



## “Allcargo Logistics Q3FY13 Earnings Conference Call”

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**Moderator** Ladies and gentlemen, good day and welcome to the Allcargo Q3FY13 Earnings Conference Call hosted by IIFL Capital Limited. As a reminder, for the duration of the conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing "\*" and then '0' on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Avi Mehta. Thank you. And over to you sir.

**Avi Mehta:** Thank you, Lavina. Hi, good afternoon, everyone. On behalf of IIFL I would like to welcome all of you to the 3QFY13 conference call for Allcargo Logistics. From the company we have with us Mr. Suryanarayanan – Director, Finance and Joint CEO, Ecu-Line; Ms. Savli Mangle – VP, IR . I would now like to hand over the call to the management for their comments. Over to you sir.

**S. Suryanarayanan** Good afternoon, everyone. Thank you for joining us on the call. I will do a brief summary on our results and then update you on each of our business operations. After that we will take questions. I hope all of you have received our results by now. For those who have not you can view them along with the presentation on the web site.

Moving on to our results – For the quarter ended December 31, 2012, our consolidated total revenue were at Rs. 978 crores, a decline of about 4%. This was mainly on account of decline in the revenues of the Project and Engineering Solutions business vertical. Despite this decline in revenue, we maintained the operating profit at Rs. 308 crores. The EBITDA declined by 31% year-on-year to Rs. 81 crores. This was on account of slow down in our CFS business, asset utilization in our Projects and Equipment division and also as a prudent practice, as the realizations of some of our debtors are taking time, we for a purpose of prudence we have started providing for them in our books. So all these have contributed to the effect of bringing down our EBITDA. We are also confident that in the subsequent months these realizations will come in but for the purpose of prudence, we have made these provisions. The PAT was at Rs. 36 crores, a YoY decrease of about 29%. This quarter our consolidated capital employed for the three businesses increased by about 7% YoY to Rs. 2,513 crores. This increase was mainly on account of the expansion that has happened in the Ecu-Line business. During the quarter and nine months period, no new cranes were added, only 44 trailers were purchased in line with the demand for these at the JNPT and Kattupalli Ports. I reiterate that our CAPEX plan for the year continues to be very, very conservative and many of these that have been employed are those that were ordered in the previous year and only when we see demand and growth picking up across economy and industry we will look at investment opportunities that would create value to our business. However, every opportunity or investment will continue to be thoroughly evaluated from a ROCE and an IRR perspective.

To share some balance sheet highlights, the net worth as on December 31, 2012 stood at approximately Rs. 1,600 crores. The total debt was around Rs. 800 crores. The net debt- to equity continues to be conservative at about 0.4.

Moving on to our businesses – starting with our CFS operations, we are amongst the top three CFS operators at JNPT in Chennai, and amongst the top five at Mundra. Our total installed capacity at CFS now stands at 441,000 TEUs p.a. with the new CFS at JNPT that started operations in mid-October but in real terms the operations actually started in somewhere round about December as we had to wait for certain formalities with the customs. The total installed capacity of our ICDs is around 88,000 TEUs p.a. The total volumes at all our CFSs put together for the quarter declined 23% YoY to about 49,000 TEUs. This business achieved a revenue of Rs. 76 crores and the EBIT was at Rs. 28 crores with the margin at 36%.

Moving on to our Multimodal Transport Operations, we are amongst the leading players in the global LCL consolidation business. As you all know our unique business model where we focus primarily on LCL consolidation making us resilient to recession and its effect on global trade. The volumes here grew about 3% YoY for the quarter despite slowdown in overall global trade. This segment generated total revenues of about Rs. 809 crores, YoY decrease of about 1%. The EBIT was at Rs.39 crores, YoY increase of about 13%.

And finally, our Project & Engineering Solutions business – The total revenues were at Rs. 87 crores, a YoY decline of about 19%. The loss before interest and tax were at about Rs.15 crores. This was mainly on account of 18% decline in revenues, the provision of doubtful debts and depreciation that we have provided for the CAPEXs that have been added to the Equipment division over the previous years. The slowdown in our P&A businesses, even though the order book continues to be robust, is due to some of our customers pushing the actual implementation of the project into other quarters, is what has given us a slow down.

To summarize and reflect – Across all our businesses, we will continue to focus on growth in both revenues and profits. We are quite positive on the long-term India story though there has been a slowdown over the last two quarters and we believe that given the next quarters the results will be muted till the real economy picks up. And we believe that India will grow with committed investments to infrastructure development which will help us in the verticals where we are facing a bit of a slowdown.

Thank you so much. We can now take the questions.

Moderator

Thank you. Participants, we will begin the question-and-answer session. The first question is from the line of Mr. Abhishek Ghosh from B&K Securities. Please go ahead.

Abhishek Ghosh

I just had a couple of questions. One was this doubtful debt that we are now starting to provide in our P&L. Could we get any kind of quantum or any kind of guidance that what could this number look like going forward because this has been increasing on a sequential basis?

S. Suryanarayanan

It has been increasing on a sequential basis but we are also recovering it. It is just a question of some of our customers who are facing a bit of their own working capital challenges and we thought it would be prudent to make provisions but subsequently we are also collecting. So it is a question of a cycle that keeps moving. So to the best of what we feel I

think we are there. Maybe a very small element might come in, but by and large, I do not see any issue on these debtors.

- Abhishek Ghosh                      In the P&E, we have reported that there is some realized gain on derivatives.
- S. Suryanarayanan                  That was there in the last quarter. So now, in this quarter there has been no realization.
- Abhishek Ghosh                      This Rs.15 crores kind of loss that we have reported in the Equipment division is pure operational. This does not involve any realization on derivatives?
- S. Suryanarayanan                  Operational after providing for the doubtful debts.
- Abhishek Ghosh                      Yes, including the doubtful debt, but there is no element of FOREX or anything?
- S. Suryanarayanan                  No, nothing like that.
- Abhishek Ghosh                      Just wanted to get an idea as to, what is the utilization level in the Equipment division, like how many cranes were utilized in the quarter?
- S. Suryanarayanan                  At an average you could take that the utilization levels were between 75 to 80%.
- Abhishek Ghosh                      We see a sequential decline or a YoY decline across all the CFS. But however, our margins have improved on an per TEU basis. So is that primarily due to dwell time?
- S. Suryanarayanan                  Dwell times on an average, are more or less same as in the previous quarter. But if you see our CFSs as a function, there has been some bit of a improvement on the realization but otherwise if you look at it from a volume perspective, yes, there has been about 27% decline in volume, which consequently had an impact on our EBITDA to the same extent.
- S. Suryanarayanan                  To answer, from a modeling perspective we assume that this margins will hold good.
- Abhishek Ghosh                      And the new CFS that we have launched or introduced at our JNPT, how is it shaping in terms of customer....?
- S. Suryanarayanan                  Picking up. Slowly, the consolidation of the lines are happening, but since as I told you it took us up to mid-December for the actual operations to start. It is still too early to say but I think by mid of March-end of March the traction should start happening.
- Abhishek Ghosh                      Any update on what is the project status of this 0.8 million TEUs incremental, what we are hearing that there is incremental capacity of about 0.8 million TEUs that is coming into JNPT. So any kind of incremental this thing on that?
- S. Suryanarayanan                  I would not be able to throw much light on this because I do not have much of information on this.

Moderator                      Thank you. The next question is from the line of Mr. Chetan Kapoor from IDBI Capital. Please go ahead.

Chetan Kapoor                I would like to know what would be current order book in the Equipment Hiring segment?

S. Suryanarayanan           We would be in the region of about Rs.240 crores.

Chetan Kapoor                This is all unexecuted portion?

S. Suryanarayanan           Yes.

Chetan Kapoor                And as far as our debtors is concerned in this particular segment, what would be the current debtor days?

S. Suryanarayanan           Current debtor days would be in the region of about 80 days.

Chetan Kapoor                Specifically, the increase in the debtors which you are like providing for, this particular industry are we seeing this being ascribed to?

S. Suryanarayanan           It is not limited to a particular sector, it is moving across sectors, some of them are in the oil & gas sectors, some of them are in the power sector, some of them are in other sectors. It is a combination of them. We know that some of them have their own challenges but from a prudence perspective we have started providing at an accelerated level.

Chetan Kapoor                And furthermore, this quarter we have seen the tax rate has been lower....

S. Suryanarayanan           The tax rate obviously will be lower as a function of the depreciation coming down. But further what happens is in the previous quarters and earlier, because there were timing differences on the depreciation, deferred tax liability was kicking in, and therefore that kept the tax rate up but as the timing differences are now narrowing, you are now getting a deferred tax asset which is lowering the difference between the current tax and the deferred tax. Otherwise, we are still providing tax based on MAT. So in that sense that rate has not come down but it is only the effect of the deferred tax asset, which is giving little bit of that reduction.

Chetan Kapoor                So more or less we should take a MAT assumption going forward...?

S. Suryanarayanan           But one thing you must realize that our JNPT CFS 80IA would get over on March 2013. So in that sense our tax exemption on one of our major assets would disappear. So in that sense you will have to adjust your tax rates. So from a cash flow perspective we might be neutral but from PAT perspective we might have to provide for higher tax.

Chetan Kapoor                What would be your outlook in the MTO segment? We are seeing the volume growth in the rate of around ....?

S. Suryanarayanan 4%. The business that is happening there is I think you should take it as that between 4% and 5%.

Moderator Thank you. The next question is from the line of Mr. Avi Mehta from IIFL Capital. Please go ahead.

Avi Mehta Basically in this quarter we saw a volume decline in the CFS segment. I just wanted to know what were the key reasons that kind of drove that and how do you see that panning out going forward?

S. Suryanarayanan It is a function of the volumes that are coming in and going out. Otherwise, from that perspective there is nothing much that has actually happened. If you look at it on a QoQ basis, even at a sequential level that is what has happened. I think nothing very particular has happened in this quarter that would turn it in any other way.

Avi Mehta Because what we understand from the industry...

S. Suryanarayanan In fact, in some of the lines what has happened is, if the shipping lines are, what you call, some of them are facing their own pressure, so they are consolidating, instead of running their own service, that means their own ships, they are then taking slot positions with other companies. So in that sense some element of that profile of a customer base also could change which is giving you that impact.

Avi Mehta So the biggest impact I see is possibly in Chennai and JNPT, both of them. So I just wanted to know if there is something new that you are seeing, even on a sequentially basis you are seeing some kind of weakness, wanted to see if that has kind of gone away or anything that is actually weighing over there or if you could throw some color how do we take that going forward?

S. Suryanarayanan I think we have seen the worst of that slowdown behind us in the CFS cycle.

Avi Mehta Because the new capacities also come in, so should we see JNPT, how is that growing, JNPT volumes kind of pick now?

S. Suryanarayanan What do you call the difference between JNPT-I and the JNPT-II, there is a fundamental differences, in the first one we continue to focus on the import side whereas on the second one we would be focusing more on the export side. So in that sense there is a fundamental difference in the way we would Approach the market.

Avi Mehta Second thing, you highlighted that the tax rate would kind of start moving off, you would give any kind of guidance on tax rates?

S. Suryanarayanan I would not say what exactly would be the tax rate because there would be an impact of depreciation.. But the only way you need to work out in your modeling is the 20% of MAT you know I have to really take into effect of the depreciation and others because going forward we will be paying either 20% or 33% whichever is the higher one.

Avi Mehta                                So 100-150 bps kind of increase on a year-on-year basis would be ....?

S. Suryanarayanan                    Because now the entire JNPT-I will come into the tax regime.

Avi Mehta                                So would it be fair to take 100 bps kind of increase or do you think you would not like to comment on that?

S. Suryanarayanan                    It all depends on how you are modeling the growth and other things there .

Avi Mehta                                And on the provision bit, just want to understand which division was it that ...

S. Suryanarayanan                    Bulk of it happened in the Projects and Equipment division.

Avi Mehta                                And how is that doing now, have you seen customers kind of coming back or is the deal still in a way ...?

S. Suryanarayanan                    We have seen the asset utilization climb back in January but I would like to wait for the quarter before we really start commenting on that.

Moderator                                Thank you. The next question is from the line of Rohit Sanghvi from Prime Securities. Please go ahead.

Rohit Sanghvi                            My question is relating to the provisioning policy. So this provisioning that you have done are....

S. Suryanarayanan                    The provisioning policy is very consistent with what we have always followed even in the previous year. The only issue here is earlier our customers used to pay within the prescribed time but now they are facing challenges, the timelines are getting extended and therefore we have not altered our provisioning facility. Because for some of the customers that we have provided, actual realizations have taken place in January and in February, as I am talking to you, but then I did not want to alter our provisioning policy for the sake of this and that is why we kept it constant throughout the process.

Rohit Sanghvi                            What is the cut off number of days?

S. Suryanarayanan                    It all depends on what is the credit limits and value for each of our customers and then if it exceeds both, then we take a call on that.

Rohit Sanghvi                            And my other question, you mentioned that in terms of CFS volume growth, you expect that the worst is behind us. What about the MTO business? You are guiding for a 4-5% growth in volumes. So next year what is your sense, will it move back to the 7-10% range or do you think it will remain subdued going forward for some time?

S. Suryanarayanan                    These are not the right benchmarks and guidelines but when I look at the volumes for January at a global level in our MTO segment they have held on to what it was in the previous year or

last year. So that gives me sense of confidence that we will continue to perform or grow in that segment without much of an impact. But yes, it is a competitive world out there, margins are under pressure. So it all depends on how smart we are vis-à-vis our competitors.

Rohit Sanghvi

And in that segment, are you looking at any acquisitions actively in order to grow your volume?

S. Suryanarayanan

We are looking at a few of them. Currently, a few of them are under evaluation. It is too early for me to talk about it but once sort of structure or something comes about it, you guys would be first one to know about it.

Moderator

Thank you. The next question is from the line of Himanshu Nayar from Quant Capital. Please go ahead.

Himanshu Nayar

Firstly, could you just give us a number for the CAPEX during the nine months and if you have any targets for next year?

S. Suryanarayanan

CAPEX for the nine months is roughly about Rs.70 crores or so, but the bulk of it went into the CFS to expansion very, very little came into our crane segment, because we have put a complete hold when we saw the slowdown starting to occur in the system. And a few of them went into our projects business because it was essential, we had to have those axles in order to complete some of our projects in, but otherwise it was very, very minimal. You can take these numbers from Savli or Sanjita.

Himanshu Nayar

And any targets you would have for next year?

S. Suryanarayanan

The targets at least from what I see is, we have put a complete hold on the CAPEX till we see Some sort of a robustness coming back into the growth of the Indian economy.

Himanshu Nayar

And secondly, on the P&E segment, where we have reported Rs.15 crores EBIT loss, I think it is mainly due to this provision. But sir, last quarter ....

S. Suryanarayanan

We may have those provisions, but if you remember last quarter also, we accelerated certain depreciation because we felt on some of our equipments we need to do it. So, that is what has also contributed some element there when you compare it on a YoY basis with the numbers.

Himanshu Nayar

But if I remember correctly, last quarter also we had reported EBIT loss in the segment and this quarter when we see the numbers it has I think they have been restated to a profit and it is mentioned that there are some....

S. Suryanarayanan

There is no question of restating it to a profit or anything like that. I don't think there is a restatement there. Maybe we can discuss this bit off line but at least on this segment this is what you see is what you see.

Himanshu Nayar

No, I was just referring to the realization gains that are given in the notes?



- S. Suryanarayanan That was because of the Rs.30 crores realization gain.
- Himanshu Nayar Can you just explain what item would that be on account of?
- S. Suryanarayanan No, it was a one-time effect in the last quarter. It has no effect in this quarter at all. That is why it is not continuing in the quarter but on a year-to-date basis it is running in that segment.
- Moderator Thank you. The next question is from the line of Avi Mehta. Please go ahead.
- Avi Mehta On the balance sheet just had a small question. If you could just tell us, how is net debt level change on a quarter-on-quarter basis?
- S. Suryanarayanan I do not immediately recall but I know that out of about Rs.800-odd crores of debt we have a corresponding Rs.177 crores worth of cash across the system at a consolidated level. So, that would be the net debt in that sense. So we will be roughly about Rs600-odd crores at a net level.
- Avi Mehta Because this number would be roughly flat on a QoQ?
- S. Suryanarayanan I do not see too much moving up and down except that some of the debts will start getting retired very soon, something will go out in february, some has already gone january quite a big amount will go March,. So I think our position on the debt level will start coming down.
- Avi Mehta And more on the macro sense, the way I see if you could just help me understand.
- S. Suryanarayanan I wish I could understand, if I knew which way the macro environment was moving.
- Avi Mehta No sir, on the Port segment per se, what I was trying to get to is because the way I see it is the CFS segment should actually be gaining given the fact that we are seeing increasing mismatch which is forcing importers to offload it at CFSs close to the port. Are you seeing that kind of a trend coming in at Chennai or Mundra or that is still something that you are seeing on the ground if you could share something on that?
- S. Suryanarayanan No, we are not seeing any of that. All I can tell you is we have not lost the customer in that sense where because of some of these things it is happened. For us it has been just a function of the volumes that are going through the port itself. It has nothing to do with we losing a customer or somebody else going elsewhere and that is where it has brought the volumes down.
- Moderator Thank you. The next question is from the line of Rajesh Kumar Ravi from Karvy Stock Broking. Please go ahead.
- Rajesh Kumar Ravi Two things. On the depreciation and on the interest expenses. Why have the depreciation come down on a sequential basis and why have the interest expenses shot up?

- S. Suryanarayanan      That is because in the last quarter when we accelerated certain depreciation on some of our equipments, it was a full 6 month effect on some of those equipments vis-à-vis only a 3 month effect on this. So there is an additional charge that has happened in the previous quarter than what is happening now, but from going forward now slowly it will start becoming the same as what you see in this quarter. Regarding interest as we start repaying some of our debts, because of the way the accounting standards is running, when I keep paying off the debt the notional amount of interest that has been debited in those quarters start coming off from the system.
- Rajesh Kumar Ravi      Like last quarter I think there was a gross interest cost was around Rs.12 crores whereas .....
- S. Suryanarayanan      What happens is when you hedge your interest rate on a foreign currency borrowing, the accounting standards ask you to provide it as though it is an Indian borrowing. So the difference between what you borrow on the fully hedged basis and the amount which an Indian company could borrow that difference also gets into the P&L account though your commercial interest is at a much lower level. So as the payments of these debts start going off, then the effective rate starts coming back to the original commercial impact, because that is the actual cash flow. So that is the difference and that is what you are seeing now.
- Rajesh Kumar Ravi      And coming to the segmental performance, I see the Projects & Engineering heavily in a battered situation in the current quarter versus good performance over the last three quarters. Order book condition is also not very encouraging, not many customers are taking up CAPEX projects. So how do you see the performance at least going forward on a three-four quarters?
- S. Suryanarayanan      I would say that at least the next quarter would be a bit muted. Thereafter we believe that it should pick up. That is what I said earlier to the question that was raised to me. We saw our traction happening in January. We are seeing the traction continuing in February but I do not want to just talk from there, let us see how this quarter performs and then we will get a much better sense of which way this will go.
- Rajesh Kumar Ravi      And the dip in the MTO performance, is it anything seasonality or anything structural issue?
- S. Suryanarayanan      Because in that type of a business if you start looking at too much on a QoQ basis it will throw some abnormalities. So I think you have to look at it on a YoY basis. That will give you a fair sense of which way that business is going.
- Moderator      Thank you. The next question is from the line of Sushil Choksey from Rosey Blue Securities. Please go ahead.
- Sushil Choksey:      A specific question on Ecu-Line, with US manufacturing business looking up, thanks to shale gas and energy on the pricing, and Europe stabilizing, at the same time Japan and some other Southeast Asian countries showing a better scope led by China for growth, the import/export data suggesting that, how do you see ECU shaping up in 2013 and going forward because it seems on the global trade worst is over, the data is suggesting or it is early sign?

- S. Suryanarayanan For the moment, our view is also exactly what the view of the publishing is. We believe that the US economy will grow. Europe will more or less stay at the same level. But in our business we see a lot of growth that is happening especially in the way we see our business in the Southeast China. The trade actually on the inter-Asia trade is quite big. China-Thailand, China-Singapore, China-Hong Kong, China-Japan, those areas, those trade lanes we see quite a lot of robust growth. The imports from China is slowing down but exports from Europe into these regions is growing. So it is a combination of all of these is what is making us withstand whatever is the recession that happened in the slowdown. My own sense is the US is one of the transpacific trade lanes or all big trade lanes, and if these were to pick up, then the growth could be quite robust.
- Sushil Choksey Anything specific on initiatives which we have taken linked to all these trade routes or anything to improve our margins, any steps which we have taken in the last year because of the global economy...?
- S. Suryanarayanan We are continuing to invest in our sales processes and other things. We have looked at how can we leverage the network, how can we improve our sales processes, and I think this will all start paying off in the course of the year, I think we have laid down a very, very strong foundation, I think it will all do us good and we are also looking at a few M&A opportunities, especially in the US and hopefully this should work out.
- Sushil Choksey Does it mean that we open more offices in US now?
- S. Suryanarayanan We are looking at certain opportunities in the US. We are in the midst of a discussion with them. Let us hope it comes out. If it were to come off then it would give us quite good head start
- Moderator Thank you. The next question is from the line of Deepak Malhotra from Silver Streak Asset Management. Please go ahead.
- Deepak Malhotra Just one question on the Projects & Engineering Solutions. What is the level of capital employed we have in this?
- S. Suryanarayanan I think it was some Rs.900 plus crores is the capital employed.
- Deepak Malhotra While I am sure there must be a long-term rationale for getting into this, but the way it comes across that this kind of expansion has been taken when the general background in terms of macro is not really good and I think we are seeing the effects of that like particularly in this quarter.
- S. Suryanarayanan I tell you, in these type of assets, investments which are of a long-term nature one should not go by a quarter or two or three quarters. At the end of the day in 2009-2010-2011 when those investments were made, they were also giving us the returns of whatever, each of those assets were operating at over 90 plus in terms of their asset utilization. Yes, there has been a slowdown. I wish we had a crystal ball to help us see into the future. It would be very

difficult but when you take investments of this nature you will have to look at it from a longer perspective, some of these machines run far more than the life of six years or seven years that we are depreciating these assets. So I think one has to look at it from a longer perspective rather than look at it from a very, very short term side.

Deepak Malhotra By when do you think something like this really recover for you?

S. Suryanarayanan I think you look at it fundamentally from a different perspective. For India to grow, infrastructure will have to be strengthened and that will definitely happen. Now it is only a question of you know it and I know it where some of these bottleneck areas are, the positive planners also know where those bottlenecks are, they are all trying to address it but I think few of them are addressed, I think it will automatically come back into this. So I think one has to take a longer-term view. Do not go by quarter-on-quarter. Yes, if you were to only look at last quarter, this quarter, yes, you could ask me, why were these investments made but then in hindsight everything looks good but having said that the first two-three years of these assets were also good periods for us. So, one has to take a longer view for you to get a complete picture of this.

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

S. Suryanarayanan Thank you all very much for joining us on a concall and if you require further information you can contact me or Savli and we will be able to provide you or help you with any more information that you all require. Thank you so much.

Moderator Thank you sir. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.