



“Allcargo Logistics Limited  
Q3 FY'22 Earnings Conference Call”

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**Moderator:**

Ladies and gentlemen, good day and welcome to Allcargo Logistics Q3 FY '22 Earnings Conference Call hosted by Antique Stockbroking as a reminder of participation 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 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. Prateek Kumar from Antique Stockbroking. Thank you, and over to you sir.

**Prateek Kumar:**

Good morning, everyone. This is Prateek I am from Antique. Hope everyone is staying safe and healthy. On behalf of Antique Stockbroking, we welcome today the management of Allcargo Logistics. Mr. Parthasarathy, who is Vice-Chairman; Mr. Deepal Shah, Chief Financial Officer; and Mr. Ravi Jakhar, who is Chief Strategy Officer.

Without wasting much time, I hand over the call to Mr. Ravi for his opening remark and then we will move to Q&A Session. Over to you, sir.

**Ravi Jakhar:**

Thanks, Prateek. Good afternoon, everyone. I hope all of you and your families are safe and healthy. This is Ravi Jakhar here, Chief Strategy Officer for Allcargo Logistics Limited. On behalf of the company, I extend a very warm welcome to all the participants for this third quarter FY '22 financial results discussion call. Today on this call, I have with me Mr. Parthasarathy, Vice Chairman, Allcargo Logistics and Mr. Deepal Shah, Chief Financial Officer along with our Investor Relations team and advisers.

I hope everybody had a chance to go to our investor presentation and Press release uploaded on stock exchanges and the company website. I would like to begin with introducing Mr. Parthasarathy, A much awarded professional, thought leader and votary of transformational change with over 35 years of rich experience. He has previously served as a group CFO and Group CIO, at Mahindra Group. A chartered accountant, and an alumnus of Harvard Business Schools' Advanced Management Program.

I would now invite Mr. Parthasarathy to give his opening remarks. Over to you Mr. Parthasarathy.

**Parthasarathy:**

Thank you, Ravi and thank you Deepal and Ravi for having me in this call. I'm delighted to be with you after some hiatus. Analysts and me have a long history, being the group CFO for Mahindra for almost a decade, interacting with you and I always love these sessions.

Also, in a sense it's very déjà vu, to be present in this call today. 21 years back, a little more than 21 years actually, I came in from Delhi to Mumbai with a vision of making a tractor company, world number one. That was a journey which was very exciting, and I did that journey being part of the transformative journey that happened. Today when I again, like don't

stand but I sit before you, I could say with a lot of warmth and lot of delight that there is another transformational journey under away being the world's number one, another Indian company, Indian MNC taking that path, already achieving for the bit. The key thing that they want to do is not rest on their laurels and want to clearly be the leader of the LCL Business globally. That's what is the thought and that's what they are headed towards and in whatever small way I can be part of the journey, I'll be delighted to be so.

So that's what delights me being with you today morning and then the environment that I see is one of great positivity. We are poised to turn around and be an 8% to 9% growth GDP next year. So that itself augurs well, and the GDP and the logistics industry have a reasonably close coordination, you'd tell me rather than me telling you and whatever has been done, I call it the important announcement of the budget IMP, Integrated logistic multi-model transportation and grid creation and PM Gati Shakti. So, the "IMP" makes it important and pivotal for logistics industry to really grow along with India Inc. and India as a country.

Coming to the people, I think the part of the duty of being in a transformation is that this is the first group that I've seen where digital is intel inside and marketplace outside and they have embedded digital in each function and each unit and when it comes to outside, they are thinking of marketplaces. I have been delighted because the CIO, not the IT part -- the information part but as an IT Head, the CIO in me is delighted with this approach, which I'm seeing in action. Many people talk about it, I see this in action, and it will be my pleasure to be part of the journey with them and cheerlead that, so that it brings the key differentiator in times to come. Then the next small thing that I want to say and then I want to stop, otherwise both Deepal and Ravi are already looking at me saying you talked enough you should stop, and I should. Last point that I want to make is that Board is really energized in terms of taking them towards next step. Management is already doing on the volumes and revenue and profit. So that will be a focus area, but that's others to carry. The Board is very focused on bringing diversity, so I'm delighted that three women are on the board of Allcargo. They are very focused in terms of ESG and governance and that they are delighted with the new Director's also, which is coming in and I've always been saying that the world should change from three P, which is profit, planet and people. 2P plus 2P which says that people and planet are the end cost and the process of profit and process of governance should be the means towards that end. And that brings governance and that is the governance we would like to focus on, as we go on. With new board members also coming in, this will be well enabled in your company. So, with that I will stop and say that all these make Allcargo very good and the journey that they are taking is from good to great. Thank you.

**Ravi Jakhar:**

Thanks Mr. Parthasarathy. I would like to share a brief update about the business in terms of the underlying performance and the macro conditions before handing over to my colleague Deepal for detailed financial update.

As you are aware, we recently announced the scheme of demerger under which the CFS/ICD business would form part of Allcargo Terminal. This is a business which we have seen there's been a bit of a mix of environment. On one hand, we have opportunity in form of trade growth, on the other hand we have had constraints and challenges with the Omicron wave coming in and disrupting operations and that's been largely the scenario across all businesses. But I think somewhere in the background of challenges and opportunities, we have tried to focus more on the opportunity and deliver performance. In the CFS/ICD business we recently acquired Speedy Multimodes, which continues to add significant strength to the company and that acquisition is being integrated right now from IT systems to processes and we believe that it should continue to provide strong momentum for growth. We continue to evaluate new opportunities in the ICD space and keep an eye on the development of the dedicated freight corridor which would truly open up the opportunity for setting up and expanding the ICD business, particularly along the western line.

As far as the demerger, as you're aware the real estate part and the equipment business is being hive-off into Transindia Realty. I'm happy to inform that our logistics park business continues to perform well with the macro environment being very favorable, there's a huge demand for Grade A warehousing and there are ample opportunities for that business to continue to expand and grow and see significant demands coming in for soon to be ready, which is already leased out and potential additional capacities which can be created.

On the equipment business, we are again seeing success with our focus on specific carry of equipment's and looking at a combination of outsource and own equipment's to drive an asset light approach and the overall market environment has also been favorable. We are seeing an up cycle in infrastructure projects and all of that would mean that our equipment utilization will continue to be high, and people would talk more specifically about where that has been in due course.

Apart from these two businesses, in the continuing Allcargo businesses we have Gati, which we have spoken about on the Gati investor call as well, the transformation journey continues, and we continue to see new records on revenue and improved performance in terms of service to clients. That is something which should continue to drive positive momentum. And on the contract logistics side as well, again linking back to the whole requirements for Grade A warehouses, there's an increasing demand for contract logistics operations as well in ecommerce, and for us on this business, which we operate through ACCI we are also expanding into new verticals, started off as a chemical focused company, expanded into auto, ecommerce and other domains. We see that continued opportunity to leverage the existing capabilities and expand into new domain and that's something which holds a lot of promise.

Coming to the largest in the main business, which is our international supply chain, which operates under the ECU Worldwide umbrella. In that

business basically, over the last 2 to 3 years we started on a transformation journey and that is a business which is a combination of LCL and FCL. We were focused on driving growth and there are many ways in which a company can drive growth. The most important was the organic growth and through various transformation initiative on sales acceleration that we undertook, we saw extremely positive result in creating a new benchmark in those specific countries and you will have more countries covered as we move forward, but there is an illustration of some broad indicative impact on these countries, where such initiatives were undertaken. We've been able to significantly expand our market share on the base of sales acceleration.

The other opportunity for growth for us has been the acquisition and it's almost been the DNA of the company, which means that we have been very proactive and with that proactive approach, we have managed to find strategic opportunities which are value accretive because they are extremely synergistic and I'm happy to share that our most recent acquisition of Nordicon and the joint venture that we set up in Korea are both performing tremendously well and they give us confidence to continue to explore growth through acquisitions.

We have also had such a successful integration, because acquisition is not just about acquiring the company, but I'm more glad to share that the integration of ECU and Nordicon which was not part of our network has been extremely successful. They have seen growth and volumes, usually, whenever such integration happens, there's a slippage, but in this case, we managed to outperform the earlier performance.

The third avenue for growth at ECU Worldwide has been new product launches. We started with our FCL journey, and the result is there for all to see what we have achieved in the last 7 to 8 years. And we believe that now following similar lines, we could explore other opportunities, and at this point in time we are evaluating how we could expand our presence in the air business, which is relatively limited at this point in time.

From one end you have growth on the back of these diverse strategies and then there's a multiplier impact which gets created by way of digitizing the customer endpoints, ECU 360 which started off as a nascent platform a few years ago, is now an extremely mature cloud-based platform. We used to have a single digit percentage of our bookings on ECU 360, little over two years ago, and today we have nearly 35% bookings happening on ECU 360. If we add that to the other digital interfaces, almost 54% - 55% of all export bookings in ECU Worldwide are today happening digitally. With this digital front end to the customer, it means that we can grow rapidly without having to invest behind expanding our SG&A cost space and we do not stop utilizing technology on the digital customer face, but it's equally important to automate the back-end processes and bring in significant efficiency, be it booking processes, tariff management, route management, we are bringing in technology standardization and processes and automation in every step that we can and that has allowed

us to post a robust volume growth, over the last 12 months without having to significantly expand the underlying infrastructure or people. We believe that similar trend would continue as you will be able to create further operating leverage on the back of automation and digitalization in ECU Worldwide.

So with an overall transformational approach, driving growth in all possible ways and digitizing the frontend and automating the backend is creating a far more efficient organization, which can continue to grow and on the back of robust trade growth that we are estimating in the coming years, we believe that our market leadership and LCL business at the global level would continue, we would further cement our position, we would continue to expand in other categories and gain market share.

So, I'm glad that that's the kind of trend, which is there across all businesses wherein we are poised to gain market share and at the same time we continue to focus on divesting non-core businesses and we're making good progress on that as well. On that note, I would now hand over the line to my colleague Mr. Deepal Shah to update you on the financial performance for the quarter. Over to you Deepal.

**Deepal Shah:**

Thanks Ravi. I will now discuss the Q3 financial year '22 performance. Allcargo reported revenue of INR 5,869 crore for Q3 FY '22 as against INR 2,735 crore in the corresponding period during the last year, higher by 115% on a YoY basis. EBITDA was higher by 242% on a YoY basis at INR 505 crore, as against INR 148 crore in the corresponding period during the last year. PAT was higher 252 times on YoY basis at INR 355 crore, as against the INR 1.4 crore in the corresponding period during the last year, including a INR 30 crore share from associates and JV. The earlier PAT, just a clarification, earlier PAT for last year had an exceptional of INR 21 crore, even if we adjust that, the PAT was up by 16 times.

Coming to the nine-month performance for a FY '22 for the nine-months ended December 31, 2021 the company reported of INR 14,296 crore of revenue as against INR 7,149 crore in the corresponding period during the last year, which is higher by 100% YoY basis. EBITDA was 146% higher on YoY basis at INR 1,084 crore as against INR 441 crore in the corresponding period during the last year. PAT was higher by 711% stood at INR 724 crore as against INR 89 crore in the nine-month performance of FY '21.

The record performance has been delivered by success of transformational approach, led by exceptional leadership of the management team across businesses. The company has put strong focus on attracting and retaining top talent across the world. Further the company has demonstrated strong performance on acquisitions, there has been a strong contribution from surge in digital revenues and cost optimization through automation across end-to-end processes.

Now I'd like to discuss the performance of each business segment in detail for the quarter starting with the MTO segment, which is the international supply chain.

The international supply chain business witness sustained growth on back of volume growth and expansion in market share in favourable market conditions. Transformation continues to drive sales exploration, value creation across the trade lanes has also witnessed share of door-to-door component in the business. Digital initiatives with industry leading platform, ECU 360 continue to provide superior service experience to customers. MTO segment reported a revenue of INR 5,202 crore higher by 142% YoY against INR 2,147 crore from the corresponding quarter last year. EBITDA stood at INR 420 crore, a growth of 373% as compared to INR 91 crore in the corresponding quarter last year. On an annualized basis ROCE improved to 72% in Q3 FY '22.

Coming to the CFS/ICD Segment. The CFS/ICD business continues to deliver good performance. We continue to consolidate market share across key gateway ports of India and acquisitions of Multimodal handle has further added strength to the business proposition we offer to our clients. Volume handled for the quarters stood at 1,47,433 TEUs as against at 81,660 TEUs for the same quarter last year. CFS/ICD Vertical reported a revenue INR 177 crore, growth of 62% year-on-year against INR 109 crore in the corresponding quarter. EBITDA stood at INR 43 crore as compared to INR 36 crore for Q3 FY '21, registering growth of 18% YoY.

Coming to the Express Logistics Business. The Express Logistics business under Gati's umbrella, the subsidiary which is GKEPL reported highest volume and revenue at INR 353 crore higher by 20% YoY against INR 294 crore in Q3 FY '21, the highest ever tonnage of 2,65,000 metric tons for the quarter, the growth of 11% against volumes in the corresponding period for the last year. Digitalization of Gati helped us transform business to the growth path and it would continue to witness momentum entering 2022.

Coming to the Contract Logistics business. The Contract Logistics business continues to demonstrate resilience with revenue and profit showing significant growth in the quarter. The business is under ACCI where Allcargo owns nearly 61% shareholding. ACCI also has custom clearance business which is undergoing a scheme of demerger and is at the NCLT Stage. ACCI witnessed growth of 26% in revenue to INR 187 crore and EBITDA increased by 25% from INR 28.4 crore in Q3 FY '21 to INR 35.4 crore Q3 FY '22. The company manages approximately five million square feet of warehousing area under its operations.

Coming to the warehousing, the AMC Business which is the rental and others business and of course, the project segment as well. Project and engineering segment and logistics segment, I would first give an update on the project and engineering segment. The revenues stood at INR 87 crore growth of 6% YoY while on the project side there were execution challenges, impacted the overall growth. Exit utilizations of our

equipment, stood those two-year high levels of almost 80%, we have been maintaining a stance of coming out of low yield, loss making equipment and increase our dependence on third party outsource assets. Revenues from logistics park continues to trend about INR 20 crore for the fourth consecutive quarter, with continuous demand of global and Indian MNC tenants for Grade A warehouses the occupancy level remains stable and earnings visibility in this segment remains very strong. The revenue for Q3 of FY '22 grew by 27%, YoY to 22.6 crore. With this robust performance nine-months annualized ROCE stands at 22.5%, net debt to equity ratio stands at a comfortable position of 0.35 times.

Now I would request the moderate to open the line for Q&A. Thank you so much.

**Moderator:** Thank you Sir, ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press "\*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "\*" and "2" participants are requested to use handsets while asking a question.

Anyone who has a question at this time please press "\*" "1" on your phone. We have the first question from the line of Faisal Hawa from H.G Hawa and Co. please go ahead.

**Faisal Hawa:** Gati business that we're having looks to be like a very valuable business. How will we capitalize on this, something that likes of delhivery, or other new age digitally enabled logistics company has done?

**Ravi Jakhar:** Sorry, somehow, we did not hear the first couple of words of your questions. If you could just repeat the first part of your question again, please.

**Faisal Hawa:** Sir, the Gati business now looks very valuable to us, how will we capitalize on this, something that the likes of Delhivery have done

**Ravi Jakhar:** Yes. So I would just briefly respond to this, but I would also request participants to keep the questions to other businesses, since we anyways have a separate call for Gati but just to quickly respond to your question, there are two segments in the Express logistics, one is B2B, wherein Gati, TCI express, Safe Express play and the second is B2C, ecommerce, which is where you have Delhivery, Ecom Express, Amazon transport services, etc. So, in the B2B domain, yes, like I said there is a positive momentum on the back of whole ecommerce as well as the GDP growth and we continue to see great opportunities for Gati's continued expansion. Like I said across all business segments which includes Gati, we are confident of increasing our market share and therefore growing faster than the market growth rates.

**Faisal Hawa:** And since a new age digitally enabled companies particularly in ecommerce are getting much better valuations any chance of, you know,



having kind of a buyback or something, where we could get much better valuation?

**Ravi Jakhar:** There are no such...

**Faisal Hawa:** There is still a very big difference between our valuations and valuations that others are getting.

**Deepal Shah:** So, we don't comment on valuations because valuation is perception of actually who is giving it. But we are very clear that we want to create long-term stakeholder value for all our participants, and we don't look at short-term valuation gaps. So that is our approach to the business, and we are here to stay, and we are here to grow. So, if there is a short-term valuation mismatch, it is not something that we would like to comment on.

**Faisal Hawa:** Thank you Ravi.

**Parthasarathy:** Just as a side, because I can't not comment when I'm sitting there. So Ravi, and Deepal especially your excuse, I'd just say that every company in his arsenal has many options, Right. And it is the company's intent to use all the arsenals for the benefit of our stakeholders. What which if we do, if we start saying will be predicting the future, the purpose is to explain the performance, not to predict the future.

**Ravi Jakhar:** Thank you Mr. Parthasarathy for that comment.

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

**Keshav Garg:** Sir, many congratulations for excellent numbers. I just wanted to understand if you could just let us know that in our MTO division, there has been a tremendous growth, how much of it is due to the tailwind provided by the realization growth? And it's already mentioned that we had healthy 21% volume growth in LCL segment, Sir, but what I want to understand is that approximately INR 390 crore of EBIT that we made in MTO segment in last quarter, how sustainable is this going forward and how much of it is due to the industry tailwinds and the realization growth.

**Ravi Jakhar:** Yes, so I will provide some colours on that. Like I said earlier, the growth at ECU Worldwide is driven more by market share expansion, which means that it is unique to ECU Worldwide and not purely driven by market tailwinds. Further the consolidation business is where we're capturing cargo, which doesn't fill up the entire container and therefore what happens is then we are able to significantly expand volumes, we are able to increase utilization as well. And while we are charging customers for the cubic meter of cargo that we carry for them. Our purchase is of the full container that we book with the shipping lines, and we operate like an Uber or an asset light approach. So as the business grows by such strong volumes, it leads to increased utilization and that has a significant operating leverage impact. So as far as the LCL business is concerned, the entire benefit is coming from improved operating leverage, utilization and

the volume growth. On the FCL business, there would be a combination of improved procurement because as we are becoming, gaining larger scale, our procurement improves expansion into profitable trade lanes and there will be an impact of favorable tailwinds as well. It is difficult to substantiate or quantify, but we believe that like I said, the tailwinds do not impact the larger LCL segment at all and in the FCL segment they have some role to play, which should be taken care of through the organic growth, which has been happening in the segment as well and therefore I would comment that the performance is sustainable, is what I would leave it at.

**Keshav Garg:**

Sir, but if we see that in our MTO segments consistently, we were making around 4% of PBIT margin since many, many years and now this has doubled suddenly. I appreciate all your all your initiatives like increasing digitalization etc. Sir but still, is it that once the rates normalize to what were prevailing pre-COVID, then we would still be able to clock this kind of operating margin.

**Ravi Jakhar:**

So, if you notice while the EBITDA margin has improved, it is at very small part of the overall revenue and costs, and therefore the operating leverage has a much more significant impact in this business as compared to any other business. So, on the gross margin side, if you notice, in fact, we have had a reduction in the gross margin in this business on a percentage basis, which indicates that it's not a benefit coming in from the freighted environment. To take an example, the 1% to 2% improvement in utilization in the container itself can have a significant impact. If you do the mathematics on that increase being, that's the additional revenue that one could generate without incurring any costs. So, you just had 2% revenue without adding any cost of container that will give you some sense of how each initiative can be powerful by itself. Similarly, if you look at the EBITDA to SG&A cost ratio, you could also see the business driven by people. So, when you are able to automate operations, it creates a significant leverage because then effectively you are adding the entire business without having to enter additional SG&A cost as well. So, there are multiple operating levers that play at the operating margin, staffing costs, admin expenses which translates into this.

**Deepal Shah:**

So, Ravi, just to add, so your yield improves once you jump over the breakeven. Any improvement in the capacity utilization will add to the bottom line directly, that's what's happening, which is very clear. We've sustained a fair amount of growth in terms of volume over the last one is so we are quite positive, and I would say that much of this is sustainable.

**Keshav Garg:**

Okay, sir that's very reassuring. Lastly just wanted to understand how do things look as we stand now in the fourth quarter and also looking at how's the freight rate environment, are you seeing some dip or are these rates sustaining?

**Ravi Jakhar:**

We could comment on the present state, and we know that there are 3 to 6 month contracts being signed in the market, which indicate that the operating environment is likely to remain similar beyond 6 months, there

is no concrete visibility on the contract being signed because contracts are usually of 3 to 6 months in nature, when it comes to freight contracts with carriers. But from a macro trend perspective there are two or three things, which one could note, significant consolidation in shipping lines, there are perhaps almost 12 to 15 shipping lines, which were there 10 years ago and do not exist anymore. There's been a whole focus on sustainability, which means that there are multiple regulations restricting usage of old ships, speeds at which ships can travel and multiple other things as well. In terms of inventory order book, we understand that there are additional supplies which may start coming in from early next year. But, overall our sense in the short term is that the market environment may remain similar and there could be some correction in the medium term, we do not anticipate the freight rates going back to the pre-COVID level, but they should settle at a new normal.

- Keshav Garg:** Okay, sir thank you very much.
- Moderator:** Thank you. The next question is on the line of Mr. Prashantkumar Hazariwala from Solitaire Financial. Please go ahead.
- Prashantkumar Hazariwala:** Hello? Yes. Good afternoon, sir. Congratulations for such a great performance. Hello?
- Ravi Jakhar:** Yes, I can hear you.
- Prashantkumar Hazariwala:** Can you listen to me?
- Ravi Jakhar:** Yes, we can hear you.
- Moderator:** Yes, sir we can.
- Prashantkumar Hazariwala:** Yes. Okay. Alright. So, my question is on the same line that previous participant has asked. So, we used to do 10% kind of operating margin before 6 or 7 years, right? After 2017, I think we have first time come back to 9% of operating margin. So, what is the probability of increasing the profitability margins from here and sustaining it?
- Ravi Jakhar:** I would say that on the operating margin, like I said the utilization levels have improved, which have allowed us to improve the operating margin. So, on the LCL business the margin should sustain and there would be an endeavor to further improve. On the FCL side it's been a combination of operating freight environment and scale. The operating environment would marginally change causing a negative impact while the scale would make a positive impact. On the back of the volume expansion, I would say that the overall operating margin profile should be steady from these levels and, I would also like to point out that there could be some minor fluctuations on a quarter-to-quarter basis because of seasonality in the trade. Typically, around the Christmas time, there's a significant surge in trade on the trans-pacific trade lanes with significant amount of cargo being shipped while there could be a certain period of lesser cargo flows around Chinese New Year, etc. With all those seasonal flows kicking, but

from an overall perspective, the operating margins in percentage terms on the LCL business should be steady, on the FCL business could see marginal decline over a period of time. But should be more than compensated with the volume growth is how I would largely put it.

**Prashantkumar Hazariwala:** Most of the trade has come from the MTO business, right and we have sold some project and engineering equipment's in this quarter, for INR 100 crore, right? So, what kind of...

**Ravi Jakhar:** There is a project cargo transport business which is part of P&E segment.

**Prashantkumar Hazariwala:** Alright. So, what kind of loss it has done during the last year or last quarter? I just want to know how much loss can we reduce by selling this stuff?

**Deepal Shah:** No, so we have not had any losses in project division, they have been what do we say? Some longstanding receivables because some of these projects' companies deal with all the energy and EPC Companies which take a little longer time, but apart from that we've not had any large losses on any of the project division. But the ROCE at the moment, is not lucrative, we wanted to focus more on asset light business that was our strategy, that's basically, moved out of that business.

**Ravi Jakhar:** So basically, we as a group have decided to focus on a certain category of businesses and which is why from our perspective it makes strategic sense to exit that business, while the business may also continue to offer opportunities, but it does not fit into the strategic scheme of things for us and therefore we decided to exit that business and this is something which you've been stating for quite some time.

**Prashantkumar Hazariwala :** Alright. So we can see now, so our project and engineering business is profitable on the operating side, right, that is what you are trying to tell me and whatever losses that we are showing it's because of this receivables problem. Right?

**Ravi Jakhar:** Yes. And also, what you're referring to losses to some extent on some quarters will be largely driven by the depreciation as well in the equipment division. So, you're looking at the PBT level where in depreciation of this equipment has been in significant number. But at the EBITDA level the businesses have performed reasonably well.

**Deepal Shah:** At EBITDA level none of businesses had loss, we have these equipment's which are having accelerated depreciation, in those equipment's. Generally, they have almost 30-year life but we have an accelerated depreciation ranging from 10 to 15. So, because of the higher rate of depreciation that we've applied the PBT is at loss but at EBITDA level we are not burning cash anyway.

**Prashantkumar Hazariwala :** Alright, thank you very much. Thanks for the answers.

**Moderator:** Thank you. The next question is on the line of Deepak Poddar from Sapphire Capital. Please go ahead.

- Deepak Poddar:** Yes. Thank you very much for the opportunity. Now, Sir just wanted to understand like some sensitivity of the freight rate basically. Now if tomorrow freight rates decline by about 10% or maybe a particular number 5% -10%. So how does that impact our margins or the profitability? Some sense if you could just provide would be quite helpful.
- Ravi Jakhar:** Sorry, what? I didn't hear the word before the trade, what trade did you refer to?
- Deepak Poddar:** What?
- Ravi Jakhar:** You referred to the trade decline, which trade decline did you refer to?
- Deepak Poddar:** I'm talking about freight rate. If there is freight decline.
- Ravi Jakhar:** Freight rates. Okay, yes. So, like I explained earlier our LCL business, which is the mainstay business, is the business of consolidation and it's not a pass-through cost business, we run the world's largest LCL network. Like I highlighted the gains in the bottom line can be entirely matched to the increase utilization level which are driven by the volume expansion. So, they are not dependent upon the freight rate expansion. So, if you were to look at the yield on a cubic meter basis, the entire upward tick has happened on the back of utilization. We do not consider ocean freight, it's almost like a pass-through cost when ocean freights decline, or ocean freights increase. We do not get any positive or negative impact in the mainstay LCL business. The impact comes in largely from the utilization levels because that is where the cost leverage comes into play.
- Deepak Poddar:** Absolutely. And we do expect our utilization level to remain buoyant, right, given the kind of growth that we are seeing globally as well as within the country.
- Ravi Jakhar:** Yes, we are quite confident of sustained utilization levels on the back of growth and also initiatives for an instance, we have a senior industry professional who joined us recently, primarily to drive yield management at a global level. We also have been setting up a data science team to work on yield management network optimization. So there are many technology led initiatives as well, because ultimately as a logistics company, our purpose is to make efficient transportation of goods and we are committed towards that. And in the process, we would continue to endeavor to improve utilization which has a positive impact for us and also for the trade at large.
- Deepak Poddar:** Understood. In one of the previous participants' query you did mention regarding the EBITDA margins now that the volume addition advantage to be somewhat negated by some environments change and you expect your EBITDA margin to remain stable at the level we currently are right. So, I just wanted to, what environment change we're talking about here that can negate your volume addition, is that the free trade or something else?

- Ravi Jakhar:** Free trade, I referred to the freight rate decline over the few quarters which as I explained you due to lack of significant consolidation, various regulations, the operating environment is not likely to go back to the pre-COVID level, but a marginal impact of that would come on a part of the business. So, therefore there could be some negative impact of the radical change in operating freight rate environment. But that is what I was referring to, it gets negated by the kind of volume expansion we have been demonstrating year-on-year for quite a sustained period in that business.
- Deepak Poddar:** Okay, okay, understood. That's quite helpful Sir. All the very best thank you so much.
- Ravi Jakhar:** Thank you.
- Moderator:** The next question is from the line of Chetan Shah from Abakkus Asset Management Company. Please go ahead.
- Chetan Shah:** Hi, team. Thank you and congratulations for the for the superb results. Just one quick question. Can you just kindly explain me this MTO business, if you can help us understand in terms of the price movement, you very nicely explained that how to breakeven point and beyond that the profit which we make, directly flows down to PBT. But if one wants to understand in terms of our existing capacity, post all the acquisition, does our breakeven numbers have changed or how does one look at it in terms of the volume group going forward if one should take a 2–3-year time horizon?
- Ravi Jakhar:** Yes, so just to give you a quick overview on that, typically it would be on a container basis, and it will be on a trade lane to trade lane we operate about 2,400 direct trade lanes and several thousand other indirect transshipment trade lane. But on every trade lane on a particular container, you would have an x percent. I'm just using a ballpark number, let's say 65% utilization you break even. Every percent utilization about 65 adds to your profit. In some trade lanes, it could be a 55% in some trade lanes it would be 75%. But clearly what happens is that because your profit is between let's say 65% or 70% number as you move from 80% to 85%, the impact on the profit is much more significant than that 4%- 5% impact. That is how the business operates. Because you're committed to incurring all the costs that has to be incurred for getting the full container, while the revenue is generated based on how much cargo gets carried inside.
- Chetan Shah:** Yes, I think this was this was the perfect thing which I was looking for. If I may ask one last question, that would be very helpful please. I just wanted to understand, that one looks at the volume data, pre-COVID when the normal volume was there, but the shipping rates were quite dismal and post-COVID things went haywire but now the shipping rates are coming back to normal, so does the volume of the business on a global scale. So, if you want to look at it, how normal is the volume, vis-à-vis the pre-COVID level. I'm talking about not the price, but the volume of the container or a

shipping line. If you can give some colour on that and how do you see this change in the next couple of years.

**Ravi Jakhar:** Yes, broadly speaking, if you look at the port volumes which are a good indicator of global trade, different countries have had different points in time, when disruptions happened, China impact came in Feb 2020, India impact came in FY '21 because it was largely between April to June. So, you know on a one global consolidated number, it is difficult to predict, but I would say except for the COVID led temporary disruptions, the overall trend on the trade continues to be positive and if you look at any of the forecast on world economy or global trade, they're all very positive for the next 3 to 5 years. I would leave it to those experts to comment upon the trade growth rates.

**Chetan Shah:** Thank you so much, Ravi. And all the best to the team.

**Ravi Jakhar:** Thanks Chetan.

**Moderator:** Thank you. A reminded of the participants, anyone who wishes to ask a question may press "\*" and "1" on your touchtone telephone. We have the next question from the line of Prateek Kumar from Antique Stockbroking. Please go ahead.

**Prateek Kumar:** Yes, sir I have a few questions. Firstly, is there any update on timelines of scheme of demerger?

**Ravi Jakhar:** We have provided for the detailed timeline estimates in our Investor presentation as well. But broadly we're looking at about 12 months if I were to put one number to it, but there are some details in terms of step wise process etc. which you may effort to investor presentation.

**Prateek Kumar:** Sure. Also, can you give the net debt number as of December '21?

**Deepal Shah:** Sorry?

**Prateek Kumar:** Net debt number? I see we have gross debt number in the presentation.

**Deepal Shah:** Yes. So net debt is close to around INR 1,400 crore.

**Prateek Kumar:** Okay. Sir, any update on timelines of the Blackstone deal or it's still like sort of slow versus what we discussed two months back.

**Ravi Jakhar:** Same comment as last time. Things are not in our control, and we'll update as soon as we see any decision on that.

**Deepal Shah:** So, we've received the extension letter from Blackstone for March and we are hopeful of completing by that time.

**Prateek Kumar:** We remain like sort of confident of closing the deal by March '22?

- Deepal Shah:** As you're aware it's related to some government approvals. We are pursuing it and we cannot comment because it's beyond us. We cannot comment an exact timeline but as far as construction was concerned, most of it is already completed. Leases have started, we've taken some lease rentals also, LRD is also against some of this property. So everything is working as planned, some approvals may take some time and we're cognizant and so is Blackstone about that.
- Ravi Jakhar:** These are the things like Deepal said beyond our control, but just to reiterate the business continues to perform very well, the construction has been timely, the leases have already been signed, the operating revenue continues to grow, and these are all high-quality grade A warehouses leased by marquee clients for real long term. And this is the segment which is seeing significant demands. So, on the business side, it has been absolutely great and only the transaction, which is more of a shareholding, I would say at the shareholding level, which has been pending due to some approvals. But we at this point, I'm again a similar update, perhaps it could happen in a month, month and a half. Unfortunately, the government functioning has an impact whenever there's a new surge in COVID cases and that is kind of affected us too. But we remain hopeful that now we are seeing the end of COVID, and government function should return to normalcy and we should see this through as well.
- Prateek Kumar:** You talked about new products, like in form of air segment, So in what time horizon like we can expect some meaningful contribution to the MTO segment as well as like we would be looking at some M&A to up start in the segment.
- Ravi Jakhar:** We primarily focus on organic growth at this point in time. We have started building out the air business in a few select offices and it should start to grow over the next 2-3 years, but naturally sitting inside the large ocean freight business, it would appear insignificant for quite some time because the LCL and FCL business itself is also going, but I would say business by itself should attain some decent scales over the next three years or so.
- Prateek Kumar:** And last question on project logistics as we are now looking to sell this business as well, what will be the annual sales which will get shipped out from P&E segment related to this business?
- Deepal Shah:** Annual revenue you are talking about, right?
- Prateek Kumar:** Annual revenue or EBITDA numbers?
- Deepal Shah:** Yes, so annual revenue will be close to INR 150 crore to INR 200 crore which is what will shrink, and EBITDA will be around close to INR 8 crore to INR 10 crore odd.
- Prateek Kumar:** Sure, I'll get back to the queue.
- Moderator:** Thank you. The next question is on the line of Radha from B&K Securities. Please go ahead.



- Radha:** Hello sir. Thank you for the opportunity. Sir my question was with regards to this slump sale in the project logistics business. So I understand that it is a part of P&E segment, so with respect to that, what is the capital employed of just the project logistics part as of December '21?
- Deepal Shah:** The capital employed will be close to INR 70 crore to INR 75 crore. I don't have the exact number, but around close to INR 75 crore is the capital employed only for projects. Other than equipment's.
- Radha:** Yes, yes, only for project logistics, the part that we are selling off.
- Ravi Jakhar:** Also, I would just like to add further to that, that on the project logistics business, we have sort the approval from the board and we will be signing the agreement in the due course of time over the next 4 to 6 weeks and we will share more details at the time of signing the agreement as well. We may not be able to share some details since we are in the confidentiality bound period as well. So, we'll share more details on all the aspects of the transaction at the time of signing of the agreement, which should be any time in the next 4 to 6 weeks.
- Radha:** Okay, thank you sir. Just my last question. So, in the MTO business, the major driver for this quarter was realization growth rather than volume and you said that with respect to the freight rate environment it will be marginally low as compared to COVID levels. So, going forward, can you assume that major growth factor for this MTO business will be volumes rather than realization?
- Ravi Jakhar:** The business will continue to see sustained volume growth and if you look at on year-on-year basis, there has been a strong volume growth as well in this quarter. As I mentioned, the realization is driven largely by utilization level which will continue to remain high, and you'll continue to see sustenance in these levels.
- Radha:** Okay, thank you sir, That's it from my side.
- Moderator:** Thank you. The next question is from the line of Sailesh Raja from B&K Securities. Please go ahead.
- Sailesh:** Yes, thanks for the opportunity. What is your capital allocation plan for the next one year? And also, how the debt will pan out?
- Ravi Jakhar:** I believe you are referring to Capex plan for the next one year?
- Deepal Shah:** We couldn't hear you clearly can you repeat it more clearly?
- Sailesh:** No, what is our capital allocation plan for next one year and how the debt will pan out.
- Deepal Shah:** Okay so on the capital allocation primarily like we said that We don't have any large plans for any inorganic growth, but if there are smaller opportunities available, more particularly in the MTO space we wouldn't

be shy of allocating some capital there. On the Capex side we do not have any large outlet except for maintenance Capex and some transformation related Capex, which we incurred over the last one year. Other than that, the rest we do not have any big bang plans for capital allocation, and we will see how the cash will be utilized. So of course, we have the dividend yield and the returns on the capital employed in our minds when we allocate capital going forward. So currently the business is growing, it requires higher working capital. So, our capital allocation will look at focusing on partly reducing debt, adding some more working capital and improving yield on all of these items. So, these will be our primary objectives.

- Ravi Jakhar:** Just to give a color of strategic priorities, we are very focused on asset light approach, which means that we will not be investing behind, Capex heavy assets across any business and we are significantly focused on return on capital employed. Any capital location from here would be towards an initiative which creates an improved ROCE for the business.
- Sailesh:** Can we expect around INR 200 crore to INR 250 crore debt reduction in this year? Sorry, next 12 months?
- Deepal Shah:** I couldn't hear.
- Parthasarathy:** Can we expect INR 200 crore to INR 250 crore of?
- Sailesh:** Debt reduction.
- Deepal Shah:** In the next 12 months, for sure.
- Sailesh:** Okay, okay. Also, what is the total identified non-core assets to sell in next one year? Amount can you share please? Across all the business verticals.
- Ravi Jakhar:** So basically, the non-core asset approach has largely been shared about Gati when we are indicated that we have approximately other ballpark INR 150 crore worth of non-core assets, which is an update which is just shared. It has been constantly being pursued and this is the total ballpark number including the quarter gone by and the next 4 to 5 quarters. That is how I could put it. On the Allcargo side, it isn't about non-core assets but about gradual reduction in capital employed on the businesses that we do not see as core.
- Sailesh:** Can you please update on Blackstone deal any timeline close the deal?
- Ravi Jakhar:** We just responded to that five minute back in details.
- Sailesh:** Okay, thanks.
- Moderator:** Thank you. The next question is on the line of V. P. Rajesh from Banyan Capital. Please go ahead.

- V.P. Rajesh:** Thanks for the opportunity. I really appreciate you explaining the business numbers in detail. Just on the Blackstone deal is my understanding correct that after the deal gets done, our debt will come down by around INR 500 crore or has that number changed?
- Deepal Shah/:** No. There will be a combination of two things. Our debt number will come down by almost INR 300-odd crore.
- V.P. Rajesh:** 300 Okay.
- Deepal Shah:** Yes, so there will be two parts to it. One will be the LRD's which you have taken in the SP will move out of our fold and move into Blackstone and there will be some OCDs issued to Blackstone which will get converted into equity. So, we are expecting around approximately INR 350 crore of debt reduction directly from Blackstone deal.
- Ravi Jakhar:** And also, just to highlight there's an optionality as well in that. there is one logistics park, which is an optional asset, which would have a further impact of an equal proportion, but that's something which has not been concluded yet, once we conclude the first part and we cannot share details beyond that, but we will update once we see the confirmation of the transaction.
- V.P. Rajesh:** Right. So, what you're saying is after this first phase of the deal is done with Blackstone then you will be down to around INR 1,000 crore INR 1,050 crore of net debt on the books, right? And you're saying in addition, if there is a logistic park deal then the debt could come down further by INR 300 crore or so, is that understanding, correct?
- Deepal Shah:** That is correct.
- V.P. Rajesh:** And then okay, so for the projects business that you are divesting what has been the interest level, and as you're sort of closer to signing a deal, what is the sort of valuation expectation you have meaning the book value is around INR 75 crore. Could we expect that the value realized could be around INR 150 crore from that?
- Deepal Shah:** We have already given the value and like we said earlier, we cannot unfortunately discuss this, because we're still in the process, due to confidentiality reasons we cannot discuss too much around that. But the number is already mentioned, number is already mentioned INR 101 crore is what is already mentioned in the outcomes.
- V.P. Rajesh:** Oh, I'm sorry, it's INR 101 crore. Okay So the book value for the business around INR 75 crore, is that right?
- Deepal Shah:** So, like I said these are estimates we don't have the exact number.
- V.P. Rajesh:** Understood. Okay. So that money which will come in, will that also go into the debt reduction, or you have plans for other uses for that cash?

- Deepal Shah:** It will go in for debt reduction. But there's a structure to which the money is going to come. So, I think there are a lot of elements of the deal which we cannot discuss on this call at this moment.
- V.P. Rajesh:** No, no, fair enough, I appreciate and understand that but it's good to know that you are essentially moving to a very asset light business.
- Deepal Shah:** Absolutely. In the long run, we want to create three buckets which we've explained in the demerger process, we will have an asset heavy, which will be the Transindia business, which will be, which will carry some warehouses in that and the land parcel. CFS primarily the business, the Allcargo Terminals will be an asset light model. They'll be leaving out most of the assets that they are operating with long leases and the MTO business which stays back with Gati will actually be the asset light business. That is how we very clearly explained in our demerger note. Whatever non-core assets that we are carrying, or assets which are low in yield, like for example some cranes were low in yield and some assets in Gati is what we are trying to monetize and trying to use that money to reduce debt or to allocate that money for businesses which perform better, that's how we are looking at it.
- V.P. Rajesh:** Understood. Okay, alright, I appreciate that. Thank you.
- Moderator:** Thank you ladies and gentlemen. That was the last question I would now like to hand the conference over to Mr. Ravi for his disclosing comments.
- Ravi Jakhar:** Yes, thank you all for joining us for the conference call and we hope we have been able to answer your questions. And I would recommend that you also take a look at the investor presentation updated on the company's website, and on the stock exchanges that provides deeper insights into some of the growth plans and the operating levers and about the overall business strategy as well. So I will highly recommend that you take a look at that and thank you for joining us on this call and I wish you safety and good health to you and your family. Thank you very much on behalf of all of us. Thank you.
- Deepal Shah:** Thank you.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of Antique stockbroking, that concludes this conference call. Thank you for joining us and you may now disconnect your line.