



# "Allcargo Logistics Limited Q2FY13 Conference Call"

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**Moderator:** Ladies and gentlemen, good day and welcome to the Allcargo Logistics Q2 FY13 Earnings Conference Call, hosted by Nirmal Bang Institutional Equities. As a reminder, for the duration of this conference, all participant 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 this conference call, please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Jignesh Kamani, of Nirmal Bang. Thank you and over to you Sir.

**Jignesh Kamani:** Thank you. Good afternoon everyone. On behalf of Nirmal Bang Equities, I welcome you all to the conference call of Allcargo Logistics. We have with us Mr. S. Suryanarayanan, Director-Finance & CEO of ECU Line and Ms. Savli Mangle, VP Finance & IR. I request management to make initial comments on the Q2 results and some idea about current business environment following which we will start with question and answer. Over to you Sir.

**S. Suryanarayanan:** Good afternoon. I am S. Suryanarayanan. 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 businesses. After that we will take the questions.

I think all of you would have received our results by now. For those who have not, you can view them along with the presentation on our website. Before we discuss the results, I would like to give you an update on some of the corporate developments.

With reference to the buyback, the company has completed around 65% of the buyback. The number of equity shares have decreased to 12.7 Crore shares from 13 Crore shares, a decrease of around 3%. On the matter of the NVOCC demerger, we have already announced to the stock exchange that we are not going ahead with the demerger proposal. I would also like to inform that I have been elevated to a much broader role at Allcargo. Now, I will also be responsible for the ECU Line business as a joint CEO.

Moving to our results, for the Quarter Ended September 30, our consolidated total revenues were up 28% year-on-year at Rs.1,049 Crore, the other income of Rs.35 Crore includes an exchange gain arising from unwinding of certain hedged positions on some of our loans. The EBITDA grew at 26% year-on-year to Rs.142 Crore. Even if I were to remove the exchange gain that has come in into the EBITDA, the EBITDA still has grown by about 2% on a year-on-year basis. The EBITDA margin has been maintained at about 14%. The interest for the quarter was Rs.3 Crore as against 17 Crore for the corresponding previous period, quite a substantial decrease year-on-year. This has mainly on account of certain notional interest costs that we had provided & were debited to the P&L; which now have been reversed due to the change in the accounting standards.

The PAT is about 59 Crore, a year-on-year increase of about 6%. This quarter our consolidated capital employed has also decreased. During the quarter and also in the first half, no new cranes

were added; however, certain trailers have been added based on demand from certain ports. They have also purchased about 16 hydraulic axles to cater to our projects division and to execute the projects currently on ground.

Our capex plan for the year continues to be conservative and we will only invest if and when we see demand and if we have, very, very firm orders on hand; however, for the movement, we have put a freeze on the expansion in the crane equipment. The networth as on September 30 is at about Rs.1,560 Crore. The total debt at a consolidated level is about Rs.816 Crore. The cash on hand on the India balance sheet is roughly at about Rs.151 Crore and overall cash in the ECU business is another Rs.159 Crore or so.

Moving to our businesses, starting with our CFS operations, we are amongst the top two CFS operators in JNPT and Chennai, and amongst the top three at Mundra. Our total installed capacity at CFS now stands at 4,41,000 TEUs per annum with a new CFS at JNPT that just started operations from mid October. We expect in this coming quarter that the volumes at all our CFSs will be more or less similar to Q2, and we will see traction only happening from the fourth quarter onwards. The total volumes of all our CFSs put together for the quarter, declined 9% year-on-year to 56,920 TUEs. The EBIT was at Rs.30 Crore, with margin at about 40%.

Moving on to our multi-modal transport operations, we are amongst the leading players in the global LCL consolidation business. As you know, our unique business model where we focus primarily on the LCL consolidation makes us resilient to recession and its effect on global trade. The volumes have grown at 3% on a year-on-year basis despite slowdown in the global trade. This segment generated total revenue of Rs.830 Crore, a year-on-year increase of roughly about 30%. The EBIT was about Rs.57 Crore, with a year-on-year increase of about 57%.

Finally, our Project & Engineering Solution business. Our fleet size stood at over 1000 equipment. As mentioned earlier, this quarter we added about 41 trailers and 16 hydraulic axles. The total revenue was at about Rs.122 Crore. The earnings before interest and tax were at Rs.23 Crore, a decline of about 1% on year-on-year basis. We had about 20% of our crane equipment idle on an average during this quarter. We expect this to continue even in the next quarter and we will only see a pickup around the fourth quarter.

To summarize and reflect, across all our businesses, we will continue to focus on growth and look at our cost of operations to ensure that we deliver on an efficient basis. We are looking at to see how to enhance the assets that are lying idle in the equipment fleet that we have there. We are quite bullish and positive on the India story. Yes, to some extent there has been a deceleration in the last quarter and maybe we will see it still continuing into the next quarter, but we are hopeful that everything should move around in the fourth quarter. We can now take questions.

**Moderator:**

Thank you very much Sir. Ladies and gentlemen, we will now begin with the questions and answer session. Our first question is from Himanshu Nayar of Quant Broking. Please go ahead

- Himanshu Nayar:** Good afternoon Sir. Thanks for taking my question. Sir, firstly as you said that some part of this other income of Rs.35 Crore was on account of unwinding of forex. So, could you just quantify that if possible?
- S. Suryanarayanan:** It is roughly about the total gain on that because it was based on certain loans taken on certain assets. The amount involved is roughly about Rs.29 Crore.
- Himanshu Nayar:** Sir, just following up on this, I believe, we have seen this jump in ECU line margin, EBIT margin from about 5% last quarter to 7%. I think most of this would be on account of this other income, right?
- S. Suryanarayanan:** There is no other income in the ECU line side of the business. This other income is coming more on the India balance sheet than on the ECU balance sheet.
- Himanshu Nayar:** Sir, then what is basically the margin driver for ECU line in this quarter from 5% to about 7% this time?
- S. Suryanarayanan:** Overall, what is happening is there are number of steps that we have taken over a period of time. It is not that I can lay my hand on one particular thing that would give you an answer, but there are multiple steps that have been taken to enhance our efficiencies. There is some cost rationalization, some operation rationalization occurring in some of our hubs there, it is all this sort of actions that have worked across the globe and is leading to this. I cannot put a finger and then say because of this, or this has lead to this, but it is overall effect that has happened across the network.
- Himanshu Nayar:** Secondly, on the depreciation number, which has jumped up to Rs.45 Crore from Rs.28 last quarter and Rs.22 last year? What has been the driver behind that?
- S. Suryanarayanan:** Some of these were ofcourse the full time effect of some of the assets being added into the fleet, which are now coming in on a full year basis is where some effect has happened on that. Then the second is the timing of their capitalization in which it happened, which is driving the higher depreciation and beyond this I am not too much worried about the depreciation side of it.
- Himanshu Nayar:** So going forward can we take this run rate, atleast for the next few quarters?
- S. Suryanarayanan:** It will only run into the next quarter after that I think it more or less stay. It would not run at this rate continuously.
- Himanshu Nayar:** Sir, lastly I mean if there is any reason for you to change your guidance on both topline and bottomline seeing the slow scenario as of now in the CFS business especially?
- S. Suryanarayanan:** From a profitable perspective if you look at it, our LCL businesses have really withstood and then they have powered the growth in this particular quarter if you can look at the businesses. I think for us we have been quite fortunate enough that we have a slew of businesses, that if

somewhere, something is going wrong there is something else that is taking us forward. So if I were to look at it that way, yes, there has been a slow down in our India part of the business especially in our CFS and our P&E part of the business but I think this will all slowly come back and then for us hopefully ECU line would continue to perform well for the rest of the coming quarter and going forward.

**Himanshu Nayar:** That is all from my side I will get back in to the queue if I have anything else. Thanks.

**Moderator:** Thank you very much. Our next question is from Chetan Kapoor of IDBI Capital. Please go ahead.

**Chetan Kapoor:** Good afternoon. My question is regarding is your reduction in the interest cost. Can you just throw some light on that?

**S. Suryanarayanan:** I can only explain to you by way of an example then you will better understand what exactly has happened. When you have a foreign exchange loan against which you have bought an asset. As the exchange rate keeps moving up or down, the amount that goes into that capital from that amount, there is a notional interest that come and hits my P&L. Now the Ministry of Corporate Affairs has said that the notional interest need not be provided for. So that is where now the reversal has happened. More so what has happened is, we were still providing this notional interest even on our fully hedged loans. So, when all of those loans are now getting paid off, those notional interests are also now getting coming back into the P&L.

**Chetan Kapoor:** So, it is more or less like, post this, we will getting back to the normal?

**S. Suryanarayanan:** But what is happening yes more or less it will come back post this quarter it should sort of normalize into the next quarter onwards. Because this is the one time effect that has happened but over a period of time as this will happen the quarters will start getting rationalized.

**Chetan Kapoor:** Just a while back you had stated that a depreciation cost would be tapering off in the coming quarters any particular reason for that?

**S. Suryanarayanan:** What I meant was because there was a timing difference in the capitalization of the equipment. So some of them come up there but may be in the next quarter, we will have another where the depreciation would be more or less slightly lower than this but after that the runrate should be at that level.

**Chetan Kapoor:** Sir, lastly I just want to have a view on the volumes front in the ECU line business. What is your take on the volumes? What kind of an improvement are we expecting in the coming quarters in that?

**S. Suryanarayanan:** As I am speaking to you, October has been a good month. The first 10 days or 12 days of the week of November has also been a good one for us. So, from a volume perspective, I think we will see the type of traction that I have been talking to you between 4% and 10% or so, is where I

see it happening but more than the volumes what is also happening is it also sometimes depends which way the flows are all happening between the export and the import within the network. And the intra Asia growth story for us continues to hold good and all of these are where we are able to generate the type of numbers that we have been able to generate even though Europe is to some extent been affected that is how we see it, but there is a lot of growth that we see between Asia, Latin America, we see a lot of Intra Asia growth that was happening, a lot of trade that is happening between China and Japan, so we are able to see an element of growth in some of these tradelanes and that is where we have been able to come to these numbers that we are delivering.

- Chetan Kapoor:** That is it from my side for the time being. Thank you.
- Moderator:** Thank you. Our next question is from Rajesh Kumar Ravi of Karvy Stock Broking. Please go ahead.
- Rajesh Kumar Ravi:** Good afternoon Sir. Why has the dwell time gone up in JNPT and Chennai CFS on sequential basis?
- S. Suryanarayanan:** If Dwell time has not gone up, and if there was a decrease in volume our results would have been further hit.
- Rajesh Kumar Ravi:** Sorry sir I did not get you.
- S. Suryanarayanan:** I said if the dwell time had not gone up and with decrease in our volumes, we would have a double whammy. The very fact that our dwell time went up even though the volumes went down is where we have been able to recover some element of the volume drop.
- Rajesh Kumar Ravi:** I was asking what is the reason behind this rise and this is a like seasonal rise in the dwell time in the September quarter or there is some other changes which have lead to rise in dwell time?
- S. Suryanarayanan:** These are all things that move. There are months when the dwell time is down, sometimes there are months when the dwell time has moved up. I think ,this, we just have to take it at an average level and then move it. For your modeling purposes I think as long as you are holding it to about 10 to 11 days at that time I think that would be enough.
- Rajesh Kumar Ravi:** Sir as you said lower interest cost in the quarter is on account of rewinding provisions that you had made earlier so what is that amount of forex loans that we have on books?
- S. Suryanarayanan:** The total amount of foreign currency loans would be roughly about in Dollar terms would be somewhere in the region of about \$75 million.
- Rajesh Kumar Ravi:** What is the interest cost on the same?
- S. Suryanarayanan:** At a LIBOR level they would be at LIBOR plus around 150 basis point.

- Rajesh Kumar Ravi:** Okay so LIBOR plus 150?
- S. Suryanarayanan:** Correct.
- Rajesh Kumar Ravi:** So is it because they are on the books of ECU line and that is way you are getting at such a low price because generally if company is from India, the premium is around 400 to 500 base.
- S. Suryanarayanan:** These are on the India Book.
- Rajesh Kumar Ravi:** The other loans that we have what is the average interest cost that we have?
- S. Suryanarayanan:** Where I have fully hedged the loan then they would be in the region of about 8.5%. If it is unhedged it would at about less than LIBOR plus 150 basis points and my overseas loan would be at an all in cost of about 3%.
- Rajesh Kumar Ravi:** So when you are saying hedged this \$75 million loan book out of this only you have a hedged position, right?
- S. Suryanarayanan:** I have about \$45 million would be hedged.
- Rajesh Kumar Ravi:** This is where you are saying is at 8%?
- S. Suryanarayanan:** Correct.
- Rajesh Kumar Ravi:** Seeing this capital employed data that you share this unallocated corporate net assets in the consolidated and standalone the numbers are much lower. The unallocated assets are around Rs400 Crore in the consol books as against Rs770 Crore in the standalone so where this classification getting absorbed in the consol books in that particular segment?
- S. Suryanarayanan:** The consol level is where we get certain inter-segment eliminations happenning when you are doing consolidation, some of them would be sitting in subsidiaries books. I think if you speak to Savli, she will be able to give you a break down of where and what it is.
- Rajesh Kumar Ravi:** Overall you are saying that the business even in December quarter would be as muted as in the CFS and the project equipment as it was in Q2?
- S. Suryanarayanan:** I think that is the way I would do it. As we are seeing this I do not want to raise the expectation in the fourth quarter.
- Rajesh Kumar Ravi:** Coming to the MTO business, the margins as you said have improved due to gradual improvements that have happened over the course of time or we are doing it close to 6.9% this quarter, EBIT margins. So, can we factor in these levels of 7%-odd of EBIT margins going forward or was it like from June quarter we had 5.4% of EBIT margins and now this quarter 6.9.

So this sharp improvement in June quarters to September quarter is this structural change, which should continue, or there were some adjustment, which could be seen going forward?

**S. Suryanarayanan:** I think what you should do is you work it between 5.75% and 6% margin for your modeling purposes. You take it like this but sometimes what is happening is when you do a quarter on quarter basis margin movements it is a bit difficult for me also to tell what is happening. Because in some quarter if the business flows are moving in one way, I might be able to get it at to one level though at a overall average level it happens other way. I think you take it at about 6% on a full year basis.

**Rajesh Kumar Ravi:** Sir just two last question on the MTO. What are the new investments that we are making where we could see revenue growth drivers for the business and the second what would be your total Capex amount for all the three segments?

**S. Suryanarayanan:** MTO business at this point of time we are not looking at any investments unless the strategic ones come across.

**Rajesh Kumar Ravi:** So, what sort of revenue guidance can we factor in for the MTO business?

**S. Suryanarayanan:** On an average, if we are growing at about 10% in the half-year you factor in roughly about that amount.

**Rajesh Kumar Ravi:** What is your total capex guidance for full year?

**S. Suryanarayanan:** Not much. Whatever we have already done is what it is. JNPT-2 is what we have finished and beyond that there would be hardly any capex.

**Rajesh Kumar Ravi:** So any particular number that you want to share with us?

**S. Suryanarayanan:** Not that I do not want to give you a number. But because I do not see any capex in front of me not able to tell you in this point of time.

**Rajesh Kumar Ravi:** That is all from my side. I will get back in queue if I have more questions. Thank you.

**Moderator:** Thank you very much. Our next question is from Saiprasad Prabhu of Nirmal Bang. Please go ahead.

**Saiprasad Prabhu:** Sir, can you just quantify the gross interest for this quarter?

**S. Suryanarayanan:** About Rs.12 Crore.

**Saiprasad Prabhu:** Thank you. That is all from me.



- Moderator:** Thank you very much. Our next question is from Saurabh Arya of Bajaj Allianz Life Insurance. Please go ahead.
- Saurabh Arya:** I have a question on this standalone number. If I see the EBIT margin in standalone that is quite down but if I see the individual segment it seems that the gains you are talking about in other income that has been considered in different segments, is it the case?
- Surya Narayanan:** Sorry the last part I couldn't hear you?
- Saurabh Arya:** If I see the standalone profit and loss statement, EBIT margin it has gone down a lot but if I see the different segments for PBIT which we provide on the standalone it doesn't seem to be reflecting the picture, the gain we are talking about has it been considered in different segments?
- S. Suryanarayanan:** But an overall level also it should come in the same matter and the standalone segment also it would have been reported.
- Saurabh Arya:** I am going by the release only.
- S. Suryanarayanan:** But what was been released to the stock exchange.
- Saurabh Arya:** No whatever has come from IR?
- S. Suryanarayanan:** Let me just have a look at it because immediately I am not able to recollect.
- Saurabh Arya:** It is written includes realized gain so that is what I want to know?
- S. Suryanarayanan:** In that segment, yes because it pertains to certain assets in that segment, we have put it into that segment.
- Saurabh Arya:** But to get the clear picture of those segments one will need to exclude these. So, can you give me those numbers?
- S. Suryanarayanan:** I gave a gross figure to somebody earlier in the call.
- Saurabh Arya:** Sir, but I am saying is for individual segments how those segments start doing, because right now if I add up the EBIT of these segment it turns out to be Rs.55 Crore but actually it includes 30 Crore of gain what you are talking about. So, I want to see that excluding those gains. Can I get that?
- S. Suryanarayanan:** You eliminate 29 Crore from that.
- Saurabh Arya:** But there two segments how much?
- S. Suryanarayanan:** You take it in the Project and Engineering segment.

- Saurabh Arya:** But the comment says that it is both for CFS and Project and Engineering.
- S. Suryanarayanan:** On that side, it was very negligible.
- Saurabh Arya:** Majorly it is Project and Engineering.
- S. Suryanarayanan:** On the CFS side is very negligible. On the Project and Engineering you take it.
- Saurabh Arya:** Thank you.
- Moderator:** Thank you very much. Our next question is from Avi Mehta of IIFL. Please go ahead.
- Avi Mehta:** Thanks Sir for taking my question. Congratulations on a good set of numbers. Just two questions one on the CFS. Just wanted to understand how exactly I mean the new capacity has come in October? Could you give some update there? Are you seeing realization that at the same level or are you seeing volume growth?
- S. Suryanarayanan:** It has just started Avi. It will take some time and even with some of our existing CFSs where the volumes are still muted it would be too early for me to give you some sort of guidance on this thing. I think will have to really wait for another two three months to really run before it starts stabilizing where I can tell you from here there is a base to which to run on because it has just now started.
- Avi Mehta:** Sorry I missed this one but the discussion with NVOCC EBIT. You highlighted that it will double from here on; right? do you think that number is some one offs?
- S. Suryanarayanan:** There is no one offs. It is all pure business. There is no one offs in that.
- Avi Mehta:** That is all I wanted to know. Thanks a lot.
- Moderator:** Thank you very much. Our next question is from Sai Prasad Prabhu from Nirmal Bang Equities. Please go ahead.
- Saiprasad Prabhu:** Just a follow up question. What is the exact money incurred on that 100,000 TEU capacity at JNPT? Can you just quantify that?
- S. Suryanarayanan:** I think it is about Rs129 Crore.
- Saiprasad Prabhu:** My second question on a broader perspective do you have any reasons for lower CFS volumes at all the three ports quarter-on-quarter like it has declined for this quarter so do you see any major drawback or fall?
- S. Suryanarayanan:** I am not seeing a fall as such. If you look at our port volumes, yes there have been more or less flat in Chennai and Mundra. There has been a very small volume small growth in JNPT and then

if you were to take a sort of a surrogate of that into our business, you will see that, yes we have had degrowth. The main business of course was in JNPT and that is where you will see the growth has been a little lower than where normally we would have been growing quarter-on-quarter. This is the first time I think we have degrown in this particular CFS.

**Saiprasad Prabhu:** Sir, like few sources told me that there are some union problems at JNPT. Do you have any comments on that as such?

**S. Suryanarayanan:** That has not effect to this.

**Saiprasad Prabhu:** Sir and there was a storm in the Southern Port like Chennai and all were closed down, I think for 15 days or so I do not know if they have started?

**S. Suryanarayanan:** But that will all come in into this quarter.

**Saiprasad Prabhu:** I am talking about Q3 only so you expect any slowdown?

**S. Suryanarayanan:** That is why what I said was you sort of take it at the same muted level that we have performed in the Q2 of our CFS business.

**Saiprasad Prabhu:** But has the port started fully?

**S. Suryanarayanan:** I immediately do not know that. Some repair work and all happening but I do not have an immediate reaction to you on that.

**Saiprasad Prabhu:** Thank you. That is all from me.

**Moderator:** Thank you. Our next question is from Abhishek Ghosh of B&K Securities. Please go ahead.

**Abhishek Ghosh:** Thank you so much Sir for taking my question. Most of my questions have been answered. Just one thing, I was just wondering that the diesel price hike that was taken in on September 2012, has that anyhow impacted our margins in the CFS segment or are we taking any kind of price hike to offset that?

**S. Suryanarayanan:** I think to quite a large extent those are all being passed on to the customers.

**Abhishek Ghosh:** So we are not having any impact of that?

**S. Suryanarayanan:** Unless there is a timing issue but otherwise I do not see it as an concern.

**Abhishek Ghosh:** Thank you so much.

**Moderator:** Thank you. Our next question is from Saurabh Arya of Bajaj Allianz Life Insurance. Please go ahead.

- Saurabh Arya:** I have follow-up in that question itself, if we remove this gain from Project and Engineering segment actually the segment has made losses, right?
- S. Suryanarayanan:** Yes, after depreciation yes.
- Saurabh Arya:** But till last quarter we were saying the order book is good in the Rs.300 Crore, so similar runrate might come in?
- S. Suryanarayanan:** In those Rs300 Crore of order book. It will also depend on how the timing of the execution of the order book is happening. So to that extent in this segment, there could be certain ups and downs vis-à-vis the flow and the timing of revenue and the booking of the cost. It is not uniform across the particular quarter that it would run because sometimes certain project executions are taking place at a point in time so their cost will keep coming in at a point in time so the revenue and the cost though they are being matched sometimes the effect could also be a little bit up and down movements also.
- Savli Mangle:** See typically Saurabh what happens in project logistics is when you are talking about heavy lift transportation capabilities, you are talking about transportation of OWC & over dimensional cargo, you are billing or you are invoicing when you reach particular milestone but you are already incurring cost until it reaches from point A to point B.
- S. Suryanarayanan:** Also what happens is in some of our projects where we have to have barge movement then during the monsoon time you do not do those movements because then you wait for the rivers to abate and other things and then they start moving into the next quarter. So, to that extent there would be movements of what you call a timing difference. But having said that the purpose of me telling that where I felt that some of our equipments were not being fully utilized and that is where some of our cranes in which the bulk of our assets are actually lying in that segment about 20% of our cranes were lying idle during the quarter so that is where the some of the impact has happened in the business, which you will see may be continuing for this quarter and then thereafter it should pick up.
- Saurabh Arya:** For the full year we still expect it to deliver like last year in the kind of order book we have?
- S. Suryanarayanan:** It will depend on how the crane segment that starts picking up.
- Saurabh Arya:** But what kind of order book we have, if you can be able to give us clarity?
- S. Suryanarayanan:** Immediately, I will not be able give. Let us wait for one more quarter after that it will all get much better.
- Saurabh Arya:** But actually the kind of changes, these are from positive to negative margins, that is quite surprising actually and if we see the runrate of last six quarter it has been delivering quite a good margin?

- S. Suryanarayanan:** I would not worry too much on the margin side. I am not too much concerned on the margin side, but we would be more concerned on the asset utilization and I think if that were to come back I think this would be resolved.
- Saurabh Arya:** Every quarter we give the order book numbers you will be like to give it again?
- S. Suryanarayanan:** I think the order book is more or less in our project side of the business. We still continue to have about Rs.120 Crore of orderbook and then on our crane segment apart from this 20% of the idle thing the others are continuing to be deployed in their values.
- Saurabh Arya:** Thank you Sir.
- Moderator:** Thank you very much. As there are no further questions from the participants I would now like to hand the floor back to Mr. Jignesh Kamani of Nirmal Bang. Over to your Sir.
- Jignesh Kamani:** I would like to thanks management of Allcargo, Mr. Suryanarayanan and Ms. Savli for taking time out of their busy schedule and sharing vital information about the company. I would like to thank the participants for participating in the conference call. Thanks a lot and all the best for coming quarters Sir.
- Moderator:** Ladies and gentlemen, on behalf of Nirmal Bang Institutional Equities that concludes this conference. Thank you for joining us. You may now discontinue your lines.