"Allcargo Logistics Limited Q2 & H1 FY '25 Earnings Conference Call"

November 14, 2024

MANAGEMENT:	**MR. RAVI JAKHAR – GROUP CHIEF STRATEGY OFFICER, ALLCARGO LOGISTICS LIMITED**
	MR. DEEPAL SHAH – GROUP CHIEF FINANCIAL OFFICER, ALLCARGO LOGISTICS LIMITED
MODERATOR:	**MR. SHAILESH RAJA – BATLIVALA & KARANI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Allcargo Logistics Q2 & H1 FY '25 Earnings Conference Call, hosted by B&K Securities.

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

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

I now hand the conference over to Mr. Shailesh Raja from B&K Securities. Thank you. And over to you, Sir.

Shailesh Raja: Yes. Thank you, Shlok. Good afternoon to all. On behalf of B&K Securities, I would like to welcome you all to the Allcargo Logistics' 2Q FY '25 earnings call.

From the management side, we will be hearing from Mr. Ravi Jakhar, Group Chief Strategy Officer and Mr. Deepal Shah, Group CFO.

Without taking much time, I will hand over the call to Mr. Ravi for the initial remarks. And post which we will open up for the Q&A. Over to you, sir.

Ravi Jakhar: Yes. Thanks, Shailesh. It's a pleasure to be on this call and talking to everyone.

The 2nd Quarter for the Financial Year '25 has been quite an eventful quarter in many ways. And I would give a bit of a perspective on what's happening across each of the businesses and then I will invite my colleague, Deepal, to take you through the "Financial Highlights" and talk about the key numbers.

But basically, if you look at, there are three businesses that we have been operating, the international supply chain, and the domestic supply chain which comprises express and contract logistics business. On the international supply chain business, we have had the most challenging few quarters until recently. I would say this was possibly the bottom which could be over the last two decades, perhaps only a couple of such instances have happened in terms of the market environment that we faced.

And I am really glad that we have been resilient, and we have been able to come out well off this period. And when we look at some of our competition and industry benchmarks, we see that there have been immense challenges in maintaining profitability. However, we have done much better. And that has primarily been driven by being very proactive on cost reduction initiative, on technology initiatives, and constant service delivery to the customers which has allowed us to maintain and grow the market share. And that has really helped us through tough periods.

Now, as we look forward, we have seen the beginning of the better times. As we have been reporting on a monthly basis and also for the quarter, we have seen improved volumes over the last quarter as well as over the last year. And with the global economic environment improving, we could potentially see the trend to follow. There are of course several geopolitical events happening around us and they would shape the future of world trade. But prima facie, we believe that global trade will only continue to strengthen from here.

And from a Company perspective, we have a very, very sharp regional focus and a unique strategy for each region. We have in the past been talking about growing our presence in Latin America where we have been historically having limited market share. And I am glad that this was the quarter where we actually took significant initiatives. So, between July to September this quarter we onboarded an entire new team in Argentina, Paraguay and Uruguay, which will add to the business in the region. It is already doing well in the first two months of operations, having grown the business significantly, almost doubling the business in two months itself.

Also this is the quarter when we finalized our joint ventures in Colombia and Ecuador, which will bring in local expertise. And combining with the global network, we expect these markets to also grow faster. And this faster growth in new products and volumes would lead to impact on the financial performance as well as in these countries, particularly considering that at this point in time Colombia and Ecuador combined were not contributing anything on the bottom line. This partnership would lead to that scenario changing. We have more initiatives to be taken, but I am glad that six important markets in Latin America were acted upon with strategic initiatives in this quarter.

When we look at European markets where we have historically enjoyed market leadership for a long period of time, particularly in Western Europe and Northern Europe. We saw a continued strong performance in Northern Europe in UK and France, and Scandinavia region as well which has bounced back well. The larger part of Europe still remains a bit challenging because the economic environment is still subdued. And it might take another six months before the economic environment starts to improve. And we would see how the Russia Ukraine conflict plays out with the changed geopolitical dynamics. And that could potentially lead to the revival of European trade.

Meanwhile, what we are trying to do is we recognize that Europe in particular is a high cost environment and we are trying to standardize the operating processes further. And we had spoken in the last quarter about our outsourcing from US into Mexico, and we are looking at how we could centralize some of the core operations in Europe and move them into a low cost near shore country, not very far off so that the time zones could be managed.

So, that should be our strategy to improve profit margins in Europe, since as far as the core business is concerned. In this region, we do not see very high growth rates what we could potentially see in Asia, Latin America, Middle East, or to an extent US and China, where our market shares are relatively smaller.

Closer to home in India, all the businesses have done fantastic and both LCL and FCL continue to grow steadily. And we maintain our market leadership by far in the LCL business and we are climbing up in the FCL business significantly as well now comparing with the top three in India.

On the Asian side, we recognize that there could be changes with the dynamics of US-China trade changing. But we have seen that in the past as well, about five years ago, or five and a half years ago we had seen that there were tariffs and sanctions and certain initiatives being implemented. And that had led to an increased trade from China to Vietnam. We were seeing imports into Vietnam office growing and also exports out of Vietnam into US. So, we believe that structurally trade flows will continue. The trade lanes can change, but as a Company we are well present across the world and that should work out well for us.

Today, when we look at the competitive landscape, there is nobody close to our entity ECU Worldwide from a technology and network perspective, and that's something which should continue to create the flywheel of success wherein these capabilities lead to higher volume and market share. Higher volume and market share continue to keep us more competitive, and we continue to drive growth. So, as the economic environment is now starting to improve and we remain hopeful of a better environment in the calendar year 2025, I think that business is well placed to continue to show momentum and growth.

On the second business which is express, we are now already at par with the best in the industry as far as the cost of operations is concerned. We have recently announced a general price increase which will align us to improve the revenues and therefore improve the profit margins. And lot of the turnaround work which was done over the years is now concluded on the operational side. And we have had some great leaders joining the business to drive commercial operations. And we remain very confident of express business, which has constantly shown significant improvement in EBITDA over the last three quarters if we compare the December quarter versus the September quarter. That progress is already visible, and the impact can be seen.

The third business of contract logistics. In that business we built on a legacy chemical contract logistics business and expanded into new horizons, new domains. And today when we look at the split of business, we are very pleased to note that despite continued growth, chemical logistics today comprises only 23% of our business, which means that Company has been successful in expanding its business into new domains, auto and engineering which is now as big as the chemical in terms of the total revenue mix. And the largest section for us now is our e-commerce business.

And this is the business which is a high growth business. And at the same time, we have not compromised on profitability. So, this is business wherein largely at any customer level at any location level, we remain positive. We are investing in the capacity, which means that historically our white space was possibly in the range of 3% to 4% now that is 10% to 11%, but that is required as we drive growth and movement. But in terms of businesses, it is aligned with the fast flow industries.

Today, we manage significant capacities in warehouses and dark stores for some of the fastest growing quick commerce companies. And we are also working for various e-commerce companies. So, this is a business which is now aligned very well to the growing e-commerce markets, while remaining strong foot in chemical business where we retain the market leadership in India and a rapid growth in northern region as well. So, this is a business which has seen considerable growth.

If you look at the performance on a quarterly basis, we have grown from a revenue of about Rs. 76 crores to Rs. 111 crores year-on-year, which is a significant growth. And we believe that this momentum can continue for the next few years because the opportunities are significant to expand the contract logistics business footprint, particularly in e-commerce, auto, engineering and other industries that we are now expanding into.

So, on an overall basis, if I look at various businesses, the management is confident that we are well placed vis-à-vis competitive landscape. We believe that the market environment is either good in Indian businesses or significantly improving in the global business. And we believe that our investments in technology and focus on cost reduction, operating cost in case of the Gati business and SG&A cost in case of ECU worldwide, the international business, should work well for us.

On the corporate side, we are also glad that this quarter has seen movement in our restructuring scheme, for which we received the no objection from the exchanges. And the scheme has now been filed with NCLT. So, we believe that we would conclude the process in the estimated timelines. And by April 2025 we should have the international domestic businesses demerged and listed separately.

So, that is the broad summary. I would now request my colleague, Deepal, to take you through the financial highlights. And we would then open the floor for questions. Thank you. Over to you, Deepal.

Deepal Shah: Thank you, Ravi. I will now discuss the performance for Q2 FY '25.

The consolidated revenue for Q2 FY '25 stood at Rs. 4,301 crores as compared to Rs. 3,307 crores for Q2 FY '24, representing a growth of 30%. For the Q1 FY '25, the revenue stood at Rs. 3,813 crores. The consolidated operating EBITA for Q2 FY '25 stood at Rs. 135 crores as compared to Rs. 118 crores for Q2 FY '24, representing a growth of 14%. For Q1 FY '25, the same stood at Rs. 133 crores. The Company has reported a profit after tax of Rs. 38 crores during the quarter, representing a growth of over 130% as compared to the same period last year. The consolidated net debt for the quarter ended September '24 stood at Rs. 553 crores. The net debt has gone up mainly on account of a working capital increase.

Moving to the segmental performance, I will start by discussing the performance of the international supply chain business. The Less-than-Container Load container volume for the quarter ended September '24 stood at 2.3 million CBM. Depicting a 4% growth over the quarter ended September '23, and 5% over the previous quarter, that is the June quarter 2024. FCL volume for the quarter stood at 164K TEUs, up 7% over the same period last year and 5% over the quarter ended June '24.

Air volume for the quarter ended September '24 stood at 2.65 million kilograms. This represents a growth of 14% as compared to last year. And a marginal decline of 4% as compared to the last quarter. Volume growth was witnessed during the quarter on the back of improved global trade and Company's growth initiatives. A seasonal decline was experienced across regions towards the end of the quarter. For Q2 FY '25, the ISC business reported a revenue of Rs. 3,770 crores, representing a growth of 35% as compared to the same period last year. For the previous quarter, ISC segment revenue stood at Rs. 3,320 crores. EBITDA for Q2 FY '25 stood at Rs. 79 crores as compared to Rs. 65 crores during Q2 FY '24, representing a growth of 22%. For Q1 FY '25 the same stood at Rs. 81 crores.

Moving on to express business, operating under the GSECPL Company. The volumes for Q2 FY '25 stood at 317,000 tonnes as compared to 333,000 tonnes during the same period last year. For the quarter reported revenue stood at Rs. 374 crores as compared to Rs. 385 crores in the same quarter last year. The EBITDA for the quarter ended September 2024 amounted to Rs. 19 crores as compared to Rs. 15 crores for the same period last year.

Moving on to the contract logistics business which sits under the Allcargo Supply Chain Company, a wholly owned subsidiary of Allcargo Logistics. Contract logistics revenue for Q2 FY '25 stood at Rs. 111 crores as compared to Rs. 76 crores for the same period last year, representing a growth of 45%. For the Q1 FY '25, the revenue stood at Rs. 91 crores. The growth has come on back of new client additions. EBITDA for Q2 FY '25 stood at Rs. 32 crores as compared to Rs. 36 crores during Q2 FY '24. For Q1 FY '25 the same stood at Rs. 29 crores.

In line with best disclosure practices, we have been consistently providing other key comparative financial performances and operational indicators in our investor presentation, one can refer that for more details.

With this, I would like to open the floor for questions and answers, if any.

Moderator: Thank you, Sir. We will now begin the question-and-answer session. The first question is from the line of Radha from Gargi Investments. Please go ahead.

Radha: Sir, my first question is that, in this quarter we have given geography-wise gross profit contribution for the international supply chain business. We appreciate the better disclosure efforts of the Company. However, can you please help us with the numbers for H2 FY '24 as well as first half FY '24?

Ravi Jakhar: Yes. So, this was requested by several shareholders and analysts and that's why we thought of including in this quarter. Because we the information to be distributed equally to everyone and therefore we have shared the geographic split. We can possibly share the historic split as well, so I will ask the team to take a note of this and add the trends and contributions of regions as well.

We will include that going forward. But from a broad directional perspective, I can share the comment that historically Europe used to be a significant contributor of gross profits, and in the subdued environment we have been finding that Europe has not contributed that well. Within Americas, Latin America has remained steady, but the US contribution has gone down, which we expect to revive. So, I would believe that Americas and Europe should be growth, so the Americas rather should see some growth in percentage because Europe may still not grow at the same rate as which other countries would grow. So, I would imagine Europe should remain steady, it would remain low compared to what it was last year or two years ago. Americas, with North America now improving should increase with the initiatives in Latin America as well.

Radha: The second question is that, in this first half you can see that the short term debt in the quarter is Rs. 1,200 crores, which is the highest it has ever been. If I see the numbers on a full year basis, it is even higher than the full year FY '22 levels wherein trade rates were all-time high. Sir, just want to know why have the short term debt increased? And by the year end what would be your net debt target?

Ravi Jakhar: Yes, Deepal, if you could comment on the short-term debt and provide a perspective on how it is.

Deepal Shah: So, you mentioned that the short-term debt has gone up to Rs. 1,200 crores, that is not correct. The gross debt is Rs. 1,362 crores, short term debt is around only Rs. 850 crores out of it, or Rs. 495 crores is long term debt. So, I do not know where you got the Rs. 1,200 crores of short-term debt number. Secondly, yes, like we mentioned, I did mention in my speech that there were freight rates which had gone up, for which some additional working capital was used. So, these are temporary, these kind of go back-to-back with the freight rates. So, once the freight rates go down, the working capital debt will also deflate. And that's all what we had seen also through '21-'22 where short term debt had gone up for working capital, and then towards the end of '23 it had again deflated. So, the freight rates are cyclical in nature and the short-term debt kind of apes that from an amount perspective. Yes, Ravi, sorry, go back.

Ravi Jakhar: Yes, just to add, directionally we should see this net debt number going down towards the end of the year. Broadly, my personal estimate would be around 20% lower than where we sit today.

Deepal Shah: Yes, Ravi, we are seeing some freight rates also kind of come down a little in some of the trade lanes. So, yes, you are right, it can possibly go down.

Ravi Jakhar: Yes. And the cash and in the business will also bring this down with some money further to come with the non-core asset disposals.

Deepal Shah: Yes, that's right.

Radha: Sir, regarding the non-core asset disposal, so the stake in HORCL we are selling, I think about Rs. 115 crores, so how would you utilize the amount you get from there?

Ravi Jakhar: I think you are asking the impact on HORCL, though I could not hear your question completely clearly.

Radha: Sir, the capital allocation plan for the money that you received from stake sale in HORCL.

Ravi Jakhar: So, as you are aware, all the businesses are asset light and do not require any significant capital. So, we have been using capital to retire debt or to provide dividends to the shareholders. And the Company has maintained distribution of cash flows by way of dividend, as you would have seen in the quarter gone by as well. There are no significant Capex plans. Even on the expansion one significant change which has happened, I would say, in a way in our strategy is that we are now investing in people in a way rather than acquiring companies. And therefore, some of those investments also in a way flow through the P&L.

So, what I mean to say is, for instance, instead of acquiring a Company we have now onboarded this entire team. I was talking about an example in Argentina, Paraguay and Uruguay, this certainly means that in the first couple of months, entire SG&A goes out without any business. And then as the business starts to come in, it is still a buildup phase. But that is the kind of investment which you are putting in to drive the business growth, but that flows through the P&L itself because all those investments are now in staff cost and expenses as compared to acquiring any Company. So, therefore, from a Capex point of view there's no significant Capex beyond the ordinary Capex that we have been doing, from a layout perspective.

Moderator: Thank you, sir. The next question is from the line of Sunny Gosar from MK Ventures.

Sunny Gosar: My first question is regarding your international supply chain business. So, basically this quarter saw a good bounce back in terms of volume performance and also the corresponding improvement in the gross profit. However, the flow through to EBITDA could not be seen and it looks like that part of that impact is from the acquisition maybe that you have done in Latin America or South America. So, is it possible to give some perspective in terms of how much negative drag on EBITDA was there from the acquisition? And what we could also see from the P&L is that your employee cost has increased by Rs. 32 crores on a Q-o-Q basis, so is this relating to that acquisition? Any perspective on this would be really helpful.

Ravi Jakhar: Yes. So, the increase in staff cost is primarily driven by, one, like you rightly mentioned, onboarding new people such as about 30-plus people in the Argentina region that I mentioned about, and a few more people in other geographies as well which have been onboarded for growth. The second impact is, a lot of countries have July to June cycles wherein the bonuses are paid in the July to September quarter, so that is the second contributor as well. And the third is, there have been also one-off severance cost. So, we have had the severance cost in letting go people. I am not able to exactly quantify how much was this quarter, but over the last two quarters the severance cost of key leadership changes that we have done itself should be in the magnitude of over $2 million, so we are talking about roughly about Rs. 18 crores, Rs. 20 crores kind of an impact distributed over the last couple of quarters on these severance cost paid as well. So, these are some of the costs which are reflecting in the increased staff cost.

Having said that, like I mentioned earlier, there's a very sharp focus to retain these costs at the optimal level, and that's where we are looking at outsourcing centralization of European operations. And we have already rolled out the financial system, which was required to centralized finance, but that is something which we concluded recently across key markets and now we are already working on a program to bring down the finance cost by way of outsourcing some of the finance staff as well. So, our intent is to not allow the staff cost to grow. Whatever investments we need to make for growth would be counter-acted upon by reduction in staff cost by way of outsourcing or tech automations, etc. That's the broad strategy at our end, so that whatever growth we can achieve in volumes and gross profits can flow down through EBITDA. But there would be time delays in account of the impact of cost saving actions versus investments that we put in.

Sunny Gosar: Sir, two questions relating to this. Is the severance cost largely behind? Or could there be more in the coming quarters as well?

Ravi Jakhar: So, I would say, we could have more severance cost, but what we would do is we would provide, perhaps going forward, specific carve out on the severance cost number. And the way we look at the severance cost is, it's not a liability but an investment. I will explain what I mean by that. So, if we have a situation wherein we have been able to drive tech automation or we believe that the business can be made more efficient, for whatever reason we can reduce the headcount in a particular country. And as you would know, in Europe and Latin America and some of these countries, the severance cost could be significant, particularly for long serving employees.

But the way we look at this is, even if we are paying six months to 12 months to even say 18 months in some cases worth of payments for severance, it is almost like an investment which pays back within six to 18 months and therefore is a great investment. So, we would continue to reduce headcount wherever possible. It's not a replacement of cost, but it is an actual saving and there could be a six, 12, 18 months' timeline which could be there, but that's the investment we need to make to make the Company more efficient in the long run. But like I mentioned, next quarter onwards we will carve out the severance cost to provide clarity on that.

Deepal Shah: And just to add, Ravi, the severance cost is $1 million for this quarter, almost $1 million, exact number.

Sunny Gosar: And basically, going forward, how should we look at the fixed cost on a quarterly basis? So, the base is somewhere around, for the international supply chain business is about Rs. 600 crores to Rs. 610 crores. So, is this for at least the next few quarters kind of a peak number? And any improvement in gross profit from here on will flow through to the EBITDA or there could be some more additions to the fixed cost in the next few quarters?

Ravi Jakhar: So, like I said, there would be no additions to fixed cost, but it is almost like the intent is to keep them in equilibrium so that the gross profit can flow down. The negative impact would be, in terms of from a cost perspective would be the investments in people. The second would be severance costs in restructuring. And the third negative impact would be appraisals and linked payroll improvements for people, which means higher cost for the Company. The way to offset that is outsourcing tech automation and business that comes from investments in people. So, that is how I would see that the intent would be to not allow the cost to grow at a higher percentage. Intent would be to control it to the similar base levels. And therefore, the gross profits will flow down. But there could be gap of a quarter here or there in terms of how it plays out.

Sunny Gosar: And one last question before I get back to the queue. So, you mentioned about non-core asset monetization and the sale of one asset which realizes about Rs. 100 crores, Rs. 110 crores. So, are there some identified pool of non-core assets and is it possible to quantify assuming that they get liquidated over the coming quarters, what could be the quantum of non-core asset realization?

Ravi Jakhar: So, across Allcargo, on a consolidated basis, which includes Allcargo and Gati as well, broadly there could be non-core cash flows coming into the extent of Rs. 75 crores to Rs. 100 crores, that's the broad estimate.

Sunny Gosar: That's helpful. And I must appreciate that the level of disclosures has improved significantly over the last many quarters, and I hope it keeps improving going forward because it helps us to understand the business much better.

Ravi Jakhar: The way we would continue to work on that is, if we see a request from one or two persons, we try to answer them on the call or during the meetings. If we see the same request from more than five or six key people, we will include that in the presentation and we will continue to do that.

Moderator: Thank you. The next question is from the line of Rajesh Agarwal from Moneyore. Please go ahead.

Rajesh Agarwal: When and how do we get an operating leverage in terms of EBITDA going down to the bottom line?

Ravi Jakhar: Across each business the operating leverage is going to play out more on the international business and the express business. Contract logistics is more of a similar margin profile to continue. On the express business, like I mentioned, the staff cost, and the G&A cost is already accounted for in terms of the future growth, and therefore we do not need to invest further in that. And therefore, the increased gross margin and the revenue is leading to operating leverage. So, if you see the last three quarters, it has consistently played out and we have seen improved EBITDA over the last two, three quarters. And this would continue as we increase the volumes.

We have made a monthly disclosure that October was the highest ever monthly volume for the express business, and we feel, that trend should continue. And therefore, that should play down to the EBITDA. So, we are talking about impact already being visible. As far as the international business is concerned, we have seen in the past in better markets how the staff cost and the fixed cost remain consistent, while the improvements in gross profit have flowed down to the bottom line. Last few quarters were bad, we have only seen the recovery in the last two quarters beginning. And as I was mentioning just in my previous response, the improvements in gross profit here on should come down to the bottom line.

Rajesh Agarwal: But the improvement will be substantial or what is the time period for that? What is the time period we are targeting for?

Ravi Jakhar: I would refrain from a specific guidance. But like I would have mentioned over the last two quarters and we have delivered on that guidance is that we would see sequential improvement.

Rajesh Agarwal: Sir, how do you see, suppose there is a shortage of container in everything so you don't see the tendency of the customers moving more to LCL business, which is a good high margin business for us? Are you seeing the changes in that?

Ravi Jakhar: So, typically the way it operates is, whenever customers have not enough load to fill in the container, they operate on the LCL. There are situations wherein if there is lack of availability of containers on a particular trade lane, see, when they try to move to LCL we also have to accept the booking. If somebody comes in with a 40 cubic meter booking, we generally do not accept that booking. Because for our business, the business is profitable when we have three to four cubic meter kind of an average shipment size. Because your money that you make on documentation per bill of landing etc. is justified that way. So, FCL business can't truly translate into LCL, but yes, people ship in smaller loads and therefore the LCL business in such cycles does grow more.

Rajesh Agarwal: And sir, last question. So, Trump has come to power now, if the tariff is imposed on China and other emerging countries, how do you see the traffic, international cargo moving? And the gross profit volumes which we are doing in the USA now, is it for export from US or import to US?

Ravi Jakhar: Yes. So, I am happy to share my personal perspective on it. There's no Company view on what the geopolitical environment could shape up. But as far as our US business is concerned, it comprises both export and import. As I was mentioning earlier, we believe that any tariff restrictions which come in particular to a certain country, those tariff restrictions could lead to diverted tariff flows, and we might see more cargo coming in from other countries as compared to China, for instance. We have seen that in the past also when such measures were adopted, more cargo was flowing through Vietnam, Indonesia and some of the countries near China. From a long term perspective, most companies have anyways been diversifying supply chain, so that should work well. In terms of any of the manufacturing itself moving into US, we believe that it is not the entire ecosystem which would move, any manufacturing would still mean that the raw material components would still be coming in. If there was assembling to be done in US, you would still have components flowing in. So, we have seen over a period of last three, four decades if you go back, changes in manufacturing locations haven't really reduced the trade flow, they have only increased the trade flow because your supply chains become more spread out. The only key impact, in the worst case scenario for cross-border trade, could be Mexico to US trade. But there is largely road trade and we do not participate in that as yet.

Moderator: Thank you. The next question is from the line of Sarah, an individual investor. Please go ahead.

Sarah: Sir, if we do a quarter-on-quarter comparison, that is from 2nd Quarter versus the 1st Quarter of FY '25 for the international supply chain business, the Company had achieved all time quarterly volume in 2nd Quarter with 5% volume growth, the product mix was also favorable towards LCL, realizations have also gone up 8% quarter-on-quarter, container utilization index has improved quarter-on-quarter, 30-feet container usage has improved quarter-on-quarter. So, all dynamics seems favorable for the Company and additionally the Company has done a lot of cost cutting measures from the last few quarters. However, the EBIT per TEU has come down 17% quarter-on-quarter. Please help us understand what has led to this drop.

Ravi Jakhar: Yes. So, two points there. One, let me comment that, yes, there has been a continued improvement in utilization in all the sectors. But you are looking at a 12 month trend and we are recovering from the lows. We believe that if the trade flows become more robust, we should see continued upward movement on utilization and ease. Because utilization is the most critical part that drives the fundamental profitability in our business.

And as far as the EBIT is concerned, I would not break it down per TEU, because the LCL and FCL business operate on CBM and TEU in a different way. But from an overall perspective, as you have seen, the volume, if you compare has gone up 4% quarter-on-quarter, while the gross profit has gone up about 7%, 8%, which means that there has been an improved profitability as well on the back of comparatively better utilization. However, as I was explaining to you, there have been some one-off costs such as $1 million in severance cost and a few other investments in people which are also flowing through the P&L, and some bonus payments, etc., leading to higher staff cost, and therefore the EBIT numbers coming down. What we anticipate from here on, over a longer term perspective, I am talking about say one year out when we look at the same quarter next financial year, we should see improved volume and gross profit, while we should fundamentally see similar cost levels and therefore that operating leverage should kick in.

Sarah: Sir my next question is, as an investor this Company has so many subsidiaries and associates operating in so many geographies, and there is no correlation between freight rates also. So, the only way for us to estimate future number is on the basis of your guidance and concalls. Sir, in last quarter you had mentioned that there is a lag effect of four to six weeks and hence margins should have improved in the 2nd Quarter. However, it has not played out that way. So, sir, why cannot we see improved performance in terms of profitability?

Ravi Jakhar: Yes. So, I will take the second question first and then comment on the first one. As far as the second part is concerned, the profitability in the business is gross profit per unit of volume of trade that we carry. And I was just explaining that the gross profit has grown at a faster and higher percentage than the volume growth, which means that there has been an improvement in the gross profit per cubic meter in LCL or the gross profit per TEU in the FCL business as well. That's the first part. So, there has been an improvement in that. You are only looking at the EBIT, which has been paid out by SG&A where we believe, like I mentioned, we should see an improvement on the back of improved overall gross profit while retaining the SG&A cost at the same level.

Coming on the first part, as far as various subsidiaries are concerned, these are operating units which are required to be established in these countries to conduct business. We cannot operate with limited entities across the world. We are present in more than 65 countries in our own offices, and therefore these operating units are required. From a structural point of view, as you are aware, the scheme of rearrangement is under progress, and that would lead to all the international business coming under one entity. And as far as the domestic business is concerned, there is no need to have these subsidiaries because you can operate all the businesses under one operating unit, and therefore we would just have one listed entity which would also be the operating entity. So, all these subsidies will disappear on the domestic business side, because there's only one country that we operate in.

On the international side we have no option but to retain operating entities across the world. In terms of following up, I would say that there are multiple factors that you could look at which impact our business. You can follow the global economic environment which has the bearing on the global trade. As the inventories build up, we see continued increased flow of trade, that has a significant impact on the volume side. The impact on the cost side is largely driven by inflation. We have several countries in Europe, for example, wherein remunerations have to be increased in line with the inflation indices.

So, I would say, the growth in global trade is a common indicator of our business opportunity and inflation is somewhat reflection on the cost side. And within these two, we are always trying to see how we can compensate for inflation by way of technology and how we can compensate for any volatility in the market environment by expanding our market share. So, these are the two Company-specific initiatives where we are happy to provide guidance. But on the broader basis, you can always follow how global trade is doing and how inflationary trends are being there. And there are several container indices available, published by various research agencies, which also provide a perspective on the container freight rates and the volumes which are being moved through global trade corridors.

Sarah: Sir, that is helpful. But subsidiaries and associates in many geographies are okay, but we haven't mentioned or guided same thing in the last quarter, but we will be incurring severance expenses for this in the 2nd Quarter or forthcoming quarters.

Ravi Jakhar: So, like I mentioned, the severance cost decisions are taken based on the restructuring, investment decisions that we make, like we have done in Latin America. We have spoken about the severance costs in the past as well, I am not sure if it was the quarter, last one or the one before that, because we have had such severance costs in the past as well. And like I mentioned, I would like to reiterate to ward off any confusion. We would continue to look at staff cost reduction wherever we see it's a significant return on investment for us on the back of severance cost, which leads to a reduction in SG&A cost. And if the payback is attractive and if you are able to drive that with technology, you would continue to do that. And also, like I mentioned earlier, we will provide a separate carve out number on that.

Sarah: Sir, my last question, we are hearing from sources that promoter is wanting to sell some stake in the Company. Why is he planning to do this, sir?

Ravi Jakhar: I cannot comment upon hearsay and there is no comment that I can provide on that.

Deepal Shah: Yes, we cannot comment on behalf of the promoter. So, I mean, we totally represent the Company at the moment.

Sarah: Sir, how is the outlook in terms of demand for the third and 4th Quarter?

Ravi Jakhar: I already answered that we expect the strong demand environment in some of the select countries to continue, and Europe may take more than two quarters to revive. But globally, there's a better momentum in the market.

Moderator: Thank you. The next question is from the line of Shivaji Mehta, an individual investor. Please go ahead.

Shivaji Mehta: Sir, we are seeing a huge increase in the number of ships that are getting added to the global capacity in the current year. This, combined with the fact that global demand is growing in low single digits, do you expect, and also if you kind of add to this, the fact that with the new US President, if the Middle East wars would probably come to an end somewhere, say, in 2025, and the Red Sea crisis would kind of normalize, do you think that the freight rates can take a hit going ahead?

Ravi Jakhar: So, we believe that freight rates will remain range bound. There are various things pointing towards an upward movement and things pointing towards downward, some you appropriately mentioned. What we follow from various maritime research projections is that there is also a lot of capacity coming up for scraping. And on an overall basis, Drewry, which is the leading maritime research Company, publishes its expectations on the freight environment and the capacity. So, what we read through is that net-net, the trade demand should absorb the entire capacity coming in. That's the narrative we have been reading through and taking a note of.

Shivaji Mehta: And my last question is on the EBIT per TEU. I know you have added the FCL business recently, but if I just do a like-for-like comparison, say in 2019 or 2018 when you had an EBIT per LCL of about 1.45-ish, is that something that we would target going ahead also? Just on the LCL business, if you strip out the FCL business out of the international segment, are you trending towards those numbers?

Ravi Jakhar: I would say, we do not see our business in EBIT per TEU, because business is conducted in different units and this is not a measure followed in the Company internally, so I cannot relate to those numbers or comment upon them. But like I said, the simple intent going forward is to create volume growth, which exceeds the market growth. So, we have seen a flat market wherein we have been growing at about 4% to 5%. We have in the past quarters seen a declining market where the market declined by 12% to 15% and we had gone down by 7% to 8%. So, we have been kind of consistently been maintaining a delta of 4% to 5%. Historically, if you look at the long term averages, the global trade on containerized trade has been growing at 3% and LCL at about 5% to 6%. So, our intent is to maintain the delta of 4% to 5% on these global trade growth rates. And as the trade revises, our growth rate can move in to double digit for LCL. And FCL, we have consistently grown at close to 18% to 20% if you look at even the last six, seven years of compounded annual growth rate.

Moderator: Thank you. Sir, as there are no further questions from the participants, I would now like to hand the conference over to Mr. Shailesh Raja from B&K Securities. Over to you, sir.

Shailesh Raja: Yes. Thank you all for attending this session. We especially thank Allcargo Logistics team for their time. Ravi sir, any closing comments would you like to make?

Ravi Jakhar: No. Thanks, Shailesh, for hosting us. And thank you, everyone, for joining in. Like I mentioned, we intend to provide as much disclosure as we can. Whenever there are confidentiality concerns keeping competitive dynamics we try to find a work around and provide at least the lead indicators. So, we are happy to get more queries from you from our Investor Relations team and happy to provide you as much perspective as we can. Hope today's call was helpful in this direction and thanks very much once again for joining in.

Moderator: Thank you. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.