Transcript

"Allcargo Logistics Limited - Conference Call"

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logistics ltd.

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Moderator: Good afternoon ladies and gentlemen. I am Moumita moderator for this conference. Welcome to the 4QFY14 post results conference call for Allcargo Logistics. We have with us today the management team from Allcargo Logistics. At this moment, all participant lines are in a listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Viral Shah from SBI Cap Securities. Please go ahead sir.

Viral Shah: Thank you. Good afternoon everyone. I welcome all the participants to the 4QFY14 results conference call of Allcargo Logistics. We have with us Mr. Shashi Kiran Shetty, Chairman and Managing Director; Mr. Adarsh Hegde, Executive Director; Mr. Umesh Shetty, Executive Director and Mr. Suryanarayanan, Director Finance and Joint Executive Director of ECU LINE of the company with us. We would commence the call with opening remarks from Mr. Shashi Kiran Shetty on the company's strategy going forward. Thereafter from Mr. Suryanarayanan would provide us the financial highlights of the performance of the quarter and the year ended 2014. This will be followed by a question and answer session. Before we begin the call I would like to mention that some of the statements related to today's conference may be forward looking in nature. I would now like to request Mr. Shashi Kiran Shetty to begin with the opening comments, over to you sir,

Shashi Kiran Shetty: Thank you very much. Good afternoon everyone. I thank you all for joining this call today. I will outline some of the brief summary of the performance and strategy of Allcargo, going forward and Mr. Suryanarayanan will take you through the consolidated financial after that we will obviously take the questions. So over the last five years, Allcargo has grown at a staggering pace in the logistic domain. We today are the pioneers in offering integrated logistics solutions for our customers. We are on our way to becoming the first billion dollar integrated logistics multinational headquartered out of India. We have grown both organically and inorganically. Last year we added two additional companies to the family, one of them is called as Econocaribe based out of the United States of America. It is one of the top four LCL consolidated in that part of the world. We also acquired a company called FCL Marine; the name of that company is going to be changed to FMA, which is headquartered in Rotterdam with operations also in Hamburg and Belgium and we have added it basically to offer a full container load services to our existing and new customers in the European market and the United States Market and taking it forward into the rest of the world in the coming months and in the year. Complementing our comprehensive international network is a world-class infrastructure of CFSs and ICD's in six facilities across the country that is the second business what we have, as most of you know. As one of the largest project logistics and equipment service provider, we own and operate over one thousand equipments which are mainly cranes, reach stackers, hydraulic axels and trailers to carry containers and general cargo etc. We also own three coastal shipping, providing with a premier coastal logistics services to a lot of new customers who are converting their business a lot by moving into the sea from their traditional road transportation and also to meet the shortage of the rail services which are being provided. This is the new vertical which we have created in the recent past, now moving along pretty well, despite of the depressed market conditions in the last two years. You probably know that the company is also very actively involved with third party logistics services and freight forwarding services including the air freight. Today we are at the helm of India's logistics business with a capability of offering global solutions to customers not only in India but also internationally. As all of you know, logistics is the backbone of our economy and the competitive landscape provides an opportunity to create efficiencies and innovations. Over the last few years the economy has been in the worst phases and has affected the industry adversely but there is an opportunity in every adversity that is what we very strongly believe in.

During this time we focused a lot on cost management and as an organization more importantly value creation through integrated logistics to our customers. We have spent a lot of time and have developed a lot of solutions for a number of our customers to benefit from their loyalty. So going forward we will continue to focus on creating value to our customers and to our investors. We will leverage our global network to consolidate our leadership position. We will also focus on key markets such as the United States, China, Brazil and Germany in addition to India in the coming years. We will continue to focus on our increasing market share in the CFS and ICD market and in the Project and Engineering services business and also look at scaling up the third party logistics services, backhauling and distribution and our coastal shipping business. One of the strategies we have also pursued in the last couple of years and also going forward is to focus on how we can improve our return on Capital Employed and one of our main successes for improving this would be to make better utilization of all our resources and assets and the network that we have created. We have an extremely sound foundation that has been laid, and we are hopeful that we will be able to leverage that and scale to greater heights in the months and years to come.

As you see there is a lot of hope now with the new government formation and we are expecting some spectacular growth in the Indian Economy where a considerable amount of our capital has been deployed at the moment and we are also hoping that with this increase our margins in the business should also be going up. So we are quite aware of this and we are looking at consolidating our position further as I said earlier and grow our margins and deploy our assets and our resources to create a far greater value for all stakeholders.

Thank you very much, now Mr. Suryanarayanan will now take over. He will take us over the numbers for the last year and also for the last quarter, and also comparison to the previous year's performance. Thank you, and I thank my management team for being here and also for being very active in developing and growing this business in the last few difficult years. We are very much hopeful that we are in a position to grow the business. I am also very happy to say that we are also beefing up our management capabilities by bringing on board quiet a number of senior professionals in India, in the United states, in China, in Brazil and we are investing quite a bit on our sales resources internationally, providing sales leadership, to gain more customers and also increase the wallet share of our customers. This is what we are hoping to do. One other last point I would like to leave with all of you is that with the acquisition of Econocaribe we have now become the world leaders in LCL consolidation business and we are also going to be reaching our Billion Dollar target which we set ourselves two, three years ago and we should be able to reach a revenue of a billion dollars by the end of this financial year…that's it. Thank you very much and over to you Suri.

Suryanarayanan: Good afternoon everyone. Thank you all for joining in the call. I will do a brief summary on the consolidated results, and thereafter we can take the questions. I hope all of you have got our results by now, for those who haven't you can view them along with our presentations on the website. Moving on to our results for the year ended March 31st 2014 our consolidated revenues at 4851 crore grew on a year on year basis at about 24%, this was mainly on account of increase both in volumes and in revenues in our MTO business. As our chairman said we are a global leader in this part of the business. The volumes and businesses have grown across in spite of a turbulent economic situation across various sectors in the globe. 84% of our revenues are from this global MTO business. The consolidated EBITA for the year was Rs 391 crores a year on year increase of 10%. The consolidated EBIT for the year was at Rs 287 crores a year on year increase of 17% this is before a onetime amortization of goodwill in the current financial year and after eliminating exceptional income in the previous year. Our consolidated capital employed increased nearly by 20% on a year on year basis this is mainly because of the two acquisitions that we did. The consolidated return of capital employed for the year was at about 11% and as our Chairman has said the entire focus of the top management has been on how do we sweat our assets and how do you make (audio break)

Moderator: Ladies and gentlemen please stay connected while we connect the management back into the call. Ladies and gentlemen we welcome the management team back into the call. Please go ahead sir.

Suryanarayanan: Sorry we got cut off. So as I was saying , the entire focus has been on how do we increase the assets and with the upward turn of the Indian economy we should be in a position to come back to the returns that we were enjoying a couple of years back. Barring the acquisitions our CAPEX was conservative in view of the economic situation in India and it was mainly a very maintenance type of a CAPEX. To share some balance sheet highlights our net worth as of 31st March 2014 stood at 1793 crores, the total debt was around 992 crores. This is gross debt. Our net to debt equity continues to be conservative at 0.39; our gross debt to equity is roughly at about 0.55. Whichever way you look at it at a balance sheet level we have the ability and the capability to do both at the conservative side but also have the opportunity and the ability to quickly move in, so that is what the balance sheet has given us that ability.

Moving on to our various business segments starting out with our multimodal transport operation as our chairman said we are one of the leading players in the global LCL position. In fact with the acquisition in the USA we are probably number one. As you all know our unique business model where we focus primarily on the LCL consolidation, making it resilient both to recession and its effect on global trade the volumes have grown on a year on year basis at about 15%. This segment has generated a total revenue of about 4149 Crores a year on year increase of about 30% and an EBIT of 181 crores, and a year on year increase of 25%.

Moving on to our CFS operations we are amongst the leading CFS operators at all the locations we are present at, that is at JNPT, Chennai and Mundra, we have a total of four CFS's, two CFS's at JNPT, one at Chennai and one at Mundra in addition to ICDs at Dadri and Indore. Our total installed capacity for CFS segment now stands at 573,000 TEUs per annum. The total volume at 3 CFSs put together for the year was at 186,598 TEUs per annum as against 221,936 TEU's for the corresponding previous period. This decline in volumes was mainly on account of the drop in laden import volumes at the ports. This year the business achieved revenues of 315 crores a year on year increase of 2% and an EBIT of 84 crore, as against 96 crore in the corresponding previous period. The volumes at our second and new CFS at JNPT, that started operations in December 2012, has been in line with the expectations and we expect this business to grow as growth comes back into the port volumes.

And finally our Project and Engineering solutions businesses, our fleet size stood at about 1,000 equipments. The total revenues were at Rs 423 crores for the year as against Rs 454 crores for the corresponding previous period and an EBIT of Rs. 43 crores as against Rs 63 crores for the corresponding previous year. Our order book continues to be strong here, however we have seen some of our major customers especially in the power sector, have postponed their CAPEX plan, and hopefully as the economy now starts coming into play then they would come back into play, and also some of the refineries that are also being planned would give a good flip into this part of our business. To summarize and to reflect across all our businesses we will continue to focus on growth both in revenues and profits and asset utilization. We are very positive on the long term India story, and believe that India is on a growth trajectory with committed investments to infrastructure development. Thank you very much we can now take the questions.

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. Our first question comes from Mr. Bhavin Gandhi B&K Securities. Please go ahead.

Bhavin Gandhi: Good afternoon sir, congratulations on a good set of numbers, sir could you share with us as to what would have been the MTO business excluding the two acquisitions that you have done during the year? If you were to remove the impact of those acquisitions what would have been the organic growth in the business?

Suryanarayanan: If you look at it at an EBIT level the two acquisitions, the net of the acquisitions cost around 2 Million Euros that would be the additions, so if you knock off the 2 million net of the acquisition cost, then that is what is the added amount as far as the two acquisitions that have been taken into account. You must realize that these acquisitions have been accretive they are coming into effect from the 1st of September of last year till the 31st of March. So in the six month period that we have accounted them for, the net is at about 2 million Euros.

Bhavin Gandhi: Sure, and if I have to look at it from the current year perspective the run rate that you have seen of 2 million dollars for the six is still going or it has improved from thereon?

Suryanarayanan: The run rates are quite in line with what we had expected and planned. Infact just to give you a background on the overall global picture in the global MTO business, we are currently growing at a rate of 8% on a year on year basis. As I speak to you for the first four months of the current year and the EBIDA and the PAT are growing at a strong level. At the overall level from a business confidence level, I think we are in line including the acquisitions are in line with what we have projected.

Shashi Kiran Shetty: In the MTO business when he is talking about four months he means January, February, March and April which is one point to be kept in mind. The second point is that we did a massive restructure of the entire organization outside India because of that there have been multiple people who have been shuffled around with their roles and responsibilities and also a significant amount of senior management that has been added into the organization. The budget growth for this quarter that was expected was in the region of 13%. And at this point of time I am happy to say that we are meeting the 13% growth, compared to last year both in terms of volume and in terms of PAT. So it's a very good feeling about our global business, number one. Number two is that in the last six months we laid a solid foundation for accelerated growth in some of the markets like US, China, Germany, Brazil and the United Kingdom. We have opened few more offices in important locations like Malaysia and are looking at growth in some of the markets like West Africa and also East & South Africa. So these are the focused markets and all managements have been put in place, so the foundation has been laid and we are hoping to have a far better growth, over and above 13% what we budgeted for the year.

Bhavin Gandhi: That's helpful sir. Sir one more thing we wanted check about the FCL acquisition we have done. The focus of the company has always been on LCL volumes and obviously the stickiness attached to the LCL volumes. So why are we looking at FCL Volumes now?

Shashi Kiran Shetty: Here FCL is a product that we have been offering since the time we started the business, except that it was done in pockets in some countries and those services were offered and in some countries those services were not offered. FCL is a reasonably rewarding business and a highly scalable business and the opportunity is enormous, we are talking about 250 million TEUs moves around the world per year. Of course we are not a shipping line we cannot carry anywhere near their…but even if we take 1% of their market share, it is a substantial amount of volume that can be achieved. Even 1% is very high. I am just giving a number. So there is a substantial growth opportunity there and some places the margins can be very high because of our ability to buy a better rate because of our sheer size and the volume. Sometimes differentials can be very high and business can be pretty profitable.

Bhavin Gandhi: Sure. And just one final question, and then I will come back in the queue. Could you just provide us with a little more colour on the CFS in terms of the JNPT facility and the other facility now that you are not giving out any individual CFS wise details? Could you provide us a little more colour on how each of these facilities are doing in terms of profitability?

Adarsh Hegde: In terms of the volumes, you are aware that the overall volumes at the ports have been low, due to which the CFS volumes have also dropped. But in terms of profitability we have been able to manage to hold on to our revenue numbers. On the bottoms it has a bit eroded, but not to that extent. In Chennai, we still continue to hold on to our number one position. So if you look at that, despite the bad markets we still hold on and been doing pretty well. With the changes that are happening and the economic change that we expect with volumes growing we should be back to the state we were earlier.

Bhavin Gandhi: Sure. Thank you so much sir for answering my questions. I will come back in the queue.

Shashi Kiran Shetty: To add to that because of the surplus capacity that is existing today, there has been a pressure not only on the volume but there has also been pressure on the margin. We are hoping that that trend would change and we have also been in a position to acquire a lot of new customers, so all that should change, hopefully in the coming months.

Bhavin Gandhi: Sure. Thank you sir

Moderator: Thank you. Ladies and gentlemen if you have any questions please press * and 1 on your telephone keypad. The next question comes from Mr. Jinit Mehta from B&K Securities. Please go ahead.

Jinit Mehta: Hello sir, could you please provide some color on the P&E segment? We are again actually were into operational losses during the quarter and some guidance on the P&E Segment would be appreciated.

Suryanarayanan: For the Project & Equipment division I think the current financial year should be very good. There are two refineries coming up one plant Jamnagar and BPCL, Cochin. Reliance is not a refinery it is a J3. Last year our occupancy level was around 72% and for the current year we are hoping to touch around 90% – 92% as far as the crane segments are concerned. And the project division we have budgeted almost 175 crores revenue for the current year and we have an order book of 115 crores of revenue as on date.

Jinit Mehta: Fair enough sir. Sir in terms of CAPEX, overall at the company level sir for '15 and '16 sir any guidance on that?

Suryanarayanan: We are still quiet conservative in the current year in terms of the CAPEX in the terms of business, because the immediate focus is on utilizing the existing slack that is there on the assets so to that extent there won't be a very aggressive CAPEX planned for the current year. But if there are certain opportunities that we can see then we could do it. But for the purpose of your sake you could take roughly about 60 – 70 crores would be a sort of number that you can keep in to your CAPEX position.

Jinit Mehta: Okay got it.

Shashi Kiran Shetty: We have created quite a bit of capacity a couple of years ago, without obviously realizing that the market conditions can change so drastically, which was not part of our assumption at that time. So there is a significantly large amount of assets that have been created and these assets need to be better utilized and that's what we are focusing to do both in terms of our CFS business also our Project & Equipment division. And in our global business our idea is to consolidate our position globally and add more volume and add more margins to that business without making more investments. So that's what I mean when I say that we want to improve the ROCE in the coming years by utilizing these assets better which have taken a toll on return on capital employed. So we want to reverse that trend and that is what we are focusing on.

Jinit Mehta: Okay sir…just one more question sir, over the quarter there has been a steep decline in other income, why was that sir?

Suryanarayanan: If you see last year we had 31 crores of the unwinding of the hedge that we had whereas in the current year we did not do anything of that sort, so that is why you see a big difference in the other income side.

Jinit Mehta: But sir if we were to look at it sequentially from 12.7 Crores it has come down to 3.9 Crores, there is almost a 70% decline, sir sequentially.

Suryanarayanan: That is because of our hedged loans then the gains are coming back into the P&L. For example some of the hedged loans that we still have on our balance sheet were done at the period of 46 – 50 rupees whereas now we are retiring them all at a current position of 58. So the loans are being stated at 58 but settlements are taking place at anywhere between 46 and 50, so that is where you start getting in the gain and in fact in the current year you can see some of these gains coming back into the year as we are now repaying some of these hedged loans.

Jinit Mehta: Okay sir got it. Thank you so much sir.

Moderator: Thank you. Our next question comes from Mr. Rajesh Zawar Anand Rathi Securities. Please go ahead.

Rajesh Zawar: Hello, sir I basically wanted to know what the current debt is and what is the current maturity of the long term debt, which is in the current liabilities portion, that's the first question. And the second was related to P&E. If I understand correctly what you are looking at from the Project & Engineering business that this year is going to be far better in terms of the outlook and also the orders which are coming in. But how do I look at it from the long term perspective? How will the Project and Engineering division evolve within the strategy of the company and within the various blocks of the company, both from your growth perspective and second also from your capital allocation perspective?

Suryanarayanan: Yes, what we will do is first answer your question on the business the strategy on the Project and Engineering business. And then I will address the issue on the current payment of the long term debt. To address your issue and as our Executive Director Mr. Umesh Shetty spoke to you in the current year that is '14 and '15 the focus is on improving the asset utilization from as low as 72% to take it up to about 90%. That is the fundamental goal that we have set ourselves. We are currently at 82% of our current utilization as I speak to you. So as some of the orders that are in the pipe line as they come in these asset utilization will start. Most of the orders are there. So that is the goal we have set ourselves in this part of the business. And then we are bidding for some of the contracts in our project movement business and as they start coming in, then the order book also starts becoming much stronger and it will improve. So the focus is both in terms of asset utilization and also to secure the infrastructure orders that are coming in as the projects are getting opened up. So it's a combination of these two is what will be the fundamental strategy that will drive this business forward.

Shashi Kiran Shetty: To extend the answer, it all depends on how the economy will phase out, in the next few years. In the short term yes, there are certain projects which are getting rolled out and the equipments are likely to get deployed there and we are also hoping that the economy will revive and there will be a lot more import export trade that will happen and obviously then the CFS facilities will get far better utilized and margins will improve. Overall we are very optimistic. But the Economy is the economy at the end of the day…it is something that we are hoping that will help. Risk of course will always be there.

Rajesh Zawar: Alright. So basically sir, my question was more related to how your cash deployment will happen going forward post FY15 if I understand that there would be the utilization levels once they reach 90%, 95% levels in the Project and Engineering business across and the other segments as well. So how do we look at from growth perspective? Where would the majority of the revenues or where the focus of the management would be in terms of what segment and what divisions of the deployment both on the capital perspective and growth perspective?

Shashi Kiran Shetty: In terms of the cash generated, it will all go down to repaying the debt, so that is the first part of it. That's why I said at the beginning of my speech itself that if you look at our net debt to equity, we are at about 0.39. So in that sense there is enough cash for us to take care of all our liabilities but as the cash keeps coming into the system our first goal is to reduce the debt that is one. The second component is where is the focus of the business? Yes, at this point of time, the revenues are quite skewed in terms of the MTO business because if you realize it is a combination of freight component that you pass through in one sense in the part of the business. So to that extent, the revenue will always be skewed towards the MTO business. But if you look at it from a different perspective, and if you look at the balance sheet itself you will see that 50% of our EBIT is coming from our global business. So if you look at a combination of both put together, even though I have 84% of my revenues coming from my global MTO business, it is contributing only to about 50% of our EBITDA whereas the Indian component of our revenues which is about 16% of our overall revenue is still contributing significantly to about 50% of our EBITDA. So in one sense to answer your question, so obviously the funds what is being generated will go into the repayment of the debt and the long-term would be depending on how the Indian economy would pan out. As I said in the beginning of my speech that we have a lot of capacity available and we have utilized those capacities so there is no point making more investments when we already have quite a bit of assets which are to be used. Having said that we can't constantly keep looking at which is the opportunity that is available in the market. Even in difficult times, we have been able to find new verticals which are profitable, which are growth oriented like take for example the coastal shipping, which has done quite well and we will continue to examine the opportunities in the coastal business to deploy more assets to serve the customers and create a market dominant position for ourselves, that is one area and the other area is as I said, once the economy gets revived, I am sure there will be opportunities for acquisitions domestically and invest in our existing businesses as you move forward. We are going to examine these opportunities closely and take respective calls at that time.

Rajesh Zawar: Okay understood sir. Sir the Project and Engineering business on an optimum level what would be the returns that we should look at from the capital employed perspective? And where would you start looking at for there for increasing your asset base? Currently if I look at it, there is a 750 crore which is a capital employed which is there…

Suryanarayanan: Yeah, but you need to look at this because the bulk of our investment started in 2010, 2011. These are all assets of a long-term nature and they continue beyond. Most importantly you need to see that the cycle time for these investments that have happened. We are half-way through our entire investment in the sense the assets that are being put in. Yes, it was a bit unfortunate that we got hit over the last 24 months the way the Indian economy suddenly went into a tailspin. But having weathered this storm and we are still being at about 72% of our asset utilization, I feel that over the next three years, once we pass the hump of the sixth year onwards, then you will really see the return on capital employed on this business becoming much, much more attractive because then as you keep adding new ones, newer assets are paying in, but the older assets are still running in, their cash flows are coming in and then the returns in this business becomes much, much better. It is just that we got hit in the beginning of the cycle that's why it looks a little bit difficult but if you were to really look at it from a return on equity perspective, and look at it on an IRR level then the returns on this business is very high.

Rajesh Zawar: Yeah so what is that IRR level sir? If I look at it optimum, when you reach 5th, 6th year level what would be the IRR levels?

Shashi Kiran Shetty: I'll tell you, the IRR level is…each of our asset that we utilize should start running in at about 20%. So that is the way you should look at it. Then what happens is the return on equity for you after you pass the sixth year, the actual IRR return on equity are all up in the plus 40% onwards. So yes, you are right when you look at the balance sheet at this point of time it looks low but then if you rally analyze this segment very carefully you will see that once we pass that sixth year onwards you will start seeing the results becoming much, much better.

Rajesh Zawar: Will do sir. That's all from my side thank you.

Moderator: Thank you. The next question comes from Dipen Sanghvi from Enam AMC.

Dipen Sanghvi: I wanted to know how much of our total gross debt will be attributable to P&E segment?

Suryanarayanan: Gross debt for the P&E would be about 400 crores.

Dipen Sanghvi: Okay so approximately around 50% of our total debt.

Suryanarayanan: Slightly less than our total debt because now out of the total debt of 992 crores, because last year we took that for our acquisition, therefore you are seeing a little bit of pump up in my global debt but otherwise the P&E debt is now much lower than 50% of the overall debt.

Shashi Kiran Shetty: You can also look at it that half our debt is on international market which is naturally hedged by our international freight operation which is also in foreign currency. So the cost of debt is only between 3% to 3.5%.

Dipen Sanghvi: So specifically I wanted to know in the P&E segment, because of all the problems in the economy utilization being at 70%, 72%. We have reported about 2% EBIT margin for the year as a whole and that was negative in Q4. So when you say that you all see utilization of 90%, 92% in FY15, how large a swing in the EBIT margin do you see in this business?

Suryanarayanan: See you must realize when you are seeing the 2%; there is a onetime non-cash charge of the goodwill write off that has happened. We acquired this company, MHTC; we merged it into the parent company. We took a policy that we will write off this good will as a one-time write off in our books rather than keep carrying this as good will so that is what has got charged into the segment. So if you add back that 34, then your entire arithmetic and all changes. So you need to look at it from that aspect because this is a one-time non-cash charge that has happened in this quarter after we give effect to the merger of the two companies.

Dipen Sanghvi: Okay alright. Secondly, what kind of return on capital employed are we making currently in the shipping business on the three ships that we have?

Suryanarayanan: If you look at it from an EBIT perspective to return, it is very high. I can tell you that whatever we invested in, in terms of EBITDA, the cash reserve is more or less is coming in. We did one cycle last year where to some extent the returns are low on that but as these assets are fully being deployed, then the returns on these assets are now fully being deployed, then the returns on these assets are also quite good. It would be upwards of minimum of 16% to17%.

Dipen Sanghvi: Okay and you are looking to add more assets in that business…and because of that….?

Suryanarayanan: We will do it very judiciously in a judicial manner backed by orders, backed by opportunities rather than just increase for the sake of increasing.

Dipen Sanghvi: Sure. Because, where I am coming from is, you continue to have this high capital employed in this P&E segment, which is unfortunately due to economic downturn and has been much underutilized and has been a drag on our balance sheet. Shipping, though it may be a decent ROE, ROC business, but again it is an asset heavy business. So, in case by any chance in future if there is some difficult situation in terms of economic issues, economic problems, again we are looking at a business model which is somehow being on the side of asset heavy instead of being asset light. So, is that the thought process that we are likely to continue for longer period of time?

Shashi Kiran Shetty: There are lots of businesses which are asset heavy and still has a reasonable return on equity, IRR or whatever. Now, in the coastal business, it is a very strategic business. It is niche business. And it is a business which has got definite impact on the economy, no doubt, but what also happens in coastal business is that it is not just the economy growth, it is also conversion of traffic from road to sea and which has got multiple benefits, not only cost saving, it also benefits the environment that is it decongests the port. So, there is a bit policy support that is being given by the Government. And we being the first one in this market place and having done it reasonably successfully, we have to consolidate this business and consolidate its positions going forward. So, we don't look at it only as asset heavy, some business you have to enter as asset heavy. For example, if you want to invest in CFS, which is also asset heavy, the company would have been in a very different position. So, these are the strategic businesses and we need to do some strategic calls from time to time.

Dipen Sanghvi: Okay. And finally on the CFS business, we have seen huge pressure on the margin realization, because of the overall trade volume being lower. And also I believe there is competitive pressure in that business. So, what kind of market share do we have at the leading ports and if there are any major changes in the market share between us and the number two, number three competitors.

Suryanarayanan: In JNPT we have about 8% our market share. It varies on month to month basis.

Dipen Sanghvi: But, how does it compare to the previous year sir?

Suryanarayanan: To previous year?

Dipen Sanghvi: Yeah.

Suryanarayanan: A drop of about 1%-1½%. If you look at the drop, it has been with the market trend itself.

Shashi Kiran Shetty: It is not a drop, the market has shrunk.

Suryanarayanan: The percentage is about the same.

Adarsh Hegde: In fact in the JNPT area if you look at it, the volumes have actually grown for us, because we have two CFSs now. So, in terms of volume if you look at it, with both put together, in the volumes perspective we have gone up there. In Chennai, our market share has already gone up and we are number one and we still continue to be number one. Yes, the Chennai the overall port volumes have dropped, but we still continue to be managing to maintain the same numbers. Mundra, we are among the first two always. We continue to be, there is little of ups and downs, because the dwell times have dropped. Mundra, the volumes as a port has gone up, because of the ICD volumes which have moved from JNPT area. So, that is in short.

Shashi Kiran Shetty: To answer your question again, to add to what Adarsh had said, we are not so much concerned about the margins; we are more concerned about the volume drop of the port. The volume, if you look at it, if you take away the second CFS what we built, which is actually the one which is breathing little heavy on us. Otherwise, if you look at the de-growth that happened, it is not very, very high. Of course, if you look at it, overall there is a decline in the volume, but the overall margin earned is not as high as the drop in the volumes.

Dipen Sanghvi: Correct, sure. And last question, what would have been the euro terms revenue growth in ECU LINE, excluding the two acquisitions that we made during the year?

Suryanarayanan: The revenue growth for us without the acquisition at 3% in euro terms.

Dipen Sanghvi: 3% in euro terms, alright. And the same number with this two acquisitions now, what kind of growth are we looking at in FY15?

Shashi Kiran Shetty: 13% growth. We have budgeted 13% growth.

Dipen Sanghvi: 13% growth in constant currency?

Shashi Kiran Shetty: Yeah.

Dipen Sanghvi: Alright. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

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

Jinit Mehta: Sir, just a quick clarification. Sir, on the P&E segment sir, you said that we are targeting 175 crores of revenue in FY15. So, we have already done 423 crores this year, so is there any disconnect in that?

Shashi Kiran Shetty: That is only the project division.

Jinit Mehta: Only the project division, okay.

Shashi Kiran Shetty: In P&E we have equipment and project engineering and shipping combined. When we report, we combine all the three divisions within one vertical.

Jinit Mehta: Right. So, what was the project division's revenue this year?

Suryanarayanan: We will get back to you. You get in touch with Savli and then she would get back.

Jinit Mehta: Sure, sure, not a problem. And sir, just one last question sir. Sir, the sensitivity of the rupee-dollar on our P&L and balance sheet, if you have to throw some color on that sir?

Suryanarayanan: If you look at the balance sheet at the overall level, at a consolidated level, the impact should be negligible. But, if you look at it from a standalone perspective, yes, there are some imports, yes, then to that extent you are exposed to the volatility between the rupee and the dollar. But, from a global perspective, because we have a balance sheet ability at a consolidated level, it more or less evens out in the various markets that we are operating.

Jinit Mehta: Okay. And on the profit and loss?

Shashi Kiran Shetty: In India, basically all the loans are hedged, so there is no issue in terms of currency position. But, on the other hand if the rupee becomes weaker, obviously it will have an impact on the imports, because that will become that much more expensive. So, that is the only impact. But, internationally there is a natural hedge between what we receive and what we pay. So, there is literally zero impact. Over the last several years, the differential loss or gain that we book in our balance sheet is somewhere in the region of 100,000 to 200,000 dollars or euro.

Jinit Mehta: Okay, got it. Got it. Thank you so much sir.

Moderator: Thank you sir. Our next question comes from Mr. Viral Shah from SBI CAP Securities. Please go ahead.

Viral Shah: Hello? Sir, basically couple of questions starting with MPO first. Basically when we look at our realization per TEU, it has been increasing year on year. But, we have not seen that happening in our EBITDA margins, because we were able to…we were planning to achieve EBITDA margin of 5% to 7%, but we are lower by 100 basis points. So, could you throw some light there what has been happening there on that front?

Shashi Kiran Shetty: I can only say so much that it has our full attention. And that is one of the reasons we did the entire restructuring of the organization. And the other reason we also created management positions for procurement, management positions for streamlined management in a better way, create a proper tariff and pricing, have a greater control over the cost. These are things that these actions have already been initiated and they are running as projects within the company to execute better and more efficient way of managing the cost and look at better utilization of our boxes. So, in the coming years the margin should improve.

Viral Shah: Okay, fine sir. That is fair enough. Secondly, on the P&E side, basically you were talking about two new orders of refineries, could you quantum that in terms of order book what would that amount to?

Shashi Kiran Shetty: Yeah, one we said is Kochi Refinery and the other one is the J3 expansion of Reliance Jamnagar petrochemicals. So, in terms of order book, I think about 30% of our asset will get utilized there between the two, anywhere between 30% to 35%. And the transportation contract for the project division, project equipment division, the project management or the project handling side of the business is coming a lot more from various other projects. The important projects that we are implementing currently is called North-East-Agra, where the laying of cables for distributing power from Northeast sector, all the way into Uri is being done by ABB. So, we are the contractors for that multibillion dollar project to handle all the odd dimensional packages and transportation of those packages by the river and by road to where they are executing the project at the moment. We are also handling a project for NCC, Nagarjuna 662 megawatt project. We are working also on some project in South. So, these are the projects which are currently underway and these are part of the order book. And there are similar other projects where we are bidding right now. And we are hoping that this activity will increase in the coming months.

Viral Shah: Sir, could you quantify what would be that, apart from (not clear) have some clarity on order book what we are looking at (not clear)?

Shashi Kiran Shetty: Yeah, I think we should target somewhere around 250 crores to 300 crores additional order book.

Suryanarayanan: 50% of the budgeted we can achieve as order book.

Viral Shah: Okay, fair enough sir. And sir secondly, if you can throw some light on the tax provisioning, because when we look at your notes to accounts, in the results….we had some legal issues on that for the…

Shashi Kiran Shetty: It is status quo. We got the refund. Let me put it that way that we got the tax refund of 20 crores last year from the department. So, this explains to you what position is.

Viral Shah: Okay, fine sir. That is fair enough. And are we planning to reduce any debt during the year?

Shashi Kiran Shetty: Obviously, 240 crores we will reduce this year.

Viral Shah: Sir, could you repeat that.

Shashi Kiran Shetty: 240 crores.

Viral Shah: 240 crores?

Shashi Kiran Shetty: Yeah.

Viral Shah: Sir, this is part of our repayment or we are planning to reduce it?

Shashi Kiran Shetty: It is part of the repayment.

Viral Shah: Okay. And for the next year?

Shashi Kiran Shetty: For the next year in India it would be NR 100 crores. By FY17 India should be zero debt. And as far as our global business is concerned, there the debt is over five years.

Suryanarayanan: Over next three years, they will also get paid off.

Viral Shah: Okay. Fair enough sir. Sir, finally what is the optimum utilization for our project (not clear) say for example for 72% (not clear) level or maybe this is one of the quarters per se, where EBITDA margin has been coming up. So any optimum utilization level which you are looking at for the present….?

Shashi Kiran Shetty: There is no optimum level. At 72% itself we will be making profit at an EBITDA level, so I don't see an issue there in the breakeven level.

Viral Shah: Okay, fine. Sir, that's it from my side. Thank you.

Moderator: Thank you sir. Our next question comes from Mr. P Venkatesh from Optimum Securities. Please go ahead.

P Venkatesh: Yeah, sir wanted to understand the current FY14 results includes the figure for both the acquisition, both on the P&L and as well as on the balance sheet side?

Suryanarayanan: Yeah.

P Venkatesh: Okay. So, what we have said is that 18 million revenues from the two acquisitions in the six months.

Suryanarayanan: 80 million, 80.

P Venkatesh: 18?

Suryanarayanan: No, no, 80.

P Venkatesh: 80, okay. And what is the kind of guidance we are hoping for the current year in terms of these two acquisitions on the revenue side?

Suryanarayanan: It is a bit difficult to give you a guidance on this thing, because the numbers are all related to how freight rates also keep moving in. The better guidance would be as to what our Chairman said that we would be growing at overall level at about 13% to 14%. And I think that is the type of guidance that you need to move, rather than look at it from an individual business by business.

P Venkatesh: Okay sir. Secondly, I just wanted to understand in our standalone operations, there has been a quantum jump in your other operating income, what is it exactly, it has move from 7 crores to 23 crores.

Suryanarayanan: These are all explained to you, as those hedged loans are all coming in, then the gains are coming back in this. So, that is the movement between the way we classify the loans, because the loans are being treated as the (not clear) little bit of treasury, but the bulk of it is coming because, we state the loans on the balance sheet date at the spot rate. And when the hedged rates are getting paid, then the difference is coming as part of it.

P Venkatesh: Okay. So, here I wanted to understand is, there has been a good amount of emphasis during the call on improving the ROC levels. If one were to look at the consolidated balance sheet, one set of your capital employed is lying in goodwill, which is not kind of hedged in your profit. So, any thought process on how do we address, how the company is trying to address this issue?

Suryanarayanan: If you realize the bulk of the consolidation is all coming out of the consolidation basis, the goodwill, through acquisitions. We are also actively thinking of, should we change some of our accounting policies, where we can write off, even though the underlying cash flows of those businesses are much stronger than the price at which we have paid. This is something which we are engaging. We are relooking at whether we could value the goodwill and then see how much of it could be in terms of intangible, so that we can start writing down in our table. That is one of the main reasons why we are looking at it and then seeing how we can look at it.

P Venkatesh: Okay sir. And final question, consolidated debt, total debt is close to 990 crores?

Suryanarayanan: Correct.

P Venkatesh: Okay. Of which you have said that 240 crores got repaid in FY14?

Suryanarayanan: Correct.

P Venkatesh: What would be the estimated debt repayment in FY15?

Suryanarayanan: FY15 would also be in the region of about the same amount.

P Venkatesh: About same?

Suryanarayanan: Just one second. Just hold on. One minute. So, the repayment would be exactly in the same range as we had told you. And as far as goodwill is concerned, as every opportunity comes in and that was one of the reasons why we knocked off the goodwill as a onetime write off in the current year on the merger between our subsidiary that we have. And I reiterate, our cash flows were strong enough and they were much better than the acquisitions at which we have done. But, as the current accounting policies are stating, unless the goodwill is really getting impaired, we can't really knock it off. The board is fixed on the matter and we are looking at it. Probably when we announce the policy, maybe in the next year we will see how we can write down this goodwill.

P Venkatesh: Okay, thank you sir.

Moderator: Thank you sir. Now, I hand over the floor to Mr. Viral Shah for closing comments. Please go ahead sir.

Viral Shah: (Not clear) host the call and we thank all the participants as well as for attending the call. Thank you sir. Sir, would you like to give some closing comments?

Shashi Kiran Shetty: I think overall we are quite bullish about the economy, about the company. I think there is a tremendous amount of work that is done in the last six-seven years and brought the company to a very healthy and global scale. And we are extremely bullish, unless something drastically goes wrong again, a global crisis or something like that, then there could be a little bit of setback, but otherwise we are very bullish and hoping to keep growing at the same pace as we are growing in difficult times. If the good time comes, I think our growth can be even better. So, that is pretty much where it is and we are also very, very happy to say that we are a company which is fairly diversified in management class. We have extremely good board members. We are highly compliant. And we are extremely proud of winning so many awards year after year that speaks about the organization. So, that is pretty much what it is. Thank you.

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

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.

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