“Gateway Distriparks Limited
Q1 FY2021 Earnings Conference Call”

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Moderator: Good evening, ladies and gentlemen and a very warm welcome to the Gateway Distriparks Limited Q1 FY2021 earnings Conference Call. We have with us today on the call, Mr. Prem Kishan Gupta – Chairman and Managing Director, Mr. Ishaan Gupta – Joint Managing Director, GDL Mr. Samvid Gupta – Joint Managing Director, GRFL , Mr. Sachin Bhanushali – CEO, GDL and CEO and Director, Gateway Rail, Mr. Sandeep Kumar Shaw – CFO GDL, Mr. Nandan Chopra – Senior Vice-President Finance, Gateway Rail, Mr. Sunil Nair – CEO and Director, Snowman Logistics and Mr. A.M Sundar – CFO, Snowman Logistics. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prem Kishan Gupta. Thank you and over to you Sir!

Prem Kishan Gupta: Good evening and warm welcome to all the participants to the post results Earnings call of Gateway Group. I hope everyone had an opportunity to look at our results and Press Release that is uploaded on our website and stock exchange.

The logistics sector has stood the test of difficult time as government has hardly imposed lockdown to control the spread of COVID-19 pandemic. The government recognizing the importance of the sector and keeping the economy moving and essential goods like food and pharma and classified it as part of essential services which helped the sector to address issues faced by various industries during lockdown.

In line with government directives, we have continued operations at all our facilities and I have been able to help our clients to manage their supply chain and maintain all prescribed guideline and precautions for the health and safety of our employees, vendors as well as visitors to the facilities.

During the lockdown, the freight movement by roads was impacted due to non-availability of truck drivers. However after the initial period, we were able to bring back our drivers and at the same time our rail movement continued to support the overall operations. We expect the logistics sector to witness a significant boost in the coming years due to various government initiatives like Atmanirbhar Bharat which will attract investments in manufacturing sector thereby capitalizing on sentiments of global firms planning to derisk their manufacturing strategy.

With logistics cost being one of the key drivers, the government plans to increase investment in logistics infrastructure which will provide the much needed impetus towards the growth of the manufacturing sector. With increasing focus on operational efficiency, the organized players like us are well poised to gain market share.

The cold chain business of Snowman Logistics is a niche segment of the overall logistic sector and has been able to withstand the testing times during the lockdown.

We have recorded high occupancy for temperature controlled warehouse of Snowman Logistics by clients in varied industries like healthcare, groceries, dairy, seafood, meat, poultry, QSR products etc., and overall warehouse occupancy has increased on account of surge in demand for high quality infrastructure.

The Indian Logistics sector is expected to grow exponentially in double-digit over the next few years, GDL is well placed to reap the benefits of this growth where its strategic presence in alignment with the western Dedicated Freight Corridor supported by integrated operations. A modal shift of transportation from bulk to containerized cargo and from road to rail will further propel our growth.

The company is on track with its deleveraging plans has already prepaid Rs. 135 Crores of NCDs till June 30, 2020 along with interest. The prepayment was done on January 20, 2020 of Rs. 50 Crores, May 21, 2020, Rs. 60 Crores and June 25, 2020 25 Crores. Now the proposed Rights Issue of around Rs. 116 Crores will enable us to further reduce our debt and strengthen our balance sheet.

Now, I hand over to the moderator for Q&A session. Thanks.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Our first is from the line of Bhoomika Nair from IDFC. Please go ahead.

Bhoomika Nair: Good evening and congratulation on a great set of numbers in a challenging environment. Sir just wanted to understand a little deeper on both rail and CFS little bit more. In this quarter we have seen CFS performing fairly well at about Rs. 30 Crores of EBITDA as you mentioning in your press release, what has driven this sharp improvement both on a Y-O-Y and Q-O-Q basis when actually there has been a volume decline, is there something which is accounting related and also if you can touch upon on the operation side of it?

Sachin Bhanushali: Firstly if you look at the total, numbers, the numbers are driven by two things, one is that the import volumes CFS, is being dependent on imports. During the month of April and May numbers were strong enough, number one. Number two is that there was average dwell time of containers have gone up from normal of 8 days to 9 days nowadays to over 15 days and that resulted into accrual of ground rent. We have been quite liberal in waiving off ground rent to most of our customers for both the first start of lockdown which ended on the April 14 as well May 3, in spite of that because of problems faced by them the deliveries got delayed not only in the month of June but beyond June as well, that has resulted into accrual of ground rent, so there is no accounting related entry which is resulted into increase in the CFS profitability as well as numbers as such. So both Y-O-Y and Q-O-Q if we look at the like to like numbers the performance of Q1 have been more than satisfactory.

Bhoomika Nair: Fair enough. Quite encouraging and how is the trend kind of continued into the current quarter. Has it dwell time remained in 15 odd days or have we seen some scale back to that 8 days – 9 days because I remember correct, it is a fairly sharp jump versus Q4 which had gone down to some 5 days kind of a dwell time?

Sachin Bhanushali: In the month of July, we have continued to see longer dwell time at least for the containers which were delivered during the month of July. The imports have dropped quite a bit on account of shipping lines' reaction to lower exports in the month of April and May and that is why arrival of imports have gone down. So, the overall volumes continued to be little suppressed during the month of July but the ground rent related dwell time has been reasonable during first month of the quarter. Going forward, we do not expect that the ground rent related income is likely to be as high as this but another thing which has got established is that DPD customers have realized that depending entirely on DPD is not going to help them. So, now they are looking at storage as well logistics solutions out of the CFSs and all the CFS operators expect that this will result into large part of the DPD CFS volumes getting converted y into actually CFS volume.

Bhoomika Nair: Just moving onto rail again another great quarter for us, clearly if you can just quantify in terms of how the empty running charges did benefit us There was some bit of discount given by Indian Railways or more given is by Indian Railways at the start of the quarter and the mix of volume import and export and how is it kind of the outlook kind of panning out?

Sachin Bhanushali: The benefit which was derived on account of free movement of under framed trains an empty containers during the month of April, helped a lot because the exports have disappeared during the first month and it would have been impossible for any operator to evacuate imports from the ports to the ICDs without that support the available for Indian Railways. So that continued until May 9, from May 9 onwards we are back to normal haulage charges as far as the empty wagons and empty containers that have come. The 25% concession which was earlier given continues of course but it has not been waived off for the rest of the period of the quarter, this has resulted into containing the cost escalation which would have taken place on account of that. Volumetrically we have been somewhere around 65% going through the first quarter and the trend continues in the second quarter as well, so if you look at the numbers from a quarter-to-quarter point of view the numbers have dropped some level of about 65000 to 45000, as far as the laden part of the business is concerned and the outlook going forward is that accept the month of July, August and September should see normal numbers in terms of both import and exports. In case of imbalance in the first month of we have experienced severe imbalance in favor of imports, in the second month it was kind of seesaw movement imports and exports, so imports started receding while exports started coming back. April month we only had 15% exports compared to the normal level of exports of about 10,000 containers on the rail transportation side. In the month of June, we experienced sudden drop in imports for two reason. The shipping line stopped doing weekly call in fact they switched over to practically to fortnightly call and on account of the issues related to international trade a last part of High Sea sales which should take place, it got impacted and lot of cargo got struck at intermediate transshipment location. In the month of July we have seen that coming back towards the end of the month and exports now from June onwards are practically back to normal level, so that is the volumetric movement which has taken place.

Bhoomika Nair: July would have also seen an imbalance which is now kind of starting to correct at the end of the month?

Sachin Bhanushali: That is right. So July has seen imbalance in favor of exports, so exports have been double stack and imports have been carried on single stack.

Bhoomika Nair: You are saying that beyond July, August, September should normalize in terms of operations back to our regular run rate in that sense., Would that be a fair statement?

Sachin Bhanushali: It will be ramping up. I will not say the entire month of August and September will see normal level but normalcy will start setting in from beginning of August and by end of September we would have probably settled at our normal level of activities. So the average numbers can be considered to be 65% of normal activity import and export put together for the Q1, Q2 would be somewhere around 75% to 80% and from quarter 3 onwards we should be back to normal.

Bhoomika Nair: Got it, that helps, Sir just one last question if am may squeeze in is on DFC, has there be any change in timeline, I think the last time you said that there would be some commissioning of some partial line to be happened in the current year, so what is the status of that on the Gujarat connectivity ports if you can just highlight that?

Sachin Bhanushali: We are hopeful of at least part of Palanpur-Rewari Junction, Madar junction, the Ajmer to Rewari junction opening during the current calendar year but there has been a recent announcement by DFC I think Mr. Anurag Sachan, outgoing DFC CMD has mentioned that DFC commissioning will take place in FY2022, so that sends a little signal of nervousness further so it might be shifted from December 2020 to middle March 2021 as far as the first part is concerned and Palanpur-Rewari section probably will get commissioned only at the end of calendar 2021.

Bhoomika Nair: Ajmer-Rewari which we were hoping that it would happen sometime in the calendar year of this current year might to get pushed out as the full line from Palanpur to Rewari might get pushed out to sometime in FY2022?

Sachin Bhanushali: December 2021, calendar year 2021.

Bhoomika Nair: Okay, but I mean in the current quarter we have definitely seen improvement in turnaround times which is the key I think that we are looking forward to from DFC which is get commissioned giving the lack of passenger trains, so good amount of benefit would have come through on that account, how is that kind of panning out currently and given that this delay is there, does it materially have an impact in terms of volume outlook once given the DFC delay, do you think partial benefit comes to earlier to itself?

Sachin Bhanushali: Currently we had kept our fleet size large enough to take care of the delays which were taking on account of normal operations of Indian Railways and in the COVID times because of practically shutting down of passengers services not only on the DFC stretches of conventional network but also on the rest of the network, the average turnaround time is dropped drastically, so the benefit of come in but simultaneously our trains have to be stable, practically we are operating less than half of our fleets for carrying the same level of business. Going forward, I think the benefit will continue to accrue because an aggressive ramp up of passenger services does not seem to be happening, number one. Number two is that once the part of Dedicated Freight Corridor becomes available for transportation, it will definitely result into productivity per train going up, so we will be able to off lease some of our trains as we have planned from 2020-2021 onwards will be off leasing one train a year, so that is in tune with the likely advantage of rolling out of Dedicated Freight Corridor, that definitely will such and even if probably that is coming only in calendar year 2021 not before that.

Bhoomika Nair: I have more questions, I will come back in the queue. Wish you all the best.

Moderator: Thank you. Our next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: These questions are more related to Snowman, so just wanted to understand that what is the outlook of the management for the coming year in terms of financial and capex, if you have plan for?

Sunil Nair: This is Sunil Nair. We had paused our expansion last year because of the developments in terms of Gateway Distriparks shareholding, now since there is more clarity on going forward, so we are now going to invest around Rs. 70 Crores this year in setting up facilities in Siliguri, Coimbatore, expanding Krishnapatnam and Mumbai, and these expansions will take us from 107,000 to 117,000 pallet positions. We are also going to set up facility in Delhi for Amazon. We had started Amazon business last year and with all this service levels that we have maintained, Amazon wanted us to expand for them in other cities also so the next one is going to be Delhi, so that is the next expansion that are going to do. So, all these should be up and functional in next right month to nine months.

Rohit Ohri: Okay, did you see any sort of an impact on the exports, consignments which are moving on, what was the scenario?

Sunil Nair: Sorry, you are asking about Snowman?

Rohit Ohri: Yes, Snowman, all the questions are related to Snowman.

Sunil Nair: So exports since we are not directly involved into exports, we facilitate export primarily for meat and seafood and seafood exports till one month back has been quite good and the production also was good as compared to last year. Recently because of the China-India trade restrictions, it has slowed down but now we get to know that it is moving in right direction and the exports will resume soon, I mean it is still there but it is in smaller volumes but the volume is resuming back. Otherwise all other businesses that we do are domestic ones.

Rohit Ohri: In addition to Amazon, I came across this interview, where you were speaking about e-commerce and certain B2B models, so how far have you developed model so far?

Sunil Nair: That is the model that we are piloting with Amazon and it is quite successful**,** B2B we become their backend partners and we manage everything up to their last mile hub and from t there they take care of the home delivery activity, which is very successful in Mumbai, so we start right from the farmers in nearby Pune area like Manchar and all we collect from farmers, we move vegetables to Mumbai at the same time, we buy other frozen and perishable stuffs from Mumbai itself then they are packed for home delivery purpose then we move it to their hubs in Mumbai at various locations, we deliver it to them. So this pilot had started somewhere in August-September and it is quite successful, now similar model in a bigger size will be done in Delhi. The warehouse construction has started, it will take three months time for us to make it functional. Once the model is successful then we will roll it out to other players.

Rohit Ohri: Any numbers what sort of turnover do you anticipate since you said two times then what was the pilot and how do you intend to scale it through what number?

Sunil Nair: We have some understanding with Amazon and hence we would like to restrict to share in that information.

Rohit Ohri: Another thing was that in the interview lot of things were spoken about the processed food and what would be your outlook for in the processed food because it seems to be the package food is the new thing that is coming in, people find it quietly safe, your views on e-commerce as well as the processed food?

Sunil Nair: Last year government had announced a lot of subsidy and grants for the processing units in the country and basis that you will see a lot of brands available at retail end which are ready to cook or ready to eat products and with this whole COVID lockdown and everything, these products have become very important in life and we see a good momentum there. So even during lockdown these products were in demand and they were delivered through the online delivery platforms at the same time, the foods delivery companies also use these products as their raw material to cook and deliver to home. We see this sector very promising.

Rohit Ohri: In terms of capacity utilization, last time you mentioned it was somewhere around 70%-72% so currently in this quarter, what do you see as the capacity utilization as you already mentioned that Siliguri and Coimbatore, Vizag are the areas where you will be focusing**?**

Sunil Nair: Yes, in Q1 our average utilization was 90% as of now our utilization is 87% and we hope that we will maintain this 87% going forward for this quarter also. So the demand in cold storage has increased a lot. We believe that it will always be above 80% for the full year.

Rohit Ohri: And you will be maintaining the same guidelines of 29% to 32% EBITDA margins?

Sunil Nair: Yes.

Rohit Ohri: One last question Sir, have you recognized any non-profitable area of operations wherein you think that the pallet should be closed down in terms of realization. Have you identified any such spot because last year same time we had kind of got in rid of 1,600 odd pallets so anything of that sort that can enhance the margins and the realizations you could see?

Sunil Nair: No, we have two verticals .to Main verticals one is warehousing and the other is transport. Warehouse gives better margin as compared to transport and hence we had decided we will not invest more in transport rather we will outsource whatever our requirements are because anyways we have to have transport because we offer end-to-end solution to our customers. But the strategy is not to investment money in buying trucks, so that remains there and last year whatever the number of pallet reductions happened that is because of very old and very small inefficient facilities which we wanted to do away with and as of now there is no such facilities all facilities are fully functional and latest and they are efficient enough the way we want. So, there is no immediate plan of any reduction in capacity or doing away with inefficient assets.

Rohit Ohri: If I bring down the three divisions i.e., agriculture, pharma and seafood, what would be the percentages then?

Sunil Nair: Agriculture, pharma and seafood; pharma is around 11%-12%, seafood is around 24% and agriculture is around 10%.

Rohit Ohri: Just last part of it, Sir the rest of the part is contributed by?

Sunil Nair: Rest of the part there is dairy, there is FMCG, there is QSR, there is industrial so, there are many segments which contributes like Meat, Ice cream.

Rohit Ohri: Ice cream would have been slow I understand that because this season was disrupted but amongst these which is the top one. I think Seafood is 24% is what you said?

Sunil Nair: Seafood is big, QSR is big for us and then as I told you pharma is around 12%, we have meat around 15%.

Rohit Ohri: QSR you did not mention the percentage higher than Seafood lower than seafood?

Sunil Nair: No, QSR I said 15%.

Rohit Ohri: Okay Sir, I will get back in the queue.

Moderator: Thank you. We will take a next question from the line of Achal Lohade from JM financials. Please go ahead.

Achal Lohade: Good evening. Thank you for the opportunity. My first question was you mentioned about the dwell time for the CFS is the key reason for the improvement in the profitability. What about Rail is the same rational for the Rail as well or is there any other driver for Rail brings that Rs. 8500 odd per TEU?

Sachin Bhanushali: Achal there are two drivers in Rail, one is that we had the advantage of underframe running cost in the entire month of April being taken care of by Railways because of the concession which was given. So, that is one that contributed and the volume of import containers continues throughout during that period and second was the dwell time in Rail business also increased sharply though as I mentioned earlier was in very mindful of the restrictions having an impact on both production at QC as well as logistics activity of our customers and we have been liberal in giving waivers for period up to 3rd of May in fact beyond that. But it has still resulted into some of our customers not having been able to pick up in any case, they would have spent that money on warehousing and other locations so that income as accrued to us. So, it is more on account of savings of haulage charges as well as on account of dwell time increase that the EBITDA margins per TEU as well as from overall nominal value point of view has shown an improvement.

Achal Lohade: Got it and broadly if we were to look at the balance nine months you said you are looking at 80%-85% by same quarter and normalize the second half. In that case what kind of margin one should look at for the Rail business also if you could help us on the CFS profitability?

Sachin Bhanushali: It would be difficult to predict the margins on a quarter-to-quarter basis or the rest of the year. But our guidance always has been that the current level of business competition and imbalance indicates the Rs.6,000 to Rs.6,500 as an achievable per TEU EBITDA margin at least for Q3 and Q4 we can consider that as for reasonable guidance. CFS business also has seen as I mentioned earlier answer to one of the question is that the DPD business people who are depending entirely on DPD have realized that depending on DPD can result into severe issues particularly when there is a lockdown related restriction on movement etc., so, we have seen some businesses coming back to us in the post-COVID restrictions removal. So, there is a chance that we will be able to inch up to the earlier EBITDA level about Rs.2,200 – Rs.2,250 per TEU for the last quarter we had earned Rs.2,000 per TEU as our EBITDA margin per TEU for CFS business so, we expect that it will be roughly about 10% more than that.

Achal Lohade: Right and just a clarification on the work part the volumes for Rails include empty or it is only the laden containers?

Sachin Bhanushali: It includes empty containers which have been carried for a price., The empty containers which have been carried free of cost have not been included in the volume.

Achal Lohade: If we were to look at Indian Railways container volumes would they include that number, I am just trying to figure out the trend between Indian Railways and yours. Would there be a co-relation?

Sachin Bhanushali: Indian Railways does not derive its container volume based on number of TEU's, they do it on the basis of tonnage and that tonnage calculation will be done by Indian Railways is not as scientific as it should be as far as this business is concerned. So, you will find a little variance in the way the graph moves for them as well as for us. It would be better to take the government of India, Indian Railway numbers with a pinch of salt.

Achal Lohade: Got it. The second question with respect to there has been a media article about the government looking at private freight trains on the DFC. If you could help us; a) would what kind of investment do you see it could require us to participate in that and b) what kind of profitability would it be interesting for you all to participate in?

Sachin Bhanushali: I think what they meant was they wanted to allow pass on the Dedicated Freight Corridor to be used by private sector operators. The commercial entity that we are being with customers would continue be Indian Railways. So, the opportunity will come only to Indian Railways it is not going to come through Dedicated Freight Corridor. So, there is no additional investment which is required to be done except running more trains if there is an opportunity.

Achal Lohade: You mean basically we do not need to invest as such for running the trains for ourselves on our own?

Sachin Bhanushali: When we run trains on Dedicated Freight Corridor alone this point of origin and point of destination is on Indian Railways then there would be a need to develop terminals on Dedicated Freight Corridors because DFC does not have any terminals. But from running a train either originating or terminating on Dedicated Freight Corridor or originating or terminating on Indian Railway network no additional investment is required for the trains that currently we operate for carrying transportation of containers are the same trains which will be operated on Dedicated Freight Corridors like that. Dedicated Freight Corridor is another two lanes of railway track which are being added to an existing two lanes of railway tracks which exist so there is no change it is only like widening of the highway.

Achal Lohade: I mean for the locomotives basically could you require to invest in those engines?

Sachin Bhanushali: As of now Indian Railways is not permitting investment and operations of locomotives that by private entities.

Achal Lohade: Okay, got it. Sir, thank you so much.

Moderator: Thank you. The next question is from the line of Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi: Thank you for taking my question Sir, and congratulations on good set of numbers. If you can highlight the market shares for us and how has that changed during the quarter and were any price hikes contemplated by us in any of the segments?

Sachin Bhanushali: Bhavin currently the possibility of price hike is not there because not only is the industry operating at sub-optimal level of capacity utilization transportation and logistics will also be operating that sub-optimal capacity. So, there is a supply side access which is available both on rail transportation, road transportation as well as the warehousing of branded nature which exist in the market. So, for another six months we will not be take any price increase unless there is an increase in cost which will put the result into increase in price. That is the first part of it, second what was your earlier question to that.

Bhavin Gandhi: The market shares for us?

Sachin Bhanushali: Market share continues to be on the same order. In the month of April-May-June i.e. the first quarter we have remained as our NCR market share of 13% and in Punjab area where we used to have market share of 42%-43% and that has come to down to however 36% because of new players have started operating in this market and some distribution business has taken place.

Bhavin Gandhi: One more thing on the domestic side are we looking at any opportunity in the Rail business?

Sachin Bhanushali: We have wait and watch policy on the domestic side. We are ready with almost about 1,000 domestic containers on the feed and terminal services. We have a Kalamboli terminal as well as other four ICD’s where we can handle not only EXIM cargo but also domestic cargo. So, even today the demand for domestic transportation per se and the speed with which Indian Railways operate the domestic trains continues to be a little disappointing. We will not be able to have adequate returns on the domestic business until three things happen Indian Railway allows its terminals to be opened up for handling of domestic containers as well as storage of domestic containers towards which Indian Railways already made certain moves. Second is that the route capacity constraint has to go away by making additional investment by Indian Railways on the routes on which domestic cargo moves. Number three, is that they will have to show certain amount of price flexibility I do not mean thereby reduction in rail freights or rail haulage charges, but charging less in empty direction and charging more in laden direction that is how all logistics business transporting business has moved. Unless they do this, I do not think business has big promise if you compare the numbers of other operators who are in domestic business it does not look at as an exciting opportunity to get into quickly. But we have wait and watch kind of policy so, if there is anything interesting, we will quickly do it.

Bhavin Gandhi: Just one last thing for capex for FY2021 how are we looking at it?

Sachin Bhanushali: The idea currently you are aware is that we want to pare the debt by redeeming the balance Rs.135 Crores worth debentures which fall due in the first week of April 2021. So, once that is done two things that quickly we are planning to do is that there are two locations at which we wanted to start with satellite terminals and there we are kind of ready to go anytime and once that happens some amount of capex in acquiring land or rights to operate from that location will be undertaken. So, the current fiscal I would put the capital expenditure, the maintenance capital expenditure number somewhere around Rs. 5 Crores to Rs. 10 Crores as far as Rail business is concerned and CFS business is concerned respectively equal amount of maintenance capex. From a growth capex point of view there could be an opportunity of going even up to Rs. 50 Crores depending on how quickly we reduce the debt then our overall debt will also come down to the level of less than 2X or is just about 2X EBITDA that will entitle us to access the additional debt fund for taking care of our capital requirement. So, I would not be of the mark in putting the requirement of capital expenditure to abut Rs. 50 Crores from the two new locations that we are looking there it will be spread over years of course it is not something that can be completed only in the current financial year.

Bhavin Gandhi: Got it Sir, just to clarify that Rs. 50 Crores per facility, right?

Sachin Bhanushali: No, overall capital expenditure. It is not going to be linear probably these two facilities will start simultaneously some capital expenditure will take place this year, some capital will take place in the next year and would be operational in 2022.

Bhavin Gandhi: Thank you.

Moderator: Thank you. Our next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Good afternoon and congratulations for a strong set of numbers especially in this environment. Going back to the EBITDA margins that we have earned, and I am looking at this quarter as many one time. So, we had lower cargo, there was the rejigging in hipping lines calling on ports and obviously the consolidation accordingly has happened and which probably our double-stacking would have benefited us significantly. Plus as you rightly mentioned there was waver of underframe running cost as well but that was for may be a month or 40 days - 45 days. How should one look at the rail EBITDA margin and I am not talking from a near term perspective but may be from a medium term perspective may be even under DFC because this to my mind would have been probably one of the most efficient way in terms of the turnaround time the way we would have handled our operations. So, any thoughts there whether this Rs. 8,000 or there about margins can this sustain under DFC presuming the base haulage cost remains what is this?

Sachin Bhanushali: Thanks for their analytical insight into what needs to be looked at. For that probably we need to separate the dwell time related increase in EBITDA as well as the benefit of double-stack resulting into EBITDA. Unfortunately, because of completely lopsided imbalance the benefit of double-stacking has been lost in the month of May and June when the underframe charges were to be paid by us. While we are double-stack the advantage of double-stack can take the EBITDA to a level of Rs.7,500 ordinarily and under Dedicated Freight Corridor we have maintained this guidance that is under Dedicated Freight Corridor our opportunity would be to push the EBITDA per TEU could be Rs.7,500 a part of that might get deferred on account of competitive pressure. So, the range will continue to be from Rs. 6,000 to Rs. 7,500 and the overall trade situation, overall economy situation how do the macro’s do etc., will decide where do we actually stand as far as this range between Rs. 6,000 and Rs. 7,500 is concerned. I would consolidate closer to Rs. 7,500 once the full Dedicated Freight Corridor becomes operational.

Ankur Periwal: Sure, you did mention a part of DFC may get operational may be by the end of this financial year. So, will that help us in terms of getting volumes or improving efficiency or will have to wait for the full DFC to come in on this?

Sachin Bhanushali: The Dedicated Freight Corridor advantage comes by way of reduction in transit time will definitely help but the economic advantage of that will not be visible because we will not be able to quickly do away with the extra capacity which has been generated on account of that. So, we may start doing routes on which we ordinarily we were not operating our trains. But as far as the overall benefit is concerned that is available only with Nhava Sheva segment becomes double-stackable. That means we have a JNPT to Rewari through and through connectivity because the double-stack advantage some of savings in the rail haulage charges without improvement in the turnaround time point of view is already available on Mundra Port and Pipavav Port route. So, the significant advantage will come only when not only the entire Dedicated Freight Corridor is commissioned but some amount of time has lapsed in order to establish that a reliable, predictable service assurance by Indian Railways can be provided by container train operators on the longer routes, in fact that is the time when some amount of domestic cargo will also start taking shifting towards rail transportation.

Ankur Periwal: Sure, and the connectivity to Gujarat Port by when do you think that, I am also including the feeder route connectivity here for this end-to-end from NCR to Gujarat port by when we should see the benefit of that accruing?

Sachin Bhanushali: The feeder route connectivity has two element to it. Dedicated Freight Corridor will be electric operation from Rewari to Palanpur so, both Pipavav as well as Mundra Port routes need to be electrified. A large amount of work has already been completed as far as electrification on the Pipavav route is concerned Mundra Port also should be able to catch up with that. The heavy railways structure the track structure which needs to be upgraded is something which might take some more time, but I think it should get something along side completion of Dedicated Freight Corridor between Palanpur and Rewari. So, by December 2021 or may be March 2022 I am hopeful that they will be able upgrade not only the electrical connection part of it the OHE part of it but also the track structure part of it.

Ankur Periwal: That is great. Sir, just one question if I may squeeze on the CFS side now you did mention dwell time benefitting us as well as some rejig happening from the DPD CFS volume coming back to CFS, but, just curious here because even for us we will be ultimately dependent upon the local truck network for us. But still we were able to obviously being an aggregator here versus dedicated customer we were able manage things properly. So, can this structurally change what we have been seeing the pain over the last three to four years in terms of lower volumes, lower margins. Can there be some end to that?

Sachin Bhanushali: Lower margins are primarily driven by excessive competitive pressures in that market. So, where that would be we used to operate only 6 or 7 CFSs as in where of 30 CFSs now there is an excess capacity. So, everyone wants to take away business from everyone else that results into lower prices many times improper understanding of the cost structure also results into irrational pricing wherein people are selling their products at less than cost of manufacturing, cost of producing the service etc. So, if we keep that aside considering that the market will operate rationally. The overall market is likely to grow on account of two things, the fourth terminal which will be commissioned in phases, the phase one is already on and we are doing really well and phase two coming in both the things that signal as will result into capacity on the ocean side, the sea side capacity is improving. Secondly, the DPD customers getting a little disappointed with the problem related to road transportation particularly the road transportation directing from the port to their doorstep. It is always better to have an intermediate location where we can kind of hold your cargo and get it delivered from there. So, once that mindset sets in and I am seeing a little bit of trend there but if that mindset sets in that will definitely help this year with industry in terms of volumes.

Ankur Periwal: Okay, that is helpful.

Moderator: Thank you. Our next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: I have two-three questions. Sir, firstly in the last quarter it was mentioned that our cost cutting while the volume decline in the range of 20% for both segments but we will have lesser EBITDA decline because of cost cutting indicative which we will be taking during the year. So, has that also helped because of profitability or how do we look at cost for a certain beyond?

Sachin Bhanushali: Under the current circumstances when your volumes are under pressure, Prateek there will always be an effort on part of all of us to reduce costs. One of the costs where it is not possible to control that cost quickly and on the long-term basis in that of labor cost. But other than labor cost we have tried to reduce our cost wherever possible. The transportation cost is likely to be again not as maneuverable. The freight rates in the market have gone up there is a chance that we may have to increase our cost of operation also on account of fuel prices having shot up. So, the cost pressure will continue the benefits will accrue to us only on account of two counts, if we are able to increase our volume and if we are able to hold prices and I am seeing good trends in the market.

Prateek Kumar: Besides ground rent and the like for like pricing which was there earlier is that also appreciating for CFS markets?

Sachin Bhanushali: As of now there has been no change in the pricing structure as such but if you convert DPD business into CFS business than that results into core TEU price going up because there an integrated service of not only clearing the container of the core term but also holding, storage and grounded rent on which comes along the track. So, more than price card getting a better lease of life it is probably going to be the composition which had resulted into the overall financials being a little better than those were in the Q4 of last year or Q3 of last year.

Prateek Kumar: Right and Sir the Rail segment we talked about improvement in long term for varies like the lower less than 24 hours and like in April month. How is that trending now in July?

Sachin Bhanushali: It continues as good as that, so even today we have at least about eight to ten trains stabled at any point in time we surplus capacity, the cost has not gone down there because we were least trade so and we have tried them to convince them that at least waive off the stabling charges which Indian railway charge to us. There might be some benefits coming our way there but the turnaround time continues to be very good so if it takes less than 48 hours for a train to come from Mundra Port and Pipavav Port into Garhi Harsaru and it takes less than 40 hours for a train to come in Garhi Harsaru from Nhava-Sheva into.

Prateek Kumar: Less than 40 hours, last time you mentioned 24 hours.

Sachin Bhanushali: 24 hours there has been some cases, 30 hours has been the best maintained week let us say runtime over the week but if we look at let us say the mean would lie somewhere between 36 hours to 40 hours but we consider that anything that needs today will reach day after tomorrow that is the way of looking at it. Also queuing at the terminal is going up actually.

Prateek Kumar: And does this also help margins?

Sachin Bhanushali: This does not help margin unless we hive off some of our leased train so that is a fixed cost, leasing is a fixed cost as of now it is not helping us in terms of reducing our cost.

Prateek Kumar: Okay and just last question on the press release which we published I think just prior to the call, it mentioned that CFS business EBITDA for TEU is Rs. 4,300 and last year this was Rs. 2,000, so how is this calculated because the EBITDA number which is given and the volume numbers, it comes at around Rs. 4,600, so is there IND-AS which is mentioned in the press release?

Sachin Bhanushali: I will need to have a look at it, if there is a inconsistency in the arithmetic that you have done and the number that we have shared, it would be better if we are able to have a look at the numbers and there is a small note you must have seen, it mentions that excludes SEIS income of Rs. 54 Crores in Q1 but apart from that does not explain the Rs. 4,300 and Rs. 4800 inconsistency that you mentioned, let me check this and I will connect with you separately on this.

Prateek Kumar: Sure Sir, because rail numbers are tallying but CFS numbers are for some reason not tallying, so your take on this?

Sachin Bhanushali: There could be an error so let us just have a look at that and come back to you. Me and CFO Mr. Sandeep Shaw, both of us will have a look at it and come back to you.

Prateek Kumar: Okay, Sure.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citi Group. Please go ahead.

Atul Tiwari: Thanks a lot and congrats for a pretty good set of numbers. Just one question on the balance sheet, how much would be the consolidated gross and consolidated net debt as of June or current number?

Sachin Bhanushali: Should I request Mr. Sandeep to give this information, he would be having this information.

Sandeep Shaw: Atul, the gross debt as on June 30, 2020 was Rs. 656 Crores and net debt as on June 30, 2020 is Rs. 623 Crores.

Atul Tiwari: Okay and between say end of June to April apart from this Rs. 1.35 billion NCD are there any other maturity this month and how much is the interest out?

Sandeep Shaw: Other than that there are normal scheduled term loans and regular loans which we have taken our CFS business and the rail business, the repayment for which will start from on the due dates from September onwards.

Atul Tiwari: Any idea about the rough amount, even if the amount is not exact I mean any context?

Sandeep Shaw: It will be approximately for all Rs. 15 Crores in CFS business and Rs. 20 Crores approx. to Rs. 22 Crores rail business.

Atul Tiwari: The principle payment.

Sandeep Shaw: Yes.

Moderator: Thank you. We will take the next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Good evening. Thank you for the opportunity. Firstly, if you could just roughly give a sense of in a normal quarter what is the typical empty running cost that we may incur, a rough estimate?

Sachin Bhanushali: On and average we spend about Rs. 70 lakh per month on empty running which we call underframe running. In the month of April this was zero, in the month of May and June we are anywhere between Rs. 30 lakhs to Rs. 50 lakhs, in the month of July the same trend continues. So, the volume at present is lower and since some of our trains at present are parked or stabled, the empty running has also been contained in fact we have been able to maximize export directions double stack that has also resulted into empty running coming down because double stack is basically too loss not only improving our cost matrix but also reducing their empty running.

Mukesh Saraf: Secondly, you had commented that obviously the environment is not great for us pricing for any kind of price hikes so CONCOR there was some commentary that they are facing incremental cost because of the land price is going up but they have kind mentioned that looks like impact of that probably by way of some pricing actions, if that happens do you see that to be kind of big benefit for you also because typically CONCOR is a price leader and whether on the handling or the haulage side they do take these price hikes and do you see the possibility on that?

Sachin Bhanushali: It depends on the sector. Some market in which such an action takes place but firming of prices is a complex phenomenon even if one let us say operator in the market takes the leadership in terms of taking the price increase it does not really result into much price increasing for all operators in that route but from a margin retention point of view, a margin protection point of view we always review opportunities of increasing prices at least in small quantities in all the markets in which we operate and if there is an opportunity we will definitely take a go at it.

Mukesh Saraf: Right. Just last thing, on the satellite terminals you mentioned obviously there is some kind of an excess capacity, so any sense you can give on these, are these going to be on the DFC routes, helping you to get some more volumes or are you going to help more in transshipment or any such comment that you can give?

Sachin Bhanushali: So, our philosophy has been that our network has to grow by penetrating into the markets where the cargo is generated so we go closer to the market in terms of access and from there we operate via Garhi Harsaru terminal to the Gurgaon terminal so that the advantage of double stack become available to that locations. Also, there are many locations where the volume is not large enough to turn out a train a day to any port or even all ports put together, those are the locations which can be addressed by using both hub and spoke and double stack access via Garhi Harsaru terminal so that is philosophy on the basis of which we plan to go ahead. These are not necessarily going to be terminals where existing terminals already are infringed, and we are kind of looking at taking away market share from others. These are the locations where at present there is no direct service which is available some of the services from other terminals including Garhi Harsaru terminal is unavailable. So, my penetrating into that market are better opportunity available for us that is the philosophy.

Mukesh Saraf: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please ahead.

Pulkit Patni: Sir thanks a lot for taking my question. Sir, there are these big numbers doing the rounds what kind of losses Indian Railways might incur this year which might not come as a surprise, do you fear that some of these could be recouped in the form of higher haulage charges, etc., so is there a fear that Indian Railways could use container transportation as a source of making good some of those losses or you do not think that is likelihood?

Sachin Bhanushali: The number that I am listening or seeing in news is something like Rs. 35,000 Crores only on passenger side etc. Now these numbers are based on any shared scientific information or analysis about it. Container transportation per se contributes only 5% of Indian Railways revenue so even if Indian Railways wants to use rail haulage charges as a mechanism of improving their revenue, there is a very small play which is available there, the main contribution has to be come from major cargoes which are carried by Indian Railways in bulk and break bulk condition on their box and train that is coal and other minerals that is Iron ore etc., then what it is carried in their cover wagon, the BCM wagons by way of cements, food grain, fertilizers, petroleum products carried in special wagons, iron and steel carried in specialty wagons etc., so that is what contributes 95% of their business and the kind of staggering hole that probably that we are talking about cannot be filled in by using 5% increase in the price of 5% segment part of it and if you look at general conduct of Indian Railway, commercial conduct of Indian Railway is very container operator has been that of little benevolence over a period of last three years. We expect that will continue, a small increase to take care of the inflationary pressure is something which can be taken by us as well as our customers at any point in time but a large increase in rail haulage charges will result into shrinkage of markets and Indian Railway is expecting that it should be able to go from the current level of 1,200-1,300 million tons mark to 2,000 million tons mark by increasing its market share in pace in which road transportation offers if that has to happen container is the solution and if container is the solution, container will have to be treated from commercially as well as operational point of view, more favorably and that is where I have mentioned those three things that have need to be done in one of the answer to the earlier question which was put is that Indian Railway will have to improve its network capacity, will have to allow access to its terminal and will have to become a little flexible as far as the commercial rates would be the train operators are concerned.

Pulkit Patni: Fair point Sir and at least still CONCOR stake sale happens I do not think they will do this. Fair point. Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraint we will be taking our last two questions now. Our next question is from the line of Manjeet Buaria from Solidarity Advisors. Please go ahead.

Manjeet Buaria: Thank you for taking my question. I wanted to understand why did ADGFT coming back questioning the SEIS benefits when they have actually paid out those benefits, they never protested when it comes to paying those in the past, so just wanted to understand your view what prompted this and whether it is an industry wide phenomenon or is it something specific to do with us?

Prem Kishan Gupta: It is a difficult question to answer because it is probably only be explained by Additional Director General of Foreign Trade whom we have met. The reason why the question is being asked is little I would say lack of clarity in their minds in terms of what constitutes the service, whether all the services which are provided by ICD operator and the CFS operator constitute a part of services which are eligible in the their FDIs or not. While transportation by road from CFS to the port is considered to be an eligible service and all the operators have got that benefit, in case of rail after allowing the benefit to be passed on to the two or three operators I think by Director General of Foreign Trade, an internal question has been raised that rail transportation does not constitute a part of the service which can be considered to be the one which is eligible on account of either deemed foreign exchange earnings or reduce expenditure in foreign exchange. There is an elaborate in literature which has been generated and elaborated legal advice which has been put forth and shared with the office Additional DGFT. We are quite confident that we will able to convince the Additional Director of Foreign Trade Office with respect to the reason behind this service being eligible. Another reason which you must have read in the newspapers about MEIS also Merchandise Export Incentive Scheme is the budget constraints and budget constraint and budget constraint was also one of the reason why SEIS benefit has not been given after the first three years, so the fourth and fifth year SEIS and in fact SEIS should have been given extension for another year that also has not taken place and our information shows that it is on account of budget constraint with the government. So, I think we should be able to convince the office of DGFT with the help of technical experts as well as legal experts. Going forward what will happen is a little question mark.

Manjeet Buaria: Just one followup here where demand pertains to what just days or it also would have some penalties and interest on top of it was one and just separately when we look at your depreciation in the rail freight business over a long period let us say over five, 10, 15 years of operation, is your depreciation policy enough to cover your maintenance capex or is it more aggressive than what is your maintenance capex is, could you just throw some lights on that? That is all from my side. Thank you.

Sachin Bhanushali: Railway wagons have a very long life and there is hardly any technological obsolescence which takes place as far as railway wagon is concerned. It is a very basic structure. There is a wheel set on the top of that there is an under frame on which you put a container so the total life BLC type of trains is concerned to be that of 30 years. As far as our depreciation policy is concerned we depreciate the entire cost of train, which is owned by us, which is bought by us over a period of twenty years, so from our replacement point of view probably the markets would have changed by the time the 20 years would have elapsed. There would be a fairly matured markets for leased wagons and going forward all new types of wagons will be leased from leading companies rather than buying those and depreciated on your own balance sheet. So, that is one part of it, the first part of question, if you could repeat that.

Manjeet Buaria: So, the ADGFT whatever the amount they have questioned, let us say if it does not go in favor of the company, are there more penalties or interest which we have to pay like from their end or they have just questioned right now and there is no clean from their end.

Prem Kishan Gupta: See, we have made a representation when we ourselves do not know how it is going to shape up but SEIS applications we have filed for the following years so this is a matter in which you will not decided overnight it will take some time and as and when it comes in we will definitely share the market and stock exchanges.

Manjeet Buaria: Thank you. Those were my two questions.

Moderator: Thank you. We will take the last question from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: I had a question, you were talking about from a DFC perspective, potential EBITDA of Rs. 4,500 per TEU versus Rs. 5,500 which is there right now, I just wanted to get sense from you whether you think that the market is having some kind of elasticity for this Rs. 1,000 add on be all the benefits?

Sachin Bhanushali: Frankly, I have not understood your question.

Aditya Mongia: The question was that let us say Rs.5,500 of EBITDA can become Rs.7,500 of EBITDA for you because of DFC, do you think there is enough price elasticity in the market for you to be maybe trading that Rs.1000 of additional EBITDA for much more?

Sachin Bhanushali: The EBIDTA improvement is not by price increase but by way of your operations and cost management and the part of that I have mentioned is that will have to be shared with the trade in terms of discounts to be given for attracting more volumes because as the DFC comes in the capacities will increase, turnaround times will down so interestingly itself will be able to do more business so it will be somewhere in between which will take place and that is why I have come out with the range of Rs.6,000 to Rs.7,500 I am not even looking at just Rs.1,000 and then numbers will come somewhere anywhere between Rs.7,000 to Rs.7,500 depending on the competitive intensity which would exists at that point in time. It depends more on market, it depends more on the macros, how the overall economy is going to do.

Aditya Mongia: I was just putting in different context I was just asking whether people or customers have moved from road to rail because this is the kind of discount we can give to them?

Sachin Bhanushali: Road to rail shift is something which is let us say lot talked about but less understood so as far as the international trade is concerned only what comes into North India can be carried by either rail or by road and our estimation is that roughly about 35% of the overall business handled by Nhava-Sheva, Mundra Port and Pipavav Port together is actually meant for hinterland and currently about 25% is being carried by rail so there is a play of roughly about 35% to 40% growth which will take place there. Apart from that there is going to be a big players for us, domestic business is concerned but domestic business only Dedicated Freight Corridor will not help, the feeder routes beyond the dedicated freight corridor are going to be of more importance, development of terminal of handing of containers on the Indian Railway network also going to be of great importance and customer will have to get used to a certain level of reliable service provided by Indian Railways as well as our container operator with the help of dedicated freight corridor or corporations service. It is normally then the shift is going to take place so there is going to be no quantum shift which will take place within let us say six months of commissioning of dedicated freight corridor. We have be to a little more patient and develop products which will suit the industry.

Aditya Mongia: Thank you.

Moderator: Thank you very much. Ladies and gentlemen that brings us to the end of today's conference. Thank you everyone for joining on the call. We hope we have been able to answer your questions. For any further information, request you to get in touch with SGA, our Investor Relation Advisors. You may now disconnect your lines. Thank you for your participation.