



## “Allcargo Logistics Limited Q1 FY2018 Earnings Call”

August 11, 2017



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**Moderator:** Ladies and gentlemen, good day, and welcome to the Allcargo Logistics Limited Q1 FY2018 Results Conference Call hosted by Maybank Kim Eng Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Periwal, from Maybank Kim Eng Securities. Thank you, and over to you, Sir!

**Vishal Periwal:** I would like to thank the management of Allcargo Logistics for giving us this opportunity to host their post result conference call. From the management, we have with us Mr. Prakash Tulsiani, Executive Director and COO; Mr. Suryanarayanan, Executive Director, ECU Worldwide; and Mr. Jatin Chokshi, Chief Financial Officer. We will start with an overview from the company on their quarterly results and then open the lines for Q&A. Yes, Prakash sir over to you.

**Prakash R. Tulsiani:** Vishal, thank you very much, and good afternoon, everyone, and thanks for joining us on this call. I have with me Mr. Jatin Chokshi, CFO on the call. Mr. Suri had an urgent travel, and hence he is not on the call today. However, we both that is Jatin bhai and me will take all the details on the subjects of ECU worldwide. I hope all of you have received the result, and gone through the consolidated quarterly financials by now. You can also view them along with the quarterly presentation on our website.

In the past year, globally, we started to see consolidation of shipping lines, which is now leading to firming up of freight rates and in fact, the number of shipping lines, generally which were approximately 20 in number, I am talking about the large ones, has now come down to almost 8 to 9. And we expect that this will continue in the quarters to come and the freight rates are expected to increase across all trade lanes. Global trade looks strong and growing at 3.5% to 4% per annum as compared to the historical number of 2%. In India, these are exciting times for the logistics sector, especially with the GST rollout in July. Increasing efficiencies in transportation are slowly setting in. We have also seen the movement of supply from manufacturers, vendors, the wholesalers in its transition phase of becoming seamless and smooth.

Delivery times are coming down, with good gains on transit time. However, we do believe that the real positive impact of GST, in terms of increased transparency, will be realized with the improvements seen over three to six months from now. The organized contract logistics markets in India is estimated to grow at 40% post GST, and the demand for warehousing in strategic markets is expected to double. On the ground, we are noticing



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customers now consciously choosing logistics partners who have strong regulatory compliance history and business is moving from unorganized to organized sector. Much more changes are expected to unfold over the next couple of months. However, I do think that a contract logistics business will see improvements over nine months to a year, creating significant opportunity for players like Allcargo Logistics.

Our focus on ROCE continues, and we are taking very hard calls and selling of low yielding assets, which are not of strategic importance to ensure every asset is generating the required results. Starting with the quarterly results, Jatin bhai, our CFO, will take us through the consolidated financial numbers. Jatin, over to you!

**Jatin J. Chokshi:**

Thank you, Prakash, and good afternoon to all of you. Coming to the consolidated quarterly financials of our company; our total revenue from operations grew by 6% to 1,483 Crores for the quarter ended June 30, 2017. This growth in our revenues has been driven by our global MTO business predominantly. The gross profit for the quarter ended June 30, 2017, declined by 10% to 426 Crores.

This decrease has been primarily because of higher operating cost in our P&E businesses as we have moved to an asset-light model, continuous slowdown in project logistics business, notional currency impact that comes from the consolidation of our global MTO business. Operating cost of managing the Mundra CWC - CFS, this was not part of Q1 FY2017 and the consolidation of relatively lower margin ICD at Kheda, this quarter, post Allcargo's acquisition of the 100% stake in this ICD. The EBITDA for the quarter, ended June 30, 2017, was 103 Crores, as against 133 Crores during previous period, a decrease of 23%

Apart from the reasons just mentioned for gross profit decline, at EBITDA level, the decline was higher also on account of a conscious decision to move away from lower ROCE business that leads to strategic sale of low-yielding assets in Q1 FY2018. That is precisely as Prakash mentioned earlier, in his speech, an increasing provision for doubtful debts in P&E business, and lesser number of assets in operation during the quarter due to the sale of some of the low-yielding assets. The consolidated PAT for the quarter was maintained at 64 Crore for the quarter ended June 30, 2017. Coming to the balance sheet. As of June 30, 2017, the equity stood at 1,900 Crores. Our net debt stood at 250 Crores. Our current net debt to equity ratio is very healthy at 0.13, reflecting a healthy and conservative balance sheet. The consolidated return on capital employed is 13%.

Prakash will now talk about our business performance. Over to you, Prakash!



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**Prakash R. Tulsiani:** Jatin bhai, thank you very much. Moving to the performance of each of our businesses; starting with our Global MTO business, our volume for the quarter grew by 14% to 138,000 TEUs. This growth in our volumes has come from key markets across the world. The total revenue for quarter ended June 30, was at 1,289 Crores, as against 1,179 Crores for the corresponding previous period, an increase of 9%. The EBIT was at 53 Crores for the quarter ended June 30 as against 57 Crores for the corresponding previous period, a decline of 6%.

This was mainly on account of notional currency impact. The return on capital employed for this business stands at 29%. We have always outperformed the global LCL market, and we plan to continue outgrow the global LCL trade and remain market leaders by far. As mentioned that we will grow higher than the industry, and we are maintaining that - we are maintaining our leadership position there.

Coming to our India business of CFS and Project and Engineering, starting with our CFS and ICD, the total volumes increased marginally to 78,732 for the quarter ended June. The volume for the quarter has been in line with our expectation, considering the DPD implementation at JNPT. The CFS at Mundra has demonstrated a good growth in volumes. The DPD at JNPT has definitely changed the traditional CFS service offerings, while this has impacted CFS volumes for all players at JNPT. On the other hand, this has created a new segment for value-added services or end-to-end logistics. As organized players that can offer such complete service offerings, we will benefit overtime.

We have, in line with this change of direct-form delivery we have changed our go-to market strategy with the change in business and segmentation. The EBIT has been maintained at 30 Crores, this was despite the increase in expenses arising from managing new CFS in Mundra, and consolidation of relatively lower margins business of ICD at Kheda. The return of capital employed for this business stands at 26%. On the expansion plan, the logistics path project in Jhajjar is well on track, and we await rail approval. Now before the rail approvals also, there are various levels and the first level approvals from rail authorities has been given in principle, we are now awaiting the final approval. I do not see that there are any challenges receiving the final approval, but we have to go through the process. Our new CFS in Kolkata is ready and awaits necessary approval to commence operations by next quarter. Approvals from local authorities are in place, only the central government approvals are awaited.

Coming to our Project and Engineering business, being ROCE-focused, we have continued to take hard calls in moving away from lower margin business and selling aged-asset and continue to innovate to restructure and improve the ROCE in this business. This has, of



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course, impacted our financials for this quarter. The total revenue, for the quarter ended June 30, decrease by 25% to 99 Crores. This is was mainly on account of sale of assets, and transfer of similar business to ACCI. That is our joint venture company in contract logistics.

The EBIT was at break-even, mainly on account of provisions for doubtful debt asset-light model and lesser number of ships in operations, in quarter 1 2018 as compared to quarter 1 in 2017. We expect growth coming in from Infrastructure sector for this P&E division. Going forward we expect a slow pickup and recovery post the second half of this financial year.

To conclude, one of the important things going forward for our company is to constantly innovate and reinvent, and focus on the long-term opportunity both globally and in India. Globally, we are market leaders, and will not only maintain our leadership, but we will be the market leaders by far in LCL consolidation, both growing organically and inorganically. In India, with the GST coming in place, this will give us huge opportunities for logistics in India. Once the transition happens, in over six to eight months, companies will shift to bigger, more efficient warehouses, and incorporate higher levels of technology in all aspects of functioning at higher levels and efficiencies.

With developments in the rail and road projects, investments in infrastructure coming in, more opportunities will be created in the Indian logistics space. We are geared to optimize on this growth, building on a strong innovative platform - and innovative and technology platform and offering total and complete integrated solutions to our valued customers through a last-mile connectivity, across especially in our contract logistics play. As we always say, we are in a state of readiness to adapt to changing business environments and build a culture that adheres to timely implementation of projects. We constantly strive to overcome the uncertainties in our business to find alternate revenue models and eliminate ways that exist in the organization, and take cost out is a constant endeavor.

Thank you so much, and we are ready to take any questions, you may have.

**Moderator:**

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Anup Agarwal from Cogencis. Please go ahead.

**Anup Agarwal:**

Could you elaborate on this inorganic part? I mean, are you in some stage of discussions for this inorganic growth, sir?



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**Prakash R. Tulsiani:** Yes, Anup, definitely in our businesses, we have to keep all of our options open, weigh the benefit and decide what is best for our growth, because given the opportunities in the global as well as in the local market, definitely we will have to keep all options up every M&As open. And we are in constant - I mean, it is not today, we have done 13 such M&A's in the past many years and all of them have been done successfully. So to answer your question whether anything is in the pipeline, well, we are talking to many players. We are looking at M&As but nothing has been finalized as yet.

**Anup Agarwal:** So which segment would your preference or would your priority be? And when is the earliest when you - we are likely to see an announcement? Given that you are saying that with the GST coming in, a lot of things have opened up and the growth path has kind of widened?

**Prakash R. Tulsiani:** The two verticals where definitely we are always on a lookout for M&A is our Global business of ECU worldwide and the other one definitely is because of the GST is a contract logistics. But then see in such transactions, while no one can give a timeline because there are two parties involved and only when become to a strategic pick, the right financial model, and to ensure that it benefits us commercially, shall we take the dice and say "Yes, we will go for M&A." So regret, it can happen tomorrow, it can take longer, we do not know.

**Anup Agarwal:** Thank you.

**Moderator:** Thank you. The next question is from the line of Mohit Khanna from Value Research. Please go ahead.

**Mohit Khanna:** Good afternoon everybody. I had a question on DPD scheme. There are 2 aspects of this, I have seen couple of public reports of this state that it has not been very successful, citing examples of 1 prominent air-conditioned manufacturer, they may face certain issues. So if you say that there has a new opportunity being opened, due to the DPD services coming in line, do you see any kind of cannibalization in your CFS business segment, first? Second, how soon you can ramp up the door-to-door container delivery. So this - and what should be the margins? Just a ballpark numbers would also do.

**Prakash R. Tulsiani:** First of all DPD, it has been, I would say, it has taken place. The government has brought in this, as I say, facility for the importers. So there are importers who are doing it. I cannot say that it is not successful. So it is relative, I would say it is to be seen from the eyes of who is saying that. I would say that DPD is there and it is working as far as those who need it to work. But all clients may not been able to take advantage of this because of their relative



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general needs or business needs or logistics needs. So that answers your first question. Cannibalizing, you asked the second one. Cannibalizing may happen for CFSs, which are standalone CFSs. For a company like Allcargo Logistics, which offers integrated services, end-to-end logistics, for us, even if, let us assume for a minute, that CFS volume may have to reduce, but we would benefit either on warehousing or on end-to-end logistics because we have all those segments, or verticals within our own company, which can benefit. So it is shifting from one pocket to the other pocket. Your other point was on the door-to-door delivery, what are the margins expected? Well, we have still yet to get into it so I cannot come out over there and say that what will be the margins that will be there, but let me assure you, as we have always mentioned, we are very ROCE-focused. We will be driven by what the ROCE of the company or the business is, and certainly, on that basis we will decide what the pricing that will be done is? End of the day, it is building stickiness with the customer and delighting your customer and that is what we focus on.

**Mohit Khanna:** Just one more follow-up question on that one. How do you see competition faring up on this integrated logistics business?

**Prakash R. Tulsiani:** Well, there will be competition. There are logistics players who do offer end-to-end. But looking at our marketplace, I see more and more are standalone CFSs. So they will need to make a lot of changes. For us, it has been a quick change.

**Mohit Khanna:** Thank you so much.

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

**Abhijeet Mitra:** Can you highlight the extent of provisions that you have taken for doubtful debts in your P&E segment?

**Jatin J. Chokshi:** In the current quarter, additional provisions we have taken to the extent of 4.5 Crores in the P&E segment. There is predominantly because of our policy of providing all receivables internally, beyond 180 days. But like our experience is there is all are good as before ever and yes. So the additional provision in P&E segment for this quarter is 4.5 Crores.

**Abhijeet Mitra:** And can you throw some operational data of other segment, as in how has been the crane utilization like, you said that 1 ship was not there. So are we looking at sort of a bottoming out in the segment? Or do you feel that FY2018 will be along, kind of, flattish line adjusting for this provision that we are looking at, in terms of profitability? I mean, some sense of this would be helpful.



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**Jatin J. Chokshi:** Let me clarify that we have sold two ships so actually not 1 ship so the revenue for the two ships are not there in this quarter compared to the corresponding previous year, because I think life of the ships was over. And as far as the crane and other segment is concerned, I can say that because of our judicious mix of the customers and the sector to which they are catering, we are the least impacted in terms of utilization, and compared to the earlier utilization, more or less we are in the same thing. Yes, there is a slight dip utilization on two factors. One is real slowdown in demand, but as I told it is not affected by and large to us in terms of utilization; and second is a disposal of a few cranes, which has the low yielding and it was not relevered in the current business concept, despite that it has completed its useful life as well. So because of dip our utilization is I mean, in line of our expectation, and as mentioned our focus is on ROCE. So but going forward, yes, to answer your question, going forward, we do not see any kind of negativity in this sector. And looking to the moment, what is happening in the infrastructure sector, in terms of the opportunities available, in terms of tender what we are bidding, in terms of few contracts what we are already I mean, closed, and few contracts which we are in a verge of closing. So we feel that infra sector and positive movement has already started, a part of which have stabilized impact of the GST in the next couple of quarters, I think in next few months situation for all well-organized logistics players like Allcargo should improve.

**Abhijeet Mitra:** Okay great I have other questions I will come back in the queue. Thank you.

**Moderator:** Thank you. The next question is from the line of Jay Kakkar from Haitong Securities. Please go ahead.

**Jay Kakkar:** My first question is on the CFS part. Can you just highlight Sir, what can be - what would be a difference in a container, which is moving through your CFS vis-à-vis a container moving through a DPD - via DPD to CFS? What relation difference would be or what real time difference would be a in that connect two types?

**Prakash R. Tulsiani:** As far as the recent process, which has been announced by the customs, Jai, this means that if there is a DPD container, that container is cleared by the customer, which is an importer, directly from the port, he takes it directly to his own warehousing place, or factory or he can bring it to the CFS. So for him that option is open. Now obviously, he has to clear this within two days at the port. Because port does not have the capacity, and that is why they have a rule that within two days the container must leave the port. So that is the difference.

**Jay Kakkar:** So there is an option for the importer to take it to CFS, and it comes importer must be using this option with you. So I am just trying to figure out if a container comes to your CFS then you must be doing some value-added, that is why, right? So all you are trying to do some in





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inventory management for them. So what difference would be there in realization of the container coming you via DPD, people deciding to go to CFS after DPD and a normal container coming to CFS, Which gets cleared at CFS?

**Prakash R. Tulsiani:** Yes. You see our tariff remains the same, as far as the storage is concerned or warehousing or demanning of a container. So depends on what services the client procures from us, and basis that - the tariff remains exactly the same. So there is no difference, it depends how long that we pay, you pay the ground rent. The lift-on lift-off remains the same, the warehousing remains the same, so the tariff is not changed.

**Jay Kakkar:** Okay, do you see it changing the realization because that dwell time, everything must have changed anything?

**Prakash R. Tulsiani:** Definitely, there is a small change in dwell time. But that would have been, whether it was CFS or DPD container, depending on when the customer wants the delivery.

**Jay Kakkar:** Okay, but you are not seeing any major difference in the realizing, right?

**Prakash R. Tulsiani:** No, no. Per say on a box. No.

**Jay Kakkar:** Okay, and what would be, in that your current mix, what would be share of DPD in that mix?

**Prakash R. Tulsiani:** See, I think it is a small percentage right now. And I would say that once we have to focus, continue to focus is, how do we gain the volumes, whether it is DPD or DPD-CFS or third party, whatever we call. Our focus is our go-to market strategy, which means how do we go and gain every single account which is available to do our business to ensure that the containers come into the CFS.

**Jay Kakkar:** Okay, okay, sir. And any - so at the JNPT, you are seeing any road construction happening at this point, or it is now monsoon cycle?

**Prakash R. Tulsiani:** See, this is monsoon season. Definitely there are challenges and I understand at JNPT there is a new road being built for terminal number 4, so all that put into place yes, there are a - what we have heard is that there are challenges once in a while, specifically when the vessels are being bunched up and support when all the three terminals are in full operations on the vessels, yes, we have seen some delays.



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- Jay Kakkar:** Okay. My second part of the question is most related to your focus on the logistics, the contract logistics side. So currently, as a proportion of the revenue, how much were you contract logistics?
- Jatin J. Chokshi:** See, I mean, as per the accounting standard, as we mentioned in earlier quarter also, we cannot have a line-by-line consolidation, because these are JV accounting, post India's implementation. So the number comes at the bottom line - kind of thing. However, just to give you the perspective, the separate company or the JV Company has topline for this current quarter is of 100 Crores and EBITDA is close to 5 Crores, which is in line with our expectation and business plan.
- Jay Kakkar:** And how do you to see this business evolving say over the next three to five years? What are your plans for this business Sir, apart from the inorganic side? Where it can happen any time and you can call anything. But on the organic side, what are your plans for this business, let us say, like three to five years?
- Prakash R. Tulsiani:** Let me give you first the market perspective. The organized contract logistics market is estimated to grow at 40% post GST. And the demand for the warehouses is going to only increase, specifically, in strategic markets. So that being said, we are expecting the market to do very well. And obviously, we are good participant in the market growth. And we believe that as a market, we grow in participate very well in the market and be among top 3 players.
- Jay Kakkar:** Among the top 3 players, in terms of owning warehouse space?
- Prakash R. Tulsiani:** I am saying in terms of contract logistics, in terms of services.
- Jay Kakkar:** Okay, so your plan is not to have an asset-heavy business, it would be a more asset-light business.
- Prakash R. Tulsiani:** Yes, indeed. That gives us the flexibility also.
- Jay Kakkar:** Okay, so in 4 to 5 years' time you are trying to aim to become the #3, top 3, right?
- Prakash R. Tulsiani:** We are already among the top 3. And we want to maintain our position and only grow from here.
- Jay Kakkar:** Sir, just to understand the definition of this contract logistics in your parlance. You mean the solution providing for the logistics zone?



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- Prakash R. Tulsiani:** Correct. End-to-end solution providing, value added services.
- Jay Kakkar:** Value-added services. And this is for every part of - also domestic - for the domestic business as well?
- Prakash R. Tulsiani:** This is only domestic.
- Jatin J. Chokshi:** This is only domestic business.
- Jay Kakkar:** Okay, Sir and what would be the market size as per you, at this point?
- Prakash R. Tulsiani:** I do not have a full market size number, I am sorry for that. But we can definitely find and let you know.
- Jay Kakkar:** Thank you so much for taking my questions.
- Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from Motilal Oswal. Please go ahead.
- Abhishek Ghosh:** Sir, what is the estimated capex for this current year? Any possibly break-up between the segments?
- Jatin J. Chokshi:** The estimated capex for the current year is close to around 150 Crores, predominantly as sort of the segment expense, it is in logistics park sector that is what the Jhajjar which is work on contending. Overall maintenance capex, there is no capex plan, unless some, as mentioned earlier, I mean, some opportunities for inorganic growth comes. So we do not have any visibility over this at the moment. But yes, the planned capex is this.
- Abhishek Ghosh:** Okay, that is helpful. And Sir what about the - is the receivable cycle for the P&E segment kind of stable or is it deteriorating, given the current status?
- Jatin J. Chokshi:** No. It is stable because the old customers or the customer having temporary cash flow problems, so instead of say 90 days or 120 days, as per contract's real terms or whatever. It means they are not able to generate the cash flow so that part of the abundant portion we are providing. However, the overall, there is no impact in terms of receivable cycles. By - in the customer-specific.
- Abhishek Ghosh:** Sir, in terms of - to Prakash sir, in terms of this fourth terminal at JNPT, how will the rail connectivity be with that? Or in terms of - just trying to understand, will - that can lead to



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condition? And will that lead to higher volume? So this CFS, how should one look at it once the fourth terminal comes into play in about...?

**Prakash R. Tulsiani:** That is a very good question on the rail connectivity. As I understand, they will have a rail connectivity inside the terminal. And as I have seen the terminal, that is work in progress, what is very important is that they need the dedicated rail freight corridor. So until the freight corridor is not coming in, there is a capacity crunch on the mainline. And I estimate that the capacity is approximately 18 trains a day, maximum, for the entire port of JNPT. So that is my take. I mean, I have not taken the latest update on the railway, as I say, capacity wise, but this is my fair estimate on 18 trains a day.

**Abhishek Ghosh:** Okay, Okay. And sir just one last thing, the MTO segment, in terms of how have been the freight rates in last two to three months. Have they kind of been stable? Or have they further moved up? So what is the - in terms of the overall container freight rates?

**Prakash R. Tulsiani:** Slightly, it is going up, but let me tell you that the way the freight rates have gone up, they were almost changing on a daily basis at a particular point in time, not now. And it was typically in the last quarter, which we had. But since July, I would say that they are moving up but very, very slowly or they are in - I would say they are pretty stable at the moment.

**Abhishek Ghosh:** Thank you so much for answering my questions and all the best.

**Moderator:** Thank you. The next question is from the line of Giriraj Daga from KM Vesaria Family Trust. Please go ahead.

**Giriraj Daga:** Just to understand the P&E segment, wanted to understand what was this segment exposure to wind sector?

**Prakash R. Tulsiani:** Sorry the wind sector. No. As Jatin bhai mentioned earlier, that our mix is very good and we are not exposed too much to wind while we do business in there.

**Giriraj Daga:** So is this fair version that you are not impacted in this year slowdown in the wind segment?

**Prakash R. Tulsiani:** No. We are not - see if we do business with the wind sector, definitely there is some effect on us, but that is very manageable. Not significant at all.

**Giriraj Daga:** Okay, sure. My second question is on our CFS business. So what is the turnaround time for a container?



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**Prakash R. Tulsiani:** Turnaround time will depend on when the customer wants the cargo or the container so it is difficult to define.

**Giriraj Daga:** No but as you must like Sir last year - let us say last year or last quarter, we must have calculated some turnaround time, right?

**Prakash R. Tulsiani:** Yes there is an average of 7 to 7.5 days.

**Giriraj Daga:** Seven to 7.5 days. And this is coming to the cargo of same location of DPD and like once the DPD bit might come down further drastically also may be two to three days. It is possible, right?

**Prakash R. Tulsiani:** I sincerely doubt that will come down to two to three days because that is applicable only for the port, not for the CFS. So obviously, if a DPD clear container is coming to the CFS, that means they need extra storage time at the warehouse. So obviously, that is not necessary, it will not be lower, but we will have to experience that, depending on each client.

**Jatin J. Chokshi:** Normally it will not be lower, otherwise why the port should bring the container to CFS and again take back, and incurring additional transportation and storage cost both the way and the storage charges.

**Giriraj Daga:** Okay, so in terms of like guidance, in terms of CFS, as Mundra are started now, will definitely be different times. So what is the kind of guidance we are looking on this and the CFS side of the container holding?

**Prakash R. Tulsiani:** See, the CFS business is very connected to the EXIM trade of India, and depending on each port location, where we are. For example, if you will ask me what is going to happen in JNPT, I would say JNPT is growing at 2% we will be in around that number. Similarly, if Mundra is going to grow, which it has in the range of 6%, we will also continue to grow in line with the market.

**Giriraj Daga:** Understood. Sir, with Jhajjar rail line is part of our company, right? It is not part of the JV company?

**Prakash R. Tulsiani:** Jhajjar is part of?

**Giriraj Daga:** Our cargo, right? And not part of JV Company.



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**Prakash R. Tulsiani:** See, we have not yet decided what the structure should be for this particular new venture, we are still contemplating and we are waiting for all the clearances to come, before we decide on where it will be domiciled.

**Giriraj Daga:** So let us assume it is the logistics park, in this deadline, if you decide to put it in that JV Company, then its capex would be then accordingly divided, right?

**Prakash R. Tulsiani:** Obviously.

**Jatin J. Chokshi:** Yes, depending on the structure.

**Giriraj Daga:** Thanks a lot Sir.

**Moderator:** Thank you. The next question is from the line of Keyur Pandya from Prabhudas Lilladher. Please go ahead.

**Keyur Pandya:** Sir, my question - a couple of questions have been answered. Another question is on - sir, can you give us some qualitative guidance how the MTO or LCL industry or segment is growing, in terms of volumes as well as in terms of realization? I mean, I am talking about global level, how the industry shaping up? As you mentioned there is some pickup in the global trade. And how sustainable is this increase? That is one thing. The second thing is that sir, can you give some guidance regarding - so you said Kolkata CFS will be operational from Q2 or Q3, I mean, second half. So if you can give some guidance about the revenues and realizations? How we - will it be similar to our existing numbers or it will be different?

**Prakash R. Tulsiani:** Let me answer the first one that is the LCL market. LCL market is a part of the global trade. So as a global trade, is growing anywhere around 3.5% to 4%, I would say the LCL market would be growing in the same region. Not necessarily 3.5%, 4%, it could be even 4.5% to 5%. What we have seen in the past is that when the market is growing at 2%, LCL market was growing at 2.5% to 3%. So I presume this should be in the range of 4.5% to 5%, in and around that range. And you asked about the realization. Definitely, that is related to the shipping rates. And if the shipping rates are rising, definitely the LCL realization or rates would also rise because they will go in line with what the shipping market is doing. So they go in tandem or hand in hand.

**Keyur Pandya:** Also, Sir, when you said that your LCL industry is growing, or will grow at 4% to 5%. So I mean, when we are growing our volumes at substantially higher rate, then will it be continue? And does that mean we are gaining more market share?



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**Prakash R. Tulsiani:** Yes. We are gaining more market share and we remain confident of doing higher than the market growth rates. You had asked a question on Kolkata. On Kolkata, we are expecting, you are right, within three months, we should be operational. Of course, we are waiting for the central government approvals to come in. Once those approvals are in place, there will be another time lag of 1.5 or 2 months before we can set going. Now the realization is very market dependent because JNPT, Mundra and Chennai, where we are as a CFS, they are very different markets. So at this stage I would not like to give you any numbers till we start operations. Our focus, as a team, is to get off the ground and get the container and the boxes inside the terminal. So that being said, we will revisit the question of yours, let us say when we are, and probably in the next quarter results, by then hopefully we should have started the terminal.

**Keyur Pandya:** Okay, and then Sir, the last question, regarding Jhajjar, so I think in the last call you said that we are ready - I mean, we have intention to have a logistic partner, but the final call will be taken based on the rail connectivity approval?

**Prakash R. Tulsiani:** Correct.

**Keyur Pandya:** So how do we stand there? I mean, in terms of approval, or what is the progress there? Or - so that was the point. So because you had guided around 4 billion of capex, over three to four years, I mean. So what is the certainty of that capex happening? And that is the question.

**Prakash R. Tulsiani:** First, the question was on the railway approval, there are stages in the Railway Authority or the Rail Ministry. There are the stages depending on the district and the location. Then it goes to the regional office, and then it goes to the railway, both is required. So as we are concerned, the first stage we have cleared it, now we are in the final stages. There are 2 stages so number 1 is done. Number 2 is work-in-progress.

**Keyur Pandya:** Okay thank you.

**Moderator:** Thank you. The next question is from the line of Krupa Shankar from Spark Capital. Please go ahead.

**Krupa Shankar:** Thank you for the opportunity. I just wanted to know, on the volumes at you are targeting at Kheda facility, what could that be for the quarter?



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**Prakash R. Tulsiani:** Kheda is a facility which is very close to Pithampur or Indore, and this is relatively a place where now the industrialization is taking place. We expect anywhere around 2000 to 2300 TEUs per quarter.

**Krupa Shankar:** Okay, I am sorry?

**Prakash R. Tulsiani:** Sorry, 2,000 TEUs per quarter.

**Krupa Shankar:** Okay, so my second question was on the contract logistics so if I have to see your share of profits from your JV or and the associates as compared to be lower. So I just wanted to understand, is it because of other associates or is it because of our ACCI?

**Jatin J. Chokshi:** Yes. Other associates, we have, including some foreign subsidiaries and all kinds of things. So it is a combination of all the JVs.

**Krupa Shankar:** So clearly the number has come in lower only because of the foreign subsidiaries.

**Jatin J. Chokshi:** That is right.

**Krupa Shankar:** That is all from me Sir. Thank you. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Mohit Khanna from Value Research. Please go ahead.

**Mohit Khanna:** I have had a small follow-up question. There was some speculation regarding listing of ECU. Sir, could you please comment on that, what should be a timeline for that - how you guys targeting?

**Prakash R. Tulsiani:** Sorry, what is that speculation that you are? Can you elaborate a bit more?

**Mohit Khanna:** There has been some speculation regarding listing of ECU Worldwide as a separate entity?

**Prakash R. Tulsiani:** Oh, that one. Jatin bhai?

**Jatin J. Chokshi:** Yes. That was I mean, as mentioned in some of the newspaper reports and everything. Basically, there is a potential of getting our overseas business listed overseas. So that is what I mean, we are waiting. That is no formal plan, nothing is there but that is a good potential in future if we need to raise more capital, more acquisitions and more opportunities are coming. So there is also as an option we have to go for listing of a few in the overseas markets.





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**Mohit Khanna:** Right. Just a small one on - just a small follow-up on that one was, do you internally plan to list that business outside, raise money and invest that money in Indian operations? As you are targeting almost tripling Indian operations revenues over couple of years ahead.

**Jatin J. Chokshi:** No. As I told you, first of all, the listings overseas itself is not a very sure when happened, why it happened and depending on the opportunities. But yes, so far I mean, if we see our track record, all our foreign acquisitions and everything has been funded through our foreign companies only, we have never moved money out of India for any of the foreign acquisitions and vice versa, in case of any Indian acquisitions or organic growth, we have never moved the money from foreign to here. So right now I mean, we have never raised ECBs also because of our Indian generation of the free cash flow to take care of the maintenance and any planned capex is already there. And for any other capex, from time to time, we evaluate and raise the funds, as and when required, like Kolkata. So we do not have any such plans to move the money across the globe for acquisitions in a cross-country or something like that.

**Mohit Khanna:** All right, fair enough. I can see the free cash flow, you have been quite impressive. Do you see any rewards for shareholders coming through in couple of quarters or so?

**Jatin J. Chokshi:** Yes. But can you please ask again?

**Mohit Khanna:** Yes. The free cash flow generation at the company level has been very, very impressive. So do you plan to reward shareholders more of an extra dividend or maybe some buyback this?

**Prakash R. Tulsiani:** See, I mean, it depends on the situation, for example, now as we mentioned that the other plans - capex plans for Jhajjar and another kind of thing. So depending on the judicious mix of equity and debt, what we have been able to raise or what we want to raise, depending on the structure and kind of things. So we will review at an appropriate time, about the extra cash available. But yes, as a philosophy, management always believes to invest money in a more profitable or more ROCE-driven business. And if management does not use that opportunity, we are rewarding the shareholder by either with buyback or dividend and kind of things. So the buyback was done in January this year. So we will do it at an appropriate time, whether we require the cash or we can deploy the cash in a better way so that stakeholders' returns get improved.

**Mohit Khanna:** Thank you so much and best of luck to the coming festival quarters. Thank you.

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



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**Abhijeet Mitra:** Thanks for taking my question. I have two questions. First on the MTO space, given that the quarter's volume has been very impressive vis-à-vis the trend that we saw in the global container market. I am assuming there would be some tailwinds that would have come to margins, on account of the same. So for the full year, do you expect continual tailwind on volumes? I mean any kind of growth guidance that you would like to give? And secondly, assuming flat freight rates, what kind of margins, tailwinds do you feel you have at this point in time. How do you think that there is a fierce growth of margins improving from here on as well? That is the first question, and the second question is on the logistics parks. I mean, apart from the Jhajjar, other plans on – Bengaluru, Hyderabad and Nagpur as well. And at what stage of planning are those logistics parts currently, and if you can - and whether we will see capex announcement on the coming - over the next two years. If you can throw some light on these two, it would be great.

**Prakash R. Tulsiani:** The business of ECU worldwide is definitely a business of scale. So as the volumes go up, our unit costs will definitely look better, that is going down. And that would definitely have a positive impact on the margins that we have. Given the market situation, where it is, where it was growing and the overall world market growing at around 3.5% to 4%. And we are growing at 14%, we remain confident that we will maintain our leadership position and outgrow others, and gain market share as we go along. As regards to our logistics park, definitely all options are open. We are evaluating all of these land banks that we have, which is Bengaluru, Hyderabad and even Nagpur. And we continue to remain positive as the GST is settling in and we are discussing with our clients. So all options, as I said, open. We are evaluating and if there is merit, if there is strategic benefit for the overall growth and for the vertical, we will take the action accordingly.

**Abhijeet Mitra:** Thanks.

**Moderator:** Thank you. The next question is from the line of Jitendra Gupta from Money Control. Please go ahead.

**Jitendra Gupta:** Sir just wanted to understand this P&E business is still sitting on assets of almost 661 Crores. So how much more we can reduce, in terms of - and what is the strategy going forward?

**Jatin J. Chokshi:** See, basically, we have been regularly - we are selling off our nonlinear assets and coupled with every quarter or every other depreciation the block is coming down. So I mean, still internally we are exploring various options, if we reduce the assets from the book, what could be the structure within the framework of the accounting standards and laws and other kind of things. So If you really see I mean, a lot of cranes for example, or this segment.



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During the quarter we have done - gone for asset-light model. And so every opportunity we are trying to reduce or making it asset-light, but yes, I mean, unless and until we sell some more cranes, once it complete its effective life or it is more on the no longer a good-yield assets, the block will continue to reduce purely based on the depreciation, and mix of sale as well.

**Jitendra Gupta:** So have you identified any number of assets, like what is the size of those assets that you have identified, if at all?

**Jatin J. Chokshi:** So far whatever we have identified that we already sold in the first quarter. So there is a continuous process because I mean, most of the cranes are currently deployed at various projects and various sites. So as of now I mean, I cannot say the number or kind of thing, so - but yes, once the contract gets over or when the - I mean, new deployment we will continue to review. So as of now I mean, nothing that I need to sell immediately or something like that.

**Jitendra Gupta:** Is it fair to assume that in this quarter we saw that at the EBIT level this segment reported losses, so till the time you are not rationalizing your assets, it will continue to report losses or would there be?

**Jatin J. Chokshi:** No. As I told you, there are more trading opportunities available in asset-light model. So more and more asset-light model will be resulting in increasing their volumes, revenues, and of course, the final numbers, because the ROCE also will get improved. So it is not that whatever the reasons are there is - I mean, continue to be there. Plus, as we mentioned earlier, there is a slight drop in utilization, which, again, is keeping in mind the next couple of quarters, and the current movement in this sector, we expect further utilization of our assets and with more and more utilization, the yield also goes up and that is our experience kind of thing. So it is not a statement kind of thing, there is a lot of potential in this segment as well. And with our concentrated efforts on recovering the overdues which we have provided by our abundant portion, as an accounting policy in the books so coupled with that any recovery out of the provisions, will straight away add into my profit.

**Jitendra Gupta:** So what is current utilization, overall utilization in this segment?

**Jatin J. Chokshi:** Considering this quarter, I mean, utilization is in the range of 80% predominantly because of the sale of asset and kind of so 80%, 81% is the utilization.

**Jitendra Gupta:** Okay. Sir just one last question; if you can explain this notional forex thing and how much of this is one-time or is it something that we will keep on incurring?



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**Prakash R. Tulsiani:** See, the foreign exchange which we have is determined because all the accounting for ECU Worldwide is in Euros. So obviously, when we bring into our India books, we will have to take what is the exchange rate prevalent on that particular point in time. What we have seen is that in the previous years, in the same period, the Euro was at 75. In the current quarter, which is - which we are discussing right now is around 70 to 71. So that is the main notional one. The money has physically not moved, from one that place to here.

**Jatin J. Chokshi:** Depending on exchange rate, I mean, some quarter it could be positive, some quarter it could be negative. But yes that is an accounting standard, and we need to convert it at the prevalent standard on closing day of the quarter or the year. So it is up your notional and is continue to relay as long as the accounting standards are relevant.

**Prakash R. Tulsiani:** That is all from my side. Thank you.

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

**Achal Lohade:** Thank you for the opportunity. If I am asking a repetitive question, I joined the call little late. There have been some news articles talking about the looking into B2C logistics. Would you be able to elaborate a bit on that? What plans or thoughts we have on the same.

**Prakash R. Tulsiani:** Achal, thank you for your question. We are in a business of providing end-to-end logistics. We are definitely looking at all options available to meet our customers' demand and needs. And, obviously, there is a requirement to ensure that customer's delight, and not only that, the stickiness of the customer. In this specifically given the environment where new laws of DBD, GST, all these have come in there is a requirement by the clients to outsource logistics to players who can give them end-to-end solutions while our clients being focused on their own core business. So definitely this is an opportunity because this is what we hear from our clients. And we are active in the sense of looking at M&As and looking at partnerships to deliver a service to our clients which is best in class.

**Achal Lohade:** Right, so any further clarification in terms of the mode of, whether it will be air, road, or anything of that sort?

**Prakash R. Tulsiani:** It is mainly surface.

**Achal Lohade:** On the Avvashya, ACCI logistics side, if you could elaborate a bit on how has been performance then, what the plans out there?



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**Prakash R. Tulsiani:** I think that we did give that earlier. I think we remain as per our expectations. And even I think we are on the right track, we have a very aggressive business plan and we believe that we will be able to meet that.

**Achal Lohade:** Thank you so much.

**Moderator:** Thank you. Ladies and gentlemen, that was our last question. We thank the members of the management and conclude the call here thank you for joining us and you may now disconnect your lines. Thank you.

**Prakash R. Tulsiani:** Thank you very much. Really appreciate it.