



“Allcargo Logistics Limited  
Q3 FY2021 Earnings Conference Call”

February 15, 2021



**ANALYST: MR. PRATEEK KUMAR - ANTIQUE STOCK BROKING LIMITED**

**MANAGEMENT: MR. DEEPAL SHAH – CHIEF FINANCIAL OFFICER – ALLCARGO LOGISTICS LIMITED  
MR. RAVI JAKHAR - CHIEF STRATEGY OFFICER – ALLCARGO LOGISTICS LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Allcargo Logistics Limited Q3 FY21 Earnings Conference Call hosted by Antique Stock Broking Limited. 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. Prateek Kumar from Antique Stock Broking. Thank you and over to you, Mr. Kumar!

**Prateek Kumar:** Thanks Nirav. This is Prateek from Antique Stock Broking. I welcome you all on behalf of Antique Stock Broking. Today we have the management of Allcargo Logistics to discuss their third-quarter results. We have Mr. Ravi Jakhar, Chief Strategy Officer and Mr. Deepal Shah, CFO from the management side. Without wasting much time, I will hand over the call to the management for their opening remarks and then we will move to the question and answers session. Over to you Sir!

**Ravi Jakhar:** Thank you. This is Ravi Jakhar here. Good morning everyone and welcome to today’s earnings conference call to discuss the performance for the third quarter and the 9 months ended December 2020. Along with me, I also have my colleague, Mr. Deepal. So to start with I would request Mr. Deepal to first take you through the quarterly financial highlights. Over to you Deepal!

**Deepal Shah:** Thank you, Ravi. Let me now take you through the key consolidated quarterly financial highlights. Total revenue from operations stood at 2735 Crores for the third quarter as compared to 1787 Crores for the corresponding quarter last year, which is an increase of approximately 53.1%. EBITDA for the quarter was at 147 Crores as against Rs.126 Crores during the corresponding period last year, which is an increase of 16.8% on a Y-o-Y basis. Profit after tax was reported at 1.4 Crores for the quarter, let me also highlight the performance for 9 months of the financial year FY2021.

Total revenue from operations stood at Rs.7149 Crores for the 9 months of the year as compared to Rs.5475 Crores for the corresponding period last year, which is an increase of approximately 30.6% on a Y-o-Y basis. EBITDA for the first 9 months of the year ended stood at Rs.441 Crores as against Rs.397 Crores for the corresponding period last year, which is an increase of 11% on a Y-o-Y basis. Profit after tax for the first 9 months of the year ended was reported that Rs.89 Crores as against 180 Crores during the corresponding period last year, which is a decrease of 50.5% on Y-o-Y.

Just like to inform you that from April onwards we have consolidated in our results, so that is what we have to workout while looking at these results. Now, I would like to hand over to Ravi to take you through the key business segment highlights for the quarter. Over to you Ravi!

**Ravi Jakhar:**

Thank you, Deepal. Coming to the business highlight for the quarter, let me start with the MTO segment, the shortage of containers and supply constraints on the shipping side continue to exist and that continue to drive freight rates higher, which creates challenges on the procurement side, but on the good side it is also an indication of the overall economic environment, which continues to improve across the globe and therefore provides a good opportunity to the business at equal world wide and global subsidiary on MTO business, we continue to revive innovation through products that accelerate, which is a combination of sea and air and we also continue to significantly focus on digitization to products such as EQ 360.

On the financial side, there has been a marginal decrease in the return on capital employed primarily on an account of higher working capital, which is naturally driven by higher freight rates. On an overall basis, the multimodal transport operations clocked a total volume of over 207,434 TEUs for the third quarter of the financial year. The total revenue for the third quarter ended was Rs.2147 Crores as against 1615 Crores for the corresponding period last year, which is an increase of about 32.9%, which is primarily as I mentioned driven by higher freight rate prevalent across the globe. On the EBIT side, we achieved 57.9 Crores for the quarter as against 57.5 Crores for the corresponding period last year, which is a marginal increase of 0.69%. EBIT margin stood at 4.3%.

Coming to our Project and Engineering solutions business, the total revenue for the third quarter stood at Rs.82 Crores as against 72 Crores for the corresponding period last year with a growth of 17.1%. Project logistics EBIT reported at 1.8 Crores for the quarter. The segment has seen relatively limited growth in the order book, but business continues to be steady. Focus on infrastructure growth and development of new metro projects announced in this year's budget is likely to provide a good opportunity in future. We believe that the government will continue to focus on infrastructure expenditure to revive the economy and therefore there would be more capital projects, more infrastructure projects, which would lead to greater opportunity for crane business as well as for the project logistics business.

On the crane utilization side, we have seen steady improvement since May and now, we are almost a part or even better on sometimes when we do a year and year comparison. The company as we had mentioned in the past is focused on rationalizing its fleet to make the overall fleet younger and just to highlight in this business we generally see a lower ROCE, which is primarily driven by a significant amount of depreciation on the equipments, which drive EBIT to a much lower number. Coming to our logistics park business, the total revenue for the third quarter ended was 17.8 Crores as against Rs.11.8 Crores for the corresponding period last year with the growth of 50.8%. This is primarily driven by new warehouses, which got developed and ready and leased out to various times.

The development and construction of Logistics Park is going on schedule. There was a minor disruption in the early couple of months of COVID pandemic, but since then we have been steady in our revenue construction was happening across various sites. Lease income from

warehouses naturally continues to drive and that will continue as more and more warehouses get developed. As we have informed in the past for this vertical we also have got into an agreement for a definitive transaction, which will reduce our shareholding to a strategic minority holding of 10%, that transaction has seen some delays due to COVID let delays in certain approvals, which were part of condition precedent; however, the work is in progress now and we are confident that it should get concluded with some delays.

Coming to our CFS and ICD business segment, the total volume for the third quarter of the financial year 2021 were 81666 TEUs. The total revenue for the third quarter ended stood at 108.8 Crores marginally lower than 111.3 Crores for the corresponding period last year; however, efficiencies on the operation side helped us improve the EBIT, which stood at 31.3 Crores as against 27.8 Crores for the corresponding period last year. There has been a recovery in volumes across all locations over the past several months, both volumes have registered a good growth in the segment and on the challenge side the same thing, which we spoke about the shipping, shortage of containers, some black feeling and higher freight rate have impacted the trade and which does impact the CFS and ICD business as well. The ROCE for the business continues to be healthy. This is a quick update from our side on all the businesses. Thank you very much and we are open for any questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

**Vikram Suryavanshi:** Good morning, Sir. Can you repeat the volume for MTO business for the quarter?

**Ravi Jakhar:** Yes, the volume for the MTO business is over 207,000 TEUs.

**Vikram Suryavanshi:** And the rates what we have seen in quarter, freight rates particularly for MTO, I think there has been further increase in raise for this quarter also in January, February, so the kind of index we get for the full container load freight rate, does have similar increase we have seen in LCL also or LCL, the rate would increase the quantum of rate hike would be lower than what we have seen in the container index rate?

**Ravi Jakhar:** So, what happens is in the LCL space, which is less than container load naturally you are on the procurement side we are blocking the same container space from the shipping line and therefore we have to pay the same freight rate, which we would pay FCL, they would not differentiate between LCL and FCL container, so actually the freight rate, which have gone up for all across, now there are positive and negative in the freight rate when it comes to impact in our business because on one side like as I mentioned the procurement becomes challenging, but then we are mostly often able to pass on the incremental cost to be end customer as well, so therefore our gross margins are usually protected and that is how this business, which always see if not globally, which is the trend right now at least on some trade lines you will always find some volatility in the freight rate, the business fundamentally focuses on the GP when driving the

business performance and therefore you would notice that the significant increase in freight rate lead significant towards and because of higher procurement cost now does it lead to incremental benefits because of higher revenue the only thing, which happens is excuse the percentages in terms of proportions so that the way to analyze, you can look on the EBIT level when you would see if we are able to hold on the EBIT, but the revenue rise significantly because of higher freight rate you would typically find the EBIT margin appears to be lower and when the freight rate normalize our EBIT would remain same, but the freight rates and therefore the revenue would come down and therefore the EBIT percentage margins would go up just to explain how to look at the numbers.

**Vikram Suryavanshi:** And basically can you say the absolute or utilization level currently and project and engineering and do you have any order book growth right now because I think at this time you could not get a presentation if we can hear the utilization rate as well as the order book?

**Ravi Jakhar:** Yes, we will upload the presentation today you can get all the details there, but just to broadly highlight the utilization levels over the last couple of months have varied from 68% to 69% to about 78% to 79%, so on an overall basis these numbers have been higher than where we were, not just in the previous three months, but also in the previous year, what we also done is as we continue to rationalize our fleet, what you typically find is the number of fleets would reduce, but these are typically younger, better, more in demand kind of trend and we also higher some cranes from outside to meet our clients requirements because people prefer to take services from on cargo driven our focus on safety and service channels, so therefore we are moving towards situation wherein let say 80% to 85% of our crane is our own, but may be we have the 15% to 20% of capacity supplied from outside as well, so that we can maintain higher utilization of cranes and make the business more profitable, so that is one thing, which we are doing and which has helped us significantly over the last few quarters despite the challenges in the COVID pandemic we had been able to feel that utilization and also in comparison to most of the key competitors in the market our crane utilization levels would be higher.

**Vikram Suryavanshi:** Got it. Thank you, Sir.

**Moderator:** Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment. Please go ahead.

**Ashwini Agarwal:** Hi, Deepal, I was just looking at the numbers on year-on-year and quarter-on-quarter basis and I accept that MTO business one as to look at EBIT per container rather than look it as a percentage of revenue, but there has been a meaningful decline over this September quarter, can you give us some colour as to what happened why this EBIT number down from almost 80 Crores down to 58 Crores, September versus December?

**Ravi Jakhar:** Basically, what happens in this business is there are two things, which drive us, first the business has seasonality, so if you would look at the historic numbers as well, your yearend payments to

staff, etc., are relatively higher and therefore your staff cost goes up and therefore when you look at the EBIT level you would find there is an impact and this a seasonality, which comes in because in our global business unlike the India business, which runs on April to March budgeting, the international business runs from a January to December budgeting and therefore the October to December quarter is the last quarter for the budget year and which is where some incremental cost are there, which are annual, that is one reason. Secondly, as we have tried become more lean and efficient in the business processes by use of technology it means that we have been able to reduce head count, but as you know driven by various regulations, the reduction in head count also comes along with severance cost and therefore those severance costs have also impacted the bottomline and there have been some one time expenses as well on the transformation initiatives and some technology initiatives, so these are two factors attributing to incremental cost and therefore relative impact on the bottomline.

**Deepal Shah:** Ravi, just to add so what happens is that the current quarter because of the severance cost there could be a little bit of higher impact on the P&L, but going forward those savings will add up and will finally be shown in the bottomline, so it is an ongoing exercise where we are trying to reduce our manpower and digitize some of our processes.

**Ashwini Agarwal:** And the other thing I do not know Deepal you mentioned it or Ravi mentioned it, but you spoke about higher working capital requirements because of higher shipping freight rates, I was always under the impression that this is a business that kind of has matched cash flows you pretty much collect when a customer books a container and the shipping lines give you a small amount of credits so there is not much working capital involved in the MTO business, but your comment seems to indicate otherwise, could you help me understand why?

**Ravi Jakhar:** Yes, basically what happens is as compared to the other businesses naturally there is not very high amount of working capital volumes, we get a rate from shipping lines and we send that to our customers, there is always a small marginal gap in that and which were the working capital comes into play, now in today's time there are historic high in ocean freight that has impacted the working capital, but at the same time the impact on the ROCE because of working capital would be less than 1%.

**Ashwini Agarwal:** And this is transient I am assuming?

**Ravi Jakhar:** Yes, this would change so we believe that of course nobody knows for sure, but based on our experience and what we get from our operations and business teams we believe that over the next 4 to 5 months the situation should get better, we do not anticipate the freight rates to go back to the old normal, they may continue to remain at a certain based above the historic phase, but they would certainly soften a bit in the coming 4 to 5 months and then as the freight rates go down naturally the working capital will get released back and therefore your capital employed also will again shrink and naturally any overdraft facility etc., also will be reduced and marginal improvement in interest cost also.

- Deepal Shah:** Ravi, it is also a factor of that container shortage, which will get yield out in the coming quarter so probably the impact of that on the freight rates will subside.
- Ravi Jakhar:** Yes, exactly.
- Ashwini Agarwal:** How does the container shortage impact working capital?
- Ravi Jakhar:** It affects the freight rate.
- Deepal Shah:** As the freight rate is up, so the working capital gets expanded.
- Ashwini Agarwal:** Sure and that was the other question that you know on the container availability side are you seeing any respite or things continue to be as bad as they were through the October to December period?
- Ravi Jakhar:** No, those have been improving significantly also the current ongoing period when there has been a bit of those for me like every year, but there has definitely been a certain break for the Chinese New Year, lot of shipping lines are using this window to reposition the containers and remove the imbalances, which had occurred so the situation is certainly improving on the container shortage side also and also new containers coming in, so it is definitely not as difficult as it was even three months ago to source the container, so the situation is improving well on that front and in the next 3 to 4 months we believe that the thing should be in control.
- Ashwini Agarwal:** Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.
- Vikram Suryavanshi:** Sir, thanks for the opportunity. On CFS side, the volume number what I have got is 81,666 that is the right number and second thing how are we seeing the trend in ground rent, which were quite significant component during COVID time and trade disruption, how that is now in terms of revenue share and even we had seen that lot of DPD tier container, which was going to CFS that proportion was also significantly increased even trade was disturbed, so how is the share of DPD containers, which are again going back to CFS compared to peak in COVID time and is it impacting the overall profitability or has it normalized or structurally are we seeing that the profitability has now improved compared to pre-COVID time for CFS business?
- Ravi Jakhar:** So, I would say that as far as the DPD containers are concerned we continue to benefit from the existence of CFS and that trend continues. On the ground rental side naturally the situation in the month of last week of March and through April was very different when there was a very strong run down of places and therefore containers were not been evacuated that situation has very well eased by June or July itself and now from an operational standpoint this is completely back to

normal, there are no visible impacts of pandemic as far as the storage or movement of container is concerned where it is pretty much like how it was pre-COVID.

- Vikram Suryavanshi:** Can you reconfirm the volume number?
- Deepal Shah:** Yes, the volume numbers are 81666 for the quarter FY2021.
- Vikram Suryavanshi:** Sir, if you can give within CFS and JNPT running at what capacity utilization because I think out two shapers one predominantly we are using for additional value added services or that into DPD so how is the combined utilization at JNPT and what kind of recovery we are seeing at JNPT?
- Ravi Jakhar:** JNPT utilization have been more or less same as last year, not we expect the volume should continue to improve over last year, and therefore the utilization level should go up considering that dwell time remains same. Only for the temporary phase during the early part of pandemic utilization it increased significantly because the CFS choked and the containers were not moving out, now they have been normalized, but apart from Kolkata, which is relatively new facility and therefore would only see a steady build up of business JNPT and Dadri continue to be at par, in Chennai we have seen some good traction, so overall I would say marginally better than the last year as on today status.
- Vikram Suryavanshi:** One last question on MTO, the kind of volume growth what we have seen is it lager part that because of full container or LCL verus FCL in kind of growth rate?
- Ravi Jakhar:** It is in the combination of both, we do not distinguish between the opportunities as well sell both LCL and FCL to our customers.
- Vikram Suryavanshi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.
- Ashwini Agarwal:** So it is partly related to the previous question. Could you give us a breakup between full container and less than container load in that, the number of TEUs that you carried over the quarter?
- Ravi Jakhar:** So we do not share the breakup on the FCL and LCL. We have always treated them as one unit. That is how we do the procurement and the sales to customers also happen, so we have maintained them as one common business operating as one.
- Ashwini Agarwal:** Alright. Thank you.
- Moderator:** Thank you. The next question is from the line of V P Rajesh from Banyan Capital Advisors. Please go ahead.



**V P Rajesh:** Thanks for the opportunity. My question was regarding the de-listing process, if you can comment on the delay that we are seeing in process moving forward and relatedly, the transaction that you mentioned at the beginning of the call, will that impact the timeline of the de-listing as well?

**Ravi Jakhar:** So de-listing and the transaction I mentioned about are 2 separate issues, not connected to each other. De-listing is a promoter issue, while the transaction is a company matter. As far as the transaction is concerned, it is under progress. On the de-listing side, from a process perspective, the shareholders approval had come through and now the next step is for promoters to arrange the funds and then make a formal application for de-listing. It is not possible for the company to comment on where the promoters fund raise initiatives or funding arrangements are in place, and when they would be able to make a formal application for de-listing. It is not possible for the company to comment on that.

**V P Rajesh:** Fair enough and my second question is on the business front, would you say that you are back to 80% to 90% of the pre-COVID levels or if you can just give some colour on that side, division by division, how are you seeing the near-term trends?

**Ravi Jakhar:** Yes. So if I speak about situation as of today, in the MTO business, we are doing as good as last year. I do not see any shortfalls. In some places, we are perhaps doing marginally better. In CFS business, from a business performance standpoint, we are doing better than last year as of today's status if I speak about that. On the Projects & Engineering division, on the crane equipment rental, we are doing better than last year. On the Project Logistics, we believe that things should improve in the coming year. Last 6, 8 months have not being that strong for new projects, but we believe in the coming 6 to 9 months, things should improve. So we are definitely below maybe at 70% level in that business on the Project Logistics, but that should revive in the coming few quarters, so overall business, I would say, is at par or stronger than last year on today's basis.

**V P Rajesh:** And on the crane side, the utilization is pretty low in the industry from what we understand, what is your view on that business?

**Ravi Jakhar:** Yes. So while there is no verified third-party data that we can refer to, our broad understanding is that industry-wide utilization levels vary from 50% to 60%, but in our case, we have been able to keep them north of 70% for most part of the time and that is primarily driven by our high service levels and significant focus on safety, which is valued by the customers, and therefore, there is a preference for our equipments, which allows us to maintain higher utilization levels. We have also, over the last several quarters, been focused on rationalization of fleet, ensuring that we keep the right cranes, which fit our customer requirements well, so keeping customers the center of the business has allowed us to have higher utilization levels in the crane rental business.

**V P Rajesh:** Great and lastly, on the yield side, in the cranes, what is the yield we are getting, is it getting better, is the pricing getting better or what is the situation there?

- Ravi Jakhar:** So the yield was even, I would say, it was certainly at a significant low 6, 8 months ago, but it has been steadily increasing over the last 5, 6 months and we expect that there could be another maybe about 5% to 10% upside, which may still happen in the coming 6 months or so.
- V P Rajesh:** Thank you so much. I appreciate that.
- Moderator:** Thank you. The next question is from the line of Ankit Panchmatia from B&K Securities. Please go ahead.
- Ankit Panchmatia:** Good morning and thanks for taking my question. Sir, my question is more to do regarding the CFS business, how are we looking at this business because the ground rents are not there, I believe in this current quarter, and do we see the per TEU metrics to be sustainable at these numbers and we were providing some value-added services on this side of business, so do we see that this segment has bottomed here, and we would see some better days ahead with respect to the realization on the per TEU profitability, which we are looking at it?
- Ravi Jakhar:** Yes. So I see that your question itself has the answers to the question as well. You spoke about the value-added services. That is the way to go to find more opportunities, see what more can be done, what more can also be permitted, so we will continue to see the policy also shape up from the government side, government is working on the national logistics policy. We will see what CFSs can do more and benefit from the government's outlook towards facilitating trade. In terms of you spoke about the per TEU, yes, as the ground rent comes down, you may see marginal decline in per TEU realization, but that is something, which you have seen has already bottomed out and it is likely to only get marginally better. What also we need to recognize is that as the trade continues to grow, the capacity on the port side is significantly available with the new terminals, which are still not fully utilized. While on the CFS, ICD side, the government has taken the right initiatives on zoning various locations, and therefore, ensuring that there is not excess supply, which leads to a situation of discomfort for the economy and traders at large. So therefore, what it means is that the ability to compete better and handle more TEU goes up because if my container yard can hold 4000 TEUs, for an example, and if the dwell time is 15 days, it can handle 8000 TEUs, but if the dwell time goes down to 10 days, the same container freight station can now handle 12000 TEUs. So ability to handle higher TEUs negates out the reduced earning from the ground rent as the dwell time goes down, so on an overall basis, we believe there are good opportunities for growth by attracting higher volume, making use of the reduced dwell time, offering value-added services and trying to see how we can make the operations more efficient.
- Ankit Panchmatia:** Right. Sir, just to understand this, this quarter does not have any ground rent, right, so this is the performance without any ground rents in the current quarter?
- Ravi Jakhar:** You mean to say any abnormal ground rents, yes, there is not anything abnormal.
- Ankit Panchmatia:** Any abnormal?

- Ravi Jakhar:** Yes, the business has operated in a normal environment for the last 3 months. There have not been any significant abnormalities in the business operations.
- Deepal Shah:** Ravi, just to add here. All CFS billings have ground rent, but these are normal ground rents as per normal dwell time of the containers.
- Ravi Jakhar:** Yes.
- Deepal Shah:** Any undue abnormal, which you have seen in the first quarter is not there, just to make it amply clear.
- Ankit Panchmatia:** Right, and on the transaction with the Blackstone, how much amount, which you have already received, is there any amount over this quarter, which we have received and any clarity on the same would be much helpful?
- Deepal Shah:** Yes, so the amount from Blackstone is going to be 380 Crores, as originally mentioned in the agreement, out of which around 238 Crores is what we have received, 142 Crores is due, that amount is expected as and when we close the conditions precedent, which we are about to close in a couple of months from now.
- Ankit Panchmatia:** And these proceeds are actually to be focused towards reduction of debt or how would we plan to?
- Deepal Shah:** Debt. Yes, it will be focused towards reduction of debt.
- Ankit Panchmatia:** Deepal, if you can mention, what would be the current debt figure we have, gross debt?
- Deepal Shah:** Yes, so our current debt levels, you want consolidated or you just want Allcargo stand-alone?
- Ankit Panchmatia:** Yes, consolidated?
- Deepal Shah:** So consolidated including Gati, at the net level is around 1300 Crores, at the gross level, it will be around close to 1600 Crores because we do always carry some cash as treasury.
- Ankit Panchmatia:** Great. Thanks.
- Moderator:** Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investments. Please go ahead.
- Ashwini Agarwal:** Just 1 more question on the PES side, we have seen your asset side come down a lot as a result of probably both depreciation and asset disposal, is this balance sheet now sort of at a stage where we can expect it to remain steady or do you have more reductions planned in mind?

- Ravi Jakhar:** So the way to look at the numbers would be to focus on the depreciation amount. The depreciation amount would either remain the same, if no further equipments are sold or the depreciation amount going down will primarily be on account of some cranes being sold, which means your asset value will further go down, so therefore, whatever trend you see in terms of reduction in book value, the same trend is likely to continue because either the same amount of depreciation will happen or depreciation plus an additional amount because most often, when we sell the equipment, it is usually higher than book value we are able to realize in most cases.
- Ashwini Agarwal:** So actually, what I was trying to understand was that are you now happy with the assets that you have or do you still have identified surplus assets in the Projects & Engineering space that you wish to sell?
- Deepal Shah:** No, we may still have to reduce some more assets from the P&E segment.
- Ashwini Agarwal:** And the increase in the MTO net assets, roughly about 220 Crores year-on-year, most of it is working capital or have you invested in capex as well and if you can give us what are your capex plan?
- Deepal Shah:** It is primarily working capital.
- Ashwini Agarwal:** Alright. All the best.
- Moderator:** Thank you. The next question is from the line of Prateek Kumar. Please go ahead.
- Prateek Kumar:** I have few questions. Firstly, in the MTO operations, there was some government subsidy support, which had inflated our numbers in Q1 and to some extent in Q2, is that impact now behind or is this still contributing to our profits?
- Ravi Jakhar:** Q1 had a significant support from the government. Q2 was far more reduced and Q3 is almost not material.
- Prateek Kumar:** And is it possible to quantify the one-off impact of staff cost including severances, which has been paid during the quarter, which will not have like an impact in Q4?
- Ravi Jakhar:** So I would say ballpark number, which we can provide for severance cost or a couple of other one-off costs could be in the range of about \$1.5 million to \$1.6 million.
- Prateek Kumar:** And one question on CFS segment, so I understand there are like few CFSs, which are licenses for them are up for renewal, probably of the land or in general, so does our CFS also gets impacted due to that or we still have like leases for a few years?
- Ravi Jakhar:** No, we have no such concerns in our business.

- Prateek Kumar:** And lastly, what is the capex, which we have done for the 9 months for this year?
- Ravi Jakhar:** Deepal, would you like to answer that?
- Deepal Shah:** Yes, so primarily, we have spent around close to 300 Crores odd on construction, other than that, we do not have, hardly maintenance capex of around 10 Crores to 20 Crores.
- Prateek Kumar:** So this construction capex will be refunded to us?
- Deepal Shah:** Yes.
- Prateek Kumar:** And when that would happen post the closure of this deal, right?
- Deepal Shah:** Yes, like we mentioned earlier in the call that there are certain CPs, which need to be completed, which we expect to complete in the next couple of months. It got extended because of COVID and once we complete this, we will receive the rest of the money.
- Prateek Kumar:** So just to understand the balance sheet, FY2021 balance sheet, assuming this deal does not get closed within March, we will have this higher capital expenditure in our cash flows?
- Deepal Shah:** Yes, if we are able to complete the CP before March end, which seems a little unlikely, if it happens, then, of course, the amount will be received and the balance sheet will shrink accordingly, but if that does not, it will jump over to the next quarter, so we will see the balance sheet shrink by end of June 2021.
- Prateek Kumar:** And are we also looking for improving Gati's operations and restructuring operations there, which we understand, are we also adding funds there?
- Ravi Jakhar:** Yes, so on Gati side, you know as we have spoken separately on Gati call as well, we have been going through a tremendous transformation exercise there, which encompasses everything from operations to sales, technology, people, processes, and everything is being transformed. In terms of capex requirements, we do not foresee very significant amounts to be required whether some reasonable incremental capex will be required, we would get to know in the next 3 to 6 months as we evaluate various opportunities and take various business decisions, but nothing very significant or substantial.
- Prateek Kumar:** Thanks. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

**Vikram Suryavanshi:** Sir, can you give clarity on this minority interest of close to 12.6 Crores in this quarter, which is significantly different than previous quarter and how is the outlook on the Contract Logistics business?

**Ravi Jakhar:** So Deepal, if you can answer.

**Deepal Shah:** The minority interest is typically, it is different because the minority interest depends on the profit, so there have been changes in the Gati results from previous quarter to this quarter that is the reason the minority interest has changed accordingly. We hold only 46% of Gati, balance goes into minority interest. That is one large piece rest, of course, we have a minority interest in some other holdings also, which are very miniscule. So at a consolidated level, when we give the profit, the profit includes as 100% stake and then we, as an accounting policy, the minority interest is reduced from the profit at the end or if it is a loss at the minority, it is added back that is how it works. That is the difference, so Gati announced some exceptional items in their P&L that is the reason the minority interest has substantially changed over the previous quarter.

**Vikram Suryavanshi:** Right and how is that outlook on the Contract Logistics business?

**Ravi Jakhar:** Yes, in the Contract Logistics business, we primarily operate in 4 key domains, which is chemical, auto and spare parts, e-commerce and then the other verticals, other industries, so chemical, we have had a strong presence since last many years, and that continues to be the case; however, from a growth perspective, we see that e-commerce is the biggest driver of growth because that is where the maximum opportunity lies with the significant expansion of the entire e-commerce retail trade in the country, so we are bullish about the business. Business should continue to perform well, but from a vertical-wise perspective, we believe that while some of the conventional verticals for us like chemical, which is, of course, the largest vertical right now, would continue to witness steady performance and some marginal growth, other verticals like e-commerce may drive growth significantly.

**Vikram Suryavanshi:** Because we have that Avvashya CCI contract logistics business and even Gati has, I think, some contract logistics business, so going forward, are these significantly different domain within the different industries or is there any way we can consolidate these businesses?

**Ravi Jakhar:** Yes, so for Avvashya CCI contract logistics is the mainstay business and the key business. We have supply chain management business in Gati also, but in Gati's context, that is relatively smaller; however, what happens on the business front is, we try to derive synergies across the 2 and see wherever they can benefit from each other, whether it is in terms of sharing work or knowledge in the background or finding some synergies at the customer end as well. In terms of customer segments, yes, they are slightly different, at Avvashya CCI, we have historically focused on the capital vertical and auto and spares has been the second vertical and e-commerce is the growing vertical while Gati's business is mostly around consumer durables and IT products.

- Vikram Suryavanshi:** That was helpful, Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of V P Rajesh from Banyan Capital Advisors. Please go ahead.
- V P Rajesh:** Just a follow-up on the PES division, you said you are planning to sell some more assets, can you quantify the amount of that?
- Ravi Jakhar:** So I would say that we would look at selling about 10% to 15% of our crane fleet over the coming 6 months or so, so that is a broad idea I can give you in terms of the scale of asset rationalization.
- Deepal Shah:** So I would say exact value is not determinable now, because it is market-driven, so we do not know what values will come up, but yes, we are looking at to shrink the current equipment size by another 10% to 15%.
- V P Rajesh:** That is helpful because, obviously, you know the book value of the cranes, so the other question is, is it because they are utilizing certain industries and those industries are not doing well or they are lower metric ton cranes, I mean if you could just give some more colour, why are you disposing them?
- Ravi Jakhar:** So generally, the single biggest factor for disposing of the crane is to dispose of the oldest cranes, now it depends on the age of the crane, the health of the crane, and coupled with the demand in the market, so all these factors come into play when we decide to dispose off a certain asset.
- V P Rajesh:** Got it and which industries are doing well, where we are seeing the high utilization that you referenced earlier?
- Ravi Jakhar:** So I would say that across all the key projects, whether it is metro projects or some of the other infra projects, they have all resumed work, it was only a temporary disruption for a couple of months and the overall, it is not like the industry is witnessing significant growth, I would say that is the reason the overall industry utilization levels are not still very high. We have managed to stay very sharp with our focus on the right equipment, right service, and right maintenance and safety, which has allowed us to perform, I would say, disproportionately better than the average of the market.
- Deepal Shah:** Ravi, the capex cycle is still low for India and we are hoping that this liquidity will kick in, the investment and capex cycle, so that will help the industry, the P&E industry.
- Ravi Jakhar:** Whether the windmill policy will lead to wind sectors doing well or something is tough to say right now, but it is more company performance rather than the overall growth in the industry segments.

- 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. The question is on the Blackstone deal, sorry if you were asked this question before, but just to understand a bit more, we executed agreements with Blackstone for 6 of our wholly owned subsidiaries and the idea was that they will take the entire or majority equity stake in those 6 subsidiaries as of now, what we see and the latest and please update my understanding, is that Blackstone has invested money in the form of debentures in those subsidiaries where majority stake is yet to be transferred, so if the agreement gets signed and completed, those debentures will get converted into equity for Blackstone and you will sort of stop consolidating them in your balance sheet, and that is how the debt will move out, if not, if they choose to exercise their put option, then those debentures will continue to stay and there will be certain amount of agreement on the returns that you would have made to Blackstone in case the agreement does not go through and you have to service the interest and pay out those debentures to Blackstone with some pre-agreed return deal, is this the broad understanding of the deal as of today?
- Ravi Jakhar:** Yes, so that is the broad understanding as you rightly put, in case the deal does not go through, if the condition precedent part, we do not fulfill, the money gets to return to Blackstone whatever has come along with certain assumed interest cost and currently, the way it is structured is all these assets across Karnataka, Goa, and other locations are basically sitting in separate SPVs and those SPVs have taken loans and as the transaction gets consummated, those subsidiaries would see change in shareholding and post the transaction getting consummated, all the subsidiaries will have 90% shareholding from Blackstone and therefore, naturally, all the loans which are sitting on the books of those SPVs would not be consolidated with Allcargo and that is how the debt will go away.
- Abhijit Mitra:** Right and regarding this put option, for which they have done a separate valuation, what are the broad conditions that if you can share some, I mean what kind of conditionalities are there?
- Ravi Jakhar:** So primarily, the transaction is just linked with getting all the necessary approvals required to ensure that all the warehousing parks can function as planned and most of the conditions have been met. There has been just some small work, which has been pending on some last set of approvals to come in from the government bodies and those approvals have only seen procedural delay due to COVID and unfortunate events, which were linked to COVID itself, but we expect that in the coming 2, 3 months, we should be able to get those approvals. We do not see any concerns or red flags, if I can put it that way.
- Abhijit Mitra:** Great. That is very comforting and I do not know whether this question has been discussed or not because I joined a bit late, but this transfer of Panvel Logistics and Warehousing Solutions to the promoters, if you can just give a brief background?



- Ravi Jakhar:** Deepal, you want to update on that?
- Deepal Shah:** No, it is just the company does not have any transaction. It just holds a share capital and it does not have any profit or loss. There have been no transactions, so company is primarily nonfunctional with no assets or liabilities. We are just transferring for the promoter for his personal use. The company does not have any assets or liabilities as it stands today.
- Abhijit Mitra:** Thanks. That is all from my side.
- Moderator:** Thank you very much. As there are no further questions, I will now hand the conference over to the management for closing comments.
- Ravi Jakhar:** Thank you, everyone for joining us and we look forward to being in touch with you, and we will continue to update you about all the material developments about various businesses that we have and thank you all for joining, and I wish you all good health and safety in the times of pandemic. Thank you.
- Deepal Shah:** Thank you, everyone for joining.
- Moderator:** Thank you very much. On behalf of Antique Stock Broking Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.