



“Allcargo Logistics Limited
Q4 FY2019 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 and FY2019 Earnings Conference call of Allcargo Logistics Limited hosted by Yes Securities. This conference may contain forward looking statements about the company, which are based on the belief, opinion and expectation of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in 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. Lokesh Kashikar from Yes Securities. Thank you and over to you Sir!

Lokesh Kashikar: Thank you Bharat and good morning everyone. On behalf of Yes Securities I would like to thank the management of Allcargo Logistics for giving us this opportunity to host post result conference. From the management we have Mr. Adarsh Hegde, Joint Managing Director, Mr. Prakash Tulsiani, Executive Director and CEO, CFS-ICD, Mr. Suryanarayanan Sivaramakrishnan, Executive Director, Strategy and Finance, Mr. Deepal Shah, Chief Financial Officer. We will begin this call with opening remarks from the management following which we will open the floor for interactive Q&A session. I will hand over the floor to the management. Thank you and over to you Sir!

Adarsh Hegde: Good morning everyone and welcome to today’s earning conference call to discuss the Q4 performance for the financial year 2019 and also the financial year ended 2018-2019. Along with me we have Prakash Tulsiani, Executive Director and CEO of the CFS-ICD Division, Mr. Suryanarayanan, Executive Director, Strategy and Finance, Mr. Deepal Shah, Chief Financial Officer and Mr. Jatin Chokshi, Chief Investment Officer. I hope you had a chance to review our financial statements and the earnings presentation, which have been made available on the exchanges and on our website.

I would like to summarise our performance for the financial year ended 2018-2019 after which we will highlight the quarterly performance.

In our MTO business, I am happy to share that the company continues to remain a market leader in the LCL segment and we have leveraged our network strength to grow our volumes in both LCL and FCL segment. This is clearly demonstrated in a volume growth of 15.7% compared to the last financial year. This is despite a slow growth in the global macroeconomic environment while global trade grew a mere 3% over the last decade.

Allcargo has added more direct clients to its worldwide network and perceived strong growth as far as intra trades are concerned. The company’s strategy has been to expand its market share through organic and inorganic opportunities and provide on time seamless delivery of consignments while focusing of reducing cost.

The investment in our technology platform ECU 360, which provides online course, immediate booking, online tracking, documents in digitalized forms, reports and additional online services are resulting in improving efficiently is enhancing our customer experiences.

Coming to the India business Allcargo maintains its leadership position in the CFS-ICD vertical with a strong presence at four major ports that is JNPT, Mundra, Chennai and Kolkata. As you all know, these ports control 80% of the container traffic in India. With the strategy of catering to all segments of customers and customized services, volumes have been growing in high double-digit and return on capital employed continuous to be in the 30% range for the last many years.

The company has been able to demonstrate resilience in far stretching times due to its long standing relationships with the leading global carriers and freight forward. The companies allied services like documentation, transportation from port to CFS, warehousing and supply chain management services to its clients have further aided our leadership position.

Key reforms like GST, Make in India initiatives and the relaxed FDI norms in the various sectors have enabled growth in the warehousing and logistic park business. The company's foray into the logistic park has seen increase in response from large multinational clients. As part of the logistic park offerings the company is targeting a national wide warehousing foot print of around 5 million square feet by 2021 with strong connectivity to industrial hub and transport roads. In the first space, the company would construct be to suite centralized grade A warehouses across Hyderabad and Bengaluru and as already executed contracts for pre-lease of about 3.5 million square feet with various multinational companies.

Coming to the project transportation business this year for revival in many of the service sectors, which resulted in a turnaround of financials and I am happy to report that we have closed the financial year with healthy profits as well. We have a strong current order book of Rs.150 Crores in this division, which would be executed over a period of 10 to 15 months. To add on to this the company has recently secured an order in Africa and Bangladesh as well as in this segment. In the equipment leasing business asset utilizations have increased to 65% to 70% from a mere 40% to 50% in the previous year. The company has sold many of its under utilized equipment at higher than their present book values.

As far as shipping business is concerned the company will be completely phasing out this vertical by the first half of this financial year. This is to ensure focus on our core business segment.

Lastly an update on our contract logistic business; through our joint venture Avashya CCI we continue to be one of the leading players in the sectors of chemicals, pharma, food, retail and e-commerce vertical and we are presently managing over 3 million square feet of warehousing space. We have an asset light model in the business and plan to gogrow organically and inorganically across a wide spectrum of business sectors all over India over the next three to five years.

Now moving on to financials I would request Deepal Shah, our CFO to take us through the financial highlights, over to you Deepal.

Deepal Shah:

Thank you Mr. Adarsh and good morning everyone. Let me take you through the key consolidated quarterly financial highlights.

The total revenue from operations stood at Rs.1727 Crores for the quarter ended March 2019 as compared to Rs.1527 Crores for the corresponding previous year, which was an increase of 12.4% mainly on account of volumes and revenue in the MTO business and the CFS business.

Please note that the new logistics park business has become a reportable segment as per Ind-AS consequent to which the company has reclassified the amounts reported in the earlier period. The total revenue in this segment was at Rs.2 Crores for the quarter ended March 2019 as compared to Rs.0.8 Crores for the corresponding previous period.

EBITDA for the quarter was Rs.107 Crores as against Rs.75 Crores for the corresponding previous period which resembles an increase of 42.7%. Profit after tax was reported as Rs.80 Crores for the quarter as against Rs.13 Crores for the previous corresponding period. EPS for the quarter ended was Rs.3.23 per share as compared to Rs.0.47 per share for the corresponding previous period.

Now coming to the financial year ended 2018-2019, the total revenue for the operation stood at Rs.6895 Crores as compared to Rs.6049 Crores for FY2018, which was 14% increase over the last year. EBITDA for the financial year ended at Rs.449 Crores as compared to Rs.377 Crores for the financial year, which resembles an increase of 18.9%.

Profit after tax grew by 42% which stood at Rs.248 Crores as against Rs.174 Crores in financial year 2018. EPS for the financial year ended 2019 was 9.85 per share as against 6.97 per share for financial year 2018.

A quick highlight on the balance sheet front, as on March 2019, the total equity was Rs.2019 Crores and the net debt was Rs.332 Crores and the net debt to equity was at 0.16 as on March 2019. The return on capital employed for the financial year stood at 12.7%.

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

Suryanarayanan S:

Thank you Deepal. Good morning everybody. The MTO business clocked total volumes of 167949 TEUs as against 159951 TEUs for the corresponding previous period which grew by about 5%.

The total revenue for the quarter was Rs.1539 Crores as against Rs.1370 Crores for the corresponding previous period, which is an increase of about 12.3%.

EBIT was Rs.57 Crores for the quarter as against Rs.56 Crores for the corresponding previous period.

The return on capital employed for the MTO business continues to be around 30% on an annualized basis. I now hand over to Prakash to take us through the India business.

Prakash Tulsiani:

Thanks Suri and good morning everyone. First let us start with a CFS and ICD segment.

The total volume for the fourth quarter was at 80882 TEUs compared to 76300 for the corresponding previous period. This is an increase of 6% mainly driven by Kolkata CFS and also increased operations at Chennai. The total revenue for the segment in this fourth quarter was Rs.112 Crores against Rs.106 Crores. This is a corresponding increase of almost 6%. EBIT was at Rs.31 Crores and the return on capital for the business close to 30% on an annualized basis.

Coming to projects and engineering business, the total revenue was reported at Rs.92 Crores for this quarter against Rs.74 Crores in the corresponding previous year, an increase of almost 24% driven by the increased focus of the company in this segment and yielding positive results.

EBIT was at Rs.9 Crores versus a loss Rs.37 Crores for the corresponding previous year. The current executable order in project logistics as mentioned earlier is upwards of Rs.150 Crores.

That is from our side and thank you very much. We open the floor for any questions.

Moderator:

Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Sayan Sharma from Bank of Baroda Capital Markets. Please go ahead.

Sayan Sharma:

Good morning and thanks for the opportunity. Sir my question is on MTO segment if you look at the past two financial year we have been growing at a pretty healthy rate of about 15% on volume terms while the global trade growth like you mentioned in the opening remark is about 3%, so do you believe this market share is our led growth can continue in the next two years and especially in the LCL segment where we have already have a sizeable market share Sir?

Adarsh Hegde:

Yes, I think that is still sustainable the first month of the current financial year the growth is continuing to be sustained at this level.

Sayan Sharma:

We at this quarter you have seen growth tapering off to 5%, so any particular reason for that and how did you see, I mean if you quantify expectation for FY2020 and FY2021?

Adarsh Hegde:

It would be round about the same type of in the double digit that we are growing, we have shared about 15%, I think we have continued to hold at that level on an annualized basis, do not look at it at quarter-to-quarter because seasonalities that are coming in. So I think you just look at it at an annualized basis, I think we will sustain that type of volume growth.

- Sayan Sharma:** Sure Sir and second question is on the P&E business, so profitability has improved this quarter quite significantly, so in the EBIT that we have posted of Rs.836 lakhs is it provision write backs that you have done?
- Deepal Shah:** For this quarter is around Rs.6 Crores in the project engineering in the write back.
- Sayan Sharma:** Okay and if I am not missing the base quarter had about Rs.15 Crores of provision that Q4 FY2018 if you can just confirm that number?
- Deepal Shah:** For the entire period or you want for the quarter? For the quarter it is close to Rs.15 Crores.
- Adarsh Hegde:** Yes, it was Rs.15 Crores.
- Sayan Sharma:** Sure Sir, so that is it from my side, I will go back to the queue. Thanks.
- Moderator:** Thank you. We move to the next question which is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.
- Vikram Suryavanshi:** Sir basically just to carry on the same question in terms of MTO for LCL cargo what kind of growth we are looking, will it be in line with the industry or what kind of outperformance we are looking in LCL for MTO?
- Adarsh Hegde:** I think it will be ahead of the market growth in the LCL business.
- Vikram Suryavanshi:** Okay, So around like 4%, 5%?
- Adarsh Hegde:** Yes, it will be around like that.
- Vikram Suryavanshi:** Sir my second question is that this logistic parks business what we are targeting, so what kind of revenue potential we are looking from that and I think we are already almost paying Rs.500 Crores on that segment, so what would be the capex for FY2020 and 2021 for that?
- Adarsh Hegde:** In the current financial year our estimated capex for this vertical is around Rs.450 Crores for the current financial year and the revenue expected when all the facilities become operational will be in the region of around Rs.8 to Rs.10 Crores per month.
- Vikram Suryavanshi:** And how is the development at Jhajjar?
- Adarsh Hegde:** No it is going as per the plan and schedule.
- Vikram Suryavanshi:** So when can we start commissioning of that in to or operationalization in terms?
- Adarsh Hegde:** Basically as and when the box get completed we hand over to the respective clients and we expect the first box to be handed over somewhere in two to three months.

- Vikram Suryavanshi:** Last question regarding this coastal shipping business at one time if I remember that we had almost like 7 ships, so what was thought process in cutting down or basically what really changed in that segment that we are trying to exit now?
- Adarsh Hegde:** As far as shipping is concerned, as overall company policy and how we measure ourself is ROCE, so the ROCE in the shipping division was not coming up because of the shipping market where we are in bulk business, so it was decided by the board and by the team over here that it is better that we phase ourselves out of the shipping business and focus to the core business that we are in and ensure that we improve our ROCE.
- Vikram Suryavanshi:** But if I understand properly the shipping business actually we are not into like a global shipping or like what we are really looking at the coastal movement of bulk and project cargo, so which I think will not have material impact on what happen in global shipping market?
- Adarsh Hegde:** No, but also the bulk business is also under pressure right now and the rates are falling, so it was not deliver in the right ROCE and we decided that we shall phase out, so we will be selling assets in the coming few months.
- Vikram Suryavanshi:** So currently how many are left now?
- Adarsh Hegde:** We have two.
- Vikram Suryavanshi:** Thank you.
- Moderator:** Thank you. We move to the next question which is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.
- Prateek Kumar:** Good morning Sir. My first question is, so in a CFS business has we also received SEIS income because this was highlighted by one of the competition, they are getting around Rs.10 Crores, Rs.15 Crores for every year, SEIS, the export incentive income?
- Deepal Shah:** Yes, so we have applied.
- Adarsh Hegde:** We are already in the process of getting those approvals. In the profitability it is not there. One we have applied for it and as and when it comes we will let you know.
- Prateek Kumar:** So we are also expecting for a period of 2016-2017, 2018-2019 will come together sometime in?
- Adarsh Hegde:** Work in progress.
- Prateek Kumar:** How much could be per year kind of number, similar Rs.15 Crores kind of number?
- Adarsh Hegde:** Let us realize and we will let you know, because it is hands of the government right, so we will have to wait and once we have we will let you know.

Prateek Kumar: Sir regarding these projects in Africa, the project logistics business, which we have one there, so what is the kind of size is there in terms of revenue?

Adarsh Hegde: It is anywhere between, it depends, you know, on project to project basis, so basically it would be anywhere between Rs.20 Crores to Rs.25 Crores for the project on each segment, but the fact that you have to remember is that we have gone and based ourselves sort of Bangladesh and Africa that is our focus area because that is one of the developing areas and we have huge opportunities out there, so this has kick started our plans in those two countries.

Prateek Kumar: This is part of that Rs.150 Crores, which you say, Rs.150 Crores plus number in 10 to 15 months?

Adarsh Hegde: You are right.

Prateek Kumar: Sir just again question on this capex, so is it around Rs.400 Crores, Rs.450 odd Crores capex last year, so in terms where we are looking at various strategies in terms of logistics park or warehouse in terms of leasing to some other companies or running it ourselves or running ICDs etc., so is there something concretized now in terms of what we are looking at and which subsegment can contribute how much I should say?

Adarsh Hegde: Basically, we are setting up the multi model logistics park. Depending on we are open for any kind of structure, currently we are building and running on our own, but yes depending on the opportunity the new investments and the new opportunities that are required we are open for all kind of structures in terms of infusing more equity or going in an expansion mode, so we are open for everything and depending on the business run what percentage could be of the warehouse, what should be the railing ICDs and another segment, which constitutes the multimodal logistics park, so revenue is very open, we cannot crystalize on the revenue at the moment.

Prateek Kumar: The revenue of Rs.2 Crores, which has come in this quarter that is related to what segment?

Adarsh Hegde: That pertains to the warehousing we already have since we have classified the segment, so Goa and Hosur, which is the warehousing facility, which is operational since few years, so since we have reclassified and introduced the segment first time, so income pertaining to those two warehouses is reported here.

Prateek Kumar: Where we run our own warehouses or is this part of contract logistics or is it we have given to someone else we are giving regular income like rental income or something?

Suryanarayanan S: Which is run by ourselves?

Adarsh Hegde: No, Hosur and this thing we have given to the third party and they are running, so typically the lease.

- Prateek Kumar:** So that is what kind of business we have also given to some of the larger e-commerce companies where we can realize some revenue in second half of 2020?
- Adarsh Hegde:** Correct.
- Prateek Kumar:** Sir what is our current gross debt including current maturities of long-term debt and what is the peak debt, which we are expecting over may be, let us FY2020, FY2021?
- Deepal Shah:** At the consolidated level the net debt is around Rs.332 Crores and we will invest another Rs.250 Crores in the coming year on the logistics park Rs.400 Crores, so lead us to Rs.700 Crores as the overall debt that we close at the end of the year.
- Prateek Kumar:** So this Rs.400 Crores is a capex number for FY2020?
- Deepal Shah:** Yes and let me add that okay the debt is required during the construction period. When the facility becomes operational and we hand over to the clients then we can always knock of the debt by going into the LRD, so the debt will be reduced to that extent and the additional facility will be available to the company for any further expansions or development.
- Prateek Kumar:** Sure Sir, now I will get back to the queue. All the best.
- Moderator:** Thank you. We move to the next question which is from the line of Krupashankar NJ from Spark Capital. Please go ahead.
- Krupashankar NJ:** Thank you for the opportunity. I just had a question on Avashya CCI. What would be the performance for the year and what sort of warehousing space are we expected to add over the course of the next year, can you just throw some light on that please?
- Deepal Shah:** Yes, we are here. We are presently handling about 3 odd million and we would be adding another million square feet during the coming year in Avashya CCI.
- Krupashankar NJ:** In terms of financial performance for the year, can you throw some light on what would be the revenues and EBITDA, what the company has generated?
- Prakash Tulsiani:** On Avashya CCI we include all our numbers because it is a JV, so we included after the PAT associated income. We typically are not revealing the numbers on this because of confidentiality reasons and competition, so please we would not like to reveal details on the financial numbers of this because we are consolidating any which way in our bottomline.
- Krupashankar NJ:** On second part is on the CFS business, so given the DPD equity settling down now I think in the month of March and April we have seen that number going up to above 51% of total input, so what is the outlook, so overall impact of DPD on this year especially?

- Deepal Shah:** In the CFS business the DPD has actually come to stability. When I say we are in a stable environment right now the number, which you are saying is increasing approximately 0.5%, 1% frankly all those volumes are still showing up at the CFS, so you have seen a numbers, we have a growth in the current year of almost 14% in terms of our volume and in terms of our EBITDA almost 16%, so I believe that DPD environment is stabilized and we are in a steady state.
- Krupashankar NJ:** If I look at the realization on quarter-on-quarter basis for CFS business, there is a slight decline about 8%, is this more to do with the import, export mix do you believe or is it to do more with the dwell time reducing?
- Prakash Tulsiani:** It is a combination of all what you just mentioned the import, export as well as the storage and that is why the realization is increasing in that particular order. What is essential is to look at how we are performing on our EBITDA and our ROCE which we have maintained despite the changed scenario and an environment which is fortunately the volumes are increasing because of the consumption drive in India.
- Krupashankar NJ:** One last question on MTO business, in terms of market growth for the year which has gone by FY2019, what would be the LCL growth and what would have been overall perhaps FCL growth if there is a number which can be quantified?
- Deepal Shah:** Because every quarters in our investor call we are saying that we are not able to for competitive reasons we are not giving the breakup between FCL and LCL that is why we are giving overall growth numbers. I have already given you at the percentage which we are expecting to grow on an annualized basis I think that would be sufficient enough for you to work on.
- Prakash Tulsiani:** We have blended number and I think we should focus on that basis that is the number where we are increasing higher than the market or going higher than the market.
- Krupashankar NJ:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** Thanks for the opportunity. First question on the logistics park business, as you mentioned we already have around 3 million square feet largely across the warehouses which we have at Hyderabad, Bengaluru, are the company owns land which we had earlier in the books and which all locations are we looking at to add further?
- Deepal Shah:** Hyderabad, Bengaluru both is the part of the land bank which companies owning since few years and Farrukhnagar the land company bought couple of years back in 2017.
- Ankur Periwal:** Sir incrementally now we have already invested around Rs.460 Crores odd and we are saying Rs.450 Crores further into this business in terms of expansion, what is the business model here,

are we acquiring land and building a warehouse customized as per the customer requirement and handing it over to them. They will manage it and how do we earn revenue out of it?

Deepal Shah: No, the revenue would be predominantly from the leasing and management of those assets that is standard industry practice so that would be the revenue till the time we think many other options are opportunities.

Ankur Periwal: I think one of the earlier questions we did mention that this debt when handed over to the facilities done to the client, the debt gets reduced if you can please substantial that I am not too clear on it.

Deepal Shah: What I meant that during the construction period we are availing debt from the lenders and once assets become operative and as and when we hand over operational assets to the client, lease rents started coming in, so that lease rent will be discounting with the lenders and whatever the money we get, we repaid construction loan.

Ankur Periwal: Okay, but over the medium term what sort of ROCEs are you looking at generating from this business because focusing only on lease rentals are probably enhancing?

Deepal Shah: It is a mix of everything, because as I mentioned that yes currently it is a lease rental and once we get a proper valuation we may think of after few years' exits, so the overall ROCE or ROA will be line with the company's philosophy.

Ankur Periwal: Okay, fair enough and the MMLPs that we were mentioning earlier, so the size of these warehouses or projects that we are doing, will be how big or it will be a wide range?

Deepal Shah: It is a wide range and it depends on the customer requirement ranging from 100000 square feet to close to one million square feet, so it is a different location, different customer requirements based on that.

Ankur Periwal: I will presume that we will be having some business or contract or soft commitment from the customer end and hence going ahead and buying the land or we are pre-buying land and then selling it out or leasing it out to the customers?

Deepal Shah: No, basically based on the potential of the business we buy the land wherever there is a potential; however, before we will start the construction lot of demand is there currently put the grade A warehouses, so we get tie up with the customer before we start the construction, because if someone require build to suit we can take or plan the construction kind of thing.

Ankur Periwal: That is helpful.

Moderator: Thank you. We move to the next question from Dikshit Mittal from Subhkam Ventures. Please go ahead.

- Dikshit Mittal:** Good morning. Sir my question is on like ongoing capex, one is we are investing in Jhajjar and secondly we are investing in the warehousing, so Rs.460 Crores that you spent last year one of it which segment and this year around Rs.400 Crores that you mentioned that will go into which segment?
- Deepal Shah:** Same segment, so it is the logistics park segment.
- Dikshit Mittal:** In warehousing Sir that you mentioned, you are targeting 3.5 million square feet, so how much is on that capex?
- Deepal Shah:** So it is a logistics park, you will have warehouses, you will have other facilities also, so you cannot just say it is just warehouses.
- Dikshit Mittal:** 3.5 million includes Jhajjar as well as the new warehousing parks right?
- Deepal Shah:** Are you talking about ACCI or you are talking about?
- Dikshit Mittal:** Not ACCI, you mentioned that you are adding 3.5 million square feet of warehousing, so just wanted to know what is the capex involved in that which you will be renting it out?
- Suryanarayanan S:** Let me clarify that we are adding close to 5 million is mentioned in the opening speech by the Joint Managing Director of which we have already committed to various clients about 3.5 million of the square feet.
- Dikshit Mittal:** Okay, so basically per square feet what should I take the capacity is Rs.2500 per square feet with the capex?
- Suryanarayanan S:** It is too high, but anyway it depends on the build to suit the client's requirement kind of things, but for the normal standard warehouses, the market thumb rule is around Rs.1500 per square feet.
- Dikshit Mittal:** Okay, on that you will be getting Rs.8 Crores to Rs.10 Crores per month kind of revenues right?
- Suryanarayanan S:** Yes, again as we mentioned earlier this is only the warehouse, but the multimodal logistic park consists warehouse and other facilities, so the revenue could be warehouse plus any other.
- Prakash Tulsiani:** Blend of warehousing and also logistics activities, value added services that we will give to the clients who will take our services in those places.
- Dikshit Mittal:** By which year do we expect to ramp up at least rental part and then may be the value added parts?
- Deepal Shah:** No, over the phase I as I mentioned will be handing over the boxes as and when it gets operational are completed, so we expect the revenue to start from the second half of this financial year.

- Dikshit Mittal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.
- Giriraj Daga:** What was the last year in MTO, what was the FCL and LCL growth?
- Prakash Tulsiani:** We have given a blended growth all along and we do not distinguish between the two, because of our reasons which are very much commercial to us, so please let us stick to the blended one.
- Giriraj Daga:** Let me put it this way that the EBIT growth if you mentioned that your LCL growth guidance will be inline with market slightly ahead of 4%, 5%?
- Prakash Tulsiani:** We will be ahead of the market both in LCL as well as FCL.
- Giriraj Daga:** Okay, so should be fair to assume that EBIT per TEU will still keep on declining because our FCL might be growing faster for our mix?
- Prakash Tulsiani:** As we have discussed this in the past also, I would like that we all focus on the EBITDA growth, the real EBITDA number which continues to grow year-on-year.
- Giriraj Daga:** Okay, my second question on this logistics park capex, so what is the total capex we have committed so far Rs.900 Crores right?
- Prakash Tulsiani:** Rs.450 Crores already done and another Rs.450 Crores in the current year starting may be up to 15 months from now.
- Giriraj Daga:** Okay, so post that there are no other plans as of now?
- Prakash Tulsiani:** So that we will continue to explore if there is something we will announce.
- Giriraj Daga:** Okay, there is a small clarification on the CFS side, what is volume which should be built for next year?
- Prakash Tulsiani:** We have grown higher than the market of course what we are dependent on is a growth in the port volumes the imports specifically coming into India, we see that the growth in the market is in the range of 6% as far as the port volumes are concerned, we will grow higher than that. We have grown in the past approximately around 14% because of Kolkata also opening up, but we continue that we will grow higher than the market.
- Giriraj Daga:** Understood, thanks a lot.
- Moderator:** Thank you. We move to the next question which is from the line of Abhijit Mitra ICICI Securities. Please go ahead.

- Abhijit Mitra:** Thanks for taking my question. First is on the provision of impairment that you have taken the current quarter of around Rs.28.5 Crores in Allcargo Shipping which is wholly owned subsidiary, so if you can just explain the reason for this impairment and how does it impact gross block of the consolidated entity, I mean just to take out Rs.28.5 Crores from which segment actually?
- Prakash Tulsiani:** At the consolidated level, over the period of time, this Rs.28 Crores has already been absorbed at the consolidated level, because shipping company was subsidiary so at the consolidated level it was already there. The investment standing in the standalone has been impaired, so at the consolidated level it does not impact the numbers at all and as we said earlier that we are kind of winding up the shipping division, so we had an impairment which was necessary to clean up the books.
- Abhijit Mitra:** Every year we are seeing this impairments happening, so the cycle has ended or is it there is something else that we should know?
- Prakash Tulsiani:** We are moving from an asset heavy to asset light, so wherever we feel that we want to get rid of assets like shipping anything, we are trying to clean up that and impaired whatever assets are not used by us anymore. So we do not see large, but this is where we are at the moment.
- Abhijit Mitra:** Second question is on the capex side for the logistics park, I think initially you are guiding for around 10 million square feet to 12 million square feet of total portfolio and total capex of around Rs.1500 Crores that plan stands right?
- Deepal Shah:** Yes that stand but we have clear visibility of around 5 million by 2021 and we continue to look for more opportunities and our plan to expand it multiple locations stands there on which we are working.
- Prakash Tulsiani:** It is clearly that the long term vision and we will do it in a phased manner.
- Abhijit Mitra:** Last question if I may out of the total capex of Rs.358 Crores that you have done in this year, what would be the amount that you have spend on land acquisition?
- Deepal Shah:** In this year, we have not spend any money on the land acquisition, because Jhajjar was in 2017, current financial year we are not spend any money on the land acquisition only constructions.
- Abhijit Mitra:** Thanks. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** Thanks for the opportunity. In the project equipment business, what is the current asset utilization and the capital employed with standard in the books now?
- Prakash Tulsiani:** The utilization stands at around 70% to 75% and the capital employed is roughly Rs.350 Crores.

- Ankur Periwal:** So any thoughts on the margin improvement here and what is the average lease tenure that we are having when it is coming for renewal?
- Prakash Tulsiani:** It is not just lease, it is a project equipments, project to project there is also lease, these tenure could be anywhere between long term to probably up to two years, some could be six months depending on what is size of the equipments is being deployed.
- Ankur Periwal:** But any timeline wherein probably the pricing will get revised or any renewals are coming in over the next?
- Prakash Tulsiani:** It is improving that is the reason if you look at what it was last year and if you look at what in the corresponding financial year it has improved right, so it is moved up, so exchanging.
- Ankur Periwal:** Any medium term thoughts wherein probably on a margin front what one should look at as a steady state stable margins?
- Prakash Tulsiani:** At this level it is much better I would say rather than putting a figure forward looking is not the right one I would put it.
- Adarsh Hegde:** What we believe is that we are in a steady state right now in terms of our margins what we have declared.
- Ankur Periwal:** Fair enough. On the finance related questions what was the operating cash flows and the free cash flows that we generated in this year?
- Deepal Shah:** Around 330 at consolidated level.
- Ankur Periwal:** This will be the operating cash flow?
- Deepal Shah:** Free cash flow.
- Ankur Periwal:** So the incremental capex which we are putting in, most of the capex will be taken care from these free cash flows only because you did mention that gross debt will further increase because of the capex?
- Deepal Shah:** Sorry, can you repeat that?
- Ankur Periwal:** In one of the earlier questions, you did mention that debt may increase further because of the capex that we have put across around Rs.450 Crores odd capex for this year while we are still generating Rs.330 Crores and probably this number will improve further in FY2020. So incremental debt should not be as high, is that understanding right?
- Deepal Shah:** Yes, we will deploy our cash primarily first to our internal, we will fund the logistic parts through internal accruals first and if there are cash flow timing differences we will take loans.

- Adarsh Hegde:** Basically we will have our strategy wherein because not that all the time debt is not good. Of course, we have our own cash generation which we will put to use all deployed gainfully in the business itself first and for the construction if we are getting a better finance which will improve my overall project ROA or ROCE definitely I will go for the loan, because as I did mention earlier, the borrowings for construction of PFT or multimodal logistics park is really a short term to the extent of say one year or 15 months which we can convert once it asset become operation to the LRD, so we will review the situation what is the best for the company in terms of cost of finance and overall return on investments that is how we leverage.
- Ankur Periwal:** If I look at company as a whole MTO business does not require any capex per se. CFS-ICD I do not think so we have any existing plans over there, so most of the capex or the capex which will be required in the business for the terminal business for the logistics park business or do we have plans for to add more equipments into the P&E business as well?
- Prakash Tulsiani:** On the equipment, we have decided nothing to do more on that. It is only going to be on the terminal business. We are going to focus on core business that is important.
- Ankur Periwal:** That is helpful. That is it from my side.
- Moderator:** Thank you. We move to the next question which is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.
- Prateek Kumar:** Thanks for the followup opportunity. I have few followup questions. Firstly in the CFS business, there are some seasonality in the margins for this quarter specifically there was decline in EBIT margins per TEU versus like past two quarters, we are doing like 4000 plus, so specific reason or it is related to some losses and some of the Kolkata I do not know?
- Prakash Tulsiani:** There are no losses in Kolkata or elsewhere. It is purely cyclical. In the month of February we typically have the Chinese New Year and that is why you see that, but there is no decline, we remain I would say stable in terms of our margins and the overall volumes and business.
- Adarsh Hegde:** This is if you look at it on the year on year basis, you will find the same cyclic year on year basis, we are lot blank sailings that come with vessels, coming empty and all that because of the Chinese New Year.
- Prateek Kumar:** Sir any guidance for tax rate for next year as well, there was impact of tax credit and deferred tax credit this year, last year as well, so any consolidated tax rate and guidance for next year?
- Deepal Shah::** We are currently in the MAT regime, so our average tax rate effective tax rate is around mix of the taxable business and non-taxable business comes to around 16%, this quarter has been aberration because there was an IDDFC guidance from the institute for taking the dividend tax into the assets, so that we have reversed in the current quarter that is the reason you will see Rs.24 Crores credit in the P&L that has been an aberration in the current quarter, but on an average our effective tax rate would be in the range of 16%, 17%.

Prateek Kumar: Okay and just last question on the MTO business, in terms of growth and network expansion in general, so how are we looking at are we now fully into all the markets or we have not done acquisition in a while so we are looking at anything on that front in terms of expanding network for us?

Adarsh Hegde: The network is there, we are only looking at how to increase the market share in some of the markets that we are in with the same network you can increase more direct services, so it is all combination of all of this is what strategy going forward.

Prateek Kumar: How is that impacted or non-impacted by global shipping scenario or trade patterns or trade war if you can say that?

Adarsh Hegde: If you look at it in one sense in over the last 10 years in spite of multiple cycles of lows, highs, we will continue to be steady and continuing to grow quarter-on-quarter, year-on-year, so I think to some extent the LCL business itself is a little bit recession proof and even if there are downturn in the global economy unless it really, really drops like the way you dropped in 2009 we do not see an issue here.

Prateek Kumar: Thanks and all the best. I will get back to the queue.

Moderator: Thank you. We move to the next question which is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

Ashwini Agarwal: Good morning Sir. Good set of numbers. Couple of things, one just looking through the balance sheet, we saw this contract liabilities and other current assets, these numbers have jumped up by Rs.200 Crores each during the year, I am assuming this is an AS-18 issue where these are contracts remaining to be executed on the warehouses or is there something else, what are these things, other current assets and contract liabilities in particular?

Deepal Shah: This is under AS115, all the provisions that we do in the last some of these have deferred to the following year, because earlier you were booking our revenues based on the dispatch, now as per AS115 only when the shipment is delivered at the destination is when we actually account for it, so there has been a change in accounting policy as per the guidance of the accounting standards that has applied from this year onwards, so the AS115 adjustment has moved the current assets and the current liabilities have ballooned accordingly.

Ashwini Agarwal: The other current assets effectively include Rs.200 Crores of revenues where the shipment has not been delivered and it has been carried as an asset?

Deepal Shah: It should be reversed in the next quarter.

Ashwini Agarwal: The contract liabilities relate to expenses on the same account?

- Adarsh Hegde:** Yes, so basically you have a revenue of Rs.200 Crores then you may have certain amounts Rs.190 Crores or something of expense against that, so both of them have been put into the balance sheet and move to the next year.
- Ashwini Agarwal:** I was wondering if it had something to do with the construction of the warehouses and interim payments made, it does not have anything to do that, this is essentially deferment of revenues?
- Deepal Shah:** Correct as per AS115.
- Ashwini Agarwal:** Thanks and on the projects in engineering we have come out of the very trying period that we had over two years where we were struggling to make money, but adjusted of write back etc., and I know what Suri will say that this is all part of the business, we are now at a breakeven sort of level, on the reduced capital employed number that you have now roughly of Rs.350 Crores, by when do you think we can get to a normalized ROCE of 17%, 18% which used to be there in the hay days fiscal 2014-2015 those years?
- Deepal Shah:** Two years plus.
- Ashwini Agarwal:** But are you happy with the asset base that you have now or you still have underutilized assets there or assets that you are waiting to sell off apart from the two ships that are there?
- Adarsh Hegde:** No, it all depends as of now as I said it is about 70% to 75% utilization from where it was 40% to 50% we have moved up to 70%, 75% as of now it looks good, but having said that we would not be investing anything on this segment, we would like to concentrate on our **core** business, so I hope that answers your questions.
- Ashwini Agarwal:** Alright and on the logistics park, the carrying on from the question that one of the earlier participants asked, if I look at your free cash and I look at your capex plan logically net debt should not increase by more than Rs.100 Crores despite the capex plans that you have because you will be doing some asset disposals as well, so the gross debt I know you spoke about gross debt and those financing options and so on and so forth, but would that be correct that net debt should not go by more than Rs.100 Crores odd?
- Adarsh Hegde:** Possibly it should not go up more than Rs.100 Crores to Rs.200 Crores. It also depends on the timing of the investment and the requirement of the funds and the LRDs etc, so it is depending upon the timing, but at the net level at the end if everything goes well from a timing of the cash flow we should be in the range that you have in mind.
- Ashwini Agarwal:** Your balance sheet is looking good, capex is largely internally financed, how are you looking at dividends or share buybacks going ahead in order to level up the balance sheet if that is one of the ways to improve the ROCE?
- Adarsh Hegde:** We have the dividend policy in place and we will follow that and as and when there is an opportunity we will review it.

Ashwini Agarwal: All the best. Thank you.

Moderator: Thank you. We move to the next question which is from the line of Prashant Hazariwala an Individual Investor. Please go ahead.

Prashant Hazariwala: Question is regarding project in engineering business, how is the scenario out there? Is there improving or it is last year kind of thing?

Adarsh Hegde: It is improved you would see that that is one of the reasons our performance has been much better than the corresponding financial year while you look at the utilization, the utilization has gone up from 40%, 50% to 70% odd and it is only looking up.

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

Adarsh Hegde: Thank you very much. We really appreciate you all joining the call.

Moderator: Thank you. On behalf of Yes Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.