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Dear Sir,

Sub: Transcript of Earnings Call on 01st November 2018

Please find enclosed herewith the transcript of the Earnings Conference Call held on 01st November 2018 for your record and reference.

Thanking you

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


Asha Prakash
Company Secretary & Compliance Officer



Encl: A/a



“Shreyas Shipping and Logistics Limited
Q2 FY2019 Earnings Conference Call”

November 01, 2018



ANALYST: MR. PRATEEK KUMAR – ANTIQUE STOCK BROKING LIMITED

MANAGEMENT: CAPTAIN V.K. SINGH – MANAGING DIRECTOR - SHREYAS SHIPPING AND LOGISTICS LIMITED
MR. RAJESH DESAI – CHIEF FINANCIAL OFFICER - SHREYAS SHIPPING AND LOGISTICS LIMITED
MR. RITESH RAMAKRISHNAN – DIRECTOR - SHREYAS SHIPPING AND LOGISTICS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Shreyas Shipping & Logistics Limited 2Q FY2019 earnings conference call hosted by Antique Stock Broking 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Prateek Kumar from Antique Stock Broking. Thank you and over to you Sir!

Prateek Kumar: Good evening everyone. From the management side we have Captain V.K. Singh – Managing Director; Mr. Rajesh Desai – CFO and Mr. Ritesh Ramakrishnan – Director at Shreyas Shipping & Logistics Limited on the call today. Without wasting much time I will hand over the call to the management for their opening remarks then we can move to the Q&A session. Over to you, Sir!

Capt. Vivek K Singh: Thank you. Good evening, ladies and gentlemen. We are here to discuss our results for Q2 FY2019 and outlook for the rest of the financial year. The results were announced on Wednesday that is yesterday, October 31, and now I would like to talk about some of the key financial and operational highlights of this quarter.

During Q2 FY2019 the revenues stood at Rs.156.4 Crores which was Indian Rs.123.5 Crores in the corresponding period last year, EBITDA is at Indian Rs.15.9 Crores as against Indian Rs.26.9 Crores in the same period last year and PAT is at Rs.5.1 Crores as against Rs.19.7 Crores in the same period last year. In percentage terms, our revenues this quarter grew by 27%; however, EBITDA and PAT decreased on a year-on-year basis.

On the Global Container Market also witnessed a slight during quarter as Howe Robinson Container Index stood at 708 points at the close of this quarter dropping around 16% from 842 points at the beginning of the quarter. Charter has been sliding down during this quarter; however, the second hand asset prices are still holding and the scrap prices remained firm in the range of \$450 to \$475.

Global container fleet expected to grow close to about 6.5% in this calendar year while cargo growth likely below 4%. The geopolitical issues and global disruptions continue to affect fuel prices, which is on the rising and fleet level on the falling curve.

During the quarter a fleet of 13 vessels with total capacity of 24519 TEUs and dead weight of 336573 metric tonnes was available for operations. Total voyage days under own operation was 1068 days as against 1056 in the previous quarter while between SLL Krishna, SSL Ganga and SSL Balaji, we had a total vessel charter days for 128.

Total volume handled during the quarter was 121373 TEUs which had an increase of 5.3% quarter-on-quarter and 11.6% increase year-on-year, while our domestic volume has increased 22% during the quarter as against same period last year, but came down marginally as against previous quarter mainly due to transport strike, festivals and flood in Kerala.

Our overall domestic market share remains at 54%. On the operational front an average utilization level on the services from north to south and west to east remain at the level of around 90% and on the reverse was around 62% and on East Coast Services from west to east remained around 94% as per draft and 98% on the reverse leg.

We commenced new service on rotation Haldia, Krishnapatnam, Colombo and back to Krishnapatnam, Haldia where the average utilization level was 61% on north to south and 79% on the reverse leg. In our endeavor to restrict loss-making factors we have withdrawn from the joint venture agreement on Colombo Chittagong sector which was started a year back.

The average bunker rate for the quarter was Rs.35500 per metric tonne compared to 30500 per metric tonne in previous quarter. We saw 11% increase resulting into an increase in bunker cost by about Rs.8 Crores. The fuel price increased by 44% as against same period in the last year, we are please to advice that Salvors has completed the bunker fuel removable operation from MV SSL Kolkata, which met with fire accident last quarter on October 22, 2018.

Now our tender document has been issued by our P&I Club to various Salvors for further rake removal was of MV SSL Kolkata.

Sue and labor claim along with the claim under Clause 13 of the policy subsequent to total loss of the vessel in the subsequent matter has been submitted with H&M underwriters. The challenges faced during the quarter were mainly sharp increase in bunker prices, weakening of rupee and with the challenging market conditions, freight recovery not in proportion with increase in cost of bunker and rupee devaluation.

In view of these challenges, we have taken certain corrective actions by way of right sizing capacity on own operation to achieve better utilization on the operated assets and chartering out a few access damages to limit our exposure having more foreign currency earnings, reduction in operating cost and better cash flow situation. In view of the current challenging situation certain cost alternative measures have been undertaken and hopefully we will see a positive result.

Innovation in most of the projects is progressing well as per schedule and we expect to go live with our new Oracle system by end January 2019.

Thank you very much for your kind patience and we can now go ahead with the question-and-answer session.

Moderator:

Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Hardik Sodha from Crescita Investments. Please go ahead.

Vijay:

Just wanted to have some flavor in terms of the fuel prices so the major dent what we have seen is in terms of the fuel prices. So are we able to pass on some price increase to the customer and secondly with this now downward movement in the prices are we going to get benefited or can

we did expected your next quarter earnings because last two quarters we have been seeing negativity on account of bunker prices. So how we are going to get benefited?

Capt. Vivek K Singh: Yes, we have been trying to pass the increase in the fuel prices to the customers but unable to pass major portion due to sudden, fast and high increase. We were not able to recover the entire increase from the market because even the market has been challenging, having excess tonnage and because of other conditions on the coast like flood situation in Kerala, transport strike and others. Wherever we could increase the prices we have already increased as regards to the EXIM containers on the coast as well as on the Colombo sector. All the new contracts the increase has been taken into consideration; however, due to the challenging market on the coastal domestic sectors and to maintain our market share we have tried to restrict on the increase too much to get the maximum utilization on the asset, but we are in process of increasing the costs. Even if the fuel prices go down and if we can increase the prices than we will get the benefit with the current prices going down as on the downward trend.

Vijay: How much we have passed in terms of the cost pressures till date we have been pass, which of course the clients or we still have selective approach in terms of doing so?

Capt. Vivek K Singh: We have been able to pass on to the clients where the market can absorb that increase but wherever the market is not able to absorb the increase because of the other market forces there we have not been able to pass on as we are first looking at better utilization on our tonnage because if we increase freight, we may lose our market share so our focus have been to maintain our market share and then after maintaining the market share if we are able to increase the revenue, we have been trying wherever possible.

Vijay: Sir any price increase we have taken till date or what amount of price we had to take in order to see the entire gets negated?

Capt. Vivek K Singh: We have taken price increase which has come up virtually to an average of about 6% to 7% increase on all EXIM freight, which we have collected, and the increase is mainly because we have certain contracts where the BAF is applicable which we have been applying and we have been getting the increase.

Vijay: So effecting this quarter at least the impact will be more or less negated now, prices also gone down so our profitability will be back to the usual or it will again see sometime before we get back to the normal kind of run rate that we were doing?

Capt. Vivek K Singh: No, the prices has not really gone down as when we compare the first half of this year as against the same period in the previous year, the increase during this half year has been almost to the tune of 44% so it has now just started sliding down but let us hope that it continues to slide down and goes to a level where we started and if the prices go further down definitely our profitability will increase and we can come back to our normal profitability of earlier quarters. We see that the effect has been of about 12 Crores because of the bunker cost increase as against previous

quarter while the previous quarter also had a large increase, the effect of fuel cost increase between this half year as against same period last year has been about 20 Crores of increase.

Vijay: Sir effectively if I look at this has been effect this is being affected across the system so hardly also taking losses in order to so is that volume or supply is too much for us to get to the market share gain than normalizing the price because if you look at the route at where we are operating we are the major players there so if we are not in a position to take price hikes it means that they have the player also not. So are they then bleeding to a great extent then and so when will you see the normalcy, because eventually looking at last two quarters the erosion seems to be quite high.

Capt. Vivek K Singh: Yes you are very right in that last two quarters the erosion has been high because of mainly the fuel prices going up and it is a similar situation with all the operators currently operating and everybody has been suffering because of the increase in the fuel prices but definitely we have taken conscious decision that excess tonnage should not be deployed. Due to the excess tonnage deployed there is a pressure on the market as a result we are not able to get the price increase. Although the road prices have been going up slightly, but at the same time, the volume has not come up to a level we expected to grow, the volume itself has not increased that is where the tonnage has become excess and since the tonnage has become excess, we are also fighting with the market forces in increasing the prices. We are definitely working and already taken corrective action, as you see SSL Krishna which was a larger vessel, has gone on charter outside and we have reduced the tonnage now. We are restricting the tonnage so that the market is in line with the tonnage available.

Vijay: Sir just last question in terms of if we increase price so are we under pressure from the other mode of transportation like road and all that, this can volume be shifted if we increase price here or it is just now the threat because ultimately the price hike has also been there in the road segment also so is that a major threat or just a normal basically competition within this line of business system?

Capt. Vivek K Singh: No, basically the road prices have also gone up because for them, the diesel prices have gone up in line with what we are facing the fuel price increase. It is not a threat from other mode of transportation since their prices have also gone up. Its not true that we will not be able to get our share or shift the additional volume from road to sea which is very much possible, but there were other reason, which has restricted the flow of cargo, the tiles market itself have increased their pricing and since their pricing has increased in the market so the buyers are restricting to do purchase order hence the volume has come down. That is why we have not seen the usual growth, which we expected in the market, because the maximum volume what we carry on the domestic front is basically the tiles and the tiles market price itself has been increased by the manufacturer. Any further increase in logistic cost could have further affected the volume.

Vijay: Thank you Sir. I will come back if I have any other questions. Thank you Sir.

- Moderator:** Thank you. The next question is from the line of Anand Bhavnani from UniFi Capital. Please go ahead.
- Anand Bhavnani:** Good afternoon. Sir with respect to our FX losses now in Q1, we had taken a loss of 6.1 Crores in other comprehensive income, this is due to the foreign debt correct?
- Rajesh Desai:** Yes correct, this is under comprehensive income and it does not hit P&L as such and we are following the cash flow hedging policy whereby it goes to the negative cash flow hedging reserve and whenever there is basically in future suppose whatever that exchange fluctuation say rupee appreciation happens or whatever so that benefit will not get in future.
- Anand Bhavnani:** If I correctly understand we have revenues in dollars so part of the revenues is in dollars and hence these payments towards debt and the inflow from revenues in dollars kind of balance each other out. Correct?
- Rajesh Desai:** Correct.
- Anand Bhavnani:** So in the hit that I see in other comprehensive income essentially has the rupee has fallen our revenue recognition in Q2 would be higher to that extent the dollar revenue because the rupee fall?
- Rajesh Desai:** Definitely some portion will be included that, but whatever is reflected in OCI is only exchange loss on pertain to foreign loans which we are using as a hedging instrument.
- Anand Bhavnani:** Correct Sir, but the thing is the if I am understanding it correct the loss shows up in OCI on the foreign debt but the gains in revenue show up on the revenue side of the P&L correct. So the gains do show up they eventually flow through the bottomline and go to the balance sheet but the losses will directly go to the balance sheet, correct?
- Capt. Vivek K Singh:** Correct.
- Anand Bhavnani:** The gains from rupee depreciation in terms of revenue in Q2 it already included in the 156 Crores revenue am I correct?
- Rajesh Desai:** Yes, as I mentioned because this rupee dollar fluctuation is only the difference between the two exchange dates of the two quarters and the revenue is during the entire quarter at various dates so therefore that I say like in that entire this only the rupee this will be on higher side the loss will be on higher side because that will compare only the exchange rate between the two particular period.
- Anand Bhavnani:** So net-net the way we would be exposing ourselves to foreign debt would be keeping in mind that the debt will be paid periodically at a certain rate and the revenues will be over the entire quarter so I think the ratio would have been adjusted accordingly for the cash flows am I correct, for the cash flow hedge?

Capt. Vivek K Singh: I will explain that, if you are seeing the revenue increase because of the dollar fluctuation and the increase in the dollar exchange rate, our revenue in dollar term is only about 35% and the rate of increase has been slow during the quarter. The increase has been only on the 35% of our revenue, but as per the cost is concerned which is more than 90% of our total cost in dollar terms which affects the P&L and even the bottom line also get impacted by the dollar exchange. The increase in fuel price is not only because of the fuel prices going up but it is also because of the exchange rate fluctuation. Most of the cost are linked to foreign currency so our cost has increased very high while the revenue increased by only 20% in view of exchange advantage.

Anand Bhavnani: If I were to correctly understand our overall cost 45% through the cost of fuel and for us to be able to pass on entire fuel cost we will be have to take a hike of around 17% to 18% so you mentioned that we have taken around 6% hike so am I correct that we have to take 12% more hike to the neutral in terms of impact through fuel price?

Capt. Vivek K Singh: See, where we have got the hike is mostly from the EXIM volume where we are already getting the payment in dollar term or in dollar exchange. So, we cannot increase to them for the losses what we are incurring due to the currency fluctuation. So, we can only increase where the cost increase is linked to the actual fuel increase price that is how the BAF is calculated. Ever. few of our tender terms itself is linked to BAF so in any given time whenever the fuel increase is there as per the plat price and BAF is worked out on that basis. It has got nothing to do with the exchange rate because the exchange rate loss is our concern and not their concern and in any case they are paying us in dollars. So that part comes to average of about 6% to 8% which we have increased but increase is not across all customers, some increase are to 10% but some are not even to 5% as it all depends on customer's margin.

Anand Bhavnani: Sir in the coastal cargo what had been the increase that we have taken any increase or no increase at all?

Capt. Vivek K Singh: No in the coastal domestic cargo we have not taken any increase virtually during this quarter, as I said because of the market forces and excess tonnage since volume has not gone up. Since the volume has not gone up, the tonnages were not getting filled up. First pressure was to fill the tonnages and then only we could have increased the price. As a strategy we wanted to utilize our tonnage fully prior any increase in freight.

Anand Bhavnani: Sir despite not taking the increase what was the eventual utilization level that we were able to reach what is for the entire Q2 for the domestic, business?

Capt. Vivek K Singh: We were still able to achieve only 90% utilization.

Anand Bhavnani: When do you think at what utilization level would we be able to take is it 95% is it 98% or is it 92% at what number do you think we will be start think to pass on the price increases?

Capt. Vivek K Singh: Our utilization has been always about 95%, 96% throughout in earlier quarters. Dur:ng this quarter in spite of reduction in our tonnage, utilization has remained low at 90% because the

volume has not increased. Our strategy was to maintain the the market share and increase the utilization level by maintaining the freight rates, otherwise our utilization level could have come down further and we would have got more hit. Our strategy was to first have better utilization on our assets and then look for the increase in the market. Now definitely going forward there is some reduction on the existing tonnage, and the market is also firming up because of seasonal volume of cotton increasing. With the volume going up and utilization level going up, there is a positive outlook that we will be able to increase the freight rate.

- Anand Bhavnani:** Sir in Q1 did we take any hike in domestic market?
- Capt. Vivek K Singh:** No, Q1 of course we did not take because that time itself the bunker prices had just started increasing and the effect was not much felt. Even on the road there was no increase so virtually we were not able to increase the prices. By the time the actual bunker prices increased to a level where we could increase the prices, the volume had come down and the tonnages were not getting filled hence could not increased in Q1 as well as in Q2. We are currently working to get some increase.
- Anand Bhavnani:** Sir Tonnage wise how much has the tonnage reduced in Q1 and Q2 in the domestic space.
- Capt. Vivek K Singh:** We have reduced one of our vessel which was 30000 DWT by chartering out and in her place added capacity of 20000 DWT vessels, hence capacity of 10000 DWT has been reduced on the West Coast itself. Even on the East Coast we have slightly reduced which is not much as utilization level is remains high.
- Anand Bhavnani:** And this is in Q2.
- Capt. Vivek K Singh:** Yes at the end of Q2.
- Anand Bhavnani:** And in Q1 Sir there was any reduction in tonnage.
- Capt. Vivek K Singh:** No Q1 there was no reduction as the volume dropped in the later part of the quarter. There was certain changes in the tonnage between the services at the later part.
- Anand Bhavnani:** So Sir as compared to FY2018 end if I were to compare with H1 FY2019 end in the six months how much has the tonnage in that increased or reduced on the West Coast as well as East Coast for the industry as a whole?
- Capt. Vivek K Singh:** As compared to first half of FY2018 to 2019, yes actually we had increased the tonnage because we acquired larger tonnages which we had deployed, and not there in the last year. This year there was an increase in tonnage and the tonnage increase was almost to the tune of about 25% and now we have reduced it further from 25%. We have cut down by another about 5 to 7% on tonnage in line with average volume drop against usual growth. The increase in growth has been about 25 to 30 CAGR year-on-year so tonnage increased about 25% by us but we found that even the competitor increased some tonnage which created excess, now we have brought down that

excess. The increase in volume against similar quarter last year to this year has been about 22% hence now we are quite okay with 22% increase what has actually increased, as against normally what use to increase about 30%, 35%, but this year we find that only 22% increase has been there so now we have aligned our tonnage to this volume.

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

Pritesh Chheda: Yes Sir you said you took 6% price increase of the Q2 right that is how you said?

Capt. Vivek K Singh: That is correct, in Q2 itself we have an increase of 6% on the EXIM containers.

Pritesh Chheda: So it is only on EXIM it is not on domestic.

Capt. Vivek K Singh: Yes, as I said domestic, we have not increased as there was no increase because of the market forces but on the EXIM side the BAF was applied. On some volume we have got complete BAF and certain volume we could not increase because of the market forces so overall there has been an increase of about 6%.

Pritesh Chheda: So that is why 30% or 35% of your business you have taken 6% price increase?

Capt. Vivek K Singh: Yes, that is right.

Pritesh Chheda: Second thing you said that there is a right sizing of capacity by chartering few vessels which means that some capacity goes out of the system to the charter and there is some reduction in cost. Now what would be the net benefit when you were running the ship obviously you were running underutilized so when you are running the ship versus you putting it on charter what would be the net benefit to EBITDA on this exercise because it is an additional EBITDA which will come right.

Capt. Vivek K Singh: Yes.

Pritesh Chheda: Can you quantify the additional EBITDA on account of this activity?

Capt. Vivek K Singh: Since we have chartered out SSL Krishna, for 8 to 12 months at a very good price, where we can get around 10% additional retention than on own operation. On our own operation we are getting further hit by increase in the burker prices not getting covered fully by freight so definitely overall there will be an increase in our EBITDA because of the chartered out vessel which we have already done.

Pritesh Chheda: It is a 3000 TEU vessels on a 25000 TEU total capacity right, so it is about let us saying about 12%. So on 12% of your volume you get 10% extra EBITDA so if you are making 16 Crores of EBITDA in Q2 and you do this chartering then is it the math right that of 12% of 16 Crores is 1.9

Crores and you get 10% extra so you get about 20, 30 lakhs etc., by chartering out instead of running the ship that is how the calculation is or it is a different calculation?

Capt. Vivek K Singh: Yes, exactly that is how it works.

Pritesh Chheda: That is how the calculation is.

Capt. Vivek K Singh: Yes.

Pritesh Chheda: Okay now my last question is why there is this inability to take price increase. We are 50% market share and every now and then in your have we now and then in your operations you face this challenge so first question in that is why this inability and second how would you smoothen out in the future operations or business of yours?

Capt. Vivek K Singh: Yes, our inability as I said earlier was due to tonnage deployment not in line with the available market volume which we have already taken care of. I agree that our market share has been about 55% share but then if the market share of other competitor starts going down, they may also go and cut rate and take the volume. The strategic decision for not losing the volume and the market share was to maintain the freight otherwise if we increase the price in the market, result maybe that we could lose further by not getting the required volume and our utilization levels coming down and at same time losing the market share also. It was better not to increase the price which can upset the market and upset our liftings instead hold till we normalize our tonnages in line with the availability of cargo. We have brought down the actual increase, the increase has been only 22% what we see from last year half to this half year 2019. Now we have aligned our tonnages and hopefully once the tonnages are rightly placed as regards to the volume then definitely we have the option of going ahead in the market and increasing the freight in line with the increase in the cost.

Pritesh Chheda: So when will you take the price increase on the balance domestic piece now it is already Q3?

Capt. Vivek K Singh: We are already in process now.

Pritesh Chheda: It is in process so it is not come in the first half of the Q3 also?

Capt. Vivek K Singh: It has not come so far but we are looking at very shortly.

Pritesh Chheda: Thank you and all the best to you Sir.

Moderator: Thank you. The next question is from the line of Shrimant Dudhoria from Unifi Capital. Please go ahead.

Shrimant Dudhoria: Thank you for the opportunity. Sir just wanted to understand in terms of chartering you mentioned that one of the vessels has been SSL Krishna has been chartered for 8 to 12 months

now. So wanted to understand are there any ships that are up for renewal of charter in next this quarter or next quarter and if yes what is the overall scenario?

Capt. Vivek K Singh: One container vessel we have chartered out and other vessel is a smaller MPP vessel, which we were earlier operating that has been chartered out during the last quarter to Tata Steel for bulk operation on the coast and that is still continues to be on charter but it may come for renewal in **one months' time, it is another one month left for that** vessel. At the same time, we have also chartered one of our vessel on the Kolkata Krishnapatnam trade, which was mainly carrying volume for the Hyundai Merchant Marine. We have chartered the vessel to them hence they will be operating, and we will be sharing the slots on each other. So currently three vessels are on charter along with that SSL Chennai which has been chartered from yesterday only.

Shrimant Dudhoria: Sir so this Krishna is up for charter in any time soon?

Capt. Vivek K Singh: No, she is already on charter since September this year.

Shrimant Dudhoria: So when it is expiry like there will be some tenure to the charter right.

Capt. Vivek K Singh: Yes we have tenure of 8 months to 12 months.

Shrimant Dudhoria: So it is like you mentioned it was chartered 8 to 12 months ago and the tenure is 8 to 12 months ago.

Capt. Vivek K Singh: No you heard it wrong. She is chartered for 8 to 12 months starting from this September.

Shrimant Dudhoria: Sir I see a lot of cash build up like the debt has risen and the cash had risen as well so any particular reason that cash is higher than usual?

Rajesh Desai: You are talking about cash balance.

Shrimant Dudhoria: Yes so I see there is 30.3 Crores of other financial assets, which used to 5.8 which I assume is maybe cash or cash equivalent.

Rajesh Desai: Yes, so there is cash equivalent basically it is whatever collection happening at this end and all that so that remains as on that day and also there is a loan repayment is there in immediately after end of the quarter so therefore it is mainly because of that we have to accumulate cash and you have to show for loan repayment and all.

Shrimant Dudhoria: Sir overall are we expecting any capex towards new vehicle addition in H2 or FY2020?

Capt. Vivek K Singh: This year we are not expecting as such, any capex immediately, we are looking at the market and depending on the market situation we may consider one more right sized tonnage this year as we have already acquired SSL Krishna provided, we can manage to get at a better price.