



“Allcargo Logistics Limited Q4 & FY24 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Allcargo Logistics Q4 & FY24 Earnings Conference Call hosted by PhillipCapital (India) Private Limited.

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I now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital (India) Private Limited. Thank you and over to you sir.

Vikram Suryavanshi: Thank you, Steve. Good afternoon and very warm welcome to everyone. Thank you for being on a call of Allcargo Logistics Limited.

We are happy to have the management with us here today for question-and-answer session with investment community. Management is represented by, Mr. Ravi Jakhar – Group Chief Strategy Officer and Mr. Deepal Shah - Group Chief Financial Officer. Before we start with question-and-answer session, we will have opening comments from the Management.

Now I hand over call to Mr. Ravi Jakhar. Over to you sir.

Ravi Jakhar: Thank you Vikram. Good afternoon, everyone and thank you for joining us for the Earnings Conference Call for the 4th Quarter for Financial Year 2023-2024. I hope all of you are doing well and I am glad to talk about the company and our businesses.

As you know, currently we are working on the scheme of arrangement which is likely to be implemented by early 2025 which would segregate the domestic and international businesses into two independent companies. Until then we have three businesses under Allcargo, the international Supply Chain business which we operate under ECU Worldwide. And on the domestic side we have express business under Gati Express and Supply Chain and the contract logistics business under Allcargo Supply Chain. The Allcargo Supply Chain business has been kind of neutral to macroeconomic headwinds through the last couple of years. So, the contract logistics business has remained consistent and resilient and has performed steadily over the last several quarters. And this quarter has been no different. We have won several new contracts and there have been renewals on the back of which we estimate growth in the coming quarters and the following year.

On the Express business; as we have been speaking through the previous quarters, we have been focusing on cost optimization and as shared in the Gati presentation as well as spoken during the Allcargo calls, we have been able to reduce the operating costs significantly and particularly in

the quarter gone by from January to March, there has also been sequential decline month-on-month which means that the exit rates for operational costs are even better than the average for the quarter. As an outcome of these operational improvements, the gross profit of Gati has gone up by almost 16% over the previous quarter and a compounding impact on the EBITDA which has gone up by about 115% over the previous quarter. And we believe that the continued cost optimization and the operating leverage with expanded business while keeping the SG&A cost in control would allow us to continue to improve the operational EBITDA of the company.

The large infrastructure projects which were upgradation of hubs has been taken care of and as we move forward, we will continue to upgrade the remaining infrastructure and our steadfast commitment and focus remains on the technology initiatives. Our core enterprise system GEMS 2.0 is coming up well and we believe that it will be deployed on the estimated schedule. So, everything going well on the Express business, with planned cost optimization happening as you would like to see and now, we would focus on revenue expansion going forward.

Coming to the largest business of international supply chain; operating under ECU Worldwide. The quarter for January to March has been more or less flat compared to the previous quarter. In the ECU Worldwide, Belgium which captures the entire business excluding India, the gross profit has been same as last quarter. The EBITDA has been marginally lower, primarily on account of some severance costs not being completely offset by reductions but largely it's a flat quarter, nothing significant to call out as a trend between the two quarters. What we see however now is a new trend. We see some green shoots for growth and typically in this business we have been booking a couple of weeks in advance. But what has happened in the last few weeks is that demand has started increasing and therefore shipping lines are now looking at closing bookings up to four weeks in advance. Which means that as we speak end of May, we have visibility of end of June sailings with deliveries in month of July. And what we see is that on certain trade lanes the demand has picked up. For an example some of the trade lanes from Asia to Latin America which were operating at about \$2000 ocean freight are today operating at \$6000, even \$7000 ocean freight.

We also find that the warehousing capacity available across key countries has been also going down which means that inventory restocking is happening. These are still early signs but they reaffirm our belief which we have been speaking over the last quarter and rather even the previous quarter before that, that the second half of 2024 which is July to December should see increased sustained demand. And increased sustained demand would mean that the business volume should pick up. From a market share standpoint, we have continued to hold on to our market share globally and in certain countries we have expanded the market share and as the volumes rebound, we expect the business volumes for the company should also grow at a rate faster than the market growth rate.

Apart from that on the other initiatives on the ECU Worldwide international supply chain business, the technology play remains in place. Our competitive advantage on account of our physical infrastructure which is industry unique digital ecosystem that we have created and

unmatched physical infrastructure that we have with fully controlled network on both ends across all the key geographies has been the key contributor to our resilience and growth.

So overall I would say, across the three businesses we feel more optimistic heading into the coming quarters and it remains to be seen how the macroeconomic environment plays out. But reading the commentary from various economists, we would like to believe that the demand should pick up and we are seeing some trends now in terms of the ocean freight rates that we see.

On that note I would request my colleague, Deepal to talk about the Financial Performance and share some of the key headline numbers before we open the floor for questions. Thank you and over to you Deepal.

Deepal Shah:

Thank you, Ravi. Good afternoon, everyone.

Now I will discuss the performance for the quarter ended March 2024:

On the consolidated basis, for Q4 FY24 our revenue stood at INR 3,398 crores as compared to INR 3,212 crores for Q3 FY24, representing a marginal increase of 6% on the revenue from the previous quarter. EBITDA for the same period stood at INR 99 crores as compared to INR 111 crores for the previous quarter. Profit after tax for the quarter stood at INR (-12) crores as compared to INR (+17) crores for the quarter ended Q3 FY24. On the 31st March, 2024 the net debt at the consolidated level stood at INR 407 crores, an increase of INR 193 crores as compared to the last quarter.

Now moving on to the segment wise performance:

I will start by discussing the performance of the international supply chain business. Demand was impacted by the rising inflation on account of the Russia-Ukraine war and crisis in the Middle East. LCL volumes for the Q4 FY24 stood at 2.1 million CBM which is flat compared to the last quarter. The segment is now witnessing green shoots and freight rates have also started increasing. On the FCL front, the volume for Q4 FY24 increased marginally by 2.5% Q-on-Q and stood at 156.3'000 TEUs. The revenue of ECU Worldwide, the entity which houses the ECU business reported a revenue of INR 2,570 crores and is up 6% Q-on-Q while EBITDA for the same period stood at INR 57 crores down 12% as compared to Q3 FY24.

Now coming to the Express business operating under the Allcargo Gati name:

The volumes for Q4 FY24 stood at 306 KT as compared to 318 KT for Q3 FY24. Revenue stood at INR 406 crores as compared to INR 424 crores for the previous quarter. EBITDA stood at INR 14 crores as compared to INR 7 crores in the previous quarter. This is backed by improved operational performance and improvement in the yield.

Coming to the last segment which is the contract logistics business, which sits under the Allcargo Supply Chain Private Limited. Contract logistics revenue for Q4 FY24 is near flat at INR 80 crores as compared to INR 78 crores for the previous quarter. EBITDA for the quarter ended March stood at INR 32 crores as compared to INR 35 crores for the previous quarter. We have shared additional details on the performance of contract logistics statement in the presentation for your better understanding.

With this we would like to open the floor for question 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 Naman from RV Investments.

Naman: I have two sets of questions. First is can you let me know the per TEU EBITDA?

Ravi Jakhar: Go ahead. You can ask all the questions and we'll share the responses.

Naman: The second question is I saw a decrease in the assets of the ISC business. So, have you divested any major assets due to distressing volumes or what exactly, why the assets are less as compared to the FY23 in ISC segment.

Deepal Shah: Compared to which period?

Naman: FY23.

Deepal Shah: So, the assets have reduced because the freight rates have gone down and the working capital has shrunk. That's the reason with respect to FY23 there's a change in the working capital basically.

Naman: And per TEU EBITDA?

Ravi Jakhar: EBITDA per TEU would not be applicable because the EBITDA comprises two businesses LCL and FCL. FCL is the business which operates in TEU which is a number of containers, 20 ft equivalent units handled. But the LCL business operates on CBM and therefore EBITDA per TEU because LCL business does not operate on TEUs and therefore the EBITDA per TEU is not a metric that we capture or can be stated because the entire business is not in TEUs.

Moderator: The next question is from the line of Amit Kumar from Determent Investments.

Amit Kumar: Just one question at my end, I am just trying to understand the trends in global sort of freight rates, the container rate specifically. So obviously after the Red Sea crisis in December, we saw a spike in terms of freight rates, if you have to sort of go around Africa there is a 5 – 10 day delay, extra time taken. But again, then sort of things have started to settle down. But again, in May we have seen a very sharp spike in container freight rates. Could you just help us understand what is going on here?

Ravi Jakhar:

Basically, there are short term reasons driving the freight rate and there are midterm reasons which are driving the freight rates. What happened in the month of December when the Red Sea crisis broke out, there was a sudden redeployment of fleet and the ships had to go around the Cape of Good Hope and that led to a sharp increase in ocean freight rates which were affected by that which were the ones traveling through the Suez Canal and the rate shot up significantly already by the end of January. Then as the normalization happened, the freight rate started to come down and then they were I would say normalized by end of March to a large extent. What we are seeing in the month of May is that the overall capacity which has been added in the shipping, there is an estimate of about 1 million TEU of shipping capacity in terms of new ships which have come in the first 4 months of the year, there is a certain takeout of the capacity on account of Red Sea crisis as well because the ships are taking longer. The net impact is that, it has not been adequate enough to take care of the demand fluctuations. Over the last 12 months if you have seen, the global trade had been witnessing a downward trend and there was an outcome of reducing inventory levels as well. Now what we notice is that particularly in certain select markets, the inventory restocking has happened on the back of one, actual consumer demand going up and also in anticipation of higher demand in the second half of the year. As an outcome of that, the demand has gone up and that is why I was explaining earlier as well that what used to be easy to get a space on ship one week, 10 days out, today it is difficult to sometimes get space forget the rate. If you want to ship something from Asia to Latin America today, you need to plan one month in advance and even then, sometimes getting space could be difficult. So, it is purely a function of supply and demand. There are also certain trade lanes where the rates have not gone up. So, for example while Asia to Latin America have gone up almost fourfold in a span of less than 2 months I would say. Rates out of India into Europe have remained more or less at the same levels. The rates into Europe from Asia have also gone up but rates out of Europe are still very low because Europe is still not seeing a rebound in their exports. So, on an overall basis, there are distinct trends across trade lanes but on a global basis the freight rates are now started going up. And this is purely a function of available capacity and the demand.

Amit Kumar:

Just one sort of small follow up to this, like you also mentioned and we have been hearing the port operators Pipavav etc. also sort of talk about the fact that some of the shipping lines, they are essentially missing their beats. They're missing basically coming in to the ports couple of times a month versus their normal frequency. So, I am just wondering in your LCL business, how are you sort of managing to keep the frequency of your business basically?

Ravi Jakhar:

So, what happens is different shipping lines adopt different practices to manage the crisis situation. So, for an instance when the transit became longer from India into certain ports of Europe due to Red Sea crisis, certain shipping lines decided to skip a few ports and that allowed them to reduce the transit time, therefore making an effectively faster transit despite the Red Sea crisis. Now when it comes to these blankings, these blankings affect certain trade lanes on certain shipping routes. The advantage that we have in our business is, we have the world's largest LCL network operating 2500 trade lanes directly. The scale of operations and the breadth and width of underlying carriers that we partner with to carry this freight allows us enough options to plan

routings which can be in sync with the schedule of the carriers and it is planned well in advance. So, in case there are certain changes in the schedule, we know that a certain vessel would skip a particular port. We have alternate options and given our network efficiencies, we could move direct or sometimes we also do transshipments. And in that sense, we have a significant volume which is there even in LCL trans-shipments from almost all the key global hubs. So, we are able to rewire our network to some of these disruptions and are able to ensure that we are in a position to service our customers constantly.

Moderator: The next question is from the line of Ravi Mehta from Deep Financials.

Ravi Mehta: Just one question on one-offs, if any in this quarter. So, there was some expense pertaining to layoffs. I think in last quarter you said that, it's not going to be a very big number but I think nowhere it was mentioned in the press release. If you can just highlight any one off that we saw in Q4.

Ravi Jakhar: I would say the severance costs have been there in the quarter ending March. Some of the severance cost will continue in the subsequent quarter as well. However, I would say that by next quarter, the severance cost is fully offset by the savings that we would have incurred from the earlier reductions. In this quarter I would say the total impact is in the range of about \$1.5 to \$2 million in these kind of one-off costs. So, it's not very significant. That's why I was kind of calling it a flat quarter broadly speaking because that's kind offset by the impact of the severance costs. So roughly the magnitude is about \$1.5 million.

Ravi Mehta: And a similar number should continue in the next quarter as well to complete this layoff exercise?

Ravi Jakhar: Yes, but there should be a little bit of benefit as well accruing on account of the costs already reduced because different people had different severance time line. So, the net impact should be lower than this in the next quarter. Maybe half of it only.

Ravi Mehta: And when we talk about this impact, so the savings are yet to come or this is after considering some savings?

Ravi Jakhar: So, basically what happens is in our business as we expand the volumes and grow the gross profit, the margin expansion would happen if we're able to control the SG&A cost. Now SG&A costs also have to go up in line with the inflation. In some of the countries it is mandated and, in some countries, it is in discretionary. But to be competitive in the business we need to of course provide increments to the staff. So, what we are trying to do is, we are trying to ensure that we bring in efficiency through automation and other measures to be able to bring down the headcount, so that any inflationary increases can be taken care of through the cost rationalization. And therefore, the SG&A should remain constant over what we had last year versus even until the end of this year with all the improvements etc. That's the intent. So, all the expansion in

business which we are anticipating the second half on account of volumes and improved margins should then flow down to the bottom line. That's the broad strategy at our end.

Ravi Mehta: And any color on the gross profit mix between LCL-FCL like just a ballpark.

Ravi Jakhar: That typically has been for us in the range of about, LCL contributes anywhere between 65% to 70% of the gross profit and that has largely remained in that range.

Ravi Mehta: I think the gross profit still seems very flat; the hit is largely below gross profit.

Ravi Jakhar: It is about a million and a half which I mentioned on the severance etc. and that's what kind of gets captured there. And also, the other thing to note here is there has been a bit of a change in the way segments are treated post demerger, so that clarity also would come in. So that's why we also shared this time the ECU Worldwide NV numbers which is basically from a structural point of view, all our global LCL-FCL, the entire international supply chain business is eventually a step-down subsidiary of ECU Worldwide which is the Belgian entity, only India business is out of it. So that represents the entire international supply chain business excluding India. When it comes to India because now the other segments are not there since contract logistics and express is already at the subsidiary level, some of the corporate costs which are there in Allcargo Logistics which could be pertaining to the group or the overall company also kind of get attributed to the segment. And therefore, we have tried to give the color of the pure business performance by talking about the ECU Worldwide Belgium numbers. We are considering how we can provide perhaps further breakdown to all the shareholders and investors through more public disclosures to give a better perspective on how the business costs and profits are. So, maybe in the next quarter we'll try to come with further explanation and split in terms of explaining certain cost items sure.

Ravi Jakhar: The next question is from the line of Vikram Suryavanshi from PhilipCapital.

Vikram Suryavanshi: In case of trade lane development, how is the progress or will the focus be on optimizing the network cost, can you give some idea or was there also an impact of the utilization level of network or it is more like a freight rate impact on the profitability?

Ravi Jakhar: So, I would say the trade lane—first let me answer the shorter question which is on the container utilization—the container utilization as we have been sharing the monthly data has remained range bound. However, as the demand picks up and the volume starts to grow continuous utilization is bound to improve. So, our estimation is that as by end of June-July the volume starts to increase our continuity utilization should also improve from July onwards that the estimate. On the trade lane side, it's a constant process, we keep looking at opportunities, it's never in a state of steady state. So, there are certain markets on which we are focusing at any given point in time. For an example, while the overall global volumes might appear flat on the backdrop of macroeconomic environment, there are pockets of growth. In Brazil our export volumes have grown manifold in the last 6 odd months which means that we have launched new

trade lanes from Brazil into different parts of the world. So, at any given point in time there are about 5 to 10 new trade lanes that are under development. At the same time, we also reconfigure some of the trade lanes depending on how the cargo demand is. So that's more of a dynamic process. But I would say at this point in time, we are looking at new opportunities between Latin America and other parts of the world and we're also looking at some more incremental opportunities in growing trade lanes out of Germany. The environment perhaps would strengthen a little bit more and allow us greater opportunity as the volumes come in but that's another key market where we believe we have an opportunity to add some new trade lanes since the acquisition of fair trade and there are few other such examples as well.

Vikram Suryavanshi: And how big would be China volume for us in overall international supply chain and how is the outlook there?

Ravi Jakhar: China volumes naturally are a big contributor to our business, almost I would give a broad ballpark range of 15% to 18% kind of volume would be linked to China. The outlook there is slightly positive as we are seeing the rebound in demand. That's what I was referring to earlier, that Asia outbound trade is seeing more demand which includes China, Vietnam and a few other countries as well. And even in case of some of the production getting rebased, say in Mexico, there is still raw material moving from China or components moving from China into Mexico, some of such examples are there. So overall I would say Chinese trade is seeing a rebound and so is the larger Asian trade. On the Indian trade what's been happening is because of the strategic priority everybody knows that India is going to do well on the manufacturing. So, shipping lines have also dedicated more services, more capacity to India which is taking good care of the demand out of India. So possibly there the supply is not lagging and therefore you've not seen a significant expansion or increase in freight rates out of India but in Asia since no new additional capacities have been deployed while the trade has seen a rebound, we have seen the freight rates going up out of Asia which is largely far east and China.

Vikram Suryavanshi: And if you can give some revised or if any change in the timeline, how we can see a deal or restructuring process to happen, by when we can see the basically listing of this restructured company?

Ravi Jakhar: So, we had shared an indicative timeline of early next year anywhere between January to March as the timeline. At this point in time, we anticipate that the NCLT process should be over by the end of the year. And therefore, it should take typically a month to two in the post NCLT process. And therefore, we largely maintain the same timeline anywhere between January to end February, early March we should be able to conclude the restructuring transaction.

Vikram Suryavanshi: And just last question about what was the gross debt and cash level on international supply chain business or if you can give ECU line business basically?

- Deepal Shah:** So total overall gross debt across the group is INR 960 crores with net debt of around INR 407 crores, at the ECU level we have a very marginal debt. We have close to INR 300 crores of cash sitting there and around similar amount of debt sitting there.
- Ravi Jakhar:** It is largely negligible at the net debt level. In the recent times with some increase in freight rates the working capital has increased. We've also made some additional incremental investment while the business has also generated cash. So, on an overall basis ECU will be sitting at a net zero position more or less.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Vikram Suryavanshi for closing comments.
- Vikram Suryavanshi:** We thank the management of Allcargo Logistics for giving us an opportunity to host the call and taking time out for interaction with the stakeholders. Any closing from Ravi sir.
- Ravi Jakhar:** Thanks, Vikram for hosting us and we see interesting developments happening over the course of next few months. So, I think a quarter later we should have a good insight into how the second half of the year is shaping up and how the global economic environment is also looking like. So, I think we would continue to look at how we can disclose more information, share more insights with our shareholders and investors. That's the constant endeavor and we once again thank everyone for joining us on this call. Thank you so much.
- Deepal Shah:** Thank you.
- Vikram Suryavanshi:** Thank you, sir.
- Moderator:** On behalf of PhillipCapital (India) Private Limited, that concludes the conference call. Thank you for joining us and you may now disconnect your lines. Thank you.