



“Allcargo Logistics Q5 & 15M FY12 Results Call”

May 31, 2012

Moderator Ladies and gentlemen good day and welcome to the Allcargo Logistics Q5 & 15M FY12 Results Call hosted by IDFC Securities 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 phone. Please note that this conference is being recorded. At this time I would like to hand the conference call over to Ms. Bhoomika Nair of IDFC Securities. Thank you and over to you, ma'am.

Bhoomika Nair Good afternoon everyone and welcome to Allcargo Logistics Q5 FY12 Earnings Call. The management is being represented by Mr. Suryanarayan – Director Finance. I would now like to hand over the call to the management for their initial remarks and post that we will open up the floor for Q&A. Over to you sir.

S. Suryanarayan Thank you. Good afternoon everyone. Thank you for joining us on the call. I have my team, Savli who is heading our Investor Relations and my Vice-President, Finance, Nitin and then rest of my colleagues.

I will do a brief summary on our results and then an update on each of our business operations, after that we will take the questions. I hope all of you have received our results by now. For those who haven't, you can read them along with our presentation on the website.

Before we move on to the results I would like to talk about demerger plan that we announced last quarter. The committee that was constituted by the Board to evaluate this proposal is still working on it and yet to come to a decision. Once they do that, we will keep you posted. I am also happy to inform that we have won the case of 80-IA that was in the tribunal but we are yet awaiting the final written orders from the department but at least now this contingent liability would go off unless the department goes in appeal.

As you are aware we have also changed the accounting year from calendar to fiscal so the results are for the 15 months ended 31st March, 2012. The comparison that I will be now talking going forward would be on an annualized basis. The total revenues were up by 20% year-on-year by Rs. 43 billion. The EBITDA increased by 54% to Rs. 5.7 billion while the margin increased nearly by 300 basis points to 13% mainly due to a lot of rationalization both at the cost front and at the selling levels. The PAT was at approximately Rs. 2.9 billion up 37%.

Moving on to our businesses starting with our CFS operations we are amongst the Top 2 CFS operators at JNPT and Chennai and amongst the Top 5 at Mundra. Our total capacity as you all know is 341,000 TEUs with a capacity utilization as high as almost about 85% at JNPT in the first quarter but in the second quarter it is looking good where in one of the months we have achieved more than 100% of our capacity. Going forward I think this quarter should be holding well on our CFS business.

The total capacity at our ICDs is at about 88,000 TEUs per annum. We are at about PBT break even at our Pitampur ICD and at Dadri we are very quickly approaching the PBT positive very quickly. The business achieved a revenue of 3.4 billion a year-on-year increase of about 35%. The EBITDA was at about Rs. 1.8 billion up by 35% while the margins were maintained roughly at about 52%. EBIT was at Rs. 1.6 billion a year-on-year increase of about 35%. I am also happy to inform that the new CFS at JNPT which would have an additional capacity of about 100,000 TEUs should be operational by 2nd week of July, this year.

Moving on to our multimodal transport operations as you are aware we are a leading player in the global LCL consolidation business. The total volumes increased by about 16% year-on-year despite a slow down in global trade. This is largely due to our unique business model making it resilient to recession and its effect on global trade. This segment generated a total revenue of almost about Rs. 31 billion up by about 12%.

And finally our project and engineering solutions business our fleet size increased year-on-year by about 35% to about 933 equipments. This year we invested in purchase of trailers, axles, cranes and reach stackers. Our order book is robust and expanding. The total order book is over 300 crores for the next 12 to 18 months. The total revenues here were about 31% to about Rs. 4.9 billion. EBITDA has increased by 48% to Rs. 1.6 billion while the margin expanded by nearly 4% from about 30% from the previous year. The EBIT was Rs. 1 billion an increase of 17%.

To summarize and reflect our business performance in the numbers have been in line with our expectations. Going forward our focus across all our business continues to be on growth in both revenues and profits. India is on a strong growth even though there is a slow down in some of the areas, at least for us we are seeing a little bit of growth and at least in some of the key areas that we have chosen we have seen growth and we believe even if India were to slow down at 6% or 5½% that the Government is talking about would still see enough traction for us to move along in the sectors that we are focusing on. We have emerged as a partner of choice for our customers due to our ability to offer complete end-to-end solutions in the logistics space. Thank you so much. Now we can take the questions.

Moderator

Thank you sir. Participants we will begin the question and answer session. Our first question is from the line of Chetan Kapoor from IDBI Capital. Please go ahead.

Chetan Kapoor

Good afternoon sir. Thank you for taking my question. My first question is regarding the improvement in the EBITDA margins what we have seen in the ECU Line business. Apparently there has been a substantial improvement during the quarter. Can you give some color on it?

S. Suryanarayan

Of course. One of the reasons why you would be seeing a EBITDA growth and margin growth is because of an adjustment at the EBITDA level by about 18 crores because of an accounting effect but at the net level after depreciation of the same the effect is only about 4 crores for the full year. So to that extent if you adjust the 18 crores to that level there will be a little bit of drop in the margins but having said that if I were to tell you at an Euro to Euro

level even before the adjustments were made that EBITDA would still be growing at about 4 to 5% as compared to the quarter of the previous year and this is mainly driven by on the back of the volume growth that is happening.

- Chetan Kapoor** Okay so, what would be your final EBITDA margins currently?
- S. Suryanarayan** Knock of that 18 crores also, you can do the arithmetic.
- Chetan Kapoor** And the other thing is, can you share with us the volumes what you did in Pitampur and Dadri this time?
- S. Suryanarayan** Chetan, I will share it with you. Don't worry. I will give you the numbers.
- Chetan Kapoor** Right. And finally getting to the CFS part of it, have we seen any slow down coming in the month of May post this tariff issue which has come at the JNPT?
- S. Suryanarayan** I can tell you that there was a bit of slow down for us in January and February. March we were back almost to normal. We were a bit affected for three or four days because of the port strike that we had but we have seen a strong rebound in April and as I am speaking to you, May is also more or less on the same level as of April. At this point of time we are not seeing anything of a slow down. In fact we are back to where we were prior to the slow down in January and February.
- Chetan Kapoor** Okay sir and finally what would be our loan outstanding?
- S. Suryanarayan** At a gross level if you were to look at consolidated level we would be roughly about 760 crores.
- Chetan Kapoor** Okay. That's it from my side. Thank you.
- S. Suryanarayan** Right.
- Moderator** And second question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta** Thanks for taking the question. Just wanted to know how are the dwell times? Are you seeing some kind of impact on dwell time, the way the rupee is behaving?
- S. Suryanarayan** If you were to look at the dwell time say at JNPT on average of the previous quarter we were roughly at about 12.87. In this quarter we are at about 12.33 with an exit dwell time of about 11.7 at JNPT. If you were to take it at Chennai from 12.33 it is moved to 12.67 back with an exit of about 10.7 in the last month.
- Avi Mehta** Sir in terms of looking at Chennai we have seen that volumes have actually, is that a traffic congestion issue that is backing volumes or what is playing out there, sir?

- S. Suryanarayan** It is a combination. But in spite of the traffic congestion issue which is for everybody else it is all of us, who have to compete in that situation but having said that we have still done well at Chennai and we are growing there.
- Avi Mehta** Okay fair enough sir.. The margins have improved drastically, I mean, is that to do with dwell times because it doesn't show there, is it because of the mix and how is the mix behaving now?
- S. Suryanarayan** It would be a combination. It is a combination of operations that we are doing. I cannot say it is doing well because of one particular reason but it is a combination of all them that you have mentioned.
- Avi Mehta** Okay sir and how is the mix, I mean, how is the import volumes doing now in the CFS? Are you seeing some kind of impact there or there is no impact that you feel as of now for April and May?
- S. Suryanarayan** For April and May, all are holding are as per our original mix in JNPT.
- Avi Mehta** Okay so no issues there. And just wanted to understand, is there a plan for CAPEX finalized for FY13 and what is the kind of CAPEX that you are intending to do?
- S. Suryanarayan** Earlier we were looking at about 200 to 250 crores of CAPEX for the calendar year 2012 but apart from the big ones which is the JNPT II that would start by end June or 2nd week of July I don't see too much of CAPEX happening.
- Avi Mehta** Not in the project engineering or the warehousing or the shipping businesses?
- S. Suryanarayan** For warehousing more or less the CAPEX has already been put into play. They are coming on stream so in that sense I don't see something happening because these are all, even though those warehouses that we are putting up. They are all coming up on the back of orders. So I don't see too much of an impact. If an order is there then automatically those warehouses are being built on back of those orders.
- Avi Mehta** Okay per say, I mean next year would not be a CAPEX intensive year like how it was over this FY12 or 15M?
- S. Suryanarayan** That is only because we were adding equipments in the past year. We would continue to add those equipments if we see that there is a strong order book and especially in the projects where we need those specialized axles and other things where currently those were all utilized at 100% in each of those projects that we have. So when you have to do those heavy lifts you require those type of equipments. If today we hadn't had those equipments our margins would have shrunk like anything. So it is these equipments, what is sustaining us to take it forward. So those types of investments where it is necessary, required in those projects we will continue to look at them. When we do get it we will only do it on the back of a strong order book.

- Avi Mehta** And sir lastly if you see at the 300 crores order book that you said, is it primarily in project engineering or is it largely in equipments? Could you give the mixed asset?
- S. Suryanarayan** It is a combination of that. The only point that we were stressing when we gave that number is that we have an order book visibility even though people are talking about a slow down in the infrastructure space. The point that I was only trying to make is, in spite of all of this slow down, our order book at this point of time is robust, is holding and even if there was to be such a slow down in any of these sectors, we would still have about 12 to 18 months where we could ride it off and then obviously do what we have to do later on.
- Avi Mehta** Okay sir. And lastly the de-merger, when is that Board meeting or when is that decision likely? I missed that part of the speech.
- S. Suryanarayan** The point that I was trying to say, was in the last quarter the Board put a committee to look at the various ways of the demerger that could happen. So that committee is still looking into it so my purpose was just to give you all an update that this is still under consideration by the Committee of the Board and once they come up with their proposals, obviously all of you will get to know about it.
- Avi Mehta** Okay sir. Thanks a lot sir.
- Bhoomika Nair** Sir, first of all, in the CFS business we have seen actually margins falling off in the current quarter, both at JNPT and Chennai. Obviously a part of it has got to do with dwell time, but just wanted to understand, how the competitive scenario is, given that volumes in both the ports are now stagnating.
- S. Suryanarayan** See, if you were to ask me that where we are looking at ourselves, in spite of all the competitive scenario, in spite of throughputs falling in the ports we are still holding strong. How this will ultimately play out, what it will do is a little bit difficult for me to give you a crystal ball view but if I were to look at what is happening in the trends of April, what is happening in the month of May as we are closing today, we are still holding. In fact this quarter our CFS should do much-much better than what we did in the first quarter of this calendar year. So I think in that sense, it is a bit difficult because we have seen the throughputs going through our CFSs seems to be holding but I can answer you only from that perspective rather than answer you in any other way.
- Bhoomika Nair** Sir in this particular quarter while we have the volume numbers but could we get the revenue per TEU and EBITDA per TEU for all the three facilities?
- S. Suryanarayan** Yeah I will ask Savli to send it across to you, Bhoomika. No problem.
- Bhoomika Nair** Okay. No problem. The other thing is - if I could just also get the ECU Line numbers in Euro terms for the quarter?

- S. Suryanarayan** That also she will send across to you but just briefly even if I had not done that accounting effect of that transaction on an Euro basis, as I mentioned in the call, on a year-to-year basis ,I think, at Euro level because without the currency impact we have about 4% growth at the EBITDA number.
- Bhoomika Nair** Okay. If I look at your volumes obviously on a Y-o-Y basis we have seen a 4 to 5% kind of volume growth. Sequentially it seems to have come off quite sharply. I mean if I look at it for the last three quarters we were doing above 60,000 TEUs on a quarterly basis and this quarter we have done about 58,000 TEUs. What is the reason for this kind of a slippage in the quarter?
- S. Suryanarayan** Even if we look at it back in the first quarter because to compare in the first quarter of the ECU Line business vis-à-vis the fourth quarter of the previous calendar year where these two quarters are not comparable in the sense because you have a Chinese New Year, so to that extent the first quarter is always a weaker performance for us and you are comparing that with the strong performance of January what you call the last quarter. Especially that quarter is quite a strong performing quarter if you were to look at the trends always so if you were looking at about 60,000 CBM TEUs versus about 58,000 TEUs, it is not so much of an impact for us. Yes but the market is competitive. We are in a very highly competitive market. That is the reality but we are still doing well and I think we are still growing and that itself is something quiet commendable for us.
- Bhoomika Nair** Okay. And if we standalone in India MTO business the margins seem to have come off a little bit. On an absolute EBIT level, kind of come down a little bit, any reason for this?
- S. Suryanarayan** It is a competitive business. At sometimes there are certain things you have to do to retain volumes but at an overall level if I were to look at it as a network business I would not be too much worried.
- Bhoomika Nair** Okay and lastly on the project engineering business if I could just get a split between what was the revenues and the EBITDA for the Project Logistics and the actual equipment leasing business?
- S. Suryanarayan** Savli will send you the details.
- Moderator** Sure. Our next question is from the line of Saurabh Arya from Bajaj Allianz. Please go ahead.
- Saurabh Arya** Hi sir. I just want to ask in this Project Engineering Business we have done a top-line of 126 crores this year this quarter, right? But what is the run rate which can be expected in next couple of quarters? Would it be on the similar line or we might see some jump?
- S. Suryanarayan** To some extent there could be a little bit of lumpiness but otherwise I think more or less we would be holding to this type of a number.
- Saurabh Arya** Okay but this is, why I was saying is because the order book is 300 crores which you were saying it for 12-18 months. On that logic we have an order book of only six months.

- S. Suryanarayan** But we are bidding for other orders also, which are coming in. It is a continuous flow that will happen. Yes you are right. In the project movement because there are milestones. There are a few things that would happen but I think we would be able to achieve what we have set ourselves as targets. .
- Saurabh Arya** Second thing is we have seen a decline in interest cost in the consolidated numbers? Have we paid of any debt or how exactly it is?
- S. Suryanarayan** If you remember in the last quarter because of the accounting standard, just to give you a little bit of background all my foreign currency borrowings are fully hedged, because of the accounting standards AS11 and AS16 I had to take a notional hit in the last quarter so that was almost about 9 crores hit that I had to take which in reality I don't have to pay but that's why as per the standards, we had to do it in that manner whereas that full impact in this quarter is hardly anything on that Mark-to-Market basis. It is just about 30 lakhs. Therefore that impact is not felt as much as that's where you see the drop in the interest cost. Because in that quarter I have taken the hit so in the subsequent quarters we will not have that much of an Mark-to-Market hit.
- Saurabh Arya** So that means, adjusted for that, there is an increase in the interest cost. So what is the quantum of it which has increased in these three months?
- S. Suryanarayan** But we are also paying off debt. In fact we are accelerating some of our repayments that we do and most of my Indian debt is in the region of 8.5 to 9.5% even in today's circumstances and my foreign currency borrowing which is abroad is roughly about 2.75 to 3%. So I think we are not too much worried at the debt level. At a net debt-to-equity level we are about 0.38 so I don't think this causes too much of a worry.
- Saurabh Arya** But next year as you have said right now there would not be any CAPEX so debt should reduce only?
- S. Suryanarayan** As I pay off the debt it would be at the same level. You are right.
- Saurabh Arya** Okay and in terms of ECU Line margins we have been seeing improvement in the past. Can there be further improvement also.
- S. Suryanarayan** Yes those are continuously being challenged. We are looking at every way to improve those margins. I think we will still come out well on that level. And I think there is enough scope. We are looking at it. We are trying to do many initiatives around it. I think some of them will succeed. It is just a question of time. I think it will come in. I think we have enough. We are looking at saving between 100 to 150 basis points. I think there is enough scope there. It is all how we should look, how should we do? Those are something that we are continuously challenging and looking at how to do it.
- Saurabh Arya** Okay very lastly on the CFS side, majorly on the JNPT. Now we have increased our capacity and we are not seeing any increase in the volumes at the JNPT Port. Gateway is also there.

Punjab Conware fully operational now. So don't you think margins would decline in terms of increase in competition and then may be offering certain discounts?

S. Suryanarayan This is a bit hypothetical at this point of time because it is already a competitive market.

Saurabh Arya Competitions will increase, sir, practically?

S. Suryanarayan Here we have about 21 – 22 players but yet we are at about 100% capacity whereas few of our competitors are at a much lesser capacity utilization levels. So this is the game that will continue to happen and it all depends on how we do it, where all we should concentrate, that is something that every company will look at it and see how it's position doesn't get eroded? So I think this is something that we are all aware, continue to work at and I think we will do well on this.

Saurabh Arya Okay surely and you have said that earlier target was to increase capacity from nearly Rs. 1.44 to nearly 3 lakhs in capacity. Right now we will stop at this 1 lakh expansion and will not go ahead or we will still.....

S. Suryanarayan We have enough room there to take it beyond 100,000 but at the first phase level we have left it at 100,000 and once such throughput starts coming in then we will go ahead into the next phase.

Saurabh Arya Okay and on the CAPEX side there won't be anything unless some orders come in the project division?

S. Suryanarayan Yes. Project and equipment division. That's why even in the first quarter of this year we have added only about 5 cranes into the block as against rapid expansion that we did in 2009 and in 2010.

Saurabh Arya Sure. Thank you very much for answering my question.

Moderator Our next question from the line of Chetan Kapoor from IDBI Capital. Please go ahead.

Chetan Kapoor Sir just a follow up question. Just could you share with us any volume growth guidance that you can give for your ECU Line business?

S. Suryanarayan Actually we have set up a target of 10 to 11% growth. I think we will achieve it. As I talked to all our operating teams across the globe, all of them are quite confident. I think if I were to put it like this I think we should be in a position to do about 10 to 11%.

Chetan Kapoor And in case of CFS?

S. Suryanarayan Now CFS and all is a function of the capacity that we are in and you will have to wait for a month or so when the next quarter numbers will come through. But as it is developing for us we should continue to grow.

Chetan Kapoor Right sir. That's it from my side.

Bhoomika Nair Sir I just had one follow up question. Sir for this full year as you said there was some FOREX losses and gains. What was it for the current quarter, exactly the FOREX gains or loss that we booked in the interest expense?

S. Suryanarayan See there was no FOREX loss here. What had happened, in fact I forgot to mention, the mark-to-market today if I were to cancel all my foreign currency hedges on my loans that I have taken, it would be something like roughly about 37 to 40 crores. That is the mark-to-market positive that the company is sitting on. Because we are fully hedged, from an economic point of view, we have not got affected when the rupee moved from say about from 46.55 what so we have averaged to the current Rs. 56. So in that sense as a company, as a group we have not left any of our foreign currency loans open. The only point is the way the accounting standards 11 and 15 have been framed is quite different from accounting standards 31 which talks about accounting for hedged transactions. Because we were following standards 11 and 15 we booked a notional interest in the last quarter. That is how you see the extra 9 crores of interest impact that had happened and when you compare it on a quarter-to-quarter basis you are seeing a dip as against 16 or 17 crores of interest in the previous quarter as against 8 crores that has hit us in this quarter.

Bhoomika Nair Okay so last quarter there was a 9 crores notional FOREX loss.

S. Suryanarayan Not loss. It was a MTM, that as per the existence of the currency movement just to give you an example. If I had got a \$100 loan and if the currency was fully booked at say 46 and in the last quarter if the rupee had closed at 50 we took a notional Rs. 4 hit both on the interest side. So that is why now there is no more notional loss there. As so the loans are getting paid of this 4 will actually start getting reversed. So in the year we start paying off these loans you will start seeing the interest start coming back into the P&L.

Bhoomika Nair Correct. So that is the 9 crores notional impact.

S. Suryanarayan Yes it is just a notional impact. In the last quarter we had given this note to that effect in our disclosure.

Bhoomika Nair Correct. And in this quarter there has not been either a positive or negative impact?

S. Suryanarayan What has happened is that because the rupee stayed where it is so their marginal impact and as I have also paid off some of the loans the next impact has been just about 30 lakhs or so.

Bhoomika Nair Okay and sir what is our gross standalone debt?

S. Suryanarayan The gross standalone debt would be roughly about 546 crores.

Bhoomika Nair 546 crores and on a consolidated basis it is 760 crores.

S. Suryanarayan Yes about 760 crores.

Bhoomika Nair And any cash on books?

S. Suryanarayan There is lot of cash on books. Roughly there is about 100 crores in the standalone books and in the ECU Line we would be roughly about ₹12 to 15 million.

Bhoomika Nair Okay. That's about it from my side.

S. Suryanarayan Thank you.

Moderator We have a follow up question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta 760 crores debt what is the foreign component if I may get?

S. Suryanarayan It is 546 minus 750, roughly about 114 to 120 crores.

Avi Mehta Okay sir. That's it. Thank you.

Moderator Next question from the line of Chetan Kapoor from IDBI. Please go ahead.

Chetan Kapoor The question on Hindustan Cargo, how is the performance this quarter?

S. Suryanarayan This quarter has been more or less flat as compared to the trailing quarter this year. It is more or less at the same level that we spoke about last quarter.

Chetan Kapoor Okay. On the PAT basis this is like.

S. Suryanarayan It will grow. It should do better as compared to the previous year. We have put certain plans into motion but the numbers would be still too insignificant to push at our consolidated levels.

Chetan Kapoor Okay I understand. Thank you.

Moderator Thank you sir. Participants as there are no further questions I would like to hand the conference over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair Thank you everyone for taking time to participate on the call, especially the management. Thank you very much.

S. Suryanarayan Thank you very much. Thank you all for being on the call.

Moderator On behalf of IDFC Securities that concludes this conference, Thank you for joining us. You may now disconnect your lines.