"Allcargo Logistics 4Q FY2017 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Allcargo Logistics Q4 FY2017 Results Conference Call, hosted by Motilal Oswal Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Ghosh from Motilal Oswal Securities. Thank you and over to you Sir!

Abhishek Ghosh: Thanks Lizaan. Good afternoon everybody. On behalf of Motilal Oswal Securities I welcome you all to the 4Q FY2017 post results concall of Allcargo Logistics. From the management of Allcargo Logistics represented by Mr. Prakash Tulsiani, Executive Director and COO, Mr. S. Suryanarayanan – Executive Director, ECU Worldwide and Mr. Jatin Chokshi, CFO. Without wasting any further time I would like to hand it over to the management for that initial remarks followed by which we will have the Q&A session. Over to you Sir!

Prakash Tulsiani: Abhishek, thank you very much and good afternoon everyone on the call. I appreciate that you take time out and to hear us out on this post results day. Good afternoon everyone and thank you. I have with me Jatin Chokshi, CFO and Suryanarayanan, Executive Director of ECU Worldwide. I hope all of you have received results and gone through the quarterly and full financial year details by now. You shall also be able to review this quarterly presentation on the website. Our numbers for this quarter and full year are audited and have been regrouped as per the new Ind-AS accounting principle. I am happy to share that despite the slow growth in global macroeconomic situation we have shown growth in volumes and considering the environment we have faired well during the year. Globally the consolidation has started in the shipping world and this year we have seen alliance has been formed and this has brought down the number of shipping lines in operation. In fact in the last quarter the freight rate growth has been the best and the fastest since 2010 and from the recent lows. Going forward we believe that the freight rate should hold good even though the capacity remains constant or grows marginally.

Coming to India there have been a lot of positive changes and developments. So far the growth has been mainly due to consumption drive, now with even greater focus on infrastructure development and government spend and capex the economy should get further boost. We also expect the private investments to start and first signs of that are already visible. The new GST rules are now out and GST will be implemented shortly. I truly believe this will be a game changer for corporate India. There will be innovation and new business ideas that will emerge, which will change how warehousing will be done in India, which was earlier a function of tax efficiency. Players who can offer complete solutions like contract logistic will benefit from GST especially if they have a Pan India present.

Our contract logistics business is doing well and in line with our expectations. We have a very strong presence in pharma, auto and chemicals and a fast growing penetration in the fashion and retail space. Our plan here is to go Pan India and across verticals and with our business solutions offerings we are confident of doing well. Once GST is rolled out and our customers have decided the logistics plan, we should be able to see high traction in this vertical of contract logistics. DPD or direct port delivery, which was initiated in the third quarter of the last financial year with a focus of ease of doing business, has changed the CFS service offering for us. While this has negatively impacted a traditional CFS volume I repeat traditional CFS volumes, on the other hand has created a new segment for value added services for end-to-end logistics. These are times of change for the CFS business in India and though currently this has created a state of flux. I believe this would stabilize over the next two to three quarters. This business will now move towards offering multiple or a bouquet of services suited and customized to the customer needs. Ability to offer complete and one stop solution through the synergistic mix of businesses we have has enabled us to become a preferred partner with our customers and we believe all these changes will only help and benefit us from a long-term perspective. Our ROCE improvement drive continues and the management is very focused on how much returns every asset is generating. We are taking a hard call and selling of low yielding assets, which are not of strategic importance. Starting with quarterly updates Jatin Bhai our CFO will take us through the consolidated financial numbers.

Jatin Chokshi: Thanks Prakash. Good afternoon everyone. Coming to the consolidated quarterly financial numbers of our company. Our total revenue from operations for the quarter stood at Rs.1363 Crores for the quarter ended March 31, 2017 as compared to Rs.1390 Crores for the corresponding previous period, a decrease of 2%. This decline is predominantly on account of transfer of similar business to ACCI as per Ind-AS guidelines, we accounted for the JV accounting, slow down in project logistics business, sale of low yielding nonstrategic assets and non-operation of assets due to repairs and maintenance. The volumes have grown in both our MTO and CFS businesses. The EBITDA for the quarter was Rs.106 Crores as against Rs.117 Crores in the corresponding previous period. A decrease of 10% mainly on account of transfer of similar business to ACCI as per Ind-AS, slowdown in project logistic business, sale of low yielding and nonstrategic assets, rentals booked for new CFS in Kolkata for which the operation should be commenced in the current financial year, expenses booked of managing new CFS in Mundra and non-operation of assets due to repairs and maintenance. The profit after tax for the quarter was at Rs.57 Crores a decline of 2% this was mainly because of the deferred tax impact on account of the Ind-AS adjustment as per the revised guidelines. Looking at the full year audited consolidated financials, the revenue for the full year at console level was Rs.5583 Crores as compared to Rs.5640 Crores in the previous year, a slight decrease of 1% again predominant account of transfer of the business due to Ind-AS requirement and JV accounting, slow down in project logistics and sale of low yielding nonstrategic assets. The EBITDA was Rs.465 Crores for FY2017 as compared to Rs.504 Crores a decrease of 8%, this is again for the same reasons, which were narrated earlier and the profit after tax for FY2017 declined to Rs.232 Crores as compared to Rs.240 Crores in the corresponding previous period. The earning per share was at Rs.9.20 per share in FY2017.

Now coming to the balance sheet. As on March 31, 2017 the Equities stood at Rs.1830 Crores that is the net worth comprising of Equity as well as the results. Our net debt stood at Rs.318 Crores. Our current net debt to Equity ratio is 0.18 reflecting a healthy balance sheet. The consolidated return on capital employed is 15%. This year we did a buyback of shares to reward our shareholders. Our buyback price was Rs.195 per share. A total buyback size was 64 lakh shares approximately 2.54% of the total number of shares outstanding. The total amount involved in the buyback was Rs.124.8 Crores. The Board of Directors have recommended subject to the shareholders approval a final dividend at the rate of 100% that is Rs.2 per Equity shares of Rs.2 each for the financial year ended March 31, 2017.

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

S. Suryanarayanan: Good afternoon. In this quarter our volumes grew by about 13% year-on-year and for the full year the growth was around 11%. This growth in volumes in the last quarter came not from any one or two geographies, but across the globe and to our mind this growth will continue to run even in the next quarter also. We have always outperformed the global LCL trade, which grew by around 2% to 3% and we plan to continue to outgrow the market. During the quarter the revenue stood at 1,161 Crores year-on-year decrease of about 2% mainly on account of change in currency fluctuation and transfer of the freight forwarding business to ACCI. Last quarter we did see some pressure in our margins and we have mentioned that we expect this pressure to continue in this quarter as well. However, going forward from what we see in this business and the volume growth the margins should improve. Despite the low margins because of our increase in volumes we have been able to grow the EBIT for the quarter by 5% at Rs.50 Crores. This was mainly driven by the volume growth. The return on capital employed in this part of the business is around 29%. Prakash will now talk about our India business.

Prakash Tulsiani: Suri. Thank you very much. We will start with CFS and ICD operations. I would like to first take actually all of us through with the expansion plans. So starting with expansion plans in the business the logistics park project. The railway has requested for some revision aligning the fresh information on DRS, which they had and these have been submitted to them very recently. Our new CFS in Kolkata all the civil works and activities are completed and we are currently awaiting the necessary approvals to commence operation.

Coming to our business performance, our volumes grew by 15% year-on-year to 77,021 TEUs for the quarter and 8% year-on-year for the full year at 291,186. This growth has predominantly come from CFS at Chennai and Mundra. The volumes of two ICDs, which are Dadri and Kheda for the quarter grew by 2% year-on-year to 8,170 TEUs. The full year volume for both these ICDs was 35,670, a year-on-year growth of 17%. EBIT for the quarter was maintained at Rs.29 Crores despite lease rentals of the CFS at Kolkata and expenses of managing the new CFS in Mundra. The return on capital employed was at 29%.

Coming to our project engineering business, our asset utilization on crane fleet continues to be strong. As mentioned in the beginning of the call and in various other previous quarterly calls we are very ROCE focused and have continued to take hard calls on doing away with low yielding nonstrategic assets and continue to innovate to restructure and improve the ROCE in this business vertical. In line with this we sold some of our old cranes, trailers, etc., and also two ships in this year. We also had a dry-docking of one ship for entire 1 month in Q4 and the other ship was under maintenance due to breakdown. All the above factors contributed to the decline in revenues and profits from the shipping business. The revenue for the quarter was at Rs.114 Crores a decline of 10%, this was mainly on account of conscious decision to move away from lower ROCE business. So in this business right now we are at a stage where of turning point I would say and the future looks much better than what we have seen in the recent past. And the EBIT was at Rs.6 Crores as against Rs.17 Crores in the corresponding previous period. Currently we do expect this business to pickup traction once the government and private sector spending starts to accelerate. To conclude, one of the important things going forward for our Company is to constantly Innovate, focus on not just profitable growth but create value for our stakeholders. We continually look at our customers need and emphasize on customer delight and satisfaction. This is the theme and culture at Allcargo where we are ever ready to adapt to changing business environment adhere to timely implementation of projects. We constantly strive to find alternative revenue models and eliminate waste that exists in the organization. Take cost out is the constant endeavor.

Thank you so much. We can now take questions.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Good afternoon and thank you for the opportunity. My question was firstly on the MTO side. If I look at the average realization per TEU it has fallen, but you had mentioned that there is an impact of forex and transfer of the freight forwarding business, so could you give some sense on the underlying freight rates how it has moved, you did mentioned that it is strengthened in the last quarter, so how much has the underlying freight rates strengthened on the container trades?

S. Suryanarayanan: The freight rates are strengthening, they are moving across the trade length and we hope that our margins will also continue to improve. We are seeing a little bit of growth in our margins. We will have to wait for one more quarter to see whether the trend will continue in that manner.

Mukesh Saraf: Some weighted average freight rates that you think have gone up in the fourth quarter, is it low single digits or any sense on that, that you can provide Sir?

S. Suryanarayanan: Freight rates have gone up quite considerably, it is not in small single digits, but they have moved up quite considerably across trade length.

Mukesh Saraf: For the LCL business it has gone up?

S. Suryanarayanan: Yes for the LCL business.

Mukesh Saraf: Notwithstanding the forex part of it you are saying that going ahead we can see it actually result in our EBIT that you are showing up?

S. Suryanarayanan: It should, it should translate if the margins improve.

Mukesh Saraf: Secondly on the CFS side Prakash Sir had mentioned that because of DPD the kind of services that you are offering is kind of changing could you just explain a bit more Sir on what is this value added services and how is it that you are kind of, are you saying that you could be ahead of because you are offering these services?

Prakash Tulsiani: With DPD coming in actually, if you look at our business prior to DPD, this was a business, which was in a nature where we were extension of a port and we were acting as a port yard, so all the volumes, which would come into our port would directly come into the CFS for clearing by the customs. Now that is the traditional volume I would call it in the CFS business now. Given that DPD is there, there are certain customers who have to clear the goods in the port, so once they clear it they would need a space because they will have to clear it within 48 hours and in the own warehouse or in the factory or in wherever they store the goods they may not have the sufficient space, so they would like to store it in the place, which is secured, which is similar to what they were getting earlier and closer to the port, so we fit in exactly there as a CFS that we are closer to the port and we are able to segregate a special area for them where they will come and store their goods whether in the container or in the warehouse. There is one of them that we can offer one of the services. The other services that we are working on are how do we tie up end-to-end. Today the customer needs to clear it within 48 hours, the goods at the port, can we offer them the clearing activity, can we offer them whatever coordination is needed with the shipping line and at the end of the day store the goods in the warehouse and eventually give them a delivery at their designated place, so all that is being tied up and we have been talking to large customers on this, we have secured one or two of them already in terms of volumes and going forward this will be the new segment that we will have to work with.

Mukesh Saraf: Right, but as of now all that you are getting is ground rent, you have still not yet moved to that end-to-end solution, but right now the containers get cleared at the port in 48 hours you beyond that 48 hours you get the ground rent that is what it is right now?

Prakash Tulsiani: No, we also have the transportation; we also have the handling and also the ground rent put together. Now if we offer them any additional services, which could be coordination with the shipping line clearing or even delivery at the destination that of course that is on top of whatever we are doing today.

Mukesh Saraf: Right, but Sir just correct me if I am wrong, but these are generally the services that you would anyway offer if DPD was not there, but now apart from the clearing you will end up offering all the other things also?

Jatin Chokshi: Exactly. In the traditional CFS model we would pickup the container that is transportation, do the handling and the ground rent that is it and then once the cargo leaves our gate then of course the end customer handle that or their designated agent.

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

Pratik Kumar: Sir my question is followup to the previous participant question on this direct port delivery. Sir in your view what do you think that in a sense like earlier CFS model was like for third party CFS operator it was primarily to an extent based on sharing in centres with the shipping line, but now for at least for DPD container it is not like that case, so would the competition increase or decrease in current scenario in your view?

Prakash Tulsiani: The competition always exist and we have 33 CFSs in the JNPT area for example, so that continues to be there and see these are all commercial deals between a carrier and end customer and the CFS, so I would not like to please pursue that further.

Pratik Kumar: In the CFS segment specifically in this quarter we have seen some decline in realization, is it purely due to that Mundra volumes coming up from the least facility because the volumes have grown on quarter-on-quarter, year-on-year basis, but the realizations are….

Prakash Tulsiani: You are right. It is a good point because realization in the Mundra facility because it is a leased facility, so the accounting is that it is a net of everything that is cost, so that is why you will see that the revenue over there is like the revenue what we get minus the lease rentals we pay that is accounted as income and that is why it appears as if per unit realization is low.

Pratik Kumar: So it should likely remain similar?

Prakash Tulsiani: Yes it is not like a grossing up like other CFS because the leased facility, so it is a netting of revenue minus lease rental payable to the owner.

Pratik Kumar: In your contracts logistic business, which you acquired last year Sir is there any figure, which we can have like for FY2017 what was your revenue for current year and what kind of opportunity in terms of revenue size for that segment can be expected post GST roll out and advantages related to it?

Jatin Chokshi: Now as far as financial numbers are concerned, the ACCI wherein we acquired a majority stake, at company level the topline for FY2017 is in the region of Rs.400 Crores.

Pratik Kumar: This is for FY2017?

Jatin Chokshi: So around Rs.400 Crores is topline at ACCI company level and all other parameters in terms of EBITDA, profit after tax and everything is going as per the business plan and quite well. Coming back to the implications of the GST yes as we have always mentioned in our own internal assessment now is proving correct that post GST implementation the potential in this business is really very high keeping in mind our existing customers requirement, their planning in terms of inventory movement, warehousing and other thing wherein we contribute a lot in terms of assisting them or advising them about their entire inventory management across the supply chain, so we are all very hopeful that post GST all well organized players in the sector will tend to benefit out of this GST moment and yes we added a lot more customers in all the sectors that is a chemical, auto engineering, fashions, retail, e-commerce, so we are very positive of the GST implementations and potential of this business.

Pratik Kumar: This comes in your line item income from associates in P&L statement?

Prakash Tulsiani: Yes.

Pratik Kumar: So that number has actually, it is like around Rs.4 Crores for current year versus Rs.7 Crores for FY2016, so is that significant contribution from some other thing also because you acquired this entity in FY2017 only, so while they are still fallen on year-on-year basis?

Jatin Chokshi: We have got other few companies wherein the JV accounting are also being made, are applied post Ind-AS, so it is a cumulative figure of all Ind-AS adjustment and all the JVs number put together that is at a net level because we have got a few more entities overseas as well as in India. So it is the combination of all the JVs put together, net number is there.

Pratik Kumar: This number expected to grow significantly after like medium term?

Prakash Tulsiani: Yes, that is right.

Pratik Kumar: One final question on your P&E segment, so we have been discussing on the removal of lower yield businesses, cranes, etc., so is that exercise towards closure or is it a constant exercise?

Prakash Tulsiani: No, it is a continuous improvement plan and certainly this will be constant because we have to monitor each of our assets and ensure that they deliver what we need as ROCE, so it is a constant endeavour.

Pratik Kumar: Because FY2017 ROCE for this particular segment actually slightly lower versus FY2016, what I am doing is like just dividing PBIT by capital employed.

Prakash Tulsiani: Your observation is correct because there was certain asset as we said about shipping also, we sold two assets in the quarter that is under discussion and also there were two vessels, one in dry dock and one in repairs and maintenance, so that is why the last quarter results has affected the overall results for the year.

Pratik Kumar: Sure Sir! Thanks and all the best. I will get back to the queue.

Moderator: Thank you. The next question is from the line of Jinit Mehta from B&K Securities. Please go ahead.

Jinit Mehta: Thank you for taking the question. Regarding the DPD now so as I understand most of our JNPT volumes or other CFS volumes would be more skewed, so does this affect us in a larger way because DPD largely would be enforced right now or am I wrong in that?

Prakash Tulsiani: No, you are right, it will affect us, it has affected us in JNPT, it is not that we have been spared because the DPD volumes have increased from the month of October 2016, but then the containers, which are cleared already under DPD, are then showing up at the CFS.

Jinit Mehta: Sir what proportion that be because as I understand 40000 containers are cleared in the month of April I think that is a fair number, now how much of that number would be cleared directly by the customers and be taken directly to the facility and how much will fall to the CFS guys, do you have a number?

Prakash Tulsiani: We have approximate I think percentage that we can give it you. What we hear is approximately 25% of the volumes to 28% of the volume are under DPD third party and whatever way we call it, which is dealt directly by the end customer and that number has remained there for a period that we have heard approximately two months.

Jinit Mehta: Fair enough and Sir does the profitability changed much because of us handling DPD volumes versus the traditional volumes that we used to do or does it increase or decrease?

Prakash Tulsiani: Actually the margins are slightly lower, but not significant.

Moderator: Thank you. The next question is from the line of Jigar Shah from May Bank. Please go ahead.

Jigar Shah: Good afternoon. My question pertains to the impact of GST though you have covered to some extent, but if you can elaborate further on the prospects in the near-term, in the medium-term for the company and for its different segments of business and if any investment that will be required?

Prakash Tulsiani: On GST there are two effects I must say and both are positive. One coming in from a client side that is we will see increase business in our contract logistics and the need for warehousing and also finally will be the integrated logistic services that will be more in demand than what we have seen earlier. Obviously all the decisions from the customer side would be more based on logistic needs rather than taxation as it was done in the past, so that is benefit number one in terms of business volume. The number two is that on our own balance sheet or profit and loss there would be a benefit because now we will be having everything in organized what I mean is covered by the GST and everyone is included there, while we had procurement of services from unorganized sector, which will also get covered now, so that will be the benefit. Jatin if you have any comments?

Jatin Chokshi: No, basically yes as you all know that the GST is basically pass through as far as B2B is concerned, so with 100% pass through available to the business the capability or the ability to take this CENVAT credit or input tax credit will be very high for all the organized players, so definitely it will benefit our company and our businesses at large in terms of getting a higher input tax credit compared to what current is available under service tax regime as well as input tax credit on the capital goods, which either were not available or restricted to a bare minimum that also will be available, so definitely this is a positive impact of the GST as far as the taxation financials are concerned and your question regarding the capex in terms of expansion post GST in contract logistics yes the number of facilities or the number of warehouse or area of warehouse and the management was increased. There is a marginal addition to the capex because as a principle we do not own the warehouse or lend and billing part of it; however, the additional raking or other fitments, which require specific to the customers or client or to the commodity we need to spend those capex, but it will be a very marginal capex sort of things, so we do not see any major capex required though the volume and the business will go up.

Jigar Shah: This CENVAT credit how much more you will be able to get versus what you are getting today?

Jatin Chokshi: No, we cannot quantify as of now because as you know the rates for the services and everything was announced just few days back and there is a drastic change compared to the earlier regime that everyone was expecting, for an example that on transportation sector people are expecting the GST to be levied, which is again available as input credit; however, when the government of the GST council notified tax rate for the transportation they have imposed at a reduced rate of 5% or a special rate of 5% and that too the tax is payable by the service recipient without input tax credit. So the impact of all such changes we are evaluating and I think in couple of days we should have some clarity, but yes overall we see good amount of savings in terms of tax leakages or tax efficiency.

Jigar Shah: One last thing is do you cater to the e-commerce sector and will that also be your client now with the changed situation?

Jatin Chokshi: Yes, currently we have a very small presence in e-commerce sector, but yes looking to the potential GST implications and our overall business plan we intend to increase our penetration in that segment and yes we are already, a part of our business plan targeting a good growth from this sector.

Jigar Shah: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Good afternoon Sir! I think most of the questions answered, but currently how much is the DPD volume happening at JNPT?

Prakash Tulsiani: In overall terms for a port approximately 25% to 28%.

Vikram Suryavanshi: 25% of import volume?

Prakash Tulsiani: Yes.

Vikram Suryavanshi: How much progress we have done in our Jhajjar?

Prakash Tulsiani: Good point in Jhajjar we have as I mentioned earlier that we have already done the work on land clearance, but we have some miles to go as far as the railways are concerned. The railways have recently come out and given some direction on the DRFC requirements and because of that what submission we had made had to be revised and resubmitted to them, which we have done only in the last week. Railways are working on it to give the clearance.

Vikram Suryavanshi: Will it come in FY2019 only in terms of commercial availability?

Prakash Tulsiani: I think that will still take time I suppose because the total time taken for getting the project up and running in even in the first phase could be anywhere around 18 months to 20 months.

Vikram Suryavanshi: One last question Sir in MTO domestic business we have seen margin decline or so, so is there any specific reason there?

Prakash Tulsiani: Which domestic business?

Vikram Suryavanshi: If you look at standalone MTO part?

Jatin Chokshi: No, as I told you this is a JV accounting like last year allover 100% Hindustan Cargo subsidiaries topline was a part of our console business as far as Allcargo is concerned, but that is now not a part of Allcargo and on MTO segment there is some Ind-AS adjustment kind of thing and we are maintaining our policy of being overcautious in terms of providing our receivables more than 180 days as the provision though it is not a bad debt and we do not have any history of bad debt, but abundant caution we are providing, so that during this quarter due to the increase in the FCL volumes and other overall growth there is an increase in the provision for doubtful debts to the extent of 2.5 Crores in this quarter, so that seen the numbers are getting slightly sorted out yes.

Vikram Suryavanshi: 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. So starting with our expansion plan, Jhajjar at what stage are we there in terms of land acquisition?

Jatin Chokshi: Planned acquisition actually the title study or title search is complete, and we are ready to go anytime with the registration; however, we have ourselves the linkages with other milestones like

Prakash mentioned earlier in terms of railway approvals and other thing, so the titles of everything is over, any moment we can go for registration subject to getting into future approval from the railways.

Ankur Periwal: In terms of milestones, which you mentioned so railways will be more on terms of the railway line that we intend to build over in the logistics park?

Prakash Tulsiani: Yes, railway is adding within the logistics park.

Ankur Periwal: So if I could just like suppose we need to acquire the land based on the specification given by the railways and then we will go ahead with construction, which you mentioned 18 to 20 months roughly?

Prakash Tulsiani: Correct.

Ankur Periwal: So in all probability it will be probably coinciding with DFC, which is probably?

Prakash Tulsiani: Absolutely correct. That is the whole idea I mean this setup of Jhajjar is on the back of the railway line that is the DRFC and the connectivity will be on the rail because we believe that once DRFC is in place the main haul or the line haul will be done by the railways and the first and the last mile would be on the basis of the road traffic or rather road transportation.

Ankur Periwal: Sure, fair enough. Sir secondly we did mention Kolkata CFS being there and Mundra we have already added one more facility. Earlier if I remember it right we did mention our plans to expand into shipping line as well as warehousing and e-commerce as a separate business vertical wherein we like to focus our expansion, so if you can touch upon the coastal shipping purpose as well as the e-commerce warehousing expansion?

Prakash Tulsiani: No, there was no such plan of expansion on the shipping or the coastal part of it, it is only we will expand shipping if there is a back-to-back very solid long-term agreement then we will review it, so at the moment there are no plans of getting more into coastal, but on the e-commerce side yes if there is a need and there is demand we will certainly look at warehousing, which will be possibly the asset light model and that will be a part of contract logistics team.

Jatin Chokshi: Yes, that is what I mentioned earlier yes we are already catering in a small way to the e-com sector and good business plans for expansion in this sector, is a part of our contract logistics business.

Ankur Periwal: Fair enough. Sir we did mention in our initial remarks wherein we like to focus upon providing an end-to-end service now to the customers, the last mile, which was largely road transportation focused, do we still prefer to own the trucks or we will prefer it to be on a lease basis, which will be again third party?

Prakash Tulsiani: It will be a third party and it will be asset less because there are many service providers available now and they are in the organized sector, organized players also, so we are comfortable with that.

Moderator: Thank you. The next question is from the line of Nishna Biyani from Prabhudas Lilladher. Please go ahead.

Nishna Biyani: Many thanks Sir for giving me this opportunity. Just wanted to understand why has the net debt risen in this quarter by Rs.60 Crores?

Jatin Chokshi: Predominantly it is because of the capex for the Kolkata CFS, which is under implementation, so that is the reason it has gone up by Rs.35 to Rs.40 Crores and balance is working capital and those kind of thing, so that is what, otherwise there is no and this is a planned debt for our Kolkata expansion.

Nishna Biyani: So in this quarter we have generated enough cash?

Prakash Tulsiani: Yes.

Nishna Biyani: So just wanted to understand why has the net debt gone up this quarter?

Jatin Chokshi: No, because the term-loan and everything because the long-term project has to be funded by long-term and short-term kind of things, so we already had tied up the term-loan at a very attractive rates, so we do not want to lock our equity, which has got a higher cost and so that is the one of the reason and second is, that is the reason in the last financial year when we had the extra cash available we have opted for the buyback to reward our shareholders, so currently you know very well the debt market interest rates is very attractive for top rated companies in India, so we are taking the advantage of that and extra money we are returning to either shareholder or having a different business fronts, which is earning a higher return than the cost of the debt.

Nishna Biyani: Sir we have done some reinstatement of FY2016 numbers as well in this quarter, so just wanted to understand what is this account for business combination and non-controlling interest of Rs.51 Crores, which has been provided in FY2016 numbers?

Prakash Tulsiani: No, that is the Ind-AS requirement just to because the Ind-AS is applicable from current financial year, so we need to restate actually three year number to have a apple-to-apple comparison as per the Ind-AS requirement that is up for FY2016-2017 and for FY2016 just to have a correct opening numbers of F2015 also we have restated, so these are pure Ind-AS adjustments, but let me check about the exact details about these and we will revert back to you on that particular 51 Crores what you are mentioning.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Thank you for the opportunity Sir! Wanted to understand first on the macros, how are you looking at the EXIM cargo because that is where we can see more growth for the CFS business, so how do you look at the macro and what is our market share in JNPT for FY2017?

Prakash Tulsiani: As far as we are concerned let us talk about the global trade because global trade has seen good growth, it is in the range of 2% to 3% versus 1% in the past few years, so it has been good growth in global EXIM trade. As far as India is concerned, India continues to import more because the consumption driven economy and we have seen the numbers also rising in the range of 5% to 6% and that has been a good growth compared to what we have seen in the past, so the volumes are going up. In terms of CFSs we have 33 CFSs in and around Nhava Sheva and in Mundra there are equally 10, 11 of them, so overall we continue to be in the top three as far as CFS business are concerned across India.

Achal Lohade: You would not be able to quantify Sir market share?

Prakash Tulsiani: No, it will be difficult because there are different locations also available and to get you a number, which is accurate would be slightly difficult.

Achal Lohade: Sir my second question is on the Jhajjar project you said you are awaiting the approval from railways for the internal rail siding, but where does it connect on DFC, which location would it connect and how far it is and the feeder route for that?

Prakash Tulsiani: The railway approves not only the internal rail siding, but it also approves the connectivity from the nearest spot. The nearest spot connectivity is, there is already a railway line, which is approximately 1.5 to 2 kms away from our site, so there will be one connectivity and then from the DRFC connectivity, which is already an existing line with the Indian Railways is running, so the connectivity will be somewhere near Rewari.

Achal Lohade: Near Rewari?

Prakash Tulsiani: Yes.

Achal Lohade: My related question was if I look at the listed companies' performance we see that there has been reasonable amount of pain in because of the oversupply scenario, our overcapacity scenario in the ICD or rail. I am just curious to understand the thought process because over next two to three years if we assume that by FY2019 you may have Jhajjar in place, what kind of demand growth you looking at and what kind of investment it will go and the return you could possibly look at?

Prakash Tulsiani: What you have looked at is probably on the container side of the business, what you are looking at is ICD. We are planning a logistics park, which will be ICD++, what I mean by ++ is ICD being the main stay, which is container business we will have bulk, we will have domestic and we could also have other verticals if need be, which could be in the liquid segment and also in the car segment, but apart from all these, we will also have warehousing in this particular place, so we are making a plan basis the DRFC, which is coming up plus the GST, which has been announced, which will need a lot more capacity in that area because it is the high consumption area today, which is very, very close to Delhi and the NCR region, so the basis of planning is having it as a drive port, which is if you see any port of size you will see that all these activities are covered, so we will be a drive port in the sense of scale.

Achal Lohade: Understood and the investment Sir, what kind of investment?

Prakash Tulsiani: It will be in phases. Overall the investment could range between Rs.400 to Rs.500 Crores over a period of five years?

Achal Lohade: Phase I?

Prakash Tulsiani: Phase I we will have to buy the land first, so approximately in the range of 200 or 250.

Achal Lohade: Alright, great Sir! I will come back in the queue. Thank you so much.

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

Pratik Kumar: Thanks for the followup. Sir just couple of questions. Just on target capex for next two years, if you can just give some numbers there?

Jatin Chokshi: So basically predominantly maintenance capex, which should not be more than around Rs.5 to Rs.10 Crores per quarter and except the Jhajjar thing what we mentioned is happening then that will be an additional capex in terms of land and other thing and balance capex on Kolkata is close to around Rs.5 to Rs.6 Crores, we still need to spend to make our facility fully operational, so that is what the capex plan we have, otherwise we do not have anything.

Pratik Kumar: Kolkata is expected to commission in Q2 FY2018?

Prakash Tulsiani: Yes.

Pratik Kumar: One last question on this GST rate, which all GST rates are applicable for us, I guess for contract logistics rate new rate would be like what was earlier, now what is there?

Prakash Tulsiani: Basically the general rate will be applicable 18% unless specified otherwise like there was specified 5% on transportation, so our project transportation business will attract 5% our equipment, rental hiring business will attract 18% that is a general rate, so again on MTO business rates on import freight is 5% that is what specified, so different businesses having a different rate and compared to current rates except where the general rate is applicable, which currently service tax is 15% it will be 18%, but again the same input tax credit will be available at almost a similar rate, so it is ranging between 5% to 18%.

Pratik Kumar: For CFS is also 18%?

Prakash Tulsiani: Yes.

Pratik Kumar: Sure Sir. Thanks. That is all my questions Sir!

Moderator: Thank you. The next question is from the line of Jinit Mehta from B&K Securities. Please go ahead.

Jinit Mehta: Thank you for the followup. Sir if you can touch upon the MTO volume guidance you have seen almost 13.5% volume growth in the second half of FY2017 and you are looking at 2% to 3% overall EXIM growth, so where will we be in this year and how do you see this playing out, so are we looking at inorganic growth again in this year or will it be completely organic?

S. Suryanarayanan: The way you should look at it is so far we have been out beating the market growth in the LCL space. I think we are set to do that in the coming quarters, how much we will grow over that is mood point but I do know that we will beat the market growth of 2% to 3%.

Jinit Mehta: So the growth that we achieved Sir was that at the cost of margins or the margins overall low for the industry?

S. Suryanarayanan: The margin is overall low, it is not that we are selling lower than what is happening in the market, but when the freight rates were low the markets actually readjusted to the tariff and that is how it is happening, so there will be some lag effect than other things, but it is not that we are selling low to get the volumes. With this pure market penetration whether it would be possible and that is where the growth is coming from.

Jinit Mehta: Second question would be on the debt, what would be the debt repayment schedule, any debt equity target that you are working with for FY2018-2019?

Prakash Tulsiani: Basically other than the Jhajjar if it is happening we do not have any major capex plan and we are generating a good number of cash every month, so we do not see any ratios going higher or it could be slightly lower only unless we have some plan.

Jinit Mehta: So basically you would actually repay the debt right in FY2018?

Prakash Tulsiani: We will repay the debt or unless we have the opportunity we might invest also, but yes overall we do not see a major change in the debt equity ratio unless we decided to go for Jhajjar and something is happening then probably some debt portion might go off.

Jinit Mehta: Fair enough. Thank you so much Sir for the questions.

Moderator: Thank you. We will take the next question from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: Thanks for the opportunity. Sir I just wanted to understand this logistics park business better. Firstly it would be a PFT as I understand correctly and do you plan to enter into train operation business or it would be just the logistics park that is my first question and Sir if you see most of the players in this industry are kind of struggling on return on investment, we as a company are very return conscious company, so how do you plan to differentiate in this business those are my questions.

Prakash Tulsiani: As the plans are we will be in logistics park only, we do not have any intention to run a railway company and the reason for that is because there is plenty of capacity already available in the system and we can easily go and tab that, so that answers your question number one. The question number two is the returns what you are calculating is only on the container business. We are looking not only container, but also the business of doing domestic as well as warehousing, so we will have integrated services available at this particular logistics park, so we have calculated and we are confident that there is sufficient business and good business available, profitable business available for this particular logistic park.

Moderator: Thank you. The next question is from the line of Jaikant Kasturi from Dolat Capital. Please go ahead.

Jaikant Kasturi: If I am not wrong, I heard that the capex for FY2018 would be around 50 to 100 million for this year that will be exclusive of Kolkata CFS?

Jatin Chokshi: So our capex as I told you is not much purely it is a maintenance capex around Rs.5 to Rs.7 Crores per quarter that is what we expected to maintain at current this thing plus we might have some additional opportunity, otherwise we will main pure maintenance capex.

Jaikant Kasturi: That is it from my end. Thank you very much.

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

Abhijit Mitra: Thanks for taking my question. My question is on the MTO side, given the buoyancy and freight rates that we have seen over the last three to four months and given the fact that trade length volumes are also shaping up nicely, what kind of margins, given everything else remains constant, would you be looking to get from this business over a period of next one year, we have already reached that 5% level from the EBITDA side can it reach hypothetically 5.5 to 6 or you feel that certain other levers to be in place to achieve that kind of target?

S. Suryanarayanan: How the margins will shape up, but I think it is all pointing in the right direction, the freight rates are going up, the volumes are going up, market penetration is happening and I think it is all shaping and it is shaping well, but which way the margins will ultimately move is also dependent on the competitive forces that are also in place, but overall we are all shaping quite well.

Abhijit Mitra: Right and you feel that topline or rather the TEU performance of FY2017 is applicable in FY2018 or do you need to put in certain inorganic levers into?

S. Suryanarayanan: Not necessary, the network is enough, the network can take a lot more put through it, so it does not require too much of investment for it to move, so in that sense this is sort of an elastic network, so it can take in as much as we can pump it through the network and as far as the topline is concerned, yes I mean the freight rate is going up and our topline is inclusive of the freight and ideally it should grow, but again it depends on the various factors like when you translate at a console level to India then what is exchange rate kind of thing, but yes purely Dollar terms or Euro terms freight rate is going up topline will go up.

Abhijit Mitra: Thanks Sir! For other questions I will come back in the queue.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Abhishek Ghosh for his closing comments.

Abhishek Ghosh: Thank you Lizaan. On behalf of Motilal Oswal Securities I thank everybody for joining in the call, particularly the management of Allcargo for taking out their valuable time to answer the investor queries. Thank you everybody. Lizaan you may now go ahead and conclude the call. Thanks.

Prakash Tulsiani: Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines.