

“Allcargo Logistics Limited Q3 FY23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Allcargo Logistics Limited Q3 FY '23 Conference Call hosted by PhillipCapital (India) Private Limited.

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 the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhijeet Purohit from PhillipCapital. Thank you, and over to you, sir.

Abhijeet Purohit: Thank you. Good afternoon. On behalf of PhillipCapital, I welcome you all to the Allcargo Logistics 3Q FY '23 Earnings Call. From the management, we have with us Mr. Ravi Jakhar – Group Chief Strategy Officer; and Mr. Deepal Shah – Deputy Group CFO.

Now without much delay, I now hand over the call to Mr. Ravi for his opening remarks, followed by Q&A. Over to you, sir.

Ravi Jakhar: Thank you very much. I welcome you all to this conference call. And this is Ravi Jakhar here. I am joined by my colleague, Mr. Deepal Shah.

Let me first take this opportunity to highlight that we have received, the order has been pronounced by the NCLT on the demerger, and it has been uploaded on their website. Because of that, while the process is still underway, and we estimate that the companies should eventually get listed in around April, we had to report the results in a slightly different format, highlighting the continuing businesses, discontinuing businesses and so on.

Therefore, let me first specify that post demerger being completed, we would be having three listed entities. And since it is a mirror demerger, on each share of Allcargo, the shareholders will continue to hold 1 share of Allcargo and would get an incremental 1 share each of Allcargo Terminals and TransIndia Realty.

As we will get to see the results in the coming quarters on a consolidated basis, the results shown here under as continuing business do not include the numbers for the container trade station in the ICD business, which should be parked into the Allcargo Terminals. It does not include the numbers for equipment on the Logistics Parks business. It should be under the TransIndia Realty. And it also does not include the contract logistics numbers, which in the coming quarters would see consolidation with the Allcargo Logistics.

So, therefore, the Rs. 237 crores EBITDA, including other income, which has been seen, only represents a part of what would be the consolidated number for the main listed entity apart from the two new demerged entities.

And therefore, the right approach to look at the financials for this quarter would be to look at the combined performance, combining all the businesses. And we will provide that clarity in the Investor Presentation, which we shall be uploading later today.

The idea also is to get all the questions, considering that there has been a change in format, and there could be different perspectives, questions and clarifications, which our shareholders, analysts, and investors might have. So, we will be happy to hear all the questions.

And to ensure that everybody benefits from the answers, the clarity provided by the company, we would incorporate the information which we deem important and adequate in the Investor Presentation to be uploaded later today, which will provide clarity on any points that might be there. SO, this is a brief note on the most recent activity on the demerger and the short-term view on how the results have been presented.

Now coming to a more long-term strategic importance, which is around how the business has been performing, I am glad to state that our flagship business of LCL consolidation, which contributes to almost 70% of gross profit in the international supply chain business, has continued to see market share expansion. And for the first time, we have now crossed 15% global market share in LCL as we speak today.

However, in the quarter gone by, there were disruptions in China, which have brought the overall market itself down, and therefore, they do not reflect the growth in the numbers. And if you look at year-on-year, the numbers are flat. But one needs to note that market share expansion means that while the industry and the competitor volumes went down for the corresponding period, we maintain them on a year-on-year basis and degrew at a lower pace.

We are already witnessing that post Chinese New Year, China has started to normalize on the supply chain side. Factories are back in operation. And therefore, for the part of this quarter, which is February and March, we would see normal activity. And from April onwards on a quarterly basis, we should see normalized production and supply chain activities from China truly reflecting this market share expansion that we have achieved over the last few quarters.

Another important event, which has happened recently, is the consummation of Blackstone transaction, which has been pending for reasons beyond our control for a long period of time. And almost on every quarterly call, we have been discussing about that. I am glad to say that that is now being consummated. The SPA has already been signed.

And therefore, while on the 31st December, you would notice that the consolidated net debt is already down to only Rs. 130 crores post 31st December, with the Blackstone transaction being consummated approximately Rs. 295 crores of debt has been alienated from Allcargo books.

And the company has also received additional cash inflow of about Rs. 135 crores. So, instead of being, having a, holding a net debt, we would rather be cash positive. And even if we take into account the outlays for acquisitions recently announced, we estimate that even despite taking into account the investments required for the same, as we close the financial year FY '22 - 23, we would still be cash positive or near zero net debt.

SOO, that's been a big development from the balance sheet perspective. And it means that you would be able to acquire the 30% state from KWE in the operating express entity.

I am also pleased to announce that we have been looking at focusing on contract logistics. And therefore, there was a demerger, which was underway. And we have also received the NCLT order very recently, and we will be completing the process for the demerger for that business as well over the coming weeks. And therefore, that business would also get demerged into ASCPL, which as on this is 100% subsidiary of Allcargo Logistics.

What does not contribute to the numbers in the quarter gone by, but would provide further growth opportunities are some of the acquisitions, a strategic acquisition that we did in Germany, which would be effective from an accounting standpoint from 1st of January and a small bolt-on acquisition in Turkey to add to our strategic capabilities in Turkey. So, all these initiatives would continue to drive growth for the company.

On the digitalization front, we continue to maintain healthy export bookings on platform, which are over 63% of the total bookings, and that is an industry leading number, far ahead of the competitors operating in the similar business segment.

We have been able to work further on automation, data science-based network optimization, and other initiatives which are allowing us to become more lean and efficient as we grow in the existing businesses further.

What we have done beyond that is we are also looking at launching new products and new trade lanes. And therefore, we continue to invest in building new products, and bringing on new people, and building new trade lanes.

We are looking at significant growth in the Airfreight business, which forms a small part of the business, and therefore, would, on an overall basis, may not have a very significant impact.

But over the coming years, we believe that without any significant CAPEX investments, on the back of our global network, global relationships, and synergies with the ocean freight consolidation, you will be able to do some amount of asset-light digital platform backed airfreight consolidation business as well.

On the trade lanes, we already operate about more than 2,400 direct trade lanes globally, which is by far the highest for any LCI operator or any other carriers globally. We continue to see

opportunities on the back of our scale and on the back of technology tools which are now available to predict routes.

We are able to launch new trade lanes. And we anticipate that now we are in a position to add almost 100 trade lanes on an annual basis, which means that we would open up new avenues for growth. In the short term, it also means that as we open up a new trade lane, the utilization levels pick up over a period of time, and therefore, there could be some marginal investment.

But we estimate that on these trade lanes, any new trade lanes opened should be able to neutralize the impact within a three-to-six-month window and start making positive contributions thereafter.

So, from a long-term growth perspective on the main international supply chain business, we see continued opportunities for growth and also improving efficiencies on the back of digitization.

On the FCL business, given the macroeconomic slowdown, we have seen a flattening of volume. And as the market picks back because currently, this is against the backdrop of falling volumes on the trade lanes that we operate in. As the volumes start picking up, as I mentioned, which we are already seeing from February onwards, we estimate that we should be also able to start back on the growth journey on the volume in FCL business.

From a freight rate perspective, we have already seen that freight rates have come back to the near pre-COVID levels, and that normalization in freight rate has impacted the FCL business profitability.

As we have been stating in the earlier calls as well, LCL profitability is largely a factor of container utilization, which continues to remain that way. And on the FCL, we estimated about 15% to 20% drop in utilization on a per TEU basis. And considering the historic average of 20% growth rate, the numbers when you multiply, it remains consistent.

So, while the normalization of freight rate has happened, the market being subdued, the growth hasn't come through in this quarter. We estimate that with the trade routes normalizing from February, March onwards on a monthly basis and April onwards on a quarterly basis, we should see the growth in volumes back in the FCL business recouping the lost gross profit on the FCL business.

So, on an overall basis, if you look at the combined EBITDA, we are looking at a number of about Rs. 340 – Rs. 350 crores, which is, of course, lower than the previous quarter, but is broadly in line with the business projections based on the macroeconomic environment. And we see the performance, as I mentioned, to pick up starting from mid-Feb onwards and should start reflecting partially for the month of March and fully from the quarter starting April onwards.

The other key part is that we have been focusing on the asset-lite digitally enabled businesses, and that is something which continues to work well for us. And even in the Contract Logistics business, we have seen continued opportunities for growth, and the growth momentum continues.

On the Container Freight Station business, we have been noticing a recent uptick in the Exim cargo of the country, and we are a direct beneficiary of that, wherein we see the growth in business increasing in line with the increased Exim cargo growth in the country.

On an overall basis, we see this as a quarter which has had a negative impact on account of the macroeconomic environment. But from a long-term perspective, we see this also as a quarter where we demonstrated resilience in our performance, gaining market share, and achieving conclusion to several strategic initiatives, including the Blackstone transaction and the demerger, which would pave way for a robust growth in the years to follow.

On that note, I invite my colleague, Deepal, to throw light on some of the financial highlights for various businesses. Over to you, Deepal. Thank you.

Deepal Shah:

Thank you, Ravi. So, like you mentioned that the results now include discontinuing operations in light of the demerger order. So, these have to be combined continuing-discontinuing to come to have a comparative clarity from the previous quarters.

So, I will walk you through the financial performance. For the nine months of 2023, Allcargo Logistics Limited consolidated revenue, including the discontinuing operations for comparative purposes stands at Rs. 15,301 crores as against Rs. 14,296 crores for the previous year, registering a 7% growth year-on-year.

Revenue from continuing operations stood at Rs. 4,099 crores in Q3 FY '23 as against Rs. 5,599 crores in Q3 FY '22. Revenue from combined businesses, which includes the continued businesses, discontinuing businesses and Contract Logistics stood at Rs. 4,425 crore as per presentation for FY '23 quarter three.

EBITDA from the continuing operations stood at Rs. 229 crores for Q3 FY '23 as against Rs. 434 crores during the same period last year. EBITDA from combined business stood at about Rs. 341 crores in Q3 FY '23. For Q3 FY '23, the company reported a PAT from the continuing operations of Rs. 124 crores as against Rs. 324 crores for the same period last year.

Now moving to the segmental performance for the quarter. I will start by discussing the performance of the main segment that is the International Supply Chain segment, which is the largest segment, which operates under the umbrella of ECU Worldwide.

The segment reported in Q3 FY '23 revenue of Rs. 3,671 crores as compared to Rs. 5,200 from the same quarter last year. Revenue for the nine months stood at Rs. 13,300 crores, approximately 6.5% growth over the last year.

EBITDA for Q3 stood at Rs. 274 crores as against Rs. 430 crores for Q3 FY '22. Annualised ROCE, which is the most important tracking segment parameter which we look at, stood at 53% for the International Supply Chain business.

Moving on to the Express business, operating under the brand GATI. It has continued to deliver solid performance during the quarter. The company is undergoing turnaround and continues to scale up operations under experienced leadership and infrastructure amplification.

The sales acceleration programs have been reaping benefits leading to increased volumes handled during the quarter. Express business revenue for Q3 FY2023 stood at Rs. 379 crores as against Rs. 352 crores, up 7.5% Y-o-Y basis.

The EBITDA for Q3 stood at Rs. 21 crores against the last year, which was Rs. 16 crores, a growth of 31%. With better yield management and operational capabilities, we believe the business is progressing well and will achieve the desired goal.

Contract Logistics revenue for the quarter stood at almost Rs. 153 crore as presentation, and EBITDA stood at Rs. 33 crore as per presentation.

Coming to the CFS and ICD segment, we are poised to deliver growth through enhanced customer experience with MyCFS initiative and better import/export mix. The business reported a revenue of Rs. 175 crores for Q3 '23 as compared to Rs. 177 crores for the previous year.

Speaking about the Equipment Hiring segment, we have been continuously working towards moving to an asset-light approach by providing quality services to customers through a combination of owned and leased assets. The equipment utilization stood at 80% as a capacity utilization.

We have been consistently providing other key parameters and financial performance indicators in our investor presentation. One can refer that for more details as we upload towards the end of the day.

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

Moderator: Thank you. We will now begin the question-and-answer session. We have the first question from the line of Chetan Shah from Abakkus AMC. Please go ahead.

Chetan Shah: Thank you for a detailed thing. Just wanted one small data point. Can you give me what is MTO's TEU equivalent both LCL and FCL combined, which was roughly Rs. 2.48 lakh in the previous quarter? What would be this number for this quarter?

Ravi Jakhar: So, on the volume side, like I mentioned, the performance for this quarter is flat as compared to the same quarter previous year. As compared to the previous quarter ending September, the FCL

volumes are down about 2% to 3%, while the LCL volumes are down about 6% to 8%. And you will have the exact numbers shared in the investor presentation that will follow.

Chetan Shah: No problem. And just one question, or rather let me put it this way, one small clarification. You spoke that the combined EBITDA of about Rs. 340 – 350 crores. Are you referring to a quarterly number going forward for an MTO business or a company as a whole? I got a little confused with that. I am sorry for that.

Ravi Jakhar: So, let me clarify. I was referring to the number for the quarter, which has concluded on 31st December. So, this is not the forward quarter, but the quarter which has got concluded. And I don't think need to add the various businesses, because currently, they are clubbed in to three pockets, continuing businesses, discontinuing businesses and the Contract Logistics, which is sitting in none of the two buckets. So, if you want to take a view of the future view, which is the three listed companies, but look at the actual performance of December 31, '22, that is what it would look like.

Moderator: Thank you. We have the next question from the line of Deep Master from One Up. Please go ahead.

Deep Master: Firstly, congratulations on getting the demerger through. So, just a small request from me. You know, if we could get the investor presentation in advance of the call, that would really help us prepare for the call. So, I understand that this time you wanted some suggestions from us. But you know, even if you were stuck to the previous format would have helped us prepare for the call.

And so, one question as well from me. On the volume side, like you mentioned, the volumes are slightly lower. And on the profitability, though, on the LCL side, is that broadly maintained quarter-on-quarter?

Ravi Jakhar: The gross profit percentage margin would look, appear to be higher, but that is only because the revenue has come down. The way to look at this business would be that you would see that the revenue has come down by approximately Rs. 970 odd crores, corresponding to which the operating expenses have come down by Rs. 900 crores.

So, that gap of Rs. 80 crores is what the impact is, which is, again, can be bifurcated into two parts. One is the actual loss in margin on the FCL business, which we have been stating that once the freight rates normalized, which is what they have normalized now, would be in the range of 15%, 20%, which is one aspect.

And the second impact is on account of growth initiatives like investments into new trades, etc. That is the way to look at that number. When you look at percentage terms, obviously, gross profit as a percentage might appear to be higher, because the revenue base becomes lower. So, the right way would be to look at the gross profit number in absolute term and how it grows over time.

Deep Master: So, put in another way, the gross profit on a per TEU basis, if you adjust for FCL, if you look at only LCL, would that broadly be maintained, quarter-on-quarter?

Ravi Jakhar: Gross profit on LCL basis broadly would be maintained. There would be a marginal decline on a gross profit per cbn, but that would be almost flattish. Like I said, only few new trade lanes that have been launched, which should be on low utilization, those would impact slightly. But otherwise, the utilization is the only parameter which impairs the profitability on the LCL. So, new trade lanes plus the marginal decline in the volume. Those are the two factors which impact.

As the volumes have started to rebound, the profitability for LCL would be similar to as it was in the past, assuming the freight rate continue to remain same. They don't go up or go down. It does not make a difference. FCL business, the profitability depends on the freight rate. SO, now with the correction in freight rate, that has come down on a per TEU basis by 15%, 20%, which was what we had estimated earlier.

Deep Master: Which you have been also, you know, mentioning for the last few quarters. So, I appreciate that. It is just that, you know, we didn't have the volumes. So, I just wanted to confirm.

Ravi Jakhar: Actually, we thought that maybe that we get more questions in perspective and try to answer all of them with the right data points, because the format that we had to upload the numbers in and the format in which it could be most clear to all our shareholders, investors, and analysts. That's why we took a call, that we will upload the presentation later during the day. But your point is well noted.

Deep Master: And so, you know, just if you could give some more color on the volume, so like you mentioned that there have been some disruptions. Are there any particular trade lanes you can point out to that would have been much weaker in the quarter gone by?

Ravi Jakhar: Yeah, so primarily from the month of November about November, maybe November first week, so November second week onwards particularly, say, 8th, 10th November till end of January, primarily, all trade lanes originating out of China had a significant impact and likewise, so whether it was, Trans-Pacific trades moving from China to Americas or even China to Europe, those were the key trade lanes which were impacted.

Apart from that, there were a few other trade lanes also, particularly ending in the UK, because UK has exceptionally seen reduced trade activity as well. These are two countries will stand out in terms of the overall market being down.

From company's perspective, we saw disproportionate growth in select markets where we have been running the sales acceleration program. So, countries like United States, Vietnam, a few select countries in like Indian subcontinent, and select markets in Europe, that's where we saw disproportionate growth. And that is what led to market share expansion.

So, there would be many countries if you break down, wherein we may be up 5%, while the market may be down 20%. So, some of those robust performances is what contained our decline to, like I said, about 6%, 7% on the LCL on a quarter-on-quarter basis and 0% on a year-on-year basis.

Deep Master:

That's very helpful. And do you think that there was a general trend of sort of destocking that's, you know, been happening in many commodity related sectors? Is that also impacting some of your clients?

Ravi Jakhar:

So, what we understand is that, you know, prior to Christmas, the demand anticipation was weaker. And therefore, through August and September or rather through end July to early September, the orders were fewer, which meant that the shipments which typically follow 45, 60 days later, were not how we typically see a December end the quarter, which usually is the highest and there's a lot of orders flowing before the Christmas.

However, the actual sales for many commodities seem to be much better than anticipation. And therefore, the inventory levels fell short. I mean, the most commonly heard example is on the Apple product, because that's one product that gets tracked and handy information is available, wherein the issues are more on the supply chain side, where demand was there, but the products were not on the shelf.

On the general mass consumer products, we believe that the inventory levels were sufficient, like, you know, if we talk about products like detergents or tissue papers or those kind of household goods, our understanding from the market and also looking at the underlying trend is that those seem to be reasonably managed from the stocks that were there.

But we anticipate that now post Chinese New Year, the inventory levels have depleted. And therefore, the inventory restocking would happen, and which is where we anticipate that from March onwards, the trade should see a pickup on the back of inventory replenishments.

And somewhere towards the second half of the year, we should see a more robust growth taking into account that there are no further unforeseen events of like global catastrophes or wars, etc. That is the broad macroeconomic view that we hear and sense from the underlying data that we have.

Deep Master:

And if I could just squeeze in one more, you know, just one related to your acquisition in Turkey. If you could maybe just spell out your vision, and how that could be additive to your overall LCL and FCL in that region?

Ravi Jakhar:

See, that is, to be honest, one of the smallest acquisitions we have done. That's just a strategic acquisition, which allowed us to get the right set of people and some specific trade lanes that we could get stronger on in that geography. And that has allowed us in that particular market, though it's a small market for us right now, we were able to increase our volumes to nearly by 70%, 80% on the back of this acquisition.

Now with the combined capability, we can grow well. But from an overall perspective, this is not something which should make a significant impact. We believe that the German acquisition, considering the importance of the German market in the global network would perhaps be more impactful in the coming quarters.

Moderator: Thank you. We have the next question from the line of Radha from B&K Securities. Please go ahead.

Radha: So, my first question was in terms of the EBITDA number that you mentioned, Rs. 350 crores for this quarter. So, could you give me a breakup of this EBITDA? How did you arrive at this number?

Ravi Jakhar: Yeah. So, if you look at the breakup on the continuing business results, which have been shown, it is approximately, if you add back the interest and depreciation to PBT, you could see that it totals to about Rs. 237 crores, excluding other income, that is about Rs. 229 crores. Approximately Rs. 31 crores would be the Contract Logistics, and approximately Rs. 81 crores would be the other discontinuing businesses, put together would be about Rs. 343 crores excluding other income and Rs. 351, including other income. That's a broad range. And we would share these numbers in these formats where it's easy to understand in the Investors Presentation.

Radha: Sir, there is one item called unallocable and other items. So, given the quarterly results that you have released, so we can get the EBIT number from that. So, in that, there is this (- 63) crores EBIT for this unallocable. So, will this be a part of continuing operations? Or will it be demerged?

Deepal Shah: No, so this will get allocated once the demerger is done. So, it's unallocated at the moment. And we are working on the allocation. So, at the point of demerger, this will, in the respective right proportion, will get allocated to the individual businesses.

Radha: And also continuing with the same point, in the press release, it is mentioned that some corporate costs have not been allocated to discontinued operations. So, is it correct?

Deepal Shah: That's the same thing. That's the same thing. That's the unallocable. That's the same, that thing that we are discussing.

Radha: So, is it correct to understand then that some part of the employee costs and other expenses are still yet to be removed from the numbers that you have reported this quarter? And subsequently or in subsequent quarters, some part of it will get removed?

Deepal Shah: Yeah. So, please understand that we have been operating these segments as SBUs. And there is a corporate cost also there. So, as far as the corporate costs are concerned, which we have very clearly mentioned in our results, these need to be allocated. And these will be allocated at the point of demerger.

Radha: I don't know if you have, but will you have any kind of ballpark number, how much it is expected to be?

Deepal Shah: No. That segregation is still underway. So, we don't have any ballpark numbers at the moment to share.

Radha: Sir, on a Y-o-Y basis, actually despite flat MTO volume, we are seeing that the employee cost and other expenses have gone up. So, if we remove these corporate expenses that are supposed to be removed later on, so how would these employee and other expenses look like?

Ravi Jakhar: So, if you are referring to the employee and other expenses, primarily on the employee expenses side, like I referred to in the earlier commentary, we have been investing in people and new teams and new product launches. So, to that extent, those costs would be there. And I am not sure of what exactly do you mean by remove the corporate cost. Could you just restate your question, please?

Radha: So, actually, there is on Point 6 of the note starting the presentation, there was a statement which states that corporate costs have not been allocated to discontinued operations. So, I was wondering whether some of the costs will go to the demerged entity, that are currently being shown in other expenses or employee expenses in this quarter.

Deepal Shah: So, I will explain once again very clearly. That segment reports were as an SBU. Earlier also, if you look at the segment costs reported earlier, the corporate costs were not allocated. Segment was without the corporate cost.

Now, what we have done is that we have basically identified that there is an amount of corporate costs, which needs to be allocated. And these corporate costs will get allocated to these continuing and to the discontinuing operations based on certain scientific parameters, and that working will happen at the point of demerger. That is what is underway.

Ravi Jakhar: And if I can also just add to that, so while the segmental breakup will be done, but if you move away from the segmental and look at the reported numbers consolidated for the continued business, that basically reflects what would be in the consumer business and the remaining part will be in discontinued business.

And which is what, like I said earlier, we would also provide revenue to EBITDA sort of a breakup between the continuing business, discontinuing business and the Contract Logistics business to provide a combined view. So, we will include that. So, hopefully, that should be the data point that should help resolve your query as well.

Radha: And is there any one-off in terms of expenses in this quarter?

Deepal Shah: So, there is a marginal 1.5 million of licensing costs, which is an exception in this quarter. Nothing other than that.

- Ravi Jakhar:** No significant.
- Deepal Shah:** \$1.5 million.
- Radha:** And just one last question. So, currently, the EBITDA...
- Ravi Jakhar:** So, no significant one-offs as such, apart from this approximately Rs. 9 crores to Rs. 10 crores which my colleague referred to.
- Radha:** And sir, just one last question. So, given that if we see the Jan and Feb quarter, sorry, Jan and Feb month, so currently, freight rates we can see it is around, like you mentioned, pre-COVID levels were \$2,000.
- Ravi Jakhar:** It appears that there was a network disruption. So, responding that the clarity on the continuing, discontinuing and the Contract Logistics businesses and providing a combined view of the same should hopefully provide clarity to you and address your query. And I believe that you had a follow-up question, which we could not hear. So, if you could please ask that again?
- Radha:** So, sir, if you take flat international supply chain volume numbers for this quarter, then the EBIT per TEU comes to about 10,000 per TEU. So, how confident are we given that even in Jan and Feb, there is decline in freight rate by about 15%, 20%. So, how confident are we of maintaining this EBIT per TEU of 10,000 plus in the subsequent quarters?
- Ravi Jakhar:** So, on the current level, like I mentioned, as far as the LCL business is concerned, the freight rate sensitivity is not there, which is only in the extent of utilization. So, as the volumes come back, we would see subsidence and further improvements.
- On the FCL business, we anticipated 15%, 20%, and almost the same number impact has already been seen. So, there could be no more than 2%, 3% here or there, I mean, is how we would put across that our estimate is and what it could look like from here on.
- Moderator:** Thank you. We have the next question from the line of Ravi Mehta from Deep Financial. Please go ahead.
- Ravi Mehta:** So, just on the EBIT per TEU thing, the number looks pretty healthy if you build in whatever volume guidance that you are giving for the quarter. So, wanted to know that the freight index has been falling all through the quarter. So, the entire fall is captured in the performance or there is some spillover effect, which we can see in Jan, Feb of, you know, the fall that has happened until December?
- Ravi Jakhar:** If you look at the fall, and if you look at the continuing business numbers that we have shared, while the revenue has gone down by Rs. 979 crores, the operating expenses have also gone by almost Rs. 900 crores. So, the data is very minimal, and which is basically because the ocean

freight rates are largely a pass-through except for the impact on FCL, which, as I stated earlier, of the amount of 15% to 20%.

So, there is a reason why you find that the EBIT per TEU or the EBITDA per TEU would largely get maintained and be impacted more by how the SG&A costs are, how growth initiatives are being undertaken, how volume growth gets driven. Those things will impact these numbers and they may fluctuate, but we do not anticipate freight rates to have much impact going forward.

FCL impact, which was there, like I said, almost the entire part of it is already captured on the revenue side, and therefore, is at least 85%, 90% already visible. And on LCL anyways like we have been stating, it's dependent upon utilization, not very much on the freight rate.

Ravi Mehta: So, largely, everything is captured in FCL for the quarter, given the fall, right?

Ravi Jakhar: Yes. And that is why you see a significant drop in the revenue, which is much more than the drop in volume.

Ravi Mehta: And one point, probably, I didn't catch it in your opening remarks. Probably you were referring to some demerger of GATI KWE into ACCI? Or I just missed what probably you highlighted. Like you have received some NCLT order. Just highlight on that.

Ravi Jakhar: Yeah. So, there are two demergers that you are referring to. One is the demerger of Allcargo Logistics, whereby the two business segments would move into Allcargo Terminals and TransIndia Realty. For that, the NCLT has pronounced the order, and the order has been uploaded on the website. We are awaiting certified copy, post which we will file with ROC and take the process further with exchanges. And by April end, we estimate the new companies will get listed in addition to continuing businesses under Allcargo Logistics.

Second demerger, which I referred to, was the demerger of ACCI, wherein we had also shared in the past that we intend to focus on Contract Logistics. And for that demerger, we have already received the certified copy also, just recently like a couple of days back. And we would be now filing that with the ROC and concluding that demerger also.

So, this Contract Logistics business would move into ASTPL, which is currently 100% owned subsidiary. So, that is the second demerger, which was the demerger of Contract Logistics business from ACCI, which was the joint venture that we had. That was the second demerger which I was referring to.

On the KWE, my comment was that we have already approved buying the 30% stake from our Japanese partners, in line with our agreement discussed and agreed at the time of first acquisition in GATI. And I also added that we are already having sufficient balance sheet to take care of such investments, keeping the net debt to near zero or cash positive level.

- Ravi Mehta:** Sir, just one follow-up that ACCI is a 60% or 70% holding of Allcargo, right? So, it will be moved into 100% owned, you mean to say you will be consolidating your entire holding into it?
- Ravi Jakhar:** So, going forward, the Contract Logistics business, which is being managed by Allcargo would be consolidated with Allcargo from the coming quarter onwards, while the CCS, which is the Customs Clearance Business, which is also a small part of the ACCI business, which is not strategic for us, that would be managed by our partners, and therefore, would not be consolidated with Allcargo.
- Ravi Mehta:** And this will be 100% consolidated, the Contract Logistics?
- Deepal Shah:** Yeah. Post the demerger and the transaction, this will be 100% consolidated.
- Ravi Mehta:** And any incremental investment that we will have to put because I think we will be increasing our holding from 60 odd percent to 100% ?
- Ravi Jakhar:** As we look at increasing the holding further, there would be investments for which we would, you know, take the Board approvals and go through them. For the time being, for the purpose of management, it is already agreed that post demerger will be similar holdings as well, the management of Contract Logistics business would be completely with the Allcargo management team. And therefore, the consolidation would happen irrespective of the shareholding increase happening there.
- Ravi Mehta:** And for the KWE transaction that is already done, I think the agreement is done. So, the amount that you will be giving to the partner and by when?
- Ravi Jakhar:** So, we have been discussing on the time line. The amount is already frozen and as has been communicated as well. On the time lines, we are working on what's the most appropriate time line, which is suitable for both partners. And from a cash flow perspective, like I mentioned, we are already now net cash positive on a consol basis. So, we can do the transaction in discussion with the partners and we would perhaps share some updates on the time line. But the amounts are already frozen at which the transaction would take place.
- Ravi Mehta:** So, can you share the amount if probably?
- Ravi Jakhar:** I don't recall the exact number. It was about Rs.400 crores to Rs. 403 crores around that number. There is a reference to it in our earlier announcement.
- Moderator:** Thank you. We have the next question from the line of Kashyap from Broadview Research.
- Kashyap:** I just missed your volume commentary. You mentioned that the volumes are flat Y-o-Y. And on a Q-o-Q basis, it was down 2% to 3% in FCL, and 6% to 8% in LCL. Did I hear it correctly?

Ravi Jakhar: Yeah. So, I would say that, you know, that's exactly what I said. But I would also say that the Y-o-Y number is less relevant, because the trade environment has been very different. The Q-o-Q numbers are more reflective of the current trend. And there, it has largely been led by the Chinese supply chain concern, which led to significant reduction in market size in China.

And while globally also, other markets have seen contraction or flat numbers, the overall market has actually shrunk on a quarter-on-quarter basis, basis our internal estimate of tracking competitors across all key markets, while we have degrown by a lesser percent as we have expanded the market share.

Kashyap: But I am not able to reconcile. I am not able to reconcile this, because in Q3 FY '22 presentation, the LCL volume reported was 2,473,000 CBM. And in Q2 FY '23 presentation, it was 2,374,000 CBM. So, essentially, if I take a Q-o-Q drop, then it comes to 2,231. So, essentially, it points to a 5% degrowth Y-o-Y and not flat Y-o-Y. So, I am not able to reconcile because either the reported numbers are inconsistent or something I am missing because --

Ravi Jakhar: we would like to compare with the Q3 FY '22 numbers, which we are referring to.

Kashyap: Q3 FY '22, if I take a 6% to 8% drop, it kind of shows Y-o-Y drop of 5% on the overall volume.

Ravi Jakhar: No. So, the numbers from Q2, which is the September ending quarter, the drop would be the numbers which I mentioned about 2% to 3% and 6% to 7%, which should be in line. So, if you look at the Q2 FY '23, that was about that much above the Q3 FY '22 number.

Kashyap: But when I club these variables, it shows both lower. It shows on FCL and LCL, it shows lower number Y-o-Y. That's all I am saying.

Ravi Jakhar: So, anyway, we have the exact numbers separated in the investor presentation. You can refer to the exact numbers, and you can please come back to us if there is any clarification is required on that.

Kashyap: And obviously, the result in EBIT per TEU, which now, you know, if I kind of do this math and the result in EBIT per TEU, which is in that 9,800 odd range versus 14,000, 15,000 that you were in the last few quarters.

Just wanted to understand, you mentioned that the overall rates in the LCL hasn't changed much. You have seen drop in FCL. On the LCL, it's not changed much, but it was more a function of utilization. Could you just explain that a bit? You know, I am a bit new. So, if you can just clarify what you mean by this?

Ravi Jakhar: Sure. So, when you get down to the EBIT level, we are looking at the impact of two key components. One is how the operating margins, the gross profit margins vary. And second is, how the SG&A costs vary.

On the gross profit side, like I was commenting earlier, against the revenue drop of about Rs. 979 crores will also be approximately Opex drop of Rs. 900 crores. The incremental data on account of the FCL and investment into developing new trade lanes. But they typically pay back very quickly in a period of about 3 to 6 months itself, these trade lanes start operating on a neutral and then profitable basis.

The second impact which you commented would be on the SG&A side, wherein the cost would go up on account of some adjacencies, of course, will happen on account of inflation. But they are also, as we are expanding into new capabilities, we are building the air freight, we are building new trade lanes, there will be some investments going in there as well, which typically would lead to growth in business. So, these are the two inputs, which would impact the EBIT on a per TEU basis.

Now, as we move forward, the SG&A costs do not grow in the same proportion as volumes. The gross profit would remain pretty much in line on a per TEU basis. Therefore, the EBIT per TEU number should remain constant or grow from here. That is the broad analysis which one could look at.

Kashyap: So, basically, the realization per TEU, which is showing up to be down close to 18%, 19% Q-o-Q, that doesn't have too much of a bearing on the EBIT. I mean, it's largely the SG&A and the trade lane investment, which is kind of impacting the EBIT number more than the realization drop.

Ravi Jakhar: Yeah. There has been an impact on both Opex, if you look at. Like I said, if you look at the Opex also has, but on a per TEU basis, yes. Opex is almost in line with the degrowth in the volume. On Opex per TEU basis, there has been a limited impact. The impact is more on the SG&A per TEU, which as the volumes pick up should see an improvement. And like I said, we will provide all information in the investor presentation along with all the clarification based on the questions today.

Moderator: Thank you. We have the next question from the line of Sameer Deshpande from FairDeal. Please go ahead.

Sameer Deshpande: See, I would like to have a clarification that it was mentioned that there is a net debt in the balance sheet as on 31st December of Rs. 130 crores. And after 31st December, we have received some money. And then now we have net cash. But again, there will be some outflow. And whether we will again go in debt or we will be having zero debt?

Ravi Jakhar: And let me clarify on the numbers and reiterate. So, as you rightly pointed out, as of 31st December, we had the consolidated net debt of approximately Rs. 188 (the figure was erroneously said; however the correct figure is Rs. 130 crores) crores, including all the Group companies, against which we have alienated the debt to Blackstone as part of the transaction, which is about Rs. 200 crores, and we have also received cash. So, total about Rs. 400 crores

impact has been positive. And therefore, the net cash of over Rs.200 crores - Rs. 250 crores on the book for a net consolidated basis.

Now, in terms of the business outlay, there is one which is towards the KWE acquisition, which is already laid out, approximately about Rs.400 crores, which is there. And from a CAPEX perspective, the business is asset light and does not have much of a CAPEX. And there would be internal accrument, which will continue to accrue for the coming months as well.

So, even if we take into account the investments into buying out the shareholding from KWE, as of 31st March FY '23, we anticipate that the net debt would still remain at near zero levels, because the current surplus on the cash plus the internal accrual will largely take care of the investments required.

Sameer Deshpande: So, we will be having roughly zero debt as on 31st March '23?

Ravi Jakhar: That is right.

Sameer Deshpande: After that investment for KWE.

Ravi Jakhar: Yes. Taking into account, like I said, today we are cash positive with about Rs. 200 - 250 crores with internal accruals to follow, which will be good enough to take care of Rs. 300 – 400 crores investment required for investing from KWE.

Sameer Deshpande: And now regarding this clarity about the demerger and everything, we will be getting, the shareholders of Allcargo Logistics currently holding, will be getting one share of both these companies, which will be demerged?

Ravi Jakhar: Yes, it is an absolutely classical mirror demerger. For each one share of Allcargo, the shareholders would continue to hold that 1 share of Allcargo Logistics, and get 1 share each of TransIndia Realty and Allcargo Terminals as the demerger process gets completed, which we had earlier estimated that it will happen sometime between March to May. And we have been maintaining the time line. And we are glad that it will be happening in the same time line. And we expect now it to happening sometime in April.

Sameer Deshpande: So, the shareholder, current shareholder will be having shareholding in three different companies in April or May, whenever you complete that?

Deepal Shah: Yeah. Shareholders who have one share of Allcargo, you get one more share of Allcargo Terminals Limited and one share of TransIndia Realty. So, you will have three shares instead of one share.

Sameer Deshpande: And now this, you mentioned that the operating profit that is EBITDA, excluding other income, will be Rs. 343 crores. So, when I compare it with your earlier figures reported before this

reclassification, which you have done now, restated figures in this quarter, actually, the operating profit Rs. 343 crores compares with the Rs. 505 crores of the Q3 last year. Is it correct?

Ravi Jakhar:

Yeah. So, last year, Q3 was an exceptional quarter. And we had also provided guidance that this is a one-off quarter on the back of exceptional freight rates and trade flows. And we had provided guidance that that was not a sustainable number.

And if you look at the subsequent quarters which have been between Rs. 400 crores to Rs. 450 crores, that has been the more steady performance. This quarter has been on the exceptionally on the lower side because of the China supply chain issues. So, that is how I will put it across.

Sameer Deshpande:

But now from February onwards, that is maybe half of this quarter, current quarter was affected almost 30 days or 40 days were affected by the Chinese lock down. But now after that, it has opened up. So, this current coming month and March, we will be seeing good growth.

Ravi Jakhar:

Yes. So, for the quarter, so from a monthly perspective, March onwards, we are anticipating improved performance. From a quarter prospective, I guess that the lockdown and the disruption starts around November. There are about two months in the last quarter. This quarter will be more like 1.5 months, so marginally better. But then February is also a shorter month. And so, therefore, it will be pretty much, you know, in line with the current quarter.

But since it starts improving from March onwards, April onwards, the performance should get back in line with the quarters that you have been seeing and growth from on the back of the volume expansion, because the market share expansion is already happening. As the market recovers, the volumes will start to bounce back as well.

And we have also shared guidance from a long-term perspective for 2026, which I would like to reiterate that we would maintain that guidance and which we will be sharing again in the Investor Presentation.

Sameer Deshpande:

So, let us hope you are in a position to upload your latest presentation as early as possible, because these things, you people are adept all those things, but to understand these things become difficult unless it is properly presented. So, I hope you upload it as early as possible.

Ravi Jakhar:

Absolutely. And the idea is also to ensure that we provide all clarifications. And this is a very unique quarter with discontinuing, demerging operations. Therefore, we wanted to be sure that we provide everything that is required in the presentation so that all the shareholders, analysts and investors can get a comprehensive perspective on all things that matter.

Sameer Deshpande:

Today, if we see the reaction in the stock market also, our share was down 20% for some time. And then later when I think there was an interview on ET Now and some clarification was issued that the operating profit is around Rs. 350 crores as against Rs. 229 crores, then the share has recovered a bit.

So, that is the thing when these type of things, extraordinary events are there, as someone mentioned earlier also, it will be better if we give the presentation. And then later, you can again have some suggestions, and next quarter you can improve upon them. That will be helpful.

Ravi Jakhar: Sure. Comment is noted. And as a company, we endeavor to, you know, we are obligated to provide in a certain format, which we have provided. And I will note your point that the presentation would provide all these clarification. So, we would take your feedback on that.

Moderator: Thank you. We have the next question from the line of Rushab Shah from Anubhuti Advisors.

Rushab Shah: So, I think till the last presentation, we were giving a slide with respect to our management aspiration for 2026. So, basically, just wanted to check the revenue and EBITDA guidance, which you are giving, that is purely on an organic basis. And with this couple of new acquisitions that we have been doing in Germany and Turkey, will these numbers increase from here on? Or basically, if you can just guide us on the volume guidance you are baking in this whole guidance?

Ravi Jakhar: Yes. So, the 2026 guidance that we have been providing remains consistent and constant. So, the same slide you would see in this Investor Presentation as well. And that takes into account only the organic growth initiatives and some of these bolt-on acquisitions, which are very small, which are not meaningful, it does not include any large acquisitions. So, they could be like \$1 million, a couple of million dollars here or there which could be added. But largely, this is based on the organic business growth expansions.

Rushab Shah: And the volume growth that we are baking in these revenue estimates both in LCL, FCL, if you can give just a rough approximate number?

Ravi Jakhar: So, I would not be able to comment since the guidance which is not being shared. But I can say that we are, and this is something we have been restating that we have baked in the macroeconomic growth factors based on various research reports from different consulting companies and economic research organizations. And we have factored in that we will be able to continue to expand the market share year-on-year.

And we have been able to do that for the last several years, and we believe that we would continue to be able to do that. And we have baked in those assumptions that there is an underlying market growth. And on top of that, there is a market share expansion, which is what is leading us to those numbers.

And as you would see, and this quarter makes it very clear that the revenue comes down because the freight rate normalized. And therefore, you would also notice in the 2026 guidance also, revenue growth was subdued, because the ocean freight rates is normalizing, and normalization was quite anticipated.

Rushab Shah: And in terms of your debt levels, at the 31st December consolidated net debt number, does it include the payment made for the German and Turkey acquisition?

- Deepal Shah:** Yes.
- Rushab Shah:** And just last one bookkeeping question. So, other expenses, consolidated other expenses for the quarter were up roughly 15%. I think, in the earlier part of the call, you said that there was some onetime license cost of roughly Rs. 8 crores to Rs. 9 crores. So, I believe, this would go away from the next quarter. So, can we assume Rs. 180 crores more of a normalized other expenses run rate going forward on a quarterly basis?
- Deepal Shah:** Yes, more or less but we do keep investing in new resources, etc. But more or less, it will be in line of that.
- Moderator:** Thank you. That was the last question. I would now like to hand it over to the Management for closing comments.
- Ravi Jakhar:** Thank you all for joining the call. And I hope we have been able to provide more clarity. And given the uniqueness of this quarter, we will endeavor to take your comments, questions and suggestions as we upload the Investor Presentation providing more clarity on all the numbers. Thanks very much for joining in.
- Deepal Shah:** Thank you.
- Moderator:** Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.