

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW:

Indian Railways registered a marginal decrease of 1.04% in originating loading of cargo, from 1223.17 million tonnes in 2018-19 to 1210.46 million tonnes in 2019-20. However, originating containerized cargo transported by rail has increased from 60.14 million tonnes in 2018-19 to 61.22 million tonnes in 2019-20 reflecting an increase of 1.80%. The containers handled at all ports of the country registered a growth of 6.76% from 15.41 million TEUs in 2018-19 to 16.45 million TEUs in 2019-20. While Mundra Port registered a growth of 5.97%, Pipavav Port registered a growth of 1.26% in container handling in 2019-20 as compared to 2018-19. However, the largest container handling port of the country, JN Port recorded a decrease of 1.99%, from 5.13 million TEUs in 2018-19 to 5.03 million TEUs in 2019-20. In value terms, total exports of the country went down by 4.78% from 330.08 billion dollars in 2018-19 to 314.31 billion dollars in 2019-20. Imports of the country have also gone down by 9.12% from 507.44 billion dollars in 2018-19 to 467.19 billion dollars in 2019-20. CONCOR experienced a rise in export of commodities such as Aluminum Alloy, Food Items, Medicines, Machines, Non Haz. Chemicals, Iron Artware while import of commodities such as Auto Parts, News Print, Furniture, Solar Module, Aluminum Scrap and Polyester Goods increased.

In the above mentioned external business environment, your company carried 40.43 million tons of containerized cargo by rail during FY 2019-20, decrease of 7.05% from 43.50 million tons carried in 2018-19. Your Company achieved throughput of 3.75 million TEUs in FY 2019-20 as against 3.83 million TEUs in FY 2018-19 i.e. marginal drop of 2.13% despite outbreak of COVID-19. Your Company also continued to place great emphasis on providing total logistics solutions to its customers by expanding the business in all segments of transport value chain, both in EXIM and Domestic sector. Emphasis was also on optimal utilization of infrastructure with complete cost control, combined with strategy of expansion into other segments of value chain with overall objective of making logistics services effective, efficient and competitive.

EXIM & DOMESTIC BUSINESS:

During 2019-20, the EXIM container traffic handled at all Indian ports increased by 6.76% as compared to 2018-19. However, in EXIM segment your company handled 3.15 million TEUs in 2019-20 as against 3.24 million TEUs in 2018-19. In terms of tonnage, the decrease in EXIM originating loading was 8.93% from 35.60 million tonnes in 2018-19 to 32.68 million tonnes in 2019-20.

The total traffic handled in domestic segment was 593,162 TEUs in 2019-20 as against 584,160 TEUs in 2018-19 i.e. an increase of 1.54%. However, in terms of tonnage, there was a marginal decrease in domestic originating loading of 1.80% from 7.89 million tonnes in 2018-19 to 7.75 million tonnes in 2019-20. During the same period, domestic containerized loading of Indian Railways decreased by 4.56% from 11.85 million tonnes in 2018-19 to 11.31 million tonnes in 2019-20. Our market share in total domestic business increased from 66.36% in 2018-19 to 68.52% in 2019-20.

With stiff competition from PCTOs, it is big challenge to retain our market share in rail containerized transportation. Your company is fully prepared to meet these challenges by taking innovative steps in marketing and meeting customer's expectations towards reliable and cost effective services with increased focus on double stack operations and providing value added services to customers.

Your company is standing at very strong fundamentals and is creating a very robust infrastructure for handling multimodal logistics business in the country. We are very hopeful that we will achieve the ambitious targets set in Memorandum of Understanding signed with the Govt. of India.

INTERNAL CONTROL SYSTEMS:

CONCOR has robust Internal Control Systems and processes in place for smooth and efficient conduct of business and it complies with relevant laws and regulations. It has well documented system of internal financial controls in place, in the form of delegation of powers, policies and procedures that cover critical as well as important activities of financial and other operating functions. The procedure are in the form of manuals, guidelines, delegation of powers and IT system and controls which are effected through people operating in various departments within the Company at different levels at each stage of the processes. These are designed to ensure compliance to the internal financial controls as detailed in the Companies Act, 2013. CONCOR uses a state-of-the-art Enterprise Resource Planning (ERP) system that connects all parts of the organization, to record data for accounting, consolidation and management information purposes. The organization continuously assess the effectiveness of its internal controls through extensive internal audits, which are being conducted on regular basis by experienced independent firms of Chartered Accountants in close co-ordination with Company's own internal audit Department. The internal audits are conducted as per the detailed well documented audit program which has been duly approved by Audit & Ethics Committee. A well defined internal control framework has been developed identifying key controls and independent external auditors verifies the adequacy and effectiveness of the internal financial control system through regular periodic audit and system review, provides assurance on the compliance of internal polices & procedures of the Company and certify the appropriateness of internal controls. Internal audit firms directly report to the management at higher level. The functioning of the internal audit as well as internal financial control systems are periodically reviewed by the Audit & Ethics committee to ensure comprehensive coverage of the areas and necessary directions are issued whenever required to further strengthen the internal financial control system & procedures keeping in view the dynamic business environment in which the Company operates. Reports of the auditors are reviewed, compliances are ensured and the reports along with the compliances are apprised to Audit & Ethics committee periodically. Proactive steps have been taken to ensure compliance with various upcoming regulations through deployment of cross functional teams. The Company at all times encourages the employees to adopt fair, compliant and ethical practices. In addition, implementation and effectiveness of internal financial controls during 2019-20 was also reported by the internal and statutory Auditors of the Company. Further, to discuss various matters and assess the audit functions in the Company, the Audit & Ethics Committee is meeting Internal and Statutory Auditors of the Company both in the presence of Company management and separately.

FIXED ASSETS:

(Rs. in crores)

Year ended March 31	2020	2019	%age Growth
Original Cost of Assets	7,037.93	5,703.81	23.39%
Less Accumulated Depreciation and Amortization	2,068.56	1,509.12	37.07%
Net Fixed Assets	4,969.37	4,194.69	18.47%

Note: As per IND AS, Net Block of Fixed Assets as on the date of transition i.e. 01.04.2015 has been considered as original cost of Assets i.e. Gross Block and Assets are re-classified. Further, this also includes ROU Assets recognized on account of Ind AS 116 w.e.f. 01.04.2019.

An amount to the tune of Rs.433.63 crores was capitalized during the year. The main additions were on account of development/ expansion of terminal infrastructure, purchase of Wagons/ Handling equipments and IT Infrastructure etc.

WAGONS:

During the year 2019-20, 80 nos. of BLL wagons were added to the existing fleet of CONCOR owned wagons, increasing the holding to 13,497 numbers of High Speed Wagons. Further, 470 numbers of BLCM wagons have been taken on Lease for the period of 10 years. Total wagons (BLC+BLCM+BLL+BFKN+BVZI) holding including leased wagons has gone upto 15,578 as on 31.03.2020 and first time procurement of 25 Ton axle high speed BLCS wagons is under process.

INVENTORIES:

The Company being a service company, does not have stock in trade. The inventory is represented by stores and spares kept by the Company for maintenance of its own equipments.

SUNDRY DEBTORS:

Sundry debtors are 2.46% of the operating income of the year. Provision for doubtful debts, wherever considered necessary, has been made.

CASH AND BANK BALANCE:

The Company keeps majority of its cash & bank balances in short term fixed deposits with the banks. These cash reserves have been retained for financing the creation of infrastructure and expansion plans as well as investments in new businesses and alliances, including in JVs/Subsidiaries as per the plans of the Company.

CURRENT LIABILITIES:

The current liabilities of the Company comprises of financial and other liabilities. The financial liabilities are of the nature of trade payables and other financial liabilities.

The trade payable were amounting to Rs.155.29 crores at the end of the year, which during previous year were Rs.350.50 crores, it is the amount payable to the vendors and suppliers of the Company.

The other financial liabilities which are on account of employee related dues, security deposit received and other payables on account of capital works, revenue, etc. was Rs.652.25 crores at the end of the year, which was Rs.576.20 crores in the previous year.

The other current liabilities of the Company comprises of amount due towards advances/ deposits from customers against the services, statutory dues and unearned revenue. The balance on this account at the end of the current year was Rs.301.68 crores, which was Rs.347.78 crores in the previous year.

INCOME:

Income from operations has decreased by 5.93% over FY 2018-19. Between the two business segments i.e. EXIM & Domestic, EXIM segment contributes the major share of freight revenues. The decrease was mainly on account of decrease in revenue from rail freight, warehousing income and other operating income.

EXPENSES:

Terminal and other service expenses have decreased by 5.99% over FY 2018-19. The decrease was corresponding to decrease in revenue earned by the Company during the year.

FINANCE AND OTHER EXPENSES :

Finance cost has increased from Rs.0.74 crore to Rs.36.07 crore in FY 2019-20. The other expenses have decreased by 3.67% over FY 2018-19.

EMPLOYEE REMUNERATION:

The employee cost has decreased by 6.91% over FY 2018-19 which is on account of lesser provision for various elements for employee's remuneration like performance related pay, etc.

RATIO ANALYSIS :

Details of significant financial ratios along with explanation thereof are as under:

Ratios	FY 2019-20	FY 2018-19	Change (%)
Debtors Turnover ratio (Times)	52.20	87.52	(-40.36)
Inventory Turnover Ratio (Times)	Not Applicable		

Interest Coverage Ratio (Times)	39.97	2,283.27	(-)98.25
Current Ratio (Times)	2.54	2.37	7.17
Debt Equity Ratio(Times)	-	0.07	-
Operating Profit Margin (%)	25.87	25.86	0.04
Net Profit Margin (%)	5.56	16.84	(-)66.98

FOREIGN EXCHANGE EARNING & OUTGO:

During the year the total foreign exchange outgo on account of various business related activities, including import of stores and capital goods was Rs.138.28 crores which was Rs.236.31 crores during the previous year.

TAXATION:

Current and deferred income tax provision for the year have been made in accordance with the provisions contained in Income Tax Act, 1961 and the relevant Indian Accounting Standard. Accordingly, current tax, including earlier years tax adjustment and deferred income tax provisions have been worked out as Rs.320.79 crores and (-) Rs.172.61 crores respectively.

MATERIAL DEVELOPMENT IN HUMAN RESOURCES:

The company has undertaken new HR interventions, has formulated new HR policies and rationalized the existing policies to contribute towards the welfare of the employees. The major policy updation and HR interventions during the financial year have been enumerated below:

- Gap Closure Exercise has been undertaken for the Achievement of People Capability Maturity Model (PCMM)- Maturity Level 2
- Scheme of NPS (National Pension System) has been implemented in CONCOR as a social security provision for the employees.
- CONCOR Post-Retirement Medical Scheme (PRMS) has been amended and rationalized.
- CONCOR Travelling & Daily Allowance(TA & DA) Rules has been updated.
- The quantum of several allowances such as Night Shift Allowance, Emergency Duty Allowance, etc. has been revised,
- The benefits under various Employee Welfare provisions such as CONCOR Medical Attendance Rules, CONCOR HBA Rules, Children Higher Education Scheme, etc. have been revised and rationalized,
- Guidelines have been issued for ensuring timely filing of Annual Property Returns (APR) by the Employees.
- Online System of Recording Annual Performance Appraisal Reports (APAR) for Board Level Executives on SPARROW has been implemented.

CORPORATE SOCIAL RESPONSIBILITY:

CONCOR is committed to implement its CSR policy in letter and spirit by taking up various welfare projects, including on environment sustainability for the betterment of all its stakeholders as well as weaker sections of the society to enable them to grow and prosper together. In this regard, detailed particulars of the work done have been provided in the annual report on CSR activities forming part of Directors' report to the shareholders.

RISK MANAGEMENT:

The Company has an elaborated Enterprise Risk Management (ERM) framework in place. As a part of implementation of the ERM framework and in terms of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, CONCOR has in place a Board level Risk Management Committee (RMC) which reports to the Board about the risk elements, their mitigation plans, etc. at regular intervals. The RMC has been entrusted with the responsibility to identify and review the risks and formulate action plans and strategies for risk mitigation. The main function of RMC is to monitor various risks and to examine the adequacy of risk management policy and practices adopted by the Company and also to initiate action for mitigation of risks arising in operations and other key functional areas of the Company. The Company takes responsibility to proactively identify and address risks

and opportunities to protect and create value for its stakeholders. All terminal heads of the operating units are required to regularly define the effectiveness or non-effectiveness of control /action plans formulated to mitigate the risk elements. The ERM reports are reviewed and evaluated by the RMC periodically and main risks identified by the RMC are appraised to Board of Directors.

Some of the key risks which the Company faces and the corresponding strategies undertaken for their mitigation by the Company are as under:

Associated Risk Event	Mitigation Plan/Action Taken
Threat from competition	<ul style="list-style-type: none"> • Approach customers for bringing in new business, focus on long term volume commitments by signing of agreements, competitive pricing and VDS schemes. • Designing new service offering (including additional service leading to extension of value chain). • Exploring new streams and their business potentials, service guarantee with time tabled trains.
Abnormally low profit margins for Domestic due to uncontrollable factors	<ul style="list-style-type: none"> • Rationalization of tariffs and container repositioning. • Generate traffic on empty flow directions • End-to-End logistics solutions to customers.
System downtime and cyber security risk leading to adverse impact on operations	<ul style="list-style-type: none"> • Develop preventive & corrective maintenance plan • CONCOR has been certified ISO/IEC 27001:2013 Standard for ISMS • Full proof security to prevent vandalism
Safety preparedness & Disaster Management	<ul style="list-style-type: none"> • Proper Storage & Labeling of Hazardous Cargo • Adequate training of CONCOR staff & operators of handling equipments • Training on Disaster Management • Proper evacuation arrangements • Fire Fighting Preparedness
Potential revenue loss due to limited availability of terminals/critical terminals acquired by competitor	<ul style="list-style-type: none"> • Development of new logistics parks and liaisoning with ports for new terminals, • Strategic tie-ups at locations where we are not present.
Loss of business (in terms of volume) due to COVID-19 pandemic.	<ul style="list-style-type: none"> • CONCOR terminals were nominated as extended gates for Jawaharlal Nehru and Chennai Port to decongest the ports and to avoid road movement of containers to bare minimum. • Free haulage of empty containers movement • Digital Assistance to customers for business • Timely availability of rakes against the indents
Adverse Impact on Health of Employees due to Novel Corona Virus (COVID-19) Pandemic	<ul style="list-style-type: none"> • Work from Home concept has been introduced. • Standard Operating Procedure and Guidelines have been issued for precautionary measures to control the spread of Novel Corona Virus. • Workplaces have been sanitized, provision of sanitizers, masks etc. has been made and social distancing is being maintained at the workplace.

STRENGTHS:

CONCOR's strengths are as under:-

- Fairly large infrastructure base of rolling stock, especially the ownership of high-speed container flats (BLC/BLL wagons), and specialized container handling equipment etc. The Company owns a total of over 335 rakes including 302 high speed (BLC+BLL+BLCM) and 33 (BFKHN) rakes as on 31/03/2020.

- Large network of “state-of-the-art” terminals located across the country, giving it an unparalleled reach and penetration. Distinct cost advantage offered by CONCOR CFSs to users by virtue of their locations within ICD premises.
- Over 31 years of presence in organising efficient rail movement of containers & highly professional terminal management and operations of ICDs, combined with the experience of coordinating /liaisoning with Indian Railways, Customs and other Central & State Government agencies.
- Highly committed team of experienced and skilled manpower with in depth knowledge of multi modal logistics business with a customer sensitive outlook. Ability to provide choice of mode of transportation between rail/road/sea (coastal)/ air according to the needs of the customer.
- Lean and thin organization with reduced fixed costs.
- Strong presence in virtually all container handling ports in India having forged good working partnerships with these ports.
- CONCOR is also making foray in international market for setting up MMLPs.
- Providing Multilayer Stacking for storage of customer’s cargo`
- Has established & sustained long term relations with credible high volume customers in the domestic sector. Major alliances have also been established with shipping lines and other logistics service providers.
- Has a large fleet of over 30,969 owned containers for domestic traffic. The company is acquiring 11,600 new containers.
- Customized software applications for both EXIM and Domestic segments with internet based customer interface & full EDI connectivity with Customs & Indian Railways and Customs interface.
- Blue chip company with good market capitalization and viewed as a very good financial proposition by investors.

WEAKNESSES :

- Overdependence on a single rail corridor for Exim Business. Any disruption in this sector can have serious repercussion on business.
- Large dependence on Railways as a transporter leaves CONCOR vulnerable to increases in haulage charges & policy changes. To overcome the same, CONCOR has to actively evaluate entry into “end-to-end” road transportation segment to augment its basic nature of providing inter modal comprehensive integrated rail based services.
- All the same, vagaries of road based logistics makes it difficult for CONCOR to directly enter this sector – especially given its PSU status, and hence leaves it dependent on other agencies.
- Gaps between quality of service and the ever growing expectations of the customers. At some places outsourced services are not of desired level on account of differences in the objectives of the service providers and CONCOR.
- Overdependence on EXIM traffic & resultant exposure to vagaries of international business/trade trends.
- Land Acquisition – A big constraint.
- Difficulty in arranging return cargo, empty running.

OPPORTUNITIES & THREATS:

Your company is an undisputed leader in the field of Multi-modal Logistics in India with the largest available network of “state-of-the-art” intermodal terminals across the country providing an unparalleled reach and penetration, combined with a strong presence at almost all container handling ports. It has strong financials and highly committed team of experienced and skilled manpower with in-depth knowledge of multi modal logistics business. Availability of fairly large fleet of rolling stock (especially highspeed BLC/BLL/BLCM wagons), specialized container handling equipment, containers and fully computerized commercial operations with internet based customer and customs interface provide it a strong competitive advantage in availing opportunities for further growth.

There is stiff competition from Road Sector specifically for short lead and light weight cargo and the Export – Import imbalance leading to Empty Running. Your company is well poised to tap the new business opportunities arising from potential Growth in EXIM container volumes, and the likely increase in container traffic due to development of Dedicated Freight Corridors. Its initiative to use the terminal capacity for promoting double stack movement between hinterland & gateway ports of Gujarat have helped increase rail coefficient & make its services competitive.

The growing market potential in air cargo, automobile sector, food supply chain management, coastal shipping and Distribution Logistics offers scope for diversification which will be effectively worked upon.

The putting back of the Indian Economy on high growth paths is bound to result in additional transport demands. This, coupled with the anticipated changes in profile of traded goods from intermediate to finished goods, is bound to increase the opportunities for containerization in domestic market. Added to this, the large number of Industrial Parks, SEZs etc by State Governments and Ports offer your company the excellent opportunity for adorning the role of Logistics Partner for the states/industrial estates through arrangements of mutual benefits.

FUTURE OUTLOOK:

- CONCOR has started First Mile Last Mile (FMLM) connectivity for providing End to End Logistics solutions to our customers.
- CONCOR and JSC RZD Logistics of Russia have signed the service agreement for transporting containerized cargo through International North-South Transport Corridor (INSTC).
- Conducted trials on agriculture produces for Value addition and introducing the technology of Ice Battery from Japan.
- CONCOR is setting up a new Multi Modal Logistics Park at Manawala/ Amritsar.
- With the changed scenario on Information Technology (IT), CONCOR has taken new initiatives by way of implementing paperless working in its offices with the use of E-Office Application, a digital workplace solution. From this new initiative all the paper works in the Regions and their respective terminals have been digitalized which helped your Company in sailing through through nCovid pandemic.
- CONCOR has implemented e-payments of contractor bills and efforts are being made to inter-link the contractors’ bills through digital mode.

STRATEGY TO MEET THE CHALLENGES :

Against the backdrop of the outlook presented above, your company has formulated a strategy for further growth with profitability, despite the challenges of an increasingly competitive market. The strategy includes:

- Setting up of Multimodal Logistics Parks at strategic locations along the Dedicated Freight Corridors (DFC) and at major industrial estates.
- Setting up of Private Freight Terminals (PFT) with road bridging solutions.
- Increase in Double Stack Long Haul Trains and development of Rail Transshipment Hubs (RTH).
- To Make CONCOR a One Stop Logistics Solution and providing Services at the Customer’s Door step.
- Providing more and more Value Addition Services such as Cross Docking, Wrapping, Labeling, Palletisation, Bar Coding, Inventory Management, KYCL, Mobile APP, customized to the requirements of the customers.
- To Venture into E-Business.

- To make a foray in Integrated Logistics and Manufacturing Zones (ILMZ).
- Increase in Revenue by diversification and product differentiation.
- To venture Internationally.
- Further growing in the Air Cargo Business
- More extensive and innovative use of Information technology in various activities especially for minimizing transaction costs, and meeting customer expectations.
- To make foray into First Mile Last Mile (FMLM) services to the customers.
- CONCOR has already ventured into Coastal movement.
- CONCOR started Air Cargo handling of Un-accompanied Baggage Cargo (UBC) from Goa Airport. Commencement of this new facility is a landmark achievement in CONCOR's commitment for customer value creation.
- CONCOR started its new ultra-short haul Round Trips rail service between J.N. Port & Dronagiri Rail Terminal. This will help to decongest the port and shall facilitate trade & industry in a big way.

MEDIUM AND LONG TERM STRATEGY:

- CONCOR is exploring new Business in areas like First Mile Last Mile service and Distribution Logistics services to facilitate the trade.
- CONCOR is also exploring Agency Business and Bulk Cargo movement which will create great opportunity and value addition to the trade.
- CONCOR is exploring new Business avenues for Coal Transport Agency for major power generation companies and will provide the services of Coal transportation through Rail-Sea-Rail (RSR) mode on all rail routes.
- CONCOR plans to enhance more and more double stack operations for efficient utilization of its rolling stocks, improve dwell time of containers on port and its terminals at a reduced logistics cost.
- CONCOR is closely studying the freight designs being evolved for bulk transportation of Cement, Aggregate, Liquid cargo and Auto Cars etc. for new opportunities.
- CONCOR is also planning for its off shore presence in the neighbouring countries.

CAUTIONARY STATEMENT:

Statements in the Directors' Report and Management Discussion & Analysis, describing the Company's objectives, projections and estimates, expectations, predictions etc. may be "forward looking statements" within the meaning of the applicable laws and regulations. Forward looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Actual results, performances or achievements may vary materially from those expressed or implied due to economic conditions, Government policies and other incidental factors such as litigation and industrial relation, etc. Readers are cautioned not to place undue conviction on the forward looking statements.

For and on behalf of the Board of Directors

Date 07.08.2020
Place: New Delhi

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(V. Kalyana Rama)
Chairman and Managing Director