



“Allcargo Logistics Limited Q3 Results FY15 Conference Call”

February 13, 2015



MANAGEMENT: **MR. SHASHI KIRAN SHETTY- CHAIRMAN AND MANAGING
DIRECTOR, ALLCARGO LOGISTICS LTD
MR. JATIN CHOKSHI - CHIEF FINANCIAL OFFICER,
ALLCARGO LOGISTICS LTD**

MODERATOR: **MR. PANKAJ KARDE – SR. VICE PRESIDENT AND HEAD
INSTITUTIONAL SALES - SYSTEMATIX SHARES & STOCKS**

Moderator

Ladies and gentlemen, good day and welcome to the Allcargo Logistics Limited Q3 FY15 Results Conference Call hosted by Systematix Shares & Stocks. As a reminder all participants' 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 this 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. Pankaj Karde from Systematix Shares & Stocks. Thank you and over to you sir.

Pankaj Karde

Thank you. Good afternoon everyone on behalf of Systematix Shares & Stocks India Limited I welcome you all to the Q3 FY15 results con-call of Allcargo Logistics limited. I take the pleasure of welcoming Mr. Shashi Kiran Shetty – Chairman and Managing Director and Mr. Jatin Chokshi – CFO of Allcargo Logistics. I would now request Mr. Shetty to brief us on the company and its performance in this quarter. Over to you sir.

Shashi Kiran Shetty

Ladies and gentlemen good afternoon. I apologize for being a little late. I would like to now take you through to the highlights of the company in the last quarter and also in the last nine months. Allcargo has seen growth across all its line of businesses. Going forward is plan to focus on growth in revenue profit return on capital employed across all lines of business. We plan to be a zero debt company with a sustainable 20% minimum return on investment excluding goodwill of the company in the next two years then further leverage the cash flow the company generating to identify opportunities for a larger growth in the future.

So Q3 FY15 consolidated total revenue is 1,443 crores a decline of 6%. The Q3 FY14 includes FCL Marines full year financials from January to December 2014 post acquisition in October. This and notional currency fluctuation impacted and resulted in decline of revenue. The other two businesses have grown. Infact CFS and Project and Equipment business combined have grown 22% year-on-year in terms of revenue.

The consolidated EBITDA is 144 crores, year-on-year increase of 16% for the quarter three. Margin has expanded by nearly 200 basis points to 10%. PAT is 72 crore, year-on-year increase of 26%. Nine months FY15, nine months revenues and profits have gone up and all three businesses have contributed to this growth. Consolidated total revenue is 4,249 crores increase of 18%. EBITDA at 403 crores

year-on-year increase of 23%. PAT at 184 crores year on increase of 34%. Nine months PAT has grown by 24% over PAT of full year last year.

On the balance sheet items net worth has grown to 1,934 crores; net debt has reduced to 501 crores, net to debt equity reduced to 0.26. ROCE without goodwill at 19%.

So now coming specifically to the business performance for quarter three FY15. MTO business volumes have grown at 17% year-on-year, despite fractured global recovery. Germany, India, UK, United States, China have majorly contributed to the growth. Revenue is 1,201 crores, decline of 10% for the reasons which I explained earlier. Q3 FY14 includes FCL Marines full year financial which I already read out so I do not need to say this again. So the EBITDA is 61 crore, year-on-year growth of 32%. CFS volumes have grown by 10% year-on-year our CFS at JNPT and Mundra have majorly contributed to this growth. Revenue at 106 crores, year-on-year growth of 27%. EBITDA at 31 crores, year-on-year growth of 17%. Project and Equipment division revenues at 132 crore, year-on-year growth of 18%. EBITDA at 17 crores, year-on-year growth of 12%. We find the pick-up in project execution as we speak. Average utilization of equipment cranes and trailers et cetera has gone up from 72% to 80% and as we speak it has already crossed over 92%. Incremental asset utilization is likely to reach 96%-97% and increase in enquires on the ground are becoming a little more than what it used to be. So that is where we are at the moment. So we will now take questions. Thank you.

- | | |
|----------------------------|--|
| Moderator | Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bhavin Gandhi from B&K Securities. Please go ahead. |
| Bhavin Gandhi | Congratulations on great set of numbers. Sir to start with if you can help us understand the MTO operations excluding the acquisitions that we have done last year so, how has been the organic growth in the business in the last year in the nine months so far? |
| Shashi Kiran Shetty | I have my colleague, Jatin, he will explain, he will take you through that. |
| Jatin Chokshi | The total volume if I exclude my acquisition then 11% volume have grown in comparison to quarter-to-quarter effect compare with Q3 last year and Q3 current year and I see GP has also grown which is grown by and PAT has also grown in this business. Total growth in GP is roughly by, this is organic growth 32% EBIT has grown by 32%, and EBITDA has grown by 28% in quarter-to-quarter I compare to last year. So you can see we have fairly done a good business in terms of organic |

growth itself. If you look quarter-to-quarter number it gives more or less organic growth only the FCL Marines which is included in last year third quarter that is all.

Shashi Kiran Shetty After the acquisition has completed in October 2013...

Bhavin Gandhi Sure, this is the organic growth that we seeing?

Shashi Kiran Shetty The entire increase in the volume is organic.

Bhavin Gandhi Sure, sir. And the second part of my question relates to the project business so, if you can help us understand all the three segments of our business and how have the performance been likely more granularity?

Jatin Chokshi See the main businesses is the project transportation, the crane that we supply sometimes on a turnkey basis and sometimes on a pure rental basis we also folded the shipping business the coastal shipping business in the same division. Now granularly speaking I think the main benefit that we have in terms of capacity utilization has come about with the revival of the windmill sector there we see a lot of traction in the windmill business. The cash flow is coming back in to that business and they are able to settle the invoices also more or less in time and equipments are getting realized there. And also Reliance Jamnagar J3 project where there are demand for crane the substantial of cranes have been deployed there as well. And in addition to that there are few other projects there also the equipments have been deployed. Capacity utilization last quarter is already up by from 70% to 80% and now it is close to 90% - 92%. On the transportation side we just in the middle of completion of two major project one is the power project which is coming at Krishnapatnam for NCC, other one is the Agra Northeast Agra ABB being implement. ABB which is a power transmission line one of the largest power transmission line in the world then we have been privilege to be awarded with the contract of doing the entire logistics for that particular project. And we are bidding currently also for few of the other power transmission and such projects and with this background and experience we should be able to bag a lot new more contracts and also the government is focusing a lot on metro. A lot of metro project are likely to come like for example in Mumbai they are planning six corridors, in Delhi they are expanding the metro project for the big time. So these are all opportunities that will come in future. And in terms of our coastal business we currently own three ships and we recently started our coastal operation containerized coastal operation running the service from Kandla, Mundra to Cochin and hopefully in the future we will expand that and extend the services to the other port as you all you know the coastal business has got a lot of thrust and we have a

good head start that business and we are currently evaluating to buy a couple of more ships to create a dominant position in the market.

Bhavin Gandhi Sure, that is helpful sir. Just a little bit more on the J3 project now if my understanding is right J3 is supposed to be completed by FY17 so how much is our dependence on J3 per say and this project coming to conclusion and how do see the asset deployment going forward?

Shashi Kiran Shetty Yes. No, I think you know there will be a lot of opportunities before that we are very confident of that.

Bhavin Gandhi And sir as far as the asset utilizations are concerned there are moving closer to peaks but are the rentals close to peak or there is room for the rentals to go up from these levels as well?

Shashi Kiran Shetty I think the asset get into peak utilization that is when the rental start going up, right because then there is demand and it is always a demand and supply.

Bhavin Gandhi So how far from the peak are we at current levels at current rental how far from the peak would be current rental will be?

Shashi Kiran Shetty I think probably a couple of quarters.

Moderator Thank you. The next question is from the line of Viral Shah from SBICap Securities. Please go ahead.

Viral Shah Congratulations on a good set of numbers. Just a couple of questions in this MTO business just going through your presentation I was looking at few geographies which had contributed majorly does that mean that there has been a pick-up in global trade in those region?

Shashi Kiran Shetty No, it is both. If you look at Germany and the United States where we have a lower market share and we are trying the effort to get a higher market share and these economies are doing reasonably doing well also I think they are okay. German is far in the Eurozone but Germany has been very active in the export market so these are main reason, Yes.

Viral Shah Okay. And secondly sir blended realization for CFS price has increased. Could you through some light there which CFS has contributed to this or?

- Shashi Kiran Shetty** It is mainly JNPT and Chennai because you know these are dynamics of the business sometimes you have an extra stay and a little additional income new customers are there multiple reasons why there is some fluctuation in the price. What we need to be really looking at is an average if you are okay with the average that is what we are more concerned about.
- Viral Shah** Okay. And finally in the P&E segment can you kept a revenue breakup for the P&E segment for the quarter?
- Jatin Chokshi** Yes. In P&E segment in current we have around 134 crores and by a percentage 48% is contributed by equipment and 40% is contributed by project and 12% is contributed by shipping so this is the breakup in current quarter.
- Viral Shah** Okay. And shipping added this quarter only, right? Last year, last quarter was not there if I am not wrong?
- Shashi Kiran Shetty** It was also there.
- Shashi Kiran Shetty** It was there.
- Viral Shah** Okay. And what will be EBITDA margin for all this segments if you could?
- Shashi Kiran Shetty** We have 35% blended margins for this segment.
- Viral Shah** Okay. If I understand it correctly so once last quarter our capacity utilization was around 72% which has increased to around 90% and as on date it is 90%. So in terms of equipment leasing parse in terms of growth coming it is very limited right because we are already at 95% utilization revenue only rental income going up could help us grow if my understanding is correct or?
- Shashi Kiran Shetty** Yes, we will evaluate how to take the business forward. There are a lot of discussions taking place how do we scale this business up in very sensible way without exposing the company to too much of cyclicalities with the base equipment position what we have as you know we are exploring very various possibilities cannot talk to you in detail about that right now.
- Viral Shah** Okay, fine sir. And sir finally if you give me the CAPEX plan for this year, I believe it was 100 crores how much we have spent so far and...

- Jatin Chokshi** No, see so far this year and plan for the next couple of next couple of year is just to have a basic maintenance CAPEX in the region of 20 crores to 30 crores unless we have some opportunities for any kind of business related for which we are always open otherwise current year and next two year is a pure maintenance CAPEX around 30 crores per year.
- Shashi Kiran Shetty** And we have close to about 200 crores of cash and a cash flow of roughly about 400 crores.
- Viral Shah** Okay. And what is the gross debt figure?
- Shashi Kiran Shetty** Gross is 700 crores and net of cash is 500 crores.
- Viral Shah** And I believe we had paid something last quarter as well we have paid some debt last quarter if I am not wrong?
- Shashi Kiran Shetty** Yes, every quarter as per the terms every quarter the repayment is happening.
- Viral Shah** But sir our interest rate cost has not declined on quarter-on-quarter or maybe because 14 crores is an interest outflow and we had repaid something..
- Jatin Chokshi** No, it is as a blend again the average interest cost is 7% wherein in India we have got 10% and average 4.5% on the overseas borrowing and any opportunity we always like any prudent company we keep an eye and trying to reduce the interest at every opportunity.
- Viral Shah** Okay. So does that mean quarter four would be a lower interest quarter out go for you?
- Jatin Chokshi** Yes, because of the repayment and other things the natural items definitely will be a little over.
- Shashi Kiran Shetty** In large part of the debt is anyway 4.5% because they are used for acquisition.
- Moderator** Thank you. The next question is from the line of Kritika Talera from Pi Square Investments. Please go ahead.
- Kritika Talera** Sir I would just like to know the overall average growth of the segment wise?
- Shashi Kiran Shetty** For the nine months?

Kritika Talera	Sir year-over-year it is all right.
Jatin Chokshi	Okay. Now, the overall consolidated revenue for the nine months has gone up by 18% to 4,249 crores and in financial numbers I am telling you first. In EBITDA it is 403 crores, growth of 23% where it is at 184 crores showing the growth of 34% and PAT has grown by 24%. That is our financial number and now if you see the business wise the growth breakup in MTO segment we have grown over by volumes by 17% on year-on-year. Revenue is slightly decline as explained earlier by Mr. Shetty and the fact that the last year include at the full years acquisition one of the acquisitions numbers while for the current year it is for the quarter only and Euro as depreciated is the notional fluctuation in the currency has impacted in terms of revenue. CFS volume has grown by 10% on year-on-year basis and P&E we already discussed that capacity utilized in this has gone up from 70% to 80% at the quarter end and as of now we are talking it is crossing 92%.
Kritika Talera	Okay, sir. And sir what is the scope of the improvement of margins like how it can be improved? What are the future plans and all?
Shashi Kiran Shetty	Yes, better capital capacity utilization will contribute to higher GP and higher volume growth will also contribute to higher EBITDA margin.
Jatin Chokshi	Yes, because the fixed cost will be lesser and lesser once the capacity utilization goes up.
Kritika Talera	Okay, sir. And sir what is the effect of the GST tax and the growing e-commerce business because now a day's people generally are more over of e-commerce. So won't it effect directly on the trading and the like the shipping and all?
Shashi Kiran Shetty	No, Cargo will eventually has to move right. So that will not matter to our business but GST will create a lot of opportunities and we are building a plan around that.
Kritika Talera	Plan like regarding what?
Shashi Kiran Shetty	Plan to develop that business and to get the best potential what are the opportunity that this business will bring in the future.
Kritika Talera	Okay. And sir any major competitors do we have?
Shashi Kiran Shetty	Yes, there is a plenty of competitors.

- Jatin Chokshi** Different business segment be over a different competitors
- Kritika Talera** Can you just name a few sir?
- Jatin Chokshi** Like I mean public is aware for example in CFS segment Gateway Distipark Limited which is a public domain. Unfortunately in MTO segment within India we do not have any other listed entities available.
- Shashi Kiran Shetty** Are global competitors, global companies are among the top two in the world so there is other company called Vanguard Logistics and ECU Line these are the two largest in the world.
- Kritika Talera** Can you repeat the name sir?
- Shashi Kiran Shetty** Vanguard Logistics and ECU Line. ECU Line is our company.
- Kritika Talera** And sir what are the future estimates like vertical wise excepted growth?
- Shashi Kiran Shetty** No, we cannot give you a fix number but you know all the divisions are likely to grow and continue to grow in the future. Because the logistics as an industry itself grows in year-on-year and there is still a lot of pockets where we can get a higher market share and there is a potential for us for us to get a greater wallet share from our existing customers.
- Kritika Talera** Okay. And sir what are the expansions plans like one of them you said increasing the...
- Shashi Kiran Shetty** The contract logistics business is one area where we are going focus a lot because that business is likely to grow post GST. Secondly, we are examining how we can grow more in our coastal shipping business and inland waterways this is new opportunity that government is working on currently as you know. And thirdly, we are also examining what opportunities for us in the e-commerce space because we are one of the largest logistics company in the country and this opportunity something we cannot ignore so we are working very seriously on the timing when to enter and sweet spot that is available for us.
- Moderator** Thank you. The next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

- Pritesh Chheda** Thanks for the opportunity. I missed the reason for the higher capacity utilization in the P&E business and the utilization to been reached to about 90% so if you could tell us the reason?
- Shashi Kiran Shetty** Yes, there is firstly there is revival in the wind sector and there is most of the companies have kind of sorted in their cash flow issues so they are able to execute the projects and secondly, the J3 project in Jamnagar of Reliance which is absorbed by a number of cranes and that will continue to use the equipment still at least 2017 and in the meanwhile we are expecting a lot of new projects or other projects which are stuck today will get revive the power projects and metro projects and various infrastructure projects kicking in. So this business will continue to generate greater capacity utilization and in the process the rental rates will also go up and for the project transportation business we already find some good enquires and with outlook the whole market is believing that India infrastructure story will definitely revive so, we are just waiting to grab and exploit that so that is how the business will do well and also the coastal shipping is something where we have dominant position and you want to consolidate further and grow there as well.
- Pritesh Chheda** Is it safe to believe that until 2017 at least now the demand and supply situation on the equipment leasing side of the business should be favorable?
- Shashi Kiran Shetty** It is, Yes, absolutely.
- Pritesh Chheda** At least 2017 until the Reliance project's get over.
- Shashi Kiran Shetty** No, but even then I think we have no doubt that more things will happen.
- Pritesh Chheda** My second question is of coastal shipping side I came across one article about your companies' whole idea of being fairly significant in the coastal shipping side. Just wanted to understand at what stage are we today what crudes do we operate? What is the capital that we have so far deployed? And I was a little bit confused you identified three new opportunities which is contract logistics inland waterways, coastal shipping, but the capital expenditure figure which we shared was 20 crores to 30 crores so, does it mean that these places are not factored in the 20 crores to 30 crores?
- Shashi Kiran Shetty** No, 20 crores to 30 crores is maintenance CAPEX we have not fully worked out the CAPEX at such we are in the process of doing that for the next financial year our budgeting is underway so we will come up with it and in the meanwhile we are

evaluating instead of acquiring asset we are looking at leasing the assets in some way we are looking at charting ships instead of buying and also since we have a strong base in terms of the equipment and we have the cash flows to tie in more supplier have a system already in place we will evaluate whether we should buy or lease, own or hire, own or rent model.

Pritesh Chheda

And what is the scale of operations in coastal shipping today?

Shashi Kiran Shetty

Right now we are operating five ships, three are our own and two are on charter and we are hoping for some more of the contracts to get tied up and then we can scale this business. Not necessarily owned by the company it could be a combination of own and charter so, we do not want to get impacted by the cyclicity of the business so we would like to have some kind of balance there.

Pritesh Chheda

Currently, it is four owned, one charter?

Shashi Kiran Shetty

Three owned, two charter.

Pritesh Chheda

And what is it so it is a containerized-cargo?

Shashi Kiran Shetty

Yes, we carry all sort of cargo except liquid.

Pritesh Chheda

Okay. And what is the capital employed in this business and what is the ROE or margins in this business?

Shashi Kiran Shetty

70 crore is a capital for the three ships put together with working capital and everything and equity ROI is about 18% taking into account last two years have been very bad.

Pritesh Chheda

Could you highlight reasons for being underutilized?

Shashi Kiran Shetty

Yes, underutilized because the economy were in a bad shape. There was a very little cargo in the market in the last two years and all that is now already getting revived.

Pritesh Chheda

Just wanted to understand here are you an aggregator in coastal shipping? So you aggregate cargo?

Shashi Kiran Shetty

No, this aggregation happens on a container side but these are large parcels 7,000 tonnes, 10,000 tonnes, and 5,000 tonnes there are different companies have different

quantity requirement so we charge them per tonne including loading, unloading, and transportation and sometimes first mile-last mile this is an integrated-operation.

Pritesh Chheda Would you compete with Shreyas Shipping there?

Shashi Kiran Shetty Yes, we do yes.

Pritesh Chheda And the model is similar?

Shashi Kiran Shetty Almost similar, yes.

Pritesh Chheda Almost similar. And lastly, I wanted to understand on the CFS side, what is our capacity utilization?

Shashi Kiran Shetty 63% on an average for nine months.

Jatin Chokshi Compared to 55% last year.

Pritesh Chheda And just lastly in initial comment you mentioned that we want to be debt-free. So that debt-free is a function of the cash flow that you generate and repay your debt or there is some other aspect to being a debt-free status company?

Shashi Kiran Shetty No, use the cash flow to repay.

Pritesh Chheda Nothing to do with selling off any assets to be debt-free.

Shashi Kiran Shetty No, no there is no need to do that, Yes.

Moderator Thank you. The next question is from the line of Arush Goyal from New Vernon Capital. Please go ahead.

Arush Goyal I had a question on margin. I was looking at the MTO business and the EBIT margins actually expanded on year-on-year and on a quarter-on-quarter basis and through the presentation it just says that most of that is come from operational efficiencies. So could you elaborate on what exactly the operational efficiencies are and whether they are sustainable and whether we should see this type of margins keep trending?

Shashi Kiran Shetty When I say operational efficiencies is more in terms of utilizing the existing resources in the organization in terms of fixed cost to generate more business. Second is better utilization of our most valuable operation that is utilization of the boxes to

maximize the utilization. And use our base load or rather in terms of our volume to get a better buying rates and for that we have put a team in place globally to negotiate rates in a better way, in a coordinated way, and try and work with the limited amount of carriers possible. And thirdly, the issue around vendor management in terms of our warehousing cost, our trucking cost, and all the other procurements that the company does from time-to-time. So we have put a greater focus on that in the last year and overall the cost management within the organization has also contributed to better margin.

Arush Goyal So can we expect margins to trend between 4.5% and 5% like they have for the last quarter and this one rather than last year where you were at 3.5%?

Shashi Kiran Shetty No, we are doing our best. Something beyond market then it is different story but internally we are trying to tighten up the right resources in place and putting a process in place to make sure that there are enough talent available to do the job which the people are most competent to do and putting the right organizational structure, build a right strategy, introduce new product lines into the existing LCL business, the adjacent so these kind of things so would definitely see the margins to sustain or hopefully grow a little more.

Arush Goyal Okay. And it is a similar story with the CFS business – last quarter it was 24% and this year it is 29%. Now granted that they are both lower than what they were last year even despite utilization being higher so could you explain why EBIT margins in CFS business is falling despite utilization being higher?

Shashi Kiran Shetty A bit of a competitive pressure for sure and you have also seen that our volume have grown considerably. CFS volume has grown by 10% despite the market conditions so it has been very difficult time last couple of years. So going forward we are hoping that the volumes will grow and it will contribute greater and we also have some other plans to consolidate the business a little more.

Arush Goyal And I know this might not be relevant here would you be able to estimate what your market share is in CFS, I am sure you have competitors there?

Shashi Kiran Shetty I think we should be 10% to 12%.

Arush Goyal And are you gaining market share or sustaining it?

- Shashi Kiran Shetty** No, we gained market share. The 10% growth is coming more from gaining market share not through market growth. They beat the market growth in other words.
- Arush Goyal** Okay. With utilization hopefully going in the future? It may sound like the guidance but what would you recommend as a steady state EBITDA margin for this business or the EBIT margin for the CFS business if utilization goes to 75% over the next few years?
- Shashi Kiran Shetty** Yes, naturally there will be some increase in EBITDA margin and overall I cannot estimate right now but it should grow reasonably high.
- Moderator** Thank you. The next question is from the line of Jinit Mehta from B&K Securities. Please go ahead.
- Jinit Mehta** Sir you mentioned about being present in the power plant project with NCC and ABB and also the government focus would be on metro. Now just wanted some color on the size of these project and what would Allcargo's share be?
- Shashi Kiran Shetty** Yes, we will get back to you offline on this because we will have to work out the numbers. I do not want to just give you any number.
- Jinit Mehta** Not a problem sir. Sir just one more thing, would our focus area be predominantly power plants and metro or are we looking at other avenues as well?
- Shashi Kiran Shetty** Everything in project where there is a specialized transportation that is required and we have a capabilities to handle any of them so there is no specific focus. Focus is to make money.
- Jinit Mehta** Right, okay. Sir one classification the asset utilization on the CFS for nine months was 63%, right sir?
- Shashi Kiran Shetty** Yes, correct.
- Moderator** Thank you. The next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.
- Pritesh Chheda** Yes, sir on the multimodal side if you could tell us what should be a reasonable growth in your business considering it is more global in nature and this first nine months we have grown robustly so what should be a good assessment of growth in multimodal?

- Shashi Kiran Shetty** I think in many markets where we have a substantial presence but we still can grow well but our intention is to beat the market. If the market is growing 3% we want to grow at least 7% to 8% this is organically. I mean there are always inorganic opportunities which we always look at from time-to-time having been successfully consolidating this industry so we will continue to do that.
- Pritesh Chheda** Okay. And my second question is a three owned and two charter ships the five ships put together what is the tonnage of that?
- Shashi Kiran Shetty** All put together it is 30,000 tonnes.
- Pritesh Chheda** And do you have any assessment as to how much cargo per annum do you facilitate in coastal shipping?
- Shashi Kiran Shetty** This is an emerging business. It is very difficult because the cargo comes very fragmented way from different customers, from different ports it is still an emerging business. So, it is difficult to give a number.
- Pritesh Chheda** No, for you in these five ships, how much do you handle?
- Shashi Kiran Shetty** So there is a mix of break-bulk and containers and all that.
- Management**** So basically the right yardstick for this business is to look at the number of days of utilizations of the ships and again it has got a lot of other parameters like the duration of the voyage distance between the port origin and destinations and then periodic maintenance and then sometime you get the return load and sometime you do not get the return load so the capacity you cannot determine by like other business so you are more depend on voyages and cargos so very difficult to give this.
- Pritesh Chheda** And what should be the capacity utilization in this for you?
- Shashi Kiran Shetty** Not that should not idle more than three-four days in a month.
- Jatin Chokshi** In a month so that is what around idle is 26-27 days in a month if the vessel plowing then it is a good indicator.
- Shashi Kiran Shetty** And also if you get a return load most times then the economics change.
- Pritesh Chheda** Do you have a clue on the total tonnes that you handle or ship or you can give us a market share that you have in the business.

Shashi Kiran Shetty We will get back to you on that.

Moderator Thank you. The next question is from the line of Vipul Shah from Network Stock Broking. Please go ahead.

Vipul Shah Sir with the fall in the crude price the shipping cost is fallen so how it will affect our LCL business margin?

Shashi Kiran Shetty Not really we do not foresee any major impact on that.

Vipul Shah Because I guess we have a better bargaining power with our customers so do we pass all the fall in the shipping cost to the customers?

Shashi Kiran Shetty No, not necessary, it is a dynamics of the market.

Moderator Thank you. The next question is from the line of Sushil Chowksey from Rosy Blue Securities. Please go ahead.

Sushil Chowskey Hi, Shashi congratulation on the order of the Leopold from the Belgium government.

Shashi Kiran Shetty Thank you, Sushil.

Sushil Chowskey Second thing is you highlighted the utilization on container freight division but can you highlight where are we on import-export breakup?

Shashi Kiran Shetty The import-export breakup is roughly still about 80% import 20% export.

Sushil Chowskey And are you seeing a better trends in import on our last quarter basis or last six month post the election compare to EXIM or you think the ratio remains the same?

Shashi Kiran Shetty Slight improvement is there on the import because that is where our focus is and we have been able to get new customers and wallet shares on the existing customers. We are also now trying to get more business from some of the end users who are our customer in the other segments of the business. So there is an integrated play what is coming in because now we do not just have the CFS people marketing CFS business we have over 400 sales people around the country and all of them have a different targets to sell other businesses in other verticals so there is a business coming from multiple dimensions for all our different verticals.

- Sushil Chowskey** My other question was based on your import-export and the utilization. Can you through a light how is JNPT, how is Chennai and Mundra faring in terms of capacity utilization compare to the other competitors located in the area? What is the utilization in the area going right now?
- Shashi Kiran Shetty** In JNPT if you recall we had built a new facility which had a capacity of close to 200,000 TEUs which came into operation in October 2012 and then obviously we all know that the markets have gone for a toss so that facility did struggle a bit and today that facility is already handling much larger volume cross over 5,000 TEUs from 0 and now our average utilization in JNPT is about 68% combining both the facilities so that is very good. We are very happy about that. And Mundra currently is 54% but we do a lot of export here and export takes quite a lot of space in the facility and Mundra is not a big import market because the import comes from Mundra they normally railed out Northern India. So the local deliveries from Mundra is limited so CFS import volumes are normally much lower in terms of percentage compare to JNPT and Chennai so because of that the capacity utilization in Mundra is about 54% but it has gone up from 43% last year to 54%. Chennai used to be 60% now has already gone up to 64%.
- Sushil Chowskey** I was just reading that Adani Ports have tied up with some big shipping lines to get container cargo in to their port for their port utilization.
- Shashi Kiran Shetty** Yes.
- Sushil Chowskey** By any chance that will have positive impact on our Mundra port facilities.
- Shashi Kiran Shetty** Yes definitely, it will definitely have a good impact on Mundra.
- Sushil Chowskey** Okay. Now you highlighted a lot on coastal shipping as I understand maybe I am right or wrong our ships are versatile to do all kind of business whether it is bulk or container. So is it that one way we take bulk and on a way back we move containers let's say that you are doing from Gujarat to Vallarpadam or Cochin or somewhere and now with new port facility coming there and India trying to take some market share from Colombo which I do not know whether it is possible or not but we can manage the business in two ways that you take bulk from Hazira, you take plastic cargo to South or cement and get containers back towards North or something like that.

- Shashi Kiran Shetty** We have only four so two can carry containers and two can cannot carry containers. But also the one which carry containers from Mundra to Cochin they have to bring the empty containers back, correct.
- Sushil Chowskey** Okay. So then it is not possible?
- Shashi Kiran Shetty** It is possible but we could only load limited number of containers so that is something we are looking at that is why we recently entered into the container trade. Container trade we entered just two months ago so we are a baby there but we want to be a boy very quickly.
- Sushil Chowskey** There is normal saying in the industry that if you want transport steel or any of the bulk material from Bombay to Pune or maybe somewhere in South Gujarat to Pune or the coastal area of 300 kilometers the freight from Bombay to Dubai is even cheaper to import rather than transport logistic. So when you move into your coastal shipping are you visualizing that logistics is a main thing after energy as production and “Make in India” concept comes and this vision will have a great support for this division?
- Shashi Kiran Shetty** I am. Mr. Modi want to set up more industries in the coastal area. So that should definitely help bringing down the logistic cost for the country and great opportunity for people like us. I am sure they are thinking in the same lines.
- Sushil Chowskey** And based on your assumption that you may not buy ships and take on charter with the current trend on the global shipping I think charter maybe a very lucrative business but do you see this division as a significant contributor in terms of profit maybe not on investments because of service company orientation which we have?
- Shashi Kiran Shetty** Over a period of time most important of thing for us is to have more and more volume moving into the ocean. The traction is still not there as much as we would have liked to but slowly it is happening. I guess we are trying to position very strongly for that opportunity. We are very hopeful that this division should do well but we are not only focusing on that. We have a good management team. They are dedicated. They eat, sleep, and dream about this business and it is not taking too much of our management time but we continue to look at many opportunities that are there allocate time as per the opportunity and reviewing and managing the business.
- Sushil Chowskey** My question on your project cargo and equipment division – last 12 to 18 months or maybe 24 months were very challenging because of asset utilization, or industry or

CAPEX in infrastructure being neglected or virtually halt. Early signs that within six to eight you may see an uptick. We may have bagged good contracts at Reliance Jamnagar and various places but based on the current situation and many small players I think a consolidation and opportunity was available a lot of people have had problems. One is asset utilization and second thing is opportunity on margin growth because of availability of asset being poor at a later date. Can you visualize some positivity for shareholders in terms of margin and utilization going at a much better rate than what is being indicated in the result?

Shashi Kiran Shetty I think you rightly said that a lot of the small-to-medium companies in our business have really take a big beating. A lot of people have gone through financial restructuring, defaults and all sort of things so for any new acquisition it is going to be very difficult for the small and medium operators to get jumping and running. If we decide, we have the management bandwidth, the reputation, and the financial position to invest, if there is equipment which is strategically very important for us to acquire and we also have our global network to bring crane from other parts of the world. There may be opportunities for us to take few equipments on lease so we look at being a combination of asset light and asset heavy balance that out basically. Right now we are asset heavy to some extent but how we can make a better balance is something that we are thinking about.

Sushil Chowskey You may say that we are asset heavy but I understand that cranes generally do not have a negative in terms of asset value, they always appreciate over a period time.

Shashi Kiran Shetty That is a beauty of this.

Sushil Chowskey Yes, so now if that is a positive answer from that side if we have to revalue these assets or indicative price of the assets which we own today on a historical basis can you throw a light?

Shashi Kiran Shetty These equipments are a little bit like real estate, when the markets are down because there is no buyers so then there is no price but when the market revives then these is the huge demand for these equipments, they rather appreciate because we bought also at a time when the equipments were very cheap in the European market because of the financial crises there and Europe was at Rs. 60 or Rs. 62 when we bought these equipments and of course now the Euro is some down but you can probably sell it in dollar term. So you would make money on the currency appreciation and also we bought these equipments much cheaper. And again currently also new equipments

you have a good bargaining power with the manufacturer especially in China so those are some of the advantages that we see.

Sushil Chowskey Going to your MTO business you highlighted that your top-line was lost because of currency translations from Euro to Rupee but did you have any margin impact because it is just a pass through where volumes are concerns the margins had no impact.

Shashi Kiran Shetty This is notional no?

Sushil Chowskey Yes, I understand that is the reason I am asking specifically.

Shashi Kiran Shetty Yes, the one of reasons is that and the other reason is that we had acquired this company in Q3 2013 and consolidated that and this time round we have taken only the Q3 revenue so there is a difference of almost about \$50 -\$60 million euro which was excess in the Q3 of 2013 versus Q3 2014.

Sushil Chowskey But because we have taken now one more company FCL Marine if I am not mistaken in US

Shashi Kiran Shetty No, FCL Marine only I am talking about. FLC Marine acquired in Q3 2013.

Jatin Chokshi But Sushil that was acquired effective January hence, we have to consolidated entire 2014 revenue in the last quarter of the last year that is the reason the impact but the other US acquisition we acquired from the September 2013 only so it was matching with the quarter.

Sushil Chowskey What is am trying to get at that we have dollar euro revenue but all are loans in Euro so your profits insulated against the Euro loan what you have to repay over a period time maybe out of your cash flow when you get 2% loans cheaper what I am saying are we insulated that is a basic question I am asking.

Jatin Chokshi We are already insulated. We have taken various measures including as and when opportunity or certain loans to be converted from dollar to euro earlier itself and we have taken a lot of measures also in terms of renegotiating with the bank and we have the natural hedge in terms of swapping the revenues Econocaribe into US versus the ECU in Euros so we are taking all measures.

- Sushil Chowskey** Are you sensing that euro has weakened against the dollar or global currencies which is helping Europe to make export drive and especially Germany as what you focus that European may have a lower margin but volumes may go through the roof.
- Shashi Kiran Shetty** Yes, means I think definitely European volume will grow because of the euro got devalued that will have a benefit for us. European margins are currently under pressure but the destination the cargo goes to the same office so they make a good money there at the destination. And on the currency side we have some dollar loan some, we have some euro loan and there is some hedge that also we have taken. Last what I have been told is that we have gained through some of the currency play and we are not gambling but on a pure hedge position if we unlock we will make some money today but we are not doing all that but what I am saying is we are well-protected.
- Moderator** Thank you. The next question is from the line of Jinit Mehta from B&K Securities. Please go ahead.
- Jinit Mehta** Sir earlier on the call you mentioned P&E business being probably say two quarters away from peak margins. Sir just wanted to harp on that a bit further sir. How far are we from the peak I mean are we 10% lower right now, if you could throw some light on that?
- Shashi Kiran Shetty** The margins are bound to increase. With the capacity utilization and due to the full capacity utilization the rental income is likely to go up in the coming quarters the margin will automatically increase.
- Jinit Mehta** Sir that I understand but from the current level and from the peak how far are we? Are we 10% or 15% below the peak? Are the current level is 10% to 15% below peak?
- Shashi Kiran Shetty** I would say about 10% to 15%. It could be higher but I think on outer side 10% to 15% is a good guesstimate.
- Moderator** Thank you. Ladies and gentlemen that was our last question I would now like to hand the floor over to Mr. Pankaj Karde for closing comments.
- Pankaj Karde** Thank you all for participating in this Conference Call organized by Systematix Shares & Stocks India Limited. I would like to thank the management for giving us an opportunity to host this call. That was the end of the call. Thank you.

*Allcargo Logistics Limited
February 13, 2015*

Shashi Kiran Shetty Thank you very much.

Jatin Chokshi Thank you very much.

Moderator Thank you. On behalf of Systematix Shares & Stocks that concludes this conference.
Thank you for joining us and you may disconnect your lines.