

Transcript

**“Allcargo Logistics Ltd  
Q2 FY15 Results Conference Call”**



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Presentation Session

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**MODERATOR:** **MR. VIRAL SHAH – ANALYST - SBICAP SECURITIES LTD**

**Operator:** Ladies and gentlemen, good day and welcome to the Allcargo Logistics Q2 FY15 Results Conference Call hosted by SBICap Securities. As a reminder, all participants' lines will be in the listen-only mode. 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. Viral Shah of SBICap Securities. Thank you and over to you, Mr. Shah.

**Viral Shah:** Hello, friends. Good afternoon, everyone. I welcome all the participants for the First Half FY15 Results Earnings Call of Allcargo Logistics. We have with us Mr. Shashi Kiran Shetty, Chairman and Managing Director of Allcargo Logistics; and Mr. Suryanarayan Director, Finance and Executive Director, ECU LINE. We would commence the call with the opening remarks from Mr. Shashi Kiran Shetty on the company results, strategy and outlook.

**Shashi Kiran Shetty:** Good afternoon, everyone. Thank you for joining us on the call. By the way, I am Shashi Kiran Shetty. I hope all of you have received our results and gone through the quarterly financials by now. For those who haven't, you can review them along with our presentation on the website. I am very happy to share that we have continued to grow across all our lines of business in this quarter as well which has been in line with our expectations. Our consolidated total revenue for the quarter stood at 1,476 crore – Y-o-Y growth of 36%. Our consolidated EBIDTA for the quarter was 132 crore – Y-o-Y growth of 31%. We are well on target to achieve our goal for this year to reach EBIDTA of 500 crore for the full year. And the PAT is at 64 crore, a Y-o-Y growth of 51%. Moving to our businesses, starting with the MTO operations, the volume has grown over 40% Y-o-Y. Asia continues to dominate the pipe in terms of volume mix and we have seen intra-Asia movement continue to grow. We have also seen volumes growth in Europe, out of Europe, US somewhere in double digits. We have also seen significant growth in our full container load business. As regards to our CFS business, you can see from the numbers, we have grown 14% Y-o-Y. There has been a growth in volume even sequentially as well. This has come mainly from the wallet share of our existing customers and adding some new additional customers into the sales pipeline. So we would expect the volume to grow in the coming quarters as well.

In project and engineering business, we have grown in revenue and profits. In this business, we do have a strong order book and have started to see some active movements in the project transportation on the ground. The asset utilization has also started to go up. We are expecting by the middle of this month the capacity utilization should be going upwards of 90% from where it was a few quarters at 70-72% or so. Even though the pickup has been slow, this might continue in most part of the year. I'm pretty confident that in the coming year, this business will only show an upward trend with the buoyancy in the economy and the policies likely to be announced by the government for more investments in the infrastructure particularly in the power and many other infrastructure support services. For a consolidated basis, I'm very happy to say that our focus across all businesses continues to be on the growth in terms of volumes and revenue. We continue to focus on improved asset utilization which is leading to a higher ROCE. As mentioned in our past interactions, our Capex continues to be conservative and even in this quarter, our Capex was mainly on maintenance. At the balance sheet level, we have brought down our debt and our current net debt to equity now stands at 0.32 as compared to 0.39 as on March 2014.

To summarize and reflect, across all our businesses, we will continue to focus on growth in both revenues and profits and in asset utilization. Across each of our business, we will continue to focus on creating value to our customers; we will leverage our global network to consolidate our leadership; we will also focus on key markets such as US, China, Brazil and Germany in the coming years as we have a significant headroom to grow in these markets. In India, we will continue our focus on increasing our market share in CFS & ICD and P&E business and also look at scaling up our 3PL warehousing and shipping business. Particularly on the 3PL which we want to re-designate it as a contract logistic business and we have significant plans to grow in this area through organic and inorganic roots. And also, we are also considering in moving into other emerging businesses in the space of logistics such as the cold chain, etc. As a strategy, we have very clearly drawn out strategy for us to take us to the next level in all

our individual business's units and also at the vertical level which is being very closely pursued and we are also in the process of adding new additional talent and bandwidth of management to manage this scale which we want to achieve in the next few years. Thank you very much for joining on this call and now we will take all the questions. And we go to Mr. Suri.

**S. Suryanarayanan:** We can now take the questions because the earnings and everything is with them. We are ready to take the questions.

**Operator:** Certainly, sir. Ladies and gentlemen, we will now begin the Q&A session. The first question is from the line of Arush Goyal from New Vernon Capital. Please go ahead.

**Arush Goyal:** Hi. Good evening, sir. This is Arush Goyal from New Vernon. Congratulations on your results.

**S. Suryanarayanan:** Thank you.

**Arush Goyal:** I just had a couple of questions. If I can ask them all at once, that will be helpful. But I can get back in the queue as well. Anyway, the first question is on the MTO. You reported very impressive volume growth. But how much of this is actually coming from the acquisition and how much of this is the standalone business that you had prior to acquisition? Could breakdown the growth of 43%? What would the numbers look like?

**Shashi Kiran Shetty:** If you were to take out the acquisition, we would still be growing at about 10% on a volume basis and at EBITDA level, we would be growing at about 5% after removing the acquisitions both in euro terms and in absolute terms. Let us also keep one point in mind. That is growth in a new business can come only when you have a global network and these acquisitions will have to factor in because USA was one of very important markets for us where we had no presence and now having that presence which influenced most of the markets where are otherwise been present. That's why we are saying that USA has been our focus in the last few quarters and we are doing all the necessary steps to gain a higher market share in this very important market.

**Arush Goyal:** Okay. Point taken. My next question is still regarding the MTO segment. This system would be looking forward. Do you expect volume growth to sustain at this level or is it coming up on a higher base? If not, would you be able to guide us as to what steady state volume growth would be like in the next couple of years?

**Suryanarayanan:** I think the volume growth will continue at this level and we are not seeing a slack in the volume growth and we will continue to do what it is there to do to take the business forward. We have a plan; we have a strategy in place and yes, it's a competitive market. But in spite of that, we have continued to grow. Even if you look at our sequential growth on a Q-o-Q basis, we are growing and we are seeing that volume growth being there. It's not that it will disappear off the cliff but it will continue to happen. Otherwise, one cannot expect to get a number like 40%. Going forward, the number would be somewhere in single digit or maybe double digit. But the focus is also not only on LCL business going forward. In the MTO business, we have put a lot of focus in the last few quarters also on developing full container load

business and full container load business as you know is 92% of the global of shipping volume. And there is significant headroom for us to grow in most part of the world. So now, strategy is very clear to offer similar services to a lot of our existing customers who use these services from our competitors and from the carriers themselves. So there is good headroom for us to grow in that business as well.

**Arush Goyal:** And on the margin profile, were you disappointed this quarter with the margins or is it the normal?

**Shashi Kiran Shetty:** Yes, we would have been a little more happy if the margin were to be a little better because the margin pressure is there for sure because of the condition in which the shipping business is at the moment globally. The rates are at the lowest because of the old capacity and our margin is always the arbitrage on the buying and selling. Obviously, we do a lot of value add. The freight rates are high. Our margins generally tend to be high. The freight rate goes down, the margin goes slightly down as well and that is one of the reasons why the margins are slightly under pressure. But that is something which will get compensated as we grow more volume, better box utilization and better procurement, etc. So we would definitely have been happy if the margins were slightly more.

**Arush Goyal:** But from what you are saying is that this is more or less, the function of freight rate?

**Shashi Kiran Shetty:** Yes, that's right.

**Arush Goyal:** So do you expect freight rates to improve going forward over the next two to three years?

**Shashi Kiran Shetty:** Two to three years, yes. But I don't see this changing immediately.

**Arush Goyal:** Alright. So the next part would be on the CFS business. Volumes again were good but I think margins were a little bit of a disappointment given that there was about a 700 basis point drop. Could you explain why this has happened and do you expect this to continue?

**Shashi Kiran Shetty:** The main reason for the margin pressure on this is mainly because of the lower dwell time. Because the business has not really substantially picked up overall, the containers are getting cleared little faster and also because both JNPT and Chennai ports are encountering lot of congestion. So the containers are not really coming out of the port very quickly which means the consignees are getting extra time to clear their documents. So when the containers reach the CFS, the containers start getting cleared faster. So that's one of the main factors for this...

**Arush Goyal:** So, is the turn-around time at port a simple logic? In that sense, the CFS business is seeing business?

**Shashi Kiran Shetty:** No, in the CFS, they are moving out faster but from the port they are not moving out faster. Because of the congestion, there is an extra time that is taken for the vehicle to bring the containers out and take the export containers into the port. So all these are leading to some extra cost. Also, there has been some settlement with the union labour. We have signed an agreement for the next three years and there is a one-time cost on the labour charge which has also contributed to some extent.

- Arush Goyal:** Do you expect this to pick-up because even in Q1 they were actually lower than they usually are? I think this business is lower with 30% EBIT margin. These two quarters persisted. Do you expect this to continue for the next six months?
- Shashi Kiran Shetty:** Yes, we don't see any significant increase in the margin but we definitely see a significant increase in the volume. And we have a lot of capacity created in the last two years. Big investments have been made in this business, and capacity utilization will lead to a higher overall profitability irrespective of the dwell time or irrespective of the congestion.
- Arush Goyal:** Okay. Lastly, on the project and engineering. This business has seen very, very impressive growth. What is the asset utilization on your cranes and all the equipment that All Cargo has. I missed that in the introduction, sorry.
- Suryanarayanan:** The asset utilization has slowly started improving and this is where we see it. And I think as our Chairman earlier stated from the second half of this month the utilization will start climbing up and I think we have room here and as it starts moving both on two segments, both on our project cargo movement and also in our equipment side, I think we have the traction here and plus we also have these assets for a longer term. For long-terms contracts, we have put these assets in so that we are sort of insulated from the movement of asset utilization. So going forward, I think the numbers would look only better and the utilization will become better.
- Arush Goyal:** What is the current utilization of the asset? Would you be able to give that?
- Shashi Kiran Shetty:** The current utilization would be roughly between 80 to 83%.
- Arush Goyal:** 80 to 83%? Wow! So then why the ROCs and margins are lower?
- Suryanarayanan:** But the ROC will be always where it is. If you look at it from a written perspective as I have been explaining over so many previous calls, 6<sup>th</sup> year onward it will be in the same level. And thereafter only is where it will happen because our investments have just happened. The bulk of our investments came in 2010, some came in 2010, some came in 2011 and 2012 and then we had the setback in the Indian economy and now it's picking up because this asset we still don't have the completely free assets and then the new assets. So as the cycle goes over a period of time, that's when the return on the capital employed will in through.
- Shashi Kiran Shetty:** I think the way we see it, the project and equipment business... We all know that this is a little asset heavy business and it therefore becomes a little cyclical. Right? So we had two barriers because the Indian economy unexpectedly changing to negativity? Now we see the whole sentiment and the mood in the country is towards growth and compliment. At this point in time, as we speak our capacity utilization is going by the middle of this month, it's going to be upwards of 90%.

And for the next five to ten years, at least another three, four years, we see the results significant demand for these equipment's. Although the capacity utilization is going up to 90%, the rates have not really increased from the original level. There has been a competition, so the rate realization per ton is still lower than what it was in 2009-10 and even 2011. So as the capacity utilization is getting better, nobody is investing on the newer assets at the moment. So what we say that in this industry when the demand really goes up, we are in a position to get a far better realization for your assets in terms of monthly rental. That is one part.

The other part is as the investment climate changes, projects start getting executed. There is going to be significant demand for the project movement. And there also, the margins are currently not that good as what it used to be and that also has been substantially changed because in the last two, three years nobody has invested on any additional asset which is something very important to be kept in mind. So there will be a huge demand for these services going forward.

On the coastal shipping business which is also a part of this division, we have a lot more customers who have signed up, and the utilization of the assets is going to be at a much better way both in terms of utilization and in terms of the rate realization. We are expecting that to change in the coming quarter. So we are quite hopeful that this division would contribute significantly going forward. These are all basic perceptions. Things may change again but that's how the organization feels today.

**Arush Goyal:**

Okay. Just a couple of more questions on the business. From a macro standpoint, you have said that you are not seeing much improvement in Capex for infrastructure companies. Do you think that the situation can improve? And if so, what is going to be the trigger to kind of have the infrastructure boom come back? What are the corporates waiting for in order to find the infrastructure spending good?

**Shashi Kiran Shetty:**

We are not the right people to answer that question but the question is I think that the work is being done at the ground level. Right? I guess they are all wanting to eagerly move forward. So we are all also waiting and hoping. And the major kick for the company overall although it's not a relevant answer to your question, the GST roll-out which is the other kicker that will happen to the logistics industry, the domestic transportation and distribution and warehousing management. So we are hoping that even the GST gets rolled out next year. We are already starting to think how do we position our organization in terms of our branding, in terms of our investment in land, the significance of land investment around the country which has been all done keeping in mind the GST roll-out, keeping in mind the growth on the make India which will lead to more exports and more imports to build the ICDs our logistics parks. So there are a lot of such things which should be exciting in the common years.

**Shashi Kiran Shetty:**

Most importantly, we have these assets on the balance sheet.

**Shashi Kiran Shetty:**

The lands are acquired. They are all clear. The land which we acquired at the cost of 75 crores today is market value is about 175 crores. There are significant other lands which have not really been deployed but they all have given us a better appreciation. We don't have to go through the pain of land acquisition.

- Suryanarayanan:** At the book level, they are all being reflected at the cost basis but in the real terms we are sitting on these assets and as the opportunities come we are in a better position to make use of the opportunities.
- Arush Goyal:** Great to hear that, sir. I promise this as my last question. Utilization of these assets again, if you already expect to be 92 at the end of, you know... Let's say, infrastructure does pick up, do you expect more Capex in order to magnify your demand?
- Shashi Kiran Shetty:** First of all, we will do pick and choose of where we want to deploy these assets and we also want to have partners with few other companies whose assets we can exclusively use before we commit to any Capex.
- Arush Goyal:** Okay, alright. Thank you very much for your time.
- Operator:** Thank you. The next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.
- Pritesh Chheda:** Thank you for the opportunity. Shifting from the previous discussion, the projects and engineering solution is the segment where we have the rental business. Is that correct?
- Shashi Kiran Shetty:** Yes.
- Pritesh Chheda:** First of all, on the yields front, what are the yields of these assets currently and how do they differ from the peak yields? Second question is, when you hinted at utilization improvement and better utilization currently, is it that there is demand for these assets picking up in the market and if it is so which are the pockets which are asking or demanding for these assets?
- Shashi Kiran Shetty:** The demands are mainly coming from the windmill sector and some of the cranes are deployed in Reliance Jamnagar.
- Pritesh Chheda:** Okay. What are the yields currently on these assets, monthly yields?
- Shashi Kiran Shetty:** That differs from capacities and the type of cranes and locations etc. It is very difficult to give you a yield indication.
- Pritesh Chheda:** But can you give a blended yield on your capital employed in these assets?
- Suryanarayanan:** We'll get back to you, because we have not done working on a blended basis to arrive at a number.
- Pritesh Chheda:** Okay. Can you just hint that in the capital employed of Rs 800 crores how much is deployed in these assets and how much of it shipping assets?
- Shashi Kiran Shetty:** No, shipping assets would be roughly about 62 to 70 crores, and on the...
- Shashi Kiran Shetty:** Let's just say about 150 crores.

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**Pritesh Chheda:** Sorry?

**Shashi Kiran Shetty:** 100 crore on projects, about 65 crore on ships. And balance is on the other assets. 637 crores on cranes and trailers and those things.

**Pritesh Chheda:** So about 600 crores of cranes and trailers?

**Shashi Kiran Shetty:** Yes.

**Pritesh Chheda:** Okay, okay. Thank you, and all the best.

**Operator:** Thank you. Next question is from the line of Pranchal Sanghvi from SBICap Securities. Please go ahead.

**Pranchal Sanghvi:** Thank you for taking my questions. I wanted to know what are the key drivers for the MTO and...

**Pranchal Sanghvi:** Congratulations on a good set of numbers.

**Shashi Kiran Shetty:** Thank you.

**Pranchal Sanghvi:** I wanted to know what are the key grow drivers for the MTO and the FCL business.

**Shashi Kiran Shetty:** Yes, the main growth driver is the new markets and a greater focus on growing the volume on both LCL and FCL front. It's a new frontier and new greater focus on volume growth, yes.

**Pranchal Sanghvi:** Okay. On this CFS business, is that the exports or the imports that are driving more volumes? Can you throw some light on that?

**Shashi Kiran Shetty:** It is both, it is both.

**Pranchal Sanghvi:** Can you throw some numbers?

**Suryanarayanan:** Numbers is difficult to give you right now.

**Suryanarayanan:** Yes, you can contact Savli Mangle and then she will be able to give you the numbers.

**Pranchal Sanghvi:** Okay. And, sir, lastly, do you have any acquisition plans going forward?

**Shashi Kiran Shetty:** We are always very actively looking at the market. There's nothing to share at the moment, but one never knows. We'll let you know once we have something to announce.

**Pranchal Sanghvi:** Okay. Thank you. That's all from my side.

**Shashi Kiran Shetty:** Thank you.



- Operator:** Thank you. Next question is from the line of Sushil Chowksey from Rosy Blue Securities. Please go ahead.
- Sushil Chowskey:** Hi Shashi, Suri, congratulations on very good numbers.
- Shashi Kiran Shetty:** Thank you.
- Sushil Chowskey:** My question is I heard you on the media interaction, and you did sound something related to e-commerce.
- Shashi Kiran Shetty:** Right.
- Sushil Chowskey:** Of late, the market is too excited by e-commerce. So based on what the current environment is, Flipkarts and Snapdeals and various other things, I know that most of these guys who import goods must be using our CFS facility or warehouses in some form directly or indirectly. Are we looking at because we have so much of space available not only at existing centers land bank in Bangalore, Nagpur, and various other locations, Delhi, Indore, Goa. How are we capitalizing on this emerging space assuming next five years?
- Shashi Kiran Shetty:** Sushil, all I can tell you is that we as a company have never ignored any opportunity in the logistic sector, first of all, to communicate that... have written that very clearly, right? So we cannot ignore the emerging businesses, and we are very mindful of that. It's very easy for me to say yes, we are looking into it, but we are also an organization with a lot of maturity to say yes, we are getting into this or getting into that. All I can say is that it's definitely on our drawing board and it's definitely something that we cannot ignore. And there is definitely something I can share that we will definitely look into this segment more closely. And our focus as an organization also is to always look at real value creation. And we always look at making profit. Okay, short term it may not be profitable but our strategy is always very simple and clear that at the end of the day, it has to make sense. We are a long-term player in the market, we are a reputed organization, and we will do everything to protect our shareholders' interest, current and future. And we will always do what is best for the business.
- Sushil Chowskey:** Shashi, just to clarify, my question was more pertaining to not trucking of these number of packages or leading to end-to-end customers' relation. My question was more pertaining to warehousing or our cargo division which is handling a lot of... because these people use a lot of city-to-city transport logistic services, and we can be on specialty on that nature because our connectivity is with this companies on a global nature. So I'm looking at more from a competitive scenario to whether it's a Bluedart or FedEx kind of a situation. But I'm not looking at an individual parcel level, I'm looking at wholesale segment.
- Shashi Kiran Shetty:** No, absolutely, you're bang on. Our expertise is more on end-to-end management. Our expertise is more on scientifically how we can deliver goods in time and how we can reduce cost to the end user. And that's what our ray of expertise is. Our expertise is not so much on the domestic transportation. This is the pieces where we can assemble a whole lot of vendors. And we have expertise in managing vendors. So a comprehensive plan is something what we would look at. And we have enough assets in the company already which can be put to use for all emerging opportunities.

- Sushil Chowskey:** I mean, you also highlighted something about supply chain management where food and frozen logistics are concerned.
- Shashi Kiran Shetty:** Yes.
- Sushil Chowskey:** Can you throw some light? I understand you are more on a study note right now, or looking at some kind of opportunity, whenever you sense it, can you highlight what kind of thinking process is that?
- Shashi Kiran Shetty:** Again, this is a very important business in our space. We have examples of how the market has looked at these kind of businesses. Obviously the market sees that as a huge opportunity. And we need to convert these opportunities into reality. So we are in the process of identifying how and when we should enter this market. We are mindful of the fact that the vegetables and the fruits, almost 60-70% of them get wasted due to poor infrastructure and poor quality of transportation. But there are red tapes and there are organized mafias who operate. So to tackle all these things need probably more time. But there is a lot of imported food products which are coming into the country and which are growing significantly. And this has those food-based facilities which may be required for handling and managing these kind of merchandize. So all those things we will look at comprehensively. And we always said growth has been through inorganic and organic modes. And we are looking at every possible opportunity. Like I said, we are adding more bandwidth in the organization to look at and deeply engage with these opportunities and get what... do what best we could.
- Sushil Chowskey:** So is it... I can understand that global change which are coming to India and who need QSR supports from existing players who are specialists in the local field and you connect with from a global arena to touch point on India support.
- Shashi Kiran Shetty:** Yes, alliance is another strategy for us, yes.
- Sushil Chowskey:** Okay. Now, going back to our bread-and-butter business which has done amazingly well on a global level basis, my first question is CFS margins have stabilized at the level where we are right now. Is it anything to do with import/export cargo in terms of containers? The inbound containers, as India economy picks up, inbound cargoes will pick up much more than... make it in India for exports will take a little time. So once we see import volumes, do you think your margins will be much superior compared to today where the revenue mix might be a little off compared to the past in import/export volumes?
- Shashi Kiran Shetty:** Yes, definitely, because the costs are fixed, and the investments are already made. So any extra volume which we expect in the import business, that's our focus also. Margins have acutely improved.
- Sushil Chowskey:** Can you highlight or differentiate what are the kind of margins we achieved typically on import or export or you would like to avoid because of our competitors?
- Shashi Kiran Shetty:** Yes, I think we'll pass that one.

**Sushil Chowskey:** Okay. Thanks a lot, Shashi.

**Shashi Kiran Shetty:** Thank you.

**Operator:** Thank you. Next question is from the line of Yash Agarwal from Crest Ventures Limited. Please go ahead.

**Yash Agarwal:** Hello. I have a question on the return on capital-employed basically figure. This time you've done 18%. So is this kind of sustainable or do you see room to improve going forward?

**Suryanarayanan:** I think it is sustainable. There will be room to grow. And in fact, if you were to knock off the goodwill that is there in the thing, it will only increase the return on capital employed. In fact if you look at our MTO business, if you were to look off after the goodwill, it will be in the region of about 46-50%. And you will know that every incremental return that we get doesn't have to have an incremental capital in that business. So that is the key element which will drive the return on capital employed one. And two, all our assets are fully deployed, the capacities are already created. So there is no need for further input to make the business grow. So now it's all a question of all upward movements of utilization that we have. So I think the returns will only improve and it will be sustainable.

**Shashi Kiran Shetty:** What Mr. Suri is saying that the goodwill which is sitting in the books, which is substantial in all of businesses, it's inherited because of the acquisitions premium that we paid, so if you net that off, the returns capital employed will be substantially higher.

**Yash Agarwal:** Okay. And secondly, again, with regards to one of the media interviews that I saw that you expect to clock double-digit margins in maybe a few quarters later. So is that your target for FY16 or beyond that?

**Shashi Kiran Shetty:** That is always the target, yes.

**Yash Agarwal:** All right. So is that achievable?

**Shashi Kiran Shetty:** We had double-digit target in the past. And the economies didn't support us in the last two years. So that did dip because of those reasons. So when they come, we revise most likely the margins are going to get back to the original levels. And also the fact that, as I mentioned, currently the global ocean freight is at the lowest. And because of that, there will be some impact on the margins. So as the freight rates start recovering, which I'm not saying will happen in the next couple quarters, which may happen a little later, that's the beauty of our business, right? Because we have always one vertical or the other always supports the other and the cash flow or the margin or the capital employed, all to a large extent gets supported by some business or the other. And we spread out globally. So that itself creates some bit of hedge to the growth and to the cash flow.

**Yash Agarwal:** All right. Thanks.

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**Operator:** Thank you. Next question is from the line of Jinit Mehta from B&K Securities. Please go ahead.

**Jinit Mehta:** Hi, sir. Sir, my question is on the CSF side. So one of our competitors took a price hike at GNPT during this quarter. So I'm just wondering if you are following that, and so where are we in terms of pricing at GNPT.

**Shashi Kiran Shetty:** I don't know who implemented the new tariff. We will study that. I don't know. I can't give you an answer on this straight away. But our rates are normally to the market levels, or maybe slightly better.

**Jinit Mehta:** Okay, no, cost are margins...

**Shashi Kiran Shetty:** More competitive.

**Jinit Mehta:** Absolutely, sir, but the margins this quarter also, sir, if you see in the CFS side, sir, they took a beating. So I'm just wondering of course the dwell time, as you mentioned, played a role in that. But going forward, do you see an improvement in this? And how soon do you think can we improve our margins?

**Shashi Kiran Shetty:** Like I said, as the port congestion starts getting better, the boxes will start moving out faster. That will improve the dwell time. But, no, I don't have very clear answer to give you on that.

**Jinit Mehta:** And just to follow-up on that, sir, on the DP World facility which is coming up at JNPT 0.8 million TEUs, is it fully for the local CFS markets or any idea on that?

**Shashi Kiran Shetty:** That will help. That will ease the congestion.

**Jinit Mehta:** Okay. And that we are expecting by the end of FY15 if I'm not wrong?

**Shashi Kiran Shetty:** Yes, Yes. And also new cranes are getting installed in JNPT. So that will also help the...

**Jinit Mehta:** Sure, sir. Sir, one last question, sir. The Capex side, last call you mentioned that cumulatively or for the next two years probably you're looking at 100 crores of CapEx. So do we stand by that?

**Shashi Kiran Shetty:** Yes. About the same, yes.

**Jinit Mehta:** For FY15-16 put together 100 crores?

**Shashi Kiran Shetty:** Yes. It could be a little more. But somewhere around that area, yes.

**Jinit Mehta:** Okay, perfect. Thank you so much, sir. Thank you for your time.

**Operator:** Thank you. The next question is from the line of Pritesh Chheda from MK Global. Please go ahead.

**Pritesh Chheda:** Sir, just clarifying. The Capex you said is 100 crores, right?

- Shashi Kiran Shetty:** That is for two years
- Pritesh Chheda:** Two years 200 crores?
- Shashi Kiran Shetty:** No, no, no. 100 crores for two years. Because earlier if you have seen our Capex they were mainly invested in the equipment project and equipment division. As we have slowed down there, the overall Capex is more of a maintenance thing. So since we are fully all our Capex have gone to build up the facilities and the capacity in our CFS's and our equipment division, so that's where when we are saying that we will do maintenance Capex, we are talking about this 100 crores over two years as maintenance Capex.
- Pritesh Chheda:** And what is the utilization then of CFS today?
- Shashi Kiran Shetty:** It will depend on CFS to CFS. Like JNPT or CFS number one, the first CFS, will be roughly in the region of about 70%. The second CFS would be roughly in the region of 30%. And Chennai would be about 65%. And Mundra would be roughly about 60%. Did you get that?
- Pritesh Chheda:** Yes, I got it. And multi-model side, for incremental growth you'll not require Capex, right?
- Shashi Kiran Shetty:** No, no.
- Pritesh Chheda:** Okay. Then what are the plans of the cash flow, the surplus cash flow?
- Shashi Kiran Shetty:** That will all go back to pay off debt. And then whatever cash is there, then we'll have to see how to get it back, get it back in the sense how it will come back by way of dividend. But at least for the next 18 to 24 months, it will go back to pay back the debt.
- Pritesh Chheda:** Okay. What do you envisage as a debt reduction for the next two years?
- Shashi Kiran Shetty:** Over the next 24 months, at the net debt level, we should be almost zero.
- Pritesh Chheda:** Okay, net debt level you should be zero. Okay, thank you very much, sir.
- Operator:** Thank you. The next question is from the line of Vikram Kotak from Fortune. Please go ahead.
- Vikram Kotak:** Hi, congratulations everyone on the numbers. I have one question that... you invested over the last few years in the business and which is a very right thing to do in economic downturn, how do you see coming three years if economic growth revivals and the global markets remain sanguine in context of your growth targets or ROE improvements, your geographical mix, can you throw a little light on that?
- Shashi Kiran Shetty:** Basically, like I said earlier, we already have done significant investment in 2010, 2011 and 2012. And those investments have not been fully utilized because of the downturn in the economy. And the

investments are already made. If you look at our capacity utilization, the CFS, what I just explained to the previous caller, that there is significant room for us to accommodate more containers. So obviously those will add in to the existing asset and create extra revenue and extra margins in the business. Number one. Number two, on the project and equipment side of the business, like I explained, there is significant room for us to have a better rate realization year down the line or six months down the line. And on the organization capability point of view, there is also a lot of investments have been made in terms of the human resource, in terms of the systems and processes. And obviously the organization can observe a lot more business as there is more business available in the market. So all these things should all possibilities generate far better ROE going forward. On the MTO business, like I said, we have a 12 point strategy how to drive better growth, how to drive better margins, and we can diversify the additional portfolio business. So we believe that is a scalable business as well. And thirdly, as we generate more cash and more Capex, we are looking at more emerging businesses to invest in both through inorganic and organic routes, is what the current thinking in the organization.

**Vikram Kotak:** So, Mr. Shetty, any number we input on the growth targets in terms of... if all golden and good in the economy and the things revived, I think any numbers you want to put it on the growth approximate ballpark number for next three years in terms of revenue or the geographical mix or the ROE targets?

**Shashi Kiran Shetty:** Difficult to put a number, Vikram, but if you look at the track record, that should speak for itself.

**Vikram Kotak:** Yes.

**Shashi Kiran Shetty:** I think track record has grown 25% CAGR. And one would always like to maintain as a benchmark. Hopefully they'll be able to ensure that.

**Vikram Kotak:** That's pretty good growth. Thank you so much.

**Shashi Kiran Shetty:** Thank you.

**Operator:** The next question is from the line of Sushil Chowksey from Rosy Blue Securities. Please go ahead.

**Sushil Chowskey:** Shashi, one question. In the downturn, most of the asset-heavy business competitors took a lot of business at foray rates rather for their survival rates were collapsing and businesses were down. How is the situation? Is the competitor still surviving, willing to take contracts or they are up for sale, or what are the current situation on that?

**Shashi Kiran Shetty:** Yes, there is a mix of all that. Quite frankly, there is a mix of all that. People are really struggling, some of them, some of them who have done external investments beyond means. So those ones are definitely going through rough time. But they will all revive eventually. As the markets improve, they'll find a way to come out. One good thing that people have learned a lesson and they are not to forget it very soon, and funding is also going to be easy for them. And naturally they will think many times before making new investments.

- Sushil Chowskey:** In funding is going to be difficult, that's what you mean, I suppose?
- Shashi Kiran Shetty:** Yes.
- Sushil Chowskey:** So is a lot of banks offering such assets to you all as organization because of them facing problems on recovery or non-servicing of interest and things like that?
- Shashi Kiran Shetty:** Since the business was not in that shape, we have also not actively looked at that in the market. But I think as things change, that's something we'll certainly pay attention to. One of the things is that we've recently taken close to about eight or ten equipments on a long-term lease under our management from a competitor.
- Sushil Chowskey:** This equipment pertains to cranes or something?
- Shashi Kiran Shetty:** Cranes, yes.
- Sushil Chowskey:** And this is something matching our profile or something superior?
- Shashi Kiran Shetty:** No, not our profile, no, no, somebody smaller.
- Sushil Chowskey:** Okay. Government of India is making a lot of noise on coastal shipping. And specifically it seems that the thrust for preference to coastal shipping will be very high to the local companies, specifically where a lot of cement is concerned or a lot of port-based facilities or a lot of manufacturing, east to west, India is a huge potential. Can you throw some light what kind of potential are we targeting or looking at if options are available?
- Shashi Kiran Shetty:** Yes, I said in my earlier presentation that coastal is one business where we see a lot traction and we have a good amount of concluded agreements for the customers. And there are more we are pursuing at the moment. And we are the only ones who are very active in this business at the moment. So far all our investments on EBITDA level have been paid back in the last four years. So this is not a bad business as far as we are concerned. Although shipping looks a little scary for people, but in the niche space, it is all right. And as we have the bandwidth and the management and the customer pipeline and the customer base support this business.
- Sushil Chowskey:** Can you just throw a light on what kind of asset life-wise these vessels are or...
- Shashi Kiran Shetty:** They work almost beyond 30 years.
- Sushil Chowskey:** Okay. And your asset investment is below 60 crores or 70 crores, that's what you highlighted?
- Shashi Kiran Shetty:** Yes, Yes, correct.

**Sushil Chowskey:** Okay. Thanks a lot, thank you.

**Shashi Kiran Shetty:** Thank you.

**Operator:** Thank you. Ladies and gentlemen, anyone who wishes to ask a question may press \* and 1 on your touchtone telephone. The next question is from the line of Viral Shah from SBICap Securities. Please go ahead.

**Viral Shah:** Hello, sir. Congratulations on a good set of numbers. Just to begin with your MTO business, you said that there were few geographies which were doing substantially well. Apart from the names mentioned, could you want to throw some light other than that as well, because...

**Shashi Kiran Shetty:** We couldn't hear your question properly.

**Viral Shah:** See, sir, you had mentioned there were a few geographies which were doing good, right? There was Europe, there was US which has seen a double-digit growth. Apart from that, there were some key geographies which we are looking like Australia or Nigeria. So how has been the performance in those geographies as well for the MTO business?

**Shashi Kiran Shetty:** I mean we have given you overall growth numbers. And that's what continue. And some markets like USA and Germany, these are the markets where there is a lot of headroom for us to grow.

**Viral Shah:** Okay. And, sir, you had mentioned in the call as well that FCL has been doing good for us. So what has been the stand there, because when we look at broader numbers in terms of the mix, has the mix changed actually or we want to continue to focus on LCL rather than FCL?

**Shashi Kiran Shetty:** No, no, we continue to focus on both the products. They're independent products and we'll continue to focus on both of them.

**Viral Shah:** Okay. And has the mix, in terms of mix, sir, has that changed or it has more or less the same?

**Shashi Kiran Shetty:** No, mix in the sense, the FCL has got a greater room to grow because it's a much larger pie of the business. And LCL of course is a core business. And that will have a normal growth.

**Viral Shah:** Fine, sir. Sir, secondly on the CFS front, when you look at your blended realization, that is revenue per TEU, that has increased quarter on quarter, right?

**Shashi Kiran Shetty:** Which one are you talking?

**Viral Shah:** No, no, I'm talking on a very consolidated basis, a blended basis.

**Shashi Kiran Shetty:** Which one? Which segment?



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**Viral Shah:** For the CFS, sir.

**Shashi Kiran Shetty:** CFS?

**Viral Shah:** CFS, Container Freight Station. In that, what we see is that there is an increase in realization that is revenue for TEU, right?

**Shashi Kiran Shetty:** Correct.

**Viral Shah:** Quarter on quarter and year on year, both. We will continue the similar trend going forward or there could be some decline or something on that front?

**Shashi Kiran Shetty:** No, I think the realization is going up on a quarter-on-quarter basis. It will stay the way you are looking at the numbers.

**Viral Shah:** Fine, sir. Sir, that's it from my side. Sir, should we end the call, since there are no more QA?

**Shashi Kiran Shetty:** Yes, thank you.

**Viral Shah:** Yes, operator, could you...

**Operator:** Sure, sir. Ladies and gentlemen, on behalf of SBICap Securities Ltd, that concludes this conference call, thank you for joining us. And you may now disconnect your lines.

**Viral Shah:** Thank you.