

## **Allcargo Logistics Limited**

### **Q2 FY21 Earnings Conference call**

### **November 03, 2021**

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**Moderator:** Ladies and gentlemen, good afternoon and welcome to Allcargo Logistics Limited Investor Earnings Calls organized by Batlivala & Karani Securities India Private Limited. At this moment, all participants are in listen only mode. Later we will conduct a question-and-answer session. At that time if you have a question, please press “\*” and “1”. Please note that this conference is recorded. I would now like to turn the conference over to Mr. Sailesh Raja, thank you. And over to you, sir.

**Sailesh Raja:** Good Morning to all on behalf of B&K Securities, I would like to welcome you to the Allcargo Logistics 2QFY22 Earnings Call. From the management side we’ll be hearing from Mr. Ravi Jakhar, Chief Strategy Officer and Mr. Deepal Shah, CFO. Without taking much time I hand over the call to Mr. Ravi for the initial remarks and post which, we will open the floor for Q&A. Over to you Mr. Ravi.

**Ravi Jakhar:** Thank you Sailesh. When the going gets tough, the tough gets going. These words negotiate in my mind as I speak about our performance today. Good afternoon, everyone. And welcome to today’s earnings conference call. This is Ravi Jakhar here and I’m the Chief Strategy Officer for Allcargo Logistics. And I have with me on this call my colleague and CFO for Allcargo Logistics Deepal Shah.

As the COVID wave continues to subside, I hope all are well in your family and among colleagues. I wish you festive joys and happiness ahead. I also hope that you have had a chance to look at the presentation and the press release uploaded on the stock exchanges and our website. Speaking about performance, last six quarters have presented different challenges to us, starting with the COVID pandemic right before we conclude with the acquisition in April 2020 and then port congestion in India, inventory issues across the world, Suez Canal crisis, cyber-attack and more recently, the second wave of COVID in India. And I’m glad that we have taken every challenge with increased rigor. And our teams across the world have upheld the entrepreneurial spirit and commitment of the highest order in not just navigating through the crisis but emerging much stronger than before, improving our performance quarter after quarter. Allcargo has embarked upon various transformation initiatives over the last two years across the businesses and the results of the same are visible in the performance. Project Voyager with McKinsey for our international supply chain MTO and the CFS business and project Avashya with Alvarez & Marsal for our Express Logistics and contract logistics businesses are near completion. And we are now steadily progressing on our global IT and finance transformation programs to further strengthen our capabilities and improve efficiency in business. These programs will continue to run through 2022.

Service businesses are built by people and leadership is a key pillar for Allcargo. The record performance has been delivered by exceptional leadership of the management teams across all businesses and the company has put strong focus on attracting and retaining top talent. I am happy to share that Allcargo and our subsidiaries ECU worldwide and Gati collectively, over the last 12 months or so, have hired nearly 20 CXO level resources and brought nearly 100 critical leaders and managers across the globe to drive growth and digital aspirations. In addition, there have been significant additions to data science team, strategy and analytics teams to further strengthen the group capabilities.

The digital footprint continues to expand significantly across the globe. ECU 360 is now a mature digital platform with front end deployed on the cloud. Data Analytics automation and data integration are used extensively across ECU platforms. Some key projects within digital include data projects, automation, ECU EDI, EQ Click and other apps to improve customer experience and service delivery. Such digital capabilities are now also the focus at Gati where we have recently implemented the world class CRM tool in partnership with Salesforce to improve customer service, client management, and analytics. With this, I now hand over the line to my colleague, Mr. Deepal Shah, to update you on all the financial and segmental performance across various businesses. Over to you Deepal.

**Deepal Shah:** Thank you, Ravi. Good afternoon, everyone. As Ravi mentioned, the results of the transformation initiatives have now started showing results which is visible on the performance of the company and its subsidiary. Allcargo Logistics reported its highest ever business performance for the quarter with consolidated revenues higher by 113% year-on-year at Rs. 4,978 crores versus Rs. 2,337 crores in the corresponding period last year. EBITDA was higher by 124% on a year-on-year basis at Rs. 363 crores as against Rs. 162 crores in the corresponding period during the last year. PAT stood at 264 crores a growth of 355%. The profitability in the last quarter was also higher on account of exceptional income of Rs.43 crores and Rs.24 crores from the share of profit from associates and JVs. Exceptional income is largely driven by gains on sale of Gati Limited subsidiary Gati Kausar.

You all would know Allcargo has three business divisions namely, international supply chain (MTO), the CFS/ ICD operations and the Express Logistics. India supply chain businesses part of Allcargo standalone, while international subsidiaries are under the Allcargo Belgium, which is 100% subsidiary of Allcargo. Now, I would like to discuss the performance of each business segment in detail for the quarter starting with the MTO business that is the international supply chain business.

The MTO business witnessed sustained growth on back of volume growth and expansion of market share in favorable market conditions. Addressing your questions on FCL and LCL breakup which we have now started to report, separate volumes and highlight growth in each of them. We continue to consolidate our leadership in the global LCL market commanding approximately 40% market share. As you're all aware this is a very fragmented market. LCL volumes for the quarter grew by 23% year-on-year and FCL volumes grew by 29% year-on-year. MTO segment reported a revenue of Rs. 4,384 crores higher by 138% year-on-year against Rs. 1,841 crores from the previous quarter. EBITDA stood at Rs. 307 crores a growth of 182% compared to Rs. 109 crores in the corresponding quarter last year. On Q2 annualized numbers ROCE stands at its highest levels of 56% in the MTO segment.

Now coming to the CFS segment. CFS and ICD segment business continues to deliver good performance and economic environment is constantly improving with month-on-month improvements in business. While analyzing CFS numbers we need to understand that last year same quarter there were very ground rentals as part of the income which aided the margins and profitability. CFS volume excluding Speedy should add around 79,794 TEUs growth of 35% year-on-year against 59,031 TEUs for the same quarter last year. We expect the deal with Speedy to be completed in this quarter and we may probably have a consolidated number going forward in the following quarters. CFS/ ICD vertical reported revenue of Rs. 107 crores a growth of 10.5% year-on-year against Rs. 96 crores in the corresponding quarter. EBITDA stood at Rs. 33 crores compared to last Q2FY21 of Rs.38 crores.

Coming to Gati which is the Express Logistics business, while we do have a separate call for Gati and question related to Gati we would request to be taken up in that call. We'll just give you a high-level highlight on the numbers, Gati core express business under GKPL reported highest ever tonnage of 2,60,000 metric tonnes a growth of 30% against the volume in the corresponding period last year. The revenue of Rs.334 crores higher by 40% year-on-year against Rs. 238 crores Q2FY21. Project and equipment business that is the P&E business, revenue stood at Rs. 92 crores as compared to Rs. 69 crores in the previous period last year, a growth of 34% year-on-year, the growth was largely related to improve utilization which increased from 61% last year to 75% year-on-year. Given the improved utilization, the EBITDA for the

segment grew by 42% Y-o-Y at Rs. 9 crores. Coming to the logistics park segment, logistics park primary as you're aware it's more of rental income grew nearly 2x backed by completion of the warehouses in many of the phases of the warehouses to the same period last year and the segment continues to maintain a quarterly revenue run rate of Rs. 20 crores, EBITDA for the segment stood robust at 16 crores. Contract logistics, the contract logistics business which is the JV the ACCI, the subsidiary, which holds the contract logistics business continues to demonstrate resilience with revenue and profits showing significant growth in the quarter. And we are working with the partner in terms of how we're going to move forward with the 61% shareholding with them. We have worked on a demerger scheme where the contract logistics after demerger will move into a separate entity, Avashya Supply Chain Private Limited, we applied to NCLT for the same.

So, the idea is that these two businesses are separate, and we would like to manage them separately into separate buckets of companies. Now, I hand over the line back to Ravi to brief you on the other updates of the business. Thank you everyone for listening patiently. Ravi over to you.

**Ravi Jakhar:** Thank you Deepal. So, before we move on to the questions-and-answer I would like to share some key updates on our acquisitions. With Speedy Multimodes, we have now concluded the diligence and we expect to sign the share purchase agreement in the month of November. I am glad to share that it is going to be a highly value accretive transaction for the company. In terms of volumes, it stands to add almost 40% or higher volumes to the Allcargo current CFS volumes as an asset located closest to the India's gateway port for JNPT area and another asset light facility in mudra. These would be key additions to the group CFS business. And we can acquire 85% in Speedy Multimodes for Rs. 102 crores equity consideration. And it is an extremely value accretive deal where in the Speedy Multimodes the acquired company would have cash and fixed deposits of almost Rs. 53 crores and would add to the EBITDA. For the last six months, April 2021 to September 2021, the company has recorded in EBITDA of Rs. 21.5 crores and we believe that the performance should improve from these levels under Allcargo post acquisition.

On the other acquisition, which was more of a joint venture setup in Korea, we earlier used to have two partners and we decided to partner with one of them and set up our own company, wherein we are almost half it's almost a 50:50 partnership. That joint venture was set up with minimal capital deployed of less than just a token capital worth of USD 1 million. And the business is already clocking almost USD 300,000 to USD \$400,000 in EBITDA on a monthly basis.

In the third and perhaps the most significant acquisition that we conducted recently for Nordicon. Nordicon continues to perform exceedingly well under the ECU's ownership. And the business has expanded almost 5x to 6x when compared with 2019 levels. And the way the deal was structured, acquiring 65% shareholding it had allowed us to do a structure which allowed it to be more value accretive for us. And therefore, for a transaction for which we paid nearly €32 million for the entire 100% valuation of which we acquired 65%. The company is already doing almost close to a million dollars in EBITDA every month. So, we are extremely delighted with Nordicon performance. I would also like to highlight that while some of their business lanes got integrated with ECU worldwide network over a month ago, most of the network integration happened from 1st November after they serve the notice period and therefore, some of the incremental gains which would happen at the other EQ offices on the other side of the network would only start to appear from November onwards.

In addition to these acquisitions, we have always stressed upon the importance of focus on being asset light and digitally enabled. And through various disclosures made by way of investor presentations to stock exchanges. We have spoken about our focus on asset light businesses. And in that regard, we are evaluating some options for divestment of the working capital-intensive project logistics business. And as we have more concrete developments, we will keep everyone updated. But I would like to reiterate that we continue to be aligned with this strategy and we have also appointed advisors to evaluate various options for restructuring business in the most efficient way as we disclosed in the investor presentation uploaded

on the exchanges. So, these are some of the critical updates we wanted to share with you and happy to answer any questions that you have for us today, thank you very much.

**Deepal Shah:** Just to add, that the whole restructuring bit is more strategic and more on at a very high-level evaluation stage and should not be kind of considered as conclusive at this stage. Just to, it's more directional in nature, that we are approaching and from a good governance perspective, we wanted to just give a high-level understanding to our shareholders of the direction that the company is taking in terms of restructuring. Thank you so much.

**Moderator:** Should we start with the question-and-answer session, sir?

**Ravi Jakhhar:** Yes, we can.

**Moderator:** Okay. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from Mr. Sunny Gosar from MK Ventures. Please go ahead.

**Sunny Gosar:** So, I have two broad questions. First, basically, I would like to get your view on the MTO business. So as per a ballpark calculation, the current quarters EBIT per TEU is almost 10,500 to 11,000 per TEU, versus our historical average of about 4-4500 per TEU. So, I would like to get a view in terms of what part of this jump is sustainable and how do you see that trend playing out over the next few quarters and physically as the global logistics and container situation stabilizes. What is the medium-term sustainable EBIT per TEU which this business can basically be looked at over the next say, two to three years?

**Ravi Jakhhar:** Right. So happy to provide you a perspective on the international supply chain business. So as you would notice, there are two things which are helping the business. One, of course is the tailwind from the overall environment. But more importantly, on the back of transformation, which involves sales acceleration and acquisitions you would have noticed that there's a strong growth in volumes from a global scale, wherein the trade continues to grow in lower single digit numbers with many geographies seeing contractions as well in global trade. Our international supply chain business has demonstrated almost 23% year-on-year increase in volumes on LCL and 29% increase in FCL year-on-year in volumes. These volume growth numbers drive an expansion of gross margin, while the SG&A cost do not go up and that operating leverage comes straight to EBIT and reflects in the higher EBIT per TEU margins.

Now, coming to the gross margin itself, there is a higher operating freight environment. But it does not mean that as the freight goes up, our gross margin goes up in same proportion or vice-a-versa. In fact, as we run the world's most largest complex LCL network, we are mostly focusing on the value addition of consolidation. And what that means is that naturally when there's a freight movement up or down, it does impact, but not in the same proportions. So therefore, when the freight rate goes up, gross margin does not go up in the same proportion and therefore the gross margin percentage for us comes down and the reverse happens in a chain scenario. To make it simpler, I would say that if you notice that our revenue has increased to almost double, while volumes of let's say expanded 25% naturally that about 65%-70% multiplier impact is coming on account of the weighted average freight rate moment.

Now, when the freight rates have moved from 1 to 1.6, 1.7 our gross margin would have slightly improved. Now this 1.7 level of freight rate in our numbers as you would see, based on market research, own intelligence, based on inventory situation, we believe that we do not see a significant correction in the short term. However, over the next three to four years, it should find a new normal, which should still be higher than the original level of one. Maybe this 1.6, 1.7 multiplier goes to 1.3 multiplier, over the next three to four years is what the broad sense we have. And as the freight rates go down, because we would continue to protect the gross margin largely, you would see that the revenue per TEU might go down slightly, but the gross margin percentage would increase as a result. So, I would say that there would be a minimal impact on the gross margin, as the operating freight environment changes, which we do not see changing significantly anyways in the near future. So that's what is happening and on the back of that, the

whole transformation let's say an acceleration should continue to drive volume expansion, which should more than take care of any marginal downward corrections in gross margin. And given that the SG&A cost do not need to go up from these levels significantly, we should continue to see improved operating leverage for the business in the international supply chain MTO segment, which should continue to drive sustained strong EBIT margins.

**Sunny Gosar:** Sure. And basically, do you have any thoughts in terms of how is the global logistics scenario? and how long do you expect things to come back to more normalized level. What is your reading on that part?

**Ravi Jakhar:** So, as we mentioned, while there could be some amount of softening, we do not see a significant softening happening in the near future. We believe that from 12 months from here, you could see some downward trend in the freight rates, which can take another two to three years to settle in, but they would settle at a higher level because the levels prior to COVID were not sustainable, and which is what led to significant challenges for various shipping lines and led to the whole consolidation of the industry as companies were incurring significant losses. So we do not see the industry going back to those loss making situations for the shipping lines. And therefore, the freight rates are likely to stay above the pre COVID levels, but they should see some softening on a gradual way over the next three years. That is what is our reading based upon market research and advice that we receive and what we see from our side.

**Sunny Gosar:** Sure. My second question is on the net debt position. So my understanding is the net debt as of September is about Rs. 1,300 crores. So considering the strong operating cash flow that we have, plus any cash inflows that we generate, from say divestment of our cargo logistics business at some point in time and the proceeds from the Blackstone deal, what is the outlook on debt over the next 18 to 24 months? And do we intend to become net debt free? Or is there any internal goal to become net debt free by any particular timeframe over the next 18 to 24 months?

**Ravi Jakhar:** Yes, so I would just make a quick comment and then hand over to my colleague Deepal for more elaborate explanation. As you are aware that the freight rates have gone up by that 1.7 multiplier, it also means that the working capital has also gone up, which has utilized some of the cash and we have also concluded the Nordicon acquisition, Korea joint venture, which is all largely been managed through internal accruals without increasing the debt position in the company. So, these are some of the key factors, but to give you more perspective on what is our strategy for the debt in the next 12 months or so, I would request my colleagues Deepal people to take this question.

**Deepal Shah:** Thank you, Ravi. So while, we are very focused in reducing our debt from where we are today, and that's our endeavor. And yes, you're right once the Blackstone deal is consummated, we will have lower debt from where we are today. Also, please note that we are sitting on an expanded working capital because of higher level of business and because of higher freight rates. So should the freight rates continue to be buoyant so, we may continue to have a higher working capital requirement to fund. That's the situation that we are in, if the freight rates kind of come down, the working capitals will kind of shrink because some of these are just temporary facilities, which may kind of reduce the debt as soon as we are able to recover the money from the customers. Also, please note that our recoveries and our DSOs are very robust. So, there is no money from a capital perspective, which is getting stuck with customers which is not coming back so there is no worry on that as well. As far as funding of these are concerned, we are extremely cautious about how we are going to fund our working capital. So, there are temporary spikes which, are funding to, temporary means if the spikes in the freight rates continue to be permanent in nature as we go along, we will find permanent ways of funding them. And yes, so even if the Blackstone deal I just wanted to clarify the Blackstone deal we are on top of it, and we should be able to finish it by the year end. Their regulatory approvals, which are beyond our control, which are almost around the corner. Once those are available, that will shrink, but to comfort you most of our debt, for this long term will be LRD debt on the warehouses, so this will be self-funded debt, which should be 12- to 14-year-old debt. So, from a funding

perspective, or from a serviceability perspective, we do not believe there to be any challenge on any of these debt numbers that we have. So, I thought I'll just give you an overall picture on how the debt is expected to move. Last line that in the long run we will plan to have only on the asset heavy business, we plan to have only the LRDs wherever the asset heavy business is there. And for the rest of the businesses, it would be purely working capital revolver facilities, which can be kind of manage with the level of business that we have. So just wanted to give you an overview of our approach to the whole debt positioning of the company. Thank you.

**Moderator:** Thank you, sir. We have a next question from Mr. Srinath Krishnan. Please go ahead, sir.

**Srinath Krishnan:** My question is related to the recent press release that you stated that you're engaging with Jefferies for possible sale in ECU lines, considering the fact that the cash flows increase is largely driven by transformational efforts. What is the rationale for sort of stake sale, and you generate close to I mean in the first half you generated approximately Rs.400 crores of cash flows. In case you're looking at large inorganic acquisition, what would be the whitespaces that could be filled as a result as a result of that acquisition?

**Ravi Jakhar:** Yes, so, let me give you a perspective on ECU, there are two opportunities for growth at ECU worldwide. One, as you know that while we are the largest in the world, with a market share of about 13% to 14%. Now, there is still a headroom for growth and this growth can happen by way of acquisitions and this is a business which provides significant economies of scale, because the way density continues to increase as we handle more and more volumes, our procurement continues to improve significantly, driving overall expansion in margins. And therefore, it is important that we continue to look at acquisitive growth which we have done historically, there could be some potential opportunities that may come our way for transformational acquisition growth. That is one, second on the digital aspirations as you know, globally, the freight industry and the supply chain is getting digitized with players like Flexport, focusing entirely on digital freight forwarding. And we believe that with all the initiatives that we have taken up at ECU, there could be opportunities to accelerate those digital initiatives and move towards being a significantly a key player in the digital ecosystem. We also believe that there are opportunities and adjoining areas how we have built up a credible FCL business on the back of an LCL business over the last four to five years, we see similar opportunities in an asset like air business, and some of these could also be led by acquisition. So, these are some of the key potential utilizations for fundraise for which we are again, I would like to reiterate we are evaluating options and preparing ourselves for any such opportunities that may come our way for growth in ECU worldwide, in the digital ecosystem, and through consolidation.

**Srinath Krishnan:** Thank you. You rightly mentioned that you have built a strong FCL platform right on the LCL, do you think it would be difficult to build a product without acquisitions, it would be time consuming or are there entry barriers which would prevent you from doing the same?

**Ravi Jakhar:** So you need a certain scale. While LCL and FCL were on the same backbone of ocean freight, air is carried on a different network altogether, and therefore organic growth initiatives while are underway might see some obstacles and hurdles and given our aspirations to deliver value we would like to explore opportunities for acquisition, which come in in a way where this could be value accretive acquisition. So we are open to exploring opportunities and wants to be in a state of readiness for evaluating such opportunities for ECU Worldwide.

**Srinath Krishnan:** My final question on the restructuring, more from a business perspective. You have split the CFS, I understand CFS is an asset light whereas the logistics park is asset-heavy. But are there any business synergies between the CFS and in possible in future that could emerge between a CFS and logistics park?

**Ravi Jakhar:** So CFS and logistics parks are two independent businesses. Logistics parks business is where we construct warehouses which are given out on lease to companies like e-commerce players like

Decathlon, Amazon and Flipkart. On the other hand, it could be contract logistics companies, such as our own ACCI. So that business is very different from the container freight stations, wherein we are operating in facilitating EXIM trade and we continue to focus on going into more asset light operating contract kinds of opportunities in CFS. And the focus there is not on capital intensive leasing, but on operational management of warehouses and container yards to facilitate EXIM trade and create opportunities from there. We do not see significant synergies, I would also like to further clarify, since you provided the context on restructuring. On restructuring now, we have appointed advisors to evaluate what should be done and this is more of at a strategic level. And as we get more clarity, as we evaluate options of what would be ideal, we would share details with all shareholders.

**Moderator:** Thank you, sir. We have a question from Mr. Keshav Garg from CCIPL. Please go ahead.

**Keshav Garg:** Sir, I wanted to understand that in our MTO segment on the consolidated basis, we did around Rs. 263 crore PBIT this quarter. So you think that going forward, this number on a quarterly run rate basis is sustainable for us?

**Ravi Jakhar:** Yes, so as I mentioned we would continue to see strong volume growth, we could see some softening on the freight rates, a combination of both should lead to a potential healthy revenue going forward, and gross margin percentages remaining steady with an operating leverage on top of the same as SG&A cost, EBIT should continue to sustain. That is what would be the expectation from our side, we are not in a position to completely comment upon how the operating freight environment would be. But like I mentioned, we have significant resilience in the way the business operates, whereby our dependence on the ocean freight rates is not absolute, but it's only relative to a degree. So therefore, there is a strong volume expansion transmission let growth, control SG&A cost leading to an operating leverage, which will allow us to continue to sustain the momentum.

**Keshav Garg:** Great. Also, sir in your investor presentation in page number #4 under digital transformation, it shows that our ECU 360 booking now it's almost a third of our total MTO business if I'm interpreting it correctly. So what impact is this also showing is it this also reflecting in our profitability number apart from the volume growth and the freight environment? Is this also contributing to our basically margins and high profitability?

**Ravi Jakhar:** Yes, so I would say that directionally, the digitization on customer bookings would also help. But to answer whether it is helping right now, it is not making a significant impact because what happens is that many of these digital initiatives lead to let's say, 8%, 10%, 12% efficiencies. And in a largely spread-out business, where you have resources, working on multiple things, it may not lead to a headcount reduction, it may only lead to a partial headcount reduction, but as this 30%, 32% number moves towards 60%, 70% number and the business continues to grow at that consolidated scale, we will be able to drive more operational business without having to hire additional headcount. So that is the way it would lead to improvement in profitability over the two-to-three-year horizon. But has it already led into operational profitability and financial impact of that, the answer would be no, there won't be any significant impact at this point in time.

**Keshav Garg:** Okay, sir. And sir lastly wanted to understand that regarding this divestment of our project and engineering solution business, so do you think that this is the right time for this because the economy might be in an up cycle and if the CAPEX cycle restarts, then maybe we might be exiting this business at maybe after going through all the pain of past many years in the down cycle and just at the cusp of the up cycle. Sir, it is just a thought you know the business much better. So just wanted your views on the same?

**Ravi Jakhar:** Yes, so I would like to clarify the statement, we have made categorically states, we are evaluating the divestment of project logistics business and not the entire P&E segment. The equipment business, which contributes to almost more than 3/4 of the EBITDA for the company, would continue to remain, we're only talking about the project logistics business divestment, which we believe has become

marginal business, and has its set of challenges and working capital and does not align with the overall asset light strategy that we have. So therefore, the equipment business which can potentially benefit from the improved environment, as we have seen the equipment utilization in particular has gone up from 61% last year to 75%. That business continues to be with the company, we're only talking about the project logistics part of the P&E segment, which is more of a working capital intensive and requires significant management bandwidth, given the complexities of the business, and is working capital intensive and it does not align with the long-term goals and which is we've been looking at divesting the business.

**Moderator:** Thank you. We have a next question from Mr. Ravi Mehta from Deep Financial Consultants. Please go ahead, sir.

**Ravi Mehta:** One small clarification I was going through slide number #8. So, when you're talking of this acquisition of Speedy Multimodes, wanted to understand if it's an asset light business, then the EBITDA what you were mentioning in the presentation, is adjusted for the IndAS or that needs to be done and it would be a lower number?

**Ravi Jakhar:** No, so, this is an asset light in the sense that it does not own the real estate capital and therefore, we have been able to acquire the business in a valuable accretive manner. The JNPT CFS is on a long-term lease from the JNPT port trust itself and the Mundra is on a long-term lease from another government entity. And in terms of the EBITDA performance this is the impact which should come so, like I said the last six months EBITDA has been Rs. 21.5 crores and as we conclude the share purchase agreement in this month, the slightly higher than this because we believe there will be some synergies and improvement from this number as we acquire the business formally. So, this number should remain steady or grow from here in terms of additional contribution to our performance.

**Ravi Mehta:** Okay. So, I was just wanted to clarify that IndAS 16 you adjust the lease payments in depreciation. So, just wanted to understand if there is any adjustment to be done or it is all been factored in this number?

**Ravi Jakhar:** Right. I understand, so the business EBITDA impact we are talking about.

**Ravi Mehta:** Sure.

**Deepal Shah:** So, Ravi, Deepal here. So, the impact of 116 will not happen in EBIT in any of the companies, the depreciation will be higher, and the PBT will be impacted not the EBITDA. EBITDA will have not a 116 impact in that sense.

**Ravi Mehta:** Okay. And also, one small follow up to the earlier comment that the equipment business may remain in the company and you're planning to divest the project logistics. So, in that case, that equipment business is also an asset heavy because you will have to have the fleet of cranes in your books. So, any change of thought?

**Ravi Jakhar:** Yes, so let me clarify, there's no change in thought we continue to look at being asset light, and therefore in the long run that business also does not align with the group philosophy. But we must wait for the right opportunity. So, at this point in time, we have some opportunities to have some discussions on the project logistics business, which are underway. And we wanted to keep our shareholders aware as things progressed. And as and when we have the right opportunity, we would consider divesting equipment business as well. From the long-term perspective, we are very categorically focused on businesses where we can be the market leader in the market that we operate, whether it is at the global level or at the country level, and which are asset light and which have a significant play of digital.

**Moderator:** Thank you, Mr. Mehta. We have a next question from Mr. Pankaj Saraf from Shearwater Partners. Please go ahead, sir.



**Pankaj Saraf:** Hi, my question is on the gross margin side, you mentioned that there is not a one-to-one correlation between the freight rates and the gross margin. So, if the freight rates are up by 1.6, 1.7 times does not mean the gross margin will be up by the same factor. Sir, I'd like to understand the cost side of the gross margin better what the levers in the cost side that can go up and down, so that even if let's say the freight rates stay at the current level what kind of the gross margin up and down depending on the cost factor.

**Ravi Jakhar:** Yes, so basically just to understand if we look at from an LCL perspective, let us say the freight rate is about \$100 and we have 20 parcels in there, which we are carrying at a rate of \$7 each, which is \$140. Now, as our cost for the full container increases from 100 to 200. It does not mean that we increase our margins from \$4 to \$8 because we increase from \$7 to \$14. Usually the way business operates, it focuses on protecting the gross margin per CBM that is how globally the budgeting is done, that's how the teams are aligned. So when the freight rate goes down, or the freight rate goes up, they continue to focus on the gross margin per CBM. And which is why the gross margin remains stable in a normal operating environment where in freight rates may go up by 20% or may go down by 20%. Now, when the freight rates have gone up significantly like we see in our case almost 1.7 to 1.8 multiplier. Naturally, some tailwinds play a role and therefore it does not remain absolutely same but gets expanded. But it does not get expanded in anywhere close to the same relative proportion. And which is why if you would see the gross margin percentage, you would see that it has come down that's only because the additional cost which we have to accrue does not mean that we are able to multiply our revenue also in the same proportion. And that's exactly what plays out in the reverse cycle as well.

**Pankaj Saraf:** Okay, so does this mean that you have contracts, obviously you would have contracts in place with the carriers and so the benefit of, so what you're saying is the up and down of let's say 10%, 20% won't matter with fear of the contract. So, does this mean, that the contracts are reset every few months or every few years and so what are the estimation factors built into this, is there a correlation between if the freight rate goes up beyond 20%, then your new rate will imply by the gross margin, just trying to understand the contract duration?

**Ravi Jakhar:** Yes, so contracts vary from three month contracts to six month and one-year contracts. These are not like much longer than that on the carrier procurement side and the customer side on the LCL it's largely spot market. What I'm trying to highlight is that fundamentally the business operates keeping consolidation and service in mind. And therefore, the business operates on a gross margin per CBM is the key metric. That's what people try to drive at the ground level and that is what leads to a steady performance. Now with increase fitted, there was naturally an opportunity to expand upon that to some extent, but it is not same proportion, that is what I'm trying to highlight, it's not that it's a contractual obligation, but it's the nature of business how it operates that all the reductions or escalations do not lead to a same proportionate reduction or escalation. So, whenever you would find an increase or decrease in freight rates, you would not find the correlation to be same between our cost and sales and therefore the gross margin percentage changes. So, like I said, as the freight rate moved from 100 to 170, the gross margin did not move by 1.7 times it moved by a lower number. And when it moves back from 170 to 130, it would again move back in a similarly lower proportion, and it will not move back 100 but to 130 and that also worth three to four years. That's the broad assumption we have around how freight rates would move and how our margins would play out. And given that the volume expansion other things are going to be more significant, we believe that the impact would not be significant and hence the confidence on sustained performance in the times to come.

**Moderator:** Thank you Mr. Saraf. We have a next question from Mr. Prateek Kumar from Antique Stock Broking.

**Prateek Kumar:** My first question is on this MTO segment. So, we mentioned that use of technology or digital overall scheme of thing has significantly increased, and Flexport is one of the leading players in global

digital trade covered. So how is their market share, like when we say 13%, 14% market share for us, how are their market share, and is there anything now, with significant ramp up of ECU worldwide the system, there is something which they are doing, which we are still trying to ramp up?

**Ravi Jakhar:** Yes, so let me highlight that as far as the, I'll try to give a quick picture. Globally, the ocean freight operates as FCL and LCL, 93% approximately my value is the full container load wherein it's a more easier supply chain, you're moving a full container it can be booked by a forwarder or by someone like us, or by the shipping line itself. And then there's LCL, which is about 7% in value terms, wherein people do not have enough cargo to fill in the container. And they come to companies like us who are running a global LCL consolidation network, which means that we operate regular services, weekly services to close to 2400 direct trade lanes. So these customers get to book the cargo on a scheduled service just like our full container customer can get by way of shipping line schedules. Now, in this business, we are the pioneers in digitalization and none of the competitors. Neither anybody has the scale that we have globally, nor does anybody have the kind of digital interventions that we are working upon. So, we have a leadership on digital as well as far as the LCL consolidation is concerned. But if you look at the freight environment at large, there are freight forwarders, there are shipping lines, shipping lines are looking at digital interventions, freight forwarders while the legacy forwarders are also trying to digitize, there's a new set of forwarders emerging like, I took an example of Flexport, who have minimal share at this point in time, but they are growing significantly. As the industry landscape changes, we believe that ultimately the successful model would be hybrid, which means that a digitally enable company which has feet on the ground, because you have to move cargo, you cannot just move in megabytes. And some of the companies like Flexport are digital first and now they are trying to build up an operational footprint across the world. Companies like us at EQ worldwide, we have a very robust, strong global footprint. And over the last three years or so we have been investing behind digital to ensure that we are a significant player in a fully digitized freight ecosystem. So, it's not exactly in the right competition and LCL consolidation where we are being threatened by a digital player, we are preparing for a future five years from now, where in supply chains would flatten and the digital ecosystem would be dominated by hybrid players. And that's what we're preparing for. At this point in time on the consolidation market. We are market leaders not just on scale, but also on the digital journey.

**Prateek Kumar:** Right, thank you for the response. Secondly, this Nordicon acquisition project got integrated in the consolidated results. How much would be the contribution of volumes from that business, so of the total 243,000 TEUs we have for this quarter?

**Ravi Jakhar:** Yes, so I'll just get back to you with this information. Let me just, I don't recall the exact numbers. I'll get back to you on this number during the call.

**Prateek Kumar:** And just one more thing on this Speedy Multimode acquisition. So, let's assume our average EBIT, EBIT from CFS segment is around Rs. 30 crores. So how much that Speedy Multimode can add to this number on a quarterly basis?

**Ravi Jakhar:** So, as I mentioned on the EBITDA level, we expect that they should be in over Rs. 10 crores on a quarterly basis should be the potential number on the EBITDA.

**Moderator:** Thank you, Mr. Kumar. We have our next question from Mr. Chetan Shah from Jeet Capital. Please go ahead.

**Chetan Shah:** Sir, just one small clarification, in the current quarters MTO business, how much is the Nordicon's acquisition, is there in the EBITDA and top line if you can give just to get a correct picture about comparison, please?

**Ravi Jakhar:** Yes, that was just the previous question. We'll get back on that number exactly. Just in a while.

**Moderator:** Thank you, Mr. Shah. We'll take the next question from Mr. Abhijeet Mitra from ICICI Securities. Please go ahead.

**Abhijeet Mitra:** My question is more on the MTO side so just to understand you've clarified this, that this business performance looks sustainable. But if I just look on the TEUs metrics, in euros, it's almost you used to do around 4000, 5000 through cycle, or even probably lower. EBIT per TEUs in euros, now that number is almost 11,000. So, I'm just curious that this kind of cost escalation from the customers and what gives you confidence that this almost 7,000, 8,000 per TEUs euro increase, you can sustain through cycle. Some thoughts on that?

**Ravi Jakhar:** So, as I mentioned, when we are comparing on an EBIT per TEUs metric, we need to recognize that this is a relatively lower margin business wherein the SG&A costs are a significant percentage in play. And as we get operating leverage by increasing the business while keeping the SG&A costs in check, that allows us to significantly improve the EBITDA margin, there is something which is a sustained trend which will continue to aid the environment around the freight rates could lead to some softening, which could lead to the tailwind impact, which has also enabled us to expand the margins may play down. But as I mentioned, the volume expansion should continue to take care of that and which is why when I say sustained, I'm not saying that the growth rates of doubling or would sustain, but I'm saying the absolute numbers from this level should be sustained with some softening in the ecosystem tailwinds and continued strengthening of our volumes. And that leads to a significant improvement in EBITDA, because those gross margins fall straight down to EBITDA as we keep the SG&A cost in check. So that's where the confidence is coming from.

**Abhijeet Mitra:** Right, you just understand in terms of your realization increase that you are seeing, that realization jump is also significant it's almost an Rs 40,000- Rs. 50,000 per TEUs jump that we are seeing. So, that normalization of Rs. 40, Rs.50,000 per TEUs, this is a one-year process or it's a two-year process for you.

**Ravi Jakhar:** So, there again, like I mentioned that again is not just led by the combination of the market environment and the transformation initiatives with the focus sales acceleration on more profitable routes, cutting down off loss making trade lanes, all of those things are at play in expanding the operating margins and the tailwinds that have been there we believe them to subside over the next three to four years, but again not to the pre COVID levels, while the transformation impact would continue to play to our advantage in improving the sales acceleration and driving profitability across trade lanes. So, look at for example, if you would notice, the container utilization is also steadily improved and that's something which is a pure operational excellence, which also has significant advantage in terms of the bottom-line performance. So, this is a business of scale as we continue to expand scale, the operating leverage at multiple levels comes into play.

**Moderator:** Thank you, Mr. Mitra. Sir this was the last question, I hand over the call to you for closing comments.

**Ravi Jakhar:** Yes. So, thank you all for your questions, and hopefully I've been able to answer them adequately. I would like to thank you all for participating on today's call. On the pending question on Nordicon, I would like to state that Nordicon has contributed to approximately USD 3 million in EBITDA in the current results. That has been the number for the three months which we have received from Nordicon. And we believe that we would continue to do well with the acquisitions, we continue to look for opportunities to grow both organically through digitization and by way of inorganic acquisitions, which we would only look at selective value accretive targets. And if you would look at any of the recent or even the past acquisitions, we have always ensured that the acquisitions have been extremely value accretive and would continue to drive that and thank you very much for joining us on the call today.

**Moderator:** Thank you, sir. Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using iJunxion conference service. You may please disconnect your lines now. Thank you and have a great day.