

# Q3 2012 Earnings Call - Arshiya International

Dt-9 Feb'12

## Operator

Ladies and gentlemen good day, and welcome to the Q3 FY12 Earnings Conference Call of Arshiya International Limited. We have with us today Mr. Ajay Mittal, Chairman and Managing Director; Mr. Sandesh Chonkar, Executive Director and CFO; and Mr. Nijay N Nair, Head-Strategic Initiatives. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Nijay N Nair. Thank you and over to you, sir.

## Nijay N Nair, Strategic Initiatives

Good morning, everybody.

On behalf of our Group Chairman and Managing Director Mr. Mittal, and our shares executive leadership team I take the opportunity to welcome all of you, for taking the time to be here on this call.

Before we actually start the proceedings, we would like to make a couple of important announcements with bearing especially to this audience. We have two important additions in the senior leadership of Arshiya's finance team. Both of these gentlemen are present on the call today and they include firstly Mr. Santosh Maheshwari who joins us in the capacity of President Finance and Corporate Affairs. And Mr. Ramesh Ved also here, who joins us as the Chief Financial Controller for Arshiya.

So, with that done, just one of them go ahead and talk about our Q3 FY12 results, which we are hoping most of you would have received in terms of an update that we send on the February 7th.

To start-off, we have a fairly good quarter with your company registering a top-line of 273 odd crores, which is basically a growth of about 30% over the same quarter last year. However, the biggest yardstick to the business that we would like to point out and start in the... while talking about these numbers is that the major contribution to this quarter's performance has come from Arshiya's Infrastructure business, especially the FTWZ in Bombay and the Rail business. Both of which contribute to about 45% cumulatively to that 273 crores of top-line that your company has generated.

So 29% is the contribution from Rail with about 80 crores, and 16% is from the Free Trade and Warehousing Zone with about 45 odd crores in the last quarter.

So the slide number seven in the investor update that was sent to you, day before yesterday on February 7th, indicate how the contribution of the various businesses has matured over the last few quarters as part of Arshiya's evolution, that is very clearly visible as to how the infrastructure business aided with our services is actually changing the dynamics of the whole play in which that we operate.

So, even on a Q-o-Q basis there is a very healthy growth in the Free Trade Zone and the Rail business clocking 14% and 34% respectively, 14% with the Free Trade Zone and 34% growth with the Rail business. And this is all testament to Arshiya's asset driving our businesses augmented with our services, and a very strong indication of how our numbers will look as we go into the future.

And mind you this is only one Free Trade Zone in Bombay, and that's the first phase with the four warehouses that you are seeing contributing to our P&L as of now. In the coming quarters you will have the second phase of Mumbai. We have already made an announcement on the first phase of FTWZ in our Khurja, which is Delhi and the domestic Distripark part and the Rail for Khurja and Delhi region all will start contribute into the P&L as we go forward.

And on this point on the expansion of our infrastructure and especially on our FTWZ, we would just like to make a point on where we are in our revolution again. And this is a monumental quarter for us in terms of understanding our business dynamics, and hence we take the time to do this. We as a company are extremely proud that where we are today, this whole perception of risk when it comes to our assets and integrating our assets, that perception has officially ended for us.

Because... and the reason we say this is because any additional infrastructure that we put up, whether in the form of a warehouse in a Free Trade Zone, or a Domestic Distripark or a new zone completely or Rail or Rail Infrastructure in the form of a rake or a container or a rail terminal would all be mandated and driven by the business that we have at hand. And we reach that stage in this last quarter, where we have enough demand to substantiate where it is that we will go and make our investments.

So, that's one of the also reasons why we moved away from this whole greenfield to a brownfield kind of environment. And that's one of the reasons why you don't find Nagpur mentioned too much in the investor update.

And the reason for that is because we've got a very strong customer demand and request, which indicate that Chennai might actually be a better location than Nagpur to driving some business immediately. And we have made that decision to follow the business when it

comes to putting up our assets.

So, we are in the process of evaluating Chennai and making an assessment on where it is and which way it would go. And till that time until our assessment is complete put Nagpur on hold for any further investments there until such evaluation of Chennai is complete. And then coming back to our performance of the quarter, if you look at the FTWZ in Mumbai, we've got some very good traction on the customer front as we have matured our marquee customers, many of the announcements that we have made in the past in the retail space, very big names.

And what is more interesting for us is we are strengthening our and maturing in the value optimized services that we are offering for them. And this last quarter we are extremely excited about some new activities that we've done, like the dis-assembly of kits that we have done in the heavy engineering and auto space.

We have done some kitting of vaccines for the farmer space. We have done crockery kitting and packaging in the home appliances space, and also several multiple SKU sorting and kitting exercises and repackaging for retail customers that we've got. And all of this is actually greatest strength and stickiness for us when it come to our customers. And with every we are monitoring and bettering our operating efficiencies and productivity, all of which is visible in the kind of numbers that you are looking at from a quarter-on-quarter basis.

So, it's a very, very exciting period for us, especially as we now stand in the cusp of making sure that the assets and the infrastructure that your company has invested in are generating the kind of yields and results that we've always said that it would.

So, one of the things that we've done very well as well is make sure that we have a very sectoral view in the way we approach this business. Unlike a typical kind of logistic service provider that's trying to provide one service that fit's all we have got a sectoral champion team both from when we are building solutions from the sales perspective for the customers as well as from a delivery, which makes sure that we're able to provide those customized solutions and pricing which is very attractive to our customers, where it's a value driven kind of pricing model for us and a delivery model.

And this is been the key for our customers' stickiness and making sure that our customers actually move from the trial to the actual delivery kind of mode where we are seeing in the last two quarters that this is been happening.

Again on this subject, because it's a critical junction in Arshiya's evolution and all of you'll have been part of this for a very long time. Just to take a few moments to go through our evolution from FY, financial year of '07 where our journey started, we as a company just a few years back had to go out and acquire the land create this contingent land of 100 acres in a difficult area, in an around JNPT area, and there was lot of questions whether we would be able to do it.

We answer that, we got that land in time, we got the permissions in place, we established that Free Trade Zone. We became the special planning authority of it. Made sure that we developed state-of-the-art-infrastructure where there were some doubts whether we would be able to raise the money. Obviously, the financial markets with Lehman Brothers crash was not the best time in the world to go out and build such infrastructure and create Rail, but we did it.

We than build that and made sure that it is world class standards and beat many of the zones that are in other countries including Singapore and the Dubai. Then we went to got the customers, put a global team in place that would be able to get marquee customers, one Fortune 500 companies to do business with us, started establishing India's regional play, provided the slew of services with 1 crore to cash. And all of this and the execution that is visible on this quarter would not has happened if we didn't have the team that was put in place.

And in dedication to that, I mean today Arshiya your company is 1,100 people strong and we've grown a 100% over the last 12 months in terms of our people, and this is a great testament to what HR has done for Arshiya and the Human Resources team in totality. And we've hired across levels, we've had to train across levels in our business making sure that we have the right kind of people converted and trained to do these activities that were... many of which were not done in India before. And to do it in the world-class standards required our own training programs inducted into some universities.

And over the last year, just as for your information, your company would intend to grow to about 2,900 odd people, as it looks like currently by FY13. And that's the plan that we have and we are very excited about what that makes us because we are already the biggest employer in the private logistic state. And in the couple of years we would want to be an employer of choice across the board. But this is a very special moment for us.

Again coming back to the business, our fundamental focus remains as to capitalize on the services that we can deliver and not forget the fact that we are indeed a logistic service provider that happens to have state-of-the-art and innovative assets. And for all those companies that are using our services, it has been our endeavor to concentrate on those companies that leverage most of our services rather than just use our assets.

Coming to the Rail perspective, this quarter we've operationalized 16 trains and walk away with some very significant customers acquisitions, especially that we won a copper concentrate business for Sterlite that we made announcement on National Television as well in the October of last year.

We've got several such deals and we have seen an efficiency, mapping of our routes, where we have created some new routes which are working very well for us. The future of the space and rail and we are excited about the integrated rail terminal that will come up in Khurja, which is the North. Along with our Free Trade Zone and Domestic Distripark, this would become the mega logistics hub for the NCR region and cater to the manufacturing companies in and around that region and will automatically make us a consolidator. And we are very excited about competing in that space where we will be, as a consolidator, be able to drive traffic that is currently on road into our rail because of our infrastructure in the same place.

We also have in the logistics space if you look at our dynamics while the numbers don't say much, when you just look at the top-line, the dynamics of the business has changed. And we have remapped and repositioned our logistics interest within India focus, and that would be visible when you look at India's contribution on that logistics which is steadily increasing. And we are concentrating and buckling down on India as our engine of growth and becoming an integrated service provider and concentrating on logistics soft services for those companies where we are providing our assets.

So, that's been very, very important for us. And again in slide number nine of the investor update, it tries to show you and we've made an attempt to show you the kind of dynamics that from the assets that we are able to drive from the services. So, on a basic rental or college that our assets drive, there is a slew of services that we are able to provide for our customers, all visible in our P&L.

Coming back to the coming quarters, we've got the Free Trade Zone in Khurja that we just announced in January that we launched, and we also have the Domestic Distripark in Khurja in the Delhi region and the rail terminal coming up.

This time around we have a strong customer base, we've got the team, we've established how this is done in Bombay with four quarters of operational efficiency driven experience. So we are very excited about doing this.

And before I hand it over to our Executive Director and Group CFO Mr. Chonkar, I just wanted to take an opportunity also to detail a few numbers from our CapEx perspective again to wrap up, where we are again as part of explaining the evolution for us. Overall, in your company out of the total CapEx that we've spent of about 2,623 odd crore till the period ended December 31, 2011 the depreciation and interest that is being charged to the P&L account as of now is for about 829 crores of CapEx.

So, the balance of about 1,794 odd crores is capital work in progress currently. What you will see in the Q4 of FY12 and Q1 of FY13, which is the next two quarter is that an additional revenue generating and interest bearing asset for your company would increase by about 1,362 odd crores, which would basically results in a total interest cost to your company of about 250 odd crores annually added to which we have about 50 odd crores of depreciation that will be charged to the P&L.

Both of these cost, which is totaling to about 300 crores annually would allow your company's total revenue generating assets to increase to about 2,191 crores from the current 829 crores as on the period of December 31, 2011 that we are sitting on currently. So, this would only, this is only to tell you, how our P&L would grow coming forward. And on that subject, even when you look at our EBITDA margins, for this quarter ended December 31, 2011 we did about 78 odd crores.

And this shows that even if we were to remain at the same level of revenue going forward, which is very unlikely, but even if we were to remain at the same level of revenue, we would be able to bear the burden of that additional 1,362 crores of revenue generating asset that would come into play into the future.

So, with that, I'll just hand it over to Mr. Sandesh Chonkar, who is our Group CFO to detail the numbers in a little more coil.

## **Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

Good morning to everyone. By this time most of you must have already received the investor update which was sent on 7th of this month and many of you also have must have studied the numbers. Mr. Nijay Nair during his update on operations have touched upon many of the numbers and described many of reasons on these numbers. I'm just recapturing the some of the important numbers. We have achieved this quarter a gross turnover of Rs.273.36 crores, which is 29% up on year-on-year basis from 212 crores and 10% on quarter-on-quarter basis.

We have achieved a EBITDA level of 77.73 crores, which is 77% up on year-on-year basis and 15% on quarter-on-quarter basis. We have achieved a profit after tax of 34.45 crores, which is 71% growth over year-on-year basis and about 8% on quarter-on-quarter basis. We have a brief breakup of the revenues and segmental profits. The logistics revenue, we have achieved 149 crores in this quarter vis-à-vis 157 crores in, on year-on-year basis. Mainly, Mr. Nijay Nair has already explained about the logistics business, which we will be mainly controlling on the business which is touching our assets.

And also with respect to the Dubai and other operations, we are only doing a controlled business in this region. And two of the segments that is Qatar and Oman were discontinued during last financial year. Free Trade Warehousing Zone, which has started giving us big revenue has achieved 44.32 crores of top-line in this quarter versus just mere 6 crores in last year. Containerised rail operation is growing quarter-on-quarter basis also, where we have achieved 79 crores of turnover as against 46 crores on year-on-year basis. On segmental results, logistics income is more or less stabled on 32.54 crores.

Free Trade Warehousing Zone's income or segmental results have grown up to 37.51 crores vis-à-vis the very small number of 2.9 crores on quarter in last year. Containerised rail operations achieved more or less same figures as earlier quarter that is 12.25 crores. Whereas in earlier year it was 8.24 crores. So, we have shown a good results in this quarter vis-à-vis results of the earlier year.

On nine months front, we are already achieved 90% of what we achieved last year. We have achieved our total turnover of 743 crores versus 821 crores, which was achieved in 31 March, 2011 year. And we have achieved a profit of 90 crores as against the 82 crores we have achieved in the whole of 2010-2011.

With this updates, I handover to Mr. Mittal for his remarks. Thank you.

## **Ajay S Mittal, Chairman of the Board**

Good morning, everybody, and thank you for joining us on this call.

I would be more than happy to take question-and-answers from the investors that who are on this call. So I would request the moderator to please go ahead and allow people to ask questions.

## **Questions And Answers**

### **Operator**

Thank you very much. We will now begin with the question-and-answer session. [Operator Instructions]. The first question is from the line of Himanshu Nayyar from Quant Capital. Kindly go ahead.

### **Himanshu Nayyar**

Yeah, good morning gentlemen and congratulations on a great set of numbers. Firstly, starting with the Free Trade Zones, would just want to know what's the... I mean warehouse capacity currently, both at Panvel and Khurja? And have there been any changes to the warehousing schedule going forward, say for FY13?

### **Ajay S Mittal, Chairman of the Board**

Well, it's a capacity that we are utilizing is almost 100%. And I would say it's a little over 100% because it is... any customer who is booking a space of let's say 500 pallet position is not necessary having 500 pallet position at any given time. He may have 400, 300 and sometimes may have 600, 700. So, on thought basis the additional we charge much higher, whereas we still charge him irrespective of not utilizing the complete pallet space. And our WMS or the warehouse management system allows us to actually have an occupancy, which is more than 100%.

### **Himanshu Nayyar**

Okay.

### **Ajay S Mittal, Chairman of the Board**

And so that is the case as we are today in site in our JNPT FTWZ or the Panvel FTWZ.

With regards to our FTWZ in Khurja, it has just started operations only a few days back. And out of the three warehouses that have got operations we've only started bringing product into one warehouse. Though the pipeline is very clear with deals, kind and seal for all the three warehouses to be full So, we are in a very decent position as of now with the warehouses.

And to answer your second question, on schedule we'll have six warehouses additional in Panvel, FTWZ and totaling of six warehouses in the Khurja FTWZ and six warehouses in the Khurja Domestic Distripark by the end of financial year 2013.

### **Himanshu Nayyar**

Okay. And currently we have four in Panvel?

## **Ajay S Mittal, Chairman of the Board**

Currently we have four in Panvel. And we have three in the first phase in the Domestic Distripark in Khurja as well as three in the first phase in the FTWZ at Khurja.

Okay. And sir what was the current... I mean for the quarter what was the VAS to rental ratio?

## **Ajay S Mittal, Chairman of the Board**

VAS to rental is remained at 1:1 almost, a little over 1, though our earnings from rental has gone up substantially, so, we have maintained that ratio. But as we go along, and as Nijay has said earlier in his opening remarks also, we are doing more and more VAS activities.

If we also see one of these slides which was sent or one of the street numbers I think in investors update, where we have mentioned about the revenue stream that is there and the possibility of revenue stream could be almost eight times that of the rental, and that is again going to be a function of throughput. So, if the throughput is one it could go as high as eight times, and if the throughput is three it can go up to 24 times.

Now I am not saying that we are doing 24 anyways, but there is in customer for whom we are doing almost nine at this point of time, which is VAS is to rental ratio. And as we go further with more and more cross-sale, up-sale and VAS activities, I am very sure that achieving an average of about four to five over the next 12 months to 18 months would not be a problem for your company.

In fact, we are getting more and more demand for VAS activities, even cement companies asking us to do things like bringing cement in bulk into our Khurja facility and doing bagging for them. So, all these kind of activities are obviously VAS activity. So, there is a VAS play that is going to happen in this next financial year that will come up.

## **Himanshu Nayyar**

That's great, that's great. And secondly, just wanted to understand the driver for the rail business for the quarter we've seen 34% quarter-on-quarter growth. I mean and overall if I see, I mean the overall environment is not very positive. So, was this growth driven basically by higher volumes or have you taken any sort of tariff increases there?

## **Ajay S Mittal, Chairman of the Board**

Well, we have, very good question it is, increase in tariffs we have gone, as Nijay had early said also that we've rerouted ourselves to be more efficient in terms of the kilometers that we run, number one. Number two, we've gone and taken very high value product that we are moving well, transportation reaching, the product reaching in time is of more sense than the price sensitive, these are not price sensitive products. So, we have moved a product range also.

But with our new asset coming in play, which is the Khurja siding coming in play in the next two to three months, I'm very, very clear that, that is going to be a big game changer and as it become a huge consolidator and deconsolidator of cargo and using rail more efficiently and because we would have our own mechanical testing center out there and so on and so forth. So, it's going to be a pleasant ride as we go along than what you see in the, thus far also.

## **Himanshu Nayyar**

Okay, okay. And sir, what's our plan to add new rakes going forward?

## **Ajay S Mittal, Chairman of the Board**

Well, we would be doing about 20 rakes by the end of this month, would be operational by end of February. And next year, we plan to add another 10 rakes on a lease basis. We've already in dialog with two top foreign companies, who

## **Himanshu Nayyar**

Okay. And sir, just lastly, if you could just give me your current debt levels and the repayments upcoming in the FY13, '12 and '13?

## **Ajay S Mittal, Chairman of the Board**

One second. Sandesh Chonkar will answer that one.

**Himanshu Nayyar**

Sure.

**Ajay S Mittal, Chairman of the Board**

I would request everyone to restrict questions to maximum two.

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

Current debt level is 1,675 crores on our books.

**Himanshu Nayyar**

Okay.

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

And with respect to repayments, we have just started repayments in Arshiya Rail, but which is at very small level, because we have a repayment which is ballooned up, so that it will go up in progressive nature. And we also have started repayments in FTWZ Khurja that is also at very small level, as there also we have ballooning of repayment.

**Himanshu Nayyar**

Okay. So, would you be able to give a ballpark number as to the amount in FY13 that is due?

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

FY13 that is due, I'll give you..

**Himanshu Nayyar**

Sure. Okay. Thanks a lot sir. And all the best for the future.  
We will give it to you.

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

We will give it to you.

**Ajay S Mittal, Chairman of the Board**

The second question come, we'll answer that. Thank you.

**Himanshu Nayyar**

Thanks sir.

**Operator**

Thank you very much. Participants are kindly requested to restrict their questions to two per participant. The next question is from the line of Mr. Tejas Sheth from Emkay Global. Please go ahead.

**Tejas Sheth**

Hello everyone. Congratulations on the set of numbers, sir. Sir, just wanted to check on this FTWZ margins in this quarter have been phenomenal. I think in last conference call, we had stated that there will be some moderation in the margins. But the margins have jumped quarter-on-quarter with a huge spread. I just wanted to know, check on the what is the sustainability of the same?

### **Ajay S Mittal, Chairman of the Board**

Just to first answer the previous participant's question, Sandesh would just like to answer that and then he will answer your question.

### **Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

The repayment for next financial year will be about 29 crores.

### **Ajay S Mittal, Chairman of the Board**

Okay. Now, coming to your question, the margins are definitely going to be sustainable. The increase in margin has come from two activities. One is, mainly that customers when they come in initially, we have a trial agreement with these customers. And when they have one or two or three or four or five trials depending upon their comfort level, they convert that agreement into, which we have already decided upfront whether they have five trials or two trial or one trial.

They convert into regular customers. On a trials basis, obviously the rental that we have, on the trial basis the rental is much lower when we get into a proper agreement the rental is much higher. So, this is to attract the customer, we have

### **Tejas Sheth**

Okay, sir. So, when this Mumbai FTWZ will become matured by addition of another six warehouses in FY13. Will these margins moderate?

### **Ajay S Mittal, Chairman of the Board**

No, I don't think they will moderate very much. But it will moderate in terms of, once we have proven the model substantially with all kinds of customers we will still go into doing normal agreement centers rather than trial agreement.

VAS activities will go up tremendously. As I said earlier also that the VAS activity which is Value Optimization Services will go up where the margins are lower. So the overall margins... the overall profits it was substantially, but the margins in terms of EBITDA would come down.

### **Tejas Sheth**

Okay. Sir, just one more question. Since, the success of this FTWZ is very much now there in the business development site, how are we seeing ramp up of Khurja FTWZ? Will it be at a faster pace than what we saw in Mumbai?

### **Ajay S Mittal, Chairman of the Board**

I should obviously assume that, because now we have more experience, we have a customer base. And I am very proud to say that, thus far all the customers that this time for in the Khurja FTWZ are already operating in the Bombay FTWZ. So 100% of the Bombay FTWZ customers have also gone to Khurja.

And I would say 100% of Bombay FTWZ customers have gone to Khurja, but 100% of Khurja FTWZ customers are operating in Bombay.

### **Tejas Sheth**

Okay. Okay, fine sir. I'll come up with more questions. Thank you.

### **Ajay S Mittal, Chairman of the Board**

Thank you.

## **Operator**

Thank you. The next question is from the line of Mr. Manish Goyal from Enam Holdings. Please go ahead.  
Yeah. Congratulation Mittal and Mr. Mittal and to everyone for Khurja FTWZ sir. Sir, if you can just give us a breakup for this 1,360 crores, which is getting operationalized in quarter four and quarter one in FY13, I'd really appreciate that.

## **Ajay S Mittal, Chairman of the Board**

Yeah. Manish, good morning. I'll have Sandesh answer this for you.

## **Manish Goyal**

Sure.

## **Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

Yeah, 1,364 will get breakup in Panvel FTWZ about 84 crores.

## **Manish Goyal**

How much? 84 crores?

## **Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

Yeah.

## **Manish Goyal**

Okay.

## **Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

Rail 257 crores.

## **Manish Goyal**

Sure.

## **Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

Khurja FTWZ is 349 crores.

## **Manish Goyal**

Okay.  
And land of 101 crore.

## **Manish Goyal**

This is separately land or --

## **Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

Separately in Khurja FTWZ.

**Ajay S Mittal, Chairman of the Board**

We keep it separate because depreciation is not there on the land.

**Manish Goyal**

Okay.

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

Khurja Domestic Distripark will have 489 crores and land of 82 crores.

**Manish Goyal**

Okay.

**Ajay S Mittal, Chairman of the Board**

Totaling to 1,362 crores.

**Manish Goyal**

Okay. So right now we have operationalized Khurja FTWZ only.

**Ajay S Mittal, Chairman of the Board**

Yes.

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

Yes.

And Distripark should be operational when sir?

**Ajay S Mittal, Chairman of the Board**

Distripark and the Rail sizing both which would amount to an additional of up to 57 plus 82 plus 489 crores would get operationalized in this quarter and by the end of this quarter or early next quarter.

**Manish Goyal**

Okay. So just to get a sense, by FY12 March end our capitalized number should be how much sir, gross block capitalized?

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

It was just mentioned that capitalized... when I say... when you say capitalize it is charged to the P&L account is what I called capitalized. It would be 2,191 crores.

**Manish Goyal**

Okay, okay. Got your point, sir. And just in this Rail, you have 16 rakes operational. So why is it this 257 crores is yet to be... what is this pertaining to 257 crore?

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

16 will go to 20.

**Manish Goyal**

Okay.

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

And the main is the siding, almost 200 crores is on the siding.

**Manish Goyal**

Okay. So, that is part of this... these are different sidings or apart from the --

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

This is the Khurja siding.

**Manish Goyal Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

No.

**Manish Goyal**

Okay sir. And couple of more questions on the... on the other operating income you have said that it's a benefit received on utilization of -- from India scheme. Can you please explain this, sir?

**Ajay S Mittal, Chairman of the Board**

It is just repeated question when --

**Manish Goyal**

There is a note in the press release which says that other operating income what we have got some 7 crores in last two quarters is basically benefit received on utilization of -- from India scheme, right. Basically just wanted to get a sense and basically what more can we expect from this?

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

Yeah there is a export incentive scheme called -- from India, where you get certain benefit and earning made in the exports, that is in foreign currency. So over last few years we have accumulated this foreign earnings and got a benefit worth about Rs. 7 crores.

**Manish Goyal**

Okay.

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

This benefit we can utilize for payment of customs duty. And these benefits are utilized for payment of customs duty in case of Domestic Distripark and Railway, which are not exempt from customs duty.

**Manish Goyal**

Okay.

## **Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

Whatever equipments we import in FTWZs are exempted from customs duty. So we have utilized this benefit for clearing equipments imported in name of the Domestic Distripark and Arshiya Rail. So this is the value of custom duty we saved on getting this license. Okay, okay. Got your point. And sir, regarding... becoming authorized economic operator, last call we mentioned that we'll be among the first to get the nomination. So, have you got it sir?

## **Nijay N Nair, Strategic Initiatives**

Yes, we've got it. There has been an audit that was carried out by the customs department which were ranked over a period of about 15 days or so. We have received the audit report which clears us to be probably the first operator. So we would like to inform you this.

## **Manish Goyal**

Congratulations on --

## **Nijay N Nair, Strategic Initiatives**

Thank you. Manish, can we restrict it two questions please?

## **Manish Goyal**

Okay, sir. I will come back, sir. Thank you very much.

## **Nijay N Nair, Strategic Initiatives**

Thank you.

## **Operator**

Thank you. The next question is from the line of Amit Agarwal from Kotak Securities. Please go ahead.

## **Amit Agarwal**

Yeah, good afternoon everybody. Sir, just wanted to know, like how strong has been the client inquiries for your FTWZ service?

## **Ajay S Mittal, Chairman of the Board**

Last month, in the month of January we added an additional 45 clients.

## **Amit Agarwal**

Okay.

## **Ajay S Mittal, Chairman of the Board Amit Agarwal**

Okay.

## **Ajay S Mittal, Chairman of the Board**

They, in fact compelled me to go back to my solution team which does the sales.

## **Amit Agarwal**

Okay.

## **Ajay S Mittal, Chairman of the Board**

And said that, Mittal we need to restrict our overall client base to not more than 600. And if you are going to acquire plants like this we will keep. However, we are going to service company clients with various requirements that they have. So now run after bigger clients rather than going after smaller clients. So, we are sitting on a pretty good situation to be.

## **Amit Agarwal**

Sir, when you say like you wanted to restrict your total number of clients to 600, so are you targeting any specific category of clients, like who would provide you more VAS services or who will provide you with more VAS business?

## **Ajay S Mittal, Chairman of the Board**

You used -- my friend. Absolutely.

## **Amit Agarwal**

Okay, okay, okay. Sir, in terms of your warehouse like currently you have four warehouse operational in Mumbai and most of this warehouses are operating at 100% utilization level. So, what is the like if you consider a VAS to rental of 3:1, like what would be the optimum revenue potential of each of these warehouse?

## **Ajay S Mittal, Chairman of the Board**

See, if the calculation. I am not sitting here and using my calculation my friend. We charge approximately close to about Rs. 800 to Rs. 1000 per pallet position. Each warehouse has about 14,000 split. And if you try three times the ratio is three times is the VAS the maths is expected, you are better at maths than I am probably.

## **Amit Agarwal**

Okay. Okay, okay, no problem sir. And largely on the taxation plant like what is the effective tax rate of your FTWZ business currently.

## **Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

Effective tax rate on... there is no tax on distributor, it is only a MAT of 20% which we have to pay on attributable business.

## **Amit Agarwal**

No, but sir, if you look at your effective tax rate for the current quarter, it is approximately 16% to 17%. And if you are paying MAT on FTWZ business and I believe Container, Rail business attract full taxation.

## **Ajay S Mittal, Chairman of the Board**

No, no Containers and Rail business also has got MAT. We only pay full tax on our soft asset business, that is Logistics business and Arshiya's supply chain domestic business. So, the average rate is coming to about 14.5% to 15%

## **Amit Agarwal**

Okay. Going ahead like how we expect the tax rate to behave like?

## **Corporate Participant**

See, as more and more FTWZ income will contribute my total bottom-line, the average rate of tax will go down. Because more and more, we will be paying a MAT and which we are very hopeful that we can get credit of this MAT.

## **Amit Agarwal**

Okay. Okay, okay. Thank you sir. Thanks a lot sir.

## **Corporate Participant**

Thank you.

## **Operator**

Thank you. The next question is from the line of Yogesh Taneja from PUG Securities. Please go ahead.

## **Analyst**

Yeah. Good afternoon sir. Sir, like as you mentioned earlier that during last quarter, you moved high valued products in your railway business. So, is that trend expected to continue going forward or this was a particular quarter, where this movement happened?

## **Ajay S Mittal, Chairman of the Board Analyst**

Okay.

## **Ajay S Mittal, Chairman of the Board**

And as I said, we are going to get even more efficient once our rail siding comes up and do a lot more consolidation actually. So, we will be moving from, moving 90 containers for a customer to doing to one or two or three per customer through, using as a consolidation center Khurja to begin with. They still add in fact much more to a top-line as well as bottom-line. So, the trend is going to be this, but keep on moving further up the value chain.

## **Analyst**

Okay. And secondly sir, you also mentioned that like few customers were converted from trial to final agreement in your FTWZ. So, can you just elaborate that how much average rental would have moved up because of that per pallet?

## **Ajay S Mittal, Chairman of the Board**

I don't have an average rental. But normally when we have a trial customer, it is more of, to get the customer is on a actual use basis. So, if he says I am only bringing 20 pallet, so we charge him for 20 pallets and may be it all depend, somebody initially we may charge even Rs.100 a pallet position. For the first one month, we may charge 200, in the second month may charged 500 in the first moth for somebody. So, it's something that all depends upon us, it is a big company, MNC company, Fortune 500 companies say I want to do a trial, I have gone and said, in one case I have said we will not charge you anything. And in fact as VAS activities increased, I have been advocating that we should request our, because if reach 10 is to 1, VAS to rental ratio, we should request our Free Trade Warehousing Zone to Free Warehousing and Trade zone.

So, I am really not, it's a number, which I don't have it in absolute right now in front of me, but the fact is that to get him a client, to do this trial, we are not worried about profitability and all that. We are worried, we want to see we can do the proper job for him and get him that, get the stickiness from him and get him in side the zone and to use our other functions also that the company have.

## **Analyst**

So, as of now, most of majority of your customers utilizing FTWZ would have converted into final customers or still some portion would be there on trial basis?

## **Ajay S Mittal, Chairman of the Board**

It is always going to evolve, as I said last month we took 45 customers new on board.

## **Analyst**

Yes.  
They are all on trial basis, right.

## **Analyst**

Yeah. But before that others would have moved to final stage.

## **Ajay S Mittal, Chairman of the Board**

Yes, as I said we have a 99 plus percentage of conversion from trial two, normal agreement.

## **Analyst**

Okay. And sir, what would be typical EBIT margin on VAS activities as a trend?

## **Ajay S Mittal, Chairman of the Board**

35% to 40%.

## **Analyst**

Okay, fine. Thank you sir. That's it from my side. I will come back for another question.

## **Ajay S Mittal, Chairman of the Board**

Thank you.

## **Operator**

Thank you. The next question is from the line of Siddhartha Bhattacharya from Suyash Advisors. Kindly go ahead.

## **Siddhartha Bhattacharya**

Hi. I just had a few questions on your FTWZ operations. I just wanted to know how many pallets are currently per warehouse, because I believe the capacity was augmented in terms of height of the warehouses. So, what is the average number of pallets per warehouse?

## **Nijay N Nair, Strategic Initiatives**

It was 14,000 to 15,000, I can't, not exactly 14,000 or 15,000, depends upon warehouse to warehouse.

## **Siddhartha Bhattacharya**

Sure.  
This is size difference here and there.

## **Siddhartha Bhattacharya**

Sure, sure.

## **Nijay N Nair, Strategic Initiatives**

And we have not increased the height in any warehouse, one second Nitin has to say something, I don't know.

## **Nitin Kolhatkar, Chief Financial Officer**

Yeah. Sir your question, Siddhartha, the augmenting of the height, yes. 14,000 to 15,000 is the pallet position space. We have also utilized now the value optimized area, there also we've augmented our height, because we have gone into a three level value optimize services operation.

## **Siddhartha Bhattacharya**

Okay.

## **Nitin Kolhatkar, Chief Financial Officer**

When we started it was less. So, we've got certain area in every warehouse.

## **Siddhartha Bhattacharya**

Okay.

## **Nitin Kolhatkar, Chief Financial Officer**

Which is nominated for doing activities. Now, as I said, we kit it from vaccine, we did some crockery. So we find it prudent to not move that product too far away. So, our warehouse design is actually aimed at handling the customer. So we've augmented the height and we mentioned that to several people that is because the value optimized area we went into a three value optimized area.

## **Siddhartha Bhattacharya**

Okay, okay, okay. So it was basically for enabling VOS in the warehouse?

## **Ajay S Mittal, Chairman of the Board**

Correct larger VOS into warehouses.

Okay. The other question I have is, what is the final target of the warehouses that you have in Panvel and Khurja across all the phases. So, what is the final number that you are looking at for the number of the warehouses?

## **Ajay S Mittal, Chairman of the Board**

20 and 16.

## **Siddhartha Bhattacharya**

20 and 16?

## **Ajay S Mittal, Chairman of the Board**

Yes.

## **Siddhartha Bhattacharya**

Okay. Also what would be, I mean the average cost of construction per warehouse?

## **Ajay S Mittal, Chairman of the Board**

It depends on site-to site. When we brought the Khurja, when we brought the site land, I got a heart attack when I was told that we were going to pay 27 crores to do terracing because we have to do control blasting it was 22 meter higher from the where we started from the

road to the end of the blocks that we have, 165 acres. And I was under tremendous shock, but we saved almost 30 crores in terms of the kind of rock that we were able to stone that we were able to get to use for our construction activity, that got nullified.

## **Siddhartha Bhattacharya**

Okay.

## **Ajay S Mittal, Chairman of the Board**

Whereas Khurja was a beautiful plain land and we are spending 9 crores extra per warehouse for finding purposes.

## **Siddhartha Bhattacharya**

Okay, okay. So... but on an average if like you have to assume a particular number because I am trying to arrive at --

## **Ajay S Mittal, Chairman of the Board**

Including the infrastructure.  
Yeah.

## **Ajay S Mittal, Chairman of the Board**

Including the infrastructure, the equipment and everything, everything, everything it is simple kind of maths I am doing this that my detail... my complete project for Phase I and II at site village FTWZ that is about 1,600 crores with 20 warehouses. So if you use thumb rule you can say 80 crores, but that's not the right way to do it.

Actual cost of construction including various material handling equipment, raking, sand and all of these things put together depends warehouse-to-warehouse, what are we doing now. Now, we are doing three levels of, three level of VAS services. So it goes up in terms of numbers. So you can take a thumb rule of about 80 crores per warehouse in the zone including all the infrastructure that is there.

## **Siddhartha Bhattacharya**

Okay.

## **Ajay S Mittal, Chairman of the Board**

Including killer, freezer, air conditioning, HVAC plants, fire fighting equipments, camera, security, building management systems everything, everything.

## **Siddhartha Bhattacharya**

Correct. And have you seen the rental rates fluctuate over these last four quarters of operation.

## **Ajay S Mittal, Chairman of the Board**

No, no, no, no. We are only increasing our rental rates if you say. Yeah, we are fluctuating in one direction. It's going higher and these are long term three to five year contracts that we have with customers. So there is nothing that is going to fluctuate that much.

## **Siddhartha Bhattacharya**

Okay. Finally, what is the conversion time you have observed for clients to convert from trial customers to final customers?

## **Ajay S Mittal, Chairman of the Board**

Depends. It all depends. It could be anywhere between one to three months.

## **Siddhartha Bhattacharya**

Okay, okay. So let's say quarter time period is taken?  
That's the quarter.

## **Siddhartha Bhattacharya**

Okay, okay. Thanks a lot.

## **Ajay S Mittal, Chairman of the Board**

Thank you.

## **Operator**

Thank you. The next question is from the line of Rajesh Kumar Ravi from Karvy Stock Broking. Kindly go ahead.

## **Rajesh Kumar Ravi**

Yeah, good afternoon sir. And congratulations for great set of numbers.

## **Ajay S Mittal, Chairman of the Board**

Thank you, Rajesh.

## **Rajesh Kumar Ravi**

Yeah. And sir, I wanted to understand this chain business. You had 16 rakes until end of December right, and you were supposed to add around two to four rakes, four rakes by end of FY12. Am I right?

## **Ajay S Mittal, Chairman of the Board**

Yes.

## **Rajesh Kumar Ravi**

Would you share what is the mix between domestic and EXIM handling that you do on a Rail... in the Rail business.

## **Ajay S Mittal, Chairman of the Board**

As of now our domestic is almost 80%, 85.

## **Rajesh Kumar Ravi**

Okay.  
And the rest is on EXIM.

## **Rajesh Kumar Ravi**

Okay.

## **Ajay S Mittal, Chairman of the Board**

And as we go along with Khurja coming up, with the Rail terminal coming up, our EXIM will also go up.

## **Rajesh Kumar Ravi**

Okay. So, you would be servicing this the Delhi and JNPT route?

## **Ajay S Mittal, Chairman of the Board**

Exactly.

## **Rajesh Kumar Ravi**

Okay. And --

## **Ajay S Mittal, Chairman of the Board**

At a much higher phase because we'll have our own siding, so that would... this bring down our time period taken to load, unload tremendously. Because the kind of tiding that is created as we normally do is work class where we can load and unload a full rake within four hours.

## **Rajesh Kumar Ravi**

Okay. Okay, okay.

## **Ajay S Mittal, Chairman of the Board**

And on average we can do about 18 rakes per day of loading unloading in those sidings.

## **Rajesh Kumar Ravi**

Okay. So, do the margins further expand when you increase a EXIM share?

## **Ajay S Mittal, Chairman of the Board**

Absolutely.

Okay. And so like, when you said that would be adding around 10 rakes through lease, rent, on leased and with your talk with foreign player. So, how would that impact the margins like I want to understand in terms of...

## **Ajay S Mittal, Chairman of the Board**

Those are the ones which will go on the EXIM route. So, from 80%, 85%, it will become somewhere close to about 35%, 40% would be EXIM route and the balance would continue on the domestic route.

## **Rajesh Kumar Ravi**

So, by end of FY13, you would be having close to 30 rakes with 20, which is your own and 10 from, 10 leased assets?

## **Ajay S Mittal, Chairman of the Board**

Yes.

## **Rajesh Kumar Ravi**

Okay. And out of that, you are saying that 60%, 65% would continue to serve in the domestic segment and remaining in the EXIM route.

## **Ajay S Mittal, Chairman of the Board**

Absolutely, correct.

## **Rajesh Kumar Ravi**

Okay. And then how would the margins, like what sort of margins can we expect out of the leased assets compared to the current margin that you, EBIT margins that you are doing close to 15%, 18%?

## **Ajay S Mittal, Chairman of the Board**

Well, to be very honest, as I said we have just signed a letter of intent kind of a situation. We have not discussed pricing, it doesn't make sense to discuss pricing till they have the concession agreement signed with the Indian Railway, these two companies.

## **Rajesh Kumar Ravi**

Okay.

## **Ajay S Mittal, Chairman of the Board**

To allow lease. So, it will obviously be cheaper than owning the rake and blocking capital.  
True, true.

## **Ajay S Mittal, Chairman of the Board**

So, we will not require any more CapEx investment in the rolling stock. So, that will bring down our CapEx requirement as a company, number one. Number two, it should be and we will obviously endeavor to make it cheaper than cost of interest and depreciation that we have on the rake. So, I think margins would go up. But obviously, this would be above the EBITDA line, whereas owning the rake, the cost of interest and depreciation would be below the EBITDA line.

## **Rajesh Kumar Ravi**

Okay.

## **Ajay S Mittal, Chairman of the Board**

I am a PAT guy, so I am more interested in that.

## **Rajesh Kumar Ravi**

Right. Yeah, and sir on the logistics business, could you explain us what are the drivers for the, like your logistics is more on the VAS sort of logistics, which is supplying complete integrated solutions. So, would you share like what are the triggers for your logistics business?

## **Ajay S Mittal, Chairman of the Board**

Well, I think we are one throw to that, one integrated play is taking away all your hackles of logistics.

## **Rajesh Kumar Ravi**

Right, okay.

## **Ajay S Mittal, Chairman of the Board**

It makes absolute sense, we have customers from across the world, across the globe, who today don't even have a permanent establishment status and have equipment or their product lying in our FTWZ, where we handle freight forwarding for them, bringing the product, transporting into our FTWZ, warehousing the product, bring value-added services and distributing the product to their customers in India, who will buy from them or using India as a hub to distribute products again in other parts of Asia Pacific and Middle East. So, giving all of this with visibility on, at every stage through using sufficient IT, is an unbeatable value proposition. And I think that is where we are a differentiator, this is not one FTWZ that's the differentiator or VAS activity. But doing all of this under one company seamlessly is the real game changer.

## **Rajesh Kumar Ravi Ajay S Mittal, Chairman of the Board**

Everything, trucking, warehousing everything, distribution.

## **Rajesh Kumar Ravi**

Okay. And so, like the current margins that you are seeing and the EBIT margin of close to 20% for the last three to four quarters, we expect those margins to either remains stable or expand from hereon?

## **Ajay S Mittal, Chairman of the Board**

As I said, I am a PAT guy, I'm sure the PAT is going to go up.

## **Rajesh Kumar Ravi**

Right. So, it should flow from the EBIT level at least because,.

## **Ajay S Mittal, Chairman of the Board**

EBIT, I mentioned this in the earlier question, the EBIT is going to go down, because VAS activities will go up. On VAS, our margin is about 35%, 40%, whereas our rental margin is about 85, 90%.

## **Rajesh Kumar Ravi**

Okay. Sorry, I didn't get your this last point, you said that VAS margins are higher.

## **Ajay S Mittal, Chairman of the Board**

They are about 35% to 40%, whereas rental margins are about 85% to 90%.

## **Rajesh Kumar Ravi**

Okay, okay. Okay, they are low compared to the VAS.

## **Ajay S Mittal, Chairman of the Board**

At VAS goes up, the EBIT margins will come down.

## **Rajesh Kumar Ravi**

Okay. But the volume will grow.

Absolutely, absolutely. Absolute numbers in terms of EBIT would go up substantially.

## **Rajesh Kumar Ravi**

Exactly, okay, okay. That's great. And sir, one last question I missed on the debt and cash figure, would please share them again?

**Ajay S Mittal, Chairman of the Board**

Sorry.

**Rajesh Kumar Ravi**

Debt and cash on books.

**Ajay S Mittal, Chairman of the Board**

Please call back, if you don't mind, there are others on the call, there are lots of people waiting.

**Sandesh R. Chonkar, Executive Director and Chief Financial Officer**

I want small corrections on the answer. We have the 1,672 debt, which I said is the project debt, we also have some working capital on our book.

**Rajesh Kumar Ravi**

Okay.

**Ajay S Mittal, Chairman of the Board**

Short-term loans and working capital about amounting to about 300 and odd crores.

**Rajesh Kumar Ravi**

Okay.

**Ajay S Mittal, Chairman of the Board**

Make a total debt including working capital on my books of 2,000 crores.

**Rajesh Kumar Ravi**

Okay, okay. Yeah. Thank you, sir. And please save the cash figures whenever possible in the call. Thank you so much. Yeah. I would... we had requested to call back.

**Rajesh Kumar Ravi**

Sure, sure. I will get it touch with you again.

**Nijay N Nair, Strategic Initiatives**

Okay.

**Rajesh Kumar Ravi**

Yeah. Thank you.

**Operator**

Thank you. The last question is from the line of Gaurav Malik from Lotus Investments. Please go ahead.

## **Analyst**

FTWZ, how many of your warehouses there are on VAS and what is the ratio in terms of tonnes and the overall ratio for VAS?

## **Ajay S Mittal, Chairman of the Board**

Can you repeat your question. You went blank in the middle.

## **Analyst**

Sorry, yeah. So in Panvel, out of the four warehouses how many warehouses, how many warehouses are currently on VAS?

## **Ajay S Mittal, Chairman of the Board**

Well, all four are on VAS.

## **Analyst**

Right, but could you share the mix of... mix as in the turns and what is the overall VAS to rental ratio for these?

## **Ajay S Mittal, Chairman of the Board Analyst**

Okay. So... and by how much would rental have gone up?

## **Corporate Participant**

I don't have exact numbers here. You can please call back?

## **Analyst**

Sure. Another question just wanted to ask was, if I see your logistics business it hasn't been... it's actually degrown versus the FTWZ business. So I am just wondering has there been a revenue recognition policy change in terms of FTWZ and the Logistics business because there is clearly an overlap, right?

## **Nijay N Nair, Strategic Initiatives**

Hi Gaurav, this is Nijay. As we mentioned the Logistics business, the focused has changed to India. So, if you look at India's contribution it's increased while where you are seeing that Northeast wherein the Middle East contribution of the Logistics business has dropped. This is something we have said that we will do for the last few quarters.

So point this business is to revolve around the area of strength. And this is India. We are building these hubs. Every product goes in or comes out of an FTWZ. It bounds to another country coming from another country, that means it involves logistics. It proliferates.

## **Analyst**

Right.

## **Nijay N Nair, Strategic Initiatives**

Also it needs to be managed by licenses for which you require IT service. We provide all three and then we also transfer. So, it makes sense for us to revolve our Logistics business in and around our asset is an inter play. So, if you look at the Logistics business and breaks that number in to India and overseas, India is --

## **Analyst**

Hello?

**Nijay N Nair, Strategic Initiatives**

Yes.  
Sorry, I lost you at the end.

**Nijay N Nair, Strategic Initiatives**

Look at the overall India is same and Middle East is coming down.

**Analyst**

Okay. India is growing and Middle East is coming down. which is why the drop in the revenue right?

**Nijay N Nair, Strategic Initiatives**

Yes.

**Analyst**

Okay, okay. I guess that's it from my side. Thank you so much.

**Ajay S Mittal, Chairman of the Board**

Thank you so much. I would like to take this opportunity to thank everybody on this call. Alright. I guess thank you everybody and thank you for all your support. And we look forward to any more suggestions and comments from your side, which we can incorporate and lot of you have been of great help to us in the past, calling us individually to give your suggestions which we have taken very seriously. And it has helped your company to grow and become a much better and more professional company. And I would request to have this continuous support from all of you. Thank you very much. Have a good day.

**Operator**

Thank you very much. On behalf of Arshiya international Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.