



“Allcargo Logistics Limited  
Q1 FY2023 Earnings Conference Call”

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**ANALYST: MR. SAILESH RAJA – BATLIVALA & KARANI SECURITIES  
INDIA PRIVATE LIMITED**

**MANAGEMENT: MR. RAVI JAKHAR – GROUP CHIEF STRATEGY OFFICER –  
ALLCARGO LOGISTICS LIMITED  
MR. DEEPAL SHAH – DEPUTY GROUP CHIEF FINANCE  
OFFICER – ALLCARGO LOGISTICS LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Allcargo Logistics Limited Q1 FY2023 Results Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sailesh Raja from Batlivala and Karani Securities India Private Limited. Thank you and over to you, sir!

**Sailesh Raja:** Thank you. Good morning to all. On behalf of B&K Securities I would like to welcome you to the Allcargo Logistics Q1 FY2023 earnings call. From the management side we will be hearing from Mr. Ravi Jakhar, Group Chief Strategy Officer and Mr. Deepal Shah, Deputy Group CFO. Without taking much time, I hand over the call to Mr. Ravi for the initial remarks and post which we will open up the floor for 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. I am glad that you all joined us in this call setting aside other priority heading into the Independence Day week end. It is a momentous occasion for us as a country to look behind on our journey over last 75 years and set goals for future. It is not different for us at Allcargo and we are in the phase of introspection and transformation and I am quite confident that we have already created a new base for a bright future ahead of us. As a country, our progress depends on how well we afford our constitutional values, likewise as a company a lot of our achievements can be attributed to our core values that represent the ethos and philosophy of our founder. Our focus on customer centricity has helped us earn the trust of customers, particularly during the challenging times of pandemic that we witnessed in the last couple of years. The experience and resilience in our service offering has helped us to expand market share across businesses. As we started this new financial year faced with challenges of Ukraine war, lockdowns in China and a unique combination of inflationary and recessionary risks against all adversities and head winds we increased our volumes substantially year-on-year as well as quarter-on-quarter in our mainstay international supply chain business which contributes to nearly 90% of our revenues. Allcargo was the company that effectively created the CFS business and the LCL consolidation business in the country. While GATI created the new segment of Express Logistics business in India. What I am trying to highlight is that innovation and execution has been another core value and today we are leading the digitization of international supply chain in the LCL consolidation where we are global market leaders as well as pioneering the digital revolution with our ECU360 platform and a host of other digital initiatives. With these core values and other initiatives, I am confident that we are on our path to continue our successful journey in serving customer needs and creating stakeholder value. Coming to this year and the first quarter we had a stellar performance in the first quarter with highest ever volumes in the international supply chain business and also the best ever performance in the Express Logistics business under GATI. To take you through more details of our financial performance I will now hand over the line to Mr. Deepal Shah. Over to you Deepal!

**Deepal Shah:**

Thank you Ravi. I will now discuss the Q1 FY2023 performance. I am happy to share that we have carried the momentum from the FY2022 into our current quarter and for Q1 FY2023 Allcargo Logistics has reported a consolidated revenue of Rs.5,675 Crores, up 65% year-on-year basis. EBITDA stood at Rs.434 Crores effecting a growth of almost 100% year-on-year basis. PAT stood at Rs.280 Crores up 155%\* as compared to the previous year. Would like to highlight that we have been further able to improve our debt position and the net debt to equity ratio now stands at 0.23x for Q1 FY2023.

Now, I would like to discuss the performance of each business segment in detail for the quarter starting with our main segment which is the MTO segment the international supply chain business. MTO segment business which is operating under the ECU worldwide umbrella demonstrated robust performance. Ocean freight rates have witnessed declining trend over the last three-four months, however, the company has managed to grow revenues on back of strong volumes and profits remain steady with focus on digitization and yield management. Some initiatives like sales acceleration initiatives have helped fuel growth for the segment which can be witnessed through volume growth both for LCL and FCL. LCL grew at a faster pace with 70%# year-on-year growth while FCL grew by 10% year-on-year. Would like to highlight that FCL has showcased a 27% CAGR volume growth since its launch in 2013. International supply chain segment reported revenue of almost Rs.5,001 Crores up 70% year-on-year. EBITDA stood at Rs.358 Crores growth of almost 117% compared to Rs.165 Crores same quarter last year. Robust performance led ROCE improvements which stood at almost 56% on an annualized basis. Coming to the CFS and the ICD segment, the CFS and ICD segment has demonstrated a significant growth in volume over last year, volumes handled for the quarter stood at 1,38,300 TEUs as against 82,500 TEUs handed in Q1 last year. With sharper focus on customer analytics the business has been able to maintain robust EBITDA margin of 26% along with delivering strong ROCE of over 30%. With focus on digitization in the customers journey and data-based decision making, the CFS business is poised for opportunities ahead. Q1 FY2023 CFS vertical reported a revenue of Rs.169 Crores registering a year-on-year growth of 38% as against Rs.122 Crores in the corresponding quarter. EBITDA for the quarter stood at Rs.44 Crores compared to Rs.39 Crores in Q1 FY2022.

Moving on to the next segment which is the Express logistics operating under the Gati umbrella brand. The Express logistics business under Gati's subsidiary reported its highest ever volume and best quarterly revenue at Rs.365 Crores for the quarter. The company continues scale up quality infrastructure to drive the next phase of growth. The company continues to focus on sales acceleration, operational efficiency, digitization, talent acquisition and infrastructure by creating additional capacity. For Q1 FY2023 the revenue stood at Rs.365 Crores as compared to Rs.237 Crores for last year registering growth of 54%. EBITDA stood at Rs.25 Crores compared to a

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\*to be read as 165%  
#to be read as 17%

loss of Rs.1 Crore last year. The turnaround in business is shaping well and the performance remains on track to attain profitable growth under Gati 2.0.

Going on to the next segment which is the contract logistics, rentals and others. The contract logistic business also showed growth across all verticals. The equipment business of the company has rationalized reducing capital employed and utilization is currently at about 80% level despite the monsoon. Our JV associate business which is operating under ACCI witnessed a growth of 15% on revenue on quarter-on-quarter basis which stood at Rs.157 Crores in Q1 FY2023 as compared to Rs.137 Crores in Q4 FY2022. As highlighted in notes to accounts the contract logistics business will get transferred to Avvashya Supply Chain Private Limited a wholly owned subsidiary of the company on an ongoing basis with mirror shareholding. The requisite approvals are awaited from NCLT and we would keep the shareholders updated on the same. We have been consistently providing other key competitive financial performance indicators and detailing on each of the corporate norms in our investor presentation, one can refer that for more details. Now, I would request the moderator to open the line for Q&A. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ria from Aequitas Investments. Please go ahead.

**Ria:** Thanks for giving me this opportunity. My first question will be regarding the MTO segment, what kind of volume growth do we see in the coming time and from what trade route?

**Ravi Jakhar:** We have consistently maintained the guidance that we continue to increase our market share which means that whatever the market growth is we would be having a delta on top of that. We do not give specific guidance on the volume growth but to give a perspective on industry growth one could look at the GDP growth forecast, which is commonly spoken about, usually the trade grows at a delta above that. Within the trade LCL which is our mainstay business within the international supply chain is the fastest growing segment on the back of global SMB trade and e-commerce trade. So, usually LCL is the fastest growing global segment and with in this segment across the world we would be gaining market share and therefore we would be growing faster than that. So, whatever, assuming that similar growth trend continue in the underlying markets you should see similar growth trends continuing in our business as well.

**Ria:** Okay, that will be great and with the recent acquisition of Nordicon and the JV which we have done in this segment what kind of revenue are we seeing from that place and how has it panned out and what kind of synergy are we looking at there?

**Ravi Jakhar:** Both Noridcon and the joint venture in Korea have been extremely successful for us. We have been able to not only integrate and retain the entire volumes being handled by those businesses but also as those volumes have now come into our network, it means incremental volumes being handled on the other side in the network incremental profits and also the integration with ECU worldwide network has allowed these companies to perform better, increasing their yield

optimization and therefore I would say that on a ballpark basis the profits have nearly doubled from where they were prior to the acquisition for Nordicon entity.

**Ria:** Okay, are we seeing any further improvement in these segments or in terms of volumes like because since we are new there so market share gains would be higher. If you could give a sense, are you seeing double digit growth there?

**Ravi Jakhar:** We would continue to witness strong growth on the back organic growth initiatives which I alluded to. On top of that we do continue to evaluate acquisition opportunities which could help us gain significant traction in specific countries or specific geographies. So, that is something which we continue to look at and through the history of the company we have done multiple acquisitions and fortunately with strategic focus they have all been successful and we believe that such opportunities would continue to emerge in times to come and we continue to look at such strategic acquisitions.

**Ria:** Okay, my next question would be in regards to the logistics segment, basically what is the status of current deal with Blackstone like what amount have we received, if you could just explain me more?

**Ravi Jakhar:** In terms of the cash flow the large part of amounts have already been received however, the consummation of the transaction has been pending for some time, there was some processes which are not time defined but they have been concluded now and it should be any moment, I would say it should most likely happen within this month a week or two here or there but most likely this should happen any moment, once that happens there won't be any incidental cash flow but there will be reduction in debt on account of two things some of these assets are held in SPVs which would go off our balance sheet as we sell the stake to Blackstone in those SPVs and secondly there is some of the funds which is sitting on our books as a convertible amount and my colleague Deepal can confirm on the ballpark amount which we would see in debt reduction once this Blackstone agreement consummate in the coming weeks.

**Deepal Shah:** approximately Rs.300 Crores of debt will go off our balance sheet once this transaction consummated.

**Ria:** There was an agreement that 16% interest would be levied if the deal does not get consummated, so are we paying any part of it?

**Deepal Shah:** No, the deal is going to happen, so there is no provision for that at this point in time. We don't think so we will be required to pay that.

**Ravi Jakhar:** To add to that both parties are eager to consummate the transaction and it should happen any time.

**Ria:** Okay, got it and in terms of CFS business are we seeing decrease in realization there because of DPD rolls and all?

- Ravi Jakhar:** There was the trend in the past that if you look at the recent performance we have been improving margins in CFS business.
- Ria:** What is triggering that actually I wanted to know what development has happened?
- Ravi Jakhar:** This is largely been on account of using technology to our advantage both in terms of customer touch point as well as lot of analytics now that goes in, in terms managing customer decision which has helped us to marginally improve the profitability while bringing in efficiency and managing profitability through various digital tools. That being the key driver for improvement in the performance on the margin side. Overall, from an environment perspective DPD played role solidly but now that has already reached a matured steady state and there is not much impact on account of that.
- Ria:** For matter fact our volumes in EBIT per TUE, per CFS would be sustainable, right?
- Ravi Jakhar:** Absolutely.
- Ria:** Aare we seeing a further decline in volumes in the CFS business?
- Ravi Jakhar:** Driven by India's export we should continue to see strong growth in the CFS business and also on the consumption side country is likely to witness strong growth and CFS is an important extension to port infrastructure. So, on the volume side we should continue to see strong momentum and the beauty of this business that as we handle more volumes and if there is a marginal dip in the dwell time it may lead to a marginal reduction in the revenue per TEU that also means that with the same yard we can now handle more container. So, on an overall basis it only goes well for the business, so from hereon we believe that the business should continue to grow in terms of volumes as well as in terms of profits.
- Ria:** Okay, here you are expecting low single digit growth in volumes?
- Ravi Jakhar:** We will not be able to give a specific guidance on numbers but here we would be maintaining on growing our market share.
- Ria:** Okay, I will be back in queue for further questions. Thank you.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Thank you very much for the opportunity. I just wanted to understand the update on de-merger?
- Deepal Shah:** We have submitted the application for de-merger through the NCLT and we are awaiting progress on that, so we are well in line in terms of the timeline that we have provided that will take close to 12 to 15 months for the entire de-merger process to be completed. All the requirements from our side have been fulfilled at this point in time and we are awaiting regulatory approvals in this matter.

- Deepak Poddar:** Okay, and ideally by second quarter of FY2024 we are looking to make through with the de-merger?
- Deepal Shah:** We cannot commit timelines but we expect it to happen much earlier than that.
- Deepak Poddar:** Fair enough, understood and my second query is regarding your EBITDA margins, sustainable EBITDA given the lot of changes the volume we have seen that sharp growth but the freight rates are declining. How do you see sustainable margins going ahead?
- Ravi Jakhar:** Basically, to give you a perspective on the business, a large part of our business is LCL consolidation wherein our unique capabilities lie in operating the network across the world when ocean freight rates are more like pass through cost while we take care of various services including consolidation and de-consolidation of cargo on the original destination etc. So, the ocean freight becomes more of a pass through cost. On the FCL business there is some impact of the ocean freight environment on the margin per TEU, however that is generally more than negated by the volume expansion and which is what can be seen from the results of this quarter wherein the ocean freight rate was declining, however we continue to maintain the profits and the EBITDA margins also depend on the operating leverage which means by use of technology we are not required to increase the SG&A cost in the same proportion in which we grow the business. So, these sectors aid us in the sustenance of the margins.
- Deepak Poddar:** Correct, so ideally this 8% EBITDA margins, 7.5% to 8% is that a level one should look at given the changes in the macro environment?
- Ravi Jakhar:** Assuming that there could be further softness in the ocean freight rates one could see the margins being sustained or could even marginally improve because as we hold on to the margins against decline in revenue it could potentially also mean a slight improvement in the margins in percentage terms.
- Deepal Shah:** Just to add to that, basically large amount of freight is pass through and if the freight rates drop it also improves your working capital which adds to your bottom line. So, in a way declining freight rate environment could probably help us a little better as well.
- Deepak Poddar:** Understood, that is quite fair. My final query do you expect ocean freight to further go down from here or do you expect it to be raise going forward in the short-term?
- Ravi Jakhar:** We believe it and there could be a little more softness on the ocean freight rates, however we do not see any sharp movements and also we believe that there could be some continued volatility in the rates given that there have been unprecedented situations be it a lockdown or the war related tensions and now with the festive season coming up, so there could be some positive and negative demand scenarios in the market which could be more sporadic, therefore it is important to remember that there would be so volatilities but if you ask for direction there is likely to be more softness in the freight rates.

- Deepak Poddar:** Understood, fair enough. That is it from my side. Thank you very much. All the best.
- Moderator:** Thank you. The next question is from the line of Sameer Deshpande from Fairdeal Investments. Please go ahead.
- Sameer Deshpande:** Good afternoon everyone. Congratulations for the good performance and we have attained a trajectory of around Rs.5,500 Crores to Rs.6,000 Crores a quarter, quite a commendable achievement and as you have achieved the confidence and continue to grow with the same level because India is expected to grow at around 7% plus is good thing. Now, I would like to know what is actually the gross debt and cash and net debt of the company?
- Deepal Shah:** We are having approximately gross debt of around Rs.1,600 Crores and we have close to almost Rs.800 Crores of cash with us at the moment.
- Sameer Deshpande:** Overall the consolidated net debt is around Rs.800 Crores only?
- Deepal Shah:** Yes, net debt is around Rs.858 Crores.
- Sameer Deshpande:** Now Gati also there has been a turnaround after a long time, so restructuring which was expected how soon is it likely to happen?
- Ravi Jakhar:** There are two points that you mentioned are turnaround and restructuring, so turnaround is something which I would say has been largely concluded with now the outcome being displaced with the growth in business in improving margins on Gati. On the restructuring the path-1 which is the work in progress which is the de-merger, my colleague Deepal already shared it, is that its already with NCLT and we expect it to be concluded by April-May next year and the board also has recommended to look at options to these structures we expect in contract logistics business as we have disclosed in the recent past along with engaging with our venture partners KWE. However, those are explanatory stages right now perhaps in the coming two to three months we would be in a position to offer more information on that.
- Sameer Deshpande:** Okay, and regarding the base you mentioned that the net debt now is around Rs.858 Crores on consolidated level and out of this after the Blackstone deal is consummated the companies hopes to clear further Rs.300 Crores. So, after that the debt should be in the range of Rs.550 Crores to Rs.600 Crores?
- Ravi Jakhar:** Yes, that is right. Correct.
- Sameer Deshpande:** Good and all the best to you. Thank you.
- Moderator:** Thank you. The next question is from the line of Rushabh Shah from Anubhuti Advisors. Please go ahead.



- Rushabh Shah:** Thank you for the opportunity. Over the last couple of quarters we have been exiting couple of non-core businesses and non-core assets, so has that largely been concluded or over the next couple of quarters do we see further such corporate events to play?
- Ravi Jakhar:** There are certain assets which have been disposed which is a longer-term process in Gati we had given timeline of 18 months or so that continues and you may see monetization of land banks which are not required for business, fuel stations business etc., which is under which they would continue to be certain accruals coming from such disposals of assets and among the other businesses we have already sold the projects transportation business which is also non-core. However, some cash flows are yet to come from that which should come in and the equipment business has been down sized but there could be further work on incremental downsizing or exit from business. So, this is a continuing process, we continue to manage businesses very well with their performance but at the same time we are very focused on the core business and want to continue to move out of small non-core businesses.
- Rushabh Shah:** Understood, but they would largely be now on Gati, Allcargo we do not have any such big business which we are now looking to exit?
- Ravi Jakhar:** In the overall scheme of things if you look at the large scale that the international supply chain business contributes to and then the exit in contract logistics business all these decisions are minor points I would say they are not going to make very significant impact.
- Rushabh Shah:** Understood, and last question from my end would be on the tax rate part. Now, I believe our tax rate continues to fluctuate on a very big scale, if you can guide on what can be the expected average tax rate for EBITDA this year and the year to come?
- Deepal Shah:** The tax rate depends on many things our ability to utilize MAT and many other things, so there is a little bit of fluctuation in that but what we are expecting is to be in the range of is around close to 24% odd in the long run is what we expect our tax rate to be.
- Rushabh Shah:** Okay, on consolidated basis?
- Deepal Shah:** Yes, on a consolidated basis it should be 24-25%.
- Rushabh Shah:** Okay, perfect. That was all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Radha Agarwal. Please go ahead.
- Radha Agarwal:** Congratulations on good set of results sir. My question was on the international supply chain side of the business. Just to understand now that freight rates are falling and if going forward for example like if we hit the Q1 FY2022 realizations of Rs.1.3 Lakhs in the international supply chain business wherein the EBIT per TEU was 6,000. Going forward if we hit that kind of realization what kind of EBIT per TEU can be obtained?

- Ravi Jakhar:** I would reiterate that the ocean freight rates do not impact the core business that we have which is the LCL consolidation, our profits rather depend on three parameters: one how much cargo we are able to stuff in a container which is called as the container utilization which is driven by using customer engagement and data analytics tools. The second driver is how many 40 footers do we use as compared to 20 foot boxes which is driven by economies of scale and growth which is well placed and the third that is how many direct routes we are able to operate as compared to transshipment and which is an additional cost where again we have made great progress by further enhancing our global network. These three underlying sectors are what drive the possibility in the mainstay LCL consolidation business and they continue to be strong and we do not see freight rate apart from any of these three sectors that drive profitability for us.
- Radha Agarwal:** Okay, I am asking this question primarily because we thought that we have hit the peak EBITDA and from this quarter onwards we believe that the EBITDA would continue to fall because of the freight rates. Now, given the freight rate scenario can we maintain a positive...?
- Ravi Jakhar:** As I mentioned the freight rates have already fallen in the first quarter as well and the results are available to be looked at. So, we have already had one quarter where in the ocean freight rates fell and in some they fell by a significant 30% to 35% as well but despite of the ocean freight rates declined for the last several quarters our performance has sustained and that is what is being visible in the first quarter outcome as well.
- Radha Agarwal:** Okay, in this business could you tell me what is the average lapse time if any wherein we book the container and we re-sell them to customers. What I wanted to understand is for the volumes sold in the international supply chain business in Q1 FY2023, did we book the containers in Q1 itself or in Q4 or even prior to that?
- Ravi Jakhar:** This is the combination of various long-term and short-term contracts, there has a spot buying and spot selling is there and there are long-term contracts. We operate like an Uber of shipping where we don't own the vessels but we operate like a shipping line, customers book cargo with us for various origin destinations there and we operate like a non-vessel owning common carrier, that is the business. So, there are underlying back-to-back contracts for long-term as well as the combination of various things but if you are trying to understand there is a lag between the macro environment in that, there isn't any significant lag in that sense because the trends are largely matching on the demand and the supply side. Having said that, like I highlighted if you look at this quarter itself the volumes have gone up but revenue has not gone up which is primarily indicative of falling ocean freight rates. However, the decline in the ocean freight rates has not had an impact on the bottom line because bottom line on the LCL business is largely driven by utilization and the other efficiencies. On the FCL business there is a minor impact which gets negated by the volume expansion.
- Radha Agarwal:** Sir, in volume growth in Europe and US actually ten days back Maersk have reduced the global container volume outlook, is it fair to assume that we will grow 2 to 3% going forward and could you also give us some light on what is the current market share and expected market share gain over the next two to three years?

**Ravi Jakhar:** That is what we are referring to as a 2 to 3% expansion is more of a global ocean freight growth rates and if you look at the last four-five years of trend the global ocean freight rates growth rates may not be very different, what we are referring to is within the global ocean freight as I mentioned the LCL freight grows much faster and within that our market share is extended and therefore we have been witnessing stronger growth in a similar market over the last couple of years as well, so our growth is not only backed on the market expansion in terms of the market growth rate but also on the market share expansion which has finally contributed to the volume expansion in our case.

**Radha Agarwal:** Okay, also finally to the CFS business, previously we had discussed that the major growth driver for CFS business would be volumes. In this quarter and despite the quarter-on-quarter growth in cargo volumes in the industry we have seen that in our business again witnessed that there is a quarter-on-quarter de-growth in the CFS volumes. Could you give us some reasons that why is the decline and going forward despite the DPD model what factors will lead to volume growth for the company?

**Ravi Jakhar:** There are always certain seasonality's on a quarter-on-quarter basis in the CFS business, if you look at the year-on-year there has been a strong growth in the business. Also, as I mentioned we have been rationalizing our business to drive profitability which could also have a certain minor temporary impact on the volumes. But that stands out to be positive impact on the overall bottom line. In terms of the DPD it is already stabilized, however it is the CFS business which allows the Indian ports to continue to work without any condition issue as we saw in Los Angeles or other parts of the world because CFS is allowed for an immediate evacuation of containers from the port and play an important role in the container supply chain and we believe that they would continue to play a role, in fact there could be further expansion at the role that they play depending on how the regulatory policies shape up in the coming days.

**Radha Agarwal:** Could you explain what is the purpose of agreement with shareholders of Haryana Orbital Rail Corporation Limited or if you acquire 7.6% equity stake wherein you have spent Rs.60 Crores till now?

**Ravi Jakhar:** This is marquee Rail Corridor coming around NCR which would carry both passenger as well as cargo and this would be a DFC compliant rail corridor it is a partnership between various government bodies and Maruti Udyog and Allcargo logistics. This basically also provides us a seamless connectivity to DFC to our logistics park in the NCR and therefore it is a strategic investment keeping in view our ambitions to participate in the ICD business and rail linked ICD business which can be seamlessly connected with the dedicated freight corridor.

**Radha Agarwal:** Okay, thank you so much for answering all the questions. Congratulations.

**Moderator:** Thank you. The next question is from the line of Ravi from One Up. Pleased go ahead.

**Ravi:** Thanks for the opportunity. Just wanted to take the discussion on MTO profitability little forward. You explained the levers you have for protecting the margins in a lower freight

environment. Doing some number that the realization per TEU the kind of dip we see quarter-on-quarter the dip in EBIT is much lower which probably explains the levers you have. Any thumb rule or something which we can factor in, in terms of what could be a proportionate dip or proportionate impact of the lower freight rates or any way to look at it?

**Ravi Jakhar:** I would say that typically about 2/3<sup>rd</sup> to 3/4<sup>th</sup> of our business is LCL consolidation and about 1/4<sup>th</sup> to 1/3<sup>rd</sup> is the FCL business. In the LCL consolidation business, the business operates from the gross profits per unit volume rather than operating on the revenue per unit volume that is how this business operates and therefore whatever ocean freight reduction happens leads to an equivalent reduction in both the operating cost and the revenue and therefore on the gross profit levels does not create any impact as I explained and any fluctuations that we have seen over the last couple of years and lastly been driven by the other factors. On the FCL business as the freight has come down if not to the same extent but to some marginal extent there is a decline in the profit per TEU, however in terms of the broad ballpark impact that is estimated to be below the estimated growth rate and therefore to a large extent any such drop gets negated by the expansion in volumes. So, that is the broad perspective with which one could analyze the numbers.

**Ravi:** Okay, also another question was the contract logistic business is moved to a subsidiary format from a JV format, I understand that is to do with the structuring of a business. Probably any timelines of the evaluating this business to be merged with Gati's contract logistic business or how are you looking at this piece any timelines would you try to do it along with the whole de-merger activity that is being going on?

**Ravi Jakhar:** The currently ongoing de-merger would continue to proceed with the current scheme of things, we are evaluating various strategic options on the contract logistics and the Express business and we are in discussions with our JV partners KWE as well to look at buying out their stake. All these discussions should reach some form and shape in the coming three months or so to put a broad timeline it can be a little bit here, then when we will be in a position to share for their updates with you.

**Deepal Shah:** Ravi, just an addition over here that once it moves to the subsidiary, it continues to be a JV we are splitting the current JV into the business and moving it into the Avvashya supply chain which is a subsidiary but the shareholding pattern will reflect the JV at set one and whatever restructuring happens will happen at set two.

**Ravi:** Yes, of course probably we can expect some consolidation of holding?

**Deepal Shah:** Yes.

**Ravi:** Sure, and just a book keeping clarification probably the net debt at Rs.858 Crores can come down by Rs.300 Crores with the Blackstone deal and further we did a transaction of selling the project logistic business, we can expect it further coming down by another Rs.100 Crores as we receive the cash?

**Deepal Shah:** Yes, when the cash flow comes in it will get reduced accordingly unless new investments that we make...

**Ravi:** Yes, sure I am talking about as is basis as of now?

**Deepal Shah:** Fine, okay.

**Ravi:** On the Nordicon side we were given some indication that it was hitting EBITDA of a million euro a month kind of a run rate, just wanted to know how are things there progressing and with the combined EBITDA what you shared in the presentation that includes Nordicon or?

**Ravi Jakhar:** To give a perspective we had mentioned that we had acquired the company at a run rate of about 4 million and I had ensured that on the least call is that it had almost doubled from that run rate and we have had 13 months hitting up to over a million dollars in the particular month as well. There has been some temporary disruption to the rail service which we highlighted in our published outcome as well, which has somewhat impacted the Nordicon profits in the quarter for which the earnings have been published. Now, we are seeing a little bit of reversal and the rail volume is also starting again and with all said the routes do found to Russia, so we believe that there was perhaps in this quarter gone by the performance was somewhat suppressed which should get to the normal levels as we move forward. That ballpark as I said is almost like doubling up from the levels at which we acquired.

**Ravi:** Sure, okay that is helpful. Any broad commentaries on the Europe side we are hearing lot about the heat waves and slower moving of cargos because of low river levels, so how are the enquiries and with the environment if you can just talk about it broadly?

**Ravi Jakhar:** I would say in terms of the network serviced environment we get the same feedback as most of us would be aware there has been some conversation about sluggishness in demand and clearly we also observe that in Europe there is a greater conversation around the sluggishness in demands as compared to if you ask me to draw a reference point and therefore there could be some sluggishness in the demand therefore we take volumes as well that's from the network side but that is also a good opportunity for me to explain how our business is beautifully placed to be automatically hedged against such scenario. So, what happens is whenever there is a slowdown in demand that usually leads to a temporary spike up in the LCL consolidation business therefore there is a little bit of six to nine months kind of sluggishness in demand that kind of gets compensated with the greater opportunity in the LCL consolidation space. Likewise we also noticed that whenever there is overall global environmental where people foresee recession etc., people also tend to move towards being safer currency to dollar and we usually that dollar appreciates. So, while there is a little bit of burden that the recessionary macro environment brings in terms of the impact on the business. There is also a natural hedge in the dollar appreciation which benefits our business, so from some of these temporary headwinds our businesses also largely insulated.

**Ravi:** Yes, thanks for those answers. Thank you.

- Moderator:** Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.
- Abhijit Mitra:** Thanks for taking my question. Just to understand again on the MTO part, the thing that you mentioned that 2/3<sup>rd</sup> of the business is LCL you mean by volume or by revenue, what exactly do you mean and when it is 2/3<sup>rd</sup> is LCL?
- Ravi Jakhar:** I would say largely in context to the gross profit contribution which is the line on which I was describing on how to evaluate the business.
- Abhijit Mitra:** Okay and on the EBITDA level it will be similar or it will be higher?
- Ravi Jakhar:** We do not share the detail.
- Abhijit Mitra:** Yes, what I was trying to understand that if you can create a bridge because earlier EBIT per TEU which you used to report was around 39-40 Euros per quarter, now it has moved up to 150 Euros per quarter of course it moved a much higher, now it has come off a bit. Can you create a bridge between 39-40 Euros to 150 Euros, broadly you mentioned some of the contributing factors for LCL profitability improving like container utilization, 40 footers against 20 footers total versus transshipments and like that but if you can create that bridge highlighting the major impact points which have taken in this 40 euros to 150 euros?
- Ravi Jakhar:** Therefore, one I would say going back more than a couple of years behind might also distort the picture if they take it in the cargo mix and difference in the trade lane basket itself. However on the overall trend we would not be able to provide piece wise break up because information is sensitive for competition from a competency perspective but like I said these are three contributing factors which can be together see that is contributing to almost the entire uplift in the improved margins on the operating levels. From gross profit to EBITDA it is just a function of the SG&A cost which are dependent upon our investments into expanding and the citation and repo reduction in the operating costs from the other hand that is a bit trade off in that. Just to explain an example when I say increased utilization what we essentially saying is let us say if we are carrying 25 cubic meter cargo in a container, now if we are able to carry 26 cubic meter for the additional 4% cargo we do not pay any ocean fair because we are still carrying it in the same container and 4% is literally a pass through and that becomes a very substantial, so one cubic meter improvement in the cargo utilization 3x 4% impact on the ocean freight cost which is a significant cost on our alignment and helps us expand the gross profits. I would say this something which has happened over the last couple of years but I would say right now we are in path wherein we have stabilized this piece largely therefore from here on we would see that the yields should continue and the growth should be more led by volumes.
- Abhijit Mitra:** That is helpful. I understand the levers is that in future presentations if you can lay out some bridge that will address a lot of queries because now the fear is that large part of this move is being driven by freight and addressal of that fear probably a bridge will the help, that was my humble submission. Secondly, on Gati restructuring, in your post board meeting release on 2<sup>nd</sup> of

August you have mentioned certain factors for example you have mentioned that restructuring business of Gati and contract logistic business, deletion of the company, and you have also mentioned that the board has given approval to undertake discussion with Kintetsu if you can take through as within the provisions as per shareholders agreement. If you can lay out from the talk of the shareholder agreement what exactly is the shareholder agreement that you have with Kintetsu if you can take through and thus the beginning of this inception triggers any move or when you will discuss you will start with an offer and they will have to respond to you, what is the contour of this discussion if you can broadly highlight of course in keeping with the disputed norms?

**Ravi Jakhar:** We may be bound by confidentially agreement we are not able to disclose the details but like we have disclosed we are in the process of considering various restructuring options including discussions with KWE to buy out their stake and the other two head line items that we could speak about right now but as indicated in coming three months we will be in a position to have more details being shared with everyone

**Abhijit Mitra:** Right and in each of these of moves we are seeing involvement of multiple parties including NCLT?

**Ravi Jakhar:** We have to abide by the law of pan India so whatever required we have to go to that process

**Abhijit Mitra:** Yes, but that sort of extends the timeline it can easily stretched beyond two years given the current pace at which things are moving, so do you see a risk of that or you feel?

**Ravi Jakhar:** Our experience has been reasonably good, we did some small de-merges at Jhajhar Logistic Park we have begun the process of concluding the de-merger of ACCI business and the scheme of de-merger for Allcargo also and we have been quite satisfied with the response in the NCLT and as I mentioned we had indicated timeline of about 15 months at the beginning of taking the initial board approval and from there on we are on track. Therefore, we believe that we should be able to conclude things in a time bound manner we do not see much risk of running beyond those timelines. Having said that we have to comply with the laws of the land and abide by the regulations.

**Abhijit Mitra:** Got it. Thanks. I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Keshav Garg from CCIPL. Please go ahead.

**Keshav Garg:** Sir, sorry repetitive but we can see that in the MTO division since the past three quarters even though our topline is flattish but our EBITDA is decreasing from Rs.389 Crores to Rs.361 Crores to Rs.318 Crores, so now this Rs.318 Crores that we did last quarter can we hold on to this or will this see further declined in the quarters to come?

**Ravi Jakhar:** Usually in this business October to December quarter is the strongest quarter and that cannot be compared with the following quarters which usually have declining demand situation and as far



the first quarter is concerned there again there was also contribution from several incentives which are also seasonal. So, I would say in this business is largely driven by seasonality's and patterns in which business operates, so a fair comparison would be year-on-year rather than a quarter-on-quarter. A Christmas quarter is very different from the quarter just before that.

**Keshav Garg:** Great sir. However, as the previous speaker was mentioning that in our stock price is reflecting the fear of the market that our earnings might be temporarily bumped up. On that basis if you see our top price and our price to earnings ratio today is at its lows of 2009, 2013 and March 2020 lows all these are crisis period but if our earnings are sustainable then the company should go for a share buyback because we are trading at seven times earnings which is the lowest ever it is about the crisis period?

**Ravi Jakhar:** Just two quick comments on that. While the de-merger scheme is going on the share buyback is not possible as de-merger scheme is going so that option not there on the table just to share the factual aspect on that and secondly as a business our control is on delivering performance and providing comfort and clarifications to all our shareholders, investors and analysts and I am sure that the coming quarters would see changing phase like this one has and people should be in a position to analyze the company's performance. So, in that context while previous quarter were slightly different this was an interesting quarter wherein we had all the head wins possible through the war, inflation and lockdowns and declining ocean freight on top of that and the performance has continued to be strong.

**Keshav Garg:** Much appreciated and lastly this Haryana Orbital Rail Corporation, what is our total stake and is there further investment from our side that is required in future?

**Ravi Jakhar:** No, our shareholding is 7.6% and we can expect the details on our commitment there.

**Deepal Shah:** We have a total commitment of Rs.114 Crores we have already invested Rs.60 Crores, so the balance amount will be invested in these coming years.

**Keshav Garg:** Okay sir. Thank you very much and best of luck.

**Moderator:** Thank you. The next question is from the line of Shivaji Mehta an Individual Investor. Please go ahead.

**Shivaji Mehta:** Thank you for the opportunity. I have one question regarding the restructuring of KWE, I don't know if you can comment on this but can this lead to some debt pile up on Gati's balance sheet when you buy out the stake how would that be funded?

**Ravi Jakhar:** There is something which unfortunately at this point in time I would not be able to share much details but as we explore options we will come back with details but I can share with you that if you look at our approach in business we have kept leverage in check and that is what you see in today's overall net debt numbers as well and wherever we have raised debt across any company we have usually raised the debt with a clear horizon on the repayment and therefore as a



company philosophically we would never be in a situation wherein we would be in the situation wherein the leverage or the debt could be a concern we are quite clear on that. In terms of how exactly the transaction would consummate and how it will be funded etc., now it is little peanut show we will come back to you when we have more clarity on that.

**Shivaji Mehta:** Right sir. Thank you very much. That is all from my side.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Sailesh Raja for closing comments.

**Sailesh Raja:** Thank you all for attending this session. We specially thank the Allcargo Logistics giving for their time. Mr. Ravi any closing comments would you like to make.

**Ravi Jakhar:** On behalf of Deepal, and myself I would like to thank everyone for joining us and that is it. Thank you.

**Moderator:** Thank you. On behalf of Batlivala and Karani Securities India Private Limited, that concludes this conference. Thank you for joining us you may now disconnect your lines.