



“Allcargo Logistics Limited
Q2 &H1 FY2024 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Allcargo Logistics Limited's Q2 & H1 FY2024 Earnings Conference Call hosted by Dolat Capital. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and the 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. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference 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. Abhishek Jain from Dolat Capital. Thank you and over to you Sir!

Abhishek Jain: Thank you, Dorwin. Good afternoon, everyone. On behalf of Dolat Capital, I welcome you all to Q2 FY2024 earnings conference call of Allcargo Logistics Limited. We thank the management for providing us the opportunity to host the call. From the management side we have with us Mr. Ravi Jakhar, Group Chief Strategy Officer and Mr. Deepal Shah, Group CFO. Now I hand over the call to Mr. Ravi for opening remarks followed by the question-and-answer session. Thank you and over to you Sir!

Ravi Jakhar: Thank you Abhishek. Good evening and a very warm welcome to everyone on our Q2 & H1 FY2024 earnings conference call. Let me take this opportunity to wish you all a very happy New Year, the new Samvat 2080, may it bring prosperity and happiness to all. We have uploaded our results and earnings presentation on these stock exchanges as well as the company's website and I hope everyone had an opportunity to go through the same which includes the results as well as the investor presentation. As mentioned today I am joined by my colleague, Deepal Shah and we would endeavor to provide you brief highlights from the quarter and a half year gone by and also respond to your questions with utmost sincerity.

To begin with let me speak a bit about the macroeconomic environment. The global economy is expected to slowly recover from the pandemic; however, the global trade flows recovery has been relatively even weaker than what we had expected, and this is in line with the economist's expectations. We have seen several factors continue to raise concerns such as the muted Chinese trade outlook, geopolitical tensions posing an upside risk to fuel prices and weaker than expected pickup in pre-Christmas stocking, which is usually seen leading to increased shipments from July end that uptake has been relatively sluggish as well. China a country that plays a major role in global trade is also grappling with its internal real estate crisis and diminished external demand. Chinese exports for the month of October shrank 6.4% year-on-year. As per Reuters report we also understand that China's official Purchasing Managers Index last week showed both new export and import orders shrank for an eighth consecutive month in October which basically continues from the Chinese New Year gone by. This suggests that manufacturers are struggling to find buyers overseas and ordering fewer components domestically as well. Among the other major economies that impact global trade such as the US and UK, too are facing sluggish

demand growth, although on a positive side the risk of banking instability has softened but the trade outlook remains cloudy. The International Monetary Fund has projected that global real GDP growth will remain steady at around 3% in 2023; however, for 2024 they have revised these forecasts slightly downwards to 2.9% from the previous estimate of 3%. Our outlook for the global trade recovery mirrors the growth concerns in China and the western world. We continue to maintain our view that any meaningful recovery is likely to happen post Chinese New Year which is Feb 2024.

Coming to Allcargo Logistics and our business operating under various subsidiaries, I would like to share a few business updates. First on the corporate action side as you would have noticed the Board has approved the issuance of three bonus shares for every one share held, this decision is aimed at improving the liquidity and allowing for broader based participation of shareholders in the company besides this shall also facilitate the strategic restructuring plans that we have been pursuing. The company has built significant reserves over the years and the issuance of bonus shares will use less than 15% of the available reserves, which is a sign of company's health. The company also recently demerged two businesses which were listed in the quarter gone by on August 10, 2023, and the Board considered it is appropriate to issue bonus shares once the demerger proceedings were completed and this Board meeting for the quarter ending September 2023. The company has exhibited strong performance over the last several years and taken significant initiatives to deleverage the balance sheet which has resulted in a very low net debt as of September 30, 2023, and my colleague, Deepal will talk more about it.

If you look at it this is remarkable considering the recent spree of acquisitions, we acquired the balance shares from minority shareholders in Gati Express supply chain as well as in Allcargo supply chain. We also recently increased our shareholding in Nordicon to 90% besides the acquisition in Germany earlier during the year 2023. All of this has been enabled to a large extent by strong internal accruals from the businesses. On the international supply chain side of the business while the current macroeconomic environment has unexpectedly led to significantly lower performance in recent quarters the company is hopeful that the prudent approach by the company over the years that led to a very strong balance sheet will provide a strong base for future growth. The business which sits under the company's flagship subsidiary ECU Worldwide is driven by a completely asset -light approach with digital strategy being the fundamental pivot for future growth and I am glad that all our digital initiatives are tracking well on schedule. Further ECU Worldwide continues to strengthen its global market leadership in the LCL consolidation business on account of significant efforts and investments and acquisitions and aqi-hiring and transformation of the business on an ongoing basis despite all the challenges and headwinds.

I would like to highlight here that most leading international forwarders have reported a volume decline ranging from -4% to slightly lower in Q2 FY2024. This was accompanied by a decline in yields ranging from -25 to -38% in comparison our LCL volumes are down 3% year on- year and FCL volumes have remained flat. In terms of the LCL volumes, we estimate that our key

competitors operating globally are significantly lower on a year-and-year comparison. We have highlighted that recovery might not be visible immediately, but we continue to focus on our market share efforts along with cost efficiencies. In line with our improved disclosures, we shall continue to keep our various stakeholders updated on the near-term market developments through our monthly operational release. As we have stated in the past the international supply chain business operates on January to December calendar year, therefore we are also in the stage of budgeting for the next year and in the due course of next couple of months we would also have a better forecast and visibility on our next year's budget and the three years business plan based on which we also intend to share our revised guidance in the coming months.

Moving on to our express business, the company is making remarkable strides, consistently delivering top-notch service levels while continuously striving to enhance operational efficiency. It was somewhere around early 2023 that our operational indicators started to fall in line on the back of transformational initiatives and also the suitable infrastructure coming up. The company has achieved strong performance in Gati Express in supply chain in terms of volumes driven by increased demand, driven by infrastructure amplification, sales acceleration initiatives and also on the back of good domestic festive season demand. You might be aware that we have recently launched the Bengaluru super-hub and remain on track on the infra rollout front a majority of which is already accomplished. Additionally, the company remains steadfast in its commitments to improving EBITDA on the back of operating leverage through increased revenue and volumes and that should improve the overall profitability as well, so that outlook on Gati Express supply chain which is the operating entity continues to remain strong and is backed by the demonstration of strong volume and growth in Q2 FY2024. Detailed highlights have already been provided in the Gati call. Gati already being a separately listed entity.

Coming to the contract logistics business which is housed under Allcargo supply chain and is now 100% subsidiary of Allcargo, I am glad to know that business continues to deliver robust performance. Recently the company has set up a state-of-the-art grade A chemical warehousing facility at its mega multi-user chemical warehousing complex at Uran in Navi Mumbai. This has been set up for one of the largest chemical companies in the world and is a hallmark of quality excellence in the country. The business besides the niche chemical segment in which it continues its market dominance, has now started to grow rapidly in the e-commerce space as well as other opportunities in warehousing ranging from auto components to furniture and other CDIT (consumer durables & IT) domain opportunities. In facilities where we store a lot of chemicals it requires strict adherence to highest safety standards and statutory compliances of international standards which demonstrates the capabilities underlying in the Allcargo supply chain business. We continue to manage a little more than 5 million square feet warehouse and we have seen a good pickup in volumes, revenue, and profitability in this business. Compared to last year there was also a portion of business which was a low margin third party logistics kind of an opportunity which was pursued for a period of time for specific reasons which is not continuing and that is why the expansion in profit margins is seen to be healthier as compared to the revenue margin, a part of it is also contributed by capitalization of lease expenses. In terms of the future

prospects, we see strong demand. We have a robust pipeline in this business, and we have now already invested in people capabilities for solution design perspective. We are participating in greater set of opportunities, and we have a very healthy pipeline which provides good visibility for continued growth in the coming quarters. That was a brief snapshot of all the three businesses operating under Allcargo Logistics. I will now hand over the call to my colleague Deepal for his comments on the reported financials and then we can get back to further discussions in the form of Q&A. Thank you over to you Deepal!

Deepal Shah:

Thank you, Ravi. Good afternoon, everyone and a very Happy Diwali and Happy New Year to you all and your loved ones. I will now discuss the performance for Q2 FY2024. Our revenue has declined on a yearly basis owing to a much stronger base and a different macroeconomic environment. The consolidated revenue for Q2 FY2024 stood at 3,307 Crores as compared to 5,055 Crores in Q2 of FY2023 and 3,271 Crores in Q1 FY2024. The consolidated EBITDA for Q2 FY2024 stood at 118 Crores as compared to 139 Crores in Q1 FY2024. The muted profitability along with a slightly higher depreciation has led to the PAT, profit after tax to the quarter ended September 2023 declining to 16 Crores as compared to 195 Crores for the same quarter last year. Point to note is that our balance sheet remains very healthy with a net debt of 120 Crores as of September 2023.

Now moving on to the business segment wise performance. I will start by discussing the performance of the international supply chain segment which is the largest business. The demand scenario continues to remain weak like Ravi said and competition remains high. We continue to focus on outperforming the industry amidst muted demand. LCL volumes for Q2 FY2024 stood at 2.3 million cubic meters as compared to 2.4 million cubic meters for Q2 FY2023. On the FCL front the volume of Q2 FY2024 remains flat year-on-year and stood at 152,800 TEUs. The ISC business reported revenue of 2,795 Crores as compared to 4,614 Crores for Q2FY2023 and 2,823 Crores for Q1 FY2024. The EBITDA for the same period stood at 65 Crores as compared to 111 Crores for Q1 FY2024.

Moving on from the ISC business to the express business under Gati. The segment continues to deliver strong performance with higher emphasis on improving operational efficiencies. The volumes for Q2 FY2024 stood at 333 KT as compared to 283 KT in Q2 FY2023, a remarkable 18% year-on-year growth. Revenue stood at 385 Crores for Q2 FY2024 as compared to 370 Crores for Q2FY23. EBITDA stood at 15 Crores for Q2 FY2024 as compared to 21 Crores in Q2 FY2023. An important milestone for the express business was the successful launch of its Bengaluru hub.

Moving on to the contract logistics business which sits under the Allcargo Supply Chain Private Limited. Contract logistics revenue Q2 FY2024 stood at 76 Crores as compared to 83 Crores for Q2 FY2023. EBITDA for the quarter September 2023 stood at 36 Crores as compared to 29 Crores for the same quarter last year. We are confident that this positive momentum will persist in the medium to long-term giving the rising demand for warehousing across various segments.

We have been consistently providing other key comparative financial indicators in our investor presentation one can refer to that for more details. With this I would like to open the floor for questions and answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Radha from B&K Securities. Please go ahead.

Radha: Hi Sir. Thank you for the opportunity. Sir, firstly I would like to state that in the opening remarks we lost you in between and there was no intervention from the operator as well so just request you to add those sentences in the transcript if possible. Sir my first question was that we had taken many initiatives like digitization, direct sales, and other many cost reduction measures as well previously so that whenever there is a fall in realizations our EBIT per TEU is still maintained at a certain level so this quarter we could not see those benefits reflecting in the numbers so could you give us some kind of analysis as to why and how do you expect to see the EBIT per TEU levels in the coming quarters considering the weak macroeconomic outlook?

Ravi Jakhar: I will respond to that. Meanwhile just to reconfirm Deepal were you able to hear me while I was speaking in the opening remarks?

Deepal Shah: Yes, Ravi, I could hear you but then opening remarks were fine but somewhere in the middle I also got dropped out.

Ravi Jakhar: Anyways I would request the team to make sure that the transcript is duly recording everything that was spoken so that if anything is missed out by any participant that can be referred to later. So, coming to your question on the EBIT per TEU I would break that down into two components it comes down from GP per TEU and then down to EBIT per TEU. First part the GP per TEU is driven by a combination of how we maintain our trade lane dynamics and how the operating market environment is. Now like I mentioned the operating market environment has been muted which impacts the gross profit at the same time on the trade lane side we did take initiative to expand into some new trade lanes in strategic locations for example some of the Latin American countries into European markets and Asia into Latin America and a few other strategic trade lanes which as you build them out tend to be loss making and at the same time they are quite strategic from a long-term growth perspective, so some of those initiatives we have continued to pursue. We did not choose to drop them so to give you a scale of sense if I was to talk about all the 2,500 trade lanes that we operate and we carve out all the loss making trade lanes at the gross profit level that number for the quarter could be close to about a million dollars, some of the non strategic ones might contribute to about 25% which we could temporarily bring down and that should create some positive impact not significant but majority of that cost we would continue to take as a hit in terms of developing the new strategic trade lanes. The macroeconomic environment as it improves typically tends to help us with better utilization and as you could see from our operational updates in the investor presentation as well as the monthly updates we have continued to see dropped ratio of 40 feet containers which are all operational parameters which

should improve on the back of improved demand and as the markets have corrected one thing which we have been able to do is we have fallen relatively less as compared to the competition and that means that as the recovery kicks in we should be the fastest to recover as well. Now that is something which is a combination of bit of strategy on the trade lane dynamics but largely driven by the operating environment. However where we potentially or should have done better is on the line items between gross profit and SG&A, during the first half of the year largely for the first quarter we were anticipating that the trade environment should improve and there was a little bit of a minor pickup in the month of March post Chinese New Year and that kind of created a belief that the trade could be normalized which however did not happen and we only started acting on the cost side below the gross profit from August onwards and that endeavor has continued now through the last few months and we would conclude most of the cost initiatives by end of December. Now some of these requires strategic restructuring in the organization, some of them are about eliminating some positions by way of automation, some requires relocation and typically most of these activities have a lead time of three to six months and during such time there are also severance costs, switch cost, etc., associated so as we conclude these initiatives till the end of December there could be a continued impact until Feb or March but beyond that we should see an improved state on the cost side which means that the SG&A cost as a percentage of revenue or gross profit should come down so that is something which we expect should be visible from the month of March, April onwards as this point of time would have some bit of severance cost as well; however, what we would be in a position to do is possibly for the quarter of December when all these initiatives would have been completed we could potentially provide a ballpark indication of the quantum of one of severance impact which would not continue beyond the Jan to March quarter and that would give an idea about the impact on the SG&A cost improvements. In hindsight the organization could have been more proactive from the early part of the year as compared to starting some of these cost initiatives in August which could have basically helped us maintain healthier EBIT per TEU; however, now that we have taken some of the cost initiatives we believe that should contribute to some extent and as the trade volumes rebound as the utilization starts building up we believe that the EBIT per TEU should improve so I would say putting these in perspective on terms of timelines we should see EBIT per TEU improve from the April onwards and we could still call out some of the exceptional costs in the Jan to March quarter. October to December is likely to remain similar. I hope that provides a decent perspective on how it is playing out and what we are trying to do.

Radha:

Sir secondly you mentioned that till the Chinese New Year we are expecting the demand to remain muted so given that last two quarters we have seen significant impact due to the lower demand and we have seen a drop in our profitability level so going forward especially in 3Q and 4Q partially because of the Chinese New Year do we expect to remain profitable or do you see any kind of scenario because of the SG&A cost and then lower demand to go into losses?

Ravi Jakhar:

I do not see us going into losses in any of those scenarios, also to further carve out some of the performance is also muted on account of two big countries which have actually been in the losses which is US and Germany and in these two countries we have already seen some degree of

reversal on the trends because some of the outsourcing and cost reduction initiatives have already started around August-September like I mentioned so in keeping that into mind unless the economic environment will deteriorate further we should only see an improvement from this quarter onwards, if there was to be continued deterioration in the economic environment then we could see it being flat. We do not foresee a scenario of the performance going further down from here but it may not see a significant uplift over the next two quarters and like I said the impact of cost reduction initiative as well as the improvements in the microeconomic environment should potentially start from Chinese new year around mid Feb and that is where we should possibly start seeing some degree of an upward movement that is our anticipation right now based on what we see on the ground.

Radha: Sir for the third quarter given that now we are past 45 days for the third quarter so are you seeing any kind of an uptake in demand as compared to the second quarter and if so even if we can maintain similar volumes can we assume that this is the lowest for our EBIT per TEU?

Ravi Jakhar: So, I would say that we are not seeing any demand uptick. The environment continues to remain flat in terms of the overall demand outlook in the market. In terms of EBIT per TEU our best estimate is that it should remain flat and should grow on account of two initiatives, one cost reduction below GP and second is the turnaround in macroeconomic situation and the third factor is reversal in performance of specific countries in our business portfolio so combination of these three things should help on the first one on the cost reduction I have a more definitive visibility because those are completely controlled internal initiatives and should be completed by December and with some severance still being there in the Jan to March quarter from April onward should be a clean improvement. On the macroeconomic environment our estimate is beyond Feb, New Year things should improve that is something which is based on an assessment of ground reality and what we also hear from global trade experts and economic experts. On the loss making offices turning around we have seen positive momentum over the last couple of months, so that trend should continue and should also help improve the bottomline, so all in all if you read into these three trends the performance should remain rangebound for the next quarter and then perhaps start to improve primarily from the April quarter onwards is how we look at the situation right now and of course these are based on various estimates like I mentioned.

Radha: Sir could you give us any insights on the realization front for this international supply chain business so this quarter we are at 114K per TEU and we are given to understand that given that freight rates have already come down to pre-COVID levels because of lower demand scenario do you see the realizations going down further, if there is any pricing pressure or anything could you give us any insights on the realization front?

Ravi Jakhar: So, we were anticipating that there will be an impact on the ocean freight on account of trade disruptions getting normalized this is I am referring to 12 months ago. However, as the economic slowdown also kicked in on the back of the trade disruptions going away the freight rates have dropped significantly now going back to not just pre-COVID levels in some trade lines even

below the pre-COVID levels. However, as we maintained that impacts the FCL business largely. On the LCL business the challenge is that when freight rates become much lower some of the volume from customers can switch to FCL which leads to further pressure on the volume side. LCL profitability is still largely driven by the utilization in the box and how much of 40 feet boxes can we carry and that is something which has remained almost close to 10% below the last year's levels and that is where we believe the improvement is likely on the back of volumes and the trade recovers and in terms of realization I would recommend that when looking at the LCL business we do share data on the LCL in CBM and that can possibly help you get a better perspective as we charge revenue on a per cubic meter basis.

Moderator: Thank you. The next question is from the line of Jia Shah from Wealth Securities. Please go ahead.

Jia Shah: My question is regarding the plan that you have mentioned for a more simplified structure involving Allcargo Gati and Allcargo supply chain could you provide any update on the progress or offer a potential timeline for the same?

Ravi Jakhar: So, this is something which has been under consideration and like we have provided an update in the past the Board had advised us to engage with advisors on potential structures and various advantages or disadvantages of the same and it is still a matter under discussion and we cannot provide any specific updates since the discussions are still underway and there is no concrete decision at this point in time. However, like we have maintained in the past any outcome would be towards simplification of the structure, and we have continued to build synergies between the express and the contract logistics business which now also are under the common leadership. So to that extent strategy is clear in terms of the approach and structure things are still under discussion and like I said earlier during my comments the recent initiative of providing bonus share should also potentially aid the restructuring plan, beyond that it is not possible to share any further details at this point in time but as we make any progress and make concrete decisions approved by the Board we will definitely come back to all shareholders and stakeholders.

Jia Shah: Alright. Thank you.

Moderator: Thank you. The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: First of all Happy Diwali Sir and thank you so much for taking my questions so just wanted to get a sense I think you partly answered my question so if I can get the correct sense our H2 will also be range bound such as H1 it will be on the similar trajectory in H1 and we can see volume pickup in FY2025 right is that a fair way to look at it Sir?

Ravi Jakhar: So that is largely correct. Our anticipation is that typically the Chinese New Year which falls in the month of February is typically a low season after which the pickup starts so December usually the demand forecast you can typically see two months out because when you are booking

cargo and considering the ocean voyage so we are already in mid of November so it appears that the next few months two to three months would remain muted on the demand side and therefore post Chinese New Year which is end of Feb onwards we should see pickup that is our anticipation and that of course yes means that the Q4 would also be largely a similar trend and from April onwards we should see recovery that is what is our estimate at this point of time, you are correct.

Darshil Jhaveri: Why has there been a sudden spike in the depreciation Sir?

Deepal Shah: If you remember in the last quarter we had acquired the balance 38% in the contract logistics business which made the ASPL subsidiary into a 100% subsidiary allowing us to consolidate line-by-line now that acquisition happened end of May, last quarter it was only one month of depreciation from that business which was added. This quarter we have all three months depreciation added from that business. Contract logistics business operates through lease warehouses across India and because of the lease accounting the INDAS 116 the higher amount of depreciation from the contract logistic business has got stuck into the current quarter that is the reason the depreciation has bumped up.

Darshil Jhaveri: Sir leases would impact our interest cost as well so our interest and depreciation are not one of, they will continue at these rates correct Sir?

Deepal Shah: Post acquisition Q2 numbers will be, yes that is correct.

Darshil Jhaveri: And Sir just one last query Sir our margins have been severely impacted on a PAT basis so do we see a possibility that it could further deteriorate then because at around 17 Crores PBT that would have a higher impact on, you would have very less margin in terms of EBITDA also right so is there a possibility that this could further deteriorate currently and how confident are we that FY2025 would start on a better note or is it just that we feel that bottoming out has yet not happened?

Ravi Jakhar: I just responded to the same question actually that I would just summarize again the improvement in performance would be led by our internal initiatives on cost reduction which is a clear 100% visibility internally and that is something which is showing results and net of severance cost, etc., should definitely make positive contributions from April onwards. On the macroeconomic environment we are hopeful of a recovery. We cannot say for certainty but we definitely do not see the situation deteriorating with the inflation falling in control and with the economic indicator suggesting that the trade could see normalization in the following months we believe that the trade should normalize so in terms of the performance what we see we believe that some of the factors on external side might remain flattish while internal initiatives could drive up the cost initiatives and therefore there should be a positive movement which should fully reflect from April quarter onwards that is what I was just responding to in detail and our team would share the transcript. I would request you to refer to that for further detailed insights as well. Thank you.

- Darshil Jhaveri:** Perfect Sir. Thank you so much Sir. All the best Sir.
- Moderator:** Thank you. The next question is from the line of Hemesh Desai from Dolat Capital. Please go ahead.
- Hemesh Desai:** I just have a couple of questions the first question will be on the international supply chain business how is the share of India compared to US and Europe?
- Ravi Jakhar:** So, the share of India in terms of the topline has marginally increased on the account of Indian business holding better than the rest of the economies. In terms of profit the share has gone up significantly on a relative basis because India continues to do better as compared to some of the Western Europe and Americas and like I was mentioning a couple of large countries had also been on the loss side which means that the share of India would have gone up. We believe this share would remain on a higher level and should possibly also normalize as other countries recover in terms of trade volumes and therefore improve performance for us as a business as well.
- Hemesh Desai:** So, could we get an absolute number in terms of percentage a rough idea?
- Ravi Jakhar:** We do not share in that sense however you could look at the standalone performance of Allcargo basically since the express business and contract logistics businesses are under the subsidiary standalone business is effectively the business of international supply chain operating in India and some of the corporate cost sitting in there so if you look at the standalone numbers you can do some analysis on that that would be my recommendation.
- Hemesh Desai:** Thank you and on the exports part a lot of the dealers have already completed their inventory destocking so how do we see volume growth going forward?
- Ravi Jakhar:** Like I mentioned it appears that from a timing point of view we have not seen much pickup for December and then towards end Jan and Feb you have Chinese New Year which typically means relatively slower trade movement so we believe that the trade pickup should happen post Chinese New Year which is towards the end of Feb early March that is our expectation at this point in time and that should also mean a few more additional months of the inflation cooling off in western economies and that should improve the demand outlook and inventory destocking has already happened as it is visible from ample warehouse space available easily across Europe, America and even parts of Asia which was not the case 12 months ago.
- Hemesh Desai:** Which would be the top five countries, and could you help us with the market share over there?
- Ravi Jakhar:** So, we are very strong in western and northern Europe. We have more than 40% market share in Nordic countries and extremely high share in Belgium also close to 40% and in UK and France also we have a high share. India of course we are market leaders in the international supply chain business, and we are also rapidly improving our market share in lot of Asian economies such as

Indonesia, Philippines, Vietnam, and even the main market of China. In terms of the size of the market clearly India, China, US and some of the bigger western European countries would form the biggest part of our revenue involvement in this business.

- Hemesh Desai:** Just the last question are there any progress of new acquisitions in Germany?
- Ravi Jakhar:** No, so we continue to integrate and rationalize the cost because unlike other acquisitions which were plug in this is an acquisition which is also merger in a way with our German operations and the fair-trade operations finding synergies and that process continues and no further development beyond what is already being shared.
- Hemesh Desai:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nirav Savai with Abakkus. Please go ahead.
- Nirav Savai:** Hi most of my questions are actually answered. Just a couple of ones you said something about non-strategic trade lines so can you just help me out with the contribution in terms of volumes and how much does it contribute at EBITDA level?
- Ravi Jakhar:** So, like I mentioned non-strategic trade lanes could be roughly about negative \$200,000 for the quarter. These are basically trade lanes which are business trade lanes but not strategically important to be continued in loss and therefore there could be some opportunities for rationalization.
- Nirav Savai:** So, they have about \$200,000 in terms of loss at EBITDA level, right?
- Ravi Jakhar:** So, trade lanes you typically look at the gross profit level because the manpower cost or admin cost does not change with trade lanes.
- Nirav Savai:** Right and this contributes what percentage of overall volume?
- Ravi Jakhar:** This will be a very minuscule portion.
- Nirav Savai:** Lastly on this 38% stake which we acquired in our supply chain business what was the outflow there behind that. I think the announcement has happened in the month of March but as you said it happened in the month of May so what has been the cash outflow on account of this acquisition?
- Deepal Shah:** At the gross level, the total net outflow was around 120 Crores because it gave away the CCF business so yes that was around the net outflow.
- Nirav Savai:** All three put together KWE, this supply chain and..

- Deepal Shah:** It basically was around 405 Crores so 525 Crores is what between KWE and contract logistic business is the outflow in the Q1 and YTD Q2.
- Nirav Savai:** Also, we had increased the stake in Nordicon to 90% so was it about 180 to 200 Crores there?
- Ravi Jakhar:** Yes, so just to add to that like Deepal mentioned about 525-530 Crores is the domestic acquisitions and the international acquisitions of fair trade in January and Nordicon later in the year put together would be approximately 250 Crores so all put together we are talking about roughly about 750-800 Crores of acquisition.
- Nirav Savai:** This has all happened in the first half of 2024 only?
- Deepal Shah:** Correct.
- Nirav Savai:** Alright that is it from my side.
- Moderator:** Thank you. The next question is from the line of Marsal an individual investor. Please go ahead.
- Marsal:** My question is regarding this express distribution I hope this is Gati business in India mainly?
- Ravi Jakhar:** Yes, the express business is the business operating under Gati Express and Supply Chain which is a subsidiary of the listed entity Gati Limited.
- Marsal:** So like it is very disappointing to mention that like in India all business are flourishing I know some of the business who happens to be my distant relative they are bringing Crores of rupees whereas their business size is much smaller in terms of the capital investment and so on, on this business we are losing significantly number one, number two in the September quarter we have added about Rs.140 Crores additional segment asset in this segment and there is increase in segment liability of 30 Crores so net of liability we have added another Rs.110 Crores so we have invested almost Rs.1500 Crores and our result is like almost flat, there is no increase in the revenue although there is like every one year the price increase by the oil company plus on the top like if you see the segment result we have lost last year Rs.24 Crores and this year we are going to lose about Rs.18 Crores we already lost maybe we lose Rs.40 Crores so what is your game plan to reduce the cost of this segment number one and what is the game plan to increase more you can say for example if it is a corporate customer what is the target given to your sales personal to enroll more the corporate customer and how to turn around this division otherwise this is bleeding from here?
- Ravi Jakhar:** So, your observations on the impact on the financials in terms of the capital investments invested in Gati and the underlying subsidiary and the current business contraction in terms of the bad contribution are valid. However, I would like to bring to your attention that the strategy at Gati has always been to turnaround an enterprise which was loss making, losing market share with rundown infrastructure with a magnitude of problems a lot has been achieved over two years of

transformational initiatives at Gati. All the hubs have been redeveloped. In the quarter gone by we saw a significant increase in volume which also indicates market share expansion for the first time in perhaps last close to 8 years of Gati losing its market share. The management team has also been able to drive significant digital initiatives, the volumes have come back in, the infrastructure is now in place, so we are quite optimistic that the company should start delivering profits as well in the quarters to follow and it is our belief that has led to the second tranche of investment as well which we made earlier this year in the underlying subsidiary considering that Gati is also a listed company and to be fair to all shareholders we generally refrain from getting too deep on the Gati discussions and I would also encourage you to look at the commentary shared on extreme details in the business around strategies for key enterprise accounts, expansion of the MSME segment as well in the Gati Limited's earnings call as well but in terms of the performance of the company like I said the operational parameters started to improve earlier this year. The volumes have started to show trend in the last few months showing a great quarter ending September in terms of the volumes and we believe that the performance should improve in the coming quarters in terms of the profits as well as the operating leverage plays out.

Marsal:

Ravi babu thank you for the generic response. I do not need a generic response. The point I am drawing is that even if I consider about Rs.15 Crores increase in the revenue during September quarter and like now it is 441 Crores so even if extrapolate by four it makes only like Rs.1768 Crores which is even less than the last year. Last year we achieved 1723 or like this is a marginal increase, it is like 1768 so by this way I think we are only passing time let me bit harsh here because even I am surprised that even on a quarterly turnover for Rs.441 Crores we are not EBITDA positive, I am not even talking about net positive, there are companies which are not even doing Rs.200 Crores per quarter and hefty profit they are making there so it is very clear that your fixed cost base is very high here because see if you are just going to wait for this turnover increase and revenue share and volume it is like as we have picked some corner and bottom like this, by this way it is not going to help out, the cost structure in this business is way high because like I am surprised I am not even taking net positive I am talking only EBITDA positive so at the same time if you see for example our profitability at the consolidated level has significantly gone down but we have increased the salary by Rs.30 Crores like during this quarter our salary budget has gone by Rs.30 Crores. There are many listed companies in India wherein the profit like slightly lower than last year the senior management has not taken an increase here the salary has become of a permanent cost so there is a humble suggestion recommendation and feedback that something drastically restructuring must be done here in terms of cost overall in terms of reducing fixed cost otherwise 1700 Crores turnover and we are the EBITDA negative something is drastically wrong otherwise in this kind of like turnover at least we must make Rs.200 Crores EBITDA positive the way other courier companies. You can name many companies you can say about Flying, you can say for Professional Courier, you can say like this other company DTDC, they are all making good profit, so some sort of surgical operation is needed here.

- Ravi Jakhar:** Your comments are really noted and we will pass on to the management team of Gati as well and I would just also recommend that you look at the performance not at the consolidated level in Gati because there are other businesses such as fuel station sitting in the parent listed entity and a few other businesses historically which have been closed down which are loss making so I would recommend that from the express business perspective you could look at the underlying operating entity Gati Express Supply Chain performance and I would also recommend that you could potentially get more insights and direct responses from the Gati management during our earnings call for Gati Limited, having said that we will pass on your comments and observations to the management team. Thank you.
- Moderator:** Thank you. We have the next question from the line of Abhishek Jain from Dolat Capital. Please go ahead.
- Abhishek Jain:** Sir as you mentioned that there is a slowdown in the business in Germany and China so what was the contribution in supply chain business one year back of these countries and how much is the current contribution?
- Ravi Jakhar:** So, I responded on that earlier that the contribution of India has gone up because India has been relatively better performing market and there are a few other countries which have seen growth from last year, but they are on the smaller size countries such as Brazil and the Latin Americas. In terms of the decline on profitability we have seen some of the western European countries, US and China as the most impacted countries exact percentage shares on a country basis we do not share but we will see if we can provide some indications in the upcoming investor presentation so it can be accessed by everyone. We will take that into consideration.
- Abhishek Jain:** My next question is from the contract logistic business so share of the e-commerce is increasing now so despite that the margin is very much strong in the second quarter will this be sustainable?
- Ravi Jakhar:** So, the margin in this business should be sustainable as we are already investing in white spaces which are already at an optimal level, so it is not that we have a low white space in terms of the staff cost also. We have well provided for the growth initiative, so this is one business which like I have always maintained has continued to remain strong for us over the last six, seven years and continues to both grow well and hold reasonable profit numbers as well and we see the trend continue in the coming quarters as well.
- Abhishek Jain:** My last question on the capex side how much capex you have incurred in the first half and what is your plan for the full year FY2024?
- Ravi Jakhar:** So, our strategy is to be asset light and therefore we do not see any significant capex besides some of the technology initiatives, but I would also request my colleague, Deepal to add on the capex during the last six months and the coming six months. Deepal over to you!

Deepal Shah: You are right we have an asset-light strategy, so we do not have any significant capex during the first half of the year. The only additions if any have come from the contract logistics merger except for maintenance capex and routine IT capex in terms of maintenance and buying new laptops or anything or servers, other than that we do not have large capex and couple of real estate in terms of refurbishing some of the premises, etc. Other than that, we do not have any capexes for the year planned.

Abhishek Jain: Thanks Sir. That is all from my side.

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

Ravi Jakhar: Thank you all for joining in and I hope we were able to respond to your questions providing clarity and insights as much as we could. I would encourage you to stay in touch with our investor relations team, reach out for your queries, feedback, and suggestions, it is your suggestions and questions that help us continue to improve our investor communication and wherever we see a sustained demand for a particular kind of information we try to include that in our investor presentation for the benefit of all stakeholders. On that note wish you continued great festive joys and thank you very much for joining us today.

Moderator: Thank you. On behalf of Dolat Capital that concludes this conference. Thank you all for joining us. You may now disconnect your lines.