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Dear Sir,

Sub: Transcript of Earnings Call on 14th February, 2018

Please find enclosed herewith the transcript of the Earnings Conference Call held on 14th February, 2018 for your records and reference.

Thanking you

Yours faithfully,
For **Shreyas Shipping & Logistics Limited**



Namrata Malushte
Company Secretary



Encl: A/a



“Shreyas Shipping and Logistics Limited Q3 FY 2018
Earnings Conference Call”

February 14, 2018



**MANAGEMENT: MR. CAPTAIN V. K. SINGH -- EXECUTIVE DIRECTOR
AND CHIEF EXECUTIVE OFFICER, SHREYAS SHIPPING
AND LOGISTICS LIMITED
MR. RAJESH DESAI -- CHIEF FINANCIAL OFFICER,
SHREYAS SHIPPING AND LOGISTICS LIMITED**

**MODERATOR: MR. VIKRAM SURYAVANSHI – PHILLIPCAPITAL
(INDIA) PRIVATE LIMITED**

Moderator: Good Day, Ladies and Gentlemen, and Welcome to the Q3 Earnings Conference Call of Shreyas Shipping and Logistics Limited hosted by PhillipCapital (India) Private Limited. 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 call, please signal an operator by pressing “*” then “0” on your touchtone phone.

I now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital (India) Private Limited. Thank you and over to you, Sir!

Vikram Suryavanshi: Good afternoon and very warm welcome to everyone. Thank you for being on the call of Shreyas Shipping and Logistics Limited. From management, we with us Captain V. K. Singh -- Executive Director and Chief Executive Officer; and Mr. Rajesh Desai -- Chief Financial Officer.

Now, I hand over the call to the management for their opening comments and then we will have a Question-and-Answer Session.

Captain V. K. Singh: Thank you very much. Good Afternoon, Ladies and Gentlemen. We are here to discuss our results for Q3 FY 2018 and outlook for the rest of the financial year. The results were announced on Tuesday, the 13th February and now I would like to talk about some of the key financial and operational highlights of this quarter.

During quarter three FY 2018, the revenues stood at Indian Rupee 140.7 crores which was Indian Rupee 96.7 crores in the corresponding period last year. EBITDA was at Indian Rupee 26.2 crores as against Indian Rupee 16.4 crores in the same period last year and PAT at Indian Rupee 18.9 crores as against Indian Rupee 8.8 crores in the same period last year.

In percentage terms our revenues grew by 39%; EBITDA grew by about 132% and the PAT grew by 257% on year-on-year basis this quarter.

Before we go to the operational highlights, we like to brief you regarding the outlook for the global container market. Over the course of the year 2017, the HRC index averaged 557.5 points which was 30% up in 2016. Demolition prices moved up from around USD 335 per LDT in January to USD 450 in December. On an average vessel values in the more liquid second-hand sectors increased by almost 50% at the end of the year this purchase of six second-hand vessel during this year was well timed for the company. The demand outlook in 2018 expected to grow by 4.5% to 5% which compares to 4.3% in 2017 and 3.6% in 2016. The supply outlook for 2018 expected to net fleet growth of 1 million TEUs that is 4.8% which compares to 7,50,000 TEUs in 2017 and 1,30,000 TEUs in 2016. Overall outlook is more positive and annual average index in 2018 expected to be higher than 2017.

Coming back to our own operational, during the quarter we acquired three second-hand vessels namely SSL Brahmaputra 4,273 TEUs capacity, SSL Ganga of 1541 TEU capacity, and SSL

Balaji MPT vessel of 671 TEU capacity. We also sold SSL Sagarmala during the quarter and our fleet size stands at 13 vessels 23,143 TEUs capacity having deadweight of 3,15,722.

We operated a fleet of 12 vessels with total capacity of course 21,602 TEUs and dead weight 2,95,570 during the quarter with 25% increase in operating capacity as against previous quarter while SSL Ganga was chartered out as soon as after acquisition and dry docking.

During the quarter SSL Chennai was dry docked and she was out of the service for 25 days. The total volume handed during the quarter 1,22,296 TEUs as compared to 83,715 TEUs during the third quarter of the previous year, having a growth of 46% and a volume of 108,797 TEUs during previous quarter with a growth of 12%.

Total vessels operating days during the quarter was 1,140 as against 943 during the last quarter, an increase of 21% in the operating days. The utilization levels on all the services from North to South and West to East remained at the level of around 98% and on the reverse leg was around 67% post-deployment of increased capacity acquired during the quarter.

Severe congestion at Kolkata port coupled with a reduction in draft affected performance of our ECC service during the quarter. The average cost of fuel oil, as well as diesel oil, has increased by almost 10% as compared to previous quarter.

Our market share for the quarter in the domestic market remained at 56% and in EXIM coastal tran shipment segment the market share was 90%. During the quarter overall growth in the domestic market was 12.4% in last six months and the growth has been 29% year-on-year. The company also commenced dry bulk segment in the coastal shipment during the quarter after the acquisition of two multipurpose vessels. We successfully completed transportation of two shipments of finished steel goods from RINL plant at Visakhapatnam to their warehouses at Kochi and Mumbai as per the complete logistic contract.

Our service between Colombo and Chittagong commenced during this quarter on a joint venture between Shreyas Shipping, Transworld Feeders, and Milaha. These two are of course the foreign feeder operators expanding our boundaries to other regional areas.

As compared to corresponding quarter of the last year we had a capacity growth of around 70% and container volume growth of 46% for the year, while the growth in income was 46% the increase in cost also has been about 45%. The average operating revenue per TEU for this quarter was 10,057 as against 10,178 in the previous quarter. At the same time, the operating expense per TEU was 7,693 as against 7,252 in the previous quarter. This resulted in operating margin of per TEU 2,363 as against 2,926 for the previous quarter.

Please look forward for the company's continued growth on volume handled both on coastal container trade as well as a coastal breakbulk segment including expansion into regional areas with a focus on the reduction of operating cost expenses.

Thank you very much for your kind attention and now we will be pleased to answer your questions in the Question-and-Answer Session. Thank you.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Amit Gupta from Perfect Research. Please go ahead.

Amit Gupta: Sir, we see a huge opportunity with this Sagar Mala project underway, so how will we benefit from the same or what are we doing so that it helps us to grow revenues?

Captain V. K. Singh: Well, considering the Sagar Mala project itself and the growth what is being done in projects what has been undertaken by the Government, we have already worked on the expansion and growth in our MPP that is multiple purpose vessels that is where we have already gone ahead with acquisition of two vessels and we have started now we have currently putting both the vessels on the same multiple purpose trade or breakbulk cargo. So that is one of the agenda for Sagar Mala project that is connectivity of even other ports, smaller ports, minor ports and connectivity for the roadways. So we have been geared of course on the container segment, we are touching all the container ports whatever has been newly developed also, we have already started our operation at Paradip. We will be shortly starting as soon as Dhamra Port opens up, we will be starting our operation there. So our expansion on both the container front will be there along with breakbulk segment which will be carried out now and the growth in the tonnage will be also there in future as we are going forward with the expansion in Sagar Mala project.

Amit Gupta: And sir, how are the major competitors to us and how are we trying to face the competition from them?

Captain V. K. Singh: Well, yes, our competitors on the seafront is mainly SCI who is there and Simatech as well as the TCI. Of course, we have a partnership with most of them, at least with SCI as well as Simatech on the swap arrangement basis, while we have all these as a competitor but we are also sharing partnership on our vessels to see the overall growth and benefit to the customers. So that is where we are working. But we continue to have our share of growth and share of volume that is 56% which we are holding on the domestic front and as well as mostly the EXIM cargo we are handling. And besides that of course, we have the competition of road transportation and rail transportation but definitely, as you see that volume has been going up on the sea, coastal vessels, so definitely we can see that there is a certain movement of volume shift or volume from the road to sea.

Amit Gupta: And sir, what growth rates do you see over a period of three years to five years for the industry?

Captain V. K. Singh: On an average on the domestic cargo, we have been seeing a growth of almost about 25% to 30% year-on-year and definitely there will be an additional growth even coming forward going forward on the breakbulk segment which we will be able to take on and with the increase in the capacity, we will be able to work out the growth even and take the growth on the breakbulk segment. So combined growth, I think it should be nearly about 30% to 35% year-on-year and

that is where we have the plan to enhance our capacity in the coming years when we can see the growth coming in line with our capacity deployment.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Yes, sir, against the 1,22,000 TEUs which is the volumes that we did. What will be the carrying capacity for us?

Captain V. K. Singh: Carrying capacity if you realize that we have almost about 98% capacity utilized on 1 lakh, so definitely with the vacant space what today we have is mostly on the reverse leg as not on the same leg. So capacity is more or less in line with our requirement and so I can say we do not go as per TEU capacity if I am to say because it is mainly we are loading on the dead weight size and we are dead weight capacity-wise, we are almost on the full on the main leg from North to South as well as from West to East. Of course, on the reverse leg we do not have much cargo, so that is where the average capacity utilization is just about 60% - 65% to 67%. So that is where we are putting our effort to go up on that capacity because even with the new tonnage added, the capacity utilization on the reverse leg has come down while on the main leg from North to South and West to East we have tried to move more and more and take the growth into our capacity.

Pritesh Chheda: I am asking this question in the context of the fact that your cost have increased by 20% on a Q-o-Q basis. Your capacity has added 20% on the Q-o-Q basis because you added three vessels and that is about 4,000 TEU but there is no corresponding rise in the EBITDA's on a Q-o-Q basis. So I was just wondering on the carrying capacity side. So what would be your analysis that despite the rise in capacity, your corresponding EBITDA's have not gone up?

Captain V. K. Singh: Well, I will tell you, the fact remains that these all three vessels were taken during this quarter and you have to give certain time for settling off these vessels and of course, from the time we took over these vessels till they came in those services that was a certain repositioning cost which was additional which has been accounted in the costing and that is where the cost overall has gone up when we did not had any revenues for the first month all the three vessels were repositioned and they had a repositioning cost, we also had a dry docking cost. So all that was done and after they were put in service also takes a little time to stabilize the services that is where the cost was there because of the increase in capacity, the cost has gone up while the revenue has not come in that line. That is where the issues that since we have grown in the capacity whether the utilization level yet overall and the average the voyages which we have done utilization level has gone on one side. But other side definitely there is a shortfall in the utilization side and that is where it affects and more so when we utilized to increase the capacity to such a large vessel the utilization level while the utilization level we have tried to maximize but for the right kind of cargo to give us a maximum revenue were not initially available. So that is where it takes a little time to stabilize the service and to get and also maximize the revenue-wise. The utilization level is on one side but to maximize on the revenue side utilization is the other aspect of it which will be slowly done in the services and we will be seeing the effect later.

- Moderator:** Thank you. The next question is from the line of Vikram Suryavanshi from PhillipCapital (India) Private Limited. Please go ahead.
- Vikram Suryavanshi:** How is your experience of running breakbulk services compare to the container in terms of getting return cargo, profitability, and overall opportunity?
- Captain V. K. Singh:** Yes, we have carried two shipments of RINL and we have good experience on that and it was carried out virtually for the complete logistic leg right from their factory and it our responsibility remained till delivery in their warehouses. So that was one part of the breakbulk shipment which we carried. Beside that we also carried two shipments of JSW was carried on the West Coast of India and onto other large parcel size cargo was also carried. And we have realized there is quite a good scope and the services, and the vessel can do much better even on the MPP services breakbulk services. That is one side like initially we have not put and even till now we have put for two months only one vessel on the breakbulk service when we started and now, after the dry docking because one of the vessel MPP vessels which we had taken that is Sabarimalai has gone for dry docking. After she comes out from the dry docking both the vessels will be put on breakbulk because we can see the improvement in volume and we can utilize our breakbulk services better than even the container services on these vessels because these vessels we try it even as a container segment on the East Coast with Kolkata (Calcutta) calling. But these vessels have not proved to be very nice good vessels because of craft restrictions on the vessels the higher draft on the vessels. So definitely vessels will be working out much better on breakbulk and we wish to continue them on the breakbulk and even if required on the new trade of the breakbulk.
- Vikram Suryavanshi:** Okay. And can you give the break-up between how are the domestic container volume and feeder volume ranging out of 1.22 lakh?
- Captain V. K. Singh:** As I said our domestic ratio is 53% and the other than the domestic cargo is 47%, so that is in that ratio only of the total volume.
- Vikram Suryavanshi:** So 47% EXIM volume?
- Captain V. K. Singh:** Yes, that includes laden and empty.
- Moderator:** Thank you. The next question is from the line of Ankit Panchmatia from ICICI Securities. Please go ahead.
- Ankit Panchmatia:** Sir, I just wanted to know as earlier mentioned actually I am sorry, my line got disconnected if I have missed this. There would be some cost which would be sitting in the current expenses item on the back of three vessels which we have got on board. So any rough cut number, what would be that cost or which would help me out to derive the right EBITDA margin for the current quarter?

Captain V. K. Singh: See, the cost in the sense, there is a cost for repositioning but at the same time it is the cost of not utilizing the vessel during the period after taking the delivery of the vessel till this vessel is put on service. So virtually if the vessel is out for 20 days before we actually put on the service. So we while we have incurred all the cost related to standing cost of the vessel related to the bunker for repositioning cost and all the port cost whatever is there to involve. So that cost is beside. So virtually we may have only cost for those days and without having revenue attached to for that cost. So that is what is the difference is and on a rough estimate, if I take for each vessel when we after acquisition till they have put back on the service, it goes to almost about Rs. 0.5 crores or so that will be roughly to that extent will be a cost for the each vessel.

Ankit Panchmatia: Okay. So is it fair to say that these vessels are now stabilized and Q4 would be a normal quarter for all the vessels with 13 vessels?

Captain V. K. Singh: Yes, it is. Because what I said I right now during the Q4 we have continued to operate the same vessels that is 12 vessels on the coast which we have been operating in the second part of this last quarter. So that will be continued to be operated. Other than that only one vessels is due for dry docking during this quarter that is already in dry dock and she will also be in dry dock for 20 days - 25 days and she will be out of service. That is again, equal to one of the vessels which was there even in the last quarter for about 25 days. So that is not the question but other than that all the three vessels which we had, which we have acquired during the quarter that additional cost will not be there during this quarter.

Ankit Panchmatia: Right. And sir, regarding the cargo composition. So just want to understand that how has been because what my understanding was that we were primarily more focused into the carrying of tiles from Morbi now that has to an extent been diversified. So just wanted to know our product profile how has that been changed and what as we at this point of time carrying any new product started into the product portfolio, how has been that proposition?

Captain V. K. Singh: No, we have been carrying other products also and whatever the containerization can be done whatever the product containerized like tiles or marble or even certain minerals or food stuffs or even cement in the construction material, all this has been containerized and they are moving quite a bit even the pipes now we carry quite a bit of pipes container if they are of that size other than that over dimensional pipes we are carrying in breakbulk, we are targeting to carry. So definitely all these commodities are there increase in food grain as well as cement size on that type because that is where more of like projects, construction projects are coming all around. So there is a growth besides that, of course, there are soda ash and cotton cargo seasonal which is, of course, seasonal but that is moving quite in large volume which we have been catering all this while earlier also. And the growth has been not only with the new commodity. But also with the new commodity and the existing commodity, so that what we say that year-on-year growth what we have achieved 29% has been on all the commodities which were there before as well as the new product new commodities combined.

Ankit Panchmatia: And sir, wanted your view on this Shreyas Relay Systems. So is this the way our understanding right our complete domestic mix is being handled by Shreyas relay system there is a some diversification over there as well?

Captain V. K. Singh: No, their complete domestic carried on our vessel that is, of course, correct, that is there beside that we also carry others cargo not necessarily but they do not carry on any other vessels because we are giving them as dedicative service and better definitely so definitely they first come to us and if they have any access requirement they are even free to use other vessels but we have been providing them the required capacity. And over and above at times, we have even given to the other operators capacity if they need certain space then we have been giving to giving to others also beside Shreyas Relay Systems.

Ankit Panchmatia: Right. And sir, just wanted your view on the macro side of it. How are we seeing container rates firming up? Agreed the global context would not be looked with our company between then to just have a broad base understanding that how are we seeing from here first of all? And second, with these capacity how are we confident to clock the same growth rates which we are doing in the current quarter?

Captain V. K. Singh: With the increase in the fuel cost definitely we will have to increase even the road cost has gone up and we will have to increase even the freight level on the sea mode, so that we expect a certain amount at least on an average about 10% of the freight has to go up. But in any case, we have not that is beside a point because the freight rate remains, it is not purely in our hand, it is the customer's finally whether we are able to increase or not. But with the growth in the volume which we definitely expect the volume to grow because once the vessels are stabilized now in this quarter instead of 122 what we have done today in this quarter, we will definitely expect almost about 130 grows, 150,000; 145,000 to 150,000 TEUs. So with the growth in capacity and if not even on the container side, there will be growth on way we are moving out two vessels and putting two vessels on the breakbulk, so the container will be replaced by the breakbulk segment growth. So definitely overall there is what we are looking at is there. Growth in volume handled and with the growth in volume handled and keeping the cost at the bare minimum which is we are trying to maintain the cost because the cost will definitely come down as compared to this quarter since there will not be any repositioning cost like whatever we have incurred even for the vessel which we removed from our system, we had a repositioning cost for even that vessel. So virtually we had in this quarter. Last quarter we had about four vessels cost involved. So all that will go out in this. So overall cost per TEU will come down and with the cost per TEU coming down the operating margin will go up and with the operating margin going up and the volume going up, I am sure right now we can see a much better result in future.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Yes, we got cut off from the last thing which I was asking. On the profitability part with 20% rise on capacity, there is 20% rise on cost. And I could not understand your utilization figures because I am seeing some of the data that I have. You were about a 1 lakh TEU that you were

handling on a quarterly basis. Now you are handling about 1,22,000 which means 20% rise. But when you are handling 1 lakh TEU, you had 10 ships totaling 16,000 TEUs and now you have 13 ships totaling 23,000 TEU. So in TEU wise, capacity wise, you are up about 40% but in quarterly volume handling, you are up 20% and yet you are saying you are 100% utilized. So if you could shed some light there?

Captain V. K. Singh:

Yes, I will try to shed some light and anyway, one vessel, first of all, let us take out one vessel which is on charter which we not handling, okay that is one part of our vessel which has gone that is a 1,700 TEU vessel which has been put on charter from the time we took over. So that is not included on the operating side. Operating side that is where we have said it is only TEU operated 12 vessels of the total capacity of 22,000. So that also that 22,000 is finally in the operated, it was maybe it is instead of three months, you can take it as two months only operated because virtually what we operate in two months was on this because there these vessels had a repositioning time and cost. So definitely one month of the service was not there. So overall while we are ending with 22,000 is alright at the end of the quarter. But throughout the quarter we have not operated 22,000 that is what I meant by saying that. So percentage-wise if you see and even other reason was that yes, I even said in my opening remarks that on the East Coast we had a lot of congestion and the East Coast vessels although they handled the volume if we just take the East Coast volume it was volume handled was more on the East Coast during this quarter but we had to deploy virtually both on the additional vessels there to take care of that volume because of the congestion that side was not there. So the growth what we have done is only on one of the segments where deadweight of 20,000 has been increased there. But that 20,000 has been shifted again on the East Coast. So that is where right now you can see when I am saying the growth on the utilization on North to South and West to East means only on my two of the main services which we are seeing about 98% is 98% from the time they had been put on the service from the time these vessels have come on the service. So that is why if you can see that percentage will to match. But going forward, if I say right now okay, I am back in the service, all vessels are there entire 22,000 TEUs is put on service and now we can say like for the entire quarter we will be putting 22,000 on our service and then we have to see that way I said like we expect volume growth on that and then we will achieve around 150,000. So if I am going to achieve around 145,000 to 150,000 that will be the actual volume which we will be operating with this tonnage.

Pritesh Chheda:

Perfect. This is for 12 ships and 22,000 TEUs or 13 ships and 23,000 TEUs. The 150,000 volume?

Captain V. K. Singh:

No, it is 12 ships. This volume what we are doing is only with 12 ships. One ship is not in our service that has been put on the charter.

Pritesh Chheda:

And that also comes on the operation. So from charter to mainline even the 13 will eventually come?

Captain V. K. Singh:

If we need, yes because that is put on a charter for almost about eight months maximum limit is eight months for the charter. We cannot remove the vessel till then. But after the charter ends

then by then if we have a requirement of tonnage on the coastal services then we can easily put back service on the tonnage also on the coast.

Pritesh Chheda: You have grown your volumes 40% this year. What would be in your best case the volume growth next year?

Captain V. K. Singh: It should go in line with almost about 20% to 25% on an average growth will be there and we have already worked out that yes, going forward year-on-year we will have to not only continue operating these vessels. There will be more requirement of vessels which will be acquired for our operations in due course of time and that going forward we will be adjusting our tonnage as per the requirement of volume which we are required to carry.

Pritesh Chheda: When will you acquire the ships and how many?

Captain V. K. Singh: Definitely we plan to acquire overall in 2018 itself. At least we will need to add about 5,000 TEU. But then it is one larger vessel or two smaller vessels of 2,500 that depends on the availability of vessels and sizes availability. But otherwise, we require to increase capacity by almost 4,000 TEUs - 5,000 TEUs that is what we are looking at during 2018.

Pritesh Chheda: And I have one last question. If you could give the realization for EXIM and domestic for the quarter?

Captain V. K. Singh: Realizations comes in that ratio that realization on the domestic is close to about 60% and on the EXIM is 40%.

Pritesh Chheda: So you give the TEU realization, per TEU if you can because that is much more understandable.

Captain V. K. Singh: That we do not have the figure right away. But we can give you later.

Rajesh Desai: Good Afternoon, Pritesh. Rajesh Desai here. Per TEU realization we cannot work out for separately for domestic and EXIM because my model is a mixture of both. So that is the reason on the overall basis only work out the per TEU margins.

Pritesh Chheda: Is there any increase on Q-o-Q and Y-o-Y basis in the realization?

Captain V. K. Singh: Yes, we have that we have already said that the realization actually has come down from last quarter to this quarter.

Pritesh Chheda: If you tell the numbers I missed it.

Captain V. K. Singh: For Q3 last year overall was Rs. 9,589 and in Q3 of FY 2018 it is Rs. 10,057 is what I told. So it is slightly Rs. 500 gone up. Q2 it was Rs. 10,178 which has come down to 10,057.

Moderator: Thank you. We will move to our next question which is from the line of Pawan Kumar from Unifi Capital. Please go ahead.

- Pawan Kumar:** Sir, firstly, there is another income incrementally of Rs. 2 crores does it pertain to the charter ship that we are gearing charter from?
- Rajesh Desai:** No. Good Afternoon, Pawan. This is mainly because of the income from the other Mutual Fund investment plus exchange gain whatever will come into other income. Charter income is my operational income which will form part of my operational revenue.
- Pawan Kumar:** So, is it sustainable? Or it is not sustainable, sir?
- Rajesh Desai:** It definitely depend on exchange fluctuation. The other for some portion definitely on a regular basis we earn some other income if you see from each quarter there will be some other income is earning for which mainly on the surplus fund investment or whatever.
- Pawan Kumar:** Okay. My next question is see, we have been given the profitability figures on per TEU, it has come down to 2,600 levels from 2,900 levels. So I just wanted to understand is it because of the higher fixed cost of the additional fleet that we have commence and if you can give me any concrete numbers on the repositioning cost that we incur this quarter?
- Rajesh Desai:** This concrete number on reposition cost will be difficult to calculate because it is also part of my regular operation when you bring that all and mix with the other cost. But there is apart from repositioning cost it is also when the vessel is put back into the service for regular use, you will have to spend some amount on the vessel, that is the reason that amount is also included.
- Captain V. K. Singh:** I will tell you if you see that operating revenue also while the operating revenue has come down by almost about Rs. 125 per TEU and operating expenses have gone up by almost about Rs. 440. So that operating expense which we are saying that has gone up is mainly gone up because your overall cost for repositioning is there in that and because you have a larger vessel now your cost goes up that is another thing whether utilize or you do not utilize that is immaterial but then your larger vessel will have a larger cost. So if you are able to utilize better and you have a more TEUs then your cost gets compensated. But your operating cost will slightly go up. But per TEU when we are talking about it will come down when your utilization on both like increases. Besides that, there is also a factor of say we already said like now bunker cost has also gone up by 10%. 10% increase in the cost of the bunker. So that also will give a slight margin cost component. Maybe it has gone up more but it may come down in the next quarter, operating cost comes down then definitely your operating margin will go up which we almost about Rs. 600 in this quarter. So virtually once that reduces and operating margin goes up and the volume goes up that is when I am saying then overall our profitability will be inline with what we are operating today.
- Pawan Kumar:** So sir, would my understanding be right if I say the EBITDA margins whatever we saw in the second quarter are the more realistic numbers that we should look at because this quarter there has been a lot of repositioning and lot of other costs. Of course, bunker fuel will be something incremental. But taking bunker fuel apart Q2 are the more sustainable kind of margins we should look at, right?

- Captain V. K. Singh:** Yes, absolutely, right.
- Pawan Kumar:** Okay, great. And sir, can you give me what is the debt position right now?
- Rajesh Desai:** On a total basis, debt is roughly around Rs. 260 crores - Rs. 270 crores.
- Pawan Kumar:** Rs. 260 crores - Rs. 270 crores.
- Rajesh Desai:** Including long-term debt, working capital all put together.
- Pawan Kumar:** And Rajesh sir, has the entire interest cost of the debt come in this quarter or something more also to be factored in?
- Rajesh Desai:** No, interest cost more or less it has come because it has come for almost for two months. Now there will be some repayment. So you can consider for two months it is considered. So basically in line with this, we can assume that all interest cost has come.
- Pawan Kumar:** Okay. And operational cost also seems to have increased in whatever heads we report. So I am assuming for the new fleet also incrementally all the operational cost has come in?
- Rajesh Desai:** Yes, definitely.
- Pawan Kumar:** There is a new service that you are proposing from Colombo to Chittagong, so does it include any Indian port in between and is this kind of new line of business we are looking at?
- Captain V.K. Singh:** No, we started of course, from Colombo to Chittagong with an idea definitely that we will be introducing Krishnapatnam in between. So that is when our play will start and that is where we have partnered also keeping in mind that Krishnapatnam will be included in the service and with inclusion of Krishnapatnam all the East Coast volume which is going via Colombo or via Singapore to Chittagong can be routed via Krishnapatnam to Chittagong directly on our vessels which will be much economical for the customers and we can do that. So that is where because we have our feeder hub at Krishnapatnam and we are collecting all East Coast port's however Krishnapatnam. So this will be done in line with what we are currently doing for the Middle East and Gulf Cargos so that will be the same way we will be routing all the cargo or Chittagong and Bangladesh.
- Pawan Kumar:** What capacity TEU vessel has been deployed on this route, sir?
- Rajesh Desai:** There are two vessels which has been already chartered and deployed and they are all 1,700 TEU vessel capacity because there is a draft restriction on the Chittagong service. We will continue to have a similar vessel be that is the best size and their vessels which are necessarily made for this Chittagong Port call. So that will be continued and shortly, once we start this because we started this service only in the last quarter and now once we are almost looking at opportunity for start calling at Krishnapatnam, once we start calling at Krishnapatnam definitely we will be

adding another vessel to this service and that will be operated with three vessels on all these three ports inclusive.

Moderator: Thank you. We will move to our next question which is from the line of Sharad Reddy from Unifi Capital. Please go ahead.

Sharad Reddy: From what we understand the Howe Robinson Index is meaningful for overall pricing in your business. The other two driver seems to be the utilization of your capacities and bunker prices. Could you help us understand strategically the importance of these three which would be the most important measure of profitability for you? Utilization the Howe Robinson Index of fuel prices?

Captain V. K. Singh: No, Howe Robinson Index definitely will be the most important index in our services because utilization level is not only for the EXIM cargo. It is basically because our volume what we carry is 55% almost 53% to 55% is domestic volume where the Howe Robinson Index has got no play. And basically what happens is Howe Robinson Index and why we emphasize on that is mainly for the asset prices and asset cost, asset appreciation, and depreciation cost. So that is very important for us because that is where I said in the initial remarks that we purchased six vessels in this year and all the six vessels by end of the year the second-hand prices have gone up by almost 50% what it was there in the beginning of the year. So definitely has helped us because today I can very easily go in the market and in fact, if I have to go with all six of vessels which I acquired during this year, all can fetch me a much higher price then what we had acquired. So that acquisition of vessel is very important to know about the Howe Robinson and also the scrap value is very important to know because that is where the price control is there. Otherwise, the index is mainly on the charter hire because that is also very important for us to know. How is our vessels in the market like what we purchase one of the vessels is going charter while 12 vessels we are operating. So one vessel which is on the charter is again governed by the Howe Robinson and the charter hire what is prevailing in the market. So definitely Howe Robinson Index is second I can say bunker prices are the third in line the first will be utilization level and the volume what we handle.

Sharad Reddy: Okay, that is helpful. And a follow-up. In the opening remarks, you mentioned that there was a decline in your profitability per TEU of about Rs. 300-odd over the last quarter. Is that because you had access capacity that you had added and you brought pricing down to improve utilization?

Captain V. K. Singh: No, it is not like that. What has happened utilization level adding capacity will only govern the utilization level. So utilization level we have at least tried and maintained in spite of adding the capacity overnight and increasing the capacity overnight during the quarter. We continued to have a utilization level of 98% from the time we started the vessel on our service. So virtually to attain that we could not achieve that unless we would have utilized the vessel with not even the best paying sectors but also the lesser paying sectors because we wanted instead of taking the vessel light we said like okay we can take the vessel but we must take the vessel full provided even if the best paying sector cargo is not available must pick-up the lesser paying cargo. So that

is where the per TEU rate, although the rate has not been reduced. So it depends on two factors where the rate comes down average rate comes down. One is what sectors you are increasing the volume and second whether the increase in volume is with empties more because definitely when you carry empty the empties rate is more or less about half of 50% - 40% of the laden rate. So that also is there. So if the volume increases on the empty side then your per TEU average rate will come down. So these two factors are there. So it is basically because of sudden increase in capacity which you have to compromise somewhere on the rate front, freight of definitely our utilization level is more important, so we put more trust on the utilization level. Repositioning cost and other things were there that is of course is besides the point that goes on the operating expense increase. But operating revenue that is not 300 but that was dropped by only Rs. 125.

Sharad Reddy: Understood. In your planning how much time do you give yourself to bring in a new vessel to the optimum level of utilization?

Captain V. K. Singh: No, we have already reached the optimum level. If I am saying 98% it is definitely an optimum level. But the thing is yes, we are trying to replace the low revenue freighted cargo by the higher freighted cargo and more so we should be settled around this quarter that should not be a problem. And return leg, of course, it remains a concern because you keep increasing the capacity, we will not give you return a higher utilization level because return with the smaller vessels utilization level was less. So you increase any amount, the utilization level is going to be low.

Sharad Reddy: Right. And lastly, some of your vessels are about 20 years old. I think some even 25 years. At what point will you scrap and have to replace them?

Captain V. K. Singh: Well, our vessel will reach 25 only in 2022 that is what I have in my list and that is where right now we will have to take in line with 2022 whether we have to replace them and that is where we are going ahead with vessels acquisition plan which will necessarily we will be ready by 2022 even with the replacement vessels we have already have a plan of acquisitions which will give us replacement plan for these vessels which will be 25 years of age in 2022 because 2022 - 2023 is one time when we will have almost about three vessels to five vessels reaching that age of 25 that is in 2022 to 2023. By then definitely, we will have more and much newer larger vessels to take care of the capacity because now the sizes are increasing. This is exactly what we have been doing is that now whatever vessels we take we are replacing say two 1,700 TEUs with 4,200 TEUs vessels so that itself takes care of the requirement. And if the prices not suitable at that time we are not able to replace them we can definitely consider extension from 25 to next five years more if we can justify the cost of the extension at that time. So that decision will be taken around 2022.

Rajesh Desai: And just to add right now not a single vessel is more than 25 years old?

Captain V. K. Singh: 25 is only reaching in 2022.

- Moderator:** Thank you. The next question is from the line of Yash Matai from Sushil Finance. Please go ahead.
- Yash Matai:** Sir, how many vessel days do we have this quarter versus previous quarter?
- Captain V. K. Singh:** Vessel days it is at 1140 days as against 942 days. 25 days was in dry dock. So 1,140 actual working days.
- Yash Matai:** There would not be any scrapping of our ships in FY 2019, right?
- Captain V. K. Singh:** No, there is no scrapping till now at 2022 we have not even thinking of scrapping any vessels. They are all actual valid till 2022. So there is no question of any scrapping any vessel now and even the dry-docking, we have only altogether three dry docking in this year in 2018. We have no dry-docking in 2019 then 2020 end only we will start the next dry-docking as well.
- Yash Matai:** Okay. And sir, how much will we spending for the 5,000 TEU capacity expansion in FY 2019, that you spoke about?
- Captain V. K. Singh:** We will be spending if you are talking about the capital cost then it should be roughly about Rs. 70 crores.
- Yash Matai:** Rs. 70 crores. Sir, what should be the right metric to look at to understand your profitability because of we have TEUs that way and then there is a lot of other stuff which confuses us what should be the right metric one should look at understand profitability?
- Captain V. K. Singh:** Price metrics I think TEU capacity, TEU handled and operating margin.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Vikram Suryavanshi for closing comments.
- Vikram Suryavanshi:** We thank the management for giving us the opportunity to host the call and taking time out for interacting with the stakeholders. We wish a very good year ahead. Thank you all for being on the call.
- Captain V. K. Singh:** Thank you very much.
- Rajesh Desai:** Thank you very much.
- Moderator:** Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes the conference call. Thank you for joining us and you may now disconnect your lines.