



“Allcargo Logistics Limited Q2 FY23 Earnings Conference Call”

November 10, 2022



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

**MODERATORS: MR. SAILESH RAJA - ANALYST, BATLIVALA & KARANI
SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Allcargo Logistics Limited Q2 FY23 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the belief, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and 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 this conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sailesh Raja from Batlivala and Karani Securities India Private Limited. Thank you and over to you, sir.

Sailesh Raja: Thank you. Good afternoon to all. On behalf of B&K Securities, I would like to welcome you to the Allcargo Logistics 2Q FY23 Earnings Call. From the management side, we will be hearing from Mr. Ravi Jakhar - Chief Strategy Officer and Mr. Deepal Shah - Group CFO. So, without taking much time, I hand over the call to Mr. Ravi for the initial remarks and post which we will open up for the Q&A. Over to you, Mr. Ravi.

Ravi Jakhar: Thanks Sailesh. Good afternoon everyone. I am Ravi Jakhar - Group Chief Strategy Officer for Allcargo Logistics Limited. I am joined by my colleague, our Deputy Group CFO, Mr. Deepal Shah and my colleague from the Investor Relation's team. We have uploaded our financial results and investor presentation for quarter 2 FY23 which has further been with minor corrections uploaded again. I hope you have had a chance to go through the same or would recommend that you can go through the same to get a more comprehensive insight on the quarterly performance as well as on the plans ahead.

This was a very impactful quarter in many ways. We demonstrated our highest ever revenue for the second quarter. We also demonstrated our highest ever EBITDA for the second quarter and also the highest ever EBITDA margin for any quarter. Strong performance is particularly delighting, since it comes against a backlog of economic uncertainty leading to challenges of the global supply chain and diminishing trade. Therefore, the company's digitization and transformation initiatives that we have undertaken in the last few years have clearly come handy in building the resilience in us. We have now reached a stage wherein the platform has been created and we can continue to scale up from here without any significant investments.

On the international supply chain business, the global ocean freight saw a year-on-year decline, however, leveraging our market leadership position and digital capabilities we managed to grow our volume and significantly improve the margins thereby achieving a much higher EBITDA growth rate on a year-on-year basis. To take some examples we have situation like in Asia, Vietnam which had emerged as a major manufacturing hub alternative to China did not have volumes. The port volumes were down 30%, but our business remained stable. In UK where the LCL consolidation business went down by about 25%, we managed our volumes. Going to America, in the United States of America, the export volumes for LCL in this particular quarter saw a double digit decline on the industry but we have managed to grow our numbers.

Coming back to business, like I mentioned international supply chain we witnessed headwinds in different markets and despite that we managed to grow the business which speaks about the resilience that we have built in our business. As an outcome, we achieved the highest ever EBITDA for quarter 2 witnessing a strong growth year-on-year and even witnessing a growth quarter-on-quarter. On the Express and Contract Logistics business, we continue to perform well. The Express Logistics business under GATI saw almost tripling of the first half EBITDA in the first half of this year. Contract Logistics business continues to invest in capabilities to scale up the business. The businesses being demerged under Allcargo Terminals, which is a CFS operation have also continued to maintain robust performance and on the assets, we have been progressing well as well.

In another significant update, I would like to highlight and share that in the board meeting held yesterday, the Allcargo board approved acquiring shares from KWE in the operating entity GKEPL. This is a reinforcement of our belief in management and the growth opportunity that the Indian Express Logistics industry offers and having transformed the business operations over last couple of years. As a continuation of our strategy, we are now well placed to further increase our investments into the business.

On the real estate business, there was a major condition precedent which has been recently accomplished and therefore now with procedural compliances remaining we estimate that the share purchase agreement would be signed with the Blackstone entities within the next 4 weeks which would have significant impact on our debt which is already down to a significantly low number with the net debt standing at about Rs. 543 crores and the Blackstone transaction consummation by way of an SPA would have further impact of Rs. 400 crores. With this, we are looking at a situation wherein we would be near zero net debt and on that account, I would now request my colleague, Deepal to take you through the highlights of the financial performance of various businesses. Thank you and over to you, Deepal.

Deepal Shah:

Thank you Ravi. I will now discuss the performance for the second quarter of FY23. I am happy to share that we have been able to maintain our performance despite the muted global economic scenario. Despite marginal increase in revenues, we were able to grow the EBITDA and the margins thereof substantially. Allcargo Logistics has reported consolidated revenue of Rs. 5,300 crores up 6.5% on a Y-o-Y basis. It is noteworthy that our EBITDA has also grown by 24.2% to Rs. 450 crores on a Y-o-Y basis. Reported PAT is impacted because of exceptional items, however, adjusted PAT stood at Rs. 226 crores which has grown by 2% Y-o-Y.

Now, I would like to discuss the performance of each of the business segment in detail for the quarter. To begin with the largest segment which is the International Supply Chain business, it has shown growth in terms of revenue on Y-o-Y basis, despite decreasing trend in the ocean freight over the last 6 months. The international supply chain reported a revenue of Rs. 4,660 crores as compared to Rs. 4,384 crores in Q2 of FY22, a growth of 6%. Volumes for LCL and FCL have witnessed marginal improvement on a Y-o-Y basis. Both LCL and FCL volumes grew by 2% for FY23 quarter 2 on a Y-o-Y basis. EBITDA for the International Supply Chain business stood at Rs. 384 crores for the quarter 2 of FY23 as compared to Rs. 307 crores for

quarter 2 of FY22, a stellar growth of 25%. We have been able to grow our EBITDA faster than the revenues on the back of focused digitalization and yield management.

Going over to the next business, our Express business, our Express business revenues which falls under the flagship brand of GATI has reported a revenue growth of 10.8% on a Y-o-Y basis and stands at Rs. 370 crores for quarter 2 of FY23. The EBITDA for the same period stood at Rs. 27 crores as compared to Rs. 17 crores for quarter 2 of FY22. We are witnessing operational leverage play out in our Express business and with increase in revenues along with cost optimization programs, we are optimistic of margin enhancement in our Express business.

Going over to the CFS business and the ICD business, the CFS and ICD segment has demonstrated a significant growth in volumes over the last year. Volumes handled for the quarter stood at 1,39,000 TEUs as compared to almost 80,000 TEUs handled in quarter 2 of last year. While speedy acquisition boosted the volumes, it has also improved the export and import mix within the volumes. With larger focus on customer analytics through the MyCFS initiative, the business has been able to maintain robust EBITDA margins of 24.2%, also along with delivering a very strong ROCE of over 31%.

Moving lastly to our Equipment Hiring segment, the current quarter remains seasonally challenged as usually the monsoons are seasonally lower volumes, however, as we see our utilization stands near to 90% levels. In this segment, we remained committed to exit non-core low yield asset and optimize capital allocation, also to highlight majority of investments are largely depreciated on the books as we applied accelerated depreciation for most of these assets.

On the balance sheet, the gross debt, this is our item to highlight stood at Rs. 1,400 odd crores and the net debt stands at approximately Rs. 543 crores. Strong performance has resulted in a net debt to equity levels at the lowest level of 0.13x, the lowest point over the last 2 to 2-1/2 years. We have been discussing our demerger plans in our previous communications and the same is on track and is working as per timelines. We will keep the market updated with any new developments in the due course of time. We have been consistently providing other key comparative financial performance indicators in our investor presentation. One can refer that for more details.

Thank you. Over to the floor for questions.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth:

So, my question is pertaining to the transaction with KWE, so I just wanted to clarify that this deal is Allcargo owning 30% in GATI KWE while 70% will rest with GATI Limited, the holding company, right?

Ravi Jakhar: Yes, that is right. This is in a way completing the GATI acquisition that Allcargo started, starting with the acquisition of erstwhile promoter shares and followed by an open offer and we have had discussions in the past to engage at a future date with certain terms and conditions and now we have engaged in those discussions and the outcome has been a mutual agreement to buy the shares and therefore Allcargo Logistics would be buying the 30% shares from the KWE Group and they own those shares in two different entities.

Chintan Sheth: So, why should, if you can help us to understand why this transaction is through Allcargo rather than GATI if you can and given that the transaction is happening at equity value of Rs. 1,350 odd crores, while GATI KWE is primarily the operating business currently for GATI Limited which is quoting at around Rs. 2,050 odd crores market cap as of today, how should GATI shareholders look at this transaction?

Ravi Jakhar: Like I said, this is a culmination of Allcargo's acquisition of GATI and at the very outset, we had engaged with the erstwhile promoters as well as with the joint venture partners and agreed to engage in future on certain ways and now this is a transaction between KWE and Allcargo in the operating entity and therefore it is the prerogative of the two parties to decide on what the fair price for this operating business should be in line with the various terms agreed beforehand, now given the confidentiality of the agreements signed, it would be impossible to share all details, but what I can say is that from a GATI shareholder perspective and I would also like to highlight that given the Allcargo Logistics earnings call, I would also refrain from going into too much detail and we can take it up in the GATI call as well, but from a GATI shareholder perspective, this now should facilitate the process of restructuring in GATI and that should basically help expedite the growth path on which the company is going forward. From a valuation perspective, I would say that this is a private transaction between two parties and therefore may have a limited context. It is what I can say about that.

Chintan Sheth: But if we look at the restructuring, the easiest way would have been that the GATI KWE which is the core operating business, if GATI would have owned 100% that part of the business, it would be easier to integrate the entire GATI Limited restructure, that is my understanding, but I am just trying to understand how should we look forward once the structure will be like 70-30 between GATI Limited and Allcargo?

Ravi Jakhar: This is most simple way of executing the transaction with Allcargo Logistics having the cash available from the internal accruals. In GATI through the transformation initiatives, the company has seen significant progress, but still has constraint from the cash flow perspective. Overall, there are multiple considerations which go into and like that there is a culmination of an agreement which started in those discussions within Allcargo Group and KWE groups which shares a strong business relationship and therefore this structure has been arrived at, but now with Allcargo owning the 30% stake in GATI-Kintetsu Express Private Limited, this will help expedite the decision making of the restructuring and help facilitate the restructuring as we decide on the exact structure going forward.

- Chintan Sheth:** And by when we expect this restructuring to fructify, what will be the end restructured entity at GATI?
- Ravi Jakhar:** This would have to be taken up at the GATI board in the next couple of months. The first step was to conclude because there were certain obligations and considerations between Allcargo group and KWE group and which were now being settled through this sale of shares and now in the next couple of months, broadly speaking GATI board would consider various options and then finally take a decision and as the decision is taken, the decision would be shared with all.
- Moderator:** Thank you. The next question is from the line of Rushabh Shah from Anubhuti Advisors. Please go ahead.
- Rushabh Shah:** Sir, first question on LCL, so your commentary suggesting that the business is overall down in the US, UK market, but despite our revenue remaining resilient, so have our market share been improving in those geographies?
- Ravi Jakhar:** Yes, absolutely and there was a point which I was making that business has been resilient while the market has been down. The business has not been down referring to our own performance and against all adversities, we have managed to sustain our volumes and which naturally means that we have grown market share in several challenging situations.
- Rushabh Shah:** So, any guidance on the second half how we can expect this to grow forward?
- Ravi Jakhar:** I would say that from a volume standpoint, we do not see a significant growth revival in the global trade. We see that for the next couple of quarters, the global trade performance may remain muted and from thereon it might start to grow, however, having seen this last quarter which perhaps had the maximum headwinds, the headwinds would only recede because lot of onetime impact which also come in when there is a certain release of inventory and decongestion, all of those have been factored in and despite all of those aspects you see the performance, so from here on the headwinds should reduce and the business should be able to sustain and grow volumes and then on volumes like we have mentioned, ocean freight rate would continue to remain low where they have reached, but that does not impact our performance which we have been speaking about for quite some time and now the performance in the numbers also provide for good clarity on that.
- Rushabh Shah:** Sir, secondly on the Express distribution, right now in your opening remarks you mentioned that it was on an EBITDA positive, but when we see the actual published segmental results, I think there we have a negative segmental result in the Express distribution part, so can you give any highlight on this part?
- Deepal Shah:** So, at GATI level, at the business level, it is positive, but when we pick up the segment at Allcargo, we have to allocate what is known as the charge off for the intangibles, so while acquiring there were some intangibles which were created which we are charging off and that charge off has brought into a minor negative amount.

- Rushabh Shah:** So, is this more of one-off or?
- Deepal Shah:** Basically, when you acquire you create intangible assets because the value that you are paying is more than the book value, so goodwill and brand value are in the acquired book are actually kind of charged off over longer period of time and that is more of an accounting thing and that is what it is being charged off and that is the reason you are seeing and it has been charged since last year itself, since thought point of acquisition.
- Rushabh Shah:** Sir, last two book keeping question, sir, tax rate was significantly higher this time around roughly 35%, so any one-off or should we assume this to continue going forward?
- Deepal Shah:** No, there are couple of things, one is that we have received significant amount of dividend. So, there is a tax related to the dividend and it will also depend on whether how much dividend we will give going forward. So, once we factor in, probably we will take the reduction of the section 80M. At that time, we will probably reduce the tax rate accordingly, so that is one. Secondly, on the MAT utilization, so we are also sometimes the amount of available and the possibilities of utilization and the ability to use on MAT will determine the ETR which is effective tax rate. So, there are multiple points, how this tax rate is calculated and the short answer to this is that yes, this is one-off and tax rate will change based on some of these parameters.
- Rushabh Shah:** But we can expect this to revert to at least 25-27% going forward?
- Deepal Shah:** In the long run, the ETR is in the range of 25-27% is what you can expect.
- Rushabh Shah:** And sir, just final question from my part, so the finance cost was a bit higher sequentially this time around despite we have reduced our overall debt levels, so any amount relating to Forex or was it some one-off finance cost coming up?
- Deepal Shah:** No, very well observed actually, yes, like you are aware that we completed the warehouses for Blackstone and we picked up the LRD, the lease rental discounts, so those kicked in and that added to a little bit of interest, but most of these as a debt itself which is eliminated from our books as explained by Ravi earlier in the call. So, this is a temporary phenomenon.
- Rushabh Shah:** So, more of a one-off which played off?
- Deepal Shah:** And marginally I think 50 basis points increase in interest rates we all know the way the thing is going, so the existing loans also are kind of going up by around close to 25 to 50 basis points from where it was earlier.
- Ravi Jakhar:** And also if I may add on to that two points, one like we mentioned in the coming 4 weeks about Rs. 400 crores debt would get reduced on account of the Blackstone SPA being signed. Besides that currently you would also notice there is a huge gap between the gross debt and the net debt which is on account of significant cash lying with us, so over the coming couple of quarters, we will also rationalize that and that would see a reduction in not just net debt, but also the gross debt and therefore a positive impact on the finance cost coming out.

Rushabh Shah: Again, with this acquisition of 30%, I think we are acquiring from KWE, wouldn't that again see the debt limits around current levels only?

Ravi Jakhar: Our cash flows are extremely strong and we see them being sustained, so therefore the amounts required for the KWE transaction can very well be serviced from the Allcargo cash flows over the next couple of quarters.

Moderator: Thank you very much. The next question is from the line of Chetan Shah from Jeet Capital. Please go ahead.

Chetan Shah: Just two quick questions, one, can you give us some update on Nordicon and Speedy Multimode integration in our business, one is that and second if you remember in our Analyst Meet and also in our previous call, you kind of alluded about some missing part in our MTO business in some routes and you said that kind of missing it, how with our existing business itself, how do we feel that and try to integrate and gain more market there and where exactly our business take us in the FCL part of the business because LCL will kind of doing reasonably well, but any update on FCL side of the business?

Ravi Jakhar: I didn't get first part of your second question, you referred to, I understood the first question on Nordicon and Speedy and the second question?

Chetan Shah: Second question, I wanted to understand that you kind of previously explained us that there are some missing routes in our existing book and we feel that you will try to use the existing platform itself, so if you can give us some status on that will be very helpful, please?

Ravi Jakhar: Nordicon acquisition has gone very well for us. We have been able to fully integrate it very successfully in the organization and therefore Nordicon's own performance has improved and it has also made positive contribution to the overall business both in terms of volumes to other offices as well as in terms of additional profit margin and there is one of the contributing sectors to the sustenance in our bottomline. On the Speedy acquisition as well, it has allowed us to increase the volume significantly, also favorably changed our import export mix which is in line with the growth trends expected over the next couple of years, so both acquisitions have gone in well for us. Speaking about the missing routes or the missing trade lanes, like we had mentioned, while we have a global coverage, there could still be certain pockets where we may not be as strong as rest of the world. So, while we are market leaders in several countries and in some countries we hold as high as 30 or 40% of the LCL market share, there are also countries where we hold single digit percentages and that is why the overall global market share is at about 14%. So, there continue to be those opportunities wherein organically as well as with some small bolt-on acquisitions we can fill in those missing links. There was a point explained in the Analyst Meet and yes, we continue to look for such opportunities such as Nordicon and naturally, we would make an announcement whenever there is any such opportunity being executed and any bolt-on acquisition happening, but just to also add, as a followup point these would largely be small geography specific bolt-on acquisitions, easily manageable through internal accruals. We

are not looking at any large acquisitions in that sense since we are already well present across the globe.

Chetan Shah: Just can you answer about the FCL part of the business, where are we and how are we doing in that side?

Ravi Jakhar: While the global container rate degrew at a higher rate, we have managed to maintain year-on-year growth in that business as well and there is a business where in we have been growing very sharply over a period of about 7 to 8 years, but still it is a very small part of highly segmented and a much larger FCL industry globally and therefore we do not see challenges in continuing the growth momentum in that and in that as well, we continue to launch the product in more countries and expand in countries where it is already being marketed. So, as I have mentioned in the past as well, I would like to reiterate that we would continue to expand our market share and therefore we would hold on to our volumes even in declining trends while grow faster than market in a positive environment, so that remains same.

Moderator: Thank you very much. Our next question is from the line of Radha from B&K Securities. Please go ahead.

Radha: Congratulations on good results, so you mentioned in your opening remark that one of the reasons for growth in EBITDA was the yield management, so with respect to that previously like we had discussed, so currently I believe you are using 26 cubic meter of cargo in one container, so with respect to that my question was how much can one container carry with respect to cargo? And how has it improved for us over the last few years and what is the average change in EBIT per TEU per cubic meter of increase in cargo?

Ravi Jakhar: So, you rightly pointed out that our growth over the last couple of years in bottomline has largely been driven by improved yield which is on account of higher utilization. We do not share the exact numbers in terms of cubic meters per TEU, but I can give you the direction stating that over the last couple of years, we have made significant progress and now we have reached high level wherein we do not see any significant progress on the CBM per TEU going up significantly from here and that number also varies based on the commodity being carried, the way and the manner in which it has been carried etc., but to put it short we have always been stating that the growth in the bottomline has being driven by the improved yield and not on account of any ocean freight which is passthrough cost and now that gets demonstrated as the ocean freight rates have come down and the yield has continued to remain constant. The improvement in the EBITDA margin therefore is also a bit of an operating leverage wherein revenue is coming down while the yields being held steady, you see an upward trend in that direction. So, that is something which we see would continue. We would continue to hold on to the yields largely while ocean freight rate may see some decline and therefore the EBITDA margin should remain constant or marginally improve from here.

Radha: And secondly, could you tell us what is the difference in EBIT per TEU if you are using 40 feet container versus when we use 20 feet container?

Ravi Jakhar: As a ballpark estimate, the cost for a 40 foot container is approximately 1.5 to 1.6 times while it carries load of two times theoretically but at least 1.9 times practically, so therefore your cost comes down by about 15% and therefore at the EBITDA level, there could be an impact on that, but let me also say that largely the consolidation business that we do is highly geared and optimized towards the 40 feet containers that we use and over the last couple of years again under our yield management initiatives, we have further improved those numbers significantly.

Radha: And sir, lastly with respect to freight rate like you mentioned that there is challenge in the global environment and given that the 40% of our business comes from US, Europe, so could we see impact in volumes for the next half of the year? And also given that few factors impact the freight rate like availability of containers and we believe that next year also there will be some inflow, so could you give us some trend with respect to freight rates there in the near term?

Ravi Jakhar: Yes, ocean freight rates are likely to remain subdued at the current lower levels, however, as we agreed with it, they did not benefit us in the higher freight rate environment nor do they cause any disadvantage, it is largely a passthrough cost, not impacting our performance in any significant manner, so therefore the ocean freight rate will remain subdued and will have not any impact on our performance. Speaking about the volumes, like I had mentioned earlier the volume growth is also likely to be muted, but given the strategic leverage that we have created by way of strong integration with the customers by way of digitization and with the operating scale and efficiency that we have today, we are in a position to hold on to our volumes in a declining market and grow and gain market share. So, therefore while there are adverse macroeconomic scenarios, we remain confident of continued strong business performance on our part.

Moderator: Thank you very much. Our next question is from the line of Abhijit Mitra from Aionos Alpha. Please go ahead.

Abhijit Mitra: So, just to understand a bit on the valuations that has been put forward regarding the deal with KWE, so just to understand that this Rs. 407 crores, will it have some other clauses which makes the valuation a bit lower from an external standpoint or is it like one should not read much into it because I think a previous question also tried to address that almost Rs. 2,000 crores of current market against the Rs. 1,300 crores of valuation, so how does that reconcile to other clauses or there are clauses which will link to acquisition of GATI which happened with Allcargo or how to sort of look at it?

Ravi Jakhar: So, I would like to make 2 statements in that regard. One, it is an agreement between Allcargo Logistics and KWE Group which has been driven on the back of various discussions and engagements which are private and confidential in nature and therefore details cannot be shared, but this is a transaction in private agreed between two parties and therefore the price at which the transaction happens is a matter of decision on part of the seller and the buyer and I would recommend that we don't read much into that. The second part, I would like to clarify for your point, this is the transaction wherein there are no other aspects to it. Allcargo Logistics would acquire 30% shareholding in the operating entity, GATI-Kintetsu Express Private Limited from the KWE Group company at the amount mentioned. There are no other numbers or anything

else attached to that. So, it is a pretty straightforward transaction privately and mutually agreed between KWE Group and Allcargo Logistics.

Abhijit Mitra: And second thing is that projections for 26, we have continued to put forward estimates since the Analyst meet for Express plus Contract Logistics, EBITDA of Rs. 400 to Rs. 500 crores and the revenue of Rs 2,700 crores to Rs. 3,500 crores, how would you break it up with the Contract Logistics revenue would be similar in scope as it is now or you see a significant expansion there also, If I must break it up with the Contract Logistics and Express, how should we look at this numbers?

Ravi Jakhar: So, we see continued opportunities for expansion in Contract Logistics business as well and that is the reason why we have made investments in both management bandwidth at middle level in the Contract Logistic business and also in taking over capacities which means that as you would see the bottomline has been somewhat impacted in this quarter that is largely an outcome of capacity risk and the management bandwidth addition leading to reduce operating margins and higher SG&A cost. Now, these are naturally steps towards expanding the business significantly and there is the direction in which the Contract Logistics business would be heading and at this point in time, we refrain from providing further breakup within the largest segment of Express and Contract Logistics, but yes Express Logistics under GATI and Contract Logistics under ACCI would continue to grow well and the guidance provided is for both to put together.

Moderator: Thank you very much. Our next question is from the line of Anil Sarin from Centrum Wealth. Please go ahead.

Anil Sarin: I just wanted to understand in this context of a slowing global economy while taking yield management as well as market share growth into account, how does the erstwhile MTO business look like in terms of revenue growth on 2 to 3 years basis? I am not talking about GATI, I am not talking about ACCI only ECU part?

Ravi Jakhar: So, first like I mentioned, the macroeconomic environment has been challenging, but I think the quarter gone by is an exemplary evidence of company's ability to perform in adverse situations and speaking of the targets, we have also categorically stated the 2026 management aspirations for the international supply chain business which can be referred to.

Moderator: Thank you. Our next question is from the line of Ronak Vora from AUM Advisors. Please go ahead.

Ronak Vora: So, what I want to understand is in the last 2 years, what steps have we taken in the International Supply Chain business, where our EBIT margin has gone up multifold?

Ravi Jakhar: Let me state that it would be a very long answer, so I would refrain from commenting upon that, but prima facie we have done everything through a very holistic transformation program, there has been sales acceleration to expand revenue and which is being done by expanding market share. On the cost side, we have focused on yield management driving container utilization

leading to improved operating margins and we had used technology to integrate better with customers and also to keep a check on the cost, thereby resulting in an overall improvement in our bottomline. So, that is how I would like to put it, but of course underlying each of these steps which had said 100 to 150 initiatives which were part of the comprehensive transformation program which ran over the last couple of years.

Ronak Vora: So, that means even though the freight rates go down, at least our margin would be maintained like which is currently at 8% or may be somewhat higher 9% what you are saying like when you said marginally higher?

Ravi Jakhar: So, I think the freight rate going down is no more a future scenario, but we are talking about past already, freight rate started going down from April and April, May, June quarter was the first one where we in had an impact and we demonstrated that the ocean freight rate decline did not have any significant negative impact on our performance and this quarter which we are speaking about at this point in time has already seen a significant decline in the container spot freight trade rate, so therefore to a large extent that is already factored and the number showcased the impact of freight rate in our numbers already.

Moderator: Thank you. The next question is from the line of Drishti Jain from Concept Investwell Private Limited.

Drishti Jain: I would like to know that what kind of volume growth do we see in the international supply chain segments in the medium term and also I would like to know that what kind of volume growth per year would be to achieve the 2026 aspirations for International Supply Chain business?

Ravi Jakhar: So, perhaps what we can say is that in our opinion the next couple of quarters would remain subdued and therefore from an industry stand point, we may not see any growth beyond which we believe the growth should comeback in. From a medium-term perspective, we expect that the nominal growth rates of 2% to 4% in the ocean freight trade rate leads to a much higher growth rate in the global LCL industry which ends up being in the range of about 6% to 8% and as we have maintained the guidance and that would continue. We would continue to gain market share over the next 2 to 3 years and therefore you would see us growing faster than the market growth rate in terms of the percentage growth. We cannot share more specific guidance on that, but I hope that answers your question and give you an idea and that is the kind of volume growth we anticipate which will take us to the 2026 targets that we have shared as management aspirations.

Moderator: Thank you very much. Our next question is from the line of Udhayaprakash from Value Research India Private Limited. Please go ahead.

Udhayaprakash: Congrats on the great numbers, I just have a couple of questions regarding volumes. The first is, can you please tell us what factors affected drop in volumes in Equipment Hiring segment?

- Ravi Jakhar:** Equipment Hiring segment is an extremely small part of the business, let me first highlight there and secondly it is a crane rental business wherein utilization goes down during the monsoon because many sites stop operations. If we speak about as of today as we speak on this call, the crane utilization is near 90%, which is a near all-time higher.
- Udhayaprakash:** And the second is can you give us volume guidance for the LCL for FY23, can we expect 2% to 4% growth during this year?
- Ravi Jakhar:** As I just explained on the volume side, we would gain market share and I have just shared the estimates on what the market growth would look like.
- Udhayaprakash:** My final question is regarding the tax rate, can you please just explain what was the major contributor to this rise in the tax for current quarter? I know you mentioned before dividends and MAT, but which affected the most?
- Ravi Jakhar:** So, Deepal, the question is that which between MAT and the dividend, which affected the tax rate more?
- Deepal Shah:** Yes, it is the dividend.
- Ravi Jakhar:** It was largely the kind of dividend which has been received, but like my colleague, Deepal, mentioned, the tax rate would, there is no reason for them to significantly change, so in the longer run, they would remain constant at these numbers of 25 to 26%, so these are largely one-off.
- Deepal Shah:** See, dividend whatever is finally given to the ultimate shareholders becomes the passthrough and you get the benefit of that taxation. That will be accounted as and when we think of declaring the dividends. There is barely a lag between receiving the dividend and paying out the dividend which creates the fluctuations in the tax rates.
- Moderator:** Thank you. Our next question is from the line of Chetan Shah from Jeet Capital. Please go ahead.
- Chetan Shah:** Just one question on any fresh update from Jhajjar ICD if you give us some, the status of that please?
- Ravi Jakhar:** So, basically Jhajjar ICD would be connecting via the Haryana orbital rail corridor with the dedicated freight corridor and therefore is very strategically located to provide seamless connectivity to the Western ports of Mundra and JNPT. We estimate that the dedicated freight corridor will become fully operational by end of 23 or early 24 and we would be planning our construction and other development activities to align with that because until the dedicated freight corridor comes up, the opportunities are limited and therefore we would like to time the CAPEX and I would say you should expect the Jhajjar ICD to be commissioned and fully operational in early part of 2024 to mid-2024 around the timeline.

Moderator: Thank you very much. Our next question is from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

Karthi Keyan: Couple of questions, what did you spoke about the drop in volumes overall for the industry and against which we have done well, just trying to understand if there is an overlap in the shall I say it circuits on which, there have been volume drops in growth or is there not too much of an overlap? I am just trying to understand is there any area that you don't cover where there has been a greater amount of drop in values?

Ravi Jakhar: So, we are operating about 180 countries in which about 56 which is almost all the largest countries we have our own offices. So, we have a fairly global footprint, it is not about exclusion of trade links. Let me take a specific example, there are markets in which the competition saw a decline of 15% in export. When we talk about markets, large market such as United States of America and wherein we have grown our volumes. We have seen markets like Vietnam wherein the entire port volumes in the country went down by 30%, but we held on to our volumes. So, there has been multiple examples of key countries across Europe, Asia and the Americas where competition or overall industry saw a significant decline and we still held on to our volumes. So, it is a clear demonstration of gain in market share and resilience in the business.

Karthi Keyan: And what would have helped you achieve this if you?

Ravi Jakhar: All the effort that we have put in over the last 2-3 years in digitizing and transforming the business and all the efforts we have put in the last 20 years in building the world's most reliable and the largest network which makes us uniquely placed.

Karthi Keyan: And one question I am going back again to the GATI-Kintetsu acquisition, just trying to understand this, you speak about the restructuring so assuming that it is an understanding that the entire Express business will come to GATI which I assume it is, would the valuations then be different from the price that we have acquired from?

Ravi Jakhar: So, the valuation of today are valuations based on 2 parties entering into a private agreement and are doing, any restructuring entailing GATI would again be based on valuations to be done by the tier 1 valuer and following all the processes and guidelines and structure is yet to be finalized in terms of how you want to do that, but the principle is to bring in simplicity in the structure and make it efficient for the management to drive the business growth and valuations which are not between the private parties will always be driven by the process run by valuation firms.

Moderator: Thank you very much. Our next question is from the lines of Radha. Please go ahead.

Radha: Sir, you mentioned that debt reduction will be one of the prime objective for us, but for the next few years, giving the guidance that you have mentioned will have a lot of internal accruals, so how do we plan to utilize this, like what will be the capital allocation policy? And do we need to any CAPEX for the next 2 to 3 years?

Deepal Shah: So, from a capital allocation prospective, like Ravi mentioned earlier that most of our ECU we already have participation globally, but one we will look at acquiring balance stake with some of the smaller ventures wherever we are present. So, there will be inorganic growth opportunities available which we will keep monitoring and if there are opportunities which fit well with our organization, we will definitely invest there. Our investment in digitization continues, there be small amount of investment in improvement in digitizing our businesses that we will go for. The balance cash little we will try to make ourselves debt free which we are very near to and of course we look at options of dividend buybacks and many other things over the longer period of time depending upon cash flow availabilities. So, that is the overall outlay in terms of the next 2 to 3 years that we are looking at.

Radha: And just one last question, so this is from a broader perspective, so looking at the freight rate for the last 10-12 years given that we have seen such circle high freight rates in FY21-22 and previously we had seen such scenario in FY12-13, so at that point of time, our EBIT per TEU trajectory was largely in line with freight rate, but this time like in 2Q call and 2Q results as well we have seen that despite falling freight rate, our EBIT per TEU had been constantly improving, so from a broader perspective, can you give us like what dynamics has changed for the business?

Ravi Jakhar: Like I just answered it is the transformation initiatives over the last 2 years leading to improved utilization and operating leverage by way of sales acceleration, significant expansion in market share, digitization, all of those initiatives have led to a strong yield management program and these are the numbers which are an outcome of that. The ocean freight rates are largely dealings and that is what one could easily see from comparing the performance over the last 4 quarters, wherein the ocean freight rates went up and then down and now significantly down in the previous quarter which we were discussing right now. So, I think these 4 quarters provide enough range of the spot container freight rate index to analyze and evaluate the impact.

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

Ravi Mehta: Most of the questions are answered, just one small observation that when I look at sequential volumes in the MTO segment, it is the mix I think shifting towards LCL volumes in the overall and is that helping the EBIT per TEU improve despite falling realizations in a softer freight environment, so is that observation correct and any comment?

Ravi Jakhar: Yes, that observation is very right. LCL business is more profitable given the complexities involved and therefore higher share of LCL would mean a higher EBIT per TEU. So, that is good and the right observation.

Ravi Mehta: And when you say that the next couple of quarters you expect the market to be soft, is this shift in favor of LCL possible like from whatever historic experience observations you must have had, just to get some color probably next couple of quarters, can this be a trend?

- Ravi Jakhar:** Yes, so typically what happens as one could naturally understand when the demand goes down, try to break their supply chains and ship smaller consignment, so therefore that should lead to slight improvement in the LCL market shares and that is what we have sometimes defined our businesses, even the business resilience comes from digital play as well as from the business model itself. When there is a contraction in the trade, the LCL is less impacted because the very reason you highlighted wherein the LCL sometimes finds growth by way of breakdown of supply chain business and likewise, wherever there is an economic environment which is more challenging you typically find so, there are inherent hedges build in the business and as you rightly pointed out that is indeed correct that when there is a slow down there is cushion on the LCL side. However, in this quarter gone by that cushion did not really work because a lot of large accounts did their own consolidation which is a onetime effect which comes in, so there was a little bit more adverse situation which is why we saw decline in market trend, but like as I said despite all those challenges we held on to our volume. So, now from here on, we should actually be able to see growth in volumes if the market remains flat.
- Ravi Mehta:** And do we do entire business at the spot rate meaning just trying to understand whether the effect of freight is reflecting in Q2 or there can be some lag effect of falling freight....
- Ravi Jakhar:** So, there is no lag effect per se, but I would request you to go through the investor presentation, when we have charted out what the cost per TEU for us is and what is the cost per TEU in this spot rates are. Spot rates are much higher and much more volatile. Most of the global trade whether it is being carried by ECU Worldwide or whether it is being carried by Maersk or Happeg-Lloyd most of the freight goes on contractual rates and those rates are lower and do not vary to that extent and therefore you would find that our revenue per TEU is much less volatile as compared to these spot rates.
- Moderator:** Thank you. Our next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.
- Vignesh Iyer:** I just wanted to, if I am wrong please correct me, in my observation, would it be fair to say that the second half of the year is usually better for the company as compared to H1?
- Ravi Jakhar:** Yes, from a historic trend perspective, the second half of the year has been better than the first half given the Christmas festivities in the international markets and given the annual closing and inventory buildups in the domestic markets and even internationally, so that is a valid observation from our past data point of view.
- Vignesh Iyer:** But the current crisis say in Europe and US would dampen this festive mood in anyways, I mean as probably if you could just give a ballpark number on this, could be 4% or 5% drop in volumes overall just because of what is going on?
- Ravi Jakhar:** Yes, absolutely like I said currently, there is a recessionary environment leading to trade rates not seeing uptake, but as I explained we had those challenges in the quarter gone by and we dealt

well with that and we hope to deal well by maintaining or growing our volumes despite all adversities.

Vignesh Iyer: Sir, if you could, I just want to know this, it is stated that Allcargo as in your presentation as you stated that Allcargo has acquired 1,50,000 shares from GKEPL for total consideration of Rs. 406 crores, so if you could just give some idea because I joined the call late, so?

Ravi Jakhar: So, basically Allcargo Group had decided to acquire GATI a couple of years ago and there was a well laid out strategy and discussions with various stakeholders including erstwhile promoters and the joint venture partners. We executed the acquisition of erstwhile promoters stake followed by an open offer and the discussions with the joint venture partner were to engage at a certain timeframe and certain terms and conditions which have been discussed now and between Allcargo Group and KWE group, we share a very long history of a strong business relationship. This is a transaction which has been mutually agreed to, it is a private transaction and this basically entails Allcargo Logistics largely using our own internal accruals, acquiring 30% stake in the GKEPL. This is basically reinforcement of our belief in GATI's growth potentials and the management team and we are confident the business would continue to grow well and that is why Allcargo Logistics board approved further investment. So, that in short about the transaction.

Vignesh Iyer: Directly, there won't be any change in as in the shareholdings of GATI, right? Or would there be any?

Ravi Jakhar: There won't be any change in the shareholding of GATI, just that the 30% shareholding held by KWE earlier would now be held by Allcargo in the operating subsidiary, GKEPL.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Jakhar for closing comments. Please go ahead, sir.

Ravi Jakhar: Thank you everyone for joining us for this call and hope we have been able to answer your queries and I would request you to go through the investor presentation which provides various data points and information in a much more detail and comprehensive way. The same has been uploaded on the exchanges and also on our website. So, you may please refer to the same. Thank you very much. Thank you for joining us.

Moderator: Thank you very much, sir. Ladies and gentlemen on behalf of Batlivala & Karani Securities, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.