda is a facility, which is very close to Indore. Amongst our ICDs it is the smallest one. There was an opportunity to consolidate it and that is what we are doing. So it is in-principle approval. We are yet to get through the transaction and complete.



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- Vikram Suryavanshi:** Okay. As you shared that JNPT second CFS Transindia Logistic Park, the merger with the standalone entity is it like asset basis or there is no subsidiary and the whole business has been shifted to standalone, how is that structured?
- Jatin Chokshi:** The transfer of CFS to Allcargo, basically in terms of structure it is by way of a slump sale whereby Allcargo will be buying out the business undertaking of the Transindia CFS.
- Vikram Suryavanshi:** Okay. Are the numbers from this CFS are included in the standalone numbers?
- Prakash Tulsiani:** No. It will be from the next quarter because the effective date of this transfer is 1st January 2017.
- Vikram Suryavanshi:** Okay, so from next quarter it will be there.
- Moderator:** Thank you. The next question is from the line of Praveen Sahay from Edelweiss Broking. Please go ahead.
- Praveen Sahay:** Thank you for taking the question. My question is related to the CFS volumes. It has gone up 14%, but we have not grown on the revenue side. Is there an impact on the realization?
- Prakash Tulsiani:** As I mentioned during our comments on the segment, you would realize that there is dwell time which has gone down and of course, there is a cost of rental and other expenses which as per IndAS for Kolkata because that is under setup and there is no revenue there and that is reason the cost has gone up over that, and so at the Mundra facility where we have just started in the last quarter, there the expenses are there as yet till the volumes are ramping up.
- Praveen Sahay:** Okay. Basically the expenses have impacted our EBIT, whereas the dwell time has impacted our revenue.
- Prakash Tulsiani:** Exactly, but still the revenue has gone up by 1%, but you are right indeed, overall the dwell times are at a reduction.
- Praveen Sahay:** Okay. The next one is, as you had mentioned, the DPD at the JNPT and the 5% of the import has been already moved to DPD, how we are going to be impacted with that because we have CFS at JNPT as well?
- Prakash Tulsiani:** This is a policy decision which the government has taken and because of that they want to improve the ease of doing business, they came out with new customs regulations in which the ports have now been asked to give deliveries directly from the terminals instead of putting it into the CFS. However what we have seen recently and we have gone through is that in most of the cases the volumes have not been able to be delivered at the terminal because the process with which the trade works is very different, and the trade requires in many of the cases what we call the credit terms, the original bill of lading, the clearing processes, the factories or the trading

houses to have their own storage facilities, these issues have been coming up for the end customer. While it is for the end customer to go and ask for DPD, what we see is that there are some difficulties of cash flow, lack of sufficient storage in factories as I mentioned, traders who are unsure about the time of arrival of the cargo. They are unsure about who is going to be the final customer and they are unable to actually take the delivery of the cargo or are not ready to take the delivery of the cargo, and then arrangement of the transporter and so on and so forth. Right now, we see the volumes only at 5%, but we will have to wait and see how the industry adapts to this new policy and the new method of working and then only we will be able to tell you more about this. Right now, the effect has been very minimal.

Praveen Sahay: Great, thank you Sir.

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

Abhijeet Mitra: Thanks for taking my question. On the CFS side, can you please highlight the impact of rentals on account of the Kolkata CFS that has come through in this quarter that would be helpful?

Jatin Chokshi: Earlier, all the expenses incurred till the facility commenced operation was capitalized, but as per the new accounting standards and in line with the generally accepted accounting principles, the lease rental paid to the Kolkata port has been debited to the revenue expenses and not capitalized, and for the nine months ended December 2016 the amount is close to 3.5 Crores, and that has been accounted in this quarter as expenses.

Abhijeet Mitra: Okay, so the extent of EBIT decline if I see for that segment on a sequential basis, out of that 8 Cores, 3.5 Crores is on account of rentals to Kolkata port and 4.5 Crores is on account of expenses for the Mundra CFS. Is the understanding right, would that be the broad breakup?

Prakash Tulsiani: Yes, in the range of.

Abhijeet Mitra: And this 4.5 Crores expense to Mundra it would be sustainable entry from hereon or it can move?

Prakash Tulsiani: We are ramping up the volumes right now and the business is improving. There was this effect of demonetization also affecting Mundra quite a lot because they are very heavily dependent on agri products and that pulled down the volumes also over there, but these volumes are coming back.

Abhijeet Mitra: Okay. So this 4.5 Crores is the fixed fee that you are paying?

Prakash Tulsiani: Of course, there are some other expenses also involved, other realignment expenses to ramp up the facilities including the fixed fees payable. Because this facility is leased out, obviously there are some other expenses, so all put together is that number.



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- Abhijeet Mitra:** Okay. The next question is that if you can just reinstate the Capex that you have incurred till nine months, your guidance for FY17 and for the next year, that would be great?
- Jatin Chokshi:** The total expense we incurred for the nine months is approximately 167 Crores. The broad heads are one is cost for the dry docking of our ship around 4 Crores, we added one crane as mentioned earlier of 600 tonnes that is 31 Crores, and thereafter JNPT additional expansion which was earlier we were mentioning that we finished and total cost incurred is 43 Crores. Kolkata till date we have incurred 31 Crores, and thereafter other maintenance Capex pertaining to corporate.
- Abhijeet Mitra:** And the full year would be closer to 200 Crores?
- Jatin Chokshi:** Less than that, because most of the expenses have been incurred.
- Abhijeet Mitra:** Right, and next year any guidance you would like to reinstate?
- Jatin Chokshi:** Very difficult to say at this juncture, but we are firming up a plan based on the developmental structures and other initiatives what we have taken, so we will come out with the numbers in the due course.
- Prakash Tulsiani:** I would add to what Jatin says and that is it will be maintenance Capex and nothing big.
- Abhijeet Mitra:** Great. If I have other questions, I will come back in the queue, thanks.
- Moderator:** Thank you. The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.
- Vikram Suryavanshi:** Just a bookkeeping question. What was the utilization of cranes or equipment during this quarter?
- Prakash Tulsiani:** Utilization is upwards of 90%.
- Vikram Suryavanshi:** Okay. We have seen more impact on project side of business.
- Prakash Tulsiani:** Project and shipping I would say. In projects also as I mentioned there is a traction, there are enquires, there are new setups of plants and factories, and there is growing demand, so enquires are there.
- Vikram Suryavanshi:** Okay. On the shipping side, do we see any revival from government side and coastal, because a lot has been tried in the last two to three years, but on ground level are we seeing any improvement happening for coastal shipping and we can increase the fleet going ahead?
- Prakash Tulsiani:** As we mentioned, we sold one vessel and we are in the process of selling one more. We do not have any plans right now to add more, but we will be, as I always say, opportunistic and if there



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is any opportunity on a long-term contract basis back-to-back with clients we will look at the ROCE and based on that look at investments if any. Right now, we are awaiting what the government is also doing on Sagar Mala and other initiatives, and once we know more about it then we will decide. Presently, we will be down by two ships totally, one sold and one on the way.

Vikram Suryavanshi: And all are bulk carriers?

Prakash Tulsiani: Yes. We only do breakbulk and not container

Vikram Suryavanshi: Okay, and just an update on the warehousing project at JNPT, will that be part of earlier Transindia part or it will be a separate subsidiary?

Jatin Chokshi: It was a part of Transindia, which is from January as I mentioned earlier, would be part of Allcargo now.

Vikram Suryavanshi: What would be the business model we are looking for that?

Prakash Tulsiani: It is a CFS facility.

Vikram Suryavanshi: The warehouse we were planning that is also?

Prakash Tulsiani: It is done. In fact, it has already started. It is a warehouse within the CFS, but dealing with EXIM cargo.

Prakash Tulsiani: Okay, got it, thank you.

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

Abhishek Ghosh: How are we dealing the Kolkata CFS market and what is our expectation and what kind of utilization levels we can achieve from the Kolkata CFS in about a year's time from here?

Prakash Tulsiani: At Kolkata there are no national players for CFS activities, there are only local players and there are approximately four CFSs and all of them are of a very small size. The port volumes have been increasing by approximately I would say around 20% in the last two years. Y-o-Y I would say they have done very high numbers. In fact, at the port also the activity has improved because BSA has taken over the operations and maintenance of the port at Kolkata, so we expect that the volumes should continue to rise there and there is good scope of achieving as a start, I would say within a year's time approximately 65% to 70% of our capacity. These are our expectations. We are also talking to our clients right now because we are almost there to start this and I would recommend that we discuss this once again over the next two quarters on how we are performing there.



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- Abhishek Ghosh:** Okay. Thank you for answering my question.
- Moderator:** Thank you. The next question is from the line of Nishna Biyani from Prabhudas Lilladher. Please go ahead. Your line has been unmuted you may proceed. You have requested to un-mute your line from your end. As there is no response, we move to the next question, which is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.
- Vikram Suryavanshi:** Now GST is almost around the corner, are we having any plans to develop surplus land we are having at different location in terms of post GST how to utilize that or any plan for that?
- Prakash Tulsiani:** We are in discussion with all our clients and I think our clients have still not zeroed on, on what exactly they would need. While the discussions are ongoing, I think they are getting into advanced stages and depending on what the needs of our clients are we would be developing whatever is needed. So, not necessary that the lines which we have, have to be developed, but depending on the needs of our clients we will determine where and what is required to be done.
- Vikram Suryavanshi:** Okay Sir. So, basically we think still more time will be required to really finalize.
- Prakash Tulsiani:** Yes. In our model, we can even go and lease our warehouses if need be until if required to make as we call it as build to suit for our clients.
- Vikram Suryavanshi:** Okay, thank you Sir.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Abhishek Ghosh for closing comments.
- Abhishek Ghosh:** I would like to thank the management of Allcargo for taking out their valuable time for the con-call and all the participants for showing keen interest in the con-call. Tanvi you may now conclude the call. Thank you everybody.
- Moderator:** Thank you. On behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us. You may now disconnect your line.