allcargo
Ingenuity In Motion

August 18, 2023

To,	To,
BSE Limited	**National Stock Exchange of India Limited**
Phiroze Jeejeebhoy Towers,	Exchange Plaza, C-1, Block G
Dalal Street, Fort,	Bandra Kurla Complex, Bandra (East),
Mumbai – 400 001	Mumbai – 400 051
BSE Scrip Code: 532749	**NSE Symbol: ALLCARGO**

Sub: Transcript of Earnings Conference Call for the quarter ended June 30, 2023

Dear Sir/Madam,

Pursuant to Regulations 30(6) read with Schedule III and 46 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of earnings conference call held on Friday, August 11, 2023, for the quarter ended June 30, 2023.

The transcript of recording can also be accessed on the Company's website, from the below link:

https://www.allcargologistics.com/datafiles/cmsinvestor/eevh16083

We request you to take the above on record.

Thanking you,
Yours faithfully,
For Allcargo Logistics Limited

DEVANAND PARSHOTTAM MOJIDRA

Digitally signed by DEVANAND PARSHOTTAM MOJIDRA
Date: 2023.08.18 16:26:25 +05'30'

Devanand Mojidra
Company Secretary & Compliance Officer

Encl: a/a

“Allcargo Logistics Ltd Q1 FY-24 Earnings Conference Call”

August 11, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 11th August 2023 will prevail.

MANAGEMENT:	**MR. RAVI JAKHAR – GROUP CHIEF STRATEGY OFFICER – ALLCARGO LOGISTICS LIMITED**
	MR. DEEPAL SHAH – GROUP CHIEF FINANCIAL OFFICER – ALLCARGO LOGISTICS LIMITED
MODERATOR:	**MR. SAILESH RAJA – B&K SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Allcargo Logistics Limited Q1 FY24 Earnings Conference Call hosted by B&K Securities.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions, and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal and operator by pressing "*" and then "0" on your touch tone telephone. Please note that this conference is being recorded.

I now hand over the conference to Mr. Sailesh Raja from B&K Securities. Thank you and over to you, sir.

Shailesh Raja: Yes. Thank you, Jai. Good afternoon, everyone. On behalf of B&K Securities, I welcome you all to the 1Q FY24 Earnings Conference Call of Allcargo Logistics Limited. We are pleased to have with us the management team represented by Mr. Ravi Jakhar, Group Chief Strategy Officer and Mr. Deepal Shah, Group CFO. We have opening remarks from the management followed by Q&A session. Thank you and over to you Mr. Ravi.

Ravi Jakhar: Thank you, Sailesh. Good afternoon, everyone, and thank you for joining in for the call. It is our privilege to be talking about our Company's quarterly performance and thank you all for attending in.

The quarter gone by from April to June 2023 has been filled with significant headwinds on the international trade and that has led to what we would term as a disappointing quarter. There is optimism as we look ahead and at the same time, we do not still foresee the sharp rebound in the trade that economists were expecting until a few months ago, and we were also expecting for a normalized second half of 2023, which is July to December. However, the volumes continue to remain under pressure. And that's the overall sentiment on the international supply chain business, which is the flagship business.

I'll try to share key commentary on all the businesses and then hand it over to my colleague Deepal.

We have also tried to incorporate all the comments and inputs that we received from our shareholders and the research analysts in trying to provide additional information. So, I would also request you all to look at the investor presentation which has been shared which captures more details this time. For instance, we have provided the breakup of industry segments in the contract logistics business to provide better clarity. We have also shared more financial details about the segment, which is now important, being 100% owned by us as compared to being a joint venture in the past. We have also shared the gross profit information for the international supply chain as was sought by many participants in the last call and we have included further details which can help you understand the performance of the Company in a better way.

Starting with the contract logistics business:

This is a business which has continued to perform well on the back of strong macroeconomic environment in the Indian context, which has continued to see good consumption and demand, formalization of warehousing sector and our strong presence in chemical industry on the back of which we have been able to also enter significantly in the e-commerce, auto and a few other segments over the last seven years since we entered into this business. And quarter on quarter, year on year, the business has continued to demonstrate robust performance. And for this quarter as well, we have seen the similar trend and we also foresee continued strong performance considering the pipeline in terms of orders in hand and the ones we are competing for. And we believe that this business will continue to perform well in the near term and the long term.

On the express business wherein, we had also acquired additional 30% shareholding from our Japanese partners. In that business, we see two significant trends, one on the operational front, now it's been more than five to six months that we have seen consistent high operating parameters being delivered by the Company in line with the best in the industry. And that is a reassurance of operational capabilities of the business. That is also reflected in the increasing revenue in the business. And we have also, considering that Gati is separately listed, we have also shared more details on Gati in the earlier earnings call on Gati, so I would not get into much detail, but even the volume data shared for the month of July indicates continued momentum on the revenue. With the improved operating performance and more revenue coming in, we believe that we are in the right direction to improve the performance of the Company both on top line as well as in terms of improvement in the margin.

As of today, with the acquisition of 30% having been completed in the month of June, effectively Allcargo logistics owns approximately 65% of this Express business. 30% directly through the Gati Express supply chain, which is the Company, which was earlier called Gati Kintetsu Express, and 35% through 50% holding in Gati which holds the remaining 70%. So, effectively Allcargo logistics holds 65% of this business. On the contract logistics again with the transaction consummated, now we own 100% of the business. However, since the transaction was completed midway during the quarter, we still have not consolidated the numbers into the consolidated performance. And therefore, in the investor presentation, we have provided a combined view. While the consolidated numbers may look slightly different since the consolidation, from an accounting standpoint, was only done for the one month. Going forward with all the acquisitions and the shareholding transfers completed, we would see the consolidated numbers as the right numbers. There's no need to provide the additional combined numbers.

Coming to the flagship business, which is again 100% owned by us operating in India under Allcargo logistics and operating worldwide under different subsidiaries which are all subsidiaries of Allcargo Belgium, which is 100% subsidiary. In that business, in the best of the times, when the global trade was booming, with inventory levels being at all time high, warehouses being filled, in that kind of an environment we were seeing extremely robust performance with quarterly EBITDA crossing Rs. 300 crores on a quarterly basis. As a headline statement, I would say that with the weakening of global trade with all the other headwind impact , we still estimated that we should still be able to perform and be able to manage cost and gross profits in a manner whereby we should be perhaps looking at Rs. 180 to Rs. 200 crores kind of quarterly EBITDA. However, clearly beyond the macroeconomic forecast being wrong, I believe, and let me admit that our own anticipation and expectations on the impact on the performance of the competitive pressures and the weakening volumes has not turned out to be correct and which is why we see a much weaker quarter than what we would have liked to see in the April to June quarter gone by.

Primarily, there are two factors driving this. So, on one hand, the macro-economic environment means lower volume and higher competitive intensity with everyone competing for that. That is a parameter on which we are performing well. If I look at the top 20 countries where we operate, in 18 or 19 countries out of those 20 we have gained market share with only one exception wherein we have lost about 1% to 1.5% market share. So, we have continued to outperform the competition in terms of being able to do more business, but there has also been a competitive pressure on the pricing and with utilization numbers remaining low in terms of the container utilization, what we were doing about 12 months ago, today each container is perhaps 8% to 10% lesser filled as you can again see from the container utilization index we have shared here. So, the combination of all these factors the gross profit has been impacted. So, one could see that the gross profit which we have shared this time on a year-on-year basis is down approximately 19%, while we would have anticipated it to be down lower in terms of rupees per cubic meter earned on the LCL business, we would have endeavored to keep it constant, but that has also dropped by about 6% to 7%. And these impacts on the gross profit when translate into EBITDA impact, they get more pronounced with the scale impact.

The other highlight to look at this is also there have been some specific countries where we are focusing on and I would say if you looked at like I said, potentially in our estimation with all the adverse headwinds, with all the challenges we would have still liked to do perhaps Rs. 65 crores to Rs. 70 crores more than what has been delivered in the international supply chain segment. And if you look at it, possibly half of that gap can be accounted to one single country, United States of America where we have seen a significantly weak performance and we are working on improving there.

If I combine Europe and Americas, these two regions which represent largely the long-haul trade also with lot of trade happening between Asia to these destinations and to the more developed western economies, which have been under more severe pressure in terms of trade flows. What we observe is that these countries put together, Europe and Americas were a year ago, if you look at the first half of 2022 calendar year, they were contributing to perhaps almost anywhere in the range of 40% to 50% of the EBITDA for international supply chain, while that contribution in the first half of this year, January to June is perhaps in the range of 10% to 15%. With the significant impact in these two regions and in terms of mitigating these factors, we are doing multiple things. One, we remain focused on the volumes which is why despite weak environment there is published data available from various forwarders and shipping lines listed on international exchanges talking about 8%, 9%, 10% kind of decline in volumes. We know from our competitive landscape that we estimate our competing LCL consolidators to have lost volume to the degree of maybe 14% to 15%. In comparison to that, we have been able to increase our market share and thereby perform better in volume terms. We foresee a similar trend in the month of July as well, where we should be able to win on volumes and we should be able to share July data in the next three to five days.

So, we are able to hold on to volumes and this means that the expanded market share should help us when the market environment improves, we should be able to grow volumes and you know as volume grows, hopefully that would mean better container utilizations and therefore that's one plan we have in terms of staying focused on volume and market share to improve performance as the macroeconomic environment improves. The second aspect we've been focusing on is now looking at the cost line items more closely, expediting some of the initiatives which could be either around automating certain mundane processes or it could be about executing the outcome of some of the transformation programs we have been running, which now has standardized the process and therefore allow us to move certain positions from high-cost countries into lower cost countries to reduce the cost.

So, on one hand, we are trying to stay focused on volumes and market share. On the other hand, we are now more consciously looking at the costs as well with an endeavor to get back to the EBITDA levels that we believe would be sustainable in adverse situations and as and when the global macroeconomic environment improves, we should be able to further gain.

On the FCL side, the market again has been weaker, and that has prevented us from exhibiting the growth rate that we have seen over the last seven – eight years on a sustained basis of 20%. The volumes in FCL are also flat. In the FCL business we have always spoken about decline in yield with the freight rates coming down, which has happened. But while we anticipated that to be compensated by expanding volumes, we have found expanding volumes in FCL business to be more challenging, even though our market share in FCL is minuscule. So, in the FCL business, the Company's strategy is to focus on select markets. We are building team capabilities in some select markets and trying to work with these focused markets to drive growth in volume.

In summary:

The Company’s approach on the international supply chain business would be to improve performance even with the adverse conditions continuing and should the conditions improve, we should be able to see a significant improvement. In some sense, when we look at the profitability as well as the cost considering all the inflationary adjustments and the appraisals which happen in the first quarter in some countries which is around December to January, and some countries in the second quarter which are mostly effective from 1st April. This quarter of April to June essentially accounts for all cost escalations, also accounts for competitive intensity and therefore from an international supply chain business perspective, this is the bottom performance. And our endeavor is to improve from here and not just hoping for better macroeconomic environment, but also with various initiatives which are highlighted and we would also look at strengthening our own internal business forecast mechanism in highly volatile environment so that we can endeavor to, just like how we've been trying to provide more and more better clear information, also try to provide more and more accurate forecasts on how we see the coming few quarters.

So, with that, I would say international supply chain business has seen its toughest times. On the other hand, on the domestic side, we continue to see favorable environment for the contract logistics and the Express logistics business and both those businesses are heading in the right direction. Apart from these three businesses, all the other businesses of the Company have already been demerged and therefore the business is focused on these asset light digitally enabled businesses and in terms of technology advances, we are making good progress.

Our data science programs have been yielding impact. If you look at the impact on network optimization for the Express logistics business, which is being done by data science today, we are also using generative AI to improve efficiencies in answering quotation emails which allow us to gain more volumes. This is in context of international supply chain business. So, in many ways, the business performance that we see is also somewhere aided by technology and every year to come, we believe technology to play an even important role. And considering that we would remain focused on technology initiatives which would drive the growth of the Company in the long term.

And on that note I would request my colleague, Deepal Shah to share "Financial Highlights" and talk about the financial performance of the Company. Deepal, over to you.

Deepal Shah: Thank you, Ravi. I will now discuss the performance for Q1 FY24:

The consolidated revenue for Q1 FY24 stood at Rs. 3,271 crores as compared to Rs. 5,474 crores during the same quarter last year.

The consolidated EBITDA for Q1 FY24 stood at Rs. 139 crore as compared to Rs. 360 crores for the Q1 FY23. The Company reported a consolidated PAT of Rs. 119 crores for Q1 FY24 as compared to Rs. 260 crores for Q1 FY23. I would like to highlight here that the Company has a very comfortable debt position. With the net debt for Q1 FY24 being at a very marginal level of Rs. 12 crores, this is after acquiring 20% stake from KWE, Kintetsu partners for Rs. 406 crores.

Post transaction we have changed the name of the Company from GKEPL, which was Gati-Kintetsu Express Private Limited to Gati Express And Supply Chain Private Limited.

Moving on to the segmental performance:

I will start by discussing the performance of the international supply chain business. As Ravi mentioned, you know the global trade environment continues to remain soft. The Company is facing increased competition for incremental volumes in the market, driven by muted overall demand. We intend to maintain our focus on volumes and market share. LCL volumes for the quarter one of FY24 stood at 2.2 million cubic meters as compared to 2.3 million cubic meters for the previous year quarter. Owing to our market share focus, sales and volume witnessed a growth of 6.2% sequentially.

On the FCL front, the FY24 quarter one volumes stood at143,000 TEU's, the volumes de-grew by 9% on a YoY basis. For the Q1 FY24, the international supply chain business reported a revenue of Rs. 2,823 crores as compared to Rs. 5,043 crores in Q1 FY23. The EBITDA for the same period stood at Rs. 111 crores as compared to Rs. 341 crores for the previous quarter.

Moving on to the Express business:

Operating under the Gati Express Supply Chain Private Limited, continued emphasis on the best-in-class service levels and enhancing operational efficiency has culminated in a yet another strong performance for the quarter. The volumes for Q1 FY24 stood at 292,000 metric tons representing a 5% YoY growth. For the period, the reported revenues stood at Rs. 367 crores as compared to Rs. 365 crores in the same quarter last year.

The Express business will launch its Bangalore hub in August and the volume momentum is expected to remain strong.

Moving on to the contract logistics business:

As Ravi mentioned, we have consolidated for one month the contract logistics business because it was acquired towards the mid of the quarter. And we have completed our transaction and 100% of that business is now owned by Allcargo logistics through its subsidiary ASCPL which is Allcargo Supply Chain Private Limited. Therefore, the full impact of the contract logistics business will be clearly visible from the following quarters. Assuming 100% ownership, the entire quarter, if you were to take it into account the contract logistics revenue for Q1 FY24 would be around close to Rs. 75 crores as compared to Rs. 77 crores for the Q1 FY23. Similarly, an EBITDA for the entire quarter would be close to Rs. 32 crores as compared to Rs. 28 cores for the previous quarter last year.

In line with the best disclosure practices, we have been consistently providing other key comparative financial performance and operational indicators in our investor presentation, one can refer this 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 Nirav Savai from Abacus. Please go ahead.

Nirav Sawai: Hi, my question is on the MTO business. So, last quarter we had a quarterly one of provision for about 60 odd crores. Is there something exceptional this quarter also?

Ravi Jakhar: No, there is no impact of any exceptionals in this quarter. There are of course, like I mentioned, countries which require more focus, but that is a business concern. There are no one of exceptional items per se impacting this performance.

Nirav Sawai: And the second thing you said that US and Europe combined was about 40% of your EBITDA in 22 in terms of contribution which has come down to 10%.

Ravi Jakhar: First half of 22 yes.

Nirav Sawai: First half of 22, which is coming down to 10% for the first quarter, right?

Ravi Jakhar: First half of ‘23, again like to like comparison for first half ‘22 versus first half ‘23. It was over 40% and now it is in the range of 10% to 15% is what I was highlighting demonstrate that there's a greater concern in those markets and which is what we are trying to address through management initiatives.

Nirav Sawai: Okay, and the same thing continues for the first quarter as well for the ‘24?

Ravi Jakhar: Yes. So, when I'm saying, I'm referring to the calendar year. So, January to June ‘22 versus January to June ‘23 is what I'm referring to.

Nirav Sawai: Right. So, this is basically more competition intensity, or it is completely volumes which have become very weak or what exactly is resulting in this?

Ravi Jakhar: This is largely a concern arising out of reduced volumes and reduced volumes have a multiplying impact one. These are the markets which typically have you know higher cost base in terms of your SG&A cost, people costs are usually higher in these markets. At the same time, profit is also higher because these are longer trade lanes. So, when you're shipping something from China to Korea, the profit would be naturally much lesser as compared to shipping something from China to US or Europe. So, these countries work well because they have higher profit and higher cost base.

Now the cost base remains the same if the macroeconomic environment doesn’t change, rather many of these countries, which would have, you know, inflationary salary adjustments of 1% - 1.5% historically have much higher adjustments this time. And many of these countries are even mandated by law. So, the cost base continues to be high, but weakening of volumes in these trade lanes creates an impact and which is why you know, and that multiplier effect comes into play because the absolute decline in gross profit translates into absolute decline in EBITDA. So, in percentage terms, it becomes significant. So, that is the situation. And so, it's largely the decline in volumes in these markets and these are long haul markets, which basically impacts the profitability more and lower volumes naturally mean more competition, lesser utilization, all those things come along with that.

Nirav Sawai: Right. So, we continue to see a similar kind of demand scenario even in the July month or do you see signs of recovery?

Ravi Jakhar: So, we have not seen the change in macroeconomic environment in July. What we have been able to do is we have been able to continue our own initiatives which should help us further improve by 2% - 3% on perhaps approximately a month-on-month basis In terms of our own volume. But in terms of the overall macroeconomic environment, we still don't see any significant reversal in demand. But in terms of our own volume, you should see 2% - 3% to maybe about 4% – 4.5%. We'll release the data next week. We're still compiling it for the month of July, but there's the positive upward trend, which is primarily limited to our performance as compared to the overall environment.

Nirav Sawai: Right. In terms of cost, if we see the conversion cost for MTO business is roundabout Rs. 580 crores for the first quarter. So, is there any annualized budget where you can get a sense of how this is moving on for FY24 the entire year?

Ravi Jakhar: You mean to say the forecast for the remaining two quarters?

Nirav Sawai: In terms of cost, yes, so, we see this….

Ravi Jakhar: In terms of cost, like I said the quarter from April to June, in this quarter some countries would have seen cost increase on annual appraisals etc., in the first quarter of the year, which is January. This business operates from January to December for us from a business stand point, and therefore several countries that operate on January to December see appraisals in January to March. But countries like India see it from 1st April, but in April to June all costs are factored in is what I was mentioning earlier. So, from a cost standpoint, consider this as all cost factored in. So, from here on we are able to improve gross profit. That should come down to the bottom line. That is what the endeavor is, to improve the gross profit so that it can be passed on to EBITDA.

Nirav Sawai: Okay, so the similar cost is something which will continue as far as the rest of the year is concerned on a quarterly basis.

Ravi Jakhar: Yes, I mean we are just trying to bring it down marginally as well, which should also possibly help us maybe in a - so in about three to six months' timeframe we should be able to bring about some reduction in these costs.

Nirav Sawai: Okay. And lastly on the contract logistics side, now, we are almost at 95% kind of utilization. So, what kind of growth do we see in this business and even if it's on a YoY basis, there has been a decline in revenue. So, how do we see this business for the next two to three years kind of a timeframe?

Ravi Jakhar: So, in this business, the YoY decline that you see in revenue is only on account of a certain specific kind of business, which was not profitable. It was more like a pass-through business being done with a certain client which we have cut off and which is why if you would notice the EBITDA has gone up by almost 15%, the gross profit has gone up by almost 25% year on year. So, from a revenue standpoint is not an indicator. The business continues to remain strong and which is what has allowed us to grow 25% on gross profit year on year and then in EBITDA as well. We are continuing to invest in people and in this business, it's not like a fixed capacity. So, the capacity is very flexible. We keep on taking new warehouses on lease and we continue to operate them. Sometimes we take them ahead of demand, which is we always maintain certain white space, which is what you see about 5% to 6% and in some cases these are built to suit. So, if say a particular customer has a specific requirement, we would take a particular warehouse on lease and built it to the customer's requirement. So, capacity is not a constraint in that sense. We continue to develop new warehouses as an operator and take on more capacity to service more and more customers.

Nirav Sawai: Okay. And the guidance on the Express business of 3000 crores kind of revenue by FY26, is it purely organic or would also involve any acquisitions?

Ravi Jakhar: So, I would refrain getting into the details of Gati business, since you know it's also separately listed and therefore for the benefit of Gati shareholders, we tend to respond to most Gati questions in Gati's earnings call.

Moderator: Thank you. The next question is from the line of Riya Mehta from Aequitas Investments. Please go ahead.

Riya Mehta: Thank you for giving me the opportunity. My first question is in regards with the debt levels. So, is this post our acquisition of the contract logistics business?

Ravi Jakhar: Sorry, if I understood correctly, you're asking about the debt?

Deepal Shah: Yes, it is. I think what she's asking is that is this debt level is post the acquisition of contract logistics. That's correct. Since the contract logistics was acquired through internal accruals, so this current debt is post-acquisition of contract logistics and the acquisition of Kintetsu's stake in the subsidiary.

Riya Mehta: Got it. In terms of while we talk about contract logistics, you said that capacity utilization has not been a constraint. However, we're seeing increasing competition in that space. What is your outlook there and what kind of margins do we see in this business to sustain?

Ravi Jakhar: So, in this business, you know like I was mentioning earlier as well, this is a business in which we have seen robust performance and good growth over the years and in the chemical contract logistics, we are the market leaders in the country, but in the e-commerce we have started only in the last few years and done well. We entered into the auto segment and we have done well. There are many other sectors also for us to explore. So, from our point of view, we are at a optimal scale and size to, you know leverage benefit, but at the same time we have significant headroom for growth. So, growth is not limited by competition and we are able to find enough opportunities in the market where we are able to provide the right solutions and the right price. Customers are willing to engage into contracts and so from that standpoint and capacity is more like, the number and capacity is basically how much of the warehouse is utilized and typically will always maintain 5% to 7% white space for an optimal you know capacity forecasting and based on which warehouses are taken on lease. So, that's a part of the business and we have been facing almost a similar set of competitors over the years and the business has performed well and we estimate it to continue to do well.

Riya Mehta: And in terms of margin for the business?

Ravi Jakhar: In terms of the margins, I would say on a percentage terms, as we grow the percentage margin could be slightly lower because historically this business was you know, at one point in time almost 90% chemical contract logistics, which has been growing. But it has been coming down because the other businesses are growing much faster because they were starting from zero. Now chemical contract logistics is highly specialized and therefore is higher margin. So, you see this as the combination of contact logistics for chemical clients and other clients. Chemical logistics is also growing well, which is higher margin, but as the other businesses grow more percentage margins should see a downward trend, but overall margin should continue to improve.

Riya Mehta: What was your sectoral break up for the current quarter?

Ravi Jakhar: Yes. So, we have shared the sectoral breakup in the presentation as well, approximately 35% to 40% revenue comes from chemicals, food and pharma, about the same numbers slightly lower from e-commerce and about 18% -20% comes from auto and industrial.

Riya Mehta: No, I was talking about earlier what was the trend so as to get what kind of direction?

Ravi Jakhar: So, like I said, we started off as a chemical contract logistics. The other businesses have been incubated over the last few years. So, at one point in time it was almost 80% - 90%.

Riya Mehta: That was around which year if I could just have a sense?

Deepal Shah: 2016 we started in 2016 as a JV for the chemical.

Riya Mehta: Okay. And in terms of LCL, where I think it's a higher margin business for us, are we seeing we've acquired a lot of companies lately and last year around, so we've increased the market share. So, what kind of outlook do you view on the LCL basis say a year from now, despite macroeconomic scenario being weak on current level?

Ravi Jakhar: Yes. So, in the LCL business, we have acquired one company in the last 18 months or so. Prior to that, we had acquired Nordicon, which was in the year 2021. And what we have done is a follow-on transaction in that we already own 65% and we have acquired an additional 25% recently. So, that's the same Company. It's not a new business. It was already part of the business. The new Company, which we have acquired this year, was in the month of January, which is a Company called FairTrade in Germany. For this business, we have seen volume contribution. However, the business is still not contributing on the bottom line. So, there's been some marginal volume contribution which we have highlighted to the degree of about 1% - 1.5%. On the margin side, we anticipate that the business will take some more time before it can start turning positive on profits, considering that it was, you know, a competing network that we acquired. So, it had to incur loss of certain business immediately while the network synergies would only kick in over a period of time. So, we estimate that business to move from marginal losses. These are not significant losses to break even over the next three to four months. And the overall scheme of things impact of about 1.5% or so on volume, almost no impact on bottom line.

Riya Mehta: Got it and in terms of our trade lanes like you said, UK and US form or the losses on EBITDA would form almost 50% would come from UK and US trade lines. Could you guide us What are the trade lanes which would impact us more than 10%?

Ravi Jakhar: So, let me also clarify, I did not say UK and US, I said Europe and Americas when we say Americas, it includes US, Canada and Central America, which is Mexico and Latin American countries such as Peru, Chile, Argentina, Brazil, etc. On the European, we're talking about everything from Scandinavia, which is Denmark, Norway to Poland on the East UK, Belgium, Germany in the north, Spain, France, Italy. I'm talking about the whole of Europe and Americas. Which is what I referred to. Overall, we have 2500 trade lanes that we operate and there is no single trade lane which accounts for 10% of the business.

Riya Mehta: Okay. And India would form what part of our trade lane, which includes India and counterpart?

Ravi Jakhar: India itself would have multiple trade lanes across the world. But India as a country would say roughly be about 10% - 12% of the business.

Riya Mehta: 10% to 12%. And in terms of sectorial breakup in terms of kind of volumes in the LCL business, what kind of sector would contribute the largest?

Ravi Jakhar: So, we are almost sector agnostic in this. This is truly representative of global trade. Therefore, there's no sectoral dependence per say, but naturally LCL business caters to generally, you know cargo which is in smaller size. It doesn't go in like multiple full container loads. So, typically these are mostly small and medium businesses, some degree of e-commerce back-end supplies or certain businesses you know ranging from furniture to textiles. Consumer electronics is almost quite varied, but you could say there will be general bias towards smaller businesses. You would find more share of LCL among these smaller businesses as compared to say if you're looking at large Walmart contracts, they would mostly be skewed towards FCL. But in terms of the sectoral, there's no specific sectoral spread per say.

Riya Mehta: Lately we've been seeing the comeback of textile and all those companies, so just getting a sense there, how much would textile form as percentage of total?

Ravi Jakhar: Yes. So, like, you know that will be relevant to say, India and India is 10% and perhaps maybe textile could be again certain percentage of that 10%. And as such we have been noticing that since the Indian economy has been doing well. And except for the recent months wherein you would have certainly taken note of India's exports also declining significantly driven by lack of demand in the western economies, but otherwise still on a comparative basis, whether we compare to other manufacturing countries such as China, India has sustained the performance much better. And we believe that India should lead the curve in terms of growth as well.

Moderator: Thank you. The next question is from the line of Uday Prakash from Value Research India Private Limited. Please go ahead.

Uday Prakash: I just have a few questions from my side. Since our launch of ECU360 in 2018 at that time, it has grown significantly over the years. They have added more and more features. Can you let me know, how much revenue do we derive from ECU360 as a percentage of total revenue compared with let's say two to three years ago.?

Ravi Jakhar: Yes. So, I can share with you that when it comes to export bookings, which is a good indicator of revenue being booked by the Company on a global basis in 2000 or, say pre pandemic 2019, there was a single digit number about 7 to 8% of the bookings which were happening digitally. Today, with the launch of platform capabilities, we have almost as of today would be somewhere in the range of 66% to 67% of the global export bookings happen digitally, which could be either somebody logging into ECU360 or even directly an API or EDI interchange between our systems and the client. Sometimes they are directly connected to ECU360 by way of an API, so they don't even need to log in to ECU360 they can operate in their own ecosystem while being, you know, supported by ECU360 in the back end. So, digital bookings are moved from about 7% - 8% to about 67% on the global exports.

Uday Prakash: Okay, sir. My second question is on contact logistics now. Since we are the leader in chemical contract logistics and we have developed a certain expertise in that area and we have now entered into auto also. Do we already have or do we plan to have any long-term contracts with bigger companies so that we are the ones who handle their goods constantly. Is there something like that or we do it on a contract-to-contract basis only for any Company that comes first?

Ravi Jakhar: Yes, so that is the advantage in contract logistics business. That is not a transactional business. So, unlike an express logistics business where customer is booking one shipment from origin to destination or even in international supply chain where somebody is booking 1 cubic meter or one container of cargo, contract logistics business by nature is usually more longer-term contracts which could you know vary from 12-month contracts to some of them could be 5 year contracts as well. These are typically long-term contracts awarded by the companies for managing their entire inventory in that warehouse. So, these are by nature not transactional, but long-term contracts.

Uday Prakash: Okay. Adding a major Company to our client portfolio would be kind of a breakthrough for this entire segment itself.

Ravi Jakhar: Almost all the key companies, I would say majority of you know. So, if you look at the chemical segment, almost all the top companies operate with us. In the other segments that we are getting in e-commerce, almost all the top companies operate with us. So, in the segments that we operate in, almost all the key top companies already work with us, so we have demonstrated our performance and which is why most of them are also repeat customers signing multiple contracts across different locations.

Uday Prakash: And so, can the same can be done for LCL business also? I mean LCL is kind of like big player logistics business only in the shipping. So, can we develop a partnership with particular set of set of companies that are focused on exports and cater to them. Would that reduce the volatility in volumes that we face from time to time due to slowdown and all or do we already have that in place?

Ravi Jakhar: So, you know, let me explain. When we see a slowdown, that slowdown would happen at all levels. So, you know, shippers will see their volumes going up and down in terms of volatility. So, that volatility would still remain for a Company where we position ourselves as we operate as a non-vessel owning common carrier. What that means in easy terms is like you know, Uber of shipping. So, we operate like a shipping line which doesn't own ships and which is where we are able to, you know operate in asset light manner. But we are mostly working with forwarders as our customers. These forwarders could be large forwarders such as DHL, Kuehne Nagel. These forwarders could be smaller forwarders and these are generally long-term relationships, but these are not long-term contracts. In contract logistics, contractually the business is filed for a long term in this case, while the business is transactional, customers are booking one shipment at a time, but if you look at the relationship that goes back long. So, if you look at our relationship on the vendor side, which is shipping lines, we have been working with almost all the top shipping lines for 20-30 years. If you look at our top customers, almost all the customer relationships also go back several decades. So, these are good strong relationships built over a long period of time. But at the same time, the business is transactional, it is very similar to express logistics wherein auto Company or a textile Company would be making bookings for a particular transaction, but they would tend to operate with two or three players who they trust most for service and pricing. And therefore, there's a long-term relationship. That's a similar situation in LCL also.

Uday Prakash: And if my understanding is correct for big player, let's say a player that is exporting in thousands and thousands crores, they would rather partnership with the shipper directly. I assume rather than an intermediary like us, which is usually preferred by somewhat medium to smaller sized players.

Ravi Jakhar: So, see, it is typically very clear if. There is someone who wants to ship 500 containers or 1,500 containers every week from Shanghai to Los Angeles. They would not need an intermediary. They would reach out to the shipping lines directly and run a tender. If somebody is operating 5 cubic meters of cargo, shipping line would not be able to accept it, they would need the full container. While shipping line do operate LCL they've not been able to gain much market share. So, they would need a consolidator such as ourselves because we have built this network over a period of time. And as you can see from our own financial performance, even a 3% to 4% impact on utilization can you know have a huge impact. It's almost like, you know, in some sense high utilization business. Therefore, replicating this network is almost impossible. And which is why you don't find new competition coming in. The market has been seeing consolidation within the existing players on a global basis. So, the capability would be not about getting large contracts business by nature it is about working with multiple forwarders. So, for an example more than 20,000 forwarders log into ECU360 who work with us on the platform. So, that's the kind of scale we are operating at with more than 2,500 trade lanes tight now. So, that's the kind of competitive advantages compared to one large contract or one big relationship.

Uday Prakash: Okay, sir. Now the disadvantage that we have is that FCL is a very prosperous business. But since we are at a very nascent stage and the disadvantage it has over here is that LCL in the nature of the business itself, the direct cost pass through. But here the container utilization is not up to the mark. Then you would have to bear that cost. If I'm not wrong.

Ravi Jakhar: You know, so LCL is where you know we fill the container and therefore the container utilization has a role to play in FCL, it is a full container which is booked. So, container whether it is half filled or fully filled does not make an impact. But what happens is unlike LCL, which is so much of value addition, you know customer only has 5 cubic meter. 1 cubic meter of cargo it is our team which will you know integrate and consolidate all the cargo in a warehouse, take them into one container, do multiple transshipments if required, there'll be deconsolidation at the warehouse. So, it's a much more complex operation and, therefore due to high value addition, it is usually a higher margin business. FCL business is more transactional in nature and therefore when the freight rates come down, the FCL business would see you know the margins also come down. So, that's where FCL business is more transactional while LCL business is more complex with greater value added from our side and hence more profitable also.

Moderator: Thank you. The next question is from the line of Kapil Malhotra from Tata Mutual Fund. Please go ahead.

Kapil Malhotra: Hi Ravi, this is Kapil. So, just wanted to understand what is the utilization level in LCL business this quarter?

Ravi Jakhar: Yes. So, if you look at the LCL utilization, it is currently at an indexed level of about 92, which means that if you are at 100 in July'22 in June'23, we are at about 92% of that.

Kapil Malhotra: Okay. So, what I'm trying to understand is because obviously our EBITDA/TEU, the profitability has been volatile and you know what we have discussed is, you know post COVID we have had a lot of technological advancements due to which we will be able to maintain margins. But what I see is the margins have obviously dipped. I do understand it has a lot to do with the utilization that is why it was my first question. But do we have any ballpark number in which we say that this looks like a sustainable EBITDA margin per TEU and this is the minimum utilization we need to achieve that sustainable margin, because for me getting difficult to essentially go out. What will be the accurate number of the margin?

Ravi Jakhar: So, I would say that you know there are three or four factors which contribute to the margin. One, like you rightly said is utilization. 2nd is how many 40 feet containers we are using and both of these are somewhat linked with volume because if we have more volume on trade lane we are able to move more 40 feet containers and we are also able to utilize the containers better. So, these are, you know, more operational parameters and then also about how many containers are we able to move directly versus transshipment and what kind of value addition we are providing in terms of, you know, not just offering port to port but door to door. So, these are all the factors which contribute. In terms of, you know, sustainable numbers, I would say very clearly what we have seen in this quarter -April, May, June appears to be like, you know, the boat hitting the rock on the river bed, since all the costs have already been factored in, the volume expansion has not happened because of macroeconomic environment and the competitive intensity also means pressure on pricing. So, all these factors are at play. So, I would say that while we would need perhaps another few, maybe 6 to 9 months to arrive at a sustainable number, but we should only be looking at you know improving from here on.

Kapil Malhotra: Okay.. As you said the index is at 92 versus 100 last year. What ideally should be the right index where we can make at least a decent?

Ravi Jakhar: Yes. So, I would say that no, we should definitely return to 95% - 96% as compared to 92 that we have today that would be the broad estimate and as you can see that 3% - 4% increase should translate to better yields and therefore better profitability. That is the approach with which you know we are internally planning as well in terms of how can we take that to 95-96 and that means that requires volumes to come in and which is where we've been trying to focus more on the market share expansion and getting volumes. It would also be somewhat linked to the recovery in long haul trade lanes, because that is where the maximum profitability impact is, which is, you know, Europe to LATAM, China - Europe, China - America, etc or India - Europe, India - America. So, that's where the focus has been on how we can expand these trade lanes. So, business initiatives are more focused on these countries. These trade lanes, you know, getting deeper into China to expand market share, trying to build better capabilities in Latin America. We've been hiring teams in Brazil and a few other countries trying to further strengthen our base in Eastern Europe. So, we've been working on various strategic initiatives which can help us, grow volumes on these long-haul profitable trade lanes and those volumes should help us also operate trade lanes with optimal utilization which like I said, the target internally would be to go back to at least 95-96 over the next six to nine months.

Kapil Malhotra: But lastly, on the similar line, are we able to quantify the cost savings we have been able to do that to the technological advancements we have done in the last 2-3 years.

Ravi Jakhar: So, we have, you know, some internal estimates which we have on the technology impact. These the dollar impact is largely measured through increased customer stickiness. So, we are trying to see patterns and it is clearly evident that the non ECU360 customers have lower repeat values as compared to ECU360 customers for an example. We've also seen that the door booking percentage is clearly higher in customers for using ECU360 and the longer they have been on ECU 360. We also find the door component to be higher, so all these trends indicate that the customers are booking more often and more services, which means higher volumes and higher yields. That's one example. On the data science projects, we are seeing impact in terms on the cost side. So, these are some of the things that we have seen wherein we also feel that and it's not just the impact in terms of ease of doing business, but there is also a dollar impact on top line in international supply chain business in particular and on the cost side and the domestic express business in particular.

Moderator: Thank you. Due to paucity of time that was the last question. I will now hand the conference over to Mr. Sailesh Raja for closing remarks.

Sailesh Raja: Yes. Thank you. On behalf of B&K, that concludes this conference. Thank you for joining us and you may disconnect now.

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