

Operator

Ladies and gentlemen, good day. And welcome to the Arshiya International Limited Q1, FY13 Earnings Conference Call. As a reminder for the duration of this conference, all participants' line will be in the listen-only mode. 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. On the conference call today we have with us Mr. Ajay S Mittal, Chairman and Managing Director of Arshiya International Limited; Mr. Sandesh Chonkar, Executive Director and CFO of Arshiya International Limited and Mr. Nijay N Nair, Chief Strategic Initiatives of Arshiya International Limited. I would like to hand the conference over to Mr. Nijay Nair. Thank you and over to you, sir.

Nijay N Nair, Strategic Initiatives

Good morning, everybody. On behalf of our Chairman and Managing Director Mr. Mittal, our CFO Sandesh Chonkar and the rest of the Arshiya leadership team, we welcome you all to this conference call.

To begin with, just in terms of a snapshot of what our financial performance has been through this quarter of FY13, which we believe have been a great for us. Our top-line has grown about 54% to 341.8 crore as compared to the 222 crores that we had in the corresponding quarter of the last year.

Our EBITDA has grown to 93.5 crores and we witnessed a growth of about 71% and more importantly our EBITDA margin has stood healthy at about 27% versus 25% that we registered in the same quarter of the last year.

Our PAT for this quarter is also risen by about 47% to about 34.5 crores versus 23.6 crores that we had in the last year.

So, importantly for all of you obviously the Free Trade Zone and the other assets for Arshiya has been beginning to sweat and therefore you are looking at the numbers as you are witnessing. But, importantly for us as I again want to So, this has been a good quarter for us in that sense. Similarly, even if you compare our performance of Arshiya International from a subsequent quarter-on-quarter basis, that's when you compare the Q1 FY13 with the Q4 of FY12, our top-line has grown 9%, we register about 313 crores in the last quarter which has grown to 341 know.

EBITDA also has grown to 93.5 that is currently which is 15% higher than the previous quarter. Our margins have improved to 27% from 25% the last quarter and again that's EBITDA and our PAT for our quarter also has risen 12%. So we have registered 34.6% versus 30.9% which is 12% higher than the previous quarter.

So this growth is despite a fairly difficult period at a macro economic level for the country overall and it's reflection of the good work that we probably put in over the last 16 to 18 months in delivering the promises that we made in terms of our infrastructure.

So in terms of the key emphasis of growth the STWZ obviously is the biggest news that we've got in the quarter, we've got the Khurja Free Trade Zone which is operational for the whole of this quarter with three warehouses and that's reflecting. So we've operationalized the fifth warehouse also in Bombay. So we've expanded our existing Free Trade Zone. So the overall contribution from the Free Trade Zone business in this quarter is been about 72 crores. This is both Khurja and Bombay. We take great pride in being able to execute and deliver this right now and I'd like to say that for Khurja this three warehouses together had seen us contribute a revenue of about 16.7 crores in this last year that's what's come from the Khurja three warehouses of the FTWZ.

Now, when you look at this, this is very similar to the first full quarter of operations that we had with Bombay and this was way back in Q4 FY11, Q4 '11 is when we launched Bombay, our Khurja start has been similar so this is a great beginning for us.

We're also seeing many customers from Panvel who have experienced the efficiencies and the benefits here in Panvel have now transitioned into Khurja which is very positive news. So we've been able to get off the blocks so to speak in Khurja much faster than what we've been able to do in Bombay.

And so the response that we are getting also to our launch has been extremely heartening and similar to the overwhelming response that we've received in Panvel. So, what we can expect in Khurja in terms of evolution should also be in the same line as Bombay where we basically seen quarter-on-quarter an average growth rate of about 25% over the last seven quarters of our STWZ existence.

So in terms of the VOS and rental ratio also we've seen Khurja starting off with a very healthy VOS to rental ratio of 1.3:1. That's what we've started with in Khurja way back when we started in Bombay Q4 '11 we started with only 0.5. So we've done much better in Khurja and this is the experience in operating the Free Trade Zone that we've gathered over the last 16 to 18 months that is actually reflecting in these numbers.

From an EBIT margin perspective also what heartening is that the STWZ business over to the last seven quarters we've been able to

maintain a margin of about 70% and the same is visible even in this quarter. So we've got some very good traction on the customer front, obviously with the Free Trade Zone business and we've matured many of our market customers as some examples of additions and growth that we've seen in the Free Trade Zone business, communication and information technology made with Cisco Systems has commenced regional distribution activities from Arshiya's FTWZ in Panvel this has been an extremely exciting initiative for us and they are serving the Indian Subcontinent out of our Free Trade Zone this is the first they've done it and they've moved these operations from Singapore. So critical network equipment that is manufactured across Cisco's facilities are being imported here.

And for their demand in India and also for the region is being catered out of there now this required synergies between Cisco, Arshiya and Customs all getting together so this is a very, very, very big news for us in terms of what we've delivered.

L&T did a first run with us a few month ago but now they have commissioned the Free Trade Zone as their import distribution hub for both their plant that are coming up in Gujarat and Rajasthan and it's a huge business and win for us We've also got a major win with Henkel which is a leading home care laundry and cosmetic company and all their non-hazardous adhesive chemicals that come into India is coming through our zone for value addition and then distribution into the market eventually also going to go to the regional subcontinent.

From the retail space major win after the success that we've had with the Walmart et cetera, in the previous quarters we've added Hypercity that have nominated the Free Trade Zone as the focal point for all their imports for final value addition and customization before the product reaches out to the Indian markets.

All of these examples are this is just few of some of the examples, are in addition to other things that we've been able to do like General Electric, GE India have finished all their paper work in process and registration of making the Free Trade Zone the import hub and for regional distribution across the region. We've also got an added import and export activities for BHEL, the PSU's new plant in Bhopal we originally did it for Hyderabad but they've added a plant with us and we are going after another two plants in the coming quarter.

And all of these have been augmented also by the metal trading and the commodity trading business where we've got the lights of -- and liberty et cetera that are major players in this space that are now using our Free Trade Zone for their commodities and trading initiatives. So, these are some of the good examples of what we've been able to do in this last quarter in the Free Trade Zone space.

Moving on, just to give you an update on the rail space. Arshiya Rail and the performance for this quarter of Q1 FY13 our top-line has grown 76% to the 85.3 crores that we've registered in this quarter and that is compared to 48.5 crores that we've done in the corresponding quarter of the last year. So, that's 76% growth our EBIT also has grown to 14 crores in this quarter comparing to the last quarter that's about 72% growth for the last year. And our EBIT margin has stayed steady at about 17%.

So, we're currently operating 20 trains compared to the 15 trains that we were operating in the corresponding quarter of the last year. However, on this we would like to add there is an update we've had, four of our train that have gone into a routine overhauling or ROH as the industry parlance calls it.

This is a month and half long process and a phenomenon that's mandated by the MCA signed by all of us private container train operators where a train needs to go in for this routine overhauling once every two year. So, on account of this through the quarter we've had four trains that have gone in for this ROH testing. So when you look at that performance of our rail space that will be visible but when you compare this on a quarter-on-quarter basis, we still grown our top-line marginally about 1% and our EBIT level we've seen a 9% growth. So with regards to the rail business however, the important thing is that this coming quarter we will see it's very exciting for us because we will see the commissioning of our Khurja terminal.

We've completed all the CapEx investments into this terminal from a banking perspective but the commissioning is going to happen on this quarter. What this will mean for us for starters is that we will be able to do all our testings which is both the routine and this ROH that we've talked about the routine overhauling all of this in our facility that will for a small marginal CapEx investment that we are evaluating, but this will drastically bring down the down time of our rakes and increase the efficiency with which we are able to operate.

I remind you this terminal that we will be commissioning in this quarter is a neutral one and will be open for all PCTOs out there and we are in talks to many of them for using this terminal as it brings out natural synergies to our other distripark and FTWZ business. But just to give you perspective this routine overhauling which would otherwise take about a month and a half for us with our own terminal in Khurja will be reduced to a few days may be three or four.

So this makes a huge difference, also it's extremely heartening for all of us at Arshiya to see all of our infrastructure all come together, and this next quarter with Khurja's rail terminal coming is actually seeing all the products and services that we have envisaged five years ago when we embarked this journey of building this all come together. So these coming quarters are extremely exciting.

Now this is the testament to the future and evolution of Arshiya which we are going to make that integrated and unified assets and service provider. So, every quarter is a new one for us and everyone has some news but this is the beginning of the Arshiya that we were all waiting to see.

So, with that I hand over the call to Prashant and unfortunately Mr. Chonkar is slightly delayed because it was attending a funeral, so we apologize for this but Prashant will give you an update and we'll see if Mr. Chonkar can join us for the questions.

So, with that I'll hand it over to Prashant to talk about the numbers for this quarter.

Prashant Waghe, Corporate Strategy and Investor

Good morning to everyone. By this time, most of you must have already received the investor update which was sent to you on 13th of this month. Mr. Nijay Nair during his updates on operations has touched upon many of the numbers and described many of the results on our numbers.

I'm just recapturing some of the important numbers. We have achieved this quarter turnover of Rs.341.84 crores which is up 54% on a year-on-year basis from 222.6 crores and 9% on quarter-on-quarter basis. We have achieved EBITDA level of 93.45 crore which is up 71% on year-on-year basis and 15% on quarter-on-quarter basis. We have achieved the profit after tax of 34.62 crores which is 47% growth over year-on-year basis and about 12% on quarter-on-quarter basis.

We have brief break up of revenues and segmental profits. The logistics revenue we have achieved 184 crores in this quarter vis-à-vis 142 crores on year-on-year basis. Mr. Nijay Nair had already explained about the logistics business because he mainly focusing on the business which is touching our assets.

FTWZ is also growing and giving us higher revenues quarter-on-quarter. This segment has achieved 72.2 crores for top-line in this quarter versus just 31 crores last year. In the container rail operations we have achieved 85.3 crores of turnover against 48.5 crores on year-on-year basis. For segmental business logistics EBIT which is at 33.2 crores vis-à-vis 30 crores on year-on-year basis. FTWZ EBIT has gone up to 53.7 crores which were 20.7 crores in quarter last year. Container rail operations achieved a higher EBIT of 14.1 crores whereas in earlier year same quarter it was 8.2 crores.

There were some good results in this quarter vis-à-vis the results of the earlier year. Coming to the internal break up for Q1 FY13 we have total interest payment of 87.62 crores of which 50.03 crores is hitting the P&L and the balance 37.59 crores is capitalized.

For the record, the total interest paid for FY12 full year stood at 260.53 crores of which the amounting hitting the P&L was 105.97 crores and 154.56 crores was capitalized. The debt level on the project basis stands at 1,878 crores while the total debt on book is 2,355 crores as on June 30, 2012.

With this update, I hand over to Mr. Mittal for his remarks. Thank you.

Ajay S Mittal, Group Chairman and Managing Director

Good morning, everybody. I would be very happy to take questions from the investor community and request the moderator to please take the questions.

Questions And Answers

Thank you so much, sir. We will now begin with the question-and-answer session. [Operator Instructions]. Thank you. We have the first question comes from the line of Mr. Samir Arora from Helios Capital. Please go ahead.

Samir Arora

Hi, good morning and thanks, great set of results. I just have two three questions. One is on this interest that is still not reflected in the P&L. So how much debt does that represent which is sort of still not coming through P&L?

Ajay S Mittal, Group Chairman and Managing Director

Out of total debt of around 2,300 crores about 1,617 crores is reflecting in the P&L. The balance is not reflecting in the P&L.

Samir Arora

Okay. So one of course must be that the strange thing that I saw when I visited your -- what are the other places where which are still sort of not coming through P&L. I mean what are those investments?

Ajay S Mittal, Group Chairman and Managing Director

In this particular quarter ended June, the interest for the debt on the domestic distripark is not coming into the P&L as well as the second phase of the tie-up with FTWZ is not coming in the P&L.

Samir Arora

And the station, or whatever you call it siding?

Ajay S Mittal, Group Chairman and Managing Director

No siding is coming into the P&L. That's why...

Samir Arora

It's coming in already?

Ajay S Mittal, Group Chairman and Managing Director

Yeah. That's why when Nijay talked about from a banking point of view, that's what he meant that we have completed the banking part of it. But we yet not been able to start the siding because of certain formality pending with the Indian Railways in terms of charging the line electricity, electrical charge of the line is pending, which we expect very, very shortly. So from a quarter point of view, we have taken this because we had to -- completion of the project was done and hence the interest is in the P&L.

So, in how many quarters would this full interest or nearly full interest come through the P&L because I think that is the question that the world has more than anything else?

Ajay S Mittal, Group Chairman and Managing Director

Okay. Let me answer it in two phases. The first one is that, in the second phase of the Sai village we've already got one warehouse which is already reflecting in the P&L. The second, we will be having another three warehouses in this year which will reflect in the P&L in the free trade warehousing zone Sai Village and the entire amount of debt of the domestic distripark path will reflect in the P&L in this FY13. The balance of it will be only then left for the second phase of Sai Village which will come in FY14 and our project is suppose to get over by December FY14 for the Sai Village second phase.

Samir Arora

So, how much would that debt be which would come into -- go into next year?

Ajay S Mittal, Group Chairman and Managing Director

This year I would think about another 500 crores of debt would come into the P&L by FY13 and the balance which will...

Samir Arora

So only about 250 odd crores or will there be further debt that we needed?

Ajay S Mittal, Group Chairman and Managing Director

There will no further debt for this project.

Samir Arora

So this 2,355 can we say that more or less this is your peak debt for this round of whatever you are doing?

Ajay S Mittal, Group Chairman and Managing Director

No, no, no. Some debt is still to be drawn because about 370 crores of debt is still to be drawn on the FTWZ second phase Sai Village.

Samir Arora

So from 2,700 odd crores about 2,100 would coming to P&L by March '13?

Ajay S Mittal, Group Chairman and Managing Director Samir Arora

Okay, got it. Okay. Just one more question on this Khurja FTWZ side revenues were about 16 odd crores?

Ajay S Mittal, Group Chairman and Managing Director

Yes.

Samir Arora

And therefore that means the Mumbai one was about 50 odd, 56 or whatever it was right?

Ajay S Mittal, Group Chairman and Managing Director

Right.

Samir Arora

So what was it last quarter, the Mumbai comparable one? I mean what was the growth for the same FTWZ rather than because of Khurja?

Ajay S Mittal, Group Chairman and Managing Director

So last quarter was 57.5 crores of the Mumbai FTWZ.

Samir Arora

And even now it is similar?

Ajay S Mittal, Group Chairman and Managing Director

Yes. Yeah, there is a slight increase. Because that's where many of the customers that we were operating in the Free Trade Zone in Bombay have been transitioned to Khurja, these were people that we were getting ready to move to Khurja when it starts.

Samir Arora

Okay. Got it. So can we say that when would plateau so far side in general?

Ajay S Mittal, Group Chairman and Managing Director

Sorry.

The revenues from either of these, won't plateau so fast. I mean hopefully from this quarter?

Ajay S Mittal, Group Chairman and Managing Director

No. We have a long way to go in terms of plateau -- tremendously, the gross ratio to rental will increase phenomenally, which is been seen and in fact we'll be surprised you will be surprised that the VOS to rental ratio in Khurja are on a 16 crores, top-line is almost 1.3:1 VOS to rental ratio and Khurja 16 crores what we've shown as what we've achieved out of which in the first month of the quarter which was in the month of April was about 2 crores and the second month is about 4 crores which is the month of May, in the month of June it was almost 10 crores.

So, if you really look at it in the month of June, for the month of June alone we have not only become EBITDA positive but we've also had a PAT for the month of June.

Samir Arora

Okay. Got it. So, how much would be the sort of loss for this quarter on Khurja which is sort of reflected in the 34 crores profit whatever we had 34 crores?

Ajay S Mittal, Group Chairman and Managing Director

Including depreciation about 9 crores.

Samir Arora

And that 9 crores should disappear in this current quarter.

Ajay S Mittal, Group Chairman and Managing Director

Absolutely.

Samir Arora

Okay, got it. Okay, just last question why is the tax rate so low or appears to be so low?

Ajay S Mittal, Group Chairman and Managing Director

Well, as our business from FTWZ increases, we will -- as a percentage of the total business. We go on to a MAT I am not the total tax, but only going to paying going towards the paying MAT. So you will the tax structure coming down. In fact, you will see it further coming down for us because the rail operations from FY14 will also go on a MAT basis because that is when we will be in fifth year of operation and we need to in the 15 years decide on which is the total 10 years of operations continues 10 years of operations where we want to take the advantage of an infrastructure projects and go onto MAT rather than being on it.

Samir Arora Sandesh Chonkar, Executive Director and Chief Financial Officer

20%. Yeah Sandesh here. The rate is 20%.

Samir Arora

Correct.

Sandesh Chonkar, Executive Director and Chief Financial Officer

Another effect is also our deferred tax. We have capitalize these assets in this year in big way. So there is a deferred tax credit, which is also a bit included in this tax which given in the results. That gives us the percentage wise smaller percentage as compared to this 33% or 38%.

Samir Arora

But the current rate looks like 10% or 12%. So is that sustainable?

Ajay S Mittal, Group Chairman and Managing Director

That is in consolidated accounts. That is because there are some other business like Dubai that is no tax.

Samir Arora

Okay. As long as rate doesn't suddenly jump up in a few days or few months or few years?

Ajay S Mittal, Group Chairman and Managing Director

No, no we get MAT credit also. There is an element...

Samir Arora

I thought okay it should be 20% would have look most sustainable that's what I thought?

Ajay S Mittal, Group Chairman and Managing Director

No, no in fact we were getting MAT credit. We'll keep on getting MAT credit. So this will not change, this will probably remain as a trend for us as we go along.

Samir Arora

Okay, okay. Thanks a lot. Thank you very much.
Thank you, Samir.

Operator

Thank you. We have the next question from the line of Rajesh Kumar Ravi from Karvy Stock Broking. Please go ahead.

Rajesh Kumar Ravi

Congratulations sir on good set of numbers.

Ajay S Mittal, Group Chairman and Managing Director

Thank you, Rajesh.

Rajesh Kumar Ravi

Sir, what was the VOS at Mumbai?

Ajay S Mittal, Group Chairman and Managing Director

Sorry.

Rajesh Kumar Ravi

What was the VOS multiple in Mumbai?

Prashant Waghe, Corporate Strategy and Investor

VOS multiple in Mumbai is 1.16.

Rajesh Kumar Ravi

1.16?

Prashant Waghe, Corporate Strategy and Investor

Yeah.

Rajesh Kumar Ravi

Okay. And sir, you said there are three warehouses which got operational at Khurja. So we have five at Mumbai and three at Khurja in the FTWZ, right?

Yes.

Rajesh Kumar Ravi

How many more would you expect to be operational like over the next three quarters?

Ajay S Mittal, Group Chairman and Managing Director

I mentioned that already there would be three warehouses that will get operational in the Bombay Sai Village, FTWZ.

Rajesh Kumar Ravi

Okay.

Ajay S Mittal, Group Chairman and Managing Director

In Khurja all will be operational in FY13.

Rajesh Kumar Ravi

Alright. So, three in Mumbai and any more additions in Khurja you said sir?

Ajay S Mittal, Group Chairman and Managing Director

No.

Rajesh Kumar Ravi

Okay. So this three you already said, the debt is already this 500 crore odd will get reflected by FY13, correct?

Ajay S Mittal, Group Chairman and Managing Director

Yes. That 500 crore will be not for only Khurja FTWZ or Sai FTWZ additional, but also for the entire domestic which is in Khurja.

Rajesh Kumar Ravi

Right. So sir how many domestic warehouses will be operational in FY13?

Ajay S Mittal, Group Chairman and Managing Director

In FY13, we have already commissioned two, and two more will get commissioned in this year.

So out of the two that have commissioned, any revenue impact that we have seen or we will be seeing the impact of them going forward?

Ajay S Mittal, Group Chairman and Managing Director

No this -- you will not see revenue impact as such as this quarter maybe towards the end of September there would be some revenue impact. When you say commission is that we completed the warehouse but there are trial run going on at this point in time.

Rajesh Kumar Ravi

Okay.

Ajay S Mittal, Group Chairman and Managing Director

But there are some small income coming in of some few lakhs I would say but it's not something that we are.

Rajesh Kumar Ravi

Okay.

Ajay S Mittal, Group Chairman and Managing Director

It will get operational for two full warehouses from the next quarter.

Rajesh Kumar Ravi

Okay, two, operational, for the half of the year. We will have two operational.

Ajay S Mittal, Group Chairman and Managing Director

Perfect.

Rajesh Kumar Ravi

Okay. And sir like what was the profit margins and the revenue of the Domestic Distripark whether the value drivers revenue drivers for domestic versus FTWZ?

Ajay S Mittal, Group Chairman and Managing Director

The FTWZ concept you know very well.

Rajesh Kumar Ravi Ajay S Mittal, Group Chairman and Managing Director

Domestic Distripark firstly let me just correct it. We have changed the name from Domestic Distripark to Industrial and Domestic Hub, I just want to clarify this to the entire community And these drivers are going to be that there will be a lot of value added services just to give you an example. We are talking, we have signed up with one very large sugar manufacturer in this country, where we will be using on trends to bring sugar down to Khurja using our trains. It will come in huge sacks, what you call them gunny bags or whatever. And we will be taking them to our domestic industry and domestic hub where we will be then packing them in 5 kilo, 10 Kilo, 15, Kilo, 25 Kilo bags depending upon the requirement of our customers and that is based on the requirement of their customers. And then distributed further into the entire - domestic hub as a hub for the entire north NCR region.

Rajesh Kumar Ravi

Okay, okay. And sir in the standalone books we have booked other income of closed to 14 crores. What would be the general break up for this?

Ajay S Mittal, Group Chairman and Managing Director

Other income of?

Rajesh Kumar Ravi

Yeah, standalone.

Prashant Waghe, Corporate Strategy and Investor

That is a interest charged to subsidiaries on the loan given to them.

Ajay S Mittal, Group Chairman and Managing Director

So it is just a contract.

Rajesh Kumar Ravi

Right. Because in the consol it's just 7 crores. Okay. And sir could you guide us on what would be your interest and depreciation expense for the full year in FY13?

Ajay S Mittal, Group Chairman and Managing Director

Interest expense would be, are you talking about P&L or total..

Rajesh Kumar Ravi

No, P&L, what would be reflected in the P&L FY13?

Ajay S Mittal, Group Chairman and Managing Director

About 220 crores.

Rajesh Kumar Ravi

220 crores, okay. So, that would be like last quarter we'll have the full impact of this 2,300 crores, right?

Ajay S Mittal, Group Chairman and Managing Director

Yes.

Rajesh Kumar Ravi

Okay. Incremental you said that in FY14 you would be raising further debt of close to 200 crores to 300 crores.

Ajay S Mittal, Group Chairman and Managing Director

Yes about 370.

Rajesh Kumar Ravi

370 crores, okay. And depreciation sir, because in this quarter also we have seen the depreciation going up but we'll have only rail business, depreciation is already reflected in this quarter?

Ajay S Mittal, Group Chairman and Managing Director

Rail business it reflect.

Rajesh Kumar Ravi

No, the terminal, the rail terminal.

Ajay S Mittal, Group Chairman and Managing Director

Rail terminal is reflected it is only the Distripark which will reflect in subsequent quarters, 30 odd crores will be the depreciation.

Rajesh Kumar Ravi

30 crores odd for the full year, right. Okay. Thank you so much sir for taking my questions. I will come back in queue. Thanks. Thank you. We have the next question from the line of Prateek Kumar from Religare Capital. Please go ahead.

Prateek Kumar

Hello.

Ajay S Mittal, Group Chairman and Managing Director

Yeah. Hi Prateek.

Prateek Kumar

Good afternoon, sir. Sir congratulations on good set of numbers.

Ajay S Mittal, Group Chairman and Managing Director

Thank you, Prateek.

Prateek Kumar

Sir just regarding the rail segment. So out of these 20, are we running any risks on segment right now?

Ajay S Mittal, Group Chairman and Managing Director

No not a single one.

Prateek Kumar

Okay. Secondly as per the con call -- they said regarding the movement of pig and iron, pig and sponge iron cement by rail like that has been allowed now. So that does help Arshiya?

Ajay S Mittal, Group Chairman and Managing Director

It was always allowed. I don't know, what they are talking of.

Prateek Kumar

No sir they said they spend there has been some adjustment of as per the new ruling some change?

Ajay S Mittal, Group Chairman and Managing Director

No, it was not that is was banned but it was under the RC05 rate tariff which was a higher rate tariff than the what we called as the FAK rate kind of which is rate on kind of rate tariff. And it has been moved these commodities have been

Prateek Kumar

Okay, okay. So does that help I mean?

Ajay S Mittal, Group Chairman and Managing Director

Of course it helps.

Prateek Kumar

Okay.

Ajay S Mittal, Group Chairman and Managing Director

See rate reduction in any commodity and if we are going to touch that commodity obviously going to help us.

Prateek Kumar

Okay. And my question is a sense is do you carry these products on your?

Ajay S Mittal, Group Chairman and Managing Director

We do carry them and we have going forward we have a very different plans once Khurja site is comes into play all our 30 rakes would either originated or destination would be Khurja. So then the equation will change tremendously in what kind of products we carry, whether Exim or domestic irrespective of that, the equation will change dramatically.

In the coming quarters you will get a sense of what we are exactly doing which is going to make our profitability go up much higher than what it is today, and our efficiency of running these rakes should go up to tremendously also. We are running x kilometers today. We hope to run about at least 1.3, 1.4 times of what we are doing today.

Prateek Kumar

Okay. Okay sir. And the second and the next thing is, would it be possible for you to give this number of loadings per month per rake for the quarter, like we have taken like 3.5 around will that be in the same rate?

Ajay S Mittal, Group Chairman and Managing Director

Yeah. It is around the same thing. But we have not -- I don't have the number with me right now. But it's around the same.

Prateek Kumar

Okay. It's around the same, and regarding the logistics operation. Sir we saw the significant jump of like 29% year-on-year, but at the cost of margin which has come lower at 18%. Sir, just wanted to understand what happened in

Ajay S Mittal, Group Chairman and Managing Director

Yeah. I explained you there are two reasons for this. One is, if you look at historically also in the first quarter freight forwarding business has always been a low margin business. Secondly, Arshiya has very cautiously decided and in a slow manner in moving away from one-off customers with maybe higher margin but very low volume business where mining of that customer, servicing that customer is very not that easy with the limited resources that we have on hand.

So we have consciously decided to move towards customers who are touching our assets or using us an integrated players and in that case the volume goes up tremendously but you can imagine somebody is giving me 100 containers will obviously not give me the kind of margins which are I was getting somebody who give me one a single or two containers.

Prateek Kumar

Okay.

Ajay S Mittal, Group Chairman and Managing Director

So, my margins will go down but as you go along as you see in the next coming few quarters you will see a much higher hump in terms of the turnover, margins will go down, but in absolute numbers the profitability will go up tremendously. The concept of the integrated play is good somehow truly by doing what we are doing now.

Prateek Kumar

Okay. So sir for FY13 let's say we can take margins for the segment as around 18% level?

Ajay S Mittal, Group Chairman and Managing Director

I would not say so I think it would get better.

Prateek Kumar

Okay. It would get better. And for the over I mean... how do you see the margins for the overall business for this year?

Ajay S Mittal, Group Chairman and Managing Director

I think it's getting better every quarter-on-quarter.

Prateek Kumar

Yeah.

Ajay S Mittal, Group Chairman and Managing Director Prateek Kumar

Okay, okay sir. I will got along with the queue. Okay, thanks.

Ajay S Mittal, Group Chairman and Managing Director

Thank you.

Operator

Thank you. We have our next question from the line of Hitesh Zaveri from Birla Sun Life.

Hitesh Zaveri

Yeah, hi. Congratulations to the management team. Ajay my question pertains to the client addition to the client additions that you are having. Could you provide some color about the nature of client that you have been adding in the last quarter and whether what is scalability that you see happening with them?

Nijay N Nair, Strategic Initiatives

Yeah, hi, Hitesh, this is Nijay. Obviously engineering is a big space for us and the names was GE and BHEL and L&T and no accidents so that's been a sector that is a focus for us as well and in the last four five quarters of economic conditions our primary intention has been to diversify our customer base and touch many, many sectors as many that we can. So the pharma, fertilizers, polymer, engineering, auto and FMCG/retail are the top sectors that's we are targeting where we believe that these are fairly recession and economic condition proof.

There is significant amount of activities each one of these sectors that I talked about have different kind of combination and permutation when you look at the -- to rental penetration they are able to provide. There are certain customers like the BHEL where the freight penetration is extremely lucrative for us and something that we are targeting and makes natural synergy with the project business that we have built over the last eight years. While there are others like the World Kitchen and Henkel where our supply chain capability and sophistication in order management and delivery and customization come in.

So our intention has been to diversify and this last quarter primarily has been one which is an engineering focus for us to be able to bring and break into that space in a big way and the names reflect that, and also the VOS to rental ratio also reflects that. But we believe that this is a huge space for scalability for reasons other than just FTWZ, but our overall integrated value chain.

Nijay N Nair, Strategic Initiatives

Hitesh I just want to answer since we're on this question, I just want to make something clear to this forum about little bit of a change in how we should be presenting ourselves or how investor should perceive Arshiya to be and that is in two areas. One is that a very intelligent man who probably is on the call mentioned to me and made me realize that we are not like any other infrastructure company where we are dependent on government L1 contract and based on government decision and so on and so forth.

So, if you see these growing sectors like FMCG, engineering, pharma, fertilizers, these are the sectors that we give back end service to service. So, for us we are always after that growing sector which is I won't say it has approved, it is full proof against any kind of economic slow down or anything but these sectors keep on growing in whatever kind of market scenario. So our endeavor to be to services these sectors only. So you can consider us in two ways not as a typically as a infrastructure company and nor and as a back end for FMCG retail, engineering, pharma, fertilizers at industry.

Hitesh Zaveri

Sure that really helps. And in fact if I take this little bit further, so when I look at the absolute number of clients and then the revenue that you make per client and the square feet that they would be using with them. I am just wondering how probably two years from now inside of your 100 customers, probably it looked different, versus what is it now?

Ajay S Mittal, Group Chairman and Managing Director

I didn't quite follow, Hitesh can you just repeat exactly what?

Hitesh Zaveri

Well so number of times many of the customers have come in and then they have not yet substantially skilled with you and many of the projects have been pilot. And so that is set of customers that have grown. Where as there are many are in the pipeline. My question is that what how should I think about in terms of scalability of these customers about individually per account with you and how will it look different to be as from now versus today?

Ajay S Mittal, Group Chairman and Managing Director

It's a very very tricky question you are asking me, but let me give you an example of L&T. We're right now only dealing with L&T solar panel division, and you know how large is L&T and the penetration within the solar panel division itself is not 100% product, they are going to be building 250 megawatts of solar energy is going to be built by L&T alone in this country, besides many others are going to do this. So the penetration could be just for as in the solar from L&T and others. And other divisions of L&T also.

For us what really makes sense is that where can we do more VOS activities or after opportunity. So we are going to see a growth only in those sectors and in those companies or industries where we feel there is a larger penetration for our integrated place. So if you ask me this question, this is asking me for my secret formula and I am not going to share that.

Hitesh Zaveri

Sure. Well I don't want to. But anyway thanks for this.

Ajay S Mittal, Group Chairman and Managing Director Operator

Thank you. We have the next question from the line of Ubesh Sunidha from PUG Securities. Please go ahead.

Yogesh Taneja

Yeah. Hi, sir Yogesh here. Sir first of all as you earlier mentioned that typically first quarter is a seasonally weak for logistics business, but this quarter we have added maybe some client with high volume. So from here onwards can we see this run-rate for logistics business going up as it is usually sequentially whatever we see historically?

Ajay S Mittal, Group Chairman and Managing Director

I think so, we should go up as I said we are moving away from one-off customers who maybe been with us for a certain number of years also but slowly but steadily we are moving away from customers who are purely only freight forwarding customers and trying to go towards more bigger customers who have larger volumes and who are an integrated play for us where we can offer them services of rail, trucking, FTWZ, domestic hub so on and so forth.

So, you will see this natural tendency on Arshiya to move and gravitate towards these kind of customers and move away from its one-off kind of customer or customer who is just taking services of freight forwarding for us.

Yogesh Taneja

But, in Q1 of this year there was no one-off customers where we saw huge volumes but that will be on ongoing basis, it will continue.

Ajay S Mittal, Group Chairman and Managing Director

Yes. We've not -- I am not saying we've gotten away from all of them. It slowly as we keep on increasing, our volumes with our customers in the FTWZ or from the rail business or whatever. We are cutting down on some of the accounts which are very low let's

say two containers, four containers a month kind of customers we are cutting away. Because the effort that one needs to put into service that one or two containers is same as servicing a 100 container customer. But the margin from 100 container customer is obviously going to be lower than a three or four container customer.

Yogesh Taneja

Okay. And sir secondly, during this quarter we have seen shift in capital employed from some of the business segments to logistic segment and there has been sharp increase in capital employed for logistics business. Can you just clarify more on this particular change or what particular assets have been shifted which reflect this?

Prashant Waghe, Corporate Strategy and Investor

There is no as such big change even if you see in the consolidated accounts, the logistics is 452 crores and which has gone to 491 and same way the other sectors have also gone. So basically as the business is growing we are also taking working capital in logistics and also the increase in the volume getting this capital employed increase in logistics business also. But there is no big shift from other businesses to logistics.

It's working capital because if our volume is going to go up our working capital requirement will go up, but there is capital expenditure in logistics so that's a preferred business for us zero CapEx.

Yogesh Taneja

Okay, sir. And sir as you in last con-call you mentioned that for this particular year you are going to see about ten more warehouses at Panvel or five or six more equivalent warehouses at Khurja but this time you have been just mentioning about three at Khurja will continue and three more at Panvel. So there have been scale down in your expansion plan. So do you now see visibility coming down given the global slow down in economies or what has led to this change in towards lower side?

Ajay S Mittal, Group Chairman and Managing Director

My last con call I said the same thing and I stand by that and said the same things today also. 10 is the -- I giving you the sum of 10 is coming from three warehouses getting operational in Khurja FTWZ, four warehouses getting operational in Khurja domestic hub and three more warehouses getting operational in Sai FTWZ, that equals to a number of 10.

Yogesh Taneja

Okay. So 10 was total not at Panvel alone.

Ajay S Mittal, Group Chairman and Managing Director

No, no I never said that that Panvel 10 alone.

Yogesh Taneja

Okay, okay sir. Thanks, thank you very much.

Operator

Thank you. [Operator Instructions]. Our next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal

Yeah. Congratulations to Mr. Mittal and the entire team.

Ajay S Mittal, Group Chairman and Managing Director

Thanks Manish.

Sir just on this earlier you were looking to increase ForEx component overall loan portfolio, ForEx loan. So would it be possible to share the number and how is it progressing?

Nijay N Nair, Strategic Initiatives

Good question Manish. I... you really done... you asked the right question and I wanted to say some how the other and I am glad it came in as a question. We have converted on an interest swap 300 crores in the recent past, but that impact will come in this quarter of about 4.5% on that 300 crore of debt that has been interest swapped.

Manish Goyal

Okay.

Ajay S Mittal, Group Chairman and Managing Director

And we have an actual visibility if you look at the 50 crores also for some Sai Village from FTWZ and 15 crores also if you take from the FTWZ at Khurja that gives me about 65 crores, and if I multiply that by 4 it gives me about 260 crores or something. So another 250 crores to 300 crores is what we're targeting to move from because we have a natural hedge to move from a rupee denominated loan to a dollar denominated loan.

It is work in progress I can't give you a date when we'll achieve this, but we are doing our best to achieve this. In terms of cost of borrowing substantially I also think cost of borrowing should go down with what numbers were given by the government in terms of placing of hopefully the RBI acts sensibly this time.

Manish Goyal

So basically you get a benefit of 4.5% on the switch, right?

Ajay S Mittal, Group Chairman and Managing Director

Right.

Manish Goyal

But, okay. So on a run rate what you probably earn in ForEx so by year end at least you would have 500 crores of ForEx loan components in your total?

Ajay S Mittal, Group Chairman and Managing Director

Let me explain it in little differently. The 300 crores that had been done has got no impact on the up and down on the foreign exchange and interest swap it was not a currency swap, it was an interest swap. And in terms of what we are trying to do for the next 250 crores to 300 crores is going to be currency swap that we will be doing. So the interest impact on the currency swap would be much larger because we have natural hedge.

Okay, got your point. And your last quarter tie-up with GATX was leasing our rail wagon, so as to reduce your capital intensity. So what's the plan on that sir?

Ajay S Mittal, Group Chairman and Managing Director

We have signed up initially for 10 rakes with GATX, and in this year I am hopeful that we should have about five rakes or something in FY13 out of the 10.

Manish Goyal

So basically, once your rail terminal is up and you have another five rakes on leasing. So overall the dynamics of rail business will improve substantially by the year end. And which will have a very large impact on your margins. That is how we should read it?

Ajay S Mittal, Group Chairman and Managing Director

For the next year, absolutely correct. That's how we should read it. Anything that you start will take a little while to stabilize and...

Manish Goyal

Yeah. So basically exit, basically Q4 exit when we probably look at it, you will have start seeing the benefits of various things what you are putting in.

Ajay S Mittal, Group Chairman and Managing Director

We would be able to put much, a bigger smile on your face than you have right now.

Manish Goyal

Right sir. And just to get a better sense in terms of your operational assets. Is it possible to get the capitalized amount as on date and what it will look as a year ends and the break up of that, so that it gives us the clear perspective at JNPT how much capital employed which is capitalized and things like that, if it's possible?

Prashant Waghe, Corporate Strategy and Investor

FY12 the capitalization is of 1,500 crores. For FY13 it will be added with another 550 crores.

Manish Goyal

550?

Prashant Waghe, Corporate Strategy and Investor Manish Goyal

So it will be 2,150?

Prashant Waghe, Corporate Strategy and Investor

Yeah. Okay. So that is the way we'll go ahead and the CapEx spend for '13 will be about 475 crores.

Manish Goyal

This will be the incremental of what we done?

Prashant Waghe, Corporate Strategy and Investor

Yes.

Manish Goyal

Okay. So that means that capital work in progress number will also probably still look much higher at the year end?

Prashant Waghe, Corporate Strategy and Investor

Yeah, for Phase II for Khurja and Phase II of Sai.

Manish Goyal

So, this 475 crores CapEx will be how much through borrowing I think you mentioned 350 crores earlier?

Prashant Waghe, Corporate Strategy and Investor

Yeah, 350 crores is from borrowing.

Manish Goyal

Okay.

Prashant Waghe, Corporate Strategy and Investor

And balance will go for our internal accruals.

Manish Goyal

And to clarify on the JNPT VOS number is it 1.16 or 1.6?

Ajay S Mittal, Group Chairman and Managing Director

It is 1.16. The VOS number but as Nijay explained earlier that lot of these customers who we had large VOS have been moved from Bombay to the Khurja facility because that's how the distribution and that consumption pattern of customers does so they would rather grow to that customer which is what hubbing is all about.

Manish Goyal

Sure.

Ajay S Mittal, Group Chairman and Managing Director

And that's why the number has gone down in this quarter, but we will catch up on this number because any new customer that we take on which is the case in terms of Sai Village there is a new customer that has come in our policy has always been that we will not start up with VOS immediately we will first understand the business and start up at a much slower pace. So this quarter you'd see that impact and may be in other quarter you may see a little bit of this impact, but not going beyond two quarters or so we'll catch up to the VOS ratios.

Manish Goyal

But we haven't loss any business as persay?

Ajay S Mittal, Group Chairman and Managing Director

Not a single.

Manish Goyal

Okay. And you are adding up three more warehouses. So we you have enough visibility in terms of...

Ajay S Mittal, Group Chairman and Managing Director

I wish we could build more.

Manish Goyal

Last question on would it be possible to give sense in terms of by year end what could be this VOS ratio at JNPT at least which is 1.16 now, what do you expect out...

Ajay S Mittal, Group Chairman and Managing Director

I think we should be around 1.5 to 1.6. See it's a little dynamic I mean moved a little dynamic in the sense how many customers will go exactly from here. How much of that would go to Khurja. I can't have exact numbers on this from every customer. But I think internally we have a target that we should be at about 1.5 to 1.6 VOS to rental ratio at Sai Village.

Manish Goyal

Sorry I missed one answer on the FY13 likely depreciation number sir. You said interest 220 and depreciation how much?

Ajay S Mittal, Group Chairman and Managing Director

Depreciation about 30 crores. 55 crores sorry.

Manish Goyal

55 crores for company as a whole.

Ajay S Mittal, Group Chairman and Managing Director

Yeah.

Manish Goyal

Okay fine sir. Thank you very much. I will come back for more questions.

Manish Goyal

Thanks.

Operator

Thank you. We have the next question from the line Rajesh Kumar Ravi from Karvy Stock Broking. This would be the last question. Thank you. Please go ahead.

Rajesh Kumar Ravi

Hi, sir. You said that in the rail business, we had four rakes idle for almost one and half month because of the overhauling. So with those coming back into operations in this quarter onwards. So my question was that, do we have more such rakes planned for overhauling in this year, or we should be seeing a 10% to 15% sequential improvement in top-line in the rail business?

Ajay S Mittal, Group Chairman and Managing Director

I don't have detail number with me right now in front of me, but this ROH would be called as overall -- because once in two years on every rake as the rake an age of two or four or six, it will go in overhauling I don't have the exact detail in front of me. But I would expect that some rakes would further rakes would go in for overhauling this year.

Rajesh Kumar Ravi Ajay S Mittal, Group Chairman and Managing Director

That would drive and obviously from the -- our own siding coming up would increase our efficiency.

Rajesh Kumar Ravi

True. Okay. And that's all from my side, sir. Thank you and best of luck.

Ajay S Mittal, Group Chairman and Managing Director

Thank you so much and I would like to thank everybody on the call for patiently listening in and please continue with your support and we like the advise that has been coming from quite large number of investors to us and we've been taking them very seriously. Please continue with the same trend and we really appreciate all your support. Thank you very much on behalf of everybody at Arshiya.

Operator

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