Transcript

Conference Call of Allcargo Logistics

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Presentation Session

Moderator: Good afternoon, ladies and gentlemen. I am Honeyla moderator for this conference call. At this moment, all participant lines are in the listen-only mode. Later we will conduct a question and answer session. At that time if you have a questions, please press * and 1 on your telephone keypad. Please note this conference is being recorded. I would now like to hand over the floor to Mr. Prateek Kumar, Analyst from Antique Stock Broking. Thank you and over to you sir.

Prateek Kumar: Thanks Anila. And good evening, ladies and gentlemen. Welcome to the Allcargo Logistics 1Q FY17 conference call. We have with us today from the management Mr. Prakash Tulsiani, Executive Director and COO of Allcargo Logistics, Mr. S. Suryanarayanan, Executive Director - ECU worldwide and Mr. Jatin Chokshi, CFO of Allcargo Logistics. Now, I would like to handover the call to the management for their opening remarks. Over to you sir.

Prakash Tulsiani: Good afternoon everyone. This is Prakash Tulsiani. And thank you for joining us on the call. I have with me Mr. Adarsh Hegde, our Joint Managing Director. He has been recently appointed as the Joint Managing Director. And along with him, there is Jatin Chokshi, CFO, Mr. Suryanarayanan, Executive Director of ECU worldwide, who is traveling and has joined us on the call. So, I hope all of you have received our results and gone through the quarterly financials by now. For those who haven't, you can view them along with the presentation on the website. Our numbers have been regrouped as per the new IND AS, the new accounting principles. And accordingly there will be certain numbers which you may have questions, please feel free to ask on that.

Our vision is to deliver top quartile returns by focusing on our operating margins and increasing market share. Our key growth area is to further strengthen our leadership, would be the business of MTO, CFS, Logistics Park and contract logistics. These businesses have a very high potential, given the developments in India and the needs of our clients. To achieve this in this quarter, we have invested in digitalization, management bandwidth and mergers and acquisitions. I truly believe that there are exciting times ahead for the logistics sector in India and Allcargo is geared to deliver on all fronts.

I would like to congratulate our Government on moving the GST bill. This is a landmark bill for logistics and especially for the Allcargo Logistics, which is the largest integrated logistics service company in India. The key verticals benefiting from GST would be our vertical of contract logistics and Logistics Park that is Avvashya CCI and our Logistics Park project at Jhajjar. Our latest M&A, that is our Avvashya CCI, is performing as per expectations and we have continued to grow in this business. While the business was integrated from 1st April, 2016, the effective day for accounting this acquisition is 1st July, 2016. And thus the P&L is yet to reflect contributions from this transaction. The focus here is to grow our business across India. I would like to mention here that we have for the third consecutive year won the best warehousing service provider award from Dow Chemical, one of our esteemed customers. Dow awards are an initiative taken by the Dow Chemical to honor their best service providers across the world every year. This is in the contract logistics segment.

Coming to the Logistics Park project in Jhajjar, we are close to completing the due diligence on the land and also are working on getting approvals for the rail connectivity. Once this is done, we will make our first tranche of investments in this project. We expect that once the investments are made of course, we expect the operations of phase one of this project within two years from the day of commencement of construction, so somewhere around second quarter of 2018.

Overall we remain confident that along with expected growth in the domestic consumption, infrastructure sector revival, dedicated rail freight corridor coming up by 2019 or 2020 and GST implementation, we will continue to grow and increase our market share and grow profitably. Starting with the quarterly and all updates, Jatin, our CFO will take us through the consolidated financials.

Jatin Chokshi: Good afternoon everyone. Coming to the consolidated quarterly financials of our company, our total revenue from operations stood at 1399 crores for the quarter ended June 30th, 2016, as compared to 1465 crores for the corresponding previous period, a decrease of 5%. This was mainly on account of the reducing freight rates in the shipping industry, which as we are maintaining that by and large is a pass through process for us. We have also moved away from the lower margin business. And there has been no charter income in our shipping business, which has impacted our revenues. Last year we were in the container business in coastal shipping with dropping freight rates and hence we exited this container segment.

The gross profit for the quarter grew by 5% to 472 crores. The margin has improved on account of increase in our operating efficiencies, economies of scale and gaining market share in our MTO business. The margin this quarter increased to 34% from 31% in the corresponding previous period. The EBITDA for the quarter was 133 crores, a decline of 3%. This was mainly on account of the pre-operating expenses that we had to route through the P&L account for the upcoming Kolkata CFS, in line with the new IND AS to which accounting guidelines, which we have migrated and a onetime expenses from dry docking of one of our ships. The margins remain maintained at 9.5%. The PAT for the quarter was at 61 crores, a year on year decline of 8% again predominantly on account of deferred tax and MAT rate reversal in first quarter of FY16. However, our profit before tax grew by 5% to Rs.88 crores.

Now, coming back to the balance sheet. As on June 30th, 2016, the net worth stood at 1806 crores. The net worth has been adjusted for goodwill write off as per the new IND AS accounting principles. As you are aware that globally this goodwill write off are allowed as per the respective accounting policies of the countries, including the US GAAP and other recognized accounting policies, which were till now it was not allowed in India under the I GAAP. However, with the migration to IND AS, this has been allowed as a onetime option to the company, to which we have opted. As it is, as you know the goodwill was arising on our balance sheet, purely on consolidation. So, now with the new accounting policies, it will truly reflect the capital employed, net worth and the performance of the company. The total amount of good will adjusted against the net worth is 623 crores. Our net debt stood at Rs.295 crores. Our current net debt to equity is at 0.16, reflecting a healthy state of operations in the balance sheet. This consolidated return; the consolidated return on the capital employed is 15%.

Moving to the performance of each of the businesses, starting with our global business, I now request Mr. S. Suryanarayanan, who will take you through the MTO business. Over to you Suri.

S. Suryanarayanan: Thank you Jatin. Good afternoon to everyone. In our global LCL business, we continue to be the world leaders with the global network covering over 80% of the world. We operate out of 300 plus offices in 164 countries. Our MTO business has been performing in line with our expectations. Despite the continued decline in freight rates world over due to excess capacity of container shipping lines and decreasing world trade, we are seeing strong growth in volumes during the quarter. We have seen growth continue to come from key markets of China, South East Asia and parts of Europe. The volumes in the quarter increased by about 7%.

For the quarter, the revenue stood at Rs.1179 crores year on year, a decline of 5% on account of declining freight rates, as told by Jatin earlier. The EBIT for the quarter increased by 22% to Rs.57 crores, mainly on account of growth in volumes and impact of depreciation due to IND AS accounting norms. We continue to focus on growing volumes for our existing network, taking cost out and higher utilization. The return on capital employed was at about 31%. Our aim is to maintain our global market leadership, when we will continue to strengthen our net worth across all market that we operate in.

Prakash will now talk about the rest of our India businesses.

Prakash Tulsiani: Thank you Suri. Coming to our India business of CFS and project engineering and shipping. Starting with our CFS and ICD operations, in the Indian business of container freight station that is CFS, we continue to be the only player that are present in the major container ports of JNPT, Chennai and Mundra, that accounts for nearly 80% of the container traffic in India. The construction of CFS at Kolkata Port is progressing well. And the start of operations would be somewhere in the beginning of the next financial year and this is as planned. The financials of the CFS segment include only the four CFS facilities as per the new IND AS accounting guidelines, because the other two which are our ICDs are SPV.

The volume for the quarter for the four CFS facilities at JNPT, Chennai and Mundra, JNPT has two, were at 75118 TEU, 75118 TEU, an increase of 4%. The volumes of the two ICDs, which are in Dadri and Kheda for the quarter grew by 34% year on year to 8895. The revenue for the quarter grew by 6% to 110 crores, in line with the volume growth. The EBIT for the quarter was 31 crores, a slight decline on account of booking of costs on lease rental, stamp duty and registration charges for the Calcutta CFS, as stated by Jatin and as per the IND AS norms. In fact if you adjust for this onetime expense, the EBIT is 33 crores, a year on year growth of 6%, maintaining the margins at 30%. The return on the capital employed was 31% in this particular segment.

Coming to our project and engineering businesses along with shipping, our asset utilization on the crane fleet continues to be strong. The revenue for the quarter was 132 crores, a decline of 6% and EBIT was at 18 crores, a decline of 22%. During this quarter, in the shipping business there was dry docking of one ship and also no revenues from chartering in container business, which was present in the corresponding previous period. We moved away from the container business, because of the dropping freight rates. Also in the equipment leasing business, last quarter we had a one off income from a project that we did for a customer on a special basis. Further, we have taken a conscious decision of exiting low margin equipment business and that affected our turnover and EBIT compared to the previous year. However, we have taken steps in line with our vision to deliver top quartile returns. We have always examined our businesses performance closely across all businesses and take steps to move away from lower margin business and especially in our P&E segment, where we have sold some aged assets that weren't delivering good yields. The return on capital stood at 10%.

Now, we have addressed all our three verticals. To conclude, on a consolidated basis, I am happy to say that despite the declining global trade and slow recoveries in the India market, we have maintained our profitability, witnessed growth across our businesses, along with taking actions where the margins have been low. Our goal is to maintain our leadership position across all businesses, with improved productivity, higher asset utilization, client delight, lowest cost proposition to further de-risk and further de-risk ourselves. We have already defined roadmaps and strategy in place to improve our margins and ROCE over the coming years, in line with our vision to deliver top quartile returns. Our investment in digitization and increasing our management bandwidth and looking at sound M&A opportunities, that will consolidate our leadership position and help us gain market share, which we want to continue with. We see managing information as a core of our business and consider a strong digital innovation and design knowledge and capability to be one of our most important strategic assets today and in the future.

I would also like to share with you that Mr. Adarsh Hegde, has been elevated to a new role of Joint Managing Director. He was the ED earlier and also on the board. Mr. Hegde has been with the group since its inception in 1993 and has played a very important role in Allcargo's growth story. His astute business sense and innovative methods have been instrumental in generating exponential growth opportunities for all our businesses, both in India and internationally. We have two more additions in our management team. Amol Patel has joined us as the Chief Digital Officer. He has over two decades of rich and various experiences in digital innovation space. In his role, Amol will ensure that we have a strategic landscape for innovative IT solutions to ensure customer stickiness by engaging business leaders and IT team. Mr. Naresh Sharma is the Managing Director of our new Avvashya CCI Company, post the merger. He has over three decades of rich experience in the supply chain management, logistics infrastructure development and general management in operations and was the Director of CCI Logistics for over ten years. Mr. Sharma will be responsible for driving the growth of contract logistics business and look at opportunities to diversify into different sectors and geographies.

We continue to leverage our global network to consolidate our leadership in the LCL business by opening new offices in new geographies, to increase our footprint and scale alongside and increasing our product offerings. In India we will continue our focus on increasing our market share in CFS, ICD and P&E business and also look at scaling up our contract logistics business. We believe that in the logistics world, what sets you apart from the rest are the three key principals of trust, transparency and reliability. At Allcargo, these form the fulcrum and this is how our businesses have grown sustainably. Thank you so much and now we can take the questions.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Sir, the first question comes from Mr. Vikram Suryavanshi from Phillip Capital. Please go ahead sir.

Vikram Suryavanshi: Hi, good evening sir. And a very good volume growth, congratulations to the team. Basically what kind of utilization we are seeing in project and equipment, since we have reduced the number of equipment? And what is your outlook on in terms of utilization in P&E?

Prakash Tulsiani: We are upwards of 90%.

Vikram Suryavanshi: Okay. And basically in MTO business, we are already seeing good growth. So, for the full year, are we maintaining like a growth in the range of 7%-8% still or probably post….?

S. Suryanarayanan: We continue to hold. The volume growth will continue to hold.

Vikram Suryavanshi: Okay sir. And the CAPEX guidance, basically has it been more or less same or is there any change in the CAPEX for this year as well as the next year?

Jatin Chokshi: There is no change and we are proceeding as per the plan, as we have announced for the Kolkata CFS and Jhajjar project are coming. So, we are on track.

Vikram Suryavanshi: Okay sir, thank you.

Moderator: Thank you sir. The next question comes from Mr. Nishna Biyani from Prabhudas Lilladher. Please go ahead sir.

Nishna Biyani: Thank you for this opportunity. This is Nishna here from Prabhudas Lilladher. Just wanted to have a question to Suri. Suri, could you just throw some light that when I look at FY14-FY15, the volume growth was quite strong in the MTO part. And at that point of time you had acquired Econocaribe. And after that when the volumes were going down, now you are in single digit between 5% to 7%. So, are we looking at some inorganic opportunity in the MTO space? That would be one, because after which only we see, in FY12 we saw double digit volume growth, FY14 we saw double digit growth. But somehow FY16 was a single digit growth and currently it is

6%-7%. I was just wondering that to go to that double digit growth, are you looking at some inorganic opportunities. That would be my first question.

S. Suryanarayanan: Yes. And what is the second question?

Nishna Biyani: So, then it is not in the MTO part sir.

S. Suryanarayanan: Okay. We are looking at inorganic opportunities in select markets, which helps us further to improve our market position and also increase some of the lanes that we are not operating on. So, that is a continuous process. And we will continue to look at it.

Nishna Biyani: So now it is almost two years sir. We have not heard anything on the MTO part from you.

S. Suryanarayanan: You don't have to buy just for the sake of buying. We have to do it the correct way. It should synergize well. It should all add into what we are doing. It should fit into the overall strategy. It should strengthen our position. You do that only after it all fits into these parameters. Otherwise just buying for the sake of buying, it won't add value at all.

Nishna Biyani: Okay. So sir, in the MTO space, given the current scheme of things, even your competitors are growing between 5% to 7%. So, I was just wondering that…

S. Suryanarayanan: Are they?

Nishna Biyani: Yeah.

S. Suryanarayanan: Are you sure that our competitors are growing at 5% to 7%?

Nishna Biyani: Sir, I just saw the Kuehne and Nagel, they have grown.

S. Suryanarayanan: No, they are not our competitor. They are our customer.

Nishna Biyani: You are right. But, they have been into the same sea freight segment.

S. Suryanarayanan: No, they are not. They are not in the same space that we are operating in. There is a fundamental difference.

Nishna Biyani: Which is?

S. Suryanarayanan: They are not competing with us. They are forwarders. We are not a forwarder.

Prakash Tulsiani: And they are in a different segment. We are in the LCL. They are not in the LCL.

Jatin Chokshi: They are our customer in fact for all their over spill and under spill.

Nishna Biyani: Okay, because they themselves in their presentation say that they are amongst the leaders in LCL segment. Okay, we will drop it. And sir, my second question is, my second question is on if you could guide some parts in, Adarsh sir is there on the call, so could you just guide what kind of volume growth one should factor in the CFS business? Even that is kind of a bit slow over the last maybe a year or so.

Adarsh Hegde: Yeah, if you look at the port volumes, the port volume has actually been flat or has been decreased in many of the locations if you look at it. The EXIM trade as such overall in the last two years, you would have seen. But, we as an organization, our market share have always kept growing. And even today if you look at it, we have still grown in terms of our volumes. Your question on how much should we expect, we personally internally we have thought about it that we should grow by, at least by 10% to 12%, that is the budget that we have taken internally.

Nishna Biyani: Okay. Sir, just one last question on the PE segment. In the last year we have seen closer to 100 crores turnover in the shipping business and the kind of scenario in Q1, what you are pointing out, dry docking of a ship and the moving out of the charter business. So, just wondering that what kind of turnover one should keep in mind for the shipping segment as such?

Prakash Tulsiani: Frankly Nishna, over here let us focus on the profitability overall, because with IND AS and everything else, the turnover numbers are changing also for us. And in the shipping business specifically, we have got out of our container business that we were doing earlier, which was on charter, on a chartered vessel. And in this current quarter also, we had one vessel which has gone for dry docking. So, that is why the revenues are lower. But, we will come back in the coming quarters. And I expect that what we focus as a team is on having high EBITDA and EBIT margins rather than on the overall turnover.

Jatin Chokshi: And Nishna, just to add to what Prakash said, as you know out of the five ships what we own currently, two of them are on a long contract plying to the neighboring country, for which delivered a consistent top line in terms of deployment, in terms of charter and whatever kind of thing, which constituted almost 60% to 65% of our top line. So, I don't see a major change from 100 crores plus turnover kind of thing, because the dry docking is a part of routine activities which every vessel undergoes periodically. So, I don't see much shift compared to the last year. But yes, 5% here and there, 5% to 10% could be there.

Nishna Biyani: Okay. So, dry docking would have accounted for how much in this particular quarter, in terms of the hit?

Jatin Chokshi: For nearly one month the vessel was in dry dock. So, there was no income from that vessel. And the cost of the dry docking, by and large is amortized or written off over a period of, estimated period till the next dry docking, barring a few repair and maintenance and painting, which is the P&L hit. So, this is the normal accounting standard practice for all the shipping company. So, there is not much difference there in terms of the accounting policy, compared to the previous figures.

Nishna Biyani: Okay. Sir, final question on the acquisition which you have done, which is CCI. So, just wanted to understand what kind of turnover one should look at, because now I feel you can discuss. Over the last two calls you weren't discussing much about it. So, what is this business all about and how should one look at it? How are you looking at scaling this up?

Jatin Chokshi: Now Nishna, the annual turnover what we expected from this business is close to ranging between 400 crores to 500 crores in a merged entity. However, the effective consolidation will happen from the 1st July. So, this quarter we have continued to consolidate Hindustan Cargo as the previous period. However, please note that as per the new IND AS accounting policies, now subsidiaries or the SPV in which we don't have 100% management right, statutorily we are not allowed to consolidate line by line in terms of top line and all line by line item. We are just allowed to take profit after tax as a part of this. So, at best is the reversal of what earlier we used to do, wherein we consolidate everything and then removing the minority shareholder stake. So now we will be adding our own holding into the profit after tax line. So, the results will not change at the bottom line. But the top line will dramatically will change for all the companies who have migrated to the IND AS accounting as per the new accounting norms.

Nishna Biyani: So, when you are saying this 400 crores turnover in the merged entity, then you are looking at Hindustan Cargo, the business of 255 crores, what you did last year. That also gets included.

Jatin Chokshi: Correct.

Nishna Biyani: And what all gets added from your existing business?

Jatin Chokshi: Contract logistics, basically we have the contract logistics business and Hindustan Cargo. And now with the Avvashya CCI contract logistics and break forwarding business also comes to the new CCI, where we are the joint venture partner with the CCI promoters. So, that is how the entire business will be run by that company into this segment.

Nishna Biyani: So, CCI last year turnover would be closer to 80 crores to 100 crores, is that assumption right?

Jatin Chokshi: Yes, very close to that. Yeah, in that range.

Nishna Biyani: Okay, thanks. Thanks a lot sir.

Moderator: The next question comes from Mr. Jinit Mehta from B&K Securities. Please go ahead.

Jinit Mehta: Hi sir. Actually I joined the call a bit late. So, you might have to repeat this. But, just wanted to understand the volume growth which came out in the MTO business, so which regions are contributing to this, because overall I think the environment is quite weak globally? So sir, could you help me with this?

Prakash Tulsiani: Go ahead, Suri, go ahead. Sury, go ahead.

S. Suryanarayanan: China, South East Asia and parts of Europe.

Jinit Mehta: Okay. And sir, how do you see this sustaining over say next over FY17? What are we doing different that you are able to get 6%-7% volume growth? And has the TOPAZ initiative kicked in? Is that helping?

S. Suryanarayanan: TOPAZ initiative has started kicking in, as we are implementing it across countries. But, it is in the process of continuously our sales people going into the market, looking at it. We are doing only what any sensible company would do. And the processes and the other things that we have put in, in place are bearing. And to answer your question, I think we will sustain the same type of growth through the financial year.

Jinit Mehta: Okay, understood. Sir, one more question sir on the CFS front, I think you mentioned that JNPT and Mundra have done well. So, has there been any change in the environment over there? Because, in JNPT the port volumes have not grown by that much, so are we seeing a shift in the local market, the CFS market is growing or have we gained market share? Could you throw some light on that sir, the profitability?

Adarsh Hegde: Yeah, the port volumes are, you have rightly put in, the port volumes have dipped, but we have gained market share. Let us put it that way. In terms of the CFS volume, there could be a bit of an increase by about 1%, but not much. It is very marginal. I would put it flat or about a percent. But, for us it has been a market share.

Jinit Mehta: Okay. And sir, profitability sir, how is it shaping up sir? With your second CFS also assuming that it is ramping up and I think that is an export oriented unit. So, has it caused any change in the profitability?

Adarsh Hegde: Full capacity has not gone in, because the construction is on for the second warehouse, about a 1,50,000, which should be ready by October end. And by then you will see more coming in there. In terms in profitability, we have been able to manage it and maintain it as of now.

Jinit Mehta: Okay, understood. That is helpful sir. Thank you so much sir. Sir, I will come back in the queue.

Moderator: Thank you sir. The next question comes from Mr. Sandeep Mathew from ICICI Securities. Please go ahead.

Sandeep Mathew: Hi sir. Just couple of questions. Sir, the first is related to the MTO segment profitability. So, this year in the presentation you have shown that last year's segment profitability was about 467 million. But, if I look at the last year's reported results, the number was 594. So, there seems to be a fairly significant large difference between what was reported in Q1 of 2016 and what has been reported now, which is the Q1 number of 2016, so can you please help us understand or clarify what is this large difference due to sir, and which is the correct number to look at?

Jatin Chokshi: Sandeep, you are mentioning about EBIT or you are mentioning about revenue?

Sandeep Mathew: EBIT, EBIT.

Jatin Chokshi: Sandeep, now if you really see the depreciation, depreciation has gone down as far as that MTO segment is concerned, predominantly because of the migration to the IND AS options we have. There is a plus and minus, both impacts are there and goodwill write off negative impact on the results. But, if you really see the depreciation, which is the P&L kind of thing, approximately 13.5 crores in terms of rupees, is the impact of amortization of intangible assets, recognized on the fair value of business combination. So, that is the reason why the depreciation has gone down.

Sandeep Mathew: So, understood sir. So, basically you are telling me that 13½ crores is the number which has been deducted from what was reported last year, correct?

Jatin Chokshi: Correct, perfect.

Sandeep Mathew: So, effectively what you are saying is that if I look at it on the cash basis, your EBIT per TEU in the MTO segment has actually declined on a year on year basis, would that interpretation also be correct? Because, this is effectively a non-cash item, right?

Jatin Chokshi: No, no, there is no change. If you really see, again you need to look at the combination of LCL versus FCL, because we are always maintaining that growth in FCL will bring in absolute terms the lower realization. However, it is straightaway adding to the bottom line. So, there is different parameters we need to see when you overview the complete MTO business.

Sandeep Mathew: No sir, I was just trying to understand that the number that I should look at Q1 FY16 versus Q1 FY17, should be 594 versus 568 on higher volumes. So, it effectively implies that the per TEU realizations are actually, or profitability, if I may use the correct word, has actually declined. So, I was just trying to understand why that has happened sir?

Prakash Tulsiani: Sandeep, please as mentioned by Jatin just now, he did talk about the full container load as well as the less than container load. So, there is a combination. So yes, if you see the LCL that business earns different, in a different nature and FCL earns in a different nature. And that is why that combination will be the one which will affect our numbers on the bottom line.

Sandeep Mathew: Right sir, but going forward which is the, so should we use the current quarter average realizations to be like a trend, or do you think it will revert back to what we have done for instance?

Prakash Tulsiani: Again it is really a mix of cargoes, so it depends on the mix of the full container and the LCL container. So, FCL and LCL, it is a product.

Adarsh Hegde: LCL is a different product and FCL is a different product. If you look at it against last year, this year on the FCL we have grown by almost 20%, in this quarter. So, that volume goes up, wherein like Jatin said, the realization is very nominal vis-à-vis against what we used to earn earlier. You should not look at it on the overall perspective that we have lost the margin per TEU, because LCL is a different ballgame altogether and FCL is a very different ballgame.

Jatin Chokshi: And Sandeep, again as you know this LCL business is cyclical, almost in some countries at some point of time. So, not necessarily that the growth in LCL this year for example is X percent and next quarter it would be X plus, plus percent. So, again it will change the complete parameter number and overall volumes and profitability. So, we always look at the product as an MTO. So, the full year is the right yardstick for measuring the performance.

Sandeep Mathew: Right. So, I am guessing that we are probably focusing more on LCL and that is where probably…..?

Jatin Chokshi: No, no, Sandeep, we are focusing in both the products kind of thing. But, as you know LCL is a cyclic business in some point of time, like January-February. Because China you know, because of the New Year, there is always a dip in the volumes, so which is always happening kind of thing. So, one quarter traditionally June quarter for example, currently because of the monsoon and the road congestion and other things, there could be a slight dip in the volume. So, it is always for ours, we are focusing on both the products. It is not that we are focusing on FCL kind of thing. But yes, this quarter FCL numbers and the growth is better than the LCL.

Prakash Tulsiani: Suri, would you like to add anything Sury over here?

S. Suryanarayanan: I think at the overall level, you can't look at it from a quarter to quarter basis. When you make a comparison on a year on year basis, you do look at it. But, in a real sense it will all play out even if you kind of look at it on a yearly basis. So, I think all this way of looking at it per TEU, at a quarter on quarter basis would not be a right way to look at it.

Sandeep Mathew: Right sir. So, you are effectively indicating that more of look at it on a year on year basis and effectively how numbers are likely to move there. Alright sir. And sir, my second question actually was related to...

Moderator: Mr. Sandeep?

Sandeep Mathew: Yeah.

Moderator: Yes sir, can you please come back in the queue for more questions?

Sandeep Mathew: I just have one more question, if I can just take this last question?

Moderator: No sir, can you come back in the queue for more questions, because we have participants waiting on the call?

Sandeep Mathew: Alright, fine.

Moderator: Thanks. Sir, the next question comes from Mr. Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

Utkarsh Maheshwari: Good afternoon sir.

Jatin Chokshi: Good afternoon.

Utkarsh Maheshwari: Sir, there will be change of income tax rate for us?

Jatin Chokshi: No, actually what has happened is that effective rate if you look at it . The effective rate for the taxation provision has gone up because of the deferred tax, creating deferred tax asset reversal due to the migration to the IND AS, as well as we are coming out of the MAT and due to that as far as the cash flow is concerned, we still will be paying the MAT and utilizing, for the first time in this quarter, we will utilize the MAT credit also.

Utkarsh Maheshwari: So, how much will be the, what will be the unutilized credit at our hand as of now?

Jatin Chokshi: Currently we have about close to about 125 crores of MAT credit to be utilized for the future.

Utkarsh Maheshwari: Okay. So, I believe this 29 odd percent which has come in, the effective rate should be the full year rate sustainable number or can it come down?

Jatin Chokshi: Yeah, it can come down also slightly, but no major change. By 1% or 2% here and there, it can be.

Utkarsh Maheshwari: Okay. Sir, any color you can share on the margins, sustainable margin across our different segments?

Prakash Tulsiani: Basically on the margin front, our goal is to bring in, because we are in the business of scale. So, our goal is to continue to grow scale, improve efficiency, bring in better procurement and improve our margins. So, the goal is to improve our margins consistently and that is what you would have seen in the previous quarter that the margins continued to be better and we are growing on it. So, in the future also, the goal remains the same, that is how do we get efficiencies in and how do we have better utilization of our assets and continue to grow the margins.

Utkarsh Maheshwari: Just want to understand from the 9%-9½% what we have reported, what should be the aspiration levels over the next two years, possibly with the implementation of GST, what should be our aspirational margins, where we actually look forward for the next two years?

Jatin Chokshi: Different business has got different parameters, like the global business and other things, you know the improvement of margin itself, due to the volume business, the margin improvement is a slow process. If you look at the competitors numbers if it is available with you, how they are performing and how we are improving or how we have improved when we acquired ECU Line in 2005 and 2006 and today where do we stand and consistently improving. And being a volume business even a slight improvement in margin will mean a lot to us. So, that is as far as the global business is concerned. And as far as the India business is concerned, yes, with the GST becoming reality, our contract logistics business segment and transportation and equipment business, we expect substantially to improve their efficiency in terms of transportation turnaround time and then lesser number of check post and operational expenses rationalization, fewer number of warehouses by the companies, keeping in mind purely the commercial thing in mind rather than the tax of the different States. So, it gives an ample opportunity for any organized player. And apart from the GST, the DFC is also now more or less becoming a reality now for a couple of years. So, I think there is a good potential of improvement in the margin for the organized players. However, let us not now, because GST seems to be tested by all the players and all the industry, how it is being implemented, how it is being taken off and the ultimate aim of the GST is to bring the overall cost of the logistics down in India for the industry, which is way above compared to the developed countries. So, it doesn't mean that the logistics company will have a negative impact. But yes, it should be a win-win situation if GST is implemented in the right spirit, whereby the logistics cost of the industry would come down and organized players tend to substantially benefit because of the network, because of the operational efficiencies and marquee clients, what we as a company is managing.

Utkarsh Maheshwari: Just wanted to understand, will it be fair to say that over the next, with all the factors that you have mentioned, can we see a move towards in the range of mid teens, towards the teens, towards 12%-13% range or it will be like 9½% to 11½ kind of thing, what do you think?

Prakash Tulsiani: I would actually like to turn it around and say that our goal is to bring the ROCE above 20%.

Utkarsh Maheshwari: Okay, that's fair. Thanks a lot sir.

Moderator: Thank you sir. The next question comes from Mr. Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: What is the long term ROCE target for the project business, because the other two businesses are above 30% ROCE and project is at 10%?

Prakash Tulsiani: You are right and our goal is to bring them to 20. Our goal is to bring them overall, overall for the company at 20.

Tushar Sarda: No, for this particular segment, what is the target?

Prakash Tulsiani: Yeah, in the range of 15% to 17% at least, over a period of few coming years.

Moderator: Hello sir? Are you done with your question?

Tushar Sarda: Yeah, yeah, I am done.

Moderator: Thank you sir. The next question comes from Mr. Harshad Borwake from MOSL Securities. Please go ahead.

Harshad Borwake: Hi, thanks for the opportunity. Sir, I had one question on the MTO business. What is the share of FCL right now on the MTO side? And secondly, what trends are you witnessing in your gross margins in the MTO segment? Thank you.

Prakash Tulsiani: Suri, can you take this please?

S. Suryanarayanan: I often don't have the number, but I think we don't report it. We can't report the breakup, Prakash.

Prakash Tulsiani: I agree. I think it is a consolidated business and we have both together, the LCL and the FCL. We do not have the breakup to give it to you as such. And also it is commercially sensitive for us.

Harshad Borwake: Sure. Secondly, on this depreciation, so post IND AS your depreciation amount has increased. So is this the run rate which we should work with going forward? And if you can just give the breakup of this 13 crores additional depreciation for last quarter, what segments, basically the segmental breakup if you can give? Thank you.

Jatin Chokshi: Okay, now if you really see the depreciation has come down. It has not gone up, compared to the last quarter of the corresponding period. So, now falling in line with amortization of intangibles and now amortization of goodwill and bringing all the assets as per the IND AS kind of thing, actually the depreciation has gone down.

Harshad Borwake: So, the current quarter run rate, should you work with this going forward?

Jatin Chokshi: Yes, going forward it will be consistent. Current quarter is an indication of things to come for the next quarters.

Harshad Borwake: Okay sir. And last question on this CCI Logistics, so you mentioned around 400 crores to 500 crores of top line. So, what is the bottom line on an annualized basis? What could be the PAT which could come from this segment?

Prakash Tulsiani: Again we are focusing on our 20% ROCE. Please allow us to get the numbers consolidated as we go in the quarters ahead and we would share those numbers.

Jatin Chokshi: Normally we don't share any forward looking statement. But yes, as a management we always take a call that any investment should fetch you 20% plus, then only we will invest in the business.

Prakash Tulsiani: But, allow us some more time and in the coming quarters we will share that.

Harshad Borwake: That is all. Thank you.

Moderator: Thank you sir. And we have the last question for the day from Mr. Viral Shah from SBICAP Securities. Please go ahead.

Viral Shah: Hello sir. Hi sir, basically couple of questions, in terms of CAPEX what will be the amount being spent at Calcutta CFS till date and the amount?

Prakash Tulsiani: The total expenses on the Calcutta CFS is anywhere in the range of 40 crores and we have spent approximately 15% to 20% right now.

Viral Shah: Okay. And that has been reported in the P&L for the current year, right?

Prakash Tulsiani: No, only the lease rental and those kinds of expenses, which are not allowed to be capitalized, that we have taken through the P&L. But, the actual construction of the warehousing and other things that will be capitalized once the project becomes operational.

Viral Shah: Okay, got it sir. Secondly what is the…..have we finalized on the CAPEX for the Logistics Park, since we have completed our due diligence and all? So, what will be that CAPEX be?

Prakash Tulsiani: These are under process. And over the period of five years we will get this project completed and phase it.

Viral Shah: Okay. And finally sir, in terms of, since the presentation also mentions that we are looking at the sale of asset. So, anything on that front, could you throw some light on that?

Jatin Chokshi: No, Viral we have already sold few cranes, which have either completed their effective life or we have the better opportunity to replacing them and getting a better yield on a different kind of equipment. So, that exercise has already been completed. And for any business this is an ongoing and continuous exercise. When a fleet achieves a certain age, definitely we will think whether the current return from those assets are profitable, if not, can we replace it with a better equipment, so that is an ongoing continuous process? So, we have already reduced whatever is not required.

Viral Shah: Okay. Then what will be the, in that case what will be our fleet size be in terms of cranes? I remember we had 143, right?

Jatin Chokshi: Yeah, right now we have got 135, as on the 30th June.

Viral Shah: 135, okay. And sir, lastly in terms of the dry docking, does any ships still left for going for dry docking during the year, this financial year or not?

Jatin Chokshi: Not during the year, this financial year.

Viral Shah: Although five ships are now from 2Q or 3Q, they will start giving us some revenue, right?

Prakash Tulsiani: Yeah, they are already giving us revenue. They have already started giving, yeah.

Viral Shah: Okay, fine. Thank you so much sir.

Moderator: Thank you sir. I now handover the floor to Mr. Prateek Kumar. Over to you sir. Mr. Prateek Kumar?

Prateek Kumar: Hello? Hello?

Prakash Tulsiani: Prateek, yes.

Prateek Kumar: I have a couple of questions. Sir, in the MTO segment side, you have been reporting obviously good set of volume growth. So, would you guide us what would be the industry growth in the segment? I know that it is a very fragmented industry. But are we gaining market share or it is like, are we growing in line with the industry?

S. Suryanarayanan: Yes, we are growing market share.

Prateek Kumar: Okay. So, what would be the industry growth at this moment, because generally we see the international trade being slow? And where do we see the freight rate going from now, because for the modeling purpose, we project a top line also? So, do we see further decline in freight rates on that basis?

S. Suryanarayanan: I think we are growing faster than the market. So, it would be somewhere between 1½% to 2%. So, we are growing faster than that. And then in terms of your projections for the turnover, I think the current freight rates will give you correct indication.

Prateek Kumar: Okay. And on sir, the CFS segment side, how do you see the JNPT expansion progressing at this point sir, the port side?

Prakash Tulsiani: No, no, you are talking about the expansion of the CFS or what or the port itself?

Prateek Kumar: I am asking about the port.

Prakash Tulsiani: Port terminal as I understand there is work ongoing at the moment of land filling and soon some yard works would start. And jetty and dredging work have also started. The expectations are, beginning of 2018 calendar year, the terminal should be operational.

Prateek Kumar: Okay. And sir, one last question. You mentioned about raising 300 crores of debt during this financial year. So, are we close to expanding, because right now our debt remains almost flat of what we saw last quarter?

Jatin Chokshi: We have already raised the necessary finance. At the most we will be replacing the existing finance with a better terms finance, kind of thing. So, this year very small fund we will be raising for the completion of the Calcutta CFS construction kind of thing. Otherwise whatever the funds should we raised; we have already completed that plan.

Prateek Kumar: So, this is our peak debt of the number which you have reported?

Jatin Chokshi: Yeah, but as I told you, another few crores will be added based on the construction status of the Kolkata CFS.

Prateek Kumar: Sure sir. That is about it from our side. And thanks a lot for your time and all the participants for asking their questions. We will hand over the call to the management again for their last remarks.

Jatin Chokshi: Thank you everyone.

Prakash Tulsiani: Thank you very much. Thanks everyone. Bye, bye.

Prateek Kumar: Thank you sir.

Moderator: Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.