



**“Allcargo Logistics Limited
Q4 FY’23 Earnings Conference Call”
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MODERATOR: MR. SUDEEP ANAND – SYSTEMATIX INSTITUTIONAL EQUITIES

Moderator: Ladies and gentlemen, welcome to the Q4 FY 2023 Earnings Conference Call of Allcargo Logistics Limited, hosted by Systematix Institutional Equities. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the 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.

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

I now hand the conference over to Mr. Sudeep Anand from Systematix Institutional Equities. Thank you, and over to you, sir.

Sudeep Anand: Thank you, Michelle, and good afternoon, everyone. On behalf of Systematix, I welcome you all to Q4 FY '23 Earnings Conference Call of Allcargo Logistics Limited. We are pleased to have with us management team, represented by Mr. Ravi Jakhar, Group Chief Strategy Officer; and Mr. Deepal Shah, Deputy Group CFO. We will have opening remarks from the management followed by a question-and-answer session.

Thank you, and over to you, Ravi sir.

Ravi Jakhar: Thank you very much. Good afternoon, everyone. Thank you for joining in on the call, and we're happy to talk about our performance and respond to all the questions that you might have.

To begin with, if you look at the macroeconomic environment, the situation in India continues to remain positive with trade flows being good.

Speaking about the global macroeconomic environment, the environment has been tough and challenging for the global trade over the past six to eight months. However, we hope for a gradual recovery in trade volumes in the months to follow.

Gati, which hosts our Express business under the operating subsidiary, Gati KWE, continues on the path of its transformation journey. And as you would have noticed from the results, there's been a significant jump in the EBITDA of the company from FY '22 to FY '23, which is on the back of various transformational changes, operational enhancements, better service delivery, use of technology, right from the gold class sales force CRM to network optimization driven by data science.

All these initiatives means that Gati truly is a transformed company today. We had almost INR700 crores of debt and contingent liability on the books, which is all a thing of the past now. And post this acquisition for the long time, we have been talking about group's philosophy to bring down the net-debt number. Today, we stand on the other side with over INR600 crores as net cash at Allcargo Logistics Limited. That is a very heartening thing because in a financially challenging environment, with lot of volatility, it is always good to conserve cash and be in this position. So we're in a great position of strength from a financial standpoint, and my colleague, Deepal will talk more about that in his remarks as he runs past the business.

Speaking on the business side, while the macroeconomic environment has been challenging, the company has been able to exhibit robust business performance in the International Supply Chain business. As we see from commentary of leading forwarders who are listed in European markets, different companies have reported a decline of up to 17% in their volumes. As compared to that, we are witnessing nearly flat volumes in the FCL business and a single-digit decline in the LCL business. Which basically points towards an expanding market share for the company.

The long-term focus continues to remain on digitization strategy using technology to drive automation, to bring down the cost of operations over a period of time, to better serve the customers and also create greater stickiness through digital tools and platforms. In terms of the LCL business, we have seen that the decline in volumes has impacted the gross profit. And as the volumes recover, we expect that to come back in line with the more normal numbers.

This time, in our investor presentation uploaded on our website and the stock exchanges, we have also shared detailed note on unit economics to help everyone better understand how the business plays out in differing operating environment. On the FCL business, we have seen the impact of decline in yield, which we intend to offset by expansion in volumes. How this template could play out, could be seen from our India operations, wherein, as I mentioned, the macroeconomic environment continues to remain positive.

So today, with all the other businesses being demerged, what you see as India stand-alone numbers, basically represent the International Supply Chain business as it operates in India comprising both LCL and FCL. And in this business, we see a significant decline, almost 20% quarter-on-quarter and much more significant decline in revenue year-on-year. But the gross profit has only come down by 2%, and that is driven by the fact that we have seen limited impact of the freight on the LCL business. And whatever minor erosion in yield happened in the FCL business was offset by the volume growth, which we were able to achieve by expanding market share in India.

This is the same template, which we intend to play out across the world. And as the volumes come back, we should see a recovery in terms of the performance. In terms of volumes, clearly, from the month of September last year until February this year, it is almost a sequential month-on-month decline with February hitting a very low number on the LCL business, which was in line with the weak operating environment driven by Chinese New Year and overall volumes being low on key international trade lanes.

We saw a robust rebound in the month of March and April, usually sequentially lower and that is the trend which we have noticed in our business performance as well. But April continues to remain above the average of January to March quarter. And we have now also started sharing our monthly business updates, wherein one could get an idea about the operating performance for the months gone by. So, there will be more prompt information available with all the shareholders of the company in their best interest.

So, what we noticed is that we do not see a sharp recovery post the Chinese New Year, but we see a gradual recovery in the volumes. And we believe that this gradual recovery in volumes should help improve on the gross profit numbers. And below gross profit, we would continue to drive technology initiatives, which allow us to bring in more productivity and allow us to contain the cost against the inflationary pressures and be able to improve on the operating margins. So that is the broad approach on which the company is working.

And also, to highlight for the benefit of some of you who may have not followed the developments of the company closely. As we stand today, the company has two key business segments, one is the International Supply Chain, which I just spoke about. And the second is on the domestic side, Express and Contract Logistics. Express is housed under Gati. And Contract Logistics is now part of our 100% subsidiary Allcargo Supply Chain. Allcargo Supply Chain has added another stellar year of performance posting a very healthy EBITDA, and the business is poised for further growth. We are finding that our expansion into diverse domains, expanding on the base of chemical industry and then you moved into auto e-commerce. And now we are finding opportunities in consumer durables and IT as well.

With these new domain expansions, we are finding renewed growth opportunities in the Contract Logistics business as well. So, on the back of that, all the businesses under Allcargo, Allcargo Supply Chain and Gati would continue to perform well. And the other businesses are already demerged, and the companies are in the process of getting listed. We estimate it could be anywhere from four to five weeks as we have already applied with the authorities, and now it is under their purview. And we estimated with the next four to five weeks, the two new companies, Allcargo Terminals Limited and TransIndia Real Estate Limited should get listed and all the shareholders holding shares of Allcargo before the recorded would naturally get the shares of those two companies as well.

So, this is largely about the demerger update. And on the operating performance, while I provided the view on the macroeconomic environment, what is most important is the two things which are working well for us: one, we have been able to perform very well in the operating environment, constantly expanding market share on a global basis. And the second part, from a future point of view, we believe technology interventions would play a significant role in establishing greater market leadership.

And on that front, we continue to do well. And if you would notice the progress in our digital platform, ECU360, now we have started making inroads in the trade finance part as well, which was the only red box left in our earlier presentations. So, as you will see now, compared to the world's best digital platforms. We are right at par and ahead on many counts with progress on all frontiers.

So, on that note, I invite my colleague, Deepal to talk about the financial performance for the year in more detail. Thank you. Over to you, Deepal.

Deepal Shah:

Thank you, Ravi. I think you gave a good overview of the operating environment. I'll just reflect back on some numbers. So first, like Ravi mentioned, we are a net cash-positive company. And with the last two years and three years of performance, we are at net cash -- at 31st of March at around INR604 crores. Would also highlight, which Ravi also mentioned is that we've already acquired the Contract Logistics business, and now it forms part of our 100% subsidiary. Though those numbers are not there in the financial reporting this time, but from quarter Q1 FY'24 onwards, these will form part of the overall numbers.

For ease of understanding the impact, we've already carried them in the Investor Presentation for you to understand the impact on the numbers. While walking through the performance for FY'23, I also would like to give a heads up that we have provided continuing and discontinuing operations for the March '22 P&L numbers, where items which -- of course, this is demerged, so the continuing operation reflects what is known as the MTO business and the Gati business that is there. And the discontinuing is the businesses which have gone out.

So, on the P&L side, if we were to add both the table in the notes for the discontinuing and the continuing, those would add up to the March '22 numbers. And that's a comparative for the continuing operation that we get to see on the P&L side. On the balance sheet side, that's not available. It's only the combined balance sheet for March '22 and the March '23 numbers as it stand demerged. So those numbers typically may not be purely comparable.

So, with this, I'll just give you a little bit of highlights on the numbers. On the consolidated basis, our operating revenue for the financial year 2023 stood at INR18,000 crores as compared to INR19,000 crores for the previous year. EBITDA stood at INR1,129 crores, as compared to INR1,268 crores for FY '22. Profit after tax stood at INR653 crores for the current year as compared to INR824 crores for the previous year.

The combined financials, like I said earlier, considering Contract Logistics business, the revenue would inch up to INR18,392 crores and EBITDA to approximately INR1,252 crores, as compared to INR19,400 crores -- and INR1,400 crores for the previous year. The combined numbers are more appropriate to consider as this excludes the businesses which are already demerged and include the Contract Logistics business.

Now moving to the segmental performance for the quarter. I will start by discussing the performance of the International Supply Chain segment, which operates under the umbrella of ECU Worldwide. LCL and FCL volumes for FY '23 stood at 90,50,000 CBM and 6,04,500 TEUs, respectively, for FY 2023. For FY '22 against the '23, the volumes on the CBM, that is the LCL, stood at 90,89,000 and 5,94,000 TEUs, respectively.

The segment reported an FY 2023 revenue of INR16,333 crores as compared to INR17,643 crores for FY '22. EBITDA for FY 2023 stood at INR1,059 crores as against INR1,305 crores for FY '22. The ROCE for the segment stood at 36% for FY 2023.

Moving on to the Express business operating under Gati, the company is walking the talk in terms of building its infrastructure capability. It has now four operational hubs and is planning to add four more in the next phase of development. The reported revenue for FY '23 stood at INR1,469 crores as against INR1,242 crores, up 18% year-on-year basis. The EBITDA for FY '23 stood at INR72 crores; and FY '22, it stood at INR36 crores.

The EBITDA margin stood at 4.9%, as compared to 2.9% for the last year. With better yield management and operating capabilities, we believe this business is progressing well. The Contract Logistics revenue for FY '23 stood at INR341 crores, as compared to INR344 crores in the previous year. EBITDA at INR121 crores as compared to INR136 crores.

We've been consistently providing other key comparative financial indicators in our Investor Presentation one can refer that for more details. With this, I would like to open the floor for questions-and-answers. Thank you.

Moderator: Thank you very much, sir. The first question is from the line of Mayur Liman from Profitmart Securities. Please go ahead.

Mayur Liman: My question is on the revenue side. Basically, in the PPT, there are three reasons due to which we see the decline in the revenue: first one is the ocean freight rate decline in LCL business, decline in operating expenses, impact on the FCL business and the investment in new trade lanes. So could you please provide more details on that segment, basically the investment in new trade lanes.

Ravi Jakhar: Yes. Thank you for your question. So, to comment upon the same, the revenue is impacted by the ocean freight because we bill the customers based on the prevailing ocean freight rates as there is a contributing cost for us as well. So, if the ocean freight rates come down, naturally the revenue also comes down. Like I gave an example of India, how the volumes expanded and therefore, the gross profit was same, to just 2% lower, but the revenue came down by 20%. So that was on account of the ocean freight rates coming down. So that is one contributing factor, which is same for LCL and FCL.

In case of LCL, ocean freight is largely a pass-through cost, and therefore, the impact on gross profit is negligible or very minimal. In case of FCL, there is a 20% to 30% impact from the yield as well. And therefore, as the ocean freight rates come down, the revenue comes down and the impact is there on the gross profit also.

What we mean by investment into new trade lanes. Let me explain that. We operate about close to 2,500 trade lanes globally, and we keep on launching new trade lanes. So, this could be basically a direct service, say, from Barcelona to Cartagena in Colombia. And earlier, we might be operating it as a trans-shipment service through our hub. Now as we launch these new services, it is always the classical chicken and egg situation, wherein we do not have full volume. So, the containers on these new trade lanes typically would not go fully utilized.

And as an outcome of that, initially, some of these trade lanes contribute to marginal losses. So, the point is not around revenue. But as we launch new trade lanes, some of the volume could be coming through the new trade lanes, which develop over a period of six to nine

months, and then they start becoming breakeven and starting to contribute to profit. So, some amount of gross profit gets negated by these new trade lanes in the early launch.

So, we have been taking all this initiative for the last 12 months in particular. And therefore, I would say, it is largely stabilized now, particularly, let's say, another three months where we would have a rolling impact. So, there'll be some positive contribution coming in from the trade lanes launched one year ago, there will be some negative impact coming in from the recently launched trade lanes. So that should largely negate out. But there could be brief periods where there could be marginal impact on the gross product, not on the revenue. The key point on the revenue impact is largely on account of ocean freight impacting both FCL and the LCL business. Thank you.

Mayur Liman:

And when will we see the improvement in the demand, sir?

Ravi Jakhar:

So, on the improvement in demand, like I said, based on the commentary that we read from various economists and the various research reports on the world trade outlook, that's what we also depend on from a three to six months horizon point of view. From a more-closer 30 days to 45-day, we also get feedback from our ground team. So, on a 30 days to 40-day, I could say that potentially, we should see higher volumes in May as compared to April as the operating demand looks stronger than it was in April.

But from a three to six-months perspective, we are not seeing any sharp recovery, but everybody is estimating that as the festive season shopping kicks in, inventories will be planned in advance of that. And therefore, July onwards, there should be a sustained gradual, not a very steep increase in the volumes. That is our estimate based on the ground information that May should be higher than April. And we expect but cannot be certain based on the macro economic factors for the volumes to show a sustained pickup from July onwards.

Moderator:

Thank you. The next question is from the line of Kapil Malhotra from Tata Mutual Fund. Please go ahead.

Kapil Malhotra:

Hello, Ravi and team. This is Kapil. So, the question is, I wanted to know what is the situation on the freight rates right now? I did go through the Investor Presentation, mostly April and May. What is the current situation? One, is there a possibility of the freight rates falling further? This is my first question.

And the second question is, of course, I do understand you can't foresee the demand for a very long period given the macro challenges, etcetera. But, say, on a six-month basis, for six months of this fiscal year, what is the volume growth or degrowth you expect?

Ravi Jakhar:

So, Kapil, to respond on the volume, like I said, the very fact that April was above the first quarter, the January-to-March quarter average, and we are clearly seeing May to be exceeding April. On the back of that, I can clearly see that April-to-June quarter should be better than January-to-March quarter. And based on the estimate that there should be some pickup from July to September, I would further say that July-to-September quarter should also be certainly better than the quarter of January-to-March. So, both the quarter of June and quarter of September should definitely be above the quarter of March.

Between the two relatively whether they would see sequential increase is a estimation that we expect because if volume pickup happens sooner, there could be a flattish trend, but both quarters should, based on our estimates be above the March quarter. That is something which we can say based on our experience.

And on the ocean freight rates, we see some minor signs of little increase on some trade lanes lines, but we don't see that as a sustained trend. Freight rates have already hit the bottom and if you observe some of the shipping lines which have been reporting their P&L as well, there have been some large shipping lines which have reported losses.

So, which clearly shows that they've already gone to some extent, below the threshold level. And as the volume recovery kicks in, perhaps, it will work out for everyone. But we don't see the freight rates to rise back again to the previous levels. We don't also expect them to fall further. So, we expect them to remain at the more or less current levels in the near term as well as midterm, I would say, that's our call.

Kapil Malhotra: Right. And assuming that the freight rates remain more or less similar, any ballpark number you can give on the EBIT or EBITDA that we'll be making going forward. Obviously, there has been big variations from what we made last year to what we made this quarter, Q4, I mean. So, I just want to gauge what can be a fair assumption?

Ravi Jakhar: Yes. So, Kapil, while we stay are from a specific guidance. But like I said, I can repeat some of the comments, we should help in forming an opinion. As I mentioned that we have seen that yields have now got normalized in the FCL business. And they obviously are better than the pre-COVID numbers because a lot of work has gone behind in the transformation journey over the last three years. So, considering the freight rates are now already at a low level, one could estimate, particularly if you take this quarter and the next quarter, I would say this will be two quarters of the bottom freight, and you could estimate the yield to then remain at these levels with volume expansion.

It would be some short-term strategies of being more aggressive on the pricing, but that will balance out. You'll either see volume growth being more or you would see the volume growth being normal and some yield being held. So, I would say the current levels on profitability should largely be staying more or less around the same number in range bound and the growth of the company should happen more on account of volume recovery, and we are committed to continue to contain the cost side as well by use of technology and better processes, etcetera. So those things should create positive impact on the performance, but it is difficult to provide a specific guidance on the same.

Kapil Malhotra: Sure, I understand. But yes, it's always encouraging to know if we are able to sustain the current profitability also because obviously pre-COVID, the profitability was much less than since obviously, you guys have made a lot of efforts in structural initiatives to improve the cost structure, etcetera. So, I think that's it for me for now.

Ravi Jakhar: Yes, Kapil, I think you're right, a lot of things have changed since pre-COVID. If I go back to 2018, 2019, those are the times when people who are planning trade lanes on excel sheets. And

today, you have data science helping in network optimization. Those are the days when container utilization was planned in the warehouses. Today, you have global dashboards where all trade lanes are being monitored. There's a significant use of technology to drive utilization, to drive trade lanes, to manage operations. A lot of automation has gone behind. There have been structural programs, which we have run with McKinsey as a core partner on sales acceleration and organization transformation. So there has been a lot of development.

Even in our own scale itself, pre-COVID, 2018, also, we were doing about 300,000 TEUs in FCL. Today, we are doing 600,000 TEUs. So, with double the volume, naturally our negotiation powers have increased. We are now doing much more business in the longer trade lanes. Our door-to-door business percentage has been consistently going up, which means that on the same container, we can potentially provide more services and make more profit. The ECU360 platform pre-COVID was a single-digit number. Today, 66% of our bookings are being done digitally.

So, I think it's a very different organization what it used to be pre-COVID as the International Supply Chain business itself and where we stand today at the forefront of digitization of international logistics. So yes, I think what one could look at over this quarter and the next quarter, this freight rate, I don't see them going up or going down. So, in a range bound rate environment. It should be very simple for everyone to understand the profitability and follow the volume expansion and the other initiatives around the cost. So, yes. Thank you.

Moderator: Thank you. The next question is from the line of Nirav Savai from Abakkus AMC. Please go ahead.

Nirav Savai: Ravi, my question is regarding this one-off operational cost of INR68 crores. So can you just elaborate more on this other one-off cost of about INR25 crores, which happened in the quarter. And as per the presentation, you say it's not going to happen in the next quarter?

Ravi Jakhar: Yes. So, in any quarter, we would typically have some one-off costs, which could be -- usually, that is the order of INR4 crores to INR5 crores, which we do not report. In this quarter, also, we have not reported various smaller one-off costs, which are routine and might happen sometime in one country, sometime in the other country. What you highlighted are a few big amounts, which are unique to the previous quarter and this quarter. These are driven by -- some of them are one-off management cost towards the project or towards a specific year, which are not repetitive in nature or linked with certain transactions, etcetera. The cost.

Second is if you look at the acquisition we did in Germany, it was a competitor that we acquired, which was naturally working with competing network partners. And in doing so, there is a loss of volume, which was expected, and which was to bring down the company's operating performance. However, as we bring the two operations together, so we move into a common warehouse this month and then the co-loading starts, which is when the cost synergies kick in and the company comes into a breakeven and then start expanding on the profit.

But during these three months, because 1, January, the effective rate for that acquisition, we have lost money in Germany, which is what we have highlighted. It is a small component. And then a significant amount is coming from the provision for doubtful debt, which have been written off in US. We had a peculiar situation there wherein there were certain COVID period invoices and there were some systemic challenges. And as per the policy in US, those older debts were to be provided for in this quarter, which have been done now.

So, these were some one-off exceptional items pertaining to special situations, which we have not seen. If you look at the last 10, 12 quarters, we find that the exceptional one-off costs have been ranged bound, like I said, to the degree of INR4 crores, INR5 crores. And as we speak, we are already in the month of June, so we've already seen April and May gone by. And we are also very clearly aware of the situation in Germany and other things. So, we believe that the one-off costs going forward should not be very significant. But since -- this quarter, it was significant, we decided to highlight that. I hope that explains...

Nirav Savai: Provision for doubtful debt. So is there any criteria that once that reaches a certain threshold in terms of receivables. And if we don't get them, then we make a provision for that. So, is there any threshold in terms of number of days where we can get the receivables?

Deepal Shah: Yes. So, anything above 365 days is what we provide. And it is also market-wise. In some markets it's 365 days. Some markets we are making at 180 days.

Nirav Savai: Okay. So, this is largely US?

Ravi Jakhar: Yes. This is only US. There's only one single country. That's a very specific instance of one single country, wherein there are some COVID-period invoices, there's is a write-off on that. Since we had some systemic challenges there, and we were trying to follow. Some of these invoices have been recovered as well. But from an accounting standard that we follow, we have a provision to be made after 365 days, which was judiciously made. There could be some write-backs from there, but that is something which is difficult because these are all old since they are more than 365 days over. So, we have provided for them.

Deepal Shah: So as in when we collect, we will come back to the P&L, if we collect...

Nirav Savai: Sorry, I didn't get the last thing, sir.

Ravi Jakhar: So, we were just explaining that these are provisions and should some amounts come back, they could be some written-back -- like I said, these are old and in US, we follow a policy of 365-plus days and usually very minimal amounts go in that category. It was only an exceptional situation wherein we had some systemic challenges in US during the COVID period with some system changes and people operating from home, and there was a specific situation in that country, which caused this provision, which hit the books in this quarter, but it pertains to, as I mentioned, 365-plus days, which means more than a year old. We do not have any such provisions, which are looking like in any other country. It's a special situation, and which is why it is truly a one-off item, and that's why we chose to highlight that.

- Nirav Savai:** Great. Sir, secondly, about this FCL revenues. In the presentation, I see it's about 30% contribution to the MTO business. So, is it for '23 last quarter, or how do we read this FCL contribution?
- Ravi Jakhar:** This is not the revenue, but the gross profit contribution, which we have been stating. We don't provide an exact spend, but 70-30 is the broad gross profit split. It might be 1% here or there, whether it's for the quarter or the year gone by.
- Nirav Savai:** Contribution is 30% from the FCL part?
- Ravi Jakhar:** Yes, you can look at it the continuing most recent current performance. You can say it is 30-70, 30% gross profit coming from FCL and 70% gross profit coming from LCL, plus/minus 1%, 2%.
- Nirav Savai:** Okay. So that's where the larger decline has come from, the FCL business. And lastly, on this MTO EBITDA margin, I mean, in the presentation, it seems it's about 7.5%. And -- but if I look at the total number, it's about INR130 crores. So, this is adjusted...
- Ravi Jakhar:** It is a small typo, if you look at the -- we already uploaded the revised presentation on the website so it's a small typo, but we provided, you can do the math, the number is 4.4%, yes, that's right. That's the -- exactly the latest presentation is uploaded on the website, the typing mistake has been corrected.
- Nirav Savai:** Right, right, right. And then this EBITDA per TEU, any guidance which you would like to provide because now there has been a decline sequentially, and if I heard it right, you said this is something which is sustainable. Is there is a room for improvement when we look at the next two quarters?
- Ravi Jakhar:** Like, I responded earlier. Unfortunately, we do not provide the guidance on that. But we see volumes seeing recovery and that should help improve gross profit. And on the cost side, we'll continue to contain the cost. So those are the two things which I can mention. And of course, for next quarter, we'll not have one offs.
- Nirav Savai:** Okay. And lastly, on this trade lanes, which you have added this quarter. So that also impacts margins? I mean if a new trade lane start. If you can throw some light on this part as well.
- Ravi Jakhar:** Yes, not very significantly. It is one contributing factor, but it's not very significant.
- Moderator:** Thank you. The next question is from the line of Vikram from Phillip Capital. Please go ahead.
- Vikram:** Just to continue with the same question to make it more clear. This one-off INR67 crores, we got clarity about provision, which is largely US side, but this INR24 crores or INR25 crores, is it largely related to, again, supply chain business? Or -- just to rework the number on profitability side of MTO, I just...
- Ravi Jakhar:** Yes, those one-off costs are also pertaining to the International Supply Chain business only. And those would also not be there in the coming quarters. Like I said, there will always be some one-offs, but we have not stated that to the degree of INR4 crores, INR5 crores, which is

there every quarter. These were specific items pertaining to a specific event or a specific situation, which is not in the normal course of business, and which is why we reported them.

Vikram:

Okay. And there are charts on Page 19 of presentation about yield, charts on LCL, if you look at utilization index and all that. So, they are for Allcargo, our operations or like indicative for the industry as a whole?

Ravi Jakhar:

So, these are very, very specific to our operations. So basically, let me take this opportunity to explain the unit economics, and I would recommend that you go through the presentation where we have captured it in high detail. So, as I mentioned, we have FCL business and the LCL business. Now the first part is, of course, how much volume do we do.

In the FCL business and LCL business, in both cases, naturally, it's a factor of macroeconomic environment and how we are able to perform relatively by expanding our market share. Now on these volumes, how much profit, which is yield, which is basically gross profit divided by the per unit volume. In FCL business, there are two or three key things which drive that. One, of course, is the ocean freight. So, when the ocean freight were higher, we were making up to - - much higher. And now the ocean freights have crashed, we're making about 25%, 30%, lower. It is also driven by trade lane mix. So Intra-Asian trade, if we are growing, say, in trade from China to Indonesia, Malaysia, those are naturally shorter trade lanes and we make lesser profit.

And then third part is our procurement capability. Like I mentioned earlier, we have doubled the volume in the last four, five years, which has allowed us to be much more competent in negotiations with the vendors. So, these are the three factors which drive the profitability in FCL.

In the LCL business, because it is like -- it is more of a service business where it's more about utilization. It's not a plain container business. So here the biggest driver is our container utilization because our cost is fixed for getting a container. How much cargo can we carry inside that, defines our revenue. That is a big contributor. How much containers are 40 feet because cost for 40 feet is lower as on a cubic meter basis. So how much 40 feet containers do we carry? How much containers are moving directly versus how many are moving some trans-shipment because customer obviously pays from origin destinations. They don't care whether we trans-ship or not.

And then value addition. The same cubic meter of cargo, if it is going from Nhava-Sheva Port in Mumbai to Los Angeles port, it will make lesser money. But if it is going from Nagpur to somewhere in the hinterland in US, we'll make more money because we have the first and the last mile added. So, these are all the factors. And of course, ocean freight would also have some marginal impact there. So, these are the factors which defines the LCL profitability. And a combination of volume and yield is what defines the gross profit.

And under the gross profit, there are obviously inflation and the business-as-usual hirings. But what we are able to do is we're able to bring down the cost through automation. At the same time, there could be some investments in tech and in some new trading lanes that could be,

which are not very significant. The biggest impact in the SG&A costs would be inflationary on the increase and our own automation, etcetera, in the decrease side. So, this is a guidance of how the EBITDA plays out and what you see in the chart. These are the relative performance.

So basically, in the month of April '22, if we are making about 101 profit on a per cubic meter basis; in March '23, we're making about 99. So, as you can see, the LCL yield is largely constant, even though the ocean freight has come down significantly during these 12 months, and this is the point which we've been mentioning for quite some time that the LCL yields are less dependent on the ocean freight.

The container Utilization Index is more an indication of how effectively we've been able to utilize our containers. That has naturally gone down in a low volume environment, from 100 to 94.3. And likewise, the 40 feet container usage has also gone down from a scale of 100 to 88.6. So, these are not exact numbers, but these give the relative indication of how the yields are going, how the container utilization is going and how the 40 feet is going. And likewise, in the FCL, we have also given the impact of yield.

But as you would see, ocean freight has come down from 100 to 23, while the yield has come down from 100 to 70. So, at a much lower, almost 80% lower ocean freight. We are already at the bottom. And as you can see the last three, four months has been almost consistently at this number, while the yields have also fallen and now stabilized. This kind of also gives you a good picture on how the yield should look like. These are detailed performance parameters about the company's business, which we have worked out to ensure that we have most information that can be shared with our shareholders. Yes, I hope that explains. Thank you.

Vikram: Thank you for that explanation. And it was very helpful, sir. But just to clarify, when you say about yield, it is a gross profit and not a revenue realization, right?

Ravi Jakhar: Gross profit per cubic meter in case of LCL and yield is gross profit per TEU in case of FCL. But like I said, this is a scale, it's not dollar. So, if we say 101 become 99, then maybe \$50 has become \$48 or maybe \$100 become \$96. Just to put it in perspective.

Vikram: Yes. And this container utilization, when it was at peak at 100 as an index, was it in absolute terms close to, say, 26 cubic meter or something that...

Ravi Jakhar: Approximately in that range, but like I said, 40 feet would have double of that because that's two TEUs. So, there is the index that we give, we are not able to share the exact information. But I think this takes care of the point that's how the utilization is going.

Moderator: Thank you, sir. We take the next question from the line of Kapil Malhotra from Tata Mutual Fund. Please go ahead.

Kapil Malhotra: Sir. Also, if you can please talk a little about Gati. How is turn around going there? And what are the drivers of the increase in revenue and of course, mostly what will be the profitability? If we can just throw light on that, please?

Ravi Jakhar:

Right. Let me also take this opportunity to explain what Allcargo business today represents. So, like I said earlier as well, Allcargo business today represents 100% ownership in the International Supply Chain business. It also represents 100% ownership in the Contract Logistics business. And if you look at the Gati, which is Express and Logistics business, as you know, we have agreed with KWE to buy 30% stake in the operating entity, Gati KWE. So therefore, we hold 30% directly in the operating entity, and we also hold 50% of Gati, which holds 70%.

So indirectly, we hold about 65% of the Express and 100% of the Contract Logistics and the 100% of the International Supply Chain business. So -- and as we have made disclosures, our Board has approved and we are in the process of evaluating various options to bring the right structure in the organization, which we've been working with the advisers for that appointed by the Board. And perhaps over the next five to eight weeks, somewhere in that range, we should be able to get firm opinion, which can be placed before the Board for their consideration. So, one could look at the business as sum of these three parts.

Now coming to the Gati business. What we have seen is that all the historic legacy issues were resolved quite some time back, whether it's tax disputes, contingency liabilities, governance issues, they all have been well laid to rest long ago. We have now also expanded the operational footprint with modern hubs, which were a bottleneck in growing the company's operating performance. Barring one or two hubs, which are in the process of being launched in the coming months, almost all the major hubs have already been launched, which means that there is no operational constraint.

What we've been finding is that since the month of January this year, we have been able to consistently hold the best in the industry standards on operational parameters. In terms of gross margins, gross margins are a function of two things: one is the operational efficiency, which, like I said, is back on track and now with increased revenue, we should further move towards our desired target of about 31% on the gross profit margin. There's also a negative impact which comes in from deductions and deductions are largely on account of service failure, but they naturally pertain to the previous period.

As we progress, and like I said, the performance has been good from January onwards, we anticipate that the deduction should also decrease. So, our deductions were higher than industry standards, which should also come in line with the industry standards. So, these factors should contribute towards the improvement in the operational profit, nothing much to be done from our side. What we had to do is already done. Operations are already now best in industry. And below that, the staff investments, all the other investments have already been made. From now onwards, it should be an operating leverage play with only inflationary adjustments on the SG&A costs. So that is what should basically set the path forward for the improvement in EBITDA.

And the industry itself has been growing at a very robust growth rate, and we are confident of expanding our market share in FY '24 as well as in FY '25. I would say, all the work that we had to do is done. Now it's more about performance to follow. And in terms of performance as

well, like I highlighted earlier, for the previous year, if you look at the EBITDA to this year, it's almost nearly doubled, and we see sustained growth in the business in the years to come.

Moderator: Thank you. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: Firstly, thanks for explaining this yield and the unit economics in detail. My question is pertaining to this very aspect. Looking at the broader guidance of INR1,700 crores EBITDA in '26, probably if I adjust the one-offs in this quarter, we are at INR200 crores, so roughly an INR800 crores annualized EBITDA run rate at a very poor volume base, and we expect this to double in three years. So, what would be the levers or the drivers volume-wise and in the yield also there are so many parameters. So, how are you looking at the levers and what will be helping us to double the EBITDA as per the stated long-term guidance?

Ravi Jakhar: Yes. So basically, we have stated our management aspiration for 2026. And those are based on a combination of multiple factors, first being volume expansion. So, the volume expansion, like I mentioned earlier, is a factor of market share expansion, which has been happening consistently, which is why you witnessed flat in FCL and single-digit decline in LCL as compared to up to 17% decline reported by international forwarders, which are listed elsewhere and therefore, they have been sharing the data. So, there will be volume expansion.

Now clearly, 2023 as a year may continue to see sluggish growth but we estimate the economic environment to be positive in 2024, 2025 and 2026. So, we believe that in 2023, we would continue to see gradual expansion in the volume, and that will lead to improvement in the profitability. But from thereon, we would be hoping for headwinds to recede.

And in a favourable environment with all the technology trend that we have built, we should be able to accelerate the volume. If you see conventionally, the LCL, which is the flagship business, typically grows at 2x the rate of global trade, and that is driven by a lot of penetration of LCL in e-commerce, SMB trade, which is all the cream of the global trade contributing to the growth.

So, all these factors would mean that we'll be uniquely positioned as an industry leader in both scale and technology. So, we are quite confident about leveraging our position to expand market share in the global market. And then expansion in market share with growth returning in '24, '25 and '26, we hope to achieve the management aspirations stated by us.

Ravi Mehta: So, on the market share, I believe, we are at 14%, 15% in the LCL market?

Ravi Jakhar: Yes, that is right. We are at near 15% market share in the market that we operate in. But there are countries where we were 43%, 44%, 45%. There are countries where we were 5%, 6% or 7%. So, there are opportunities to continue to expand the global market share.

Ravi Mehta: And what could be the aspiration because the industry is pretty fragmented, at least on the LCL side?

Ravi Jakhar: Like I said, industry is fragmented on a global basis, but there are four or five large networks. We are the largest of them all and we've been able to consistently drive the market share up. And like I said, there are examples that within certain geographies, we have 40%, 45%, 46% market share also. So, there is no structural limit per say. And with the increased use of technology, it becomes relatively difficult for disjointed smaller operators operating in network which is not consistent. And therefore, we believe that larger players operating on a unified operating system with a commonly owned network should do better. And we are right at the forefront on that.

Ravi Mehta: Sure. And a couple of follow-ups was, this was more on the volume side. So, the other levers that you discussed in the unit economics part. So, you expect this 40 feet usage, your container utilization index, all what has been dropped in last one year as per the charts that you showed. So are you expecting these all to move back to that level or you're factoring even further improvement when you're aiming for that aspiration of doubling. So just wanted to get some sense of what all things probably we should build in our...

Ravi Jakhar: Yes. In a short-term environment, which is next three to six months, markets are not likely to be very bullish, which means that you would not have excessive cargo loads, which -- and therefore, the utilization levels may remain range bound. We will see the indices being flat for a brief period of time and then we should estimate some upward tick as the growth returns to market. That's what our broad estimate would be.

Ravi Mehta: So as things improving '24 and '25, you should be back to that 100-starting point, what you're showcasing as per the presentation.

Ravi Jakhar: We cannot say exact, specific guidance, but we would expect a positive upward tick in '24 and '25 as the markets recover and come back to normal growth trajectory.

Ravi Mehta: Using technology, is there room to further improve, meaning whatever insights you must be getting by using technology of lately. So whatever starting point that you're showcasing, as per your assessment, is there more room to even outdo that, maybe three years, four years out? I'm not asking near term.

Ravi Jakhar: Yes. So, on the container yield side, like I mentioned earlier, the ways of operating have already changed. So, all the transformation is already behind us now and which is why you see the performance to be significantly different from pre-COVID era. So, all of that has already been largely achieved. Where we see technology continuing to play further role, would be in terms of automation, like we had many unanswered e-mails, which were coming for quotations.

It was not manually possible. Today, you have OpenAI tools like ChatGPT, which you have integrated to create automating responses to those quotations and linking them to our ECU360 system. And some of those technology interventions would continue to play out, which should allow us to contain our operating costs and thereby improve the performance of the company.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we take that as the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Ravi Jakhar: Yes. Thank you all for joining in. And I hope we were able to provide you with further information. Should you have any further suggestions or questions, please feel free to reach out to our Investor Relations team and we would respond your questions. And what we also try to endeavour to do is that based on the feedback that we received, we try to incorporate more-and-more additional information in our presentations. And you will continue to see that in the monthly business updates as well, which has already been released for the month of April, and you would see for the subsequent months as well. Thank you so much.

Deepal Shah: Thank you.

Moderator: Thank you, sir. On behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.