February 9, 2024

BSE Limited 1st Floor, New Trading Ring, Rotunda Bldg., P. J. Towers, Dalal Street, Fort, Mumbai 400 001 Scrip Code: **543965**	National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051 NSE Symbol: **TVSSCS**

Dear Sir/Madam,

Sub: Transcript of earnings call with analysts/ investors

Pursuant to Regulations 30 read with Para A of Part A of Schedule III and other applicable provisions of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, we attach herewith the transcript of TVS Supply Chain Solutions Limited ("Company"), analyst call held on February 6, 2024, to discuss the financial results for the quarter ended December 31, 2023.

The transcript is also uploaded in the Company's website https://www.tvsscs.com/investor-relations/

Kindly take the above information on record.

Thanking You,
Yours faithfully,

For **TVS SUPPLY CHAIN SOLUTIONS LIMITED**

PADOOR DORASWAMI KRISHNA PRASAD

Digitally signed by PADOOR DORASWAMI KRISHNA PRASAD
Date: 2024.02.09 21:19:05 +05'30'

P D KRISHNA PRASAD
Company Secretary

Enclosure: As above

TVS Supply Chain Solutions Limited
No 58, Eldams Road, Teynampet, Chennai - 600018, India. Phone: +91 - 44 - 6685 7777
Registered Office: No: 10, Jawahar Road, Chokkikulam, Madurai - 625002, India.
CIN: U63011TN2004PLC054655

TVS Supply Chain Solutions Limited

Q3 FY24 Earnings Conference Call

February 06, 2024

MANAGEMENT: **MR. RAVI VISWANATHAN – MANAGING DIRECTOR – TVS SUPPLY CHAIN SOLUTIONS LIMITED**
MR. RAVI PRAKASH – GLOBAL CFO – TVS SUPPLY CHAIN SOLUTIONS LIMITED
MR. NARAYANAN – HEAD, INVESTOR RELATIONS – TVS SUPPLY CHAIN SOLUTIONS LIMITED

Moderator: Ladies and gentlemen, good evening and welcome to the TVS Supply Chain Solutions Limited Q3 FY24 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Narayanan, Head Investor Relations at TVS Supply Chain Solutions. Thank you and over to you, sir.

Narayanan: Thank you, Michelle. Good evening everyone and welcome to the TVS Supply Chain Solutions earnings call for Q3 FY24 and the nine months ended 31st December 2023. We have with us today Mr. Ravi Viswanathan, Managing Director and Mr. Ravi Prakash, Global CFO. Our financial results and investor presentation have been posted on the company's website and the stock exchanges. We will commence the call with opening remarks from our management team followed by an open forum for Q&A.

Before we begin, I'd like to point out that some of the statements made during today's call may be forward-looking in nature and must be reviewed in conjunction with the risks that the company faces. A disclaimer that the effect has been included in the earnings presentation that has been shared. I will now hand it over to Mr. Ravi Viswanathan, Managing Director, to make the opening remarks. Over to you, Ravi.

Ravi Viswanathan: Thank you, Narayanan and good evening to all of you. I would like to welcome you once again to our earnings call to discuss our Q3 and nine months FY24 performance. I will share with you the highlights of our performance and my colleague, Ravi Prakash, the CFO of the company will then take you through the analysis of our numbers. We look forward to interacting with you as part of the Q&A.

I thought before I begin, I will provide a brief background of our company for the benefit of those participants who might be joining our analyst calls for the first time. TVS Supply Chain Solutions is an end-to-end supply chain solution provider with capabilities across the value chain. We operate our business in two segments. We call it the Integrated Supply Chain Solutions or ISCS segment and Network Solutions or NS segment. Technology is a key element of the value we bring to our customers and we deploy an asset-like business model across both segments.

Our presence spans four continents, Asia, Europe, North America, and Oceania. We have a customer base and in-house supply chain expertise that cuts across multiple sectors. Our customer relationships are highlighted by long-term customer association with our top customers.

To summarize, TVS Supply Chain Solutions is an Indian multinational with a set of capabilities compared with the largest players in the sector. The management focus is on profitable growth and leveraging our capabilities and supply chain expertise. We are working towards our growth vision to be among the top 50 logistics companies worldwide.

With that short introduction, I shall now move to the performance highlights for Q3 and nine-months FY24. We had another strong quarter where continued growth momentum and margin expansion in the Integrated Supply Chain Solutions drove the company's return to profitability. The ISCS segment delivered double-digit growth consistent with its performance in the earlier quarters.

Q3 revenues grew 14.7% year-on-year and on a nine-month basis, the segment grew 16.1%. It is important to point out that this strong growth was despite the United Auto Workers strike which impacted our ISCS segment in North America for the month of October. On a year-on-year basis, the ISCS segment revenues grew across all our key geographies, India, Europe, and North America. Both expansion and current customer engagements and new business wins drove growth of segmental revenue in the ISCS segment.

Another key highlight of quarterly performance was the margin expansion in the ISCS segment. ISCS's margins for the quarter were 10.5%, a 50 basis point improvement year-on-year. On a nine-month basis, the ISCS segments were 10.4% which was 160 basis points higher compared to the nine months in FY23.

Within the Network Solution segment or the NS segment, the integrated final mile or IFM business revenues were steady on a year-on-year basis. There were some churn of customers which were offset by growth in other engagements and new wins.

The global forwarding solutions or GFS business revenues reflected the global trend of slowdown in freight. Ocean freight rates for the quarter were within a narrow band and freight volumes reflected the industry's trend and were weak across trade lanes. As you might know, the situation in the Red Sea is something that is being watched carefully. Attacks on fleet in the Red Sea forced changes in the shipping route with liners choosing to travel around Africa to reach the Mediterranean or the Atlantic instead of through the Red Sea and the Suez Canal.

This has resulted in increase in sailing time between Asia and Europe by 15 to 20 days. The delay impacted about 5% of our monthly volumes in December. Apart from the delay, this has also resulted in longer turnaround times resulting in shortage of container capacity. Vessel owners are now levying surcharges for the longer sailing. This is one of the factors behind the spike in flight indices since end December. For freight forwarders like us, this surcharge is mostly a direct pass through to the customer without gain in absolute margins.

You'd appreciate that it is difficult to plan for such externalities. Having said that, we continue to monitor the situation carefully to make best use of tactical pricing opportunities in this volatile market. On a year-on-year basis, our NS segment revenues were 24.9% lower. Our margins for the NS segment were consistent on a quarter-on-quarter basis at 4.4%.

In the integrated final mile or IFM, we continue to implement pricing revisions and operational efficiency initiatives aimed at margin improvement. In GFS, our focus has been on procurement efficiency and operational efficiency, and that has helped soften the impact of low rates. Additionally, we have also taken specific cost reduction measures.

On a consolidated basis, revenue for the quarter was 1.8% lower sequentially and 6.4% down year-on-year. Adjusted EBITDA margins for Q2 were 7.8%, a 70 bps improvement year-on-year. On a nine-month basis, our revenues were lower by 11.7% year-on-year. However, our adjusted EBITDA margins were higher by 120 basis points, which drove a 4.1% growth in adjusted EBITDA despite a double-digit revenue decline. So with this background, I will hand it over to Ravi Prakash, our global CFO, who can walk you through the detailed analysis of the said numbers.

Ravi Prakash: Thank you, Ravi. Good evening, everyone, and thank you for joining our earnings call. Let me take you through the highlights of the financial performance for Q3 and the nine months ended December 31st, 2023. Let me start by giving you a brief about the strategic interventions that we have been taking.

If you recollect, in the last quarter's analyst call, we had explained the discontinuation and sale of one of our subsidiaries to drive better focus on our core business, which was the Circle Express business. As part of that same journey towards simplifying our business and corporate structure, our Board approved a draft scheme of amalgamation, which provides for the merger of entities with and into TVS Supply Chain solutions. These are mostly wholly-owned subsidiaries in India.

We have provided an overview of this on page four of the investor presentation. The detail is also available in our disclosures filed with Stock Exchange. Our expectation is the merger of these subsidiaries should create synergies in operations as well as drive business development.

Another important step we took during the quarter was on repayment of borrowings. We have used the IPO proceeds and funds from other sources to repay all our long-term loans. We had indicated this in our earlier earnings call, but now we can report that we have completely paid our long-term borrowings and the company now only has working capital debt on its balance sheet.

Ravi Vishwanathan gave you an overview of the business in the quarter and in specific, the challenging revenue segment situation we are facing in one of our segments. I would, however, like to highlight how the Company has been able to leverage very strong procurement, operating efficiencies, and discipline to deliver a positive PBT of INR 0.6 crores for the quarter and a profit after tax of INR 10 crores. As we had indicated earlier, we had expected a quarter-on-quarter improvement, Q2 better than Q1 and Q3 better than Q2, and that is what we have been able to deliver.

Talking about the core operational performance, we have been able to grow adjusted EBITDA margin 70 basis points year-on-year for the quarter. Adjusted EBITDA, as you might be aware, is EBITDA which has been adjusted for employee stock option costs and any loss in foreign exchange translations which are not operational in nature.

So, continuing from adjusted EBITDA, if you were to compute the EBIT or the operating income, again adjusting for ESOP costs and loss in forex, you will notice that even the EBIT margins have held reasonably steady despite the difficult revenue environment.

We have in the past spoken about a focus on operational efficiencies. This quarter's performance reiterates this resilience and our ability to maintain our core operational profitability. In addition, we were able to gain the full benefit of the interest cost reduction from repayment of borrowings in this quarter. I would like to again, once again, bring to your attention that we have repaid all our term loans.

Let me move on to an analysis of key line items. Revenue from the operations for the quarter was INR2,221.8 crores compared to INR 2,262.9 in the previous quarter and INR 2,373.4 in Q3 FY23. Business development revenues contributed INR 227 crores in Q3, which is approximately 10% of the reported revenue. And that trend has been consistent for the last few quarters.

Revenue from operations for nine months was INR 6,773.87 crores compared to INR 7,672.8 crores last year. I would like to point out that in nine months, the GFS revenue has dropped by almost INR 1,500 crores, but a significant portion of that has been made up through the growth in the supply chain segment, pointing to the resilience within the company's portfolio. Other income for the quarter was INR 21.6 crores compared to INR 8.3 crores in Q2 and INR 27.7 crores last year. And for nine months, it was INR 48.1 crores.

A brief explanation of how a few major line items have evolved. Freight clearing and forwarding expenses have reduced, driven by a decline in freight rates and procurement efficiencies. You will notice that the decline in freight and other handling expenses is greater than the revenue decline, pointing to the improvement in variable margin. They were down 34% and 44.5% year-on-year for the quarter and 9 months.

Employee benefit expenses for the quarter was INR 552.3 crores versus INR 501.4 crores in the prior year and INR 572.8 in the previous quarter. The key reason for the reduction in employee expenses in this quarter is the United Auto Workers strike in North America, which resulted in a reduction in the variable labour that we had deployed in some of our assignments.

The year-on-year increase is driven by additional assignments that we have got in the UK, which is absorbed within the gross margin of the ISCS segment. We have provided the segmental results for the ISCS and NS segments on page 21 of the investor presentation. Consolidated adjusted EBITDA for Q3 was INR 173.6 crores, about 7.8% staying consistent with what it was last quarter and about 120 basis points better than what it was a year ago.

As I mentioned earlier, we have derived benefit from the reduction in interest costs as a result of the repayment of borrowings. The sum of all this, the combination of strong ISCS growth, strong EBITDA and the reduction in interest meant that we have been able to achieve a break-even profit of INR 0.6 crores compared to a loss of INR 4.5 crores in the last quarter.

In the tax line, you will notice a credit in this quarter. That is because of the reversal of a deferred tax liability which was created in the previous periods in our overseas subsidiaries and as a result, we have a INR 10 crores profit after tax for the quarter.

This concludes the summary on financial and now I will hand it back to Ravi Viswanathan.

Ravi Viswanathan: Thank you, Ravi Prakash. So, the key highlight of the performance is the fact that we have been able to navigate a difficult external situation while ensuring robust core operational performance. The quarter also showcases the inherent strength of our business portfolio. We have been able to both grow revenues and margins in the ISCS segment business consistently to help drive consol margins year-on-year.

And if you just reflect on what Ravi Prakash said that the network solution segment, the nine-month revenue decline was close to INR 1,500 crores but at the same time, the adjusted EBITDA for nine months was actually higher by almost INR 20 crores over the same nine-month period from last year. So, it reflects a lot about the company's ability to focus on our core operations.

Our business development efforts continue to deliver results. You will see in the earnings presentation that for the quarter, INR 227 crores of revenue came from new business. During the quarter, we had new contract wins in both segments. We further expanded our engagement with the US-based agri-equipment manufacturer with increase in scope of work. Some of the new contracts we have won includes contract to manage freight for a European truck OEM, a 3PL solution for a large CV / passenger car OEM, a tech support engagement with a global healthcare devices company amongst many others.

Our pipeline of new opportunities is strong and currently presents a revenue opportunity in excess of INR 4,000 crores. And our focus is really on, I think I mentioned it earlier, we have a global account management. We are working on targeting large partnership with customers spanning multiple geographies. So, the ability for us to bring all of our capabilities to bear and therefore be able to cross sell with large customers and also take some of our core offerings to multiple geographies in which the customer is present is something we have taken as a key initiative and we are seeing early results of that.

In summary, external challenges in the freight business aside, we see positive demand drivers across our geographies. We are confident on building on our strengths to overcome external challenges and grow our business profitably.

With that, I would like to open the floor for questions. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Good afternoon, everyone. Thank you for the opportunity. The first question, with respect to top line. So, if you look at the Network Solutions piece, Q-o-Q, there is a drop. And part of that is as you said about the Red Sea disruption causing some volume shifting. Can you elaborate a little bit here?

And also, the second question I had with respect to seasonality. Is there any element of seasonality like 3Q to 4Q, one should see a increase? And also, if you could give some sense about the volume, increase or decrease on a Q-o-Q, Y-o-Y basis for network solution for the freight business specifically, please?

Ravi Viswanathan: Okay. Thank you, Achal. Let me just take the first part of the question and then Ravi Prakash can take the second part. If you look at our Network Solutions business, the Q-o-Q decline, I would say it is more a global trend on the forwarding business. The Red Sea actually is not disrupting the, it's taking more, I just said that it takes longer time for the, longer sailing time to the vessels. And as a result, some of the delivery which is supposed to happen in December are going to happen in January.

So, I would say that is a very small portion of the revenue decline, but I would say the larger volume decline is price-based, which I think all of you are well aware of. We are coming off, absolute COVID peak of $4,000, $5,000 per container to about a steady state of about 2,200, 2,265 kind of numbers. So, that's probably the reason for the revenue decline more than anything.

And on volumes, Ravi Prakash, do you want to add anything specifically also about the IFM seasonality?

Ravi Prakash: So, Achal, maybe let me supplement what Ravi Viswanathan has already said. See, the Red Sea impact in December was probably to about 5% of our volumes and therefore 5% of our revenues. And that revenue should come through in January, but it'll give you a sense of what it was. 5% of the month of December's volume is what I'm talking about.

In terms of seasonality's, October, November, December, December is a bit of a soft month for the IFM business in the UK. And normally, if you compare Q2 versus Q3, it's not -- Q3 is normally softer, and Q4 is slightly better than Q3. Maybe I'm not putting an exact number on it, but in general, the trend would be that Q3, you would expect it to be a little bit softer.

In February, the one thing that you'll have to keep in mind is there is Chinese New Year. But in general, if you are talking about Q3 results, IFM softness, because of December, as well as the Red Sea, like I said, impact of 5%. That was what it is. Other than that, volumes, I think, have held steady or probably slightly lower in trading for some of our key customers. And we are looking to business development to make it up.

Achal Lohade: Understood. Because when I look at the freight rate, it's gone up 5% Q-o-Q, while we have seen a drop, roughly about similar 5% Q-o-Q in Network Solutions. That was the reason I thought I'll ask this question. The second question I had was with respect to the cost reduction measures sir if you could highlight what actions have we taken, the efficiencies, if you could quantify these pieces, please.

Ravi Prakash: Yes. So, Achal, I'll address the cost, but maybe if you don't mind, can I just make one more comment on the top line? Because it's important. It is not in the network, but in the supply chain segment, the impact of the UAW strike was about $2.6 million for the quarter. So that's something that please do keep in mind.

Now, coming back to the cost measures, we have taken significant steps, both in the freight forwarding business and the IFM business to start step changing our overhead structure. So, in Q3, those cost measures have already gone into place in multiple geographies in GFS, in the freight forwarding solutions.

And the P&L includes some of the restructuring costs that we have taken in Q3. They are expected to continue in Q4. And the cost measures in IFM, again, similar, we have taken steps on the overhead side, some in Q3, but a significant portion is going to happen in Q4 as well.

The objective of all this is, I think we always message that very soon we would like to get back to the normalized margins in this segment. Right now, the margins are around 4.8, 4.9. And we were always aiming to get to a 5.6% here. And these steps are towards getting there.

Achal Lohade: Got it. So, is it fair to say that, given the impact of these actions, in the near term, there will be pressure on margins the way it is, and in a couple of quarters or three quarters, it should start showing improvement. Is that a fair understanding, sir?

Ravi Prakash: Absolutely. So, Achal, Q3 had restructuring costs in it. Q4 will also have some restructuring costs. I can't talk about the exact number, but it is likely to have. But the benefits should definitely start showing up from Q1 of FY25.

Achal Lohade: Understood. Sir, another question I had with respect to restructuring the slide, what you have added in PPT. Can you elaborate a little bit as to those five entities? How does it work in terms of any impact in terms of operations / financials, this amalgamation?

Ravi Prakash: So, if I talk about the five entities, four of them are wholly owned subsidiaries, Achal. Global Freight Solutions India. So, TVS SCS Global Freight Solutions is the Indian subsidiary of SCS India, which does the freight forwarding business. That will get amalgamated into the standalone company. White Data Systems is a technology provider for both the Network Solutions and ISCS solutions.

SPC International is a repair business, which is more in line with an IFM business. Flexol Packaging is a packaging business. So, these four are wholly owned subsidiaries when they are merged into SCS India. For investors, actually, SCS India then truly represents, except for one or two subsidiaries, the full breadth of our India business.

`

Today, we are having to actually pro forma present the size of the Indian business. The numbers will be very transparent. The two other benefits is when we bring the resources from all this into SCS India, we expect a significant improvement in business development because now all products, network solutions and ISCS, can be offered under one legal entity and one umbrella to all our customers.

And there's obviously knowledge and leveraging of customer contacts. So, that's one big benefit. Then, of course, there are the obvious benefits in terms of operational synergies in the support functions as well as the compliance part. Last, of course, cash pooling as well, because you get much better leverage in cash.

So, that is the reason that these four entities and we are actually indicated as such even during our IPO journey that we will be looking to, over a period of time, simplify our corporate structure and we have taken that step. Mahogany Logistics is actually a shareholder of TVS SCS.

It's a fully owned subsidiary of Mahogany, another entity which is also called Mahogany supply chain, Mahogany Services, which is just being merged and simply there is no impact to P&L or shareholders because it's just simply replacing the shares of Mahogany Logistics with SCS shares which are being issued. Either in the quantum of the shares or the shareholding percentage, there's no change.

Achal Lohade: Okay. Sir, just wanted to understand with respect to India business, sorry, not India business, for the segment, for the supply chain and for the network solution, would you be able to give us the PBT margin because sometimes the leases also have a favourable impact on EBITDA or EBIT level, but at PBT level it may be similar.

If you could, if you have it handy, can you help us understand what is the extent of margin improvement at PBT level for both these segments?

Ravi Prakash: Achal, normally we have not disclosed the PBT margins at India level. Maybe, let's see, maybe in the future we can take a look at it.

Achal Lohade: Right. No, sir. Actually, I wanted at consol level, the Network Solution and the ISCS business, what is the PBT margin improvement, especially for the supply chain business, supply chain segment?

Ravi Prakash: So, Achal, actually the supply chain EBITDA margin improvement should actually flow through to the PBT other than the benefit that we have got through borrowings. Whatever you see in the EBITDA, more or less a lot of it should flow through to the bottom line.

Achal Lohade: Understood, sir. Okay, I think I will stop here. I will fall back in the queue, sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Jainam Shah from Equirus Securities Private Limited. Please go ahead.

Jainam Shah: Hi, sir. Thanks for the opportunity. Sir, my question is related to the Red Sea issue. So, as you highlighted in December, there has been some volume impact. I just wanted to understand how we are expecting the impact on the volume for this particular quarter, and has there been any major change in the realization for the same that we are witnessing as of now?

Ravi Viswanathan: Right. So, Jainam, the December volume shift is more because the delivery has happened in early January and not in December as we envisaged. We don't expect a volume shift to – because this was unplanned and we didn't quite anticipate it, and that's the reason why we called it out.

We don't expect a volume shift because of the Red Sea as yet. We don't see signs of that. But what we are seeing is that there is a markup in the pricing, and we are hoping to get the upside of that, especially on the European lanes.

Jainam Shah: Got it, sir. So, for this particular quarter, this could be the impact. And for the near term or at least medium term, how we are seeing this particular segment?

Ravi Viswanathan: It is – let me just say the freight business per se, we don't expect the pricing to significantly change other than the Red Sea related surge, which we would probably see in Q4. But otherwise, I think the pricing will be in a narrow band around 2,200 to 2,300. So, pricing will be hopefully very stable.

We are looking forward to an uptick in the volume, especially in some of our key customers. But that's something which is – we need to watch this space because volumes have been more or less flat to a slight decline over the last two, three quarters following global trade.

Jainam Shah: Got it, sir. Thank you so much, sir.

Management: Thank you, Jainam.

Moderator: Thank you. The next question is from the line of Sumit Kishore from Access Capital. Please go ahead.

Sumit Kishore: Thanks for the opportunity. I think this is a follow-up on an earlier question…

Moderator: Sir, your audio is not clear. May we request you to use your handset, please?

Sumit Kishore: Am I audible now?

Moderator: Yes, sir. Please proceed.

Sumit Kishore: Yes, sir. I'm on slide 23. I just want to clarify on the seasonality bit. So, when I look at the nine-month FY '23 adjusted EBITDA, it was about INR 345 crores and the full year was at INR 685 crores, which means that the fourth quarter last year was almost as big as nine-month FY '23. Is there something obvious that I'm missing here? Or that the fourth quarter, upcoming quarter would basically end up being a big decline on a year-on-year basis?

Ravi Prakash: Sumit, can you just repeat the question once again?

Sumit Kishore: Sorry, I'm on slide 23. I'm probably missing something here, but adjusted EBITDA in 9-month FY23 was INR 345.8 crores and full year was INR 685 crores, which means that fourth quarter last year was something like INR 340 crores of EBITDA. So, is there some seasonality that I'm missing completely here, which happens in fourth quarter or at the current run rate, it appears that the fourth quarter would see a decline?

Ravi Prakash: I think, Sumit, thanks for pointing this out. See, the run rate is normally around INR 160 crores to INR 170 crores per quarter. So, let's just come back to you on the comparative number, because we don't expect any decline in the EBITDA in the fourth quarter. So, it's actually the comparative number. Let's just double check the way the EBITDA has been calculated.

Sumit Kishore: There's a big seasonality then, because the fourth quarter number last year, as because the 9-month FY23 number, my understanding probably was not as clear on this point.

Moderator: Kishore sir, are you done with your questions?

Sumit Kishore: I was done with my question. Thank you.

Ravi Prakash: Before the call is over, we will clarify that number for you in a minute, Sumit.

Moderator: Okay, sir. Thank you so much. We'll take the next question from the line of Saumil Shah from Paras Investments. Please go ahead.

Saumil Shah: Hi, thanks for the opportunity. So, my question is on the debt side. After paying our long-term loans, now we have about INR 750 crores of working capital loans. So, on this, what would be our quarterly interest outgrowth? And are we also planning to reduce our short-term loans?

Ravi Prakash: So, we are right now running at an average interest rate of around maybe 7.5% on a weighted average basis globally. So, on an annual basis, we should probably be looking at about maybe INR 60 crores to INR 65 crores of interest on this debt. The working capital debt, I would expect it to move in a narrow band. Between quarters, depending on seasonal demands, it may go up or down a little bit, but I would expect it to move in a narrow band at this stage.

Saumil Shah: Okay. So, I mean, can, I mean, the interest outgo, I mean, how much can we calculate on a yearly basis? Would it be a INR100 crores plus number or a less number?

Ravi Prakash: No, in fact, it will be, if I take the Q3 number of interest, that's probably a good indication. It's definitely less than INR100 crores.

Saumil Shah: Okay. And so, we have been growing at a revenue figure of 20% for the last three, four years, but it seems this year is going to be a degrowth year or a flood year. So, any guidance for FY '25 or FY '26 on the revenue and EBITDA front?

Ravi Prakash: Look, we don't want to put an absolute number on it, but what we will say is the momentum in the supply chain business is something that, it continues, right? And we expect that once the Q4 numbers are out, you'll pretty much see the network segment where it is kind of settling down because over the last couple of quarters, you see that the run rate is settling down into a pretty much a stable number. So, then we can actually, the base of that, so that'll be a good base to calculate the next few quarters.

Ravi Viswanathan: We've been in a better position to comment on that by end of Q4.

Ravi Prakash: But one thing I do want to talk about is our focus on business development, which is adding about 10% of our revenue that does not change.

Saumil Shah: Sorry, could you please repeat again?

Management: The business development, which is adding about 10% to our revenue, that focus does not change.

Saumil Shah: Okay. Okay. And sir, in your presentation, you mentioned your growth vision of $2.5 billion company and $100 million profits. So, this is for which year? I mean, internal, I mean, you've set any targets?

Ravi Viswanathan: Yes, we've called out FY'27 as the target year for that.

Saumil Shah: Okay. Okay. That's it from my side. Thank you and all the best.

Ravi Prakash: All right. If I may just clarify to Sumit Kishore, the nine-month EBITDA, that number on the presentation, we will correct. Sumit, thanks for pointing it out. The number was 514.4 for nine-month FY'23. It's on page 20, Sumit. I think in that one chart, it was put down erroneously. The correct number is put down on page 20.

Moderator: Thank you, sir. The next question is from the line of Arif an individual investor. Please go ahead.

Arif: Sir, I want to ask about the depreciation we have currently. So, if I see the current deficit, we have around 2,300 kind of fixed assets. But where is the depreciation? Why is the depreciation at about INR 500 odd crores per year? How should we see this number? And is there any operating leverage sitting here? I mean, as we are a fixed asset-like business, how should I read this number?

Ravi Prakash: So, the depreciation number includes two parts. One is depreciation on property, plant, and equipment. That number is about, I think on an annual basis, I would expect it to be around INR 120 crores. And amortization of intangible assets would probably add another INR 30 or INR 40 crores. The balance depreciation is what I call right of use or IndAS depreciation. It is basically leases which are capitalized on the balance sheet. And that's why you see such a high depreciation number.

Arif: Okay. And as we grow our business to $2.5 billion, so this depreciation number would not be flowing, right? I mean, it will be a lot lesser than what we see today.

Ravi Prakash: So, what will happen is our capital expenditure, normally we budget between INR 100 to INR 110 crores annually on property, plant, equipment, and software. So, that would be our normal capex. In terms of the right of use assets, they would grow much slower than what our revenue grows. So, in fact, if I take the CAGR between 20 and 23, my recollection is the right of use assets depreciation grew at between a 4% to 5%, whereas our revenue grew upwards of double digit. So, in general, you will see leverage from the existing depreciation.

Arif: Thank you. So, my second question is, so we have a target of $100 million in FY'27, right? So, to achieve that, what is our EBITDA margin we should be looking at?

Ravi Prakash: We should look at about double digit, 9.5% to 10% is the number that we are targeting at a console level, where we are today at about 7.8%.

Arif: Okay. So, thank you very much.

Moderator: Thank you. The next question is from the line of Amit Kumar from Determine Investments. Please go ahead.

Amit Kumar: Yes, thank you so much, sir. Just one question, and I'm just sort of looking at the company for the very first time. So, I'm just wanting to understand this. There is a very large material related cost, in your expense, in your direct cost line. Sort of slightly, I just wanted to understand, I have not seen this, in the services related logistic business. Would you clarify what this is?

Ravi Prakash: Yes, I can do that. So, if you look at the, I mean, if you look at the capabilities that we have, one of the capabilities we have is sourcing and procurement. So, for a few large customers in the UK and US, we actually do the purchasing and have the inventory on our balance sheet before we sell it to the customers. So, it is not done in isolation. It is done along with other services that we provide.

So, for example, we may be providing warehousing, subassembly, transportation, etcetera. Along with it, we may also be providing what you call, we may, our buyers may be sourcing, and we may be stocking that material. And that is the material cost that you see. And there are a few large customers we do this business for in the UK and the US.

Amit Kumar: And just, the two principal business lines do you have? I mean, which business line would be, which business, under which business would, this, sort of trading, happen?

Ravi Prakash: ISCS.

Amit Kumar: ISCS. Okay. And, specifically, if you can just sort of quantify, what sort of gross margins, do you do in this particular line? I mean, is it sort of possible to sort of breakdown the revenues that you are generating from this particular, it seems like a trading business to me. Would it be possible to sort of break, give some sort of understanding of, how do we sort of look at this, in terms of margin perspective, either at the gross or at the EBITDA level?

Ravi Prakash: So, I want to clarify, this is not a trading business. This sourcing and procurement of materials is always done in conjunction with other services that we offer. So, for example, for a large beverage company in the UK, what we do is, we will -- they give us a forecast, we actually do the inventory planning, we purchase the spare parts, keep it in our warehouse, deploy them to their engineers. So, the contract is the combination of all these services.

Similarly, for a large customer in the US, we actually take a set of families of parts, we place the orders, we bring the material into our warehouse, we store the material, we sub-assemble the material and supply the sub-assemblies to the customer. So, you will not have a situation where we are simply buying material and just selling like a pure trading company.

That is not what we do. And that is the reason why I will not be able to call out a specific revenue on this material, because the contract will be a consolidated contract for all these services that we offer and the material cost is one element of it.

Amit Kumar: Okay. Understood. That's it from my end. Thank you.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Thank you so much for the follow-up opportunity, sir. Just a clarification with respect to the other income, INR21.6 crores in 3Q, how do we read that? Is there any one-off out there?

Ravi Prakash: So, Achal, actually, it is a combination of a couple of things. In the other income, we have an exchange gain of about INR 12 crores, right? Just give me a minute. I'm just giving you the breakup. Yes. There is interest income in there from bank deposits. In fact, if I take interest income from bank deposits and refund, that is probably about INR6 crores or INR7 crores and the balance is exchange gains.

Achal Lohade: Understood. And the second clarification is with respect to the resolution of INR250 crores in terms of investments. Can you just clarify on that? The Board has approved some resolution.

Ravi Prakash: Yes. Achal, thanks for actually asking this because this is an important one. In general, SCS, the way it has managed its investments is we leverage our cash flow across the world to deploy to the most profitable opportunities. Today, the reason that the Board has approved this investment is for two reasons.

One, if there are any large deals coming through the pipeline anywhere in the world and if the subsidiaries there need support in terms of initial investment, the Board would look at this as an enabling provision to have management to deploy funds quickly. Many of the large customers we are working with have started asking us if we are willing to make capital commitments for large deals between 5 to 10 years.

For example, the Centrica deal that we had last year, there was a point when the customer was willing -- asking us to consider capital investments, but in the end, they did it themselves. So to either do capital or even to start up a large project, if there is funding required, the Board wanted management to have the flexibility to be able to deploy funds.

Now, why from India overseas? Because if you look at the marginal cost of cash right now, India has now come very close to the rest of the world. So it's just a matter of having an enabling resolution in place for us, if needed deployed. That doesn't mean that we are immediately doing the INR250 crores.

We expect that this should be helpful to us in the next 18 to 24 months. It's just that the Board has actually kind of given management the discretion.

Achal Lohade: Understood, sir. Thank you for the clarification. Just a related question with respect to the new business momentum. Now, we are clearly doing very well on that front, anywhere between 7% to 10% contribution, but I just wanted to check in terms of the momentum.

Are you seeing it's accelerating from what it was, say, two quarters back, or things are as they were and we're looking at kind of 10% contribution from the new business every year? Could it go to 20%, 25%? Are you seeing that kind of deal pipeline? That was the question I had in mind, sir.

Ravi Viswanathan: So, Achal, let me take that question. So, our business modelling is around that 10% and it is more or less in that 10% range. But one of the things that Ravi Prakash just spoke to you about, the INR 250 crores enabling resolution, is really because we are seeing a lot of good opportunities in the pipeline.

What Centrica has done is to get us a seat in the table for larger deals. So, if we had one or two deals of that size in the past, we probably have four or five in the pipeline currently. And therefore, there is every reason for us to believe that the percentage will go up over the next, I would say, 18 months.

And as you know, especially in the ISCS segment, the deal takes a little bit longer to cook than in the network solution segment. So, we are seeing a significant improvement in the health of the pipeline in terms of large deals. And that's one of the reasons why that enabling resolution helps.

And to answer your specific question, can I expect it to be 20%, 25%? I would say we would like to get to a number which is mid-double digit, mid-teens to start with. But that's really a possibility given where the pipeline is today.

Achal Lohade: Excellent. That's very heartening to hear, sir. Just one clarification. With respect to Centrica, has it started contributing to the numbers now, or it will start from FY'25 onwards?

Ravi Prakash: It has already started. In fact, from May onwards, it has started, Achal. The full run rate will be expected to be Q4 of FY'24, current Q4, as we speak.

Achal Lohade: Got it. This is very helpful, sir. Thank you and wish you all the best.

Ravi Prakash: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Ravi Viswanathan: Thank you. And I would like to thank all participants for being part of this discussion on business performance and outlook. These are early days in our journey as a listed company. We have a clear vision in terms of where we want to be as a global logistics company.

We will continue to walk along the path of growth with focus on margins and profitability. Thank you all once again. It is a pleasure interacting with you. Looking forward to speaking with all of you soon.

Moderator: Thank you, members of the management. On behalf of TVS Supply Chain Solutions Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.