



“Container Corporation of India Limited Q3 FY19 Earnings
Conference Call”

February 13, 2019



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MODERATOR: MS. BHOOMIKA NAIR – IDFC SECURITIES



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Moderator: Ladies and gentlemen, good day and welcome to the Container Corporation of India Limited Q3 FY19 earnings conference call hosted by IDFC Securities. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you ma'am.

Bhoomika Nair: On behalf of IDFC Securities, I would like to welcome you all to the Container Corporation of India 3rd quarter FY19 earnings call. The management today is being represented by Mr. Kalyana Rama – Managing Director. I will now hand over the call to him for his opening remarks post which we will open up the floor for Q&A. Over to you sir.

V. Kalyana Rama: Thank you Bhoomika. Good morning to all of you. We have come out with a good quarter again, may be a little less than last quarter, but comparison should be with the corresponding quarter. So, when we look at the figures, there were a little bit of export pressures. The exports have come down in the month of November and picked up again in December. So, because of that, slight increase in the empty running. Otherwise, quarter is looking good, absolutely no worry. Signals have come in anywhere in between and all other things as we are planning are going ahead, and in fact, I will be very happy to share with you we started our coastal services and it is picking up, and as scheduled, we are running 2 services and also our initiatives towards the distribution logistics are on course. The expressions of interest are already in the open and their responses coming in. So, it will be finalized very soon, and some will start functioning in this financial year and our asset acquisitions, particularly the running stock, the railcars we are continuously increasing. In this quarter also, we added 4 more rail rakes taking our number of high-speed rakes to 303 and total stock to 334 and all these new containers we procured are put into service, and in fact, we will be finding may be we require some more acquisitions required in the containers and our program for acquiring more number of rakes is on. As I mentioned it in the beginning of the year, our forecast in increase in volumes as well as in the top line keeping the guidance at around 12%, we are on course with that. I could see that for the period ended 9 months this year, we have come up with an overall increase of around 10.5% in our handling and in our revenues as well. Revenue is in the same line, so by the year end, we will be able to achieve our targets. We are not finding any pressure on that and we are not finding any worrisome things in achieving these growth rates as we forecasted. All other initiatives what we started giving a free time of 45 days for loaded containers and 90 days for the empty containers across all the depots of Container Corporation across India is really giving very good results. We are finding more boxes flowing into our depots. That in fact reduced the empty running to a great extent in the month of December. It has come down to 5.71%, one of the lowest we achieved in any of the months. Of course, that will not be reflected in the quarter results. Quarter results full 3 months will give you. So, as I mentioned November was a little bad but December, we picked up very well. So, this empty running ratio bringing it down to around 5% to 6% level really matters because all of you understand the empty running cost is direct hit on the profitability. With this, I open the conference for the queries from the analysts.



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- Moderator:** Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Atul Tiwari from Citigroup. Please go ahead.
- Atul Tiwari:** Sir, my first question is housekeeping in nature. What was the originating EXIM and domestic volume and the lead distance for the same in the quarter?
- Sanjay Swarup:** EXIM handling was 7,85,873 TEUs and domestic was 1,40,233 TEUs, total handling is 9,26,106 TEUs in this quarter. And originating EXIM was 5,07,798 TEUs, domestic 67,918 TEUs, total is 5,75,716 TEUs.
- Atul Tiwari:** And the lead distances, EXIM and domestic?
- Sanjay Swarup:** Lead EXIM was 706 km, domestic 1412 km. This I am telling about the whole period actually up to December 2018.
- Atul Tiwari:** The number for only 3rd quarter do you have?
- Sanjay Swarup:** Number for 3rd quarter is EXIM 709, domestic 1453.
- Atul Tiwari:** What will be the blended average of the total?
- Sanjay Swarup:** 786.
- Atul Tiwari:** Sir, my second and the last question is on the notes to accounts in the result point number 6 relating to SEIS income. Correct me if my understanding is wrong, but it does look like that for 2 years FY16 and FY17, about 436 odd crore rupees of SEIS income which was booked is still under process by the concerned department of government and it does appear looking at the note that they have raised some queries and you guys have replied to it. What is the actual status and is there some kind of legal dispute or lack of clarity regarding this?
- V. Kalyana Rama:** There is no legal dispute. There is no lack of clarity in this aspect. The only question is that our claim is very big amount compared to the normal claim by the other operators. Otherwise, one of the operators who are working in the same field, they already got the SEIS for first few years, but their amounts are less. So, being a big amount, they are holding on may be it is because of the budgetary problems with the government. Otherwise, as far as the eligibility is concerned or any other thing, it is very clear and there is no negative reaction anywhere. It is only a question of time.
- Atul Tiwari:** It's very large but in the industry, we have seen some of the much smaller operators kind of selling it in the market at a slight discount and getting the cash in. Can you also do that and is that a feasible option for you guys given your size?



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V. Kalyana Rama: Once we get the script, then we will look at the options whether we can use it or we will be monetizing it. Your question is about whether we get or not, isn't it?

Moderator: The next question is on the line of Srinidhi Kalrekar from HSBC. Please go ahead.

Srinidhi Kalrekar: Congratulations for the decent set of results. Sir, I just want to have a more color on your recent tender of 9050 bogie that you have ordered. Would it be possible to throw some light on in terms of how many rakes does it translate to, over what period do you plan to procure them, and is it for growth or is it more of a replacement need, and are they compliant with the DFC axle norms which is higher, axle weight and all?

V. Kalyana Rama: These bogies will be procured in a span of next 4 years. The number of rakes it turns out to be something like 270 plus rakes. They are not for replacement, they are for the growth, and all these wagons will be DFC compliant. We are going for new design.

Srinidhi Kalrekar: Second question is that government has come up with that 25% discount on empty flats as well as containers. Would it be possible to quantify the impact of it or you can say how much has been the typical empty running charges for the full year and how much of it is actually flats and empty containers and how much is the rake repositioning?

V. Kalyana Rama: We don't keep these figures of empties, different for empty flats and empty containers. I can give you the empty running cost what happened in this quarter and up to 9 months. So, empty running cost in this year it is 185 crores for the 9 months compared to 187 crores last year. And you want to know about the quarter?

Srinidhi Kalrekar: My question is more on domestic where we will get some discount because of this new 25% discount that government has kind of instituted. So, I just want to know how much of typical empty cost of a domestic business, how much is repositioning, and how much is actually like even if you give me ballpark percentage number? Because the way I understand is the rake repositioning whatever that is required, there you won't get any discount but the transportation of empty flats and empty containers, you will get a 25% discount. Correct me if I am wrong.

V. Kalyana Rama: Let me first clarify it. There is no distinction between repositioning or empty flat running empty container. Repositioning is nothing but empty flat running and empty container running, okay? The discount of 25% is for all the empty flats and empty containers running whether it is domestic or whether it is EXIM, but we are not just keeping that into our pocket. We are increasing our market share by giving suitable adjustments in our freight structure and our discount schemes to various customers.

Srinidhi Kalrekar: Okay. So, to an extent, it is getting passed on to customer, right?



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- V. Kalyana Rama:** Our aim is to increase the market share and thereby increase more profit rather than just keeping this 25% in our pocket and try to account for that out of empty running cost of 250 crores, we will save something and that.
- Srinidhi Kalrekar:** There has been a recent about 5% increase in haulage cost. I don't think we have taken a price hike after that. We had taken just before that in terms of higher services charges. Say in a quarter or a couple of quarters, do you think you will be in position to pass on this increased haulage cost to your customers?
- V. Kalyana Rama:** I can't give any guess on this at this moment. We don't give futuristic answers.
- Moderator:** The next question is from the line of Ankit Panchmatia from B&K Securities. Please go ahead.
- Bhavin Gandhi:** Firstly, if you can share the volumes in million tons between EXIM and domestic?
- Sanjay Swarup:** Volume in million tons for the period ending December 2018 in EXIM it was 26.77 million tons and for domestic it was 5.76 million tons. That makes a total of 32.53 million tons. Growth of more than 11% over last year.
- Bhavin Gandhi:** My second question is if we look at the numbers, it seems like there has been a fall in realization on a sequential basis. I look at the leads and they remain more or less flat. What explains this fall in realization?
- V. Kalyana Rama:** Realization of which period you are comparing?
- Bhavin Gandhi:** I am just comparing the quarter on quarter, 2nd quarter to 3rd quarter. I thought there was no pricing action, the leads remained flat. So, what was the cause of the decline in realization?
- V. Kalyana Rama:** There was a little increase in the empty running cost and also then more empties have moved because of no exports. So, obviously when the empty containers are moving back to the ports, the margins are little less compared to the loaded runs.
- Bhavin Gandhi:** But will empties impact realization numbers as well?
- V. Kalyana Rama:** Empty running cost will realize because this is the realization based on the total volume we did and what is the profit we got on the originating side.
- Bhavin Gandhi:** Lastly, port-wise market share?
- V. Kalyana Rama:** In JNPT it is 78.5%, in Mundra it is 52.5%, and Pipavav it is 54%.
- Moderator:** The next question is from the line of Achal Lohade from JM Financial. Please go ahead.



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- Achal Lohade:** My first question is with respect to realization. If I look at, we had taken the tariff hike/price increase in May as well as in August with respect to services. I was just curious given the Rs. 2500 increase in the pricing, still the realization dropped in the December quarter. Can you explain what would be the impact of the storage cost, the free storage? Would that have substantial impact on the realization per TEU?
- V. Kalyana Rama:** By giving free storage, we are getting more volumes but that free storage is already accounted for with our increase in the service charges which we are charging of Rs. 1500 and Rs. 3000 from September 1st onwards. So, that is in fact more than compensating the loss in the storage charges. And the remaining things are the same as I explained to earlier question.
- Achal Lohade:** That is to do with the empties, so you are meaning basically the volume number is higher because of the empty while there is no adequate realization with respect to that and hence the per TEU realization looks lower. Is that right, sir?
- V. Kalyana Rama:** This is because of that, yes, lead factor; little lead coming down and then the empty running, empties moving more towards ports.
- Achal Lohade:** Is it possible to quantify what was the empty percentage?
- V. Kalyana Rama:** I think this is beyond this conference. You can ask for these queries later on in e-mail, okay?
- Achal Lohade:** Sure. Second question with respect to the port mix, if you can help us with the port mix and the guidance you had earlier indicated 12% to 14%. This time around you are saying 12%.
- V. Kalyana Rama:** 12% or 12% to 14% you can pick up that. When I said 12% or 12% to 14%, it is a bandwidth I am talking of.
- Achal Lohade:** Fair point. What I was coming to basically was if I look at 12% for the full year, the implying 4th quarter ask rate is about 17% in terms of the EXIM volume growth. So, I was just curious to know is that right understanding?
- V. Kalyana Rama:** That is your crunching of numbers. You do your crunching of numbers. Why should I comment on that? The numbers won't change. If it is 17%, it is 17%, I have not done that, but we are committed that we will be achieving the 12% growth, and I can't comment on Q4 how we are doing now at this moment. We can only discuss about Q3.
- Achal Lohade:** No problem sir. Support mix please?
- V. Kalyana Rama:** Out of total volume, JNPT gives us around 34%, Mundra gives me 32, Pipavav 15 and rest all from the east coast and other minor ports.



- Moderator:** The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.
- Prateek Kumar:** My first question is regarding the double stack operation, again a bookkeeping question. How many double stack trains we run this quarter? And what is now the percentage volumes we are doing by double stack?
- V. Kalyana Rama:** Double stack in Q3 we did 708 trains.
- Prateek Kumar:** The percentage volumes still remain around 10% as per your estimate?
- V. Kalyana Rama:** Yes, it hovers around that, it will be around 10%.
- Prateek Kumar:** So, 708 trains is a drop of like around 100 trains on quarter on quarter. I mean previous 2 quarters, we did around 800 plus. This is again attributable to lower exports?
- V. Kalyana Rama:** Volumes were also lower. Compared to Q2, Q3 volumes are lower. The import-export trade is a little down for India in total in Q3 period compared to Q2. The exports were weak during the months of November and December.
- Prateek Kumar:** My next question is regarding a couple of news flows on CONCOR's investment outside India, first being the Russia MOU which has been talked about which is there and another in Egypt there is some ICD development which is there. What is the outlook on these investments and what is the capital commitments which we are looking at here?
- V. Kalyana Rama:** In Egypt, the process is on. We are now competing in the open market. If we win the bid, the capital commitment from our side will be around 35 million US dollars and whereas Russia is more of an operational thing. There will be not investments in that. It is running containers in international north-south corridor. This is the corridor which goes from Mumbai via Bandar Abbas and Azerbaijan into Russia Moscow. So, there is a lot of trade, and this can be a faster route to Europe also as compared to the running of international routes via sea route via Suez Canal. Now we are working on that. The MOU what we did with the Russian Railways what we informed to the market is an MOU made. Now we will make further commercial working on this, how to go about it and what will be the pricing, how to do it and all that. Now at this stage, only MOU is done on this. The main purpose is to run INSTC.
- Prateek Kumar:** So, the corridor is existent, and we just have to run trains like we run in India. So, we run trains, we earn revenue, and we pay some haulage on those routes also?
- V. Kalyana Rama:** Obviously. Yes, that's correct understanding.



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- Prateek Kumar:** This investment in Egypt of around 250 crores, we have now a separate subsidiary which possibly will invest here, and I mean just for understanding....
- V. Kalyana Rama:** Don't try to guess too many things. As I said, we are competing in the bid, once the bid if we win – we are doing it with a consortium of some other players – then all these things will come up. They will be maybe a JV company. We will give all those details once we complete our process, okay?
- Prateek Kumar:** Just one more question on your logistics parks update. What is the CAPEX until now in FY19 and do we maintain that original guidance of CAPEX and how are the number of packs now we are looking at?
- V. Kalyana Rama:** We are now at 82. So, we will be touching by the close of this year 90 to 92 parks total our locations and we are aiming at commissioning 6 parks this year. And our CAPEX expenditure is as per our estimates.
- Prateek Kumar:** So, 92 is in FY19 we are looking to close versus 82 we have currently?
- V. Kalyana Rama:** Yes.
- Prateek Kumar:** So, over the next 2 months, you will open like 10 more?
- V. Kalyana Rama:** That's what. That is the inference. We may touch around 90 to 92.
- Prateek Kumar:** Okay. And 100 by FY20?
- V. Kalyana Rama:** Yes.
- Moderator:** The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** Just if you can share some thoughts on the coastal shipping business and your thoughts on that in terms of growth and one clarification whether going ahead, we will be reporting coastal shipping as a separate SBU or it will be a part of the consolidated numbers?
- V. Kalyana Rama:** It will be consolidated number. Coastal shipping will be one of the vertical for CONCOR. And regarding the outlook, coastal we have very bullish outlook on coastal because there is lot of demand for transportation of goods from North to South and also across the coast of India and we are not only going in coastal only for containers. Let us understand this first that we are looking at doing bulk and break bulk as well in coastal and we are getting lot of enquiries about doing bulk and break bulk. So, we just started 2 ships of only containers. These 2 vessels are of container vessels, but then further we will be increasing our fleet. This is all on outsource mode only. We are not going to acquire any vessel, or we are not going to charter any vessel. It will be an operational contract. I will not give any guess numbers right now, but



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it will be definitely a sizeable business, sizable vertical in CONCOR. As of now, this vertical is with domestic. We have only 2 verticals in business, EXIM vertical and domestic vertical, so coastal is in domestic. So, for the time being, we will be giving these numbers with domestic business.

Ankur Periwal: Second question on the volume growth rate. While you explained the decline in export volumes resulted in relatively slower growth. Earlier whenever there has been a sharp increase in haulage charges, there has been some shift of volumes towards road and now with the diesel prices correcting as well, do you think that sort of thing happening on the ground or it is just a momentary decline in this quarter?

V. Kalyana Rama: There is no shift from rail to road. As such, exports are down. I think you people will be monitoring the export growth rates of India also as well. So, you must be having these numbers that exports were not good in the month of November and December.

Rail haulage has not increased. Rail haulage in fact only 5% increased which we have not passed on to the customer. There is some reduction in empty haulage charges which we are giving whenever it is necessary giving some benefit to the customers. These are all positive factors. We are finding that the share of the rail traffic is also increasing. At Mundra, I have given the number. Not only our share increased, a little bit of rail share also increased.

Ankur Periwal: Lastly, if you can give the breakup of export and import volumes for the quarter and 9 months?

Sanjay Swarup: For the period ending December, export volumes have been 1.2 million TEUs and import volumes were 1.22 million TEUs.

Moderator: The next question is from the line of Abhilasha Satale from Dalal & Broacha.

Abhilasha Satale: I have a question on DFC. By September 2019, DFC is likely to get completed till Palanpur. So, therefore both the ports like Mundra and Pipavav will get connected to DFC, it is likely to be. So, there the rail coefficient for both the ports is in the range of 25% to 26%. So, according to our estimate, what is likely growth expected post these ports are getting connected to DFC and will there be therefore growth in our market share also?

V. Kalyana Rama: Taking the commissioning date as guessed by you, I am not making any guess on that, so if it is September 2019 and ports get connected, the main advantage of DFC will be the transit time guarantees which we can give to the customers. As on date, the major negative factor on rail-bound traffic is that the transit assurances are not given which road is able to provide to some extent. Once we provide this transit guarantees to customers, there are a lot of customers who want to come to rail and because of more volume running and the better utilization of stock, the pricing also will become very competitive compared to road. Even today, we are not finding that pricing is to do lot with the competition with the road, but transit time is a major



factor which is affecting us. There will be good growth, and as many times I discussed earlier on channels as well as in the conferences, the growth expected with the DFC is something like 25% of the volumes presently running on the rail. So, that 25% volume growth or now you can have your own numbers, what will be the CONCOR's share and what will be the others' share and all that.

Abhilasha Satale: So, this 25% then we are expecting to increase to what number? Just by connecting 2 ports, how much the coefficient is likely to go up?

V. Kalyana Rama: This is a question of detailing. That you can do. We have given the numbers. Please do the detailing, okay?

Abhilasha Satale: Okay, sure. Sir, you said that we have ordered 270 rakes. What is this amount like how much CAPEX we are expecting to incur over the next 4 years for ordering these rakes?

V. Kalyana Rama: It is roughly around 4500 crores over a period of 5 years.

Moderator: The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Can you give the breakup of EXIM and domestic empty running for this quarter?

V. Kalyana Rama: EXIM running is 31.7 crores, domestic running is 30.7 crores, total is 62.5 crores.

Moderator: The next question is from the line of Rajarshi Maitra from CIMB Securities.

Rajarshi Maitra: My question is on the SEIS income. we are noticing for the last few quarters, it has been almost you are booking the number every quarter. So, can we expect the same going forward also that it will be booked not on a lumpy basis but on every quarter?

V. Kalyana Rama: I think this I explained many times earlier. This SEIS income can be booked only after the government gives notification. SEIS income comes out of the import-export policy which was announced in 2015. The government announced it for 5 years. So, this block period is 2015 to 2020. But then, they give a notification for every year separately. Last year, it was given in the, I think, month of November or December. So, we could not account for it in the first 2 quarters, we accounted it for the 3rd quarter. As and when the notification comes, we have to account for. That is as per the accounting practices and as per the law of the land. This year, they have given in the 1st quarter itself. So, we started taking from the 1st quarter. Next year, how the government releases these notifications depends on that. Whether we are going to account for it in each quarter or we are going to account for as a lump sum or quarter-wise, let us wait and watch.



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- Rajarshi Maitra:** Okay sir. And what was the number for this quarter exactly, the SEIS income?
- Sanjay Swarup:** It is 84.45 crores for this quarter.
- Moderator:** The next question is from the line of Deepika Mundra from JP Morgan. Please go ahead.
- Deepika Mundra:** Firstly, just one housekeeping question. I wanted to know what was the rail freight margin in the quarter?
- V. Kalyana Rama:** It is 26.54.
- Deepika Mundra:** It seems that the originating volume growth has been much slower as compared to handling as to what we typically see in the past few quarters. Any particular reason for that?
- V. Kalyana Rama:** Total overall originating volume in this quarter is around 6.15% in EXIM. You are asking quarter on quarter?
- Deepika Mundra:** Year on year. I believe for EXIM you said it was 5,07,798 which brings the growth to about just 1% to 1.5%.
- V. Kalyana Rama:** Originating growth in EXIM on the period ending this period to the corresponding period is 6.15% and in domestic it is 9.74 and overall it is 6.55.
- Moderator:** The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.
- Pulkit Patni:** My first question is on the MMLPs. Now that there is a significant investment that is going on, it will be appreciated if you can share a little more details about what that is contributing to revenue? Can you highlight what would be the capacity utilization on a blended basis at these multimodal logistics parks?
- V. Kalyana Rama:** This question I answered earlier also. We don't crunch the numbers what we are getting from these. When we look at, we don't keep anything in work in progress. We always capitalize and we depreciate those assets as soon as we commission even a part of it. When we start depreciating and then we are showing the growth in profit, that shows that the assets are being utilized. Regarding the asset utilization percentage, some MMLPs are already completely saturated and we are going for further expansion in that, and in some places, we are trying to generate business.
- Pulkit Patni:** My second question is from your CAPEX for the last 5 years if I was to only talk about what is invested in the MMLPs. Could you highlight what that cumulative number would be like?
- V. Kalyana Rama:** Difficult now at this moment. On MMLP development, we spend around roughly 55% to 60%.



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- Pulkit Patni:** 55% to 60% of the cumulative number last 5 years?
- V. Kalyana Rama:** Every year, we will be spending this much amount on the MMLP development.
- Pulkit Patni:** The reason I asked this is since you gave the number of this rake acquisition to be 4500 crores over the next 5 years, it means effectively 900 crores every year will be spent on rake acquisition which effectively means that if you continue with the current run rate, we are not leaving too much scope of CAPEX for anything else. Is that understanding correct?
- V. Kalyana Rama:** Have I said that we are not going to increase our CAPEX?
- Pulkit Patni:** Okay sir, so if you could highlight what the CAPEX for the next 5 years would be?
- V. Kalyana Rama:** Don't ask guess questions. You know that I don't give you guess answers. I give you what I am doing. My CAPEX expenditure in these 5 years, 2017 to 2022 I said I will be doing anywhere between 6000 to 8000 crores. Now you can work back your numbers, it will come into that. Then if we do all this and we will continue with the Target-100 program, we will be touching in between these numbers. You can work back.
- Moderator:** The next question is from the line of Venugopal Garre from Bernstein. Please go ahead.
- Venugopal Garre:** Two small questions from me. Firstly, on the coastal shipping side which is only recently started. I just wanted to understand if you could explain or highlight to us how the pricing dynamics and cost dynamics work in this business for you and how different is it from the rail side?
- V. Kalyana Rama:** Coastal is different. We don't compare coastal with rail. Coastal dynamics are different entirely and coastal pricing is based on the coastal competition.
- Venugopal Garre:** So, from a margin's perspective, how do we actually end up looking at it?
- V. Kalyana Rama:** Let me first establish the business, then I will talk about the margins because it is too much of futuristic question, making all the guesses. We are very bullish on coastal and no doubt we will be showing very good numbers next year. Just wait and watch. It will be a sizeable number and sizeable margins coming out of this business when we look at next financial year results.
- Venugopal Garre:** Okay sir. I think probably I will discuss that once the numbers start trickling in next year. My second question is a data question actually. In one of the earlier questions on the originating volume growth, the number is different from what we have in our model. So, if you could also give us originating volume EXIM and domestic for Q3 of last year so that we are on the same page with respect to growth?



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- Sanjay Swarup:** This Q3 for last year you can take it down. Originating EXIM was 1,72,739 and domestic was 24,381. That makes a total of 1,97,120. sorry this was December. Last quarter EXIM was 5,02,227, domestic 65,949 and total was 5,68,176.
- Venugopal Garre:** Exactly sir. Basically even in the earlier question, this was asked. If you look EXIM to EXIM 5,02,227 to 5,07,798, that is a 1% growth compared to your...
- V. Kalyana Rama:** We are telling about the period ending, you are talking..., The numbers won't change, isn't it? So, you keep on crunching the numbers. We are telling you over the period ending. I think the question was whether we will be able to achieve the growth of 12% what we are doing, isn't it?
- Venugopal Garre:** No, actually that was not the question. It was another question. Anyways, I have the numbers now, so it is fine. At least, I am on the same page of the numbers.
- Moderator:** The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Can you share the thought process behind this commitment in that Egyptian bid that we are doing and are there more such opportunities that we will pursue?
- V. Kalyana Rama:** Yes, we will definitely pursue more opportunities if we find them interesting and we find some business opportunity in that. Regarding the Egypt, I already shared. We are bidding in a market, open competition. Let us win it and then we can give further details on that.
- Dheeresh Pathak:** Right, but we have never done this business in the past. So, just want to know why we are doing it now?
- V. Kalyana Rama:** You don't want us to do that?
- Dheeresh Pathak:** No, I just want to know the opportunity like why is it attractive? If you can share some highlights of why you think that market is attractive?
- V. Kalyana Rama:** We want to now go international, that is the first thought, okay? beyond Indian boundary. Second thought is in Egypt, this is the first such venture. Egypt has no ICD as of now, and Egypt is the gateway to North Africa.
- Moderator:** The next question is from the line of Bharat Seth from Quest Investments. Please go ahead.
- Bharat Seth:** In initial remark, you said that in this quarter, we have started initiating for this 3PL. Can you throw more light on how much opportunity you are seeing and how many MMLP that we want to cover out of this 3PL what you are saying?
- V. Kalyana Rama:** This 3PL is totally beyond the Target-100.



- Bharat Seth:** No, distribution logistic I mean.
- V. Kalyana Rama:** Distribution logistics what I am talking of is not whatever distribution logistics notes we develop, that is beyond Target-100, okay? So, distribution logistic centers, for 2 centers one in Chennai and one in Agartala, we have already given the EOI and we will be finalizing very soon as they will start functioning either this FY or may be in the next FY. Once we complete developing 20 centers, my target is to do it in 3 years' time. Now, these 100 MMLPs which we are developing, the 100 centers dry ports or logistic parks which we are developing, we will dovetail them into the 3PL circuit. So, that will give us a strength of serving the entire India from 120 locations. This is the thought process.
- Bharat Seth:** And you believe that it will be done over a 3-year time frame, correct?
- V. Kalyana Rama:** Yes, 3-year time frame.
- Bharat Seth:** We have ordered for these 270 rakes which are DFC compliant and it is over 4 to 5 years. So, when we expect to start getting the delivery from this FY19-20 or?
- V. Kalyana Rama:** Yes, FY19-20.
- Bharat Seth:** Every year same? I mean from this FY19 or it will be lower in initial and higher in the later years?
- V. Kalyana Rama:** It will start in FY19-20 somewhere in the middle of may be in the 3rd quarter the delivery starts. So, it will be more or less equal number in the next 4 years.
- Bharat Seth:** Is it that a precursor assuming that by September 2019, this DFC first phase will start?
- V. Kalyana Rama:** That is a guess given by one of the analysts. So, I took the guess as it is.
- Bharat Seth:** We are expecting the delivery volume. So, is it a precursor that we are looking that timeline?
- V. Kalyana Rama:** We are buying the DFC compliant wagons so that these wagons can run even on IR system as well.
- Moderator:** The next question is from the line of Srinidhi Kalrekar from HSBC. Please go ahead.
- Srinidhi Kalrekar:** I just wanted to understand on this DFC front again, if you get that connectivity up to Palanpur, in your view, would it be sufficient to guarantee those transit time guarantees to your customers. My question is coming from the non-DFC connectivity from port to Palanpur part. Will that be a hurdle in guaranteeing you transit times, both from the congestion point of view and predictability point of view?



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- V. Kalyana Rama:** If the DFC is done up to Palanpur, then the transit guarantees can be assured because there is no congestion between Mundra to Palanpur and Pipavav to Palanpur.
- Srinidhi Kalrekar:** We have seen that this EXIM volume particularly on export front has been weak for November and December. In your interaction with customers, are there signs that volumes are picking up or they still continue to be weak?
- V. Kalyana Rama:** Kalrekar, as I said I will discuss about Q3 only. About Q4, we don't give you the numbers what we are doing but otherwise things are alright. That's why I first mentioned that our guidance we are not bringing it down. We are standing by our guidance of 12% or 12 to 14% the bandwidth. There are absolutely no issues on that. That answers your question.
- Moderator:** The next question is a followup question from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Just a data point question. Can you help us with the CAPEX for 9 months, how much have we spent?
- V. Kalyana Rama:** We will be completing 750 crores this CAPEX for 9 months the numbers it is work in progress. So, the numbers will be continuously being crunched by finance department, but we will be completing our CAPEX program as we envisaged.
- Achal Lohade:** Sorry, 750 crores for FY19 you said, right?
- V. Kalyana Rama:** Yes.
- Achal Lohade:** Okay. And the second question, if you could help us with the export and import numbers for the 3rd quarter and 2nd quarter please?
- V. Kalyana Rama:** Already given these numbers.
- Achal Lohade:** I think that was for the 9 months sir.
- V. Kalyana Rama:** Export-import separate-separate, you ask by mail. It is not available at this moment with us.
- Moderator:** The next question is a followup question from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.
- Prateek Kumar:** As you mentioned, we added 4 rakes during the quarter. What was the rake addition for the 9-month period in FY19 and what is the estimate for full year?
- V. Kalyana Rama:** 15 rakes we added in this 9 month and maybe 18 rakes for the full year.



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- Prateek Kumar:** Can you also give your port-wise rail share of industry for Mundra, Pipavav, and JNPT? Rail coefficient or rail share.
- Sanjay Swarup:** For JNPT for the period ending December 2018, it was 16.23% out of which our share was 78.5% as already CMD has told. For Mundra, the rail coefficient was 25.6%, our share was 52.4% in that and Pipavav rail coefficient was 67.6% in which our share was 54%.
- Prateek Kumar:** One question regarding the realizations, just to clarify. There were no additional discounts given to get the volumes from other competition or from road during the quarter, it was just the mix change which has impacted the realization in this quarter on a quarter on quarter basis.
- V. Kalyana Rama:** One basic fundamental clarification which I give, we never do a price war. We never go for these sort of discounts based on other competition's offerings. We do our market analysis and as per the market analysis, we do. So, there was no specific special discounts offered. It is all depending on the volume growth. So, wherever we do, I can assure all of you and this is our method of doing it that net effect we always look for the positive, then only we offer a discount. Have you understood what I said? Net effect. When I give a discount, what volume I get and ultimately the net effect should be from the present scenario, that should give me a plus.
- Prateek Kumar:** But sir, our profit per TEU has fallen by around...
- V. Kalyana Rama:** That is because of various factors I already explained. When once the question is explained, you are again coming back to that. I do not know what you are trying to get from us. The operating margins have come down because of the empty running cost and less exports (exports weakness). It happens.
- Moderator:** The next question is from the line of Jaikant Kasturi from Dolat Capital. Please go ahead.
- Jaikant Kasturi:** I just wanted the empty running cost for Q3 FY19 and Q3 FY18?
- V. Kalyana Rama:** We have already given and for your sake, I will repeat it. For Q3 FY19, the empty running cost is 62.5 crores. For Q3 FY18, it is 60.1 crores.
- Moderator:** The next question is from the line of Abhilasha Satale from Dalal & Broacha. Please go ahead.
- Abhilasha Satale:** Sir, you mentioned that you will be developing 6 MMLPs over next 1 year. If you could elaborate onto which will they be and it will be by the end of FY20?
- V. Kalyana Rama:** By the end of FY20, we will touch 100. Six MMLPs in this FY19. These names if I repeat also, you will not be able to catch it. So, let us keep it at that. If you want, you send us an email, I will give you the reply.



- Moderator:** The next question is from the line of Aditya Mongya from Kotak Securities. Please go ahead.
- Aditya Mongya:** Most of my questions have been answered, just one clarification. Is there any positive seasonality to margins for the 4th quarter and if you could explain the reason behind that because in the past few years, 4th quarter margins typically are more than the 9M margins, EBITDA margins that is.
- V. Kalyana Rama:** What is your question?
- Aditya Mongya:** The question is that is there any reason for 4Q margins in any year to be higher than 9M margins? Are there certain costs or certain rebates that are adjusted in the 4th quarter still?
- V. Kalyana Rama:** How many years you have considered the Q4 results?
- Aditya Mongya:** I am just trying to get a sense of full year numbers, so that's why the question initiated in my mind.
- V. Kalyana Rama:** That's why I am not answering this question because this is a guess question. I know how I am doing in this quarter but I can't reveal those numbers now, but otherwise, as you rightly said, by the March end, every company would like to achieve their targets. So, they will try to do more exports, try to do import more. So, this obviously increases the business in the month of February and March. It is a very well understood principle.
- Aditya Mongya:** Got that sir, that clarifies.
- Moderator:** The next question is from the line of Srinidhi Kalrekar from HSBC. Please go ahead.
- Srinidhi Kalrekar:** Just 1 question on coastal shipping, sir. You started this business recently. So, are there any initial business' losses that you could have incurred and that you booked in standalone result during this quarter, typical starting cost?
- V. Kalyana Rama:** I think we started this business in the current quarter, we did not start it in Q3, okay?
- Srinidhi Kalrekar:** November we started, right sir?
- V. Kalyana Rama:** No, we started in January.
- Srinidhi Kalrekar:** Okay, so there are no major startup costs that you incurred and booked in standalone business.
- V. Kalyana Rama:** We have not done any business in Q3.
- Bhoomika Nair:** We would like to thank you for being on the call and giving us an opportunity to host the call. Thank you very much sir. Any closing remarks from your end?



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V. Kalyana Rama:

I think I have given a lot of information, so no particular closing remarks but the only one is that as I said, whenever we do something, we do a complete market analysis and we do a net effect positive initiative only, and so all our initiatives are going to reward us well and all my investors can be rest assured your stock is going to perform very well.

Moderator:

Ladies and gentlemen, on behalf of IDFC Securities, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.