"Allcargo Logistics Q4 FY13 Earnings Conference Call"

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Moderator

Ladies and gentlemen, good day and welcome to the Allcargo Logistics Q4 FY13 Earnings Conference Call hosted by Standard Chartered Securities. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Aniket Mhatre from Standard Chartered Securities. Thank you and over to you sir.

Aniket Mhatre

Thank you Shama. Welcome all to the post results conference call for Allcargo Logistics limited. From the management team we have with us Mr. S. Suryanarayanan – Director Finance and CEO of Ecu-Line and Mr. Jatin Chokshi Chief Financial Officer. I would now request Suri sir to please begin with the initial comments on the results and then we can take forward the question and answer session. Over to you sir.

S. Suryanarayanan

Good afternoon, everyone. Thank you for joining us on the call. I will do a brief summary on our results and then update you on each of our business operations. After that we will take the questions. I hope all of you have received our results by now. For those who haven't you can view them along with the presentation on our web site.

Last year our company changed its accounting year from calendar to fiscal. As a result the previous audited period is for 15 months ended March 31st and isn't comparable to the 12 months ended March 31st 2013. On this call I shall discuss the financial performance for the 12 month ended March 31st 2013. On a consolidated basis and for each of our business I will also give you a sense on the comparative business performance.

For the year ended 31st March, 2013 our consolidated total revenue for the total 12 months were Rs. 3,992 crores, the EBITDA for the 12 months was Rs. 422 crores, the PAT for the year was at Rs. 170 crores. This year our consolidated capital employed was Rs. 2,411 crores. The increase in the capital was mainly on account of the purchase of a new ship and the investment in the new CFS at JNPT.

Our CAPEX for the year ahead will continue to be conservative and will be more maintenance CAPEX. We are currently not investing or adding any more of our equipment. Only when we see certain demand, growth picking up in the economy will we look at investment opportunities. However every opportunity or investment will continue to be thoroughly evaluated from a Return on capital employed and IRR perspective.

To share some balance sheet highlights, the net worth as of March 31st 2013 stood at Rs. 1,568 crores. Over total debt was Rs. 763 crores. The net debt-to equity continues to be at 0.33.

Moving on to our businesses – starting with our CFS ICD operations. Our total installed capacity of our CFS's now stands at 485,000 TEUs per annum. The total installed capacity of our ICDs is 88,000 TEUs per annum. The total volume at all our CFS's put together for the year declined at 9% year on year to 221,909 TEUs. The decline for us was mainly on account of the drop on the import laden containers at the port. Even though the port volumes have declined only by about 0.6% you must realize that a lot of those imported volumes also contained empty containers. But for us what matters is the import laden containers and that is where we saw a significant drop in that.

This year the business has achieved revenue of about Rs. 312 crores and the EBIT at about Rs. 112 crores. The revenues and EBIT have declined in line with the volumes. The volumes of our new CFS JNPT have been in line with our expectations and we expect this business to grow as growth comes back to the port volumes. Month on month in the new JNPT CFS, we have seen the volumes grow. Moving on to a Multimodel Transport Operations - As you know, here we have an unique business model where we focus primarily on LCL consolidation which make us resilient to recession and its effect on global trade. The volumes on a year on year basis grew at about 3% for the year despite slowdown in certain parts of world economy. This segment generated total revenue of about Rs. 3195 crores and an EBIT at Rs. 149 crores. We expect the volume to grow currently at about 8% to 9% in the current financial year.

And finally our Project in Engineering businesses – Our fleet size stood over 1000 equipment. We have not added much of equipment either last year nor are likely to add much in the current year. The total revenues in this segment were at about Rs. 430 crores and then EBIT of Rs. 39 crores because in this segment is where there is an element of depreciation**.**

Our order book continues to be strong. However we have seen some of our major customers have postponed their CAPEX plan and in line with current macro-economic scenario in the country we are seeing certain slow-down in the industry itself and that is where we have seen the utilization of our equipment coming down and this has been more or less muted but it is in-line with the previous quarter.

The new customers added in our project transportation will start execution of their projects in the second quarter and we expect to see a strong traction coming in this segment post the second quarter.

To summarize and reflect – Across all our businesses, we will continue to focus on growth in both revenues and profits. Our focus is on the asset utilization in our equipment businesses and I think once growth comes back into the Indian economy we should be poised to go forward.

Thank you so much. Now I can take the questions.

Moderator Thank you very much sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Chetan Kapoor from IDBI Capital. Please go ahead.

Chetan Kapoor Can we have the order book what we have outstanding on the equipment hiring business?

S. Suryanarayanan Savli will you be able to give them the numbers?

Savli Mangle On the order book it is about Rs. 220 crores both project and engineering put together**.**

Chetan Kapoor I just wanted to know as far as the contraction in margins in MTO business what we have seen during the quarter. Any specific reason why we are seeing this kind of a contraction?

S. Suryanarayanan Which one?

Chetan Kapoor In the MTO business on the consolidated basis our EBIT margins are contracted.

S. Suryanarayanan The EBIT margins?

Chetan Kapoor Yes, the EBIT margins stood at around 2.3%.

S. Suryanarayanan On a quarter on quarter basis?

Chetan Kapoor Yes.

S. Suryanarayanan Actually do not look at it at a quarter on quarter basis because if you look at it especially if you are comparing at sequential level then you will be comparing 2 unlike quarters. Because for us the strong performance in our LCL business generally happens at least at a global level as October- November-December are strong months, January-February-March are weaker months because of the Chinese new-year impact and that has been historically that is the way it runs. So I would not be too much worried on a quarter on quarter basis.

Chetan Kapoor So you ascribe this contraction mainly because of the seasonal impact?

S. Suryanarayanan Yes, because right way to look at this business and that is the way we track internally means we look at it across the current trends and yes certain geographies we are facing competitive pressure but otherwise at an overall level I would not be too much worried on a quarter on quarter basis.

Chetan Kapoor As far as the CFS business is concerned are we seeing some kind of a realization contraction over there?

S. Suryanarayanan Actually in our CFS business if you see our revenue per TEU's has actually gone up. So I think from a realization perspective it is still holding. And even if you were to look at a sequential level it has been holding.

Chetan Kapoor But again the margin pressure seems to be over there also?

S. Suryanarayanan Here the EBITDA per TEU if you look at it between quarter 3 and quarter 4 a JNPT we are still continuing to hold good. In fact we have marginally improved at an EBITDA per TEU. It is function of volumes now in JNPT at least.

Chetan Kapoor And as far as the other Project Engineering and solutions we are having definitely there is a as you rightly said that there is a slow-down in their overall CAPEX cycle. So by when can we expect like clear cut improvement happening in this?

S. Suryanarayanan We have to split this business into 2 components – one is our project logistics movement and of course the equipment rental part of the business. As far as our order book on the project logistic business goes I think we have enough orders on hand and these will start getting executed from 2nd quarter onwards. So I think we are well poised there and those orders it is only a question of certain time lines and milestones there and I think from a 2nd quarter onwards we should see those order book on hand will start getting executed.

In our equipment business- yes, that is where some of our assets are idling. If you look at it from a sequential quarter basis I think we are holding, we are slowly improving the asset utilization, I see it may be one more quarter these type of conditions will continue but I think slowly the economy is picking up or some of the things that where we are dealing with as these customers come back into play those utilizations of those assets will start coming back to the levels.

Moderator Thank you. We have the next question from the line of Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi Could you comment on the new CFS capacity that we added in December? How is that shaping up and volume pick-up there?

S. Suryanarayanan What we are seeing is month on month our number of TEU's is increasing. I think every month it has moved up by about 200 to 300, I think last month we did about 1,900 TEU's.

Bhavin Gandhi What may be the average run-rate right now in the current month in the new CFS?

S. Suryanarayanan What is the?

Bhavin Gandhi Current run-rate in the new facility?

S. Suryanarayanan In the new CFS?

Bhavin Gandhi Yes.

S. Suryanarayanan The current rate, the exit rate was about 2,000 TEU's.

Bhavin Gandhi What would be the import – export split here in the CFS?

S. Suryanarayanan I immediately do not have that number but I think some of my colleagues would give you that.

Jatin Choksi Yes, currently it is 50:50 as of our composition**.**

Moderator Thank you. We have the next question from the line of Deepen Sanghvi from Enam Asset Management. Please go ahead.

Deepen Sanghvi Firstly on CFS- we have continuously seen pressure on volumes across all the CFS's especially in JNPT and Chennai. So how do you see that going forward over next 12 to 15 months?

S. Suryanarayanan It is now a function of the volumes that are coming in here. We have not lost any of our customers, we have not lost market share, it is just that the total volume itself has come down. So my guess would be that till such time the Indian economy picks up we will be in this type of a situation for some time. Otherwise from any other perspective there is no other impact it is just an impact of the volumes itself.

Deepen Sanghvi Sometimes back we were looking at some additional land at Chennai for further expansion, what is the status on that?

S. Suryanarayanan That land we were looking at it but now with capacity and all coming in and with volumes there, so for the movement we will only look at it if we really see a very big opportunity there.

Deepen Sanghvi That is something you know we are not pursuing for the time being?

S. Suryanarayanan No, see it is like that current CFS we are not immediately visualizing any expenses till the time overall situation improves. However we are keeping an open eye on near-by port like Ennore and Kattupalli and other things. So any such opportunity and we feel is the right time so we are keeping an eye but nothing has been finalized.

Deepen Sanghvi On the ECU-Line business what is the volume? You said about 8% to 9% is the volume growth visibility that you have for FY14. What are the other business trends? Who would you like to highlight from you know something you have noticed observed over last one year because the margin overall in that business has compressed. So any specific trend do you like to highlight?

S. Suryanarayanan There is no specific trend. Yes, there is pressure on Europe but that is because of the economic conditions out there. But still there has been a lot of exports that have come out of the European zone into Asia, into Latin America, they continue to hold, they continue to do well, it is a question of how much of imports that are coming into European zone that is where the slow-down has actually happened. But if you look at it from an overall perspective in spite of all of this, at a global level we are still growing. I think we will continue, yes it is quite a competitive business out there. There is a margin pressure on few of our trade lines but I think we are with all and others to take on this competition and gain market share.

Deepen Sanghvi What was the EBITDA margin for ECU-Line in FY13?

S. Suryanarayanan In FY13 the EBITDA margin is 6%.

Deepen Sanghvi This is pretty much you know the best margin we can do or is there any further scope left for expansion of margin?

S. Suryanarayanan See unfortunately when you take the numerator and denominator there is an element of freight component that is sitting in the revenue base especially in this business. So I think sometimes the true EBITDA margin never really will come out because it is only a function and an indication. But I think to answer your question- yes, there is enough scope inside to continue to squeeze and try to increase this margin.

Deepen Sanghvi On the project and equipment business what is the utilization rates right now?

S. Suryanarayanan I think in our crane business that is our equipment rental business the asset utilization would be some-where around about 75% or so.

Deepen Sanghvi What will be our approximate EBITDA margin in this business both combined project and equipment?

S. Suryanarayanan What is our best?

Deepen Sanghvi Approximately what will be the EBITDA margin in project and equipment business?

S. Suryanarayanan See the EBITDA margin in the crane rental business was at a high level. If you take an individual crane, if it were to operate it would always be in the range of about 75% to 80%. But if you look at it at an overall level in the equipment business with trailers and others it would be at about 50% - 55%. On the project logistics and solution business the margins will range between 15% to 20%.

Deepen Sanghvi Both of them combined can we say that your margin will be about may be 12-13%?

S. Suryanarayanan No, it will be more than that. See because here what is happening and this is something that you must recognize and to many of you is some of these projects are all milestones driven. So what happens is we bill when a particular element has happened then we book revenues also correspondingly when those movements have happened. For you to get a full picture you need to get it across the project that has been contracted. So I think for the full realization there could be a timing difference at various points in time.

Deepen Sanghvi Are we likely to see any growth in revenues in this business or in FY14 or we likely to see a flat year ahead?

S. Suryanarayanan I think the way currently it is I would say another 1 or 2 quarters it will run like this and then there after we will see growth and when I use the word growth the asset utilizations will start coming in to play.

Deepen Sanghvi What is the CAPEX that we are looking at in FY14?

S. Suryanarayanan What is the?

Deepen Sanghvi CAPEX if you-

S. Suryanarayanan Not much.

Deepen Sanghvi If you want to put a number may be what 50 to 75 crores?

S. Suryanarayanan Not much may be a few places here and there but the CAPEX will not be huge.

Jatin Choksi It will be purely maintenance CAPEX kind of thing.

S. Suryanarayanan Yes, it will be only what it is. May be we might do something in Hyderabad but for the moment we are studying every option here till we see the growth coming back into the economy.

Deepen Sanghvi Lastly, what was the gross consolidated debt as on FY13?

S. Suryanarayanan I think it is Rs. 750 crores.

Deepen Sanghvi Any repayments we have by looking at FY14?

S. Suryanarayanan Repayments are there continuously.

Deepen Sanghvi No, I am saying in the net level you would have borrowed something additional and you would have repaid. So net-net the debt actually has not much changed. If I am not wrong last year it was Rs. 768 crores which has come to Rs. 750 crores.

S. Suryanarayanan But last year if you realize there was some addition to debt and there was some repayment and in the current financial year I think the repayment will be roughly about, if my memory is right roughly about Rs. 144 crores in both.

S. Suryanarayanan Yes but I think you can take the exact number from Savli here.

Deepen Sanghvi Sure I will do that.

Moderator Thank you. The next question is from the line of T Venkatesh from Corporate Database. Please go ahead.

T Venkatesh Just wanted to know on a comparable basis how is the performance like?

S. Suryanarayanan Comparable basis on a sequential basis?

T Venkatesh No, on a comparable 12 months basis?

S. Suryanarayanan On a comparable basis on a 12 month versus 12 month we have been down around 10-12% at an EBITDA level but here you must also understand that last year in the last quarter there was a one-time adjustment of a about 23-24 crores. So if I remove that effect then we are more or less about 6-7% down.

T Venkatesh Secondly I wanted to understand is in your balance sheet I find current liabilities has gone up substantially? I mean is there an element which has gone up in particular or is there an element of debt which is included in your other current liabilities?

S. **Suryanarayanan** May be the current liabilities may be the current portion of repayment are also sitting there. I think that is why you would have seen that liability going up.

T Venkatesh How much would that be?

S. Suryanarayanan I just gave a number I do not exactly remember that number. I gave a number of about Rs. 144 or 130 crores may be put together.

Moderator Thank you.

Aniket Mhatre Shyama, while we await the questions from the participants I will just take a couple of questions. When you say the slowdown will continue for at least a couple of quarters, are you seeing any signs of any revival in any of your segments which makes you confident that it may be better in the second half?

S. Suryanarayanan When I see because we are slowly getting the orders, the orders are now getting executed, the timing of some of our orders that we have in hand we know that we will start executing from the 2nd quarter onwards. In our equipment business slowly the asset utilization is being increased but at this point of time I do not want to become too much overly optimistic but at least I see for one more quarter it will be a little bit muted but there are after I think as I see the trend coming in I believe that there should be growth there.

Aniket Mhatre So if you were to give a brief outlook for each of your business segments for FY14, would you like to give any guidance?

S. Suryanarayanan At this point of time let me hold on to that, we are aiming for growth; we are seeing a certain element of growth both in our PAT, EBITDA levels but for the moment let me not give you any guidance till it starts stabilizing.

Aniket Mhatre Just one more housekeeping question – What was the CAPEX you said that you incurred in FY13?

S. **Suryanarayanan** If you remove the investment and into our JNPT CFS-2, I think we added a ship and probably a spill-over of some of the equipments that we had ordered in the previous year which came into the early part of the calendar year of the current year. I think all put together would be roughly in the region of about 120 crores.

Moderator Thank you**.** We have the next follow up question from T Venkatesh from Corporate Database. Please go ahead.

T Venkatesh Just one clarification in the segment details – in your project engineering and solutions business your PBIT which is shown as 15.5 crores includes the realized gain on cancelation of settlement derivatives. How much would that be sitting out there?

S. Suryanarayanan This is in this quarter?

T Venkatesh In this quarter and for the full year for both CFS business as well as for project engineering business for the full year?

S. Suryanarayanan In the CFS business we do not have much because the bulk of the borrowings were for our equipment business. So this is that 14 crores of accounting impact here, nothing much in this. That is why when you see some of our quarter-on-quarter numbers we will have to start eliminating some of these one-time movements that keep happening. These are all accounting numbers that is there rather than commercial impact on the business.

T Venkatesh But for the full year out of Rs. 47 crores how much would be the amount?

S. Suryanarayanan Full year basis I don’t think there is nothing much other than this 14 crores I do not see much of it.

Moderator Thank you. As there are no further questions from the participants I would now like to hand the floor back to Mr. Aniket Mhatre for closing comments. Over to you sir.

Aniket Mhatre Thank you. On behalf of Standard Chartered Securities I would like to thank the management team of Allcargo for taking the time out and patiently answering all the questions. Thank you very much sir. Thank you to all participants. Thanks and have a nice day.

S. Suryanarayanan Thank you.

Moderator Thank you sir. Ladies and gentlemen on behalf of Standard Chartered Securities that concludes this conference call. Thank you for joining us you may now disconnect your lines. Thank you.