SNOWMAN®

August 06, 2022

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Dear Sir/Madam,

Sub: Transcript of Conference call

Please find attached the transcript of Snowman Logistics Ltd-Q1FY23 post results conference call held on 1st August 2022.

Kindly treat this as compliance under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

For Snowman Logistics Limited

SNOWMAN LOGISTICS LTD. * BANGALORE *

Kiran George
Company Secretary & Compliance Officer

Encl: as stated above

Snowman Logistics Ltd.

(BSE: 538635 | NSE: SNOWMAN)

Earnings Conference Call
Q1 FY2023

August 01, 2022

Management:

Prem Kishan Dass Gupta	Chairman
Ishaan Gupta	Director
Samvid Gupta	Director
Sunil Nair	Chief Executive Officer and Whole-time Director
Kannan S	Chief Financial Officer

Deepesh: Hi everyone, on behalf of Equirus Securities, I welcome you all to Q1 FY23 Earnings Conference Call of Snowman Logistics. From the management we have with us Mr. Prem Kishan Dass Gupta-Chairman, Mr. Ishaan Gupta-Director, Mr. Samvid Gupta-Director, Mr. Sunil Nair-CEO and whole time Director and Mr. Kanan.S-CFO. I now hand the call to management for the opening remarks, post which we can open for Q&A. Thank you, sir. Over to you.

Prem Kishan Dass Gupta: Thank you. Good afternoon to all of you ladies and gentlemen. I take the pleasure of welcoming you all to the Q1 FY23 Earnings Conference Call of Snowman Logistics Limited. The results were announced and as you can see that there is a great improvement in the revenue and the EBITDA and even at the PAT level. We have also announced a dividend of 75 paise per share, because the company has healthy cash flows .We are reducing our debt, we are incurring CAPEX but at the same time we have surplus funds to declare a dividend. So, that is what we have done and going forward that will be our aim to keep on reducing the debt, doing the CAPEX from our end and also you know, have a dividend. Also, at the same time, some new loans will be taken. Term loans for new projects but that will be taken which can be managed very easily from the cash flows. The company has taken a turn-around in the sense that we have now a base case of where we have our capacity and our capacity as it stands now is 1,30,000 pallets in all, both cold storage as well as dry warehouse which is the requirement of our existing customers and some ecommerce customers who have approached us and we are serving them and we plan to serve them going forward. I would now hand over the mic back to the compare to you know have the question and answer session the management is here to and I'm here to reply to each and every query that you have. So, over to you.

Deepesh: Yeah, thank you, sir. Hi all. If you have any questions please use the raise hand option and then we can take it forward. Sir, just to start if you can just talk about the warehousing growth. The warehousing growth, which has been around 15 16% in this quarter, if we're going to break it up into the volume growth and the yield growth and how do you look at for the full year in fiscal FY 23.

Sunil Nair: Okay, hi, this is Sunil Nair. See the overall trend both in terms warehousing and transportation has been very encouraging. This is the time when post COVID most of the businesses have resumed or even crossed their pre-COVID volume. So, we had around 15% growth in warehouse and 61% in transportation, the major growth at the warehouse is what is primarily from the better utilization and the yield improvement per pallet. Our utilization as compared to last year which was around 84-85%. This year Q1 was 89%. And in case of ASP we have commanded around 6% improvement in the average selling price per pallet in warehousing business. In case of transportation, our SnowLink initiative, where we aggregate the market capacities through our tech solution has helped us grow well, that revenue as compared to last year has grown by two and a half times. Last year Q1 we had Rs.6 crore of revenue coming from SnowLink whereas this year Q1 it was Rs.16 crores of revenue coming from that business. So, all in all, we see that the QSR sector is doing very well. QSR has improved almost 30-35% as compared to last year and other than the pharmaceutical where we had very high hopes, almost every other segment have shown a promising improvement, pharmaceutical have been constant with no much change as such.

Deepesh: Got it, sir. And sir on the margin spot, I think the warehousing segment has a margin of around 16%. So, what are the steady state margins that we can look forward to in this year?

Sunil Nair: Margins. 16% see, if we are talking about at EBITDA level we are at 35% in warehousing business and transportation business it is at 4% and the weighted average at company level, it is at 24%. And we see that we will continue to maintain this as such, we see that the transportation business which operates at a lesser margin as compared to warehousing will be contributing more on the revenue side. But all in all, we've still believe that 24% is what we would like to maintain considering the price increase that we have got in the recent quarter.

Deepesh: Understood sir. Sir, we have a question from Mr. Yash Tanna. Mr. Yash if you can just unmute yourself and you can ask him.

Yash Tanna: So you've been speaking to your customers about the pricing. So going forward, how should we think about price increases per pallet in the warehousing segment?

Sunil Nair: Yash, we could hear only your last statement. And if I understand what you're asking about how does the warehousing pricing trends look like, right?

Yash Tanna: Yeah, exactly. I mean, because since a couple of years, I believe it's not been that great for us. But going forward, how do you think it's going to pan out?

Sunil Nair: So see, yes, you're right, because of COVID. Last two years, the pricing was quite muted. And before that, we used to get around 3 - 4% price increase, which just used to cover the inflation. This year, we have already got almost 6% of the price increase. 5.8% to be more specific, and with the trend and the balance pricing which are under negotiation with customers, we see that, one good part is after the COVID customers have started recognizing the requirement of compliances, hygiene and cold chain maintenance. And with that in mind, they are a little receptive to the price revisions. So, we fairly have had a good success. And we see that the overall interactions are quite encouraging for us with the customers. So, we think that it should be somewhere in the range of 6 to 7% year on year. That's our expectation.

Yash Tanna: And that would be sustainable in the medium term. Let's say 3-5 years we could get a 6 to 7% year on year?

Sunil Nair: Looks like, Yeah.

Yash Tanna: And what kind of volume growth we expect from, this from the warehousing sector. I mean, you have shown a 16% growth year on year right that includes the pricing and volume.

Sunil Nair: Yeah, so see, in warehousing, we have a little change in the strategy what we are now trying to do is since there is a lot of demand from dry storage for food and pharmaceuticals and we have been getting requests we also thought of extending support there. So we have added close to 7,000-8,000 pallets in dry warehousing through leased warehouses, where we don't have to invest in the overall CAPEX. So with that intention in mind, we would like to continue to grow at a respectable level in warehousing. While in terms of cold storage, we will be setting up our Kolkata warehouse ASAP and there will be some small expansions in the existing locations. So we would expect a 15-16% growth year on year that's the plan.

Yash Tanna: Yeah. So, you briefly touched upon the partner model. So I'm a bit new to the company. So, I was just wanted to understand this partnered model a little better. So this does give us a much better return on capital, right, than the previously obtained model of us?

Sunil Nair: Yes, absolutely.

Yash Tanna: Because, yeah, okay, and what part of the business currently is this business?

Sunil Nair: See, currently it is close to 15%. So, since we have started this just two years back with the E-commerce Initiative, where we started leasing warehouses and modifying it to the E-commerce requirement. And now we have extended that to the normal omni channel warehousing, for dry food. It is at 15%. But I think this can grow at a much faster rate than the cold chain where there is no facility to lease and we end up investing in the CAPEX and there is a project time of one year. So the growth rate in terms of driver housing should be much better.

Yash Tanna: Got it, so do we have any targets or projections that three to five years down the line, this would be probably 30% of the business or something like that?

Sunil Nair: I would not like to quote a number to it, but yes, we would like to make it even more than 30%. And because we see the huge potential there, and with our experience of food, most of the food customers have expressed intention to work with us in their dry food requirement also, as we are well versed with the Food Safety norms, in warehousing.

Yash Tanna: Got it.

Ishaan Gupta: Yash, it's Ishaan here. Just to add on that little bit. This model that, you know, we have started with, it has come by way of, you know, it's a customer pull that people wanted this service. So we got into it. Going ahead, the way that we are thinking about dry warehousing is that firstly, it's a good model because it's asset light. So our funds are not blocked in CAPEX. At the same time the risk is mitigated because arrangement is back to back from where we are leasing warehouse and to those who we're leasing it to. So the scalability is quite easy. What are we waiting for is you know, we don't want to get into it without having back to back arrangements. So as in when we explore more, either new customers or existing customers who have requirements, that's how we will be expanding this business. So at this stage, we won't be able to give you a number, but we are very keen on growing this in a big way. So maybe in a couple of quarters or something we can give you more clarity.

Yash Tanna: Got it? That's very helpful, Ishaan. On what on the debt reduction part. So could you help me with your net debt number as of June and what are the plans for debt reduction as you mentioned in the opening comments as well.

Sunil Nair: So, our net debt is 90 crores.

Samvid Gupta: So, net debt, somewhere there and net debt is around 93-94 crores right now. And the plan is when there's surplus cash flow, it basically will do a split between dividend, loan repayment, and CAPEX.

Yash Tanna: Oh, got it. Thank you, Ishaan. if I have more questions I'll ask.

Ishaan Gupta: Sure, thank you.

Deepesh: Thank you, Yash. Hi all if you have a question please use the raise hand option and we can take your questions. Yeah, Mr. Rohit, please go ahead.

Rohit Ohri: Hi, Sunil. Couple of questions. What are these factors which give us this confidence of maintaining a growth rate of the current momentum of around 20 to 25% on the top line?

Sunil Nair: See the confidence is basis the pipeline that we have. The business development pipeline and also in terms of integration that we are doing with our existing customers, there are a good set of customers where we are not the one stop solution and they end up using multiple options, because we are not offering that particular service or we are not present in that particular location. So, with that strategy in mind where we are getting into dry warehousing and also with this SnowLink we are offering more transportation services. As of now, SnowLink we have not developed a single new client, all SnowLink revenues 61% increase in transportation have come from our existing set of clients only. And we see huge potential there even with this, our estimation is we are only serving 25% of the transportation needs of our existing set of customers. So, we see huge potential there in terms of revenue generation.

Rohit Ohri: In terms of the segmental breakup, if you see the pharma segment it is showing a muted growth or it's not growing and knowing that sea food and pharma these are slightly high margin businesses. Would you like to share the reasons as to what exactly is happening in the market and why the pharma segment is not growing?

Sunil Nair: Yeah, so see, pharma segment primarily takes longer time in their decision making. And post COVID, as you know, before COVID Complete pharma segment had a strategy on which they were working on and post COVID, now, when things are normalized, the pharmaceutical industries are experiencing a different kind of distribution requirements. And whoever we are in touch with, they're all back to the drawing board, rethinking and re-deciding on how their distribution network should be operating. We are in touch with some major organizations who are, and we are also giving inputs to them in terms of how their distribution network should look like. Only thing is pharma being pharma, they take longer time and decision making. I think, six month, nine months down the line, there'll be decisions out once they are very clear on what they want to do. And that's when the numbers should show some change.

Rohit Ohri: Okay, so, the thing is that they are not able to gauge the situation in the non COVID kind of portfolio that they have. There, they're taking time to make decisions, is it?.

Sunil Nair: Yes, so, they have realized that Pre COVID network is not working now and it need to undergo a change and that change is what they are working on.

Rohit Ohri: Okay.

Ishaan: Just to add to that. In the last few years, the laws have changed and they become stricter for the pharmaceutical industry. So a lot of goods, which were used to be stored in dry warehousing and even in the unorganized sector, because of stringent requirements, they have to shift to the organized sector and to certain temperature control requirements, depending on the product. So those decisions are also now be made by the pharma companies to you know, explore companies like Snowman, for their network. So that shift is taking some time. Of course, the vaccines have dropped, compared to the early part of COVID. And it was expected, so we never planned for them to you know, to be a big chunk of our product mix for very long. So that's where it is. A couple more points on that is that, this dry warehousing segment, which we're talking about, one of the key customer base that we're looking in that is pharma. Because they're looking for, you know, distribution solutions, not just storage or not just transportation, but everything combined. And then also, like you were mentioning that sea food and pharma, some of the highest paying customers are the segments for us. So over time that philosophy is also changing, where it is not dependent on the category of the product that we serve, but it's more to do with the location and the kinds of services we offer to them, of course, the temperature zone. So it's not necessary that you know, one segment is higher paying than the other. It is more customer dependent and service dependent now.

Rohit Ohri: Okay, if you see the current split of the revenue, dairy and ice cream seems to have contributed around 24% of the total sales, which probably could be because of the seasonality. And you know when ice cream and dairy products we go off the shelf. So, do you think that the turnover we'll see a bit of a dip or do you see that there will be a whitespace if at all, if that is the case?

Sunil Nair: No, this is seasonality and there are compensating season that the other product takes. So, after dairy and ice cream, which is July-August and after that the festive products both QSR and FMCG takes over that volume. So, this is every year thing and this gets compensated, there is a lag of couple of weeks, but then within that time it gets compensated.

Rohit Ohri: Okay and in terms of the plant CAPEX with the changes that are coming, what sort of CAPEX and we planned for the next two years, if you can share that.

Sunil Nair: So, we will continue to invest anywhere between Rs. 75 to 100 crores in expansion, which will be a mix of internal accruals and the debts, this will anywhere be between 12 to 18 months, this is the CAPEX that we are planning which will include our expansion in Kolkata. Dry warehouses, where we may have to do some customization and the expansion that we plan to do on in our existing setup in Pune and Hyderabad.

Rohit Ohri: Okay, in terms of the expansion, any thoughts on what is the utilization of Siliguri plant because last time I believe it was somewhere around 30% or something and by when do you think that it will reach the peak?

Sunil Nair: So, our Siliguri is at 35% now, and we expect it to reach around 75% in October

Rohit Ohri: Okay, and this new Kolkata property which you spoke about, we intended to add in two phases, which was around 9,000 Pellets probably in 4,000 and then 5,000. So, what is the progress on that and how are we seeing that?

Sunil Nair: So, we got the land conversion approval done and our Phase One will be 5000 pallets, Phase two will be 4000 pallets, and we are at a stage where we are taking the building plan approval from the government. Once that is done, we will work on the construction side.

Rohit Ohri: Okay, so there are no issues related to the cost of steel or maybe probably cement if at all we're going for construction, because we are kind of blending in with the asset light model as well. So, how do we take it forward then from here?

Ishaan: Yeah, no, there are concerns that we faced with higher costs, but already those costs have started coming down in the mean time, you know, the land, like Sunil was saying, all the land acquisition and related formalities are getting complete. So now, luckily for us, the construction costs have come down, so we will be going ahead with it. Like you're saying we are going to have a mix now going ahead. Some cold storages in key locations, we will be investing into the asset. But especially for dry warehousing it will be asset light, even the transportation side as you know from Snow link, it's all the growth is coming from asset light strategy on it. And some cold storages as and when they are available in future also we will be taking on asset light or lease model. So it will be a mix of both. As long as you know, we don't want to put the burden of debt or very, you know, tight cash flow from Snowman, because while the PAT is not reflected, but if you can see from EBITDA and Rohit, you've been following the company for a few years now. So you know, we are very healthy cash flows, and each year they are improving. So that's why we're taking this decision that we don't want to lock it up in any one project or something like that.

Rohit Ohri: True. So, this vision that we had to reach somewhere around two lakh pallets, so would you be revising that or you want to curtail that or bring it down?

Ishaan: We won't be revising the figure but we will be revising the timeline definitely, because we see more growth and more EBITDA potential in the dry warehousing side now.

Rohit Ohri: So, I mean, like, will you like extend by another two years, so we had a vision for next 5 years. So you take it to 7 years to reach 2,00,000 pallets now, is it?

Ishaan: No, it's too early to say right now. We, you know, we want to see how this pans out and there's very good response coming from the dry warehousing side. So we want to focus our energies there, apart from just pure, you know, warehousing and transportation, there are some more activities that we started getting into, so that we can provide a full range of services to the customers. Maybe Sunil will explain that a bit more. But if, you know, based on that, you will see that it's not now the number of pallets or the storage that we want to grow, we'd rather grow the service component of the business.

Sunil Nair: Yeah, so Rohit, what we're planning to do is with a request from customers and the trend that most of the developed countries have followed, evolved countries have followed in distribution. We are getting into offering a end to end distribution solution, wherein we also own inventory wherever required, and we do the billing and collection also on behalf of our customers. So, with this offering, which is the request from some of our strategic customers. We will be offering a complete end to end where the customer focus is on manufacturing and selling only and rest is all managed by us including the billing and collect, so, we become the national distributor for them. So, this is one thing that we will be starting now on.

Rohit Ohri: So, Sunil with these value added services that you're talking about, should we see an uptick in margins going forward, like currently it is 24-26%. Should we see that we will reach to our old pre COVID level margins of around 30-32% or so?

Sunil Nair: So, see pre COVID margin of 30-32% was, 35% is still there in the warehousing business only because the transportation revenue is going up the overall mix is looking like lesser. Whereas our warehousing margins are still at 35-37%. So, margin has not come down margin remain same only the mix have changed. If you see only quarter to quarter, last year our transportation revenue was only 31-32% in Q1, whereas this this year Q1 it is 39%. So, with that increase, you're seeing that the blended percentages come down because of the blend, okay? Otherwise individual level the margins have increased in transportation with the asset light model and in case of warehousing it remains same. So there is no change there. What will happen is, with this new service offering even though the merchandise value will come to us as a revenue. Okay, so, the revenue will go up exorbitantly. Whereas our distribution markup which is our service revenue today will also increase slightly because of the additional services provided and the related margin that we are asking the customer so, that's how it is going to be, you know, accounted. So percentage wise it will it may look lower than the current one because the revenue will go up. But overall absolute number the Ebitda will be much better.

Rohit Ohri: The Blended EBITDA version, right? ,

Sunil Nair: Yes.

Rohit Ohri: Okay. In some of the previous concalls, you know, we had this ambition or we had this idea of reducing the transportation fleet to somewhere to zero. And if you can share, what is the status on that currently, what is the fleet that we have right now and how much time will it take for us to come down to zero?

Ishaan Gupta : Rohit, just to correct that. In the past, we didn't mean that our fleet would go down to zero. What we meant was that we would be only focusing on serving our own customers and we'll be reducing the fleet. But you know, as we grow we're not adding the fleet because now we can address that through SnowLink. So what we want to do, we will always have some portion of fleet of own fleet with us to service key clients and where the service level metrics are high. So the current distribution how we stand is we have 249 own vehicles. We have 82 dedicated vehicles with us separately from that and 150 vehicles available on a need basis, this is all 82 and 150 are through this SnowLink platform. So, as an overall, we have over 480 vehicles available with us. And this Snow link portion can be scaled as and when the requirement increase at any time because the market vehicles are available. The advantage is that when we have the market vehicles, we have a financial advantage. I'll ask Sunil to explain that you. The Snow link advantage.

Sunil Nair: Yeah. See, in case of SnowLink, the thing is the overall risk is back to back in terms of fuel, driver, maintenance and all. And hence, what we do is we take care of the responsibility of utilization of the vehicle and the operations in terms of temperature, maintenance, hygiene of the truck, timely pickup, timely delivery and all those things. With that limited exposure to the cost elements, our margins are largely protected. So, which in our own vehicles case, not the case, because here we manage drivers, we manage maintenance, fuel, everything. So we thought that the SnowLink model is better, where the small transporters are getting to get into a larger play of distribution and serving larger clients through our network. And at the same time, they take care of their small fleet, in terms of maintenance and driver and we don't have to worry about that.

So, financially, we have found that at a PBT level, the snuggling model is better than owning a truck. So as Ishaan said, we will reduce our own trucks, which is today 249, we will reduce it but it will never be zero, maybe we'll go down to 150 trucks but they will be very specialized trucks for our strategic customers where we put a multi temperature truck or some eutectic technology. So technology wise they are going to be very special trucks which we will own up.

Ishaan Gupta: And what we wanted to do at that time, and what we've done now is, we've deployed zero vehicles towards pure transportation. So, we don't do point A to point B, cold temperature control transportation, we only use it as an add on for our existing business.

Rohit Ohri: Okay. My next question is related to SnowServe. You know, we were partnering with some players over there for Amazon as well as for Fraazo in Bangalore and Pune. So, if you could take us to the developments that is happening over there for Fraazo

Sunil Nair: So, e-commerce see, we have got an increase of 37% quarter on quarter last year vs this year and Amazon we serve at four locations today, which is Delhi, Mumbai, Pune and Ahmedabad also started now, last month. Fraazo we serve them in Bangalore and Pune. So, Fraazo is a very small client and its contribution in the overall ecommerce is very negligible as of now. They are in the stage of raising some fund, maybe once that fundraising is done, they plan to have the expansions. In case of Amazon, now since all the facilities are up and running, they are also working on some renewed offerings in terms of how the competition are offering a shorter time deliveries and all those things. So they are working on those initiatives. We believe that it will continue to grow at this pace, you know, anywhere between 25 to 30%. year on year in terms of revenue.

Rohit Ohri: Okay, so any thoughts on increasing the shareholding, the promoter shareholding? Because it is somewhere in the range of 40s and it's been some quite some time when before the and after the Japanese counterparts they exited. So any thought on the increasing the promoter shareholders?

Prem Kishan Dass Gupta: Yeah, we have been deliberating this for quite some time. So, that's where the GDL board to decide, you know. So, at Snowman we can talk about the dividend or maybe a possibility of buyback in the future. All those things there. So once GDL board decides and under the creeping acquisition, that we can acquire some shares that that will be, that is a separate issue, and we'll come back to you on that.

Rohit Ohri: So any thoughts on, you know, raising some money via rights issues or something like that, so that we can also contribute as old shareholders and trying to get some reward? I know that you have started with this dividend. And hopefully that will continue with this distribution policy, then, do you think that we can also contribute as long term shareholders in the system?

Prem Kishan Dass Gupta: See, we are locked at those possibilities in the past and what we think with a new concept of you know, asset light as well as you know, owning our own warehouses. We are very comfortable right now, whatever visibility we have on the expansion plans, because now going forward, apart from own and lease, or you know asset light model. The expansion of services, the scope of services is widen, like Sunil explained just now. So our revenue will be increasing, and which will be contributing directly into the EBITDA margins, or not margins, I would say, only, but also the absolute EBITDA, by extending those services in the new model, and we feel that there is a requirement for additional funds where I mean, GDL as a parent company, I mean, it's comfortable now on the debt level and also on the cash flow level. We'll certainly look at whether to raise the fund through a rights issue or I mean, I don't think we will get into a QIP discussion again soon. But, we have ways and means to have access to funds, according to our expansion plans.

Rohit Ohri: Okay. Sir, my last question is related to any place or any location where you're spotted that the pallets are unutilized, and you would like to pay it off from the operations?

Prem Kishan Dass Gupta: No, I don't think so that we have any location where I mean, we'll be, you know, disposing of any asset except for a piece of land, which we have in Bangalore, which is far away from the city, and it's a very small piece of land on the national highway. And that might be acquired by NHAI anytime, so where we are disposing of that asset. Other than that, we don't have any plans to sell off any of our capacities. We would rather focus on filling up those and we are very much there, you know, both in Siliguri and Coimbatore which are at present, slightly low, having slightly lower occupancy, but the timing of their operations starting was not right with the season in those areas where I mean, like for instance, in Siliguri, Sunil told you that it will be going up from 35% to 75% in the next two months or so, similarly in Coimbatore we have plans and these capacities have come after proper studies and the market and the business over there. So very soon, you will see that these locations where the occupancy is low, will come up and bring our average occupancy to much higher levels.

Rohit Ohri: So, can you just share some more details on this piece of land? Because since you said that it is closer to the highway, it should be getting some more better valuation. So, just to gauge rough idea as to what size or what is the valuation that we might get if this asset is paired off?

Prem Kishan Dass Gupta: No, it's a very small piece of land because already good part of it has been acquired by national highway authority. So we'll be fetching something around two crores to two and a half crores for roughly an acre.

Rohit Ohri: And what is the property that we have? Though we are saying small, small can be any number.

Prem Kishan Dass Gupta: Roughly an acre.

Rohit Ohri: Okay, so thank you for answering.

Ishaan: Sorry, this is already I mean, there's no operations happening there anyway. It was just empty location.

Rohit Ohri: Okay, so thank you for answering the questions and hopefully that you continue with the growth path and make money for all the stakeholders and shareholders. Thank you for answering the questions.

Prem Kishan Dass Gupta: Thank you.

Rohit Ohri: Thank you Rohit for your continued support.

Deepesh: Thank you. Hi, all. If you have a question please use the raise hand option. We have a follow up question from Mr.Yash. Mr. Yash, please go ahead.

Yash Tanna: Yeah, thank you for the opportunity again. So, I wanted to ask, So, we spoke about you know, getting a higher ASP. So, previously, you we used to get 3-4% now, we've already got 6% and We are in talks with the customers. So, you know, what has actually changed for us, that we are able to command instead of pricing and I mean, is it because the competitive intensity has gone down or we have started offering something different from the industry, how is this happening?

Sunil Nair : So, see, there is a clear comparison now in the market with respect to the quality of infrastructure and quality of operations post COVID. During COVID there has been multiple audits and some global audits by the customer side, wherein they compared our operations and our facilities with the other options that they explored in a certain other locations. And they realized that to maintain this kind of standard, there is a cost involved and when we are talking to them for the price revision, this time, they understood most of it, which earlier was very difficult to convince them. So, I would say that,, that is the most important thing that we are experiencing. Secondly, last two years, we have not got much of the increments, so this time, there is some flexibility that they have. So, these are the two main reasons for this.

Ishaan: And related it to the service levels is the fact that in the last, say five years or something like that, we have really invested quite heavily into our technology and our processes. So, our customers value that and those kinds of things are, I mean, just totally unique in this industry, what we are doing compared to you know, any of our competition, the kind of visibility and transparency that our customers get from us, they are not able to get from anyone else. So, those kinds of things help with the pricing increase.

Yash Tanna: Has there been a scenario where there will be some consolidation in the industry whereas some capacity is going off stream due to COVID and the other operations?

Ishaan: Not really, the places are still the same, I mean, competition remains the same. The levels of discounts are actually higher. So when we get a premium pricing, it's compared to a lower discount in the market also so, you know, challenge is there to convince the customers. What has happened though is that the quality of service of some of the competition has gone down because they've not been able to keep up with costs as you know, things have changed over COVID.

Yash Tanna: That’s helpful. The other thing was, so, what so on the partnered model, now that we have roped in Amazon and Fraazo as well. So, how does the contract look like? What is the risk of that we lose the customer due to any kind of issue, maybe a service issue or they might find a partner or how does the contract work?

Sunil Nair: See the contract is largely back to back, where it is fully dedicated warehouse. So, we do not assume a risk of any termination clause from customer, it is back to back with the vendor and wherever we are leasing a warehouse for shared use by multiple customers there we are going for a longer term of arrangement with the vendor after adequate studies with respect to demand and pricing in that particular location.

Yash Tanna: Okay, but if there is one partner, let’s say Amazon, he has a time period which he has committed to the warehouse, is that right?

Sunil Nair: Yeah. So same time, it is back to back signed with the vendor. So if there is a lock in period of three years and contract period of five years, same terms are signed by with the vendor also.

Yash Tanna: Got it, but what is the average tenure of these contracts?

Sunil Nair: So, three years to nine years is the tenure.

Yash Tanna: Okay. And going forward, also the new contract at a similar tenure, right?

Sunil Nair: Yes, correct.

Yash Tanna: So that does bring in a lot of correctability in the model.

Sunil Nair: Yeah.

Yash Tanna: Okay, that's good.. Other, I wanted to ask also a lot of proportion is being contributed by QSR and Dairy. So, not like a two or three quarter outlook. But I wanted to understand how do you see this industry performing over the next, let's say, three to five, six years? A little bit of a longer term outlook, how QSR will grow because that growth will basically determine our growth, right?

Sunil Nair: Yeah. So see, QSR and RTC have done well now. And it is primarily because earlier QSRs were mostly dine-in concept. Whereas now they have also got into the home delivery model. So earlier, the pre-COVID, they were 5% to 7% as the delivery; whereas they are now 30-35% delivery. I don't think this is going to go back to the earlier ratio. So, this will continue like this. RTC, which is the need of the hour now most of the Cloud Kitchen use RTC as a, you know raw material where they try to deliver as fast as possible. So I think both these segments are going to do well. And basis, our interaction with the most of the QSR brands in the country. They are all also additionally coming up with Cloud Kitchen. So they will have their own outlets, but they will also set up a lot of Cloud Kitchen, where their cost of operations is low and the volume is higher. So I think this trend will continue.

Yash Tanna: That's good to know. But what has been the broad growth rate or trends that has grown, like about 20% over the last two, three years or

Sunil Nair: So see the last two, three years number is not the correct number to consider. Because most of the, yesterday McDonald's, the West Hardcastle declared a resulting 200% growth. But that is because of COVID during peak season, the stores were closed. So I think the comparison of last two three years won't be right, the growth rate is not the right indicator.

Yash Tanna: I mean, I was just looking for a normalized growth rate, if you would have some insights into that?

Sunil Nair: No, unfortunately, no, even the QSR guys don't have that estimation properly.

Yash Tanna: . So the other question was, so you mentioned about a Rs.75 to 100 crore expansion plan for the next two years. That would be the about one to one and a half years of your cash flow. Rough estimate. Post that do we expect a significant taper down the CAPEX plan? Because then that would result into a significant deleveraging and probably at a higher dividend payout . What are the plans up broadly post expansion?

Ishaan Gupta: So basically, when we're talking about this Rs. 75 to 100 crore, we're taking into account our cash flows, we want to, you know, keep regular dividends going out to the shareholders. So we're taking those into account also, and our existing debt which is there, the continuous repayments of that are taking place. So over the course of these 18 months, our debt will also be coming down some of the regular CAPEX and you know, smaller items which we're doing will be done directly. And then there will be new debts which we will take, which are again, smaller size loans for each project, you know, term loans, because those are available even with interest rate hikes and everything. They're available at very good rates. And the repayment of that is in the next five years. So, we'll be able to very healthily manage the cash flows. And traditionally also, we've never liked to keep a very high level of debt. So we'll keep it in line with, say debt to EBITDA, ability to pay down the debt will always be, you know, a priority for us.

Yash Tanna: Sir, you mentioned debt to EBITDA levels of?

Ishaan Gupta: See maybe 1.25…ideally one to one.

Yash Tanna: Okay, so one to one, got it. Did you also talk about tapering down of the expansion after those Rs. 75-100 crore full expansion.

Ishaan Gupta: No, our plan is still go ahead, but we see more opportunity, like I was saying in the leasing and the asset light side. So a CAPEX requirements will go down, but will still be expanding, you know, in a big way.

Yash Tanna: Got it, that's helpful. For now those are the questions. Thank you.

Ishaan Gupta: Thank you.

Deepesh: Thank you. Due to lack of time, we'll take that as a last question on behalf of Equirus Securitie, I would like to thank everyone for participating and thank the management for giving us the opportunity to host the call. Sir, if you have any closing remarks, please go ahead.

Prem Kishan Dass Gupta: I think it was a nice session to have and answer the queries, which every one had in mind and as I said, we are set to you know, expand in a different model where asset light, our own warehouse, we have our own fleet, we will have a vehicles availability through the SnowLink platform, which is a high-tech IT platform, which people have started using and the services, the scope of services is being expanded. So the revenue as well as the bottom line will increase. So with that, I thank all of you. And if there's anything I mean, the management is always there to answer that, you know, you can approach them whenever you have something to.

Ishaan: Thank you Deepesh and Equirus for hosting the call. Thank you Deepesh.

Deepesh: Welcome sir. Thank you so much.

Prem Kishan Dass Gupta: Thank you, everyone

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Note: This transcript has been edited to improve readability

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