



# “Arshiya International Limited Conference Call”

November 16, 2011

**Mr Ajay S. Mittal - Chairman & Managing Director**  
**Mr Sandesh Chonkar - Executive Director**  
**Mr Uday Pimprikar - Chief Planning & Commercial Officer**



*Arshiya International Limited*  
*November 16, 2011*

**Moderator:** Ladies and Gentlemen good day and welcome to Q2FY12 results conference call of Arshiya International Limited. We have with us today Mr. Ajay S. Mittal, Chairman and Managing Director, Mr. Sandesh Chonkar, Executive Director, Mr. Uday Pimprikar, Chief Planning and Commercial Officer. As a reminder for the duration of this conference, all participants' lines will be in the listen only mode. 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 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. Uday Pimprikar. Thank you and over to you sir.

**Uday Pimprikar:** This is Uday here and I have got Mr. Chonkar with me and Mr. Mittal will join us in about five ten minutes to take on all questions. The next five ten minutes we will spend on giving you a brief snapshot of our Q2 performance and a very brief snapshot of what we expect in the next two to three quarters. Broadly on the key parameters the results are fairly encouraging, our revenue is up 26% on a consolidated basis to Rs.247 Crores, our EBITDA has doubled and PAT is up 74%.

The last quarter for us has been a consolation quarter and a significant amount of our Greenfield investments are almost operational at Mumbai FTWZ. The last quarter has seen our activity getting consolidated. The response to our FTWZ in Mumbai has been extremely encouraging and the warehouses that we built in the first phase, which is three warehouses are by and large full. The fourth warehouse got operational this particular quarter and we got great visibility on the filling up of that warehouse also.

The second milestone that the FTWZ passed was, we crossed the 150-customer mark last quarter. What we are really encouraged about is the



*Arshiya International Limited  
November 16, 2011*

kind of customer profile and the diverse industries that we are servicing in our FTWZ. We have made significant inroads in various industries. We have started working with lot of large names, in organized retail such as Wal-Mart, Hypercity and Metro and some of these relationships have deepened and expanded in the last quarter. We have made significant inroads in technology sector wherein we are working with a number of technology equipment players and again the market share for us in that segment is increasing and is extremely encouraging, some of the names we can't say because of confidentiality purposes.

We have started working with big names such as BILT, Somany Ceramics, World Kitchen etc., We have made a lot of inroads in project imports. We are working with big names such as L&T, GWPL in renewable energy and other infra projects. We are expecting these particular relationships to grow exponentially in the next two to three quarters. The FTWZ revenue contribution is up from 14% and 3% vis-à-vis the previous two quarters. As I mentioned earlier the fourth warehouse is already operational and we are expecting another three warehouses to be operational in the next quarter or two quarters but more of that later. In our goal to making Bombay a transshipment hub, we have started working with number of export consolidators and also started acting as a transshipment hub for two to three clients and this has started off in a big way and the potential is huge.

On rail our revenues are up to Rs. 59 crores and that is 24% increase. We have integrated the 15 rakes and are expecting to expand to 20 rakes in the next two to three months. What I will now cover is what we expect to do in the next two to three months and possibly in the next couple of quarters. As I mentioned earlier the Greenfield expenditure on our Mumbai FTWZ is already over and we will go ahead and expand in a modular fashion. We have been extremely responsible there and the



*Arshiya International Limited  
November 16, 2011*

construction and incremental warehouses will now happen primarily when we have visibility of filling in at least 70% and the existing expansion that we are kind of carrying on is primarily after getting this visibility. The next quarter will also see our Khurja FTWZ getting operational and our Distripark getting operational. The Khurja railway siding from our perspective and in fact from the Indian Railway perspective is a game changing investment that could get operational very soon, possibly in the next quarter or early January. That particular investment is expected to change the way our rail business and possibly business of a number of other operators that happens in the north FTWZ and we expect a great fillip in topline and bottomline with this coming up on account of operational efficiencies for the rail. I am done with by and large this brief snapshot. I will hand it over to Mr. Chonkar to give a brief about the numbers.

**Sandesh Chonkar:** Good morning investors. We have published a good set of numbers and by this time most of you or maybe all of you must have reviewed the numbers on primary basis and also compared with your model. In brief I will just touch upon a few numbers, vis-à-vis last quarter. The results we are showing on year-on-year numbers. On standalone basis we have achieved sales of Rs.141 Crores versus Rs. 127 Crores in the previous quarter a rise of 11% quarter on quarter. The main contributors in this standalone are logistics 118 versus Rs.108 Crores and FTWZ 23 Crores versus 19 Crores in the previous quarter.

On consolidated numbers and we have achieved Rs. 245 Crores of topline versus Rs. 222 Crores topline in the previous quarter. The main contributors to this is Logistics with Rs.149 Crores versus 142 Crores in previous quarter. The FTWZ Rs.38 Crores versus Rs. 30 Crores previous quarter. FTWZ includes the supply chain income that is VOS income also. Rail is another contributor which has contributed Rs. 59 Crores against



*Arshiya International Limited  
November 16, 2011*

Rs.48 Crores the previous quarter. We have achieved EBITDA of 67 Crores, which has grown 102% from 33 Crores in last quarter. Again the main contributor here are FTWZ along with the VOS activities that is the supply chain and rail. FTWZ has contributed 33 Crores in our EBITDA of 67 Crores and rail contributed 14 Crores. We are maintaining Logistics at 27 Crores vis-à-vis same as last quarter.

Net profit jumped to Rs. 31.85 Crores against Rs. 18 Crores. There is one unusual item in this, which has contributed that is about Rs.4 Crores which has contributed on account of exchange gain on increase in Dollar rate. The Logistics and FTWZ have contributed Rs. 4 Crores and Rs.22 Crores and rail has contributed Rs. 1.85 Crore in the net profit. Logistics contribution is more or less stable over the last quarter and FTWZ we have achieved about 70% increase over last quarter. I now hand over to Mr. Mittal to update you about the business.

**Ajay S Mittal:**

Thank you. Good morning investors. There was an update very quickly by Uday. I just want to add one more thing to what Uday said. Arshiya as a pilot project has been given the status of an authorized economic operator which means that very shortly your company would be acting as the customs department on behalf of its customers and will be assessing duties on behalf of its customers. It is a pilot project which is doing very well in the US as a concept and your company is amongst three companies in India which has been given this opportunity. If this is a success this will be a big game changer for you company too. At this point of time I think as far as the updates go we have given whatever we had to give and will be more than happy to take any questions.

**Moderator:** Thank you very much Sir. Ladies and Gentlemen we may now begin with the question and answer session. Anyone who wishes to ask a question may press \*and then 1 on their touch tone telephone. Participants are requested to use handsets for asking a question. Anyone who has a question may press \* and 1 at this time. The first question is from the line of Adesh Doifode from Systmatix Shares. Please go ahead.

**Adesh Doifode:** Good afternoon Sir. Your FTWZ consolidated segment quarter data has shown a EBIT margin of almost 78.4%, whereas the Logistics and rail segment it was almost 20%-19%. My question is this high margin in FTWZ segment sustainable in the coming three to five quarters? Also eager to know how the company made such high margins in the FTWZ segment this quarter, was this mainly driven by VAS?

**Ajay S Mittal:** Let me clear this. We in the last quarter added an additional warehouse which became operational, warehouse #4, so most of our income has come from rental. I would say that 50% is from rental and 50% is on behalf of VOS, where we call it VOS now instead of VAS and it is still remains on one on one but it is on a larger base that the VOS ratio is one on one. If you look at the contribution on rental it is very, very high, it is about 85%-86% but as the VOS activity increase obviously to increase the profitability at the PAT level it will increase our topline tremendously but will bring down the EBIT margins to about 50-55% as we go along.

**Adesh Doifode:** In the last three - four quarters the company's CapEx planning for the FTWZ and rail segment are continuously postponed, will the company face any interest cost pressure going forward in the coming quarters?

**Ajay S Mittal:** No, I don't think so, our projects have been delayed slightly because of the conditions that are there in India specifically with regards to rail but that is not bringing any pressure, rail specific is not bringing any pressure,



*Arshiya International Limited  
November 16, 2011*

because it is a very very modular kind of business. For everything that we add on is when we add on additional interest burden. So you have seen as per the consolidated results also, standalone itself is doing well and it is able absorb the interest burden which is there. With regard to FTWZ I would like to mention the following and with regards to rail, our Greenfield projects is when you start the Phase I or when you embark on the journey of phase I, they have been successful and I being an entrepreneur I need to say this very clearly, the risks, the highest risk period for your company is gone and now we are at a stage where everything becomes into Brownfield. Every expansion would be based up very critical milestones of having at least 70% of the warehousing being filled and so on and so forth. Same is the case in the rail business. With regards to the rail sidings this is going to be real, real game changer because this will enhance our capability to move cargo tremendously. I would also like to add that this will enhance our capability or our return on investments; the capital, the businesses which are not very capital intensive like the logistics freight forwarding business or the supply chain business as you will see already doing so, and something that we have added called transport and handling business, they have taken a tremendous jump and they will take a tremendous jump. You may not see that jump so much in logistics, but if you compare it from last year to this year that is on account of we have sold off our company in Qatar and Oman as well as there has been a substantial drop in our revenues in Dubai also specifically because of selling of Qatar and Oman because the business that was happening between Dubai and Qatar and Oman was enormous business which business does not remain with us anymore, revenues within India have gone up reasonably well.

**Adesh Doifode:** Sir about the CCI report how it would positively or negatively impact Arshiya's rail segment?

**Ajay S Mittal:** You would ask me to be speculating as we are the ones who are the only PCTO operators who went first to the Competition Commission saying that we have a dominant player called Indian Railway, which is a government, Indian Railways being a dominant player is abusing its dominant position along with Concor and this has been taken very seriously. A serious note has been taken of that and I was informed only about two weeks back that the Director General of CCI who was investigating this case over the last, six, seven, eight months has finished his investigation and the report have been handed over to the Board of the Competition Commission of India for them to take this forward. I would be speculating on what this report says or what the conclusion of this report is, the only information is that it has taken them eight months and this report is pretty extensively covering every aspect of what we have complained about in our complaint to the Competition Commission and if that has been addressed in a very, very neutral manner which I would expect from any legal body in this country or any regulatory authority in this country I think we will definitely be seeing a positive trend in this rail business not only for us but for other operators too.

**Adesh Doifode:** Thank you sir. That's it from my side.

**Moderator:** Thank you. The next question is from the line of Himanshu Nayyar from Quant Broking. Please go ahead.

**Himanshu Nayyar:** Good afternoon and congratulations on the good set of numbers and thanks for taking my questions. Firstly on the rail business I just wanted to know what has driven this strong growth? because if I have a look at the numbers of other rail operators, especially the domestic side they have been facing issues while you have grown on the revenue front and you have been able to expand your margins?





*Arshiya International Limited*  
*November 16, 2011*

**Ajay S Mittal:** Well, our EBIT margins took a beating in the last quarter because on two accounts. There was a payout on the performance linked incentives that the company offers to its employees and there was a payout high expenditure on the legal and professional fees that we paid for the Competition Commission case that we have filed, so that is why the EBIT margins have gone up. We have added a couple of rakes, we were also seeing in the last couple of quarters that many of our rakes had to go through an annual maintenance which happens on the rakes which had created a little bit of a dent in our topline and bottomline also in the previous quarter. In this quarter we did not have any of those issues. I would not be able to comment on other domestic players like Concor and all why their margins are low and why their efficiencies are low, I have got no clue why and I really cannot comment on what they are doing and what they are not doing.

**Himanshu Nayyar** Sir what is the utilization right now of your 15 rakes?

**Ajay S Mittal:** We are having them full time. We are in pan India basis and we have been running all of them on the domestic sector, but for one which has just started our first EXIM sector and as Uday mentioned that we will have 20 rakes in the next two months which is by end of December or by early January. We are targeting to have the 20 rakes, which will be owned. After which we are looking at another 10 rakes to be taken on lease basis provided the Indian Railways grants a license to couple of companies who have applied for a license to give rakes on lease to private container train operators, which is as a policy they have to and these applications have been vetted at this point of time. We are very hopeful that these applications would go through by December end or early January and that be the case then our next rakes would be from 21st rakes onward would be on a lease basis rather than on a purchase basis again making it very modular and derisking though the deal of an entrepreneurs to take the



*Arshiya International Limited  
November 16, 2011*

risk but to derisk not only financially but also operationally derisking our businesses.

**Himanshu Nayar:** Then they would ply more on the EXIM route?

**Ajay S. Mittal:** Well it is going to be a combination I would not say more or less. Customers for Arshiya it is not FTWZ, which is a game changer or rail, which is a game changer. It is the integrated play, which is the game changer. So there are customers who today we stand with and we say okay we will be doing this and that for you in the future, which include doing movement on an EXIM sector for them as well as then on a domestic sector for them. So distinguishing on EXIM and domestic is not going to be such a big issue for us in terms of our revenues but it will be servicing the customer for all its requirements and hence one throat to catch for all logistic requirements. Increasing thereby the stickiness with the customers as far as Arshiya is concerned.

**Moderator:** Mr. Tejas Seth your line is been unmuted you my go ahead please.

**Tejas Seth:** Sir just one question on what would be your total debt on consolidated basis ?

**Ajay S. Mittal:** About 1800 Crores is the debt on the consolidated basis.

**Tejas Seth:** How much CapEx we need to spend still for our phase I of the integrated Khurja assets to be operational?

**Ajay S. Mittal:** On the overall phase I and II of Panvel FTWZ and the phase I of the Khurja FTWZ, domestic distripark and phase I of the rail business which is 30 rakes and a huge siding at Khurja the total CapEx is about Rs.3600 Crores out of which we have already spent about Rs.2600 Crores and the



*Arshiya International Limited  
November 16, 2011*

balance would be spent over the next including the second phase completion in Panvel would be spent over the next 13 to 14 months.

**Tejas Seth:** How much CapEx has been capitalized for the fourth warehouse in Mumbai FTWZ?

**Sandesh Chonkar:** The total CapEx, which is capitalized, the first phase is totally been capitalized which is Rs.550 Crores that includes the land value of about Rs.136 Crores.

**Tejas Seth:** Yes, so you will be incurring depreciation on this whole 550 Crores?

**Sandesh Chonkar:** Other than land.

**Tejas Seth;** Other than land, okay. Sir I just wanted to have clarification on the billing of FTWZ is done on Dollar basis or Rupee basis?

**Sandesh Chonkar:** It is done on Dollar basis.

**Tejas Seth:** So is there significant jump in the revenue quarter-on-quarter because of the Dollar impact?

**Ajay S. Mittal:** No, the significant jump we have shown on the dollar impact has been, we have shown it separately on the Dollar impact in the other income to the tune of about 3.7 or 3.8 Crores which is not shown in the operating income. We as a company again are very, very cautious so what we have done thus far all our expenses are in Indian Rupees and hence most of our customers to the tune of our expenses have been signed to take care of our expenses on Rupee denominated Dollar. That takes care of our expenses without any fluctuation affecting us in Dollar going up or down. What has been left open in Dollars with customers and this we are doing it very diligently is that we are having a straight-forward Dollar revenue

coming in without having any linkage to the Rupee for only that portion which is the profit portion.

**Tejas Seth:** So when you book the revenue you book at what rate?

**Ajay S. Mittal:** Whatever is the going rate on that day.

**Tejas Seth:** Then how the impact is carried forward in other income, I mean there would be some difference that you need to?

**Sandesh Chonkar:** That is only because of the debtors which are carried over in the quarter end. As per requirement these are converted into the prevailing rate of quarter end and taken as the other income.

**Tejas Seth:** So there will some impact of Dollar on the revenue side also right?

**Ajay S. Mittal:** That is nominal, because there is about 90-day period of approximate 90 days 85 to 90 days debtors that we have on the FTWZ.

**Tejas Seth:** Okay and as you said VAS for this quarter is 1, and what will be your rental average you have been charging for pallets for this month because I have just done the mathematics the revenue the rental you charge would be really around Rs.800 per pallet for month?

**Ajay S. Mittal:** You are absolutely right.

**Tejas Seth:** The fourth warehouse would be at 100% utilization rate?

**Ajay S. Mittal:** Almost.

**Tejas Seth:** Okay fine sir. That is it from my side.

**Moderator:** Thank you. We have a follow up question from the line of Himanshu Nayyar from Quant Broking. You may go ahead please.



*Arshiya International Limited*  
*November 16, 2011*

**Himanshu Nayyar:** Sir just one more clarification I wanted. I have seen that your receivables are going up even on a standalone basis so I am guessing it must be a case on a console basis as well so just wanted to understand I mean most of this increase is on account of your FTWZ customers or I mean or from the rail customers as well and what is the outlook for these going forward?

**Sandesh Chonkar:** Going on the standalone basis we have logistic customers and FTWZ customers which are intergroup customers that is from the developer to the unit holder and my logistic debtors are today at about 79 days as compared to March it was 76 days so we are more or less on that range. Also receivables are around 100 days which was also the state in March 31 so we could manage to maintain our days at the same level which was there at March end and in this logistic business the days are about this level.

**Himanshu Nayyar:** Sir out of this 1800 Crore of debt how much would be your long-term loans?

**Sandesh Chonkar:** Rs.1600Crores is a long-term loan.

**Himanshu Nayyar:** Rest is for working capital, okay. Last thing what is your average cost of borrowing as of now?

**Sandesh Chonkar:** 14%.

**Himanshu Nayyar:** That is all from my side. I will come back if I have anything else.

**Moderator:** Thank you. Our next question is from the line of Pathik Gandotra from IDFC, please go ahead.

**Pathik Gandotra:** Congratulations Ajay for a very good set of numbers. I had just two questions one was on the VAS or VOS that you say for the Mumbai FTWZ you say average is one, what is the peak in four warehouses?



*Arshiya International Limited  
November 16, 2011*

**Ajay S. Mittal:** Well the first warehouse is doing about 3:1 but the base increased you should appreciate because the fourth warehouse has become operational and it has only rental income coming in, not any VAS or VOS income coming in. But you know as I said we want to be very careful if we want that stickiness from the customer with the game changer vision that we have of being the one throat to catch as far as the customer is concerned we need to have customer delight minimum as our standard as far as customers are concerned which should be the real game changer so we are increasing our VOS activities but we are doing it in a slower pace than normally one would do if we were just a four PL or three PL players but as a company we have decided that we rather go on a slower pace, do not take on additional VOS activities at this point of time but as we go we are increasing, we are training more and more people, we are passing all these hurdles so like what Uday said we are not only being very careful and prudent about being careful and becoming less and less risk, I won't say averse but derisking our business financial but also derisking ourselves operationally is something that we have embarked on very, very strongly in the company.

**Pathik Gandotra:** The point is the revenues is up Rs.38 Crore in this quarter are not representative of an ideal revenue mix from this four warehouses?

**Ajay S. Mittal:** Surely not, you hit the nail on the head, this is actually I would estimate on a 3:1 which is what we have achieved in the minimum and I expect that too also go up and there are some cases I would like to say to the investor community that there are some cases where we have achieved 9:1 VAS or VOS to rental ratio also. So even if you take a 3:1, which is only on one warehouse if it was to be translated to all four warehouses, you know the Math better than I.



**Pathik Gandotra:** Obviously. Even if I have to take a more say 3:1 that thing then when should one start modeling that that will happen because I think by the time the 3:1 gets achieved on these four, four new warehouses will come in Bombay, right?

**Ajay S. Mittal:** Can you just repeat that?

**Pathik Gandotra:** By the time, you are not going to stop it four warehouses in Bombay right the point is the moment you as we finish the fourth one and let us say by the next quarter you see your VOS ratio improving in these four, some new warehouses start coming only in Bombay if I just talk about Bombay. So what I am saying is that just for these four warehouses when do we think we will get about 2, 2.5 or 3:1 which should we see in two quarters from now?

**Ajay S. Mittal:** I would guess it should be in that quarter starting July where we would be at a 3:1.

**Pathik Gandotra:** In the quarter starting next July you are saying, okay and what is the further plan for these because the phase I here is over right in Panvel, now are we going to put obviously given that these kind of VAS ratios that you get, I am sure that customer inquiries are very strong, so are you building more warehouses here so what will that look like say in 8 to 12 months?

**Ajay S. Mittal:** We have already built the fifth warehouse which will be operational very, very shortly within this quarter which again this is on customer demand so it is to get the customer in and tell them that we will do only 'X' instead of doing "ABC" or "A-to-Z" we will only do ABC kind of stuff, but as we go along we will not stop building warehouses as long as we are confident of filling the warehouses up to at least 70%. So there are eight

warehouses which are being I mean the fifth one is almost ready as I said sixth, seventh and eighth would be ready in the next two quarters.

**Pathik Gandotra:** Okay fine so this will keep going on because I believe phase 1 plus phase 2 the grand plan a bit more right in this the land is a lot and I am not talking about the land, there is enough land to build at least four times the number of warehouses that you have right now?

**Ajay S. Mittal:** Yes, up to 18 and I will also want a stand corrected that the pace of increasing the VOS to rental ratio will obviously also increase with our confidence in doing those activities.

**Pathik Gandotra:** I guess so I think it is very important that the customers go satisfied. There is no need to ramp up revenues in a hurry. I would agree with that. The point of view that you have. This is one question. The second question is on Khurja. Now what are we commissioning next quarter? How many warehouses are we commissioning next quarter?

**Ajay S. Mittal:** We are commissioning three warehouses in the FTWZ and two warehouses in the domestic Distripark.

**Pathik Gandotra:** All the five together? Are they all ready?

**Ajay S. Mittal:** All the five together without any VOS or VAS activity in any of these five warehouses in this quarter, but next quarter we will start doing the VOS activity. So we have customers to take in some rent, but we have not promised them anything in terms of doing the A-to-Z, but ABC is what we do for them at this time.

**Pathik Gandotra:** You can do VOS only in FTWZ or you can also do in domestic? You can only do it only in FTWZ, right?





*Arshiya International Limited  
November 16, 2011*

**Ajay S. Mittal:** There will be much more activity in the domestic. In fact we were just encountered with very big customer who is a large cement player in this country, one of the largest cement player in this country in the sense can you do bagging for me and we have enough land why cant we do bagging I mean he says you transport all the cement in bulk and if you can do bagging for me I will be more than happy and there are big steel customers who are saying can you do cutting for me, can you do slitting for me, those kind of activities this is all falling in the ambit of logistic player today. So why not Arishya will get into this I think the activities of more though they would get defined in a domestic Distripark situation as some of them would be described as manufacturing or deemed manufacturing unlike in the FTWZ, so be it, we will take the licenses and we have taken the licenses as per the requirements of a production license or whatever it is.

**Pathik Gandotra:** How much of time will it take for these three plus two five warehouses to generate rent fully for one quarter which will be the quarter in which you will generate full rent?

**Ajay S. Mittal:** Q1 2012.

**Pathik Gandotra:** Q1 2012 and then VOS will obviously pick up from then on.

**Ajay S. Mittal:** I am sorry Q1 2013

**Pathik Gandotra:** How much CapEx will you capitalize by March on the Khurja FTWZ how much will you capitalize?

**Ajay S. Mittal:** We would capitalize by March about another 400 Crores of CapEx?

**Pathik Gandotra:** On Khurja or everything put together?

**Ajay S. Mittal:** No. on Khurja.



*Arshiya International Limited  
November 16, 2011*

- Pathik Gandotra:** On everything else put together say for the full firm?
- Ajay S. Mittal:** There's 500 capitalized out here in Panvel, 300-odd plus Crore is capitalized in the rail business already and 400 would be capitalized in the Khurja and 300 in the domestic Distripark so total of 1400 Crores or so would be capitalized.
- Pathik Gandotra:** Incrementally from here or totally in this full year?
- Ajay S. Mittal:** Total what ever is done. Incremental will be 700.
- Pathik Gandotra:** That is from October 1 to March 31 it will be 700 Crores more, right?
- Ajay S. Mittal:** You are absolutely right.
- Pathik Gandotra:** Bulk of this will be in Khurja and domestic, which should be about 500-600 Crores. That is what you are saying right.
- Ajay S. Mittal:** Yes.
- Pathik Gandotra:** Does it include the railway siding as well, the cost for railway siding as well?
- Ajay S. Mittal:** Yes.
- Pathik Gandotra:** The third thing is on the rail business. I know it is modular and I think its very important for everyone to understand it will be modular so if you are going to do about whatever rakes you said that it will go up to 20 rakes then beyond that leasing how much of CapEx will you capitalize in a rail business in the next six months?
- Ajay S. Mittal:** Rail business we have capitalized everything but for the post trains to be delivered now and siding.



*Arshiya International Limited  
November 16, 2011*

- Pathik Gandotra:** So that will be how much roughly?
- Ajay S. Mittal:** I would say about 100 Crores in the siding and 4 rakes would be around 60 Crores, so 150 - 160 Crores or something.
- Pathik Gandotra:** When you are saying total 700 plus 160 about 850 -900Crores of capitalization in this year?
- Ajay S. Mittal:** I am talking of 700 in totality.
- Pathik Gandotra:** Including everything in this financial year from here till up to March?
- Ajay S. Mittal:** From October 1 to March for the entire consolidated business capitalization would be to the tune of about 700 crores.
- Pathik Gandotra:** I have a few more questions but I think I will connect with you offline. Thanks. Wonderful set of numbers.
- Moderator:** Thank you. The next question is from the line of Manish Goyal from Enam Holdings please go ahead.
- Manish Goyal:** Good morning Sir. Just to clarify on this VAS you would have several streams of income from VAS, so how would you account for it say if you do transportation for a VAS customer for the FTWZ customer so would it get reflected in logistics or just wanted to get a sense on that?
- Ajay S. Mittal:** That would get reflected in our transport and handling business.
- Sandesh Chonkar:** The transportation on incoming goods which are coming into FTWZ is getting captured in AFTWZ and goods which are moving out of FTWZ to DTA or for exports are getting captured in Arshiya Logistics in the logistics division.



*Arshiya International Limited  
November 16, 2011*

- Manish Goyal:** So any outgoing will be captured in logistics
- Sandesh Chonkar:** That is right. It will eventually from next quarter this will get captured in the separate division called Transport and Handling.
- Manish Goyal:** Okay so when you say VAS of 3:1 so it would primarily mean that incoming activity plus whatever value addition you do at the FTWZ itself will get captured in that VAS right?
- Sandesh Chonkar:** Yes but then the transportation is very small very nominal amount.
- Ajay S. Mittal:** Just to put it in the right perspective at this point of time as Sandesh said that we have already floated another division called Transport and Handling and as we see the ramp up of activity happening in the Transport and Handling we will push all revenues of transport and handling inward or outward into this separate division.
- Manish Goyal:** Okay. So margins on this would be a normalized margin?
- Pathik Gandotra:** Very normal margin to begin with that as volume grow the margins will grow obviously and right now obviously we are not in the trucking business of owning any truck but with Khurja coming up this whole thing could change dramatically also because we would do the first mile, last mile in Khurja tremendously even including the domestic Distripark so we expect transport and handling business also in the next I would say couple of years Arshiya may, may not own trucks but we would probably be plying truck in excess of and be amongst the top five trucking companies in the country without owning a truck also.
- Manish Goyal:** Okay and just clarification on the capitalization you mentioned that till March 2012 you will capitalize 550 Crores in Panvel, 300 Crores in rail



*Arshiya International Limited  
November 16, 2011*

container 400 Crores in Khurja FTWZ and 300 Crores in Distripark. This is the number you gave till March or this is as on date?

**Ajay S. Mittal:** Till March. The total this March will be about 1400-1500 Crore, been capitalized.

**Manish Goyal:** What is the roughly plan for FY'13 Sir?

**Ajay S. Mittal:** In terms of?

**Manish Goyal:** The amount of capitalization you will do in consolidated balance sheet?

**Ajay S. Mittal:** I think up to 13 out of the 3600 Crores we would be capitalizing to the tune of about 2800 to 3000 Crores

**Manish Goyal:** Okay total capitalization and in this working capital you said 200 Crores working capital so how much would be for pure logistics and how much would be for FTWZ? Do we require any working capital for FTWZ?

**Ajay S. Mittal:** When we bring initial business in the FTWZ when it is trial we are obviously taking an upfront fee from a customer and I am glad to announce that you know all our trial customers, 100% of them have been converted into long 5 year 10 year contracts and for trial period we take money upfront but once they are regularized customers then obviously you have to be in line and think with what the industry norms are of 90 days.

**Manish Goyal:** In logistic how much working capital you require?

**Ajay S. Mittal:** Again 90 days.

**Manish Goyal:** On the Indian logistics business how do you see the growth?



*Arshiya International Limited*  
*November 16, 2011*

**Ajay S. Mittal:** Well, product has to move and has to be in the supply chain so warehousing and movement of product is not going to decrease. Even if we grow as an economy at 5% or 6% logistics is lagging behind in terms of efficiency and I am getting into macro details now but the fact is that we will obviously add to increase the efficiency in the business that itself is a huge opportunity even if we look at incremental business it is a tremendous, tremendous opportunity.

**Manish Goyal:** Thanks a lot I will come back for more.

**Moderator:** Thank you. The next question is from the line of Mitesh Shah from AMA Capital Partner. Please go ahead.

**Mitesh Shah:** Congratulations sir, very good set of numbers, it is really fantastic. The other news, I think we just had today is the MFCI small cap index has added Arshiya to the list we are now also in the MFCI small cap index as we see today. After this what I would also want to know is that have we coined the word Value Added Servicing to something like VOS if you can just explain that bit for my reference?

**Ajay S. Mittal:** That is right it is called value optimization services instead of value added services, which is probably more in line with the global standards of what people call this activity now. It is similar like value added service and there was an issue also with regards to Indian regulatory system where value added services was construed to be in an FTWZ also when you say these are all activities which are authorized activities in an FTWZ was being construed as manufacturing because we are using the word value added services it was an internal decision to use value added services in the sense it is an internal decision to use VOS so that we distinguish between what is manufacturing and what is not manufacturing within the FTWZ.



*Arshiya International Limited  
November 16, 2011*

**Mitesh Shah:** If you can also explain what is the basis on which you operationalize warehouse I mean is there some threshold levels some number of customer visibility etc., that you see how do you actually make decision on operationalizing a warehouse or for that matter going for next warehouse construction?

**Ajay S. Mittal:** To be honest we have a very strict norm and as I said this all now from Greenfield to Brownfield they were very strict norms unless we do not see the visibility from existing or from new customers to the tune of at least 70% of the warehouse being full minimum we will not embark on the journey of building the next warehouse and I am very happy to announce we are adding 25 customers on an average or more every month, month on month so the pipe line is extremely healthy.

**Mitesh Shah:** That is it from my end. The one news, which I feel is hearty, is that we have been added to the MFCI small cap index. Congratulations.

**Ajay S Mittal:** Thank you for the support from all of you.

**Moderator:** Thank you. The next question is from the line of Sameer Arora from Helios Capital. Please go ahead.

**Sameer Arora:** Good morning. When I visited your location I saw few examples of VOS, just tell me one or two more interesting things that people are doing which gets classified as VOS if you will what is getting you 9:1 for example for one customer, what does he want to do, what does he want you to do?

**Ajay S Mittal:** It all depends upon, this is the customer which is from the telecom industry, so there is a huge amount of value added because every piece of it that we have like, when we buy a telephone it is to be kitted and there are about eight or 10 pieces that are there in a kit. These all need to be

kitted in separate work in some plastic cover, then it gets into a big box and apart from that there are a number of, say what if your battery fails if you go to a shop and you just buy the battery, you don't change your phone, because your battery fails, so there is a lot of spares, which are kept behind and the same is the experience in the auto sector, some of these sectors like telecom, auto where there is a lot of spares to be maintained, which need to be labeled, packed in a very different manner that is giving us a very high VOS to rental ratio.

**Sameer Arora:** So there will be high VOS will come because there is high sort of one is your rental you say for period and so the view as in high because there is high incoming and outgoing and things like that or is it because as soon as the work done is six times more, or is that over a year because he will every two days things will come in then you will process and then you make your whatever customs forms and then you will take them out, so is it that activity which makes it the viewers part so much higher on the actually work part, which is?

**Ajay S Mittal:** Both. It is a combination. It is a combination of throughput and the activity. So in the case of a telecom customer I would say the throughput would be average about three or four and whereas something like we experienced in the case of oil and gas industry the throughput is sometimes even once in two months, but we are at an early stage where we cannot say no to any customer at this point of time, we will find good equilibrium and balance as we go along as a company.

**Sameer Arora:** What you mean in 9:1 ratio is on an annualized basis or in this period itself he has given you nine times?

**Ajay S Mittal:** Only in this period, but it is also happening as we talk.

**Sameer Arora:** How does being the customs clearing help you?





*Arshiya International Limited  
November 16, 2011*

**Ajay S Mittal:** To be very honest, this is a very important step that the country is taking and this was announced by the finance minister in his speech, I believe that he wants to embark on a journey of an authorized economic operator, which is really trying to encourage private parties like us to do custom clearance. This is like self-clearance that some companies have been given, self-assessment that some companies have been awarded in the past also. So we are now becoming more responsible as a company that we will be assessing obviously this is a pilot project, but over a period of time once it is regularized then we would be ones who would be assessing products of behalf of our customers and then charging them duties accordingly. It's big responsibility on our shoulders, but this is also a game changer because it makes our system much more cleaner obviously when we operate.

**Sameer Arora:** Very good. Thank you.

**Moderator:** Thank you. The next question is from the line of Hitesh Zaveri from Birla Sun Life. Please go ahead.

**Hitesh Zaveri:** Congratulations to the management team on a good set of numbers. My question is, can you through some light on the scalability of the customers that you have and for example if you could work with top 25 customers, how large they would be for now and going ahead one to two years, how large can they become for you?

**Ajay S Mittal:** Currently as I said last quarter, we did about 150 customers in the FTWZ and we are looking at about 520 customers of various sizes by December 2012 that is the way we are working as far as our sales team is concerned where we will reach a number of about 520 customers for our FTWZ, domestic Distripark, integrated play business I would say would say who would be using our assets as well our services and amongst the 520

customers the ratio would be again, I would say typical going back to old kind of story, 20% of our customers giving 80% of the revenue, 80% of the customers giving 20% of the revenue and obviously the bigger ones are the big boys in the game would keep on expanding, so today for example, as Uday said we have got Wal-Mart, we have got Metro from the FMCG sector, we have got Hypercity. These are huge boys, these are big boys who will give us enormous amount of business and if one was to believe what the paper said today and they open up FDI in the multiple product for Wal-marts and the Metros to come in this country. The sky is the limit as far as our business is concerned.

**Hitesh Zaveri:** So at the same time, if you could give some color also in absolute terms, can an individual customer have a recurring revenue with around 200 to 300 Crores number one. Number two whether over a period of time for variety of reasons, there's any kind of stickiness which gets built with the customer, such that he grows with you based on their business growing in the country. So how does that work out?

**Ajay S Mittal:** I would want to believe and this what our internal targets are, out of the 520 customers that we target by 2012 is where we want to kind of look back and then see how we are servicing these customers and at what percentage of the business is being serviced through us and how much integration is taking place in terms of our various services and touching our various assets. I would expect these not in 12, but I would expect each of these customers to give us business in excess of about 250 Crores and we would like to term these 20% customers, which is approximately 100 customers, we would like to term them as key enterprise accounts and the target is that each key enterprise account should give us the revenue across all our business segments of about 250 Crores at a minimum.



*Arshiya International Limited  
November 16, 2011*

**Hitesh Zaveri:** In Khurja when you commence, do you expect to hit the ground running in terms of on the rental as well as, though you did mention that VOS is going to come a quarter later, but what makes you confident that you would be able to hit the ground running?

**Ajay S Mittal:** Obviously the confidence comes from the fact that we have signed up with customers firstly and I won't not say that we will fill up all warehouses on the first day, it is not possible, it will take time the moment we tell our customer to be very honest we have started some trial run in our DDP, customers like Godrej and few other have already started trial runs we are doing business for Godrej already. In the FTWZ also, a couple of customers who are already operating in our Bombay FTWZ, are already, we are doing trial runs for them, so operations have started but by the time we really get to filling this entire five warehouses, two in DTP and three in FTWZ would be around March timeframe or even April timeframe. So it would take a little while to fill it up that is more on an operational. These are not only in operational, but even customers readiness to bring in cargo, he wants to experience, he wants to bring in first only one container, just to give you example we added on one customer call L&T recently for one of their businesses of solar panels that they are putting up in various parts of the country and we started of with only 32 containers that they brought in the first lot and yesterday 99 additional containers came and we have signed up with them for about 1100 containers. The next lot we are signing is for 11,000 containers, so this is how the business will keep on growing, when the confidence level grows in what we can do this is how the business would grow and obviously L&T would qualify and this is one division of L&T and L&T would qualify as one key enterprise account and probably it should be key key key enterprise account contributing to around 500 Crores I would say.



*Arshiya International Limited  
November 16, 2011*

**Hitesh Zaveri:** One last question if I may ask, could you offer some look inside of Arshiya that the way it is building up now and at least from my vantage point we are seeing an interesting and exciting company getting built out, so there are various functions they are going to be hygiene factor; however, a persistence excellence would be required in execution, specifically what I mean by that is in the execution terms, in the leadership development, in terms of your operating matrix with regard to various scheme function getting done on time etc., your operational practices, if you could offer us little bit of look inside your firm about how leadership at various levels is being built out, who is going to execute all this well and realize the promise of what is there visible on the paper, how is that taking place?

**Ajay S Mittal:** Let me answer this, it will be a little longish answer, Hitesh, bear with me, it is a very, very critical question for all investors including yourself, we today have about close to 1100 employees, we will ramp up to about 2940 employees by December 2012 with the white colored people I am not counting on blue colored people and you would appreciate that in a company, which is growing at this fast pace there are certain key positions that need be filled up, even when you are a 100 Crores company then you go to a 10000 Crores company also you will need certain key position, but probably the 100 Crores company key position person may not be good enough for a 10000 or 2000 or 5000 Crores company. So you will see some kind of attrition that is going to happen in the key management leadership rolls also, but we are obviously guarding from all of this so there is chief level position, which is being vacated because, it could happen because of not that the person is incapable, but he was very capable to a certain point of time in the company's history, but you need a different set of skill sets you need as you grow, but he would be replaced very quickly that is obviously on the cards we would have as second line, so even if you take for example, Nitin Kolhatkar who is a very good friend he still remains a very good friend who is no longer as a CFO in the



*Arshiya International Limited*  
*November 16, 2011*

company, very capable man but even after his exit, which was due to various factors, because he could not take the ramp up that we were having as well as his priorities changed in terms being getting into to a hobby of photography. We did not see any major delays, we had somebody like Sandeesh who has been at the Executive Director level, much higher who could just take up that role of a CFO asap, without one being in place, which we will now have quickly. So at the leadership level we are obviously building buffers up and below and similarly, today Uday took the call for the first time and even he went on television yesterday on ET Now and others I think replacing Nijay who is unfortunately hospitalized at this point of time and so we have enough leadership quality in the company and we are building more and more of that at the top level, with middle level and lower level and obviously creating those buffers as needed. Secondly, there are tough places like Khurja, where employing people from Delhi and with the travel time to Khurja unlike Panvel there is enough accommodation and colleges available in Panvel, Khurja does not have that kind of infrastructure, so what we have done is, we have embarked last quarter, which we are talking of, we embarked on a journey where we went to about 12 colleges and took about 30 students from every college and did a free training program through their own teachers post class time and gave a three month training program and probably out of about 300 odd students that went on training who will graduate around March April or May or something, we would be hiring about 200 people from that vicinity. They are all within a radius of what 30-40 kilometers, so for them I do not need to find accommodation we need do not need to get into having too much issues how to transport them from where they are. They are from that local region, we also create a ecosystem within there, which would be looked at as a CSR activity of training the locals out there and so on and so forth. There are various things the company embarking on just like what we spoke about in

getting this authorized economic operator license. These are things which we have not discussed with investors in the past, but various initiatives even in the HR front are being taken continuously. We have gone from a company, which was purely based on a fixed remuneration to a variable cum fixed remuneration system, performance linked revenue system and all these kind of activities, putting in those additional performance bonuses and all of that is helping the company and our attrition rate I would say is probably amongst least on the country and we are getting talent from every sector. I would say even people who are the top level are not coming specifically, for example Uday used to be a partner in Ernst & Young looking after indirect taxes. He is on board, because he believes in the business model, it is not only that we are attracting talent from the logistics sector, but we are attracting talent from various other sectors also.

**Hitesh Zaveri:** Thank you so very much and best of luck for the future.

**Moderator:** Thank you. The next question is from the line of Yugesh Suneja from PUG Securities. Please go ahead.

**Yugesh Suneja:** Good after Sir. My first question is on Khurja railway siding like as from my understanding I think the capacity would be around six rakes per day, capacity at that railway siding to handle six rakes per day, so can you just throw some light on what would be in house usage and will you be looking for using this siding for external customers?

**Ajay S Mittal:** At the lowest efficiency level, we would be able to handle 12 rakes per day at the lowest efficiency level. 12 rakes per day and the split would be obviously 50:50 at this point of time, but as we grow it is a modular business I do not want to comment, but you know I would like to maintain this kind of level, but it could change also, as we grow. If is our

priorities change that we do not want to put in more rolling stock in terms of rakes. Then obviously, we will have rakes of the Indian Railways and other container operators or other scheme that they have of SFTO and AFTO and other operators coming in also, but as of now we are targeting 50:50 for which we are pretty much prepared and tied up.

**Yugesh Suneja:** Okay and sir just a book keeping question accounting of this like if you would probably external customers would handle the railway siding, so of course that revenue will come to Khurja FTWZ segment or that will come to railway container segment?

**Ajay S Mittal:** Railway segment, because the siding is owned by the railway company.

**Yugesh Suneja:** Okay fine and of course going forward with the operationalization of that siding, the EBIT margins of railway siding will also improve?

**Ajay S Mittal:** Absolutely, EBIT margin today on railway siding, but an average earning from just using the terminal access about 1.5 lakhs per rake and then you have loading unloading and then other activities of handling and transportation last mile, first mile transportation and warehousing in our DDPs, our domestic Distripark or FTWZ all those revenues will kick in for Arshiya in a multiple way.

**Yugesh Suneja:** Sir, just a question on overall business of FTWZ like as we know the concept of FTWZ is evolving in India so, considering the current experience with FTWZ in Dubai or Singapore like by what time do you think that this concept would evolve to mature stage in terms of like India would be taken as a major transshipment hub for imports exports?

**Ajay S Mittal:** It would be speculating as far as the whole country is concerned, but let me tell you one of the largest companies of the world at this point of time is already using our facility. I am sorry I am unable to give the name of that

company, but it is one of the largest companies in the world, which is now, in fact only yesterday we had a three-hour conversation with them, a conference with people from the US headquarters and regional headquarters in Singapore saying that they would like to convert FTWZ in India as their regional headquarters of the entire Middle East and the Asia Pacific.

**Yugesh Suneja:** Sir, for Khurja FTWZ and Distripark like the ratio of import export cargo handled I think at Panvel it would be more of an import based but being located near industrial region of the country so the FTWZ at Khurja will be more of export oriented handling products, which are more linked to exports?

**Ajay S Mittal:** It is again going to be speculation because I was told Ludhiana has the maximum number of Mercedes which are not made in India I guess. I really cannot answer your question.

**Yugesh Suneja:** Based on the current talks with the customers, what kind of customers are you looking at for Khurja FTWZ?

**Ajay S Mittal:** At this point of time I am seeing the import is outgrowing the export.

**Yugesh Suneja:** So you expect that more or less this ratio would continue at least for another year or so?

**Ajay S Mittal:** It is a little to early to make a statement in a very correct way. That would be speculating on my end to say or give you an answer.

**Yugesh Suneja:** Sir what kind of customers in terms of product categories or industry category you are looking at for your FTWZ operations in terms like engineering goods, electronics?





*Arshiya International Limited  
November 16, 2011*

**Ajay S Mittal:** FMCG, very high retail, engineering, electronics, all kinds of customers. We are not going to shy away from any kind of customer, oil and gas industry, sanitary ware, I mean all kinds of customers are there and I think that would remain the trend more or less unlike in China which is the population is dominant in the eastern coast. India has got consumption all over the country and hence we have planned over many years to have five major hubs which is in the North, South, East and Western and Central part of India, because we think that the consumption would happen in these five major hubs. In not maybe 100% equal ratios of 20%:20%:20%:20% but probably more or less close to those ratios.

**Yugesh Suneja:** Thank you Sir. That is it from my side.

**Ajay S Mittal:** Thank you. I think we are done for the hour, so I would like to hand it over to the operator.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Mittal for final remarks. Thank you and over to you Sir.

**Ajay S Mittal:** I just want to thank the investors for all your support and please continue supporting us and keep giving us the advices that have been pouring in continuously which really has changed the way we look and I am really proud to say that lot of our investors have been one of the questions asked were very critical by Hitesh Zaveri that about people lot of our investors have recommended some excellent talents that Arshiya has been able to get and I would like to see investors contributing to our growth in the same manner not only in talent but in various areas of your expertise to bring in contacts, customers, to bring in any kind of ideas and experiences that you can share with us we are more than happy and I thank everybody for the same. Thank you.



*Arshiya International Limited*  
*November 16, 2011*

**Moderator:** Thank you Sir. Thank you members of the management. On behalf of Arshiya International Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.