

ALLCARGO Logistics Q2 FY16 Earnings Conference Call

MODERATOR:

Ladies and gentlemen, good day and welcome to the ALLCARGO Logistics Q2 FY 16 Earnings Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder, all participants' 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 please signal an operator by pressing * and the 0 on your touch tone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishna Biyani of Prabhudas Lilladher. Thank you and over to you sir.

NISHNA BIYANI - PRABHUDAS LILLADHER PRIVATE LIMITED:

Thank you Inba. Good day to all participants and I would thank the management of ALLCARGO for taking out time for today's concall to discuss quarterly financial performance of the company. We have with us Mr. Prakash Tulsiani, Executive Director and COO, Mr. Suryanarayanan, Executive Director ECU-LINE and Director Finance, and Mr. Jatin Chokshi, CFO. We'll begin this call with opening remarks from Mr. Prakash Tulsiani following which we will open the floor for interactive Q&A session. Before we begin, I would like to mention that certain statements in this call could be forward looking statements in nature, and are subject to risks and uncertainties which could cause actual results to be materially different from those anticipated. Such statements are based on management belief as well as information based on what is currently available with the management. I would like now to hand over the floor to Mr. Prakash. Thank you sir.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Nishna thank you very much and good afternoon everyone and thanks for joining us on the call. I hope all of you have received our results and gone through the quarterly financial numbers by now. For those who haven't you can view them along with our presentation on the website. Before we go through our quarterly performance I would like to appraise all about our business verticals. ALLCARGO is the first company in India to be able to offer complete and integrated logistics services to its clients, to its mix of synergistic businesses. In short, a one stop logistics solution. We have created a leadership position in each of the logistics segments that we are present in. We have been ranked 203 in ET 500 best performing companies. In spite of global conditions, our volume and ebitda margins have grown. Our ebitda margins have improved by 20% in this quarter. Our ROCE without goodwill at the consolidated level has reached 23%. In our global LCL business we are amongst the top 2 in the world. In the Indian business of container freight station, CFS we are the only player which is present at the major container ports of India which are JNPT, Chennai and Mundra. These three ports account nearly 80% of the container traffic in India. And we are now going into the port which is also a major port and that is CFS at Calcutta Port. The land is already allocated to us and it is for 30 years' lease. In the projects and

engineering service business we are leading players in both project logistics and equipment leasing. We have entered the ecommerce space by establishing a fulfillment center in Gurgaon for Snapdeal, India's second largest ecommerce player. We see huge opportunity to grow in the near future in this segment. We are bringing in a huge focus on the supply chain management and contract logistics business. We will be one of the market leaders in the business in the years to come as we are focusing on developing sector wise expertise.

We always feel happy while rewarding the investors and over here in this last board meeting we have declared one on one bonus, that is 1:1 bonus, and interim dividend of 50% for our shareholders. A lot is happening in the logistics world and I believe that ALLCARGO has the capabilities and the management bandwidth to meet the opportunities as they unfold. We are always in the state of readiness. Starting with the quarterly update, Jatin our CFO will take you through the consolidated quarter financial numbers. Jatin over to you.

MR. JATIN CHOKSHI - CFO, ALLCARGO:

Yeah thanks Prakash and good afternoon to everyone. Coming to the consolidated quarterly financials of our company, our total revenues from operations for the quarter stood at Rs. 1468 crores, almost similar to the quarter 2 of FY15. The revenue is the same despite declining freight rates and notional currency impact. The consolidated ebitda for the quarter was Rs. 141 crores year on year growth of 20%. This growth in ebitda has been driven by all the businesses of MTO, CFS and project and engineering solutions segments. The ebitda margin improved to 9.6% as against 8.1% in the corresponding previous period and improvement of 155 basis points. The PAT grew by 14% to Rs. 73 crores driven by volume increase, operation efficiency, process excellence and cargo mix.

Coming to the balance sheet, as on September 30th 2015, the net worth stood at Rs. 2084 crores and the total gross rate was Rs. 579 crores. This is slightly higher compared to the immediately preceding quarter and year on year, as this quarter we bought two new ships for which we have taken loan from the lenders. Our debt level at net level was Rs. 311 crores. Our current net debt to equity ratio was 0.15 reflecting strong balance sheet. The consolidated and annualized return on capital employed without goodwill has increased to 23% from 19% in FY15.

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

MR. SURYANARAYANAN – EXECUTIVE DIRECTOR ECU_LINE & DIRECTOR FINANCE, ALLCARGO:

Our MTO business has been performing in line with our expectations. The volumes this quarter grew by about 8%. We have seen growth continuing in our key markets like China, USA, UK and Germany. The revenue from this business in an INR perspective is flat is only because of the currency impact where the Euro last year was at about 80, whereas this year the conversion has been at about 70. So that is why you are not able to see it in INR terms. But in real terms in Euro basis it is growing at about 9%. I am also happy to share that despite

huge decline in freight, our 8% volume growth has still resulted in an earnings before interest in tax by about 12% to 63 crores; driven as I told earlier by the volume increase and increased efficiency and economies of scale across our network. Our ebit margin has also increased by about 65 basis points to 5.1%. The improvement has been in line with our various endeavors that we are continuously tracking and monitoring to improve our performances. We continue to focus on growing volumes in our existing network and also to increase our operational efficiency. The annualized return on capital employed without goodwill in this segment has increased to 65% as against 49% in the previous year. Our aim is to be the largest LCL consolidator in the world and we will continue on strengthening our net worth in fast growing geographies to attain leadership position in the markets that we operate in.

Now Prakash will continue to talk about our other India businesses.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Thanks Suri. Coming to our India business of CFS and project and engineering” Starting with our CFS and ICD operations, the volumes grew by 2% to 77027 EUs. Both our CFS at JNPT have shown good growth as against last year. In Chennai we have grown year on year despite a ban on import of pulses. As we added new customers in the Chennai market. In Mundra we witnessed a decline due to decrease in port volumes due to heavy rains and that you would have heard was in month of July. The revenues of CFS business grew by 11% to 112 crores and ebit by a good 43% to 35 crores on account of cargo mix and operational excellence. The ebit margin increased to 31% as compared to 24% in the corresponding previous period. The annualized ROCE without goodwill increased to 39% as against 30% in FY15. To strengthen our presence on the East Coast as mentioned earlier we are in the process of setting up a CFS at the Calcutta Port. The land for the CFS is taken on a long lease from the port, and we have received the port approval to start setting up the CFS. We are looking at a capex of around 35 crores and expect to start operations in FY17 approximately a year from now.

Coming to our project and engineering business, our asset utilization of the crane fleet continues to be more than 90%. And we have also started to see a slow uptake in price realization. This can be seen in the revenues which grew by 8% to 138 crores. The ebit declined year on year to Rs. 16 crores, this was on account of one time depreciation of cost arising from dry docking of our 2 ships. Also in this quarter there was – sorry in the previous quarter there was one time derivative gain of 9 crores. If we adjust for that, the ebit has actually doubled. The ROCE without goodwill was maintained at 9% as against, or rather was maintained at 9% against the same in the previous period. Now to conclude on a consolidated basis, I am happy to say that our focus across all businesses continues to be on growth across volumes and revenues. We continue to witness improved asset utilization and higher ROCE despite the conditions where we operate are not showing any growth. That is the market place. We have strong cash flows combined with a very healthy balance sheet. We are leveraging our global network to consolidate our leadership in the LCL business. We are continuing to focus on key markets of US, China, Brazil and Germany in the coming years. In India we will continue our focus on increasing our market share in CFS, ICD and P&E business. And also look at scaling up our contract logistics, warehousing and shipping

businesses. Our goal is to maintain our leadership position across all businesses and continue to focus on profitable growth. Thank you very much. We can now take the questions.

MODERATOR:

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touch tone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are also requested to use only handsets while asking a question. Anyone who has a question may press * and 1.

Ladies and gentlemen we will wait for a moment while the question queue assembles. Any participant who has a question may press * and 1.

The first question is from the line of Bhaven Gandhi of B&K Securities. Please go ahead.

MR. BHAVIN GANDHI – B&K SECURITIES:

Good afternoon everyone. Congratulations sir on good set of numbers. Well to start with just wanted to understand, if you look at the volume growth in the MTO business has been around 8% this quarter. We have been guiding at around 10% odd number. So would you maintain our guidance there or do you think it will have to be toned down a bit.

MR. SURYANARAYANAN – EXECUTIVE DIRECTOR ECU_LINE & DIRECTOR FINANCE, ALLCARGO:

I think you can keep it between 8-10%. Yeah there shouldn't be a problem.

MR. BHAVIN GANDHI – B&K SECURITIES:

Okay. And if there is any inorganic opportunity that can go up from there. This is not an organic....

MR. SURYANARAYANAN – EXECUTIVE DIRECTOR ECU_LINE & DIRECTOR FINANCE, ALLCARGO:

Yeah if there is an inorganic opportunity obviously it will go up.

MR. BHAVIN GANDHI – B&K SECURITIES:

Sure, sure. And sir in the previous quarter if I remember, you had highlighted that in the P&E division where was some mobilization of cranes that's why the profit was slightly subdued. And even if I were to adjust for the higher depreciation this quarter, the ebit does not seem to have moved too much. So can you explain why that has happened?

MR. JATIN CHOKSHI - CFO:

No actually if you see the ebit is almost doubled from P&E segment. Now the depreciation what we are talking of, that percent was shipping businesses wherein we bought two new ships, that has added to the depreciation in this quarter. As well as on the dry docking cost on the earlier 3 ships what we have. That also now we are amortizing speedily rather than waiting over the life of the ships. We are now amortizing the overall life of the dry docking itself because normally 2-3 years.

MR. BHAVIN GANDHI – B&K SECURITIES:

Okay.

MR. JATIN CHOKSHI - CFO:

This is the reason, but otherwise if you see the trend segment and other things, yes now the last quarter of the previous year if you see, in the P&E segment if you see, there was a derivative gain of around 9 crores. Sitting that is nothing but a purely notional out of the forex currency loan, repayment and all the accounting standards. Since we have repaid all the loans in full so this year there is no impact on MTM so which was included at 9 crores in previous years. If you remove that to arrive at a purely business perspective profitability of ebit level, so the profit or ebit level is close to double compared to the previous quarter.

MR. BHAVEN GANDHI – B&K SECURITIES:

Sir I was referring to the sequential quarter, previous quarter as in the first quarter of this year.

MR. JATIN CHOKSHI - CFO:

This was for year to year.

MR. BHAVIN GANDHI – B&K SECURITIES:

First quarter there was some mobilization of cranes which was happening right? And you were expecting that that would not be there this quarter so we will see some improvement in the profitability in the P&E division.

MR. JATIN CHOKSHI - CFO:

Yeah that operation is already over. As we mentioned during that concall, such was the short term opportunity wherein we did not have to buy the assets and looking for the deployment. So that is the reason we got it on a lease model from approved, we completed the operations then. The crane has been re-exported. And in the process we made a healthy amount of profit without any asset sitting on the books or worry about the interest or depreciation kind of thing. And we look for such opportunities which are ample and that is the reason one of our strategies is that we have found out we are working towards a model wherein there is no capacity constraints like 95% utilization or 100% utilization because the logical question

would be what after 100%? Yes we have got all the options available due to the availability of such cranes and other things and we will continue to explore that.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

To add on what Jatin just mentioned, it is also – in this current we had quarter dry docking of two ships. And what has happened is we had acquired two vessels for which the depreciation has come in. That is which was acquired in the month of July. So obviously you will see that there is a difference in the ebit margin there.

MR. BHAVIN GANDHI – B&K SECURITIES:

Sure.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

And asset utilization is improving and we are in the range upwards of 90%.

MR. BHAVIN GANDHI – B&K SECURITIES:

Okay. That answers my question, I will come back in the queue. Thank you.

MODERATOR:

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

MR. VIKRAM SURYAVANSHI – PHILLIP CAPITAL:

Yeah hi sir. Was dry docking only for the new ships or was it for ships already in our fleet?

MR. JATIN CHOKSHI - CFO:

No, this was for the earlier three ships which we earlier had. Out of the three ships the dry docking was for 2 ships. The earlier acquisitions, the new ships that we acquire doesn't need dry docking now.

MR. VIKRAM SURYAVANSHI – PHILLIP CAPITAL:

And including in charter ships, how many total ships do we have currently operating?

MR. JATIN CHOKSHI - CFO:

5 owned and one under charter. So total 6 ships we are operating.

MR. VIKRAM SURYAVANSHI – PHILLIP CAPITAL:

Okay sir, I think – remaining questions you have answered. Thank you sir.

MR. JATIN CHOKSHI - CFO:

Thanks.

MODERATOR:

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

MR. PRATIK KUMAR – ANTIQUE STOCK BROKING:

Yeah good afternoon sir. Sir my first question is on volume growth in the CFS segment. You reported around 2% growth. Sir would it be possible to share how much of the quantum of growth has come from JNPT, CFS. And follow up on this is, is there an impact – I mean how do you foresee impact on your realization with the competition aggressively expanding capacity in the locality?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

See due to commercial reasons we would not like to break this up into different – CFS we would like to give you overall for the particular segment that vertical we are talking about. So it's 2% overall increase please.

MR. PRATIK KUMAR – ANTIQUE STOCK BROKING:

Okay. But it would be – you have written in your press release that growth is driven by Chennai and JNPT.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Yes.

MR. PRATIK KUMAR – ANTIQUE STOCK BROKING:

So we would assume that the growth is higher at JNPT. I mean growth is higher than 2% at JNPT.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Please remember we have two CFS at JNPT. So obviously the capacity installed at JNPT is higher than any other CFS which we have around in the ports or in the ICD.

MR. PRATIK KUMAR – ANTIQUE STOCK BROKING:

Okay. And sir how do you foresee impact on realizations and margins if any due to aggressive expansions from one of the competitions in the market?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

See in the CFS business definitely yes there is capacity being built up. But definitely what matters is the service levels. And we have a value proposition for our clients. And basis that we have been able to attract market share or gain market share and retain what we have in our books.

MR. PRATIK KUMAR – ANTIQUE STOCK BROKING:

Okay. And sir my second question is on the volume guidance in the MTO segment. You said that to be 8-10%. This doesn't seem to have any impact on some slowdown in terms of global volumes in general. Do you foresee that tapering to the lower end of the guidance for the year?

MR. SURYANARAYANAN – EXECUTIVE DIRECTOR ECU_LINE & DIRECTOR FINANCE, ALLCARGO:

For the moment even though there is slowdown in various parts of the world, we have been continuing to grow if my memory serves right, the last 4 quarters we have been continuously growing. So I don't see that as an issue at this point of time because we see as far as our sales efforts are concerned, as I see it across the network we are continuing to grow. So for the moment I think you can keep these growth in line with what are achieving and growing.

MR. PRATIK KUMAR – ANTIQUE STOCK BROKING:

Okay. And my third question is on your P&E segment in terms of ships. Again there is a capacity addition from our competition on the sea freight side. And there is clearly pressure on volumes and realization there as well. So any views on that?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

In the shipping division we are in the segment which is on the bulk business. What you are mentioning about is true, correct. Indeed that is in the container segment where a lot of capacity is being added and there is intense competition going on. And obviously you must be reading that many ships have been actually you know kept – rather taken out of service. But that is not the case for our coastal operations which is in the bulk business. So we are in a

niche segment. And in fact we are the only operators in the bulk business today in coastal business.

MR. JATIN CHOKSHI - CFO:

And regarding the addition of the two ships which you mentioned, as you mentioned earlier we have got a 2 plus 2 four year back to back contract to deploy these ships at least for up to 4 years. So we don't see any challenge in capacity utilization as far as the new two ships acquisition.

MR. PRATIK KUMAR – ANTIQUE STOCK BROKING:

Okay sir, thanks for the elaborate answer. Thank you.

MODERATOR:

Thank you. Our next question is from the line of Vikram Kotak of Crest Capital. Please go ahead.

MR. VIKRAM KOTAK – CREST CAPITAL:

Hi guys. Thank you for taking the question. Actually my question has been answered but still let me ask the question on what is the medium term outlook on the PES business, Project & Engineering Solutions. Prakash if you can answer.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Yes in the P&E business definitely we are out there in projects, in contract logistics, in shipping, and also in equipment leasing. What we see is that there are certain segments which are still – the projects are being built. There are requirements of these cranes. For example you know when the grids are being made and for that the equipment is required. For wind energy there is equipment which are required. And in that there is a one stop solution which we offer to our clients. For example in the wind energy you know the production is happening somewhere in the south of India and if the wind towers have to be installed in the north we use our equipment division, we use our project logistics and we also use our shipping division. So there is a combination of giving a one stop solution to the client. And this is what the clients are looking at today instead of getting a solution only on specific rather equipment or project logistics or solution on shipping. They want one stop solution and that's where we are present. We are the only company which can offer that.

MR. VIKRAM KOTAK – CREST CAPITAL:

And also what's the outlook going forward? Because still there is kind of - the economic recovery is not so much in sight but how is it impacting your business? Are you seeing some kind of attraction in terms of – a medium term again. I am looking at more medium term

outlook instead of the quarter on quarter. So what's your view there? Maybe 18 to 20 per month?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

No what we have seen also is that not only our equipments are used for the businesses which I just mentioned, but also we are involved in the infrastructure sector. And this is where we see a lot of traction happening, specifically from the government spending. So you know like metros, that is where also we are present. And that is working well.

MR. VIKRAM KOTAK – CREST CAPITAL:

Right, right. Thanks Prakash and everyone and congratulations on good numbers and rewarding shareholders with a good bonus. Thank you so much.

MODERATOR:

Thank you. Our next question is from the line of Chintan Seth of SKS Capital. Please go ahead.

MR. CHINTAN SETH – SKS CAPITAL & RESEARCH:

Yes sir thanks for taking my question. Sir you mentioned that P&E utilization remains at over 90%.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Yes that's correct.

MR. CHINTAN SETH – SKS CAPITAL & RESEARCH:

Okay. And sir on the shipping side what will be the capacity in terms of TEUs and what is the utilization like?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

In TEUs we are not that big.

MR. CHINTAN SETH – SKS CAPITAL & RESEARCH:

On tonnage wise – sorry I forgot this bulk right? So on tonnage wise what will be the capacity?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

See we have different – 5 vessels we have and they are of different sizes. There are two who are sister vessels of 6000 each. There are 2 of 12000 each. And one in the range of 8000 or 9000 tonners. Total 40000 tonnes.

MR. CHINTAN SETH – SKS CAPITAL & RESEARCH:

Okay. And how much is - you mentioned about the back to back contract with a client. So how much of this volume is being contracted?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

These are two ships of 12000 each, approximately 24000.

MR. CHINTAN SETH – SKS CAPITAL & RESEARCH:

Okay. So more than 50% is contracted.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Yeah.

MR. CHINTAN SETH – SKS CAPITAL & RESEARCH:

Okay sir. And on your CFS we saw some slow volume. You mentioned about the Mundra rainfall and all. So what will be the volume guidance you will be providing? It was around 8-9% earlier last we talked.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

No I think that 8 or 9% was in our MTO business and we maintained that which is our multimodal transport operations. CFS of course we are driven by the export and import volumes of India, and you have seen that the trade has not been growing much. So if the trade is growing at around 1% or 2%, we will grow higher than the trade.

MR. CHINTAN SETH – SKS CAPITAL & RESEARCH:

Okay. And sir can you quantify the forex impact in our revenues in MTO? You mentioned about the Euro impact led to the decline. So what will be that impact on currency and....

MR. SURYANARAYANAN – EXECUTIVE DIRECTOR ECU_LINE & DIRECTOR FINANCE, ALL CARGO:

It is only a notional impact because it is only a translation impact on the Indian currency. Because we are consolidating in Indian rupees.

MR. CHINTAN SETH – SKS CAPITAL & RESEARCH:

Yeah. So what will be the quantum of that impact?

MANAGEMENT:

If you do the arithmetic it was Rs. 80 average for that quarter last year. And this time it's about 70 bucks.

MR. CHINTAN SETH – SKS CAPITAL & RESEARCH:

Right. So 10 Euro difference.

MANAGEMENT:

Yes Rs. 10 difference per Euro.

MR. CHINTAN SETH – SKS CAPITAL & RESEARCH:

Per Euro, okay. And sir you maintained your ROCE guidance of 500 base improvement over the next 2-3 years

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

That's the focus. We will continue to focus on our ROCE development and to ensure that we have a sustainable long term growth.

MR. CHINTAN SETH – SKS CAPITAL & RESEARCH:

Yes sir. And any update on inorganic growth? You mentioned last time that you are pursuing but any update on that front?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Nothing has happened as yet but we continue to pursue. We are as I said in the state of readiness. Our balance sheet is very strong, our cash flows are good. So we will continue to see what opportunities are given to us. As and when there will be any opportunities coming by, we will evaluate only if it is profitable and strategic. You know in terms of strategy it fits into our overall business plan, we will certainly look at it. But definitely there are two areas which we would like to continue to focus because those are the important areas in logistics. One is on the contract logistics and the other one is ecommerce. So we continue to look at that.

MR. CHINTAN SETH – SKS CAPITAL & RESEARCH:

Right, right, okay sir. And all the best. Thanks.

MODERATOR:

Thank you. A reminder to our participants. If you wish to ask a question you may press * and 1. Our next question is from the line of Jessica Mehta of HDFC Securities. Please go ahead.

MS. JESSICA MEHTA – HDFC SECURITIES:

Thank you for taking my questions and congratulations on good set of numbers.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Thank you.

MS. JESSICA MEHTA – HDFC SECURITIES:

Sir I would like to know the deal -- you have entered the ecommerce space by having a deal with Snapdeal. So could you throw some light on the same?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

See what we have done is that Snapdeal is about providing them a logistics solution end to end where we are managing their backend warehousing activity, but only for a limited geography which is presently in NCR. So we are participating there where we are managing their warehouse activity wherein all orders that they receive in that region are passed on to us for deliveries. So the last mile is done by somebody else and that delivery is picked up from our warehouse. So that's the activity which we do.

MS. JESSICA MEHTA – HDFC SECURITIES:

Okay so right now it is just in the NCR area. So going further you can cover up some other areas too?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

We will continue to examine that and we are pursuing with that objective.

MS. JESSICA MEHTA – HDFC SECURITIES:

Okay sir my next question is that in the CFS business in Chennai CFS you said you added some new customers. Could you give some gist on that, who are the customers? Like any particular sector they are from?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Regret, you know being very commercially sensitive, I would request that you know please allow me not to give you further details about it.

MS. JESSICA MEHTA – HDFC SECURITIES:

Okay, okay sir no problem. And sir you said the CFS business the three JNPT, Chennai, Mundra, covers like 80% of the volume and now you are setting up a new CFS at Kolkatta. Sir just wanted to understand if there is a demand which exists already or you have clients already in place or how is it?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

That's a good one. Because when I say 80% what I meant by 80% is that today 80% of India container volumes comes into these three ports. That is JNPT, Chennai and Mundra. In Kolkatta yes, if you see the players present over there, there is no player present India wide. You know we are the only India wide players. And that is why we would like to cover the east coast which was uncovered by us as yet. And to be present there for some time and this opportunity came by when the Kolkatta Port authority actually came out for the lease of land for CFS and we grabbed it.

MS. JESSICA MEHTA – HDFC SECURITIES:

Okay. So sir there is – do you see any demands? You already have clients in place? Or just getting the land in two places?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

See what will happen is that the shipping lines which are our customers, so presently the CFS and ICDs we have are also present in Kolkatta and we will certainly go and pursue the business they have in Kolkatta for our CFS.

MS. JESSICA MEHTA – HDFC SECURITIES:

Okay, okay. And sir one last question. You said that you have done dry docking for 2 ships. So one more ship is pending for dry docking. So will it come in the next quarter or will it....

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

In this current year we do not expect any more dry docking. We do not expect as I said.

MS. JESSICA MEHTA – HDFC SECURITIES:

Okay, okay. Thank you so much for answering the questions and all the best.

MODERATOR:

Thank you. Anyone who has a question may press * and 1. We have our next question, it is a follow up question from the line of Bhaven Gandhi of B&K Securities. Please go ahead.

MR. BHAVIN GANDHI – B&K SECURITIES:

Sir would you have any plans now crystallized for the capex going ahead?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

No, at the moment we have maintenance capex only. It will depend on the opportunities which come around. And apart from one which we have already announced which is called for the CFS for 35 crores, there is not much which is there on the books as I see today. But again there could be opportunities which can come, and our business to grow further to improve the ROCE, to ensure that we have sustainable returns on our capital, the way this business operates is that it could be from the inorganic side. So we will continue to examine and be ready and look out if there is any good opportunity which are available.

MR. BHAVIN GANDHI – B&K SECURITIES:

Sure, sure, thank you.

MODERATOR:

Thank you. Next question is from the line of Dheeresh Pathak of Goldman Sachs. Please go ahead.

MR. DHEERESH PATHAK – GOLDMAN SACHS:

Thank you. I would like to know the volume growth at the JNPT Port.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Again as I mentioned you know JNPT Port, let me talk about JNPT Port. JNPT Port itself has only grown by 1% in terms of volume.

MR. DHEERESH PATHAK – GOLDMAN SACHS:

Growth I know. I want to know your CFS....

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

I will please request you, you know because of commercial sensitivity I would not like to reveal those numbers. I request you, I am sorry that I can't answer that.

MR. DHEERESH PATHAK – GOLDMAN SACHS:

Okay. On realization for TEU, the incentives for the shipping line is booked in that or these revenues are the net of the shipping lines?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

These are net. Whatever revenues that you see is after whatever sales you know needs are there, that is the net of – it's not the gross one. It's the net sales.

MR. DHEERESH PATHAK – GOLDMAN SACHS:

Okay. So per TEU seems to be higher by about single digit. On a like to like basis has there been a price increase? Or is it just a mixed impact?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

It's a cargo mix.

MR. DHEERESH PATHAK – GOLDMAN SACHS:

Okay. And has that led to better....can you just give a sense of the fixed cost in the CFS business? It has ebitda margins we know. But what is the level of fixed and variable costs in this business?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

As I understand – sorry I was checking with the finance team - most of the costs is variable in this.

MR. DHEERESH PATHAK – GOLDMAN SACHS:

Okay, okay, thank you so much.

MODERATOR:

Thank you. Anyone who has a question may press * and 1. We will take our next question from the line of Nishna Biyani. Please go ahead.

NISHNA BIYANI - PRABHUDAS LILLADHER PRIVATE LIMITED:

Yeah sir this was more to do with the global MTO part. When we look at the global freight rates they are kind of come off by 20-25% recently. So just wondering how come your margins – and you are able to maintain your ability to improve them also, the EBIT margins I am referring to. And another question is more of a strategic nature would be that if you could throw some light, looking at your balance sheet. Now today you have almost 220 crores of cash. And your debt equity is also very reasonable. So in the opening remarks as Prakash said that you know you are the second largest. So doesn't the management have an itch to become the largest in the MTO part.

MR. SURYANARAYANAN – EXECUTIVE DIRECTOR ECU_LINE & DIRECTOR FINANCE, ALL CARGO:

The aim is to be the largest, and in few of the markets we are also not the biggest in those markets. So our idea here is to become larger even in those markets. So that is the aim and that's how we will be the number 1 position. Regarding your first question on the freight rates, this is a factor that all of us have to live with. These are things that are not in your control or our control but it's a process of how we approach our customers, how the sales are being done. This is a constant day in and day out battle that is continuously happening in the marketplace. So I think that's where the focus is. And it's all about how we can sell more efficiently, how we can handle the cargo more efficiently. And that's where the real focus is. And we might be discussing many strategic things at an overall level. But on a day to day, the battle is won or lost in sales and in operational efficiency. And that's where we are good at that. We will continue to focus there irrespective of what the market they either go up or go down. And I think it will all show in our results and they continue to show in our results. So that's where the focus is and it will continue to be. So it never gets slackened. And this is where the business is. And that's how the business is being done with a lot of focus. It's all about front line passion with a lot of oversight from a strategic perspective. A combination of that and this frontline obsession is what is making our company and our organization good, not only in the global MTO section but across all our businesses. And as Prakash rightly said, our aim is to be a leader in each of the segments of our businesses that we operate in.

NISHNA BIYANI - PRABHUDAS LILLADHER PRIVATE LIMITED:

Okay. And sir this was one question on the shipping business. One of your competitions has just reported numbers and they were looking dismal on the face of it. So I was just wondering how is the second half outlook looking in the shipping business for our company?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

See I think the business which you are probably referring to – probably I don't know – I think that is more into container business. For us we are into break bulk and approximately 55-60% of our capacity is already tied up with back to back contracts. So that continues while we are in our 40% to 45% of spot markets. Which again in bulk in coastal shipping we are the only players that are present in India.

NISHNA BIYANI - PRABHUDAS LILLADHER PRIVATE LIMITED:

And sir when we look at the land bank of 210 acres, and looking at your unallocated capital of 320 crores, so lot of capital of yours is not really generating the kind of return ratios the market would like to look at. So anything which you could comment on that you know .

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Again you know the land bank which we have is one which we have bought over years. But whether we will go out – I think your question is towards that you are sitting on cash whether we will go and build CFS. We will do that only if the business requirement is there. We will pursue it only if the business demands that there is a capacity need in that particular location.

So right now we are evaluating. If there is an opportunity throw at us and we see that the cargo flows from that particular area, and the capacity in need is there, we will pursue it.

MR. JATIN CHOKSHI – CFO, ALLCARGO:

And just to add to that we have the land banks at strategic locations. And though as Prakash mentioned yes we are looking for the right opportunity for CFS and ICD segments, but the same land can also be used for a normal warehouse distribution management in which segment we are also present. So we are keeping a constant eye and focus on using of those lands. And we are hopeful that post GST, post change in the rate lot of opportunities will be coming up and in any case the land price has appreciated beyond the ROCE of the company. So we don't see strictly in terms of a drag on the ROCE. But yes currently our intention is never to be in the land buy and sell. But yes we are waiting for the right kind of opportunity. And in case you have bought the land earlier, probably you will have competitive edge in our pricing as well as when we decide to do certain business related initiatives or due to the lower cost of capital employed. Yes.

NISHNA BIYANI - PRABHUDAS LILLADHER PRIVATE LIMITED:

Sure. And sir this two questions for Jatin sir, the routine book keeping questions. Can you give some guidance on the tax rate which we should look at say for this year and the depreciation?

MR. JATIN CHOKSHI – CFO, ALLCARGO:

Okay as far as the tax rate is concerned, yes I mean till now till the last year we were falling under the MAT. And even going forward, even if at company level we will be coming out of the MAT, but in terms of the cash flow it will be purely MAT because over the period we have accumulated more than 100 crores of MAT which is utilized going forward. So the effective cash flow from the taxation perspective would be the same as MAT.

NISHNA BIYANI - PRABHUDAS LILLADHER PRIVATE LIMITED:

And depreciation?

MR. JATIN CHOKSHI – CFO, ALLCARGO:

Depreciation we are following a straight-line method so more or less same unless we add more assets like in the last quarter when we added two ships. So depreciation incurred is higher. Otherwise since we are following the straight-line policies it will be more or less the same.

NISHNA BIYANI - PRABHUDAS LILLADHER PRIVATE LIMITED:

Sure thank you sir.

MODERATOR:

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

MR. VIKRAM SURYAVANSHI – PHILLIP CAPITAL:

Sir can you just highlight what is the revenue contract logistic in this quarter and what are our plans to meet on the fulfillments like similarly what we did for Snapdeal recently?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

See today the revenue numbers are not that significant because we have just started into this business. And as we grow we will advise more in detail. **MR. JATIN CHOKSHI – CFO, ALLCARGO:**

And since to the few customers we are providing integrated logistics solutions so warehousing distribution is a part of the entire supply chain logistics. So it will be difficult for us to segregate the revenue from that particular activity.

MR. VIKRAM SURYAVANSHI – PHILLIP CAPITAL:

Okay got it. Yeah, yeah.

MODERATOR:

Thank you. Our next question is from the line of Pallav Shah of Pi Square. Please go ahead.

MR. PALLAV SHAH – PI SQUARE:

Yeah thank you. Sir my question is for the P&E division. Can you tell me what is the revenue contribution from the total revenue? How much did it contribute to the total revenue?

MR. JATIN CHOKSHI – CFO, ALLCARGO:

Project and engineering solutions the total revenue for current quarter is 138 crores versus 128 crores year on year previous quarter. And for the half year current year is 281 crores versus 245 crores in the previous year.

MR. JATIN CHOKSHI – CFO, ALLCARGO:

And the ebit from the business is 16 crores.

MR. PALLAV SHAH – PI SQUARE:

Sir like further on that can you give a little guidance on which you have power, you supply or power, oil and gas, infra, in that P&E division. So do you see any changes like what would be 30% would be like an example any figure, how much is contributed by power or infra or oil and gas for any of the sectors. Can you just give a rough idea how you are seeing that coming up?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Okay I mean see we are catering to all infra structure. But yes looking at the current state of infra all sub sector which is the infra are not very positive or looking at great growth. But yes as far as our equipment deployment is concerned or the sector to which we are catering, yes we are currently catering to the power sector, then non-conventional energy, windmill and other sector and the refinery sector. These are the prime focus. Of course we do cater to other sector like moment of the matter opportunities and other kinds of things. but yes these are the sectors. And we are hopeful that with more thrust by the government and players in the infrastructure sector more opportunities will come. Though at the moment we have deployed 95% of our capacities and these are all medium to long term contracts. So we are not much skeptical in the 6 to 9 months. But yes down the line 6 to 9 months there will be more opportunities. That is what we feel. And we are confident of achieving the similar or the better and better capacity and operational efficiency.

MR. PALLAV SHAH – PI SQUARE:

So is there any order booking in this division that you are seeing for the next H2 or next quarter or something?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

It is a mix of kind of thing because we cater to customer who has a requirement ranging from one month to one year or 18 months. So it's a mix of customers because if the customer plant size itself is small then they will require equipment for couple of months or 3 months while the larger contracts or the larger plants, I mean can be deployed for 12 months. So they are the mix of both the customers.

MR. PALLAV SHAH – PI SQUARE:

So the last question, sorry for this, the last question is that the instrument that you use that lease model as you use for your MTO business or container business, would you – are you planning to use this sort of model for the P&E division just to improve margins and all?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Yeah we have already started using that. and yes we are not averse to any nuances provided we have the back to back contract or the long term visibility of the deployment of this equipment like currently two ships what we buy. Similar model will follow and it could be

owned asset, it could be leased asset, it could be mix and match depending on the business conditions, geography and the sector in which these requirements come up.

MR. PALLAV SHAH – PI SQUARE:

Thank you sir that would be all.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Thanks

MODERATOR:

Thank you. Anyone who has a question may press * and 1. Our next question is from the line of Chintan Seth of SKS Capital. Please go ahead.

MR. CHINTAN SETH – SKS CAPITAL:

Thanks for the follow up sir. Just one clarification. Does shipping revenue – in which segment is it being reported?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

It is in the P&E segment.

MR. CHINTAN SETH – SKS CAPITAL:

And what will be the contribution in terms of percentage?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

It is approximately 10-12%.

MR. CHINTAN SETH – SKS CAPITAL:

Okay. And with the added capacity it will move towards further higher?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

As the capacity utilization improves definitely. And as the realization improves definitely it will improve.

MR. CHINTAN SETH – SKS CAPITAL:

Right. So this does not include – this 10% does not include full capacity utilization of the two ships right?

MR. JATIN CHOKSHI – CFO, ALLCARGO:

No, no, no, that is a full – two ships what we bought has got 100% utilization because we have got 2+2 four years....

MR. CHINTAN SETH – SKS CAPITAL:

Okay that came with that contract itself.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Correct. And this target also in somewhere in mid July. So it is included in this quarter.

MR. CHINTAN SETH – SKS CAPITAL:

Okay so 10% blended with realization as well as utilization of other sales will ensure these numbers are higher right?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Absolutely. It is fixed cost play so the higher utilization the better it is.

MR. CHINTAN SETH – SKS CAPITAL:

Right. Correct sir. And sir one more thing. Our cash flow, you mentioned last time that we are targeting 600 I think, 400 crores of cash flow before capex. So we continue to maintain that model for the first half?

MR. JATIN CHOKSHI – CFO, ALLCARGO:

Our numbers are already there in the public domain. We are moving towards that direction.

MR. CHINTAN SETH – SKS CAPITAL:

Okay.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

We are on target.

MR. CHINTAN SETH – SKS CAPITAL:

Okay sir. Thanks. And all the best.

MODERATOR:

Our next question is a follow up from the line of Dheeresh Pathak of Goldman Sachs. Please go ahead.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

Thank you I just wanted to know what percentage of global container business is done through LCL consolidator?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Global – I am sorry can you repeat this question?

MR. DHEERESH PATHAK - GOLDMAN SACHS:

LCL Consolidators or aggregators like yourself and Vanguard and Shipco, what percentage – collectively the industry put together....

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Oh okay, okay, the top three players are approximately 40% of the world market.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

No, I want to know what percentage of the global container business is done through companies like yourself which are LCL consolidators.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Oh approximately 5-6% of the total world container business is in LCL

MR. DHEERESH PATHAK - GOLDMAN SACHS:

Okay. And has this mix changed over time or has it remained....

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

No it has remained pretty constant.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

Okay and top 3 players are 40% of the market.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Exactly.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

Second question is what is the capital deployed in ship business right now?

MR. JATIN CHOKSHI – CFO, ALLCARGO:

Around 120 crores.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

120 crores.

MR. JATIN CHOKSHI – CFO, ALLCARGO:

Yeah for 5 ships.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

For 5 ships. And these are all on your books? Or some of them are rented.

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

No, all are on our books. All.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

These are old ships?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Yeah these are ships which are already in operation.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

Okay. What is the average life of these 5 ships?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

See the average life is dependent on each of the vessels. So we can't say what will be the total life. But typically a ship's life could be anywhere in the range of 25 to 30 years.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

Have you bought them towards the tail end or you bought them towards the early...

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Again a mix, again a mix. some are 10-12 years old, some are 18 years or 15 years old.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

Okay. And in that secondary market what is the supply and demand? Are these ships easily available or – if you can just talk about the market?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Well again it depends on the size. But the size where we are operating is a very niche market.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

Why is it niche?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Because we are operating in the coastal area and they are not there in the line haul. The line haul is where there are a lot of ships being built which are called panamax, capemax and even higher above that. We are smaller than that.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

Is it because of the size you are saying?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Yes, yes, yes.

MR. DHEERESH PATHAK - GOLDMAN SACHS:

Okay alright thank you.

MODERATOR:

Thank you. Our next question is from the line of Jason Soans of Network Stock Broking. Please go ahead.

MR. JASON SOANS - NETWORK STOCK BROKING:

Yeah thanks for taking my question sir. Just wanted to ask you that for FY15 we delivered a PAT of 240 crores odd. So just wanted to know what are you on the growth basis, what are you probably targeting for 16 and 17? And if possible could you give me some revenue guidance as well?

MR. JATIN CHOKSHI – CFO, ALLCARGO:

No we don't normally give the guidance. But yes for the first half 6 months we have achieved 148 crores of profit after tax. So if we....

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Run rate is good.

MR. JATIN CHOKSHI – CFO, ALLCARGO:

Run rate is good, you can multiply that.

MR. JASON SOANS - NETWORK STOCK BROKING:

Okay, okay. And sir on an average how much have you see these freight rates declining?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Sorry what did you say? Sorry we didn't get it?

MR. JASON SOANS - NETWORK STOCK BROKING:

On an average how much percent have you seen the freight rate declining?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

Freight rates are – I can't give you a number. There is a reason because it totally depends on each of the geographies or port pairs. So depending on the port pairs the freight rates are differentiating among themselves. For example when we say Asia in shipping world it is actually from China into Europe. The rates have fallen by almost 60%. But India Europe the rates have not fallen anywhere around 60%. Maybe anywhere in between 10-20%. So it depends on each sector. Can't give you an average because it's so complicated because there are so many port pairs available.

MR. JASON SOANS - NETWORK STOCK BROKING:

Right, right, okay fine. Thanks a lot sir.

MODERATOR:

Thank you we will take our last question from the line of Pallav Shah of Pi Square. Please go ahead.

MR. PALLAV SHAH – PI SQUARE:

Yeah thanks. This is a follow up question. Do you see any revision coming forward in like CFS business or your MTO as the prices like some commodity prices or group prices or any sort of correction in the tariff side that is coming to you?

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

See I think tariff we are driven by the market no doubt. But as you see the market, market remains stable.

MR. PALLAV SHAH – PI SQUARE:

Market remains stable. So the restricting tariffs won't be affected by the crude's ups and downs and...

MR. PRAKASH TULSIANI - EXECUTIVE DIRECTOR & COO, ALLCARGO:

No that again as I said we are in the market and we are driven by the market.

MR. PALLAV SHAH – PI SQUARE:

Okay thank you sir. That will be all.

MODERATOR:

Thank you. Ladies and gentlemen that was our last question. I now hand over the floor back to Mr. Nishna Biyani for closing comments.

MR. NISHNA BIYANI – PRABHUDAS LILLADHER PVT. LTD.:

I would thank the management of ALLCARGO and hope for the best over the next 2-3 years. thank you.

MR. JATIN CHOKSHI – CFO, ALLCARGO:

Thank you very much. And season's greetings to all of you.

MODERATOR:

Thank you very much. Ladies and gentlemen on behalf of Prabhudas Lilladher Private Limited that concludes this conference. Thank you for joining us and you may now disconnect.