

August 20, 2024

To, BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai – 400 001 BSE Scrip Code: 532749	To, National Stock Exchange of India Limited Exchange Plaza, C-1, Block G Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 NSE Symbol: ALLCARGO
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Sub: Transcript of Earnings Conference Call for the quarter ended June 30, 2024

Dear Sir/Madam,

Pursuant to Regulations 30(6) read with Schedule III and 46 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of earnings conference call held on Wednesday, August 14, 2024, for the quarter ended June 30, 2024.

The transcript of recording can also be accessed on the Company's website, from the below link: <https://www.allcargologistics.com/datafiles/cmsinvestor/odva55074.pdf>

We request you to take the above on record.

Thanking you,
Yours faithfully,
For Allcargo Logistics Limited

Devanand Mojidra
Company Secretary & Compliance Officer
Membership No.: A14644

Encl: a/a

ALLCARGO LOGISTICS LIMITED

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“Allcargo Logistics Limited Q1 FY-25 Earnings Conference Call”

August 14, 2024



**MANAGEMENT: MR. RAVI JAKHAR – GROUP CHIEF STRATEGY
OFFICER, ALLCARGO LOGISTICS LIMITED
MR. DEEPAL SHAH – GROUP CHIEF FINANCIAL
OFFICER, ALLCARGO LOGISTICS LIMITED**

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

Moderator: Ladies and gentlemen good day and welcome to the Allcargo Logistics Q1 FY25 Earnings Conference Call hosted by PhillipCapital (India) Private Limited.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone.

Please note that this conference is being recorded. This conference call may contain forward looking statements about the Company which are based on beliefs, opinions and expectations of the Company as on date of this call. These statements do not guarantee the future performance of the Company, and it may involve risks and uncertainties that are difficult to predict.

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

Vikram Vilas Suryavanshi: Good morning and a very warm welcome to everyone. Thank you for being on the call of Allcargo Logistics.

We are happy to have the Management with us here today for question-and-answer session with Investment Community.

Management is represented by, Mr. Ravi Jakhar – Group Chief Strategy Officer and Mr. Deepal Shah - Group Chief Financial Officer.

Before we start with question-and-answer session, we will have “Opening Comments” from the Management.

Now, I hand over to call to Mr. Ravi Jakhar for “Opening Comments”. Over to you, sir.

Ravi Jakhar: Thank you and welcome, everyone. Good morning. I am happy to share updates about the Company and the underlying Operating businesses with you. And before we take on questions, I would like to summarize the business outlook and then hand over to my colleague, Deepal to talk through some of the financial highlights.

This has been a good quarter, and we have had sequential improvements across all the businesses. The flagship business, which is international supply chain, has seen a good momentum which we have been expecting for some time and now in this quarter we have seen improvement in volumes. We expect the improvements to be more substantial in the months to follow as we have seen the demand starting to pick up only towards the mid of June, something that we have highlighted in some of our monthly updates as well.

For the quarter gone by, we saw the LCL business increased by almost 6% compared to the previous quarter. We also witnessed the FCL business up 9% as compared to the last year. Now, when these volumes have gone up, this has meant that our utilizations have improved on the

LCL side. So, we have on the utilization index, we have each container utilized 4% better as compared to last year. We have also been able to increase the share of 40-foot container by almost 9%, which are operationally more efficient, And we have also been able to reduce the transshipment requirement. So, all these things combined have allowed us to improve the margins in the business and therefore that has contributed to the positive growth in EBITDA, which on a consolidated basis is about 34% compared to the previous quarter on the back of 13% expansion in the consolidated revenue.

On the International Supply Chain business:

We have been noticing that for the month of July as well as August, the volumes have been stronger and we see a similar demand outlook for September and October, and therefore our general belief is that market should see continued sustained recovery in trade volumes until the end of the year.

Coming to the Domestic business:

On the Express business, we have seen that operational efficiencies which had been achieved in early part of this calendar year have sustained and that has allowed us to continually improve the operating margins in the express business, and as an outcome of that, the EBITDA for the quarter is almost 33% higher than the previous quarter. We believe that on the back of these operational improvements, the commercial growth should also kick in. The industry itself is expected to grow at a robust pace and that should help the Company expand its commercial operations, increase the volumes and revenues and on the back of the sustained operating efficiency, we should see a continued improvement in margins and profit bottom line numbers in the express business as well.

Contract Logistics business:

We have continued to maintain the expansion mode, which meant that the white spaces have been more or less consistent. But as far as revenue is concerned, we have increased almost 13% as compared to the previous quarter, we have increased almost 22% compared to the previous year, and this is primarily on the back of renewed contracts and now we are expanding in other domains. So, if we see the distribution of our business, it is almost equal across the mainstay chemical domain. The e-commerce business and now auto and other industries also contribute to almost one-third of this business. So, the business is now well diversified. We have marquee clients working with us and a lot of new contracts being signed and I see it as a healthy pipeline which is visible. So, we believe that for the coming quarter, the contract logistics business should also see a sustained growth.

So, as a combination of these three businesses doing well, we have seen a positive sequential outcome, and we believe the trend should continue.

In terms of the macroeconomic environment for the domestic business:

We have been experiencing increase in the volumes and we believe that with the festive season ahead, the volumes on the express business side should only go up.

On the Contract Logistics business:

The trend of Company's wanting to outsource and move from unorganized to organized, that's something which the underlying current has remained and therefore the industry growth continues to be healthy.

On the International Supply Chain business:

Besides the revival of trade volumes, the Company is also focused on two key category of initiatives. One is revenue expanding initiatives which include launching new products, launching new trade lanes and also strengthening our presence in certain markets where there is an opportunity. For an example, recently, we appointed a new leadership team in Argentina, Uruguay and Paraguay. Three markets where we felt we were underrepresented and now we have a very strong commercial team which has come onboard together as one team, and we expect that the volumes in these three countries could potentially double from the current levels in next nine to 12 months. We believe there are other such pockets of opportunity wherein the Company's market share is relatively lower, and we continue to work towards such specific opportunities.

The second key category of initiatives is on the cost side:

There is a continued focus on standardizing our operations, which allows the operations to be outsourced. We have achieved lot of cost savings as discussed in the past calls through standardization and then outsourcing of operations from the United States into Mexico, and we continue to evaluate other such opportunities on how we could standardize operations and then outsource to reduce costs.

And the second opportunity in that category is to continue to drive automation, because standardization also makes automation more feasible and the combination of these two things should allow us to maintain our costs against all the inflationary pressure, and as an outcome of that, the business should do well.

That's the broad summary on the business performance and the market outlook. We will talk more about some of this in the questions that come across.

And on that note, I would request my colleague, Deepal to take you through the "Financial Highlights" for the Quarter gone by. So, over to you, Deepal.

Deepal Shah:

Yes. Thank you, Ravi.

I will now discuss the Performance for Q1 FY25:

The consolidated revenue for Q1 FY25 stood at Rs. 3,813 crores as compared to Rs. 3,271 crores during the Q1 FY24 and Rs. 3,398 crores during Q4 FY24. The EBITDA for Q1 FY25 stood at Rs. 133 crores, down 5% as compared to Q1 FY24 and up by 34% as compared to the quarter-ended March '24. The Company reported a consolidated PAT of Rs. 4 crores as against the loss of approximately Rs. 12 crores reported during Q4 FY24. Consolidated net debt for the quarter ended June 30th stood at Rs. 434 crores.

Moving on to the Segmental Performance:

I will start by discussing the performance of the international supply chain business. The trade environment has been buoyant. Demand has exceeded expectation on the back of strong global growth momentum as compared to 2023.

LCL volume for the quarter ended June 2024 stood at 2.25 million CBM, similar on a YoY basis and representing a QoQ growth of 6%. The LCL volume for the quarter stood at 156,000 TEUs, similar to last quarter and up 9% on a YoY basis.

With Q1 FY25, the ISC business reported a revenue of Rs. 3,320 crores as against Rs. 2,823 crores in Q1 FY24 and Rs. 2,919 crores in Q4 FY24. The EBITDA for the same period stood at Rs. 81 crores as against Rs. 111 crores and Rs. 42 crores respectively.

Now moving on to the Express business operating under the GSECPL brand:

The volumes for Q1 FY25 stood at 300,000 tons as compared to 292,000 tons during the same period last year. The quarter reported revenue stood at Rs. 358 crores as compared to Rs. 367 crores in the same quarter last year. The EBITDA for the quarter in June 2024 amounted to Rs. 20 crores as compared to Rs. 18 crores for Q1 FY24.

Moving on to the Contract Logistics business, which sits under the Allcargo Supply Chain:

The contract logistics revenue stood at Rs. 91 crores for the current quarter as compared to Rs. 75 crores for the quarter last year. Similarly, EBITDA for the quarter-ended June 2024 stood at Rs. 29 crores as compared to Rs. 32 crores for the same period last quarter.

In line with the best disclosure practices, we have been consistently providing other key comparative financial and operational indicators in an "Investor Presentation," one can refer that for more details.

With this, I would like to open the floor for question-and-answer session.

Moderator:

We will now begin the question-and-answer session. The first question is from the line of Rushabh from RBSA Investment Manager LLP. Please go ahead.

Rushabh: With regards to the express business, we have seen a good churn at the senior level management team. So, I just want to understand what changes have been made or what changes will we be making at a broad strategy level so that there is good double digit volume growth for the next 2-3 years?

Ravi Jakhar: So, considering that GATI is a separately listed Company, I would refrain from going into too much of detail on that and the GATI management team could answer better. But just to state the facts, as you are aware, GATI's express business has seen an operational turn around with the cost of operations now matching the best standards in industry and that's been the primary driver of profitability. Sandeep joined us as Chief Operating Officer last year in the GATI business and there is clearly been a strong outcome. We have had senior commercial leaders join in the company recently and we remain confident that they would steer company towards some future growth. So, Uday Sharma joining as the chief commercial officer and of course Phil has retired from the company and would step into transition the management. So, there have been changes which have been made, new people have been brought in, and new people would bring in new energy and renewed focus, which should continue to drive the growth momentum which has been built on the back of a significant turnaround from extremely challenging situations. So, I think all the management changes should work well for the business.

Rushabh: And secondly, on the contract logistics side, what is the sustainable EBITDA margins? We have seen a slight dip here. If you could just share the next two, three years what is the outlook here?

Ravi Jakhar: So, the EBITDA margins I would say the current quarter decline is not an indication of a trend. On a small base, sometimes the cost reallocations can also have a bearing impact. But fundamentally the business profile should remain consistent. We don't see a significant upward or downward revision in the margin profile. It should sustain from a two to three-year horizon. We could potentially build additional revenues from the transport part of the contract logistics where we had certain restrictions which are now removed which typically comes at a lower margin, but then that would be like an incremental business on top of whatever growth we see today. So, if we continue to witness the current growth pattern, the margin profile should remain pain. Should there be an accelerated growth on the back of the current contract logistics business with greater contribution from transport the margin percentages could decline, but the absolute margin should grow even better. That's how I would put it.

Moderator: Next question will be from the line of Ravi Singh from Cosmic Horizon Capital. Please go ahead.

Ravi Singh: In the MTO business in the peak over time, we do an EBITDA per LCL container volume of about 0.44x, which isn't quite sharply during COVID time and now it's close to about 0.15x. Now, with container shortages and the huge increase that we have seen recently in the long-term freight rates, can the EBIT per LCL at least shoot up to the pre-COVID levels of 0.44x if not higher?

Ravi Jakhar:

So, a couple of comments here. The LCL and the FCL business composition as well as the trade line composition has significantly changed over the years and also it represents a mix. So, therefore, we have always advised against comparing on an EBIT per TEU basis. We have shared the guidance in terms of what drives the operational profitability and typically one-third, two-third or roughly 70:30 is the percentage of gross profit contribution from the LCL and the FCL business, that's what we have maintained. So, if one was to try and estimate the profitability scenarios, one could look at that split of GP. We have been sharing the volume details. On the FCL business, freight rates are going up or down have somewhat direct bearing, not exactly in the same proportions, but to some extent on the profitability. On the LCL business, the key drivers are utilization and the 40-foot container usage, both of which are again shared on a monthly basis. So, from here on what we see is that we have great confidence on the volume growth and utilization and 40 feet container ratio remaining same which means that the operating profile of the LCL business should improve from here and in this business as you could see the SG&A cost is a significant multiplier of bottom line. So, that is something which we are confident again of containing with all the initiatives that I spoke about. So, effectively there is a significant operating leverage that kicks in and therefore if one is analyzing at the EBIT per CBM in the LCL business or EBIT per TEU in the FCL business and some kind of a blended number on that, you would see that marginal improvements in gross profit, can have much more significant positive impacts on the bottom line on a per unit basis. So, business fundamentally tracks gross profit per CBM for LCL and gross profit per TEU for FCL. That is how all the country managements are driven. And I would say that from current levels, one could expect the SG&A cost to be largely contained, keeping them well below inflation rate because inflation will have a natural impact, but we intend to offset that to some extent with the automation initiative. Now, on the back of that, we have shared some guidance on the volume expansion. So, one could play out the operating leverage and make some estimates, but yes, fundamentally we should move towards levels broadly in the range of, maybe perhaps higher as the business revise over the next two, three quarters.

Ravi Singh:

Also, on the cost initiatives on the employee cost front, is that all done or is there some more positive impact that can flow through in the next quarter?

Ravi Jakhar:

So, that is largely behind us. Like I said, there have been increases and there have been reductions. So, that is how we have been able to contain the cost, otherwise in a normal operating environment, the cost should have gone up. That's the reason why all the corporate cost reductions and automation initiatives and outsource initiatives have come in handy to maintain the cost and now we have seen the revival in business, this quarter, we have seen some growth in volumes and we are seeing even better trends in the recent months. We will have the monthly updates for the month of July, perhaps within next 5-6 days it should be out. So, one could see there should be a continued positive trend on the business that should translate into improved profitability as well.

Ravi Singh:

In the first five months of this financial year, you have seen a record 74 million TEUs of container movement globally which has beaten the previous 2021 record of about 73.9 million

TEUs and many analysts would ever believe that this was majorly on account of front loading of demand and the Christmas and the New Year stocking, which generally happens around Q3, had been preponed to Q2. So, does this imply that somewhere down the line demand could taper off and freight rates could cool off from here on?

Ravi Singh: One, typically whenever we look at the container statistics, which are usually shared, I am not sure which numbers you're referring to, but there is also a mix of empty and the laden containers. So, laden containers typically demonstrate movement of inventory, while there is a lot of empty containers, which basically are based on the repositioning required as per the trade lane. In terms of the demand, we had seen sharp pickups, and which had led to a significant expansion in freight rate say from April until June, July and then there has been a marginal decline on some trade lanes and marginal increase. So, it's not been a constant increase and now we believe the freight rate should remain stable or more or less range-bound until the end of the year. Now, beyond that, there is no visibility at this point in time. But typically, around the Chinese New Year around February, there is then a little bit of a slackness, there could be some decline as well. But right now, the biggest challenge is on the supply side, with the whole red sea crisis, the additional turnaround transit time, also the US ports have been congested. So, all these factors have been leading to a bit of a supply shortage as well and we cannot really comment about the geopolitical situation but at least the immediate future, we don't see things changing rapidly. And by the time things improve on the supply side, we believe the demand should get better because the current demand of uptick is largely from select markets in Asia, US to an extent and South America, European economies have remained subdued and we have not seen momentum or growth in those markets, which potentially could follow in 2025. So, it's more like a combination of all these factors that should potentially create a sustained demand for the remaining three quarters of this financial year. That is what our broad estimate is based on all the geopolitical developments and the trade insights that we follow.

Moderator: The next question will be from the line of Rajesh Agarwal from Moneyore. Please go ahead.

Rajesh Agarwal: Sir, any one-off in this quarter in terms of expenditure?

Ravi Jakhar: Nothing significant that needs to be highlighted.

Deepal Shah: Nothing, no one-off.

Rajesh Agarwal: Once Rs. 32 crores we got for that COVID relief for our employee that was there in this quarter?

Ravi Jakhar: No, it was not there, it was there in the last quarter, June of '23.

Rajesh Agarwal: All the costs have been appropriated? any increase in cost or anything in rationalization in the cost side?

Ravi Jakhar: So, thanks, Deepal, for confirming on the no one-off. Like I said, on the cost side, we have done a lot of cost reduction initiatives which have allowed us to maintain the cost despite inflation

increases. So, no significant additions or reductions expected there. Focus is largely would be to drive gross profits to drive the bottom line.

Rajesh Agarwal: So, any operating leverage from here will drive to the bottom line?

Ravi Jakhar: Yes, that is exactly the strategy and the expectation.

Rajesh Agarwal: What we have done right apart from the automation and digital which we are talking about so that the business becomes more a sustainable model, it doesn't become a one-off because of the freight rate or supply shortage of containers we benefit and when that is over we don't benefit. So, is there any strategy we can do our 6% EBITDA or something like that the business can become more sustainable?

Ravi Jakhar: So, I think the best part and the most beautiful part aspect of our business is that it is a very, very unique niche business, which is not replicable. The business that is the flagship international supply chain is less than container load consolidation. In here we operate 2,500 direct trade lanes, which means that it's like how you book an Uber, you could book an ECU container, you could book 1 cubic meter of cargo to make it simple for understanding, you could just book 1 cubic meter of cargo every week across 2,500 trade lanes. It's like a vast airline network. To give you an example, this is a bigger network than any shipping line in the world. That's the kind of scale we have created globally. And that is the reason why some of the largest forwarders globally also are our customers, which means that even DHL, Kuehne Nagel, DSV and the likes of these large forwarders have requirements, and even they end up being customers for ECU Worldwide. So, it's a very, very robust strong network and being a cross-border trade, it also requires operational engagement on both origin and destination. So, it's a very unique business. We have our own offices in almost every country that matters barring Russia in terms of scale and size. And so this network, this well-established direct services are the fundamental ground which creates very high entry barrier. So, on top of that what we are trying to do constantly is our customers are mostly forwarders who are well educated, our vendors, our shipping lines, which are also well managed. What we need to do is we need to create the phygital layer, which is like the physical infrastructure on ground to manage consolidation in containers and the digital network to bring all these stakeholders together and provide seamless visibility. And that's where all the automation, the data analytics on route optimization, all of those come into play. We are the only Company in the world which has almost 70% of its export bookings coming in through digital channel. So, all these differentiations on an already unique niche business model create very high entry barriers and very high defensibility in the business.

Rajesh Agarwal: Why didn't we benefit after the freight rates came down or container utilization came down?

Ravi Jakhar: No, so that is exactly the counterproductive thing, because as you can imagine, the cost of operating the business is the cost of container and the revenue comes in from every cubic meter that we carry now. When the economic downturn happens and on the back of that, it was a very unique dual event when the freight rates also rapidly collapsed, and the utilizations also came

down. We were in a situation where each container, the cost of carrying the container, the freight rate is to a large extent in the LCL business passed on, right. But if you're not getting enough cargo, then you don't make money. So, it's like any airline business. If you have vacant seats, you don't make money. If you're a full aircraft, then you make money. It's exactly the same way.

Rajesh Agarwal: So, do we enter into an annual contract with the shipping line, so much container we will upload for LCL and all?

Ravi Jakhar: There is a combination of rolling contracts, spot buying, minimum commitments and sometimes it's more of the volume incentives like when we cross certain thresholds, we get certain additional volume incentives, etc., And these are relationships which go back 30 years. So, it's not exactly that we have contextual obligations on the buying side, but we have strong comfort. I mean to give you an example, in the worst crisis of container shortage in the history in the peak of COVID as well as in the recent times, we were always able to find space for our customers across the world. So, that's been a strong testament to our operational capabilities.

Rajesh Agarwal: So, if the scenario is normal, geopolitical and other things utilization of container, then we will make money, we will make bottom line?

Ravi Jakhar: Absolutely. The bottom line should grow as long as we are able to improve the utilization, which should be on the back of volumes. So, as economic growth revives, which we are seeing right now and should continue with the interest rates coming down, consumption should go up. So, the whole macroeconomic environment is that last 12 months were tough, but things are looking better. Europe possibly will take some time longer but on an overall basis we see enough contributions coming in from different quarters of the world to drive economic growth up the trade volumes and all of those directly contribute to us.

Moderator: Next question will be from the line of Radha from B&K Securities. Please go ahead.

Radha: Sequentially, despite the rise in volume, we are seeing that our operating costs have remained elevated. So, could you please highlight what are the reasons for this because last two years we have taken a lot of initiatives on the cost front, so when can we see the benefits of that come in to our book?

Ravi Jakhar: A significant part of operating costs is ocean trade, so naturally in an arising ocean trade environment, operating costs will also go up. But like I mentioned, which is why if you look at on the consolidated basis, a 12% increase in revenue sequentially has led to a 34% increase in EBITDA. So, the operating cost would not come down, they would come down or go up with the freight rate. But what we are expecting is that the volume should go up, gross profit per unit volume, which is what we call as yield in this business, should remain consistent or we endeavor to improve. An increased volume and an improved yield should lead to a higher gross profit and all of that by containing SG&A should come down to the bottom. That's how the business strategy is being worked upon.

- Radha:** Secondly, what kind of volume growth that you are targeting for FY24 for the international supply chain business?
- Ravi Jakhar:** At this point in time, we are not sharing any specific guidance, but we would like to reiterate that we would continue to expand market share, which means that we would grow faster than the market in both LCL and FCL business for FY25.
- Radha:** And sir in contract logistics business, we have gained wallet share from customers in this quarter, but despite that, we have seen that EBITDA has dropped. So, what are the reasons for this? And what is the PAT for the contract logistics business in this quarter and how much do you expect for full year?
- Ravi Jakhar:** Contract logistics business is typically driven by contracts varying from one year to three years as the contract is and therefore quarterly trends could have a little bit of deviation based on how the white space is moving, because we are constantly investing in acquiring additional capacity, which naturally remains vacant for some time and then customers fill in. There could be some sequential variances, but typically revenue growth and the revenue mix is an indicator of profitability. In this case, revenue growth looks strong, revenue mix will remain consistent. So, profitability should remain consistent in terms of margin profile and should improve in terms of absolute amounts.
- Radha:** What are the current volumes from the three regions that you mentioned, Argentina, Uruguay and Paraguay? Also, in which subsidiary are these regions being recorded?
- Ravi Jakhar:** The international supply chain business outside of India is all under subsidiaries below ECU Worldwide NV, which is the Belgian entity. That is where we record. We don't share country-specific volumes.
- Radha:** You mentioned about the net debt. So, could you mention the net debt from each business segment and what is the target net debt for this year and next year?
- Deepal Shah:** So, target net debt, it depends upon each business, in some businesses we may want to just have some leverage for working capital requirements. But if you want the break up, we can share the break up. As far as ECU is concerned, which is the largest business outside of India, the net debt is Rs. 133 crores. Allcargo Logistics, the standalone, but also a holdco, holds a net debt of Rs. 524 crores. GATI typically is at Rs. 195 crores net cash available because we had the QIP money being raked in. And ACPL is at around Rs. 24 crores of net debt which is used for CAPEX requirements and it's a long term borrowing. And there are a cash of around close to Rs. 52 crores in other subsidiaries adding up to Rs. 434 crores of net debt.
- Radha:** Any substantial or any CAPEXs plan for this year and next year?
- Ravi Jakhar:** No. So, GATI, you already have the QIP proceeds where we are going to be investing in some hubs and also into the technology piece. Apart from that in Allcargo ECU we do not have any

large CAPEX requirements, only maintenance CAPEX, etc., which is expected. So, the summary is we expect the debt to go down from here, not go up. Only subject to working capital debt, which if the freight rates go up and that of course will increase the business and the earnings as well. But if that's the case, only the working capital debt may kind of go up a little bit depending upon how freight rates perform. But just to comfort you, in spite of the working capital debt going up, our DSOs and all have been range-bound and within control. So, there isn't any additional exposure, it's only the additional business that we are raking in, in terms of revenue which will be followed by profits as they come along.

Moderator: The next question will be from the line of the Dheeresh K Pathak from WhiteOak. Please go ahead.

Dheeresh K Pathak: A basic question is just to improve my understanding. So, LCL volumes, you measure in CBM and FCL in TEU. Why is that?

Ravi Jakhar: The FCL is measured in the TEUs, which is a 20 feet equivalent unit. Because we typically carry the full container load, which means that the customer either books 1, 2, 5 or 10 containers with us. This container could be a 40 feet container or a 20 feet container, and that is why globally the container business is measured in TEUs. The reason why we measure LCL in CBM is because customer does not bring in the entire cargo, customer brings in a part of the cargo. So, cargo brought in is like 1 cubic meter or two cubic meters or half a cubic meter and therefore the bookings are always in cubic meters and all these shipments together fill up the container. That is how the less than container load consolidation business works and hence the unit of measure is always cubic meters in LCL and TEUs in FCL.

Dheeresh K Pathak: Is it a fair understanding that in FCL the revenue and cost are both on TEU basis, but in LCL the revenue is on cubic meter, but cost is in TEU?

Ravi Jakhar: Yes, that is correct, and which is why the utilization which is cubic meters per TEU plays an impact on profitability.

Dheeresh K Pathak: On slide 14, the chart on the right-hand side which shows container utilization index and 40 feet container usage index, what is the difference like between the two charts?

Ravi Jakhar: So, container utilization is how many cubic meters are we putting inside the container. The 40 feet container usage index is of all the containers that we are using, how many of them are 40 feet and how many of them are 20 feet. So, what happens is a 40 feet container as the name suggests typically has twice the volume of a 20 feet container. However, the costs are not double, they are typically 1.6 to 1.7x. And therefore, the objective is to always carry the LCL cargo in 40 feet container, but if you do not have enough cargo. Like typically to give you a ballpark idea, 25 to 27 cubic meters of a cargo is typically carried in a 20 feet container. So, if you have 45, 50, 55 cubic meters you tend to carry them in a 40 feet container and that is how largely the business operates. But sometimes if you say you only have 20 or 22 or 18 cubic meters of cargo,

then we would carry that in a 20 feet container. Now from a business standpoint, 40 feet container means lower cost per cubic meter because the cost is not double, but the volume is double. And therefore, as the business is performing well, the volumes are high, we are able to use more and more 40 feet containers. So, the graph at the bottom suggest how is our 40 feet container mix improving or deteriorating. So, that's the difference. One is how many cubic meters are we putting inside each container, and the second one represents what percentage of containers are 40 feet in the overall mix.

Dheeresh K Pathak: So, this is only from an LCL business point of view, not FCL, both the charts on the right hand side do not -

Ravi Jakhar: Yes, both the charts are relevant from LCL point of view only. That's right.

Dheeresh K Pathak: And from a gross profit, let's say Q1 FY25 is 647 and then the EBITDA, the chart below is 81. So, the difference between that is all fixed overhead costs?

Ravi Jakhar: Yes. Between the gross profit and the EBITDA would be the overhead cost... the admin cost, staff cost.

Dheeresh K Pathak: That is a lot of overhead cost. So, like is it semi fixed or it's totally fixed like what is the nature of the fixed cost?

Ravi Jakhar: So, I would say there is some degree of variability based on the performance, but to a large extent these are staff costs, your warehouse, lease, office rentals, etc., kind of fixed and which is why I was mentioning earlier that the SG&A component is significantly high compared to the bottom line and therefore improvements in gross profit have a far more profound impact on the bottom line and therefore there is a huge operating leverage at play and hence the endeavor is to always continue to outperform market. And as soon as whenever we see the macroeconomic environment supporting the business, we see a good revival in the performance. And naturally this is a people-driven business, that's where the costs are very high.

Moderator: The next question is from the line of Sukant Garg from Equible Research Private Limited. Please go ahead.

Sukant Garg: So, I just wanted to know that if our cash flow situation has been a little less better than what we have in Q1 FY24, because if I see the operating margins, the operating margins came down a little bit from June '23 to June '24 Q1 last year to Q1 this year?

Deepal Shah: If you look at the results for Q1 FY24 versus the results for Q1 FY25, there is a change in the results as far as the EBITDA amount is concerned. Keeping that in mind, the cash flow has to some extent, the EBIT margins to that extent the cash is marginally impacted. Also, what has happened is that if you compare the freight rates in Q1 of '23 versus Q1 of '24, which is now, you will see that the freight rates have also gone up a little bit. So, there has been some additional

investment in working capital, but we have sufficient cash and lines available for us to cater to these requirements. There is no other issue.

Sukant Garg: But do we recover that in Q2 or Q3 onwards, we have -

Deepal Shah: Operating cash, if you go back and look at the cycle, two to three years back, what has typically happened is that whenever the freight rates have gone up, many times it came with a better margin over a period of time. And if that happens, the cash is obviously the freight rate pass-through. So, we will definitely recover all the cash back. So, the working capital expands when the freight rates go up and they contract when the freight rates come down and that cash is replenished back to the lines that we have with the institutions. That is how the whole cycle works. But what it leaves behind is better business opportunity to cater to and better margins and profits in times of higher freight rate.

Ravi Jakhar: So, primarily to add to that, basically the fundamental driver here is that the ocean freight rates have gone up in the last 3-4 months and that has meant a much higher working capital which has been deployed and therefore the cash flow has been utilized towards that.

Deepal Shah: I did mention earlier also to rub it in again our DSO have been range-bound, they haven't gone up. So, the cycle in terms of recovery is fairly consistent. There is no other issue. It's only a factor of the increasing ocean freight rate.

Moderator: The next question will be from the line of the Dheeresh K Pathak from WhiteOak. Please go ahead.

Dheeresh K Pathak: Sir, what I was asking earlier when I was not audible that if I did the math right there is a fixed cost of about Rs. 2,200-odd crores based on last quarter's run rate financials. So, just to get a better understanding of the business, what would be the broad buckets of where this 2,200 crores of fixed cost is incurred, like how much is rental, how much is employee and what might be the other big buckets of cost?

Ravi Jakhar: So, we don't share detail breakup of the SG&A cost, but I would say the staff cost is the single biggest contributor towards that cost. Second cost would be warehouse and office rentals and lease rental cost that we pay. And then third would be the general administrative costs corresponding to utilities, travel, etc., And part of that would be variable pay bonus, etc., which is linked to the performance. So, in terms of forecasting what the P&L could look like, if you look at the slide 14, which I think you only were referring to on the graphs, you also would notice that we share the LCL and the FCL yield index. This yield basically means gross profit per unit. So, LCL yield is gross profit per cubic meter, and the FCL yield is gross profit per TEU. Now, of course this is on an index that we share, but one could clearly see for instance the LCL yield is more range-bound and now on the back of increased utilization, we believe we should get back to where we were 12 months ago and then possibly improve from there on. So, this number should start looking at beyond 100, and as the volumes grow, the gross profit is nothing

but a multiplier of volume and the yield. So, that is the way in which one could forecast the future performance. And like I said, to reiterate, we have done enough by way of cost reductions, outsourcing and automation to keep a check on this SG&A cost and that is why there is a huge operating leverage at play in this business.

Dheeresh K Pathak:

So, the way you are explaining and the way I understood, I would have expected LCL gain to be more volatile because you're booking revenue on CBM and you are incurring costs on TEU, but it seems your FCL yield is more volatile. So, are you taking some sort of a market price risk in FCL business versus in the LCL business why is that?

Ravi Jakhar:

I will tell you why that is. When it comes to an LCL business, the business is about we receive 1 cubic meter of cargo in our warehouse wherein we consolidate that cargo. Sometimes, we do the door pickup as well, then that cargo is moved on the ocean leg. Subsequently, we have deconsolidation activity in the warehouse, then there is the door delivery for some part of the cargo. There are multiple activities involved and ocean freight is one component of that. So, all the other costs are more consistent and somewhat linked to cubic meter, the ocean freight component is the one which is linked to TEU. And in this business, the other rates don't vary as much as the ocean freight. And therefore, this is more driven by and as we are able to utilize, we are able to save on ocean freight cost because that is like let's say if we are able to improve the utilization index by like you're seeing 4% here, let's say we improve by 10%, that means that we are carrying the 10% additional cargo on the same ocean trade cost. If the ocean trade cost is say 30% of the total cost we are still saving 3% cost. Of 3% cost in the kind of margin profiles that you see impact on the bottom line and that is how it kind of plays out. On the FCL business, if freight rates are very volatile and that freight rate volatility plays directly into it, because in a certain sense, large part of our revenue and cost both are only linked to ocean freight. There isn't much of warehouse or origin or destination door activities in the FCL business and therefore the volatility of the ocean freight rate is fully reflected in the FCL business, while in LCL business it is just one contributor and also it is kind of passed on. So, typically the freight rates go up or down, we don't really end up making more or higher margins based on the freight rate. Naturally, of course, what happens is when the freight rates are high, people tend to consolidate more and do them less of FCL. So, there is an indirect impact on how utilization goes up. But fundamentally for a pricing standpoint, it's not that we try to price higher when the freight rates are higher. Typically, the office operates on gross profit per cubic meter. So, when the freight rate goes up or down, we typically revise the tariff accordingly. But what happens in FCL is when the freight rate moves from, say, \$1,000 to \$5,000 we don't maintain the same \$200 margin. It may not become exactly that much to push, but it goes up and down and it varies. So, that is the reason why FCL has a greater dependence on the ocean freight. It has lesser complications and outcome of that the volatility is much higher in the FCL business as compared to LCL.

Dheeresh K Pathak:

So, just for my understanding, in the LCL invoice for the client, the ocean freight is only 30% to 40% of the total invoice, in FCL it might be 90% of the total invoice or 100%, is it a fair understanding?

- Ravi Jakhar:** On the cost side. On the revenue side, typically it's in all integrated quotations. If you log into ECU 360, which is a unique platform that we have where you can get an instant quote for moving cargo from anywhere in the world to anywhere in the world. Typically, it's a combined cost and you would typically show charges for transport handling, terminal handling, there are multiple line items in there. But what I am trying to explain you is broadly the component of ocean freight would be lesser in the LCL and it's kind of a pass-through. So, the volatility is kind of pass-through and the gross profit largely remains intact or range-bound. It is more dependent upon the utilization and operational efficiencies.
- Dheeresh K Pathak:** And in FCL, the volatility is somewhat absorbed by you, so you have short volatility in a way of the container freight rates that you probably see, right? You have short volatility, there is a very sharp upswing or downswing your lead index will be hurt in that period, right?
- Ravi Jakhar:** No, it typically plays in sync. So, typically the yield improves at the highest freight rate and it reduces with the lower freight rate. It's not absorbing the -
- Dheeresh K Pathak:** Why has it reduced in this period because rates have gone up, right, if I understand correctly?
- Ravi Jakhar:** No, we are comparing it with the last year similar quarter wherein there is a bit of a lag effect as well. If you look at sequentially, you will see a different picture and which is why maybe perhaps I think we do not share the FCL yield. We will try to see if we can share more further data on this on a more sequential basis.
- Moderator:** The next question will be from the line of Radha from B&K Securities. Please go ahead.
- Radha:** Wanted to understand that in the international supply chain business, what percentage of customers are recurring in nature?
- Ravi Jakhar:** I would say roughly about 40% of our business comes from large customers which are almost all recurring in nature. 60% of the business comes from small customers. And I wouldn't put an exact number, but the large majority of those customers are also recurring customers with many having a year-long or decade-long relationships with us because most of this business is coming in through small and medium forwarders. I talk about these small customers, they have been working with us for a long period of time. So, typically the share sometimes comes in from the new trade lanes, new services we launch and new products that we launch and naturally we continue to acquire the new customers as well in some key markets, but a significant proportion I would say almost like 80% to 90% of this would be the recurring business from the same set of customers.
- Radha:** Secondly, sir, while you were explaining to the last participant that there is some lag effect in the gross margins this quarter and maybe sequentially it could be better. So, is my understanding correct if the revenue for this quarter is on the basis of bookings that you might have received last quarter and hence we can see the lag of it?

- Ravi Jakhar:** In a quarter there is typically an average of 40 days of sailing if you make an average of Asia, Europe, Americas and Transpacific, Transatlantic, there could be typically about four to six weeks of lag effect in some sense and which is why like I mentioned, we look at the month gone by in the current month we believe that it should only improve on both the volume side and the overall parameter.
- Radha:** And also, despite majority of our customers being recurring, there is no contractual agreement with them, is this a fair understanding?
- Ravi Jakhar:** That is right. There are no contractual obligations on either side. But I would say there is a reasonable understanding that many customers and with many vendors you would typically have volume incentives that play with some of the largest customers and some of the largest vendors that we work with.
- Moderator:** The next question is from the line of Dhruv Shah from Ambika Fincap. Please go ahead.
- Dhruv Shah:** Sir, I just have one question. With the freight rates going up and you're seeing increasing in volume, can we envisage that in a few quarters time, we should touch the run rate of what we touched in 2021-22 or that will be too much to ask for?
- Ravi Jakhar:** We would refrain from the guidance, but like I said, at least for the four quarters of this year, starting with the first quarter, we have seen sequential improvement, and we expect the same sequential improvements to continue for the remainder of the year on quarterly basis. That's the kind of broad outlook that we have at this point in time.
- Dhruv Shah:** But I don't want our guidance, sir, but are the price almost at the rate at which it was in 2021?
- Ravi Jakhar:** On different trade lane. Like I said, the European economies still remained subdued. So, if you look at the rate for export out of Europe into Asia are extremely weak, while at the same time rate from Asia to Europe are much higher and rates from Asia into Latin America for example for some of the trade lanes had touched as high as they were during some of the COVID phase as well. So, it's not like a secular trend across all trade lanes. There are a combination of trends.
- Dhruv Shah:** And how much would our revenue be from exports from Europe?
- Ravi Jakhar:** Our business is largely representation of the global trade. We have a strong business almost in all parts of the world, pretty distributed.
- Moderator:** That was the last question for today. I now hand the conference over to the management for closing comments.
- Ravi Jakhar:** Thank you, everyone for joining us in and we hope we are able to provide insights on the business and respond to your questions. One of the ways to improve disclosures and information from our side is to receive inputs and questions from your side. So, please feel free to reach out



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to our Investor Relations team. I will come back with your suggestions on what kind of information you would like to see. And we'd be more than happy to continue to improve our disclosures and see how we can help the analyst community as well as our shareholders understand the Company and the business better. Thank you very much for joining us today.

Moderator:

On behalf of PhillipCapital (India) Private Limited, that concludes the conference call. Thank you for joining us and you may now disconnect your lines.