



“Allcargo Logistics Limited Q3 & 9-months FY24 Results Conference Call”

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Dolat Capital



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MODERATOR: **MR. HEMESH DESAI - DOLAT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Allcargo Logistics Limited Q3 & 9-months FY24 Results Conference Call hosted by Dolat Capital.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Hemesh Desai from Dolat Capital. Thank you and over to you sir.

Hemesh Desai: Thank you. Good evening, everyone. On behalf of Dolat Capital, I welcome you all to the Q3 and 9-month FY24 Earnings Conference Call of Allcargo Logistics Limited.

We are pleased to have with us the management team represented by Mr. Ravi Jakhar – Group Chief Strategy Officer; Mr. Deepal Shah – Group Chief Financial Officer and Mr. Sanjay Punjabi – Investor Relations for Allcargo Logistics Limited.

We will have the “Opening Remarks” from the Management followed by a question-and-answer session. Thank you and over to you, sir.

Ravi Jakhar: Thank you. Good afternoon, everyone and thank you for joining us for the Quarterly Earnings Call.

I would take you through some of the “Business Highlights and the Macroeconomic Environment” and then handover the line to my colleague, Deepal, to take you through the “Financial Highlights.”

As you are aware, during the quarter ending December, we also announced the scheme of restructuring which is currently under implementation and we've already filed the scheme with the exchanges and the scheme is being pursued. Just to reiterate, under the scheme, the international supply chain business would get demerged into Allcargo ECU and the remaining business of express and contract logistics which currently is under multiple step-down subsidiaries would all consolidate into Allcargo Logistics directly, thereby creating a very simple operating structure which will aid the management efficiency and provide for better financial flexibility thereby creating platform for better growth across both the businesses.

Coming to the macroeconomic environment on the international supply chain side:

On one hand from a global trade perspective, we have seen continued subdued demand. It is linked with the inflationary pressures in the western economies and the expectation is that with the interest rates and the federal rates likely to remain elevated for another couple of months, we see them not going up and perhaps stepping down during the latter half of the calendar year 2024, which would lead to increased demand in combination with reduced inflation. Basically,

that should translate into increased global trade in the second half of 2024. And therefore, we estimate that 2024 second half, which is July to December, we should expect better volumes in the international supply chain business. In the near term, we have observed that Red Sea crisis has eliminated some bit of capacity on the shipping trade lanes, thereby somewhat balancing the excess capacity which was on account of lower market demand. And as an outcome of that, we have seen an escalation in freight rates. However, given the overall subdued economic environment, there has also been a marginal negative impact on the volumes. And therefore the overall impact is marginally positive, not much, which we expect to see in the first half of the year as well.

At the company-specific level, we have endeavored to reduce cost, and this initiative started with planning around August and subsequently we have made certain decisions to bring down cost by way of outsourcing some of the operations from high-cost countries to low-cost countries, eliminating certain positions by way of digitization and bringing in other efficiency measures and all these initiatives are bringing in substantial cost improvements. We believe that a significant part of these costs will start, benefits will start accruing from January. However, if you look at the quarter from January to March, there would also be a severance cost, as many of these countries, as we terminate employment contracts, depending on the longevity, require significant payouts to be made. So, overall, in the January to March quarter, we may still see a negative impact of the severance as compared to the cost reduction. However, with all of that completed by February and with some bit by March, from April onwards we believe that on account of cost reduction, the profitability should improve. In terms of the business volumes and the resulting gross profits, we have seen over the last couple of quarters, the profits have bottomed out and sequentially they have remained more or less flat in the international supply chain business and from April quarter onwards, initially on account of cost reduction and subsequently on account of renewed demand in global trade, we expect the profits to improve going forward.

On the domestic side, economic environment remains strong. And on the contract logistics business, we have a healthy pipeline which gives us visibility that we should continue to see a good growth in the contract logistics business. On the express logistics business while we have increased the volume, the mix of product segments has resulted in lower yield and thereby revenue has not grown in line with the volume, creating an impact which has been negative on the bottom line with investments on people and expanded warehousing infrastructure capacities to handle higher volume, which we have been forecasting and like I mentioned have also been achieved.

Detailed commentary on Gati business has also been shared separately in the Allcargo Gati call considering the business is separately listed. Therefore we tend to keep limited commentary on the Gati business in the Allcargo call. But these are the broad highlights in terms of how the business is performing.

I would request my colleague, Deepal, to take you through financial highlights and subsequent to that we'll be happy to take your questions. Thank you. Over to you, Deepal.

Deepal Shah:

Thank you, Ravi. Good evening, everyone. I will now discuss the performance for the quarter ended December '23. On the consolidated basis for Q3 FY24, our revenue stood at Rs. 3,212 crores as compared to Rs. 3,307 crores for the previous quarter representing a marginal decline of 3%. EBITDA for the same period stood at Rs. 111 crores as compared to Rs. 118 crores, a 6% decline and profit after tax more or less was similar to the previous quarter which is at Rs. 17 crores as against the Rs. 16 crores for Q2 of FY24. The depreciation amount for Q3 is higher as compared to the similar quarter previous year that is primarily on account of the, the completion of the balance shares acquisition of ASCPL which is the contract logistics business. And this increases on account of amortization charge on intangibles, and depreciation on the leased assets. Exceptional gain during the quarter is an account of reversal of corporate guarantee given by Allcargo Gati, subsidiary of Allcargo Logistics on behalf of GI Hydro Private Limited. Our balance sheet remains healthy. Our net debt stands at Rs. 214 crores as a consolidated net debt as of December '23.

Now moving on to the segment results, I will start by discussing the performance of the international supply chain segment. The demand scenario looks bleak like Ravi explained in the midst of a tough economic and geopolitical environment. However, economy expects a revival in the second half of 2024. LCL volumes for the Q3 stood at 2.2 million cubic meters as compared to 2.3, a flattish, one must say with the previous quarter. FCL though has a volume of, also remain flat at Q3 year-on-year basis and stood at 152,500 TUs. The international supply chain business reported a revenue of Rs. 2,721 crores as compared to Rs. 2,795 crores, a marginal 2% decline. The EBITDA for the same period stood at Rs. 72 crores as compared to Rs. 62 crores in Q2 FY24.

Moving on to the express business operating under the GESCPL subsidiary of Gati, the segment recorded in the volume growth around 11% for Q3 FY24 as compared to last year. This growth has come on the back of improved operational performance and sales acceleration initiatives. The volumes for Q3 FY24 stood at 318 KT as compared to 287 KT in Q3 FY23. The revenue stood at Rs. 371 crores in Q3 FY24 as compared to Rs. 385 crores in Q2 FY24 and Rs. 379 crores in Q3 FY23. The EBITDA stood at 7 crores in Q3 FY24 as compared to 15 in the previous quarter and 21 crores in the last year's similar quarter.

Moving onto contract logistics business, which sits under the Allcargo Supply Chain Private Limited contracts logistics revenue stood at Q3 FY24 stood at around Rs. 78 crores as compared to Rs. 76 crores for the previous quarter. EBITDA for the quarter ended December '23, stood at Rs. 35 crores as compared to Rs. 36 crores in the previous quarter. We've shared additional details on the performance of contract logistics segments in the presentation for your better understanding.

With this, I would like to open the floor for questions-and-answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Radha from B&K Securities. Please go ahead.

Radha: I wanted to understand considering the current freight rates and the severance pay that is expected to come in next quarter. So, what is the expected EBIT per TEU for next quarter?

Ravi Jakhar: So, we do not share quarterly or annual forward-looking guidance. However, as I mentioned, severance costs would be a one-off cost. So, I don't think it would be appropriate to look at that in the analysis of EBIT per TEU. Also, like you have spoken in the past, we have two segments of business. And over the last 18 months, we have, maybe now 24 months, we have been reporting the LCL and the FCL volumes separately. And therefore, for LCL business it makes sense to look at the CBM as a volume benchmark and for FCL business is a TEU. And in terms of the EBIT numbers, they are driven by gross profit and SG&A costs, whereby as I mentioned, if you look at the FY25 as a whole year, we estimate the SG&A cost would not go up on account of various cost reduction initiatives that have been taken and therefore, despite all the investments, inflation increases etc. the overall cost would remain similar or lower and therefore as the gross profit comes back on account of improved volumes and improved margins on the back of better utilization etc. we would expect the EBIT margins to expand as well. But I cannot share any specific guidance per se.

Radha: Sir, how much are you expecting the severance cost to be?

Ravi Jakhar: I cannot share specific numbers on that, but as we report the numbers, we'll be happy to give breakdown of what are the one-off costs in the quarter that follows.

Radha: If I just understood it correctly, the SG&A cost we are expecting for FY25 to be same as FY24 despite the increase in volume that we are expecting from 1Q FY25 onwards?

Ravi Jakhar: So, SG&A cost in the normal course of events would have increased on account of inflationary increases plus new employees added during the year plus investments into some new initiatives. However, because of the cost reduction initiatives, all of that would be offset, and therefore we do not expect the SG&A cost to rise while we expect the gross profit to rise on account of increased volumes and improved utilization leading to expanded gross profit margins as well. That is the broad narrative for FY25. For the immediate quarter, we do not see any significant change. The volumes have remained subdued. There has been some marginal impact of the freight rates, but there has not been very significant because there's a downward volume impact as well, and then this quarter which is January to March would also have the Chinese New Year linked holidays and the delays on account of transit as well. So, overall, there's not going to be much significant impact in the Q1, but from April onwards, the cost reduction should show up as an impact in the P&L. And in the second half of calendar year 2024, which is July to December, we also expect the volumes to rebound. A combination of all of these things should lead to improved profitability in the international supply chain business.

Radha: Just wanted to understand any ballpark number also if you can give or just an estimate as to how big this severance cost is expected to be or will it be around Rs. 20 crores to Rs. 30 crores? Is that a correct way to look at it or would it be higher than that.

Ravi Jakhar: No, it won't be that higher number but I cannot share more specific details in that. We are not looking at that high number.

Radha: Secondly, we are saying that volumes are expected to pick up from second half of FY24. So, are we expecting any kind of customer additions?

Ravi Jakhar: Second half of calendar year 24, that is what I have said. And this I'm talking about the industry. In terms of as a company, we have already been, so the volumes actually if you see, globally the market has shrunk for the LCL industry over the last 12 months or so. However, our volumes have remained flat. So, we have maintained almost flat volumes by launching new trade lanes and by gaining marginal market share as well in some key countries on the back of such initiatives. So, as we move forward, we are expecting industry headwinds to recede and the market as an overall to see improvement in volumes and that would naturally benefit the company as well. Our growth rates would always be at par or better than market growth rates as we have maintained in the last several years and continue to remain confident about that.

Radha: And sir in that improvement in volume expectations that we have, what are the key user industries wherein we are expecting good improvement? And if you could give a breakup of the end-user industries on a broad basis that we are catering to?

Ravi Jakhar: We carry 15% of the global neutral LCL consolidation trade, capturing 2,500 trade lanes across 180 countries. I'm just trying to give a perspective that we truly represent the global trade. So, all the commodities which get carried in the LCL trade would have an almost homogeneous distribution representing global trade. So, it's not dependent on any specific sectors or even trade lanes per se because we have strong presence on almost all the key trade lanes, whether it is out of Asia, into Europe, into US or intra-Asian trade, we have significant presence in all the key trade lanes across the world. There's no reliance on any specific sectors or segments per se.

Radha: How much is e-commerce demand?

Ravi Jakhar: E-commerce is one of the contributors to LCL trade. However, from our perspective, we work with forwarders who are our customers and we operate like, to put it simply, like an Uber of shipping where we do not only shipping vessels, but we operate like a shipping line, operating these trade lanes. And in this asset-light business model, forwarders are our customers, and many a time these forwarders carry loads for small and medium businesses which includes cross-border e-commerce opportunities as well, wherein there could be shipments moving in from say a factory in China to some of these warehouses in North America for the end shipment to e-commerce consumers. But our participation in that is a B2B part of it, which is pickup and delivery from a warehouse and pickup from a warehouse and delivery into a warehouse across

the border. But e-commerce and emergence of small and medium businesses are two key drivers of LCL growth, which is why if you look at barring last 12 months, which have been a bit different, in general, LCL trade has been going at 2x the rate of global container trade growth. So, while the container trade growth has been historically about 3% over the last several years, LCL growth globally was about 6%. And e-commerce like I said is one of the key drivers to that.

Moderator: Thank you. The next question from the line of Payal Shah from Billion Securities. Please go ahead.

Payal Shah: I have questions on Contract Logistics. So, I just wanted to understand our performance in various sectors we are present in like chemicals or auto or e-commerce. If you could please highlight something on it?

Ravi Jakhar: So, you are talk about the contract logistics business. I would say that across all these sectors, we have had stable performance. And in terms of chemical, as you know, that is the biggest segment, which has historically been a much more dominating segment. And therefore, we would see more customers being added in the auto and e-commerce segments. And therefore, the revenue growth would continue to be more on the e-commerce and auto categories and some new categories as well as compared to chemical. Purely on account of chemical, we are already a market leader in an established segment, but the e-commerce, auto, and the new segments offer much bigger opportunities. Therefore, you will continue to see the segmental enhancement in these two sectors. So, that's the broad narrative on growth coming in from various sectors.

Payal Shah: What are the sustainable margins for this business?

Ravi Jakhar: In this business we have seen steady performance over last several years and we believe that the margins should continue to be rangebound in the similar range as we see today. We have invested in certain amount of white space for the purpose of planning growth, so that we have ready warehouse space available. And at the same time, so that means that there has a negative impact on the margin. We have also invested in people capacity, which also means that there's a negative impact on the margin. So, as we grow, the white space is an absolute number, would remain constant, but as a percentage it would reduce, which means that your white space cost will go down. There should be an operating leverage as well. So, these are the two positive factors towards the EBIT margins. However, at the same time, we also need to recognize that historically chemical was a much higher percentage of our total business and chemical by nature of being a very niche business has higher margins. So, as the share of chemical goes down, that would have a negative impact on the EBIT margins while operating leverage, reduction in white space is a percentage of total revenue would have a positive impact. So, overall, we expect the margins to remain rangebound, not much significantly different. And our EBIT margin is currently in the range of about 12% to 14% would remain broadly in that range in this business. And this is, , EBIT margins.

- Payal Shah:** So, my last question is following up on my above question. Are we tapping any new sectors, as in what are our plans to scale this business? And it would be helpful to get some outlook on the business.
- Ravi Jakhar:** So, we are looking at certain segments. For instance, we have been making inroads in consumer durables, IT products, furniture, and some of these sectors that we have been looking at. And if you look at the revenue contribution of these segments, you would find that the e-commerce and auto are more than twice of what they used to be, say, about two to three years ago, and therefore the similar trend would continue, wherein these sectors would also see a higher percentage allocation.
- Deepal Shah:** Just to add here, so what we had is, a couple of years back we had a very heavy chemical segment and auto and e-comm was much less. Now if you see all of them are almost equal. So, we have diversified into various other segments and we will continue to do so to gain better market share and improve our utilization of warehouses, space and also to increase the number of square feet under the overall management of contract logistics.
- Ravi Jakhar:** Yes, so if you look at chemical, which at some point in time was about 80%, it come down to 50%. Today, it contributes about 35% to 40% of our total revenue in the business, and it should perhaps come down to 25% to 30% over the coming couple of years.
- Moderator:** Thank you. We have our next question from the line of Neerav Savai from Abbacus. Please go ahead.
- Neerav Savai:** My question is on the Opex on the MTO side of the business. So, sequentially we have seen a decline there by almost about 40 crores. And you said that the large part of this cost reduction measures, will get benefits in Q1 FY25 onwards. So, what would be the sustainable Opex going forward?
- Ravi Jakhar:** Yes, I'm not sure which cost you're talking about on the decline, are you looking at the operating Opex?
- Neerav Savai:** Opex for the MTO business?
- Deepal Shah:** It is directly related to the freight, so you know there is a large amount of freight which is pass-through. So, if your revenue shrinks, your Opex cost to that extent also shrinks to by that amount, similar amount.
- Ravi Jakhar:** So, our commentary on operating cost reduction was not on the freight rates, I was talking about the SG&A cost reduction which was on account of I took some examples as well of how we are outsourcing from high-cost countries to low-cost countries, looking at eliminating certain positions by way of automation, etc. So, these are all the savings which will show up in SG&A. Operating expenses, we are already efficient and they are more driven by, one, freight rate

environment and secondly, by utilization which then should improve on account of improved volumes.

Neerav Savai: So, what is SG&A right now as a percentage of revenue per quarter and what was it last quarter?

Ravi Jakhar: So, here again, as you would notice, and we have maintained in the past as well, the SG&A, again, I would recommend that for the fair analysis, it will be appropriate to look at SG&A as a percentage of GP or a ratio of that because revenue can go up or down dependent upon the freight rates. It is not only a factor of volume. So, as you would notice that freight rates have come down sharply, our revenue has also actually come down without the decline in volume, and alongside the operating expenses have also come down because freight rates are a pass-through expense. But at the same time, to answer your question, we can share the number. Deepal, would you share the number on the SGG&A as the cost of...?

Deepal Shah: Yes, approximately 20%.

Ravi Jakhar: Around 20%, but like I said, the revenue is fluctuating, and therefore that number...

Neerav Savai: 20% of gross profit is what you are saying, right?

Ravi Jakhar: Revenue is the number, the question which you asked. What I'm saying is that it will be more appropriate to look at the gross profit to SG&A ratio, which we have been sharing as well. We've been sharing the gross profit and the numbers separately in the presentation. I'm just sharing that that's a better way to look at the business because revenue and operating costs both have rates which is passthrough.

Neerav Savai: Okay, so when we say that quarterly gross profit is about Rs. 620 crores on the MTO side of the business, you are saying the SG&A cost is 20% of that?

Deepal Shah: Yes. For the revenue, right?

Ravi Jakhar: No, you had asked about the revenue, so I'd answer about the revenue.

Deepal Shah: So, if you're looking at a pure MTO business, approximately it's around 20% of the revenue.

Ravi Jakhar: And Deepal if you can answer on the GP as well, because like I said, it is better to look at the GP because SG&A is...

Neerav Savai: would be Rs. 2,700 crores, 20% would be Rs. 540 crores. Is that the SG&A cost?

Ravi Jakhar: Yes, 50% of the GP is SG&A cost.

Neerav Savai: 50% of the GP. And what was this last quarter? Just trying to understand the quantum.

Ravi Jakhar: 9-months approximately.

Neerav Savai: Okay, so what has been the quantum of decline if we see on a Q-o-Q basis on the SG&A side?

Ravi Jakhar: Like I was mentioning, we have started taking the initiative on the month of August with positions being identified. There is typically a 3 month to 6 month notice period depending upon the country and tenure in the local laws. And therefore most of the terminations would happen, some have happened in the month of between mid-November and November to December, but most of them would be between January to March. And in the quarter ending December, while there could have been marginal savings on account of reduced SG&A in December, they've also been offset by some of the severance cost. In January to March, we believe that there could be a negative impact of severance cost. For the purpose of SG&A on a steady basis, it would be from first April that one would see the actual numbers. And for the quarter of January to March, we would provide the time of results, what is the actual expenses incurred during the quarter and what are the one-off severance expenses. It will be a fair comparison of SG&A cost for the October to December quarter and January to March quarter.

Neerav Savai: Okay, so as per our assumptions any number if you can just highlight what would be the kind of SG&A going forward. I mean assuming about 50% of your gross profit is around about Rs. 300 odd crores for the current quarter. So, how do we see this Q1 FY25 onwards?

Ravi Jakhar: So, like I mentioned before, we would be most certainly able to offset any increase which happens on account of inflationary increases, investment into new people, capabilities, products, etc. All of that will be taken care of. So, SG&A costs will be similar or lower despite all these increases and therefore what it means is that the expansion in GP would straight away passthrough to the bottom line. In a normal situation if there was no cost reduction, you would typically find that remunerations and the admin costs on account of escalations, etc. would typically go up every year. Also, you have people who join during the course of the year and therefore the costs go up for the entire year. So, all of those positive, I mean, the increase in the cost would be offset by the cost reduction initiative and we expect the cost to be same or lower despite all of that, which means that the entire increase in gross profit would be carried down to the bottom line. That's the broad narrative we can share at this point in time.

Neerav Savai: So, would it be safe to assume that about 310 odd crores is what the SG&A cost this quarter is. This will continue to be similar or maybe lower but would not increase next year.

Ravi Jakhar: Yes, so the current ongoing rate, quarterly rate of SG&A would continue or be marginally lower, while the gross profit is likely to grow in the second half of the year on the back of improved volumes and expectations on improved gross margins as well.

Neerav Savai: And initially we had highlighted after the China New Year, we will see some upward trend in global trade. So, the demand still continues to be sluggish or you have seen any revival at least in the foreseeable future?

Ravi Jakhar: So, we have indicated earlier that we expect the second half to be strong on the back of actual consumer demand coming in which has to be driven by inflation adjustments and the rate cuts which will lead to inflation adjustments and therefore disposable income being available with people. We have continued to maintain the same outlook that we expect second half of the calendar year 24 to be better. Currently, the environment remains subdued. The Red Sea crisis has increased the freight rates for several trade lanes which has led to slightly higher freight rates, but at the same time slightly negative impact on the volumes as well. So, as a trade-off, it has not had any significant impact. As the Chinese New Year comes to an end, there should be some pickup in volume, but we do not see any undercurrents of significant pickup, and therefore we continue to maintain that the pickup is more likely in the second half of calendar year 2024.

Neerav Savai: And we maintain our guidance, which we had for FY26, or any revision in that?

Ravi Jakhar: For FY26, we would come back with some guidance as we complete the 3-year business plan etc., but at this point in time, there is no standing guidance for FY26.

Moderator: Thank you, sir. We have our next question from the line of Mr. Jay from Dolat Capital, please go ahead.

Jay: So, my first question will be, you have a higher market share in the Nordic region and a few European countries. How much of an impact has the Red Sea crisis been on that business and when do you expect the inflated freight rates to stabilize?

Ravi Jakhar: Yes, so we have high market share in several Asian countries, including India and Southeast Asia, as well as in Western Europe and Northern Europe. What we have seen is that Western Europe in particular as well as Northern Europe, to some extent, has been going through the weakest economic environment globally and the maximum impact on volume has been in that part of the world and that had led to significant capacity being available on the trade lanes from Asia to those countries and therefore it was a double impact of reduced revenues as well as reduced volume. However the Red Sea crisis has led to an increase in freight rates. However there has been no impact on the demand per se. So, what we have noticed is that there has been marginal improvement on the revenue side with some degree of impact on the overall profitability as well, but not significant. The volumes remain subdued in that part of the world and in fact, that has been one of the key reasons for continued subdued performance for the company as Europe in particular has not been contributing significantly to the profits. So, we have not seen any significant impact of the Red Sea crisis on those trade lanes to answer your question specifically.

Jay: Sir, I have another question. Also, what are your future plans and what specific area or purpose you plan to fund them primarily?

Ravi Jakhar: Yes, so we have currently been looking at pockets of growth in geographies where we have relatively shallow presence. There are opportunities in Latin American market, for instance,

where we expect to consolidate our presence and enhance our volume. It includes the market of Brazil, wherein we have made some management changes as well to drive growth. There are similar opportunities in other countries of Latin America, such as Colombia, Ecuador, Peru and Chile. These are also the countries where we have relatively lower market share. We also lack penetration on the door and we also have fewer products in terms of, for an instance, FCL product is quite weak in this area and LCL also we do not have market share like we have in other places. For instance, in Brazil, we would currently be #4, not even among the top three LCL consolidators and the aspiration is to gain market leadership in the coming years. So, Latin America is one key geography where we will be focused on for growth. Besides that, we also see significant opportunities to go deeper in China. China is a highly fragmented market and while we are currently the second largest in China already, but our market share is still close to 9% to 10% and we see an opportunity for that to be increased by going deeper into Chinese market. The third opportunity for us is actually in terms of turnaround of key countries, where on account of various issues, we have been running significant losses. These two big countries are US and Germany which have been making negative contributions to our P&L and we believe that during the coming months, we should be able to arrest the losses. And as they come to the breakeven on a consolidated basis, there should be a positive impact on the profitability. So, these are some of the key drivers, as we see, for driving growth and profitability in the company in the coming year 2024.

Moderator: Thank you, sir. We have our next question from the line of Jiya Shah from Wealth Securities. Please go ahead.

Jiya Shah: Sir, I have two questions. One is on the ISC business. The demand scenario seems muted. When do you foresee the demand to recover and the trade to come back to normalcy? Or should we see this as the new normal?

Ravi Jakhar: So, freight rates are normal, I would rather say, because of the recent Red Sea crisis, they're rather shot up and they might become slightly softer again, but that is going to have a limited impact on the consumer demand and the world trade. Like I mentioned before, we expect the demand to be back from second half. It is a function of consumer demand linked to inflation and economic environment, which based on the various forecasts that we see from leading economists on the decisions around interest rates and inflation across the world, we expect the second half of 2024, which is July to December, to see recovery in demand.

Jiya Shah: So, another question that I had is that if you can highlight on the region-wise performance or rather how your trade lanes have performed, are you seeing any recovery from any specific region and sensing slowdown in some other region like just some outlook on that?

Ravi Jakhar: Yes, so like I mentioned, we have noticed that in the year gone by, there was lesser trade out of China and APAC, and we believe these regions would bounce back this year. I was just mentioning about the profitability scenario in US and Germany, which should see a turnaround, and our focus on Latin America would drive growth for us there. Western Europe has remained

weak, and we do not see significant improvement in the near future on the Western and Southern Europe. So, that is likely to remain flat. So, that's where we see in terms of specific regions.

Moderator: Thank you. We have our next question from the line of Ravi Shah from Opal Securities. Please go ahead.

Ravi Shah: So, actually I have two questions. The first one would be on the international supply chain. So, we have been seeing some volatility in terms of margin as well as realization. So, could you share some outlook regarding the same and where the business is headed in terms of profitability as well?

Ravi Jakhar: So, like I mentioned, we have seen the decline in margins, which have now bottomed out over the last two quarters, remaining almost similar on account of the subdued trade demand. And we expect the trade demand to bounce back from in the second half of the year. But before that, we also expect the cost initiatives to also aid on the profitability in the quarter of April to June. So, that's the broad commentary like I mentioned before. That's how we see the performance.

Ravi Shah: Understood sir, thank you for a detailed answer. So, my next question would be, we are witnessing some improvement on the EBIT-to-TEU ratio. And in the presentation also, you talked about cost-cutting efforts. So, can you highlight the measures that you've taken to get to this improved operational efficiency?

Ravi Jakhar: So, like I was mentioning, the majority of initiatives are focused on people cost, driven by outsourcing from high-cost countries to low-cost countries. For an example, moving payroll from US to Mexico, and by way of eliminating positions through automation and technology, and reorganization of the overall management structures. Some of these initiatives have helped us identify redundancies and eliminate costs.

Moderator: Thank you. We have our next question from the line of Shailly Jain from Dolat Capital. Please go ahead.

Shailly Jain: On the contract logistics, the share of e-commerce is increasing which in turn has led to margin improvement. So, what would be the ideal margin levels going on forward and are these sustainable?

Ravi Jakhar: Let me reiterate the margins are highest in chemical which is the most niche specialized contract logistics and the overall blended margins are in the range of 12% to 14% which have remained in the same range. Chemical segment has much higher margins. However, chemical segment which used to be 80% of the business at some point in time is now already down to about 35% of the business. And we believe that this 35%-40% might come down to about 25% in the coming couple of years and therefore e-commerce and auto and other segments would grow. So, therefore the margin would remain broadly range-bound in the 12%-14%.

Shailly Jain: And what is the distribution of your revenue share among LCL and FCL?

- Ravi Jakhar:** So, on the LCL and FCL, like we mentioned, we as a company operate more on the gross profit because revenue has an ocean freight cost which is more passed through. On the gross profit, which is the number to look at from a topline perspective, approximately 65%-70% comes from LCL and around 30% comes from FCL.
- Moderator:** Thank you. We have a follow-up question from the line of Neerav Savai from Abbacus. Please go ahead.
- Neerav Savai:** Hi, my question is regarding this US and German markets. Now you said they have been contributing negatively. So, what would be the quantum, if you were to see in terms of volume, which comes from this market or in terms of gross margin, what would it be contributing?
- Ravi Jakhar:** So, volumes are obviously positive, and gross margins are also positive. The impact is on the SG&A cost which put together has led to a negative number because these are both high cost operating countries and we expect the business to rebound in these two countries and also there have been so when I was talking about the SG&A cost reduction, there are more sharper focus on these two countries and therefore they should see coming back to being profitable or breakeven in the coming months and therefore that would have a positive impact.
- Neerav Savai:** I was just trying to understand how much does it contribute to overall volumes and at gross-margin level what is the contribution from this to geographies?
- Ravi Jakhar:** We would not be able to share country-specific details on this.
- Neerav Savai:** In this Western Europe you expect it will continue to be challenging, you don't see any way about that.
- Ravi Jakhar:** In the next 3 to 6 months we don't see any changes; however the expectation, what we read into the economic forecast is that the interest rates are not likely to rise and perhaps in the coming 2-3 months they may start coming down which might revive the consumer demand. So, therefore second half of 2024, we believe should be good globally in terms of the consumer demand and of course then Western and Northern Europe should also bounce back. But it has been most severely impacted amongst all geographies.
- Neerav Savai:** So, US and Germany you feel will turn positive, but this would rather take some more time to contribute positively at EBITDA level.
- Ravi Jakhar:** Yes, that is right.
- Moderator:** Thank you, sir. We have our next question from the line of Rajavi Shah from Bright Securities. Please go ahead.
- Rajavi Shah:** I just had a few questions on the Gati front. Can you share some broad outlook on the future of this entity?

Ravi Jakhar: Yes, so we can share the broad outlook. In Gati, we have been focused on 3 or 4 key initiatives. First has been improving operational capabilities and we have seen significant improvement in the operational parameters. We've also been investing in the infrastructure upgrade in terms of building new hubs and improving the capacities. And all these improvements in operational capacities should allow us to expand the market share. We have seen good growth in the volumes. However, the product mix has changed with large accounts being the first ones to come on the back of improved service and therefore the yield which is revenue per kg has dropped in that business. We expect the mix to improve and that should lead to improvement in terms of the overall profitability. I would say that and I would reference from getting to too much of details like I said it's a separately listed entity. However broadly speaking we should see continued expansion in volumes. We should now be backed by revenue growth as well and we have already invested in all the key hubs that were required and the personal costs as well so therefore there should be an improvement in profitability in the business.

Rajavi Shah: Okay, I had just one more question. How do you see the Express Logistics performing?

Ravi Jakhar: So, Gati is the Express Logistics business, which operates under the Gati Express supply chain. There's no other business than Gati. And Contact Logistics business is an Allcargo supply chain. So, I was commenting on Gati's performance which is Express Logistics.

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

Ravi Jakhar: Thank you all for joining in for the conference call. Please feel free to reach out to our Investor Relations team for any further questions or information that you may have. We intend to improve our communication from time to time and when we see certain questions coming on a repeated basis, we try to include the responses to that in the upcoming quarterly presentations. And our endeavor is to provide as much detailed information as we could. So, please continue to engage with our Investor Relations team. Thank you for joining in today. Thank you.

Moderator: On behalf of Dolat Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.