



“Allcargo Logistics Limited Conference Call”

November 11, 2019



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Moderator: Ladies and gentlemen, good day and welcome to the Allcargo Logistics Conference Call. As the 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 “*” and “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Research Team of Maybank Kim Eng Securities. Thank you, and over to you!

Maybank: Good morning, everyone. I would welcome you all for the Allcargo Logistics Post Results Earnings Call. From the management, we have with us Mr. Prakash Tulsiani, Executive Director and CEO, CFS and ICD; Mr. Suryanarayanan, Executive Director, Strategy and Finance; Mr. Deepal Shah, Chief Financial Officer. We will have an overview from the management on the gone by quarter, and then we will open the floor for Q&A. Yes. Over to you, Sir!

Deepal Shah: This is Deepal Shah. Good afternoon, everyone. Welcome to today's earnings conference call to discuss the performance for the quarter and half year ended September 30, 2019. Along with me, we have Mr. Prakash Tulsiani, Executive Director and CEO of the CFS division; Mr. Suryanarayanan, who has been joined by call who has been also designated as a Chief Transformation Officer. We would like to welcome Mr. Sheetal Gulati, who has been appointed as our new group CFO. He has over 30 years of experience and is a chartered accountant with Masters in Applied Finance from Australia. He has worked in the transport and logistics industry with Toll Global Logistics of Australia and with APL India Shipping and Logistics group at senior financial roles.

Now moving on to our results, I hope you have had a chance to review our financial statements and the earnings presentations, which have been made available on the exchanges and our website.

Before we start with the financials, let me take you through some highlights on the industry. As you may already know, the global environment continued to remain challenging with the world trade growing at a meager pace of around 2%. All the shipping lines are expecting a subdued volume due to world trade slowing down. On the domestic front too, the consumption slowdown has affected the import volumes of all players. The container growth rate at Indian ports during the first seven months of the fiscal year shrunk to 3% down from 8.5% in the same period a year ago.



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The overall capex cycle in the quarter has also been dismal with all players deferring their capital expenditures, the prolonged monsoon further disrupted operations for both CFS and also the delaying capex cycles, which impacted the P&E business.

So let me take you through the key consolidated quarterly financial highlights first. The total revenue from operations stood at Rs.1873 Crores for the quarter ended September 2019 as compared to Rs.1738 Crores for the corresponding previous period, which is an increase of approximately 8% on account of volume and revenue growth in the MTO and CFS business. EBITDA for the quarter was at Rs.130 Crores as against Rs.126 Crores during corresponding previous period, which resembles an increase of 0.2%.

Profit after tax was reported at Rs.67 Crores for the quarter as against Rs.63 Crores during the corresponding previous period, which is an increase of 6.3% on a year-on-year basis. As you all know, the group has adopted Ind-AS 116 leases with effect from April 1, 2019 using modified retrospective method. Accordingly, previous period information has not been reinstated. This has primarily been the reason for increase in finance costs and depreciation and amortization expense as against the previous period. The adoption of this standard resulted in a decrease in net profit after tax for the quarter and six months ended by Rs.1.4 Crores and Rs.2.2 Crores, respectively. EPS for the quarter ended September was at Rs.2.61 per share for a face of Rs.2 share.

Coming to the consolidated half yearly highlights; the total revenue from operations stood at Rs.3689 Crores for the half year ended September 2019 as compared to Rs.3364 Crores for the corresponding previous period, which is an increase of approximately 10%. EBITDA for the half year ended was at Rs.271 Crores as against Rs.228 Crores during the corresponding previous period, which is an increase of approximately 19%. Profit after tax was reported at Rs.131 Crores for the half year as against Rs.117 Crores for the corresponding previous period, which is an increase of 12% on Y-o-Y basis. EPS for the half year ended was at Rs.5.17 for a face value of Rs.2 share.

A quick highlight on the balance sheet front, as on September 30, 2019, the total equity was at Rs.2144 Crores and the net debt was at Rs.581 Crores, the net debt-equity ratio was at 0.27 as on September 2019.

The return on capital employed stood at 12.4% as compared to as on September 30, 2019 on an annualized basis.



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Now I request Mr. Suri to take us through the key operational highlights of the global MTO business. Over to you, Mr. Suryanarayanan!

Suryanarayanan: Thank you, Deepal. Welcome, all of you, and good afternoon. For the second quarter of financial year ended 2019/2020, the business clocked total volumes of 184,479 TEUs for the quarter ended September 30, 2019 as against 174,268 TEUs for the corresponding previous period, which gives us a growth of nearly 6%. The total revenues for the quarter ended September 2019 was Rs.1697 Crores as against Rs.1541 Crores for the corresponding previous period, an increase of about 10%.

Our EBIT for the MTO segment was Rs.70 Crores for the quarter ended September 30 as against Rs.67 Crores for the corresponding previous period, an increase of 4.5%. The return on capital employed for the MTO business stood at about 27% on an annualized basis. We continued gaining global market share and also continued to grow our volumes from allied and the FCL service. That is all from my side. I will now hand over to Prakash to take us through the India businesses. Over to you, Prakash!

Prakash Tulsiani: Thank you, Suri, and good afternoon to everyone. First, with our CFS and ICD business segment, the total volumes for the second quarter were at 89,145 versus 88,604 flat versus corresponding previous period. Whatever little growth we had in the volumes was driven mainly by Mundra, Kolkata and Chennai operations. The company continued to grow its share in the CFS addressable market in various segments. The total revenue for the quarter ended September 30, 2019 stood at Rs.119 Crores versus Rs.120 Crores in the corresponding previous period. EBIT was lower at Rs.30 Crores versus Rs.39 Crores in the corresponding previous period. This was mainly due to lower dwell time cost by port congestion, lower imports and some shifts in volumes between our customer segments. The return on capital employed or the business stood at 30% on an annualized basis.

Coming to our Projects and Engineering business, the total revenue was at Rs.76 Crores for the quarter ended September 30, 2019 as against Rs.94 Crores for corresponding previous period. The asset utilization in equipment business remained low at around 60%. We call it low because we were at around 70% on account of slow growth in Wind sector, which has the largest utilization of our crane assets. EBIT reported at a loss of Rs.5 Crores for the second quarter as against a loss of Rs.1 Crore for the corresponding previous period. The current executable order book in Project Logistics is approximately Rs.90 Crores with a strong visible pipeline of Rs.486 Crores. Volume growth has been impacted this quarter due to slowdown in capex cycle, caused by prolonged monsoon season, which impacted our core sectors.



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Management continues to remain confident of maintaining higher utilization in our crane segment and close to 65% in coming quarters. Project Logistics has also continued to strengthen its presence in Africa by entering into three African countries, namely Tanzania, Kenya and Senegal.

Finally, coming to our Logistics Park business segment, the total revenue was at Rs.2 Crores for the quarter ended September 30, 2019 as against Rs.1 Crores for the previous corresponding period. The company plans to build a nationwide warehousing footprint of 6 million square feet by 2021 through strong connectivity to industrial hubs and transfer routes. In the first phase, the company would construct state-of-the-art facilities build-to-suit grade A warehouses across Hyderabad, NCR and Bengaluru. And we have also executed contracts for preleased close to 4.2 million square feet with various multinational and Indian companies. The total investment under this segment is approximately Rs.115 Crores in quarter two FY2020.

Lastly, the Board has approved the restructuring involving transfer of warehouses and other effects of Logistics Park business to a wholly owned subsidiary subject to necessary consents and approvals. This is a step in the direction as we have communicated in the past that we continue to evaluate options to monetize this vertical.

Also, as an update on our Contract Logistics business through our joint venture, Avvashya CCI, we are currently operating at 4 million square feet, and the business has performed better than the last year, despite slowdown in automobile and other sectors. The company is targeting to expand its various facilities to achieve 10 million square feet over the next four years.

This is from our side. Thank you very much, and we open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sayan Das Sharma from BOB Capital. Please go ahead.

Sayan Sharma: Good afternoon and thanks for the opportunity. Sir, I have three questions. Firstly, if you can share the impact of Ind AS 116 adjustments on EBITDA and PBT separately, you mentioned the impact on PAT. It would be helpful to get the data for like-for-like comparisons?

Deepal Shah: We already mentioned in our speech that the impact approximately for this quarter has been Rs.1.4 Crores in the profitability and for the half year, it has been around Rs.2.2 Crores.



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- Sayan Sharma:** Right, Sir. So you mentioned it is on net profit after tax. I am looking for the EBITDA impact and PBT impact, if you can specify separately, sir?
- Deepal Shah:** Yes. So the EBITDA has gone up by approximately Rs.34 Crores and the adjustment in depreciation and finance cost is equivalent around Rs 32 Crores and you are aware, right, the Ind AS, it goes out of the operating profit and it goes below the line?
- Sayan Sharma:** I understand, Sir. Yes, that is why I asked, sir, because it helps in like-for-like comparison because the base quarter does not have this impact and therefore, to compare EBITDA, this is really helpful, Sir. Sir, coming to my next question, if I look at the CFS business, you mentioned that lower dwell time and lower import has caused lower EBIT. So if you can throw some more color on that, particularly on the dwell time aspect, what exactly was the reason and how it impacted?
- Prakash Tulsiani:** See this particular quarter, which is the monsoon season across India, other than probably Chennai, the monsoon this time was severe and obviously, what happened specifically in our main asset location, which is JNPT due to heavy rain fall, there were road issues, that is the condition of the roads were very poor and also they were flooding across around the port area. That meant that the containers, which were to be evacuated from the port took a longer time. So obviously, when the customers come to us, they come at a particular point in time. Let us assume when the vessel is berthing, and they come in, let us say, eight days after that. So their cycle remained the same of eight days while the evacuation took time because of the condition of the roads and the congestion, which happened in the port area. So that is the main reason why the dwell time went down.
- Sayan Sharma:** But I mean, for that, we did not get compensated for the additional time it was lying here, right?
- Prakash Tulsiani:** It is not staying in our terminal, right? If it is staying in our terminal for a longer period, then only can we charge for it. So that is where we lost out. So it is typical to this monsoon season right now.
- Sayan Sharma:** Okay. And you do not expect that to continue?
- Prakash Tulsiani:** Well, there is an ease of doing business also in India, right, so that is definitely making it easier for customs clearances. And that is what we are seeing and we are watching. So can not say at this stage, but we are continuing to monitor that.



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Sayan Sharma: Fair enough, Sir. Sir, if I look at, you had mentioned that volume growth was driven by three ports, Mundra, Chennai and Kolkata, whereas JNPT does not seem to have grown much. But Sir, if I look at the DPD-CFS part, the data that has been released by JNPT, that has gone up this quarter quite substantially. So I mean that is not reflected in order volumes. So is there a change in strategy of not looking at DPD-CFS volume or how is it?

Prakash Tulsiani: No, in our case, we are probably one of those CFSs, which cater to all the segments, whether it is DPD, DPD-CFS, third-party or en bloc. So we are catering to all the four segments, which are present in the market. So typically, we are not focusing only like, mainly do only DPD. Yes, the DPD volumes may have gone up. But if you see more DPD, that volume remains stagnant. That does not change. So the volumes are showing up at the CFS, but the overall volumes in the port have also gone down because of the slight slowdown.

Sayan Sharma: That is true, Sir, that is true. Fair enough, Sir. And Sir, lastly, again, on the CFS segment. If I look at our revenues from a quarter-to-quarter perspective, sequentially from last quarter to this quarter, it has gone up slightly, flattish to slight growth. But if I look at our EBIT, it has come down significantly, any particular reason for that happening?

Prakash Tulsiani: No. There is clear that we had lower ground rents to be realized and also, there are some cost elements because of the congestions that we faced. So this was only typical to this monsoon season.

Sayan Sharma: Okay. Thank you Sir. That is helpful. I will go back to the queue.

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

Krupa Shankar: Thank you for your opportunity. Just to add on to what Sayan was asking on the profitability on the CFS front. Given that the contribution from other ports have been increasing and even Kolkata also has started contributing positively, is there a mix change, for example, higher contribution of exports which has led to this margin contraction perhaps?

Prakash Tulsiani: No. See, first of all, Nhava Sheva is the most important port in India. It controls approximately 50% to 55% of India's container volumes. Now that being said, if that gets affected, that pushes all the load on the other, I would say, port in terms of performance for our CFS division. So typically, that is the key place where we need the volumes to remain



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at least stable and continue to grow. Now as you rightly went into the segmentation, you are right that there is a segmentation change also happening. And that is DC, that en bloc volumes prior to DPD were almost 95% to 98%, which came from the shipping line. We call it as en bloc. Now these volumes after the DPDs have contracted. And typically, there is a shift happening from the en bloc or the shipping line volumes to the third-party and the DPD volumes. So yes, there is a slight change. And typically, our earnings are better as far as we are concerned when it comes from the shipping lines.

Krupa Shankar: All right. Okay. And what would be the en bloc volumes currently?

Prakash Tulsiani: I would, frankly, because of our sensitivity on our competitive reasons, I would not like to give you the breakup of the volumes that we handle. I can give you the industry but not our volumes.

Krupa Shankar: Okay. So can you just throw some light on the industry volumes?

Prakash Tulsiani: Yes, the industry typically has now been divided approximately 20% to 25% on en bloc and the balance, you can call it third-party and DPD.

Krupa Shankar: All right. And this 20% to 25% was earlier upwards about 75%?

Prakash Tulsiani: Upwards of 95% prior to DPD coming in.

Krupa Shankar: Okay. And second question is on the Project and Engineering business. So is there any write-back of provision or any one-off items?

Deepal Shah: No. So we have a policy if there is any outstanding above one year, if it hits, we kind of make a provision of it into the books. So this year, we have had reversal from the previous year. And there are not any other exceptional items in the Project business. So we have garnered some large projects. So the first quarter, we had some very large movements for some Bangladesh project. So the revenues from the first quarter have been fairly good. We have an order book of approximately Rs.90 Crores with us on hand. And we are pursuing a pipeline of around upwards of Rs.400 Crores. So this is the kind of outlook for Projects.

Krupa Shankar: I understand. But during the quarter, was there any reversal of provision?

Deepal Shah: Yes, there was a reversal of provision of around Rs.3 Crores, which we received from some of our customers during the year.



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- Krupa Shankar:** So if I have factored in for that, so the losses should have widened further so it should be up. The margins would be about minus 11%, is my understanding correct?
- Deepal Shah:** No.
- Krupa Shankar:** The EBIT margins would be about, so if I remove that Rs.3 Crores of reversal of provision, the EBIT margins would be about negative 11%?
- Deepal Shah:** No. See currently, the EBIT stands at around Rs.24 Crores. If you remove Rs.3 Crores, it is still at Rs.21 Crores on a topline around Rs.54 Crores, yes. So we are talking about P&E specifically that the EBIT margins are positive for sure. No negative EBIT margins as we stand today.
- Krupa Shankar:** Okay, on a half yearly basis.
- Deepal Shah:** On the second quarter, on a half yearly basis, it is positive. So I will explain further. So in the first quarter, we had the Projects large movement and the utilization for the Cranes were at around 68%. The second quarter, because of the monsoons, the utilization of the Crane fell off somewhat a little to around 60%, and the large portion of Projects, which still we are working on, which will happen probably in the third quarter or the fourth quarter. So the results will come up in the third and the fourth quarter. So second quarter has been a little somber, that is the reason for the second quarter, the results have been slightly lower. Our utilization currently is also inched up from 60, which was down last quarter to around 64 to 65 in the current month, per month.
- Krupa Shankar:** Got it. And so the run rate going forward, the expectation on the Project and Engineering business is that with the traction, what is the outlook, if you can share some insights?
- Deepal Shah:** On the?
- Krupa Shankar:** Outlook.
- Deepal Shah:** I will explain the outlook. For Projects, I have explained we have around Rs.90 Crores of order book. Utilization, we expect it to be range bound around 60% to 70%. You were aware that the capex cycle for India has been slow. We are working with the Wind sector, and we expect utilization to be in the range of 65% to 70% in the coming two to three quarters.



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- Krupa Shankar:** Right. I do understand. But so the visibility of about Rs.420-odd Crores of order book, which we have stated.
- Deepal Shah:** Order book is Rs.90 Crores. Rs.400 Crores is your pipeline.
- Krupa Shankar:** Yes. So are you expecting some conversion happening over the quarter?
- Deepal Shah:** Yes, expecting definitely. So some of them are warm, some of them are hot. We are pursuing them and we expect conversions. We will keep updating as and when we convert the order books and keep changing and we expect around close to 20% to be safely converted, minimum.
- Krupa Shankar:** Understood. One last question. So are we looking at any inorganic growth opportunities, anything either of the segments?
- Deepal Shah:** No. Not in projects. See in Equipment, we are not making any further investments at all. In fact, we are trying to see if they are cranes, which are not generating revenues, we are trying to see if we can kind of monetize them or do something about them, but any fresh investments into the P&E sector is not envisaged at all.
- Krupa Shankar:** So inorganic opportunities, I was talking about across all segments, so MTO, perhaps?
- Deepal Shah:** Yes. So yes, MTO, if you see the quarter, we have already done some acquisitions overseas. So we have done two small acquisitions overseas: One in Hong Kong and at overseas, we will continue to kind of look at opportunities, which strengthen our MTO business globally. In India, other than the Projects and Equipment, if there are any opportunities, we will continue to pursue. And if there is anything, we will let you know.
- Krupa Shankar:** Sure. All right. Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.
- Prateek Kumar:** Good afternoon Sir. My first question is, so we have this in Logistics Park, have this 4 million square feet of already executed space, so that revenue was expected to start from Q3. So are we on track I think around Rs.8 Crores per month, which we are expecting from Q3 onwards?



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Deepal Shah: See the total plan was for construction is around 6 million, 4 million under construction. Out of the 4 million, 3.9-odd million is already forward leased. 1.5 million is ready, and the revenues will start kicking in probably in third quarter, end of third quarter and balance in the fourth quarter.

Prateek Kumar: So for this quarter, as such, we are not expecting?

Deepal Shah: For 0.5 million worth of space, the revenues will start kicking in, in the third quarter, part of the third quarter. The balance 1.5 probably part of the fourth quarter, the revenues will come.

Prateek Kumar: What is this 1.5, 1.5 million?

Deepal Shah: Million square feet.

Prateek Kumar: So which implies how much revenue, Sir, generally, Rs.4 Crores per month?

Deepal Shah: Rs.8 Crores per month. So you can average it out to around Rs.6 Crores per month at the end of the year we should have. Exit numbers for March should be around Rs.6 Crores per month with 3 million already constructed and ready.

Prateek Kumar: 3.9 million when we say forward leased, out of that, only 3 million will yield revenue initially, which implies Rs.6 Crores revenue per month by end of year?

Deepal Shah: Yes.

Prateek Kumar: Understood. And, Sir, capex, regarding this Rs.115 Crores, which is roughly the similar number, which we did in the last quarter also, we are expecting Rs.400 Crores expenditure for full year?

Deepal Shah: Yes, we are expecting. Total expenditure is Rs.900 Crores. So for balance of the year, we should have another Rs.200 Crores to go with.

Prateek Kumar: And remaining Rs. 400 Crores, Rs.500 Crores for next year?

Deepal Shah: Yes.



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Prateek Kumar: Just on this Project and Equipment segment business. This is related to previous question. You mentioned as per press release, there is Rs.5 Crores loss in PBIT from the press release you mentioned.

Deepal Shah: For the quarter. For the half yearly, it is EBITDA positive, EBIT positive.

Prateek Kumar: Correct. So that Rs.3 Crores reversal, which you had talked about was in 1Q or 2Q?

Deepal Shah: Rs.3 Crores is total for the half yearly, so partly on Q1, partly in Q2.

Prateek Kumar: Okay. So because of lower utilization, generally business has turned slightly negative?

Deepal Shah: Primarily low utilization and the Projects here during monsoons, during the rainy season, some of these movements have slowed down, both for the Projects and even for the Crane rentals, so generally, this is a lean period.

Prateek Kumar: Correct. And Sir, regarding this Logistics Park, in terms of PBIT, we are reporting Rs.4 Crores PBT loss per quarter. So how would this change once our revenues improve to Rs.8 Crores per month, Rs.6 Crores or Rs.8 Crores per month?

Deepal Shah: Currently, there are a lot of expenses related to, so we have a team and we have the expenses related to the interest portion of it and once these the forward lease and all works, we will probably be much profitable on that segment. So these are the investment phase basically we are in.

Prateek Kumar: So these are like overheads which is impacting?

Deepal Shah: Sorry?

Prateek Kumar: These are fixed overheads, which is impacting?

Deepal Shah: There is a team overseeing that and there is an interest cost for the funds that is been utilized, plus there are some legal fees and all. So all that, once it will start generating revenue, much of this will kind of recede, the expenses will recede, which many of them are probably onetime and the profits will kick in. We are at the investment phase and it is a pre-operating phase. So that is the reason it looks like that.

Prateek Kumar: Correct and just one question on MTO also. For three quarters, we have a growth of around 5% to 6%. So versus like last two years, I mean, last three years of double-digit growth in



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that segment in terms of volumes, we are now probably looking at single digit because of like general macro, global macro slowdown?

Deepal Shah: We are still 3x. See, it is connected to the global growth rate, right? The global growth rate itself has dropped to around 2%, which we said and we are doing around 6. So we are almost doing 3x. So as far as that is concerned, we are consistent. So it is directly connected to the global growth rate in terms of trade.

Prateek Kumar: Our realizations improved in the segment, this was related to improvement in global freight rates? Quarter-on-quarter and year-on-year both were like 26% per annum.

Deepal Shah: Suri, can you compare?

Suryanarayanan: The way we look at it as we have always maintained in all our previous, what you call, calls, the market is competitive. But in spite of this, we are continuing to grow. It is steady. Quarter-on-quarter, our EBIT and EBITDA is continuing to grow. I think that is the way we should look at it and I would not worry about a quarter here or a quarter there and I think we will be able to maintain the double-digit growth that we are seeing at an EBIT or an EBITDA level.

Prateek Kumar: Understood. Thank you Sir. I will get back to the queue.

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

Ashwini Agarwal: This is Ashwini here. Sir, I had a few maintenance questions. First, I was going through the cash flows and if I try to reconcile the total investments in fixed assets, I see three items there: Purchase of property worth Rs.243 Crores, then there is intangible assets of Rs.72.5 Crores and then there is purchase consideration paid, which is another Rs. 9.5 Crores. Could you help me understand where are these investments going? I mean how much of it has gone into warehousing? And I think MTO you made two acquisitions you mentioned. What was the size of those acquisitions, please?

Suryanarayanan: Yes, the size of the acquisitions in the MTO segments are small numbers, but they are significant for us in some of the markets that we operate in because it strengthens some of our positions. So the intangibles are mainly because it is coming through either the brand or the goodwill that we would have paid for it. So that is the only thing. Sizes are roughly about the two acquisitions that we did. They are roughly between USD 2.3 million to USD 2.8 million, so roughly about USD 5 million.



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- Ashwini Agarwal:** But Sir, if that is USD 5 million, then the intangibles of Rs.72.5 Crores, which is USD 10 million...
- Suryanarayanan:** Yes, out of it, plus we are also having components also that we are putting in. So that is also there that is coming into the thing. It is not that everything is coming from MTO segment on the intangibles. A few of them would be coming from other parts also.
- Ashwini Agarwal:** And largely, that is investments in software and technology that you will amortize over a period of time.
- Suryanarayanan:** Correct, over a period of time.
- Ashwini Agarwal:** Okay. How do you think about capitalizing the software expenses that you make or the investments in IT that you make? I mean can you share?
- Suryanarayanan:** Generally what we do is, we capitalize all these developed and then write it over a period of five years.
- Ashwini Agarwal:** Okay. The Rs.243 Crores of investments in the first half in purchase of property, plant and equipment that is all related to the warehousing segment? Or is there some part going elsewhere?
- Deepal Shah:** Yes, most of it, rather 90% plus is directly into the warehousing segment. So we are consolidating the land around the main projects in some cases. In some cases, we are looking at some fresh pieces also where there are opportunities.
- Ashwini Agarwal:** The segmental analysis, when I look at the Logistics Parks numbers, that does not include Avvashya CCI, am I correct?
- Deepal Shah:** Yes. No. So the Logistics Park and the 3PL business that we understood separately, actually, so just for further clarification the Logistics Park business is more about the ICD, the logistics, the multimodal logistics park business, it is more about constructing and renting them out and creating value around them. It is an asset-heavy business. As far as the ACCI is concerned, it is a subsidiary where we hold around 62% and the JV partner holds around 38%. There, it is an absolute asset-light model. There, we do not invest into warehouses. We either lease them out or we operate on the client's premises. And the only capex in that goes in terms of the operating assets in case we need to hire a forklift or buy a forklift or any automation machines to run the warehouse optimally, those are the only



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investments that are going from ACCI. They are different, these businesses. One that is a service business and this is more of a lease and estate business.

Ashwini Agarwal: So which line of the segment results would have the ACCI numbers?

Deepal Shah: So it is a share of profit because it is not consolidated line by line.

Ashwini Agarwal: Okay, fine. Another question, the executable order book in the Project Logistics business is Rs.90 Crores and project pipeline is Rs.486 Crores. This does not include any long-term lease contracts for the Crane. Would that be correct?

Deepal Shah: Yes. No, this is Project Logistics that is movement of project forwarding, the movement of ODC cargo and all.

Ashwini Agarwal: So the equipment leasing sort of on track, which you might have in force.

Deepal Shah: We will continue, yes.

Ashwini Agarwal: Okay. The capital employed in the MTO business has gone up by Rs.155 Crores. So again, going back to the acquisition amount of \$5 million versus this increase in capital employed by Rs.155 Crores?

Suryanarayanan: Plus there is an expansion in warehouse in one of the, what you call, regions. There is another USD 5 million roughly there. So that is where it takes it to the Rs.70 Crores, and then normal, what you call working capital increase of about another \$9 million. So roughly, if you add all of this, it gives you this Rs.150 Crores increase in the capital segment.

Prakash Tulsiani: Ashwini, just to clarify. This is Prakash. To clarify that warehousing, which we have is specific to our ECU Worldwide. That is related to the business, which they need to capture for their LCL and other businesses.

Ashwini Agarwal: Correct, which is not linked to your domestic warehousing business or your CFS business?

Prakash Tulsiani: Correct.

Ashwini Agarwal: In terms of sort of the seasonality that hit you in Q2, what are you seeing now? I mean there is obviously a slowdown in the economy that is also responsible and there was, of course, the extended monsoons. But how are you seeing the environment at this point in time? And



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do you think that there might be some recovery that is visible in Q3 or things continue to be quite difficult?

Prakash Tulsiani: No. What we see is that the volumes, which are there from the import side, they continue to be on the same level of increase, which is approximately around 3% to 4%.

Ashwini Agarwal: Okay. So lower dwell time and lower import volumes will continue to be a feature for at least now?

Prakash Tulsiani: At least, yes. Unless the consumption drive that India, probably, hopefully, we should see that rising again. And during the festive season, we did see some of these automobile companies and others doing better. So let us hope that this consumption drive comes back, and then we see this uptick in terms of our volumes. But for the last quarter, it is mainly because of the monsoon congestion and also a strike which happened in Chennai on the transport.

Ashwini Agarwal: Okay. My last question is, the debt has obviously gone up because of all these investments going on in the warehousing business. As you subsidiarized the business and you transfer all these assets into a subsidiary, how much of debt will get transferred to the subsidiary?

Deepal Shah: Yes. So we are working on that. We do not have the correct number as of now. So we will not be able to share. But at the group level, we would not breach around 0.5% of debt equity ratio.

Ashwini Agarwal: Okay. All right. Fine. Thank you so much. All the best.

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

Abhishek Ghosh: Thanks for the opportunity. Most of my questions are answered. Just one thing, if I look at our working capital for the first half, it seems to have deteriorated sharply, almost about Rs.150 Crores, Rs.160-odd Crores of capital has gone into working capital. So what is that related to and which division?

Deepal Shah: That, I think on a consolidated level, we already explained that the working capital has gone up because some of these funding at the MTO that has happened plus a little bit of increase of working capital at MTO level and at India level also happened, which should by coming quarters come down to the original level.



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Abhishek Ghosh: So just to understand, MTO, why should the working capital go up, that should not be because, see acquisition is different, but just to understand the working capital for the MTO business, why there is a one-off kind of increase, can you just help us with the reason?

Suryanarayanan: See at overall level, it has not gone up too much if we think. It is just a little bit of increase in the, what you call, in one of our segments that it has gone up, but if you see as I speak to you today, it would have come back to normal.

Deepal Shah: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: Thanks for the followup. Just to check on this couple of acquisitions, which you talked about. So where do we find these details on your press release?

Suryanarayanan: Yes, we have not given too much of details. I think there is following announcements that will come through. But these are mainly where we are strengthening our position in the Asia Pacific movement, especially from China to the Rest of the World both in terms of the FCL, LCL position. So that is how it is. That is where you will get a little more detail on this.

Deepal Shah: Yes, just to mention that these are very small acquisitions just to strengthen our local kind of strength at those local places. At the consolidated level, it is not really very material for us to do a press release on that at this point in time.

Prateek Kumar: Okay. And these are just technology setups or they are looking to add volume growth also?

Suryanarayanan: No. These are all real businesses that we are buying into. It strengthens certain areas in the Northern China side, it strengthens our in the dangerous good movements, so both from China and Asia Pacific into Europe and into the Rest of the World.

Prateek Kumar: Correct. This is I think, related to one of the previous questions. So this is like we have invested around Rs.35 Crores on acquisitions, implying \$5 million.

Suryanarayanan: Correct.

Prateek Kumar: So this is part of this Rs.240 Crores, which we have reported in purchase of property and plant and equipment, and then Rs.720 million the additional intangible asset?



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- Suryanarayanan:** Correct.
- Prateek Kumar:** Rs.72 Crores, sorry.
- Suryanarayanan:** Yes.
- Prateek Kumar:** Okay Sir. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Vaibhav Gogate from Ashmore. Please go ahead.
- Ashwini Agarwal:** This is Ashwini once again. Sir, two follow-up questions, if I look at the depreciation and interest costs in the second quarter, should this be the run rate over the next two quarters, not taking into account addition of assets in the warehousing business, which I will come to separately?
- Deepal Shah:** Yes, that would be correct, yes.
- Ashwini Agarwal:** Okay. Second thing is that when you say that you will operationalize 1.5 million square feet in Q3 and another 1.5 million square feet in Q4, what kind of asset block would you end up capitalizing?
- Deepal Shah:** I think it would be around Rs.120 Crores and Q4 could be a little bit larger, it should be upwards of Rs.250 Crores or something.
- Ashwini Agarwal:** So Rs.120 Crores in Q3 and Rs.250 Crores in Q4?
- Deepal Shah:** Yes, these are ballpark numbers, yes.
- Ashwini Agarwal:** Yes. So the depreciation and the interest component for the warehousing business should go up significantly on account of these capitalizations. Am I right?
- Deepal Shah:** Yes. Generally, the building and all has a much longer tenure, these are all depreciated over a 60-year period. So I mean you have to consider the value accordingly. So it is not like a furniture fixture or an IT asset, which will get depreciated very fast.
- Ashwini Agarwal:** So the question that I am sure everybody has it on their mind, that when you say that you will exit at roughly about Rs.6 Crores a month of revenue run rate, when does this business



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become EBIT positive? And what is the medium-term outlook on return on capital employed in this business.

Deepal Shah: The outlook on the capital employed is around 14% for 2021, next year once everything is up and running. So it is lease rental plus management fee that we will earn out of it. That is how it makes it around 14%. Apart from that, we are also looking at ways and means to probably monetize some of these assets. So that is also we are evaluating options, and we will probably come to conclusion over the next couple of months over that, but it will always be at the end of the construction and the end of the investment phase and into an operating phase, it will be profitable with a ROCE of around 15%.

Ashwini Agarwal: So even in Q3 and Q4, in the initial phases, it will continue to be negative EBIT?

Deepal Shah: I think with Rs.6 Crores, yes, so if you look month-on-month, maybe slowly, the losses will recede and by the last, we will have last two, three months, we will be profitable, I think.

Ashwini Agarwal: What is the capex plan on this for fiscal 2021, how much more capex do you need to put into this?

Deepal Shah: So we are still working on that, and we will come back to you on that. The current outlay is going to be another Rs.200 Crores for the year. That is what we have already...

Ashwini Agarwal: Yes that you mentioned, yes. And you mentioned that Rs.900 Crores is the full investment. S I mean if I want to work backward from there?

Deepal Shah: Yes, you can. But so that is one way of looking at it.

Ashwini Agarwal: Because your current capital employed in the Logistics Park business is roughly, what, Rs.765 Crores. Correct?

Deepal Shah: Yes.

Ashwini Agarwal: Okay. All right. Got it. Thank you so much.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management of Allcargo Logistics for closing comments.

Prakash Tulsiani: Thank you very much, and appreciate it.



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Moderator: Thank you. Ladies and gentlemen, on behalf of Maybank Kim Eng Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.