



“Allcargo Logistics Limited Q4 FY-21 Earnings
Conference Call”

June 24, 2021



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Moderator: Ladies and gentlemen good day and welcome to the Allcargo Logistics Q4 FY21 Earnings Conference Call hosted by Antique Stock Broking. 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 an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prateek Kumar from Antique Stock Broking. Thank you and over to you sir.

Prateek Kumar: Good morning everyone. Hope everyone is staying safe and healthy. On behalf of Antique Stock Broking, today we welcome everyone and the management of Allcargo Logistics, Mr. Deepal Shah, who is Chief Financial Officer and Mr. Ravi Jakhar, who is Chief Strategy Officer. Without wasting much time, I handover the call to the management of Allcargo to discuss and give the opening remarks for their result and then we will move to the Q&A. Over to you sir.

Deepal Shah: Hello, good morning everyone and welcome to today’s earning call to discuss the performance for the fourth quarter and full year for the financial year ended 2021. So, Ravi will join, this is Deepal Shah, the CFO for Allcargo.

Let me first take you through the key consolidate financial highlights for the fourth quarter of FY21:

The total revenue for operations stood at 3349 crores as compared to 1871 crores for the corresponding period last year which is an increase of 79%. EBITDA for the quarter was at Rs. 193 crores as against Rs. 106 crores during the corresponding period last year which is an increase of 82%. The profit before tax considering the profit of the associates and joint ventures was 86.3 crores as against 34.5 crores which is an increase of 150%. The profit after tax was reported at 5.9 crores for the quarter which declined primarily due to the exceptional item of 81.2 crores on account of Gati Limited, a subsidiary of the group that has identified certain non-core assets for monetization. Accordingly, the group as recorded such assets as assets held for sale and loss on fair value of such assets held for sale has resulted in this exceptional item.

Now let me highlight the performance for the financial year ended 2021:

The total revenue from operations stood at 10,498 crores for the full year as compared to 7,346 crores for the corresponding period last year which is an increase of approximately 43%. EBITDA stood at 624 crores as against Rs. 503 crores during the corresponding period last year which is an increase of approximately 26%, Profit after tax for the year ended was reported at 95 crores as against 234 crores during the corresponding period last year which was down again primarily due to the exceptional item highlighted earlier.

So, continuing from the financial highlights – the key business highlights for the quarter ended for each of the segments; for MTO segment:

The multimodal logistics, the total revenue for the fourth quarter ended was 2724 crores as against 1693 crores for the corresponding period, an increase of approximately 61%. EBIT was at 123 crores for the fourth quarter ended as against 53 crores for the corresponding period last year, an increase of 95% margins. The EBIT margin stood at 4.53 for this period.

Despite uncertainty and tough operating environment as you all are aware the FY21 return on capital slightly improved to more than 24% level. Our multi motor transport operations clocked volumes of 2,24,000 TEUs for the fourth quarter ended FY21 as against 1,92,000 TEUs for the corresponding period last year. Shortage of containers as you all are aware continued across the globe for the ocean shipment both FCL and LCL, ocean export freight rates also continue to remain nearest all-time high for Latin America, South America, North America, Australia and Africa. Different waves of pandemic led to disruptions and impacted volumes to an extent. But the same was compensated by higher freight environment. During Q4 the volumes return to normalcy, our digital platform ECU360 has gained good traction and is increasing share in overall booking and facilitating customers through the digital interface.

Coming to our CFS and ICD segment:

The total revenue for the fourth quarter ended FY21 stood at Rs. 131 crores as against 100 crores for the corresponding period last year which is a growth of 31%. EBIT for the fourth quarter was 41 crores as against 23 crores for the corresponding period last year, an increase of approximately 81%. The EBIT margins stood at 31.5%. The total volumes witnessed strong growth for the fourth quarter of the financial year 2021. These were around 92,317 TEUs as against 73,377 TEUs in the corresponding period last year. Port volumes raised a strong growth in Q4 however volumes have taken a hit since then on account of second wave led lockdown happened. CFS infrastructure played a big role in decongesting ports in crucial times during the pandemic and helped India's export and import grow without constraints. The ROCE stands at 43% driven by higher capacity utilization and value-added services aiding realization.

Coming to our express and contract logistics businesses:

The total revenue for the fourth quarter ended was at 407 crores as against 401 crores for the third quarter of FY21. Express business under Gati continued to witness strong growth in Q4 according at highest ever volume and revenue for core B2B Surface Express business. This transformation program continues to drive improved sales operations and digital enablement of the business. Contract logistics business under ECCI also witnessed strong growth despite pandemic registering an increase of 54% YoY revenues. The revenue was largely driven by e-com and by the chemical's vertical.

Coming to our logistics park businesses:

The total revenue for the fourth quarter ended was at 21 crores as against 11 crores for the corresponding period last year which is a growth of around 90%. EBIT was reported around 10 crores for the quarter. Development and construction of logistics park is on schedule and nearly

completed in key locations excluding recent acquisition. Lease income from warehouse continues to rise and the trend will continue as more space gets ready and leased. The company's transaction with Blackstone will reduce the shareholdings to a strategic minority of 10%. The transaction has seen certain delays due to COVID impact on getting certain approvals. However, work is progressing well now.

Coming to our project and engineering solutions:

The total revenue for the fourth quarter ended June stood at 93 crores as against 88 crores for the corresponding period last year, the growth of around 6%. EBIT reported was a loss of 12 crores for the quarter. Project logistics has seen good growth in the order book increasing it from 1.4 billion at the start of the year to 1.9 billion at the end of the year. Focus on infrastructure growth and development of new metro, renewable power project is likely to provide good opportunities in the near future. Crane utilization has steadily improved after a challenging Q1 and now it is better than previous years. The company is focused on rationalizing its fleet to make the overall fleet younger. ROCEs remained low due to significant depreciation on the equipment. That is all from our side.

Thank you so very much for being on the call. Now we are open the floor to any questions that may come up. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Keshab Gargh from PGIPL.

Keshab Gargh: I wanted to understand that we had a couple of major loss-making subsidiaries in FY20. So, I am trying to get the names of the same, so I think 2 or 3 of them were making major losses. Is there any update on those subsidiaries? Have those breaking even now?

Ravi Jakhar: I am not sure which businesses you are referring to because...

Deepal Shah: So, Ravi, you are right. Actually, we did not have any subsidiary which was at a major loss. The only subsidiary which we acquired last year, the large one Gati which was not making profit. Rest all the, only one segment project in logistics which is not a subsidiary, but part of the core company was registering a negative PBT because of higher depreciation. Other than that, I do not think specifically any other business was at a loss. Can you please elaborate the question a little bit more?

Keshab Gargh: I will get back on the queue with the names of the same. I also wanted to understand that our turnover in our main MTO segment has been great this year and specially in Q4. So, is this due to the basically increase in the container rates, so that is why our topline has gone up but maybe the bottom line has gone up by the same proportion and going forward if the container freight rates, if they again reduce somewhat, so will that be or negative for us?

Ravi Jakhar: So, let me answer this question. There are two parts to it. One is, what has caused the revenue growth and how sustainable is this? Now as you would have heard from Deepal, revenue growth is led by a combination of increase in volumes and a higher freight operating environment. As you would have heard, the volumes for the corresponding quarter move from nearly 180,000 to almost over 220,000. There has been a significant increase in the volume and the MTO operations as well. That has been the primary factor driving growth. Yes, there has been a high freight operating environment which has further boosted the revenue. In the short term in the next 3 to 6 months, it appears that the high freight rate environment would continue but the freight rates are likely to subside in the coming year which is year 2022 that may lead to certain direction in revenue. But as far as our business is concerned, it is more around valuation addition on ACL consolidation and the gross margin usually remains protected. While the high freight operating environment would lead to a spike in revenues at the gross margin and at the bottom-line levels those are largely driven by volume in that. That is what you would have seen in this quarter as well with a significant increase in volumes in the MTO operation.

Keshab Gargh: Also wanted to get an idea that our deal with Blackstone of shedding basically 19% in the logistics part business. Basically, the in the segment results that the profits that we see I mean will they go once we shed the stake in this subsidiary to Blackstone?

Ravi Jakhar: Yes. Let me clarify it as I heard you 19, it is nine zero 90% stake which is being sold to Blackstone which naturally means that once the transaction gets consummated, all the revenues and profits and at the same time all the liabilities which is outstanding debt against those assets and against those warehousing logistics parks business would also go off our books. So, it will lead to a naturally reduction in revenue and profit which is coming from this segment but also reduction in debt which is coming from this segment.

Keshab Gargh: So, once that deal is consummated, so we will altogether exit this logistics park, will no longer remain a segment in our results. Is that true?

Ravi Jakhar: At this point in time we have various logistics parks, out of which the agreement with Blackstone covers most of them but not all of them. But there would be a strategic view taken on which assets do we add further to be Blackstone transaction and which assets could be of strategic value. But to answer you in terms of principally in the long-term, at Allcargo logistics we are focused on assets light digitally enabled businesses and therefore logistics park whether it be time would see lesser and lesser participation from our side.

Keshab Gargh: When will this deal expected to get closed?

Ravi Jakhar: This deal was expected to close already in the past period. It has got delayed on account of certain pending approvals which have been delayed on account of COVID. These are not things which are under our control or action plan but to give a fair estimate, based on information available with us today, it appears that we should be in a position to consummate the transaction in next 3 months or so.

- Moderator:** The next question is from the line of Keshab Gargh Gerber from PGIPL.
- Keshab Gargh:** I am just mentioning the subsidiary that was loss-making in FY20, there is one next Prism Global LLC; it made a loss of 23 crores last year. So, has this now breaking even?
- Deepal Shah:** So, Prism Global is actually as a support service providing company to the distribution network. So, ideally there would not be much of a profit or a loss going forward in that. So, it could be a timing difference we had to register of a loss but generally most of the costs, they will be charged back to the network.
- Keshab Gargh:** There was one more subsidy Ecuhold NV which made a loss of around 38.6 crores. I think these two were the major ones. So, what about this one?
- Deepal Shah:** So, Ecuhold is basically the Belgium company which is holding the rest of the Ecu business globally. It is like a corporate and a corporate generally does not have a revenue. It only has the operating costs in terms of the management costs. That will continue to be a loss but when you look at that business you have to look at consolidated level. So, like if you see our results, we have unallocated costs which corporate costs which are common costs. So, if you hold this similarly it has common costs for the rest of the group the for the MTO business group.
- Keshab Gargh:** Understood. If we see our segment profits so there has been a quantum jump of approximately almost in the MTO segment Q-on-Q, in Q4 as compare Q3. Basically, is this number sustainable going forward thus Q4 number in MTO segment, can we consider as that the new base.
- Ravi Jakhar:** So, like I said in response to the earlier question; revenue is a combination of volumes and operating freight environments. The operating freight environment is not seemingly sustainable while the volume growth is sustainable. Therefore, it has to be seen as a mix impact. From a business performance perspective, the new base is what would sustain and that is what would lead to sustained gross margins and EBITDA and profit and the bottom line. The revenue itself as a figure could change depending upon the operating freight environment. It does not have an impact on the gross margins as I explained earlier in my response.
- Keshab Gargh:** I am not talking about the revenue; I am talking about the PBIT basically which we did 123 crores in MTO segment in Q4 versus 58 crores in Q3. So, I am trying to understand that is there any extraordinary components over here or maybe some extraordinary profitability which look hard to sustain going forward or every quarter we can maintain this 123 crores number basically by and large?
- Ravi Jakhar:** I would say usually a Q4 would have a slight cue in terms of, if you were to look at the sustainable numbers, I would say that you could look at anywhere close to about 400 crores so 100 crores kind of a quarterly run rate is what should be sustainable, beyond that there could be some fluctuations. But largely in terms of the volume and the gross margins this is a sustainable number.

Deepal Shah: Ravi you are right. There are some seasonal parameters sometimes and more particularly because of the COVID lockdown. There could be surge in volumes partially in a particular quarter but yes you are right, around 100 crores is something which we should be able to sustain.

Keshab Gargh: Also, there are continuous freight station division. That also quarter-on-quarter has grown by 33%. I am talking about PBIT and year-on-year it is almost doubled. You think now this performance is sustainable keeping in mind the DPD and the new supply that has come up in this segment?

Ravi Jakhar: Yes, so let me respond to your points first on the DPD and the new supply and the CFS. The DPD impact was new maybe 3 years ago but over the last couple of years that has already stabilized and there is already normalized to a large extent. We have also seen how container freight stations came to the rescue when pandemic choked our port and it was reiterated how important CFSs are for the exempt supply chain of the country. And in terms of DPD, even the DPD containers do come to CFS because there is what is most efficient for the end customers' effective supply chain. Talking about the volume growth in Q4 yes, Q4 in general you would have seen in the economic growth parameters, GST collections everywhere Q4 was an exceptional quarter in terms of great performance all around and that led to a significant increase in the trade for the country and resulting port volumes as well. Within that environment our CFS is also incrementally improved the share in the market and therefore you see a strong performance. If you were to look at continuity in the same, we believe that except for the impact of pandemic this sustainability, these volumes are sustainable. However, if you look at the current quarter which is going on naturally the month of May in particular saw significant lockdowns which led to reduction in overall trade for the country and the overall port volumes were also lower. The decline from March onwards till April-May and to some extent in June would impact the volumes. But once we see the recovery back which we expect in the month of July and August, we believe that the volumes should continue to improve and leaving aside the exception of the pandemic impact which would be temporary on specific 1-2 or 3 months these volumes and therefore the revenue and profits are indeed sustainable.

Moderator: The next question is from the line of Jay Shroff from Cask Capital.

Jay Shroff: Just wanted to know we have passed an enabling resolution about raising 1000 crores. I understand that post our Blackstone deal significant part of our debt is going to get transferred to the Blackstone on entity. So, why is the need to raise such a large amount of money?

Deepal Shah: I think we do this every year so it is an enabling resolution. There is no immediate intend to raise 1000 crores of NCDs. So, this is an enabling provision so that we do not have to, in case there is a large opportunity available to I can acquire or something though no immediate intention, it can be used for that. Also, as you are aware that all the additional debt that currently we have any additional debt as per company's act, new rules, we have to raise on my NCD perspective and you are right that post the Blackstone deal our current focus is to kind of reduce our debt levels to a much lower amount than what we are carrying currently. So, it is just an enabling

provision and if you look back to the previous year it has taken every year but it has not been executed, it is just an enabling provision.

Jay Shroff: Just one more thing on the Blackstone deal I mean you know it is getting delayed, I understand that because of lockdowns maybe certain things are getting delayed but I think in the last call you guys were quite confident that this deal will get consummated in one quarter. Is there any chance of this deal getting canceled at all?

Ravi Jakhar: Let me respond to that. In the last call as well, we provided visibility basis information available at hand. These are largely just you know give further detail. These are some approvals related to small pieces of land within these logistics park which runs through a government process. There was an apparent visibility that the government process is likely to initiate and get concluded in the next couple of months and that is where you are expecting this to happen within June quarter. That was an internal assessment basis which we were planning on this transaction. However, we understood subsequently as the lockdowns in the month of as you would recall it started with Mumbai and Maharashtra where we did not have these issues. These issues are largely in one of the Southern states where we have the logistics park where some approvals were pending and as the pandemic hit them particularly the city of Bengaluru, the government went into a mode where in some of these activities became lesser priority and the initiatives which were expected were pushed back and that is why unfortunately for a couple of months nothing progressed on part of the government coming up with the enabling process to which would have taken care of our last minute requirements as well. It is not something which is a matter of 'if' but it is largely a matter of 'when' is how I would put it. We believe that now that the country is coming out of the pandemic, it appears that the government function should resume to normalcy and we should be able to, it is a matter of a couple of months of process. It is just about when government initiate this, that is how I will put it.

Jay Shroff: Last thing, last quarter I think we had taken some VRS and to that extent our margins were hit and what I understood from whatever I heard from the call was that this was a one-time expense and going ahead we would have a much better metrics on the employee front but in fact this quarter we are not seeing any benefit of that so?

Ravi Jakhar: I think Q4 also happens to be a quarter which would see many variable payouts made to the employees. It would also have a certain salary cut reversals and some of those things as well. And beyond that I am not sure when you are comparing, you are talking about a Q4 versus a Q3 or a Q4 versus last Q4?

Jay Shroff: Any metrics that you consider. We are not seeing any benefit of VRS on the employee cost numbers. I mean do you consider compare it with Q3 of '21 or Q4 of '20 both ways.

Deepal Shah: You are right. Like Ravi have said that there was certain variable pay which we had held back through the quarters because of the uncertainty around the business and the COVID environment which was released in subsequent quarters. That is the reason you do not see but you will see the whole restructuring exercise getting value unlocked over a period of time. Maybe next year

you will see some realization of cost reduction at some of the places. Also, at the same time, in some of the places, some of the businesses which are becoming more and growing fast like MTO and all, we are seeing a possibility of adding some people to make this grow better and faster. So, it would be unfair to look at an overall number. I think we will have to going a lot depth to understand why it is and we feel that in the long run the actions like in both on the VRS front and the addition will not generate a fairly higher business growth for the company.

Ravi Jakhar: Just as a concluding comment on that I think the most fair way to look at the employee cost would be to look at as a percentage of business because naturally as you are expanding into new products and new services and new areas you have to hire people right. You would notice there is a significant improvement in the employee cost as a percentage of revenue or as a percentage of profit whichever way you look at it.

Deepal Shah: Ravi even segment wise we have done a bit for employee all and it is improved significantly. I think that those are the metrics that one needs to apply.

Jay Shroff: Was this VRS restricted to the domestic Indian market or was it taken at the ECU level also?

Ravi Jakhar: It was largely in one of the business segments in India.

Jay Shroff: That would be across the globe or was it restrict to India?

Ravi Jakhar: Largely restricted to India.

Moderator: The next question is from the line of Abhijit Mitra from ICICI Securities.

Abhijit Mitra: So, essentially the year end net debt number, it seems it has gone up both on a half-on-half as well as on a year-on-year basis and I think receivables rather working capital seems to be contributing to the same. What happened there and how do you plan to contain it?

Ravi Jakhar: So, I think if you look at the working capital increase it is largely led by the higher freight operating environment which has led to a significant increase in working capital in the MTO segment and that has had an impact and I would request my colleague Deepal to further add on the debt number.

Deepal Shah: Like Ravi said that, yes there is an increasingly working capital debt that is largely governed by the increase in the freight rate. So, freight rate which were for some segments were around \$400-500 went up to \$3,00,000 so that the outlay on the freight increase but at the same time that was a huge opportunity for us to gain some more businesses because the other players, the smaller players could not fund that kind of money and we had the means to use that to increase our market share and that is what we have done. That is where you are seeing the surge in the volumes in Q4 in the MTO segment. Yes, there is an outlay, and we believe that once the freight rate come to normal levels this also, the working capital cycle will shrink and the debt around the working capital means the short-term debt will reduce.

Abhijit Mitra:

First on the P&E segment. There seems to be a write down again of receivables or bad debts or advances so this seems to be a pretty recurrent phenomenon out in that segment. How do you plan to address it? And the second question is on Gati. There are questions which are coming from the investors that how much independence can we give that entity to run its own operation? And because they are doing a fantastic work in terms of deleveraging, restructuring of the balance sheet and eventually to turn around the express segment also. Will there be a level of independence that they will be able to run their operations, or the eventual idea is to merge the two entities Allcargo and Gati. These are the two of questions which I have.

Ravi Jakhar:

Let me respond to your first question on P&E and then take up the Gati. As far as the P&E segment is concerned one needs to understand the nature of business and there are two key things there. One that the project logistics business which involves the transportation of over dimensional cargo for infrastructure projects. The industry usually has higher credit period and at the same time we apply same provisions for write-offs to the project logistics business as we apply to other businesses which many of them are even cash & carry to a large extent such as CFS. Therefore, what happens is you find higher provisions for a project logistics business but if you were to look at historically it has been several years and if you look at was there any significant write-off which actually the money was never recovered those things have not happened. So, usually, this business sees write-off and write-backs both happens hand-in-hand because there are sometimes delayed payments. That is important to understand that there is a difference between provisioning and then writing it back versus actually writing it off and at being a material loss for the company. Second thing on the equipment business, if we look at the metrics it is very different from the other asset light businesses of the company and you would find it is a strong cashflow generating business with a very strong EBITDA. However, we have adopted a straight-line depreciation method for cranes which means that the depreciation amounts are significant and that leads to a negative EBIT number after taking depreciation into account. The market environment around the asset value could be at a difference. These are two things which are to note in recognizing the project and equipment business. Having said that like we have consistently spoken, the focus for the group is to be an asset light digitally enabled business and therefore businesses which are asset intensive whether it is logistics parks or project and equipment; we would continue to deprioritize and find opportunities to look at rationalizing the structure within the group. Within the equipment business also there is already a rationalization of fleet happening where in you would find the assets as well as the capital employee would see a downward trend in that business, and we will try to see how we can make it a stronger business. There are approaches, there is an approach to improve the business. It is also important to understand the dynamics of the business and within the overall group there would also be a focus to prioritize businesses such as MTO, Express Contract and CFS over the logistics parks and P&E. That is clearly the directional intent. Responding to your second question on Gati, you would recognize that Gati has seen a significant turnaround since Allcargo's takeover of the management and therefore it has clearly been emerging from the same guiding principles of the group focusing on making the businesses asset light, moving out of non-core businesses, focusing on digitization, focusing on customer service, focusing on operational efficiencies and with the same fundamental principles which are governing the

Allcargo as a group which are being extended to Gati as well, having the right people to manage the company and that has shown tremendous positive results. Now if you look at these four businesses which are the core of Allcargo, the MTO business, the global ocean credit business which is MTO, the Container Freight Station CFS business, the Contract Logistics business or Express business you would find that all four of them have consistently demonstrated strong business performance. That is all driven by the same principles of being focused on growth and value creation and that is what you would find in Gati as well. Is there an intention to merge Gati with Allcargo? There is no such specific intent. We believe that Gati as an expressed entity, may have some synergies being part of the Allcargo group drawing into group resources, managing, finding some opportunities to work on integrated logistics place. There could be some opportunities for interdependence, but independence of the entity is well respected and well recognized. It is important so there are no immediate plans as such of merging Gati with Allcargo.

Moderator: The next question is from the line of Praveen Kumar, an Individual Investor.

Praveen Kumar: What is the current debt on the books? And my second question is last year there was a buzz on de-listing Allcargo so just want to have an update on that one as well.

Ravi Jakhar: Let me share an update on the de-listing and then I would request my colleague Deepal to respond on the debt number. On the de-listing it is a promoter prerogative. They have run the process and they were in the stage where in the application was to be filed formally for in principle approval with the stock exchanges. However, we are given to understand that there has been a regulatory change in the de-listing regulation in the recent past which has meant that they need to understand the regulations, consult their legal advisors and come back and inform the company on the next step. There is a process which is in progress. As a company we have done whatever obligations were there to facilitate the process and move it forward in the current environment would be changing delisting regulations. As we understand we are waiting to hear back from the promoters on what the next steps would be and we expect to get that clarity in a short term is what I could comment on that.

Praveen Kumar: One explanation on this, what was the intention of delisting because I do not think this company seems to be having a lot of potential and then it did not generate any value to the shareholders especially to the retail shareholders. Now delisting it this valuation is a concern.

Ravi Jakhar: So, let me add two points to that. One, delisting is not a unilateral process as per the norms laid out for delisting process in India, it only happens when a shareholder quotes the price which the shareholder wants and the promoter takes it. So, it cannot succeed.

Praveen Kumar: I know that I would post this question when Mr. Shetty is there in the call because I have specific questions to him so probably and post this question and when I get an opportunity next time and you could get a reply on the debt level.

Ravi Jakhar: Sure, Deepal would like to respond on the debt.

Deepal Shah: I will just respond on two things. One is yes, the rationale for the delisting has already been circulated in the letter issued by the promoters. So, you may refer that and of course you will have an opportunity to speak to me whenever you can ask me the question. Second on the debt, our gross debt is at 1750 crores approximately and our net debt is around 1525 crores. That is our debt level. This is including the group debt including Gati and all subsidiaries of Allcargo.

Praveen Kumar: So, net debt would be around 1200 crores?

Ravi Jakhar: No 1200 crores. So, we have around 1525 crores of the net debt.

Moderator: The next question is from the line of Mukul Verma from Verma Associates.

Mukul Verma: I just wondered to know whether there are going to be any further impairment; like we had one in the Q4 of 81-82 crores?

Ravi Jakhar: In summary we do not expect any significant impairment whatever restructuring henceforth required is largely being done, so similar impairments are not expected.

Moderator: The next question is from the line of Deepika Mehta from Axis Bank.

Deepika Mehta: Talking about the CFS segment, can you briefly talk about the realization for Tier-I been impact on margins if you are seeing any if what you saw in 4Q and in 1Q last two months, in terms of dwell time and any ground rent benefit.

Ravi Jakhar: So, if you talk about the recent sense in the container freight station which you refer to the last couple of months impacted during lockdown, there was a let us say an approximately 10% to 15% impact on the port volume and you could find a similar impact on the volumes as well. However, the lockdowns also mainly on supply chain in the country had challenges and therefore the dwell time would be marginally higher. If you were to look at the marginally higher dwell time and marginally lower volumes it leads to an automatic resilience to some extent and therefore bottom line largely remains protected in such situations for CFS business. That could be one way of assessing the impact of lockdowns on the CFL business.

Deepika Mehta: And in terms of the MTO segment, truck rentals in April end the truck rentals had gone down, so what was the status right now?

Ravi Jakhar: Just to clarify MTO business refers to the international ocean trade business, which is LCL, FCL and some of the air freight business that we do under ECU worldwide. If you are talking about Gati, then for Gati it almost reflects the economic activity in the country because you are working with sectors like Apparel, Retail, Pharma, Auto, Engineering goods, Textile etc. As the lockdown lead to reduce activity you would find a proportionate reduction in Gati's volumes as well. So, the month of April was a marginal hit because only certain parts of the country were impacted and it was a slight delay as well. Maybe there was again more like a 10%-12% impact from an overall market perspective. May witnessed significant impact and to the extent of almost

a 40% to 50% wherein across geographies depending upon the lockdown and also on the industry. The month of June has since seen a sharp recovery as the un-lockdown began particularly around 07th to 10th June. We witnessed that there has been a steady improvement over the last couple of weeks and as we end June, so maybe the impact which could be 40%-50% in May might be only to the extent of 20%-25% or so in the month of June and we expect July to be more in sync with April and then the normalization to return assuming that there is no third wave or incremental lockdowns which could impact the business. That is the broad picture that I can give you on the impact of the lockdown. In terms of the realizations etc. on per unit of volumes side etc. in Gati that did not change much significantly.

Moderator: The next question is from the line of Prateek Kumar from Antique Stock Broking.

Prateek Kumar: I have one question on profitability in MTO segment with EBIT per TEU or EBIT margins, have like sort of a record high in near term and in particularly into one we have some benefits of some funding by government with help the profit then but the numbers in this quarter look particularly very strong. What improvement in profit margin as it is anywhere passed through you said in the beginning, so in stationary state environment is also helping our margins as well?

Ravi Jakhar: Like I said there is an impact of both volume as well as like you rightly pointed out the realizations on a per team basis. Now there again you one needs to look at yield which is gross margin per TEU and second part is EBIT per TEU which you highlighted. Now as we scale up the business and grow the volumes, we are doing that by keeping the organization lean and efficient and which is what again as reflecting one of the earlier questions that the employee costs or the percentage of revenue has been going down and when there is an improvement in SG&A cost, general administration cost is also gone down significantly. So, naturally all those things on the same cost base as you improve your gross margin the EBIT per TEU would go up. The gross margin per TEU however is dependent upon the operating freight environment. As the freight environment changes and we see significant correction back in freight which may happen post let us say other 3 to 4 months you might see some downward correction. We do not foresee freight trade going back to 2019 levels again, but we see that there could be some correction. So, there could be but like if it is largely a pass-through cost. The impact of a significant decline in freight rates also would only have a marginal impact on gross margin and to that extent it would have a marginal impact on the EBIT per TEU as well. You may see in situation where in the freight rate corrects a little bit, gross margin per TEU corrects marginally. Let us say there could be 3% correction in freight but the colonially 2% or 3% impact on the gross margin TEU and that could then still with an increased volume on the same cost space may lead to a similar protected EBITDA per TEU

Prateek Kumar: The prior quarter results were impacted by some period and packages you are as says earlier the Q3 particularly margin the segment went down?

Ravi Jakhar: So, what happens is large part of our MTO business just to explain you the corporate structure the India part of the MTO business is a division within the listed Allcargo Logistics but besides India the entire global business fits under the Belgian entity and the Belgian entity operates on

a January to December when it comes to budgeting and all other matters. Therefore, a lot of these one-off expenses come in Q4 for January to December which becomes Q3 for the financial reporting for Allcargo.

Prateek Kumar: And like going to next year, I mean we the very strong exit to this year we can talk like 8-8.5 lakhs volumes in MTO segment now?

Ravi Jakhar: I would say that the volume numbers that you see right now are only likely to be sustained and grown naturally. I am again getting it qualified assuming that we do not have a significant external environment impact. Braces the world played in GDP forecast that we see across, I would say that these volumes should continue to improve. I can say for certainty that in the LCL consolidation space we have global market leaders and we would only see a further expansion of our market share. So, given the market opportunity remains good at large you will see continued sustained growth in this business.

Prateek Kumar: Last question on CFS business, there also margin seems to have improved, so there also there's impact of operating leverage was prior to this.

Ravi Jakhar: To some extent yes, even operating leverage because your handling of containers is not leading to additional SG&A cost. At the same time like I said particularly during the months of lockdown what happens is your volumes go down little bit and your dwell time increases, and it will get up. Therefore, there is a natural the absolute number would remain same but because you are achieving the same EBIT from lower number of teams your realization at the EBIT level would also be impacted because of that. So, these are driven by both growths on the same base as well as there could be an impact and be lockdown as well. As the lockdown would revert you will find higher volume and it will be a marginal decline in the EBIT per TEU and the dwell time again correct by day or so.

Moderator: The next question is from the line of Akhil Dhawan from Locus Investment Group.

Akhil Dhawan: Just a couple of questions on the MTO side. One is, could you just comment on market share in the MTO LCL business where you are today and how that might have turned it?

Ravi Jakhar: So, just to give you a respective the global LCL consolidation business is roughly about 100 million cubic meter market of which approximately 70% comes to nuclear consolidators like ourselves and the 30% is managed directly by the freight forwarder which means you are talking about a market size of 70 million cubic meter out of that we operate in most part of the world but we do not operate everywhere. So, we capture a market of approximately 60 million cubic meters which is almost like 85% of the total global market available for us and in that 60 million our market share is in the range of about 12% to 13%. It has continued to increase historically and but it is very I would say at the marginal pace and organically and substantially led by acquisition. As we move forward, we see this growth both on account of organic and potential inorganic opportunities as well.

Akhil Dhawan: I just also wanted to get a sense on given this is a highly fragmented market how a landscape is looking? I think you all mentioned that smaller players had trouble working capital etc. How is that look today and if you could also just comment on digital and what portion of your business now comes through the digital interface.

Ravi Jakhar: So, as you rightly mentioned the smaller players have found challenges both on account of working capital requirements. Also, when it comes to digitization the investment required to commit to a secure IT environment and digital initiatives, those are potentially not possible for many of these smaller players to make. And customers also increasingly looking at global service providers therefore we see an underlying current off shifts from smaller players towards global organized players like ourselves. We should benefit from that undercurrent and the ability to achieve higher market share. In terms of digitization, we believe that there is going to be a significant impact of digital interfaces and the whole digitization right from the customer facing functions to backend operations. And if you look at in the context of the LCL consolidation industry I would say we are significantly ahead of the competitors and our digital platform EQ360 which allows customers to book end to end with all the functions on visibility booking and further follow-ups, we are seeing significant month on month improvement. Today we already see well in excess of 20% of the bookings going through the ECU360 platform and that number should see steady rise quarter on quarter until the end of 2022. We have high aspirations to convert a large part of our operations to be driven through the digital platform. That is something which is certainly going to be a significant game changer in the industry. We believe that we are well positioned and ahead of the competition in the digital journey.

Akhil Dhawan: Just last question is on just the overall debt. I think Deepal has mentioned is around 1525 crores net debt today, once this Blackstone transaction is consummated where do we expect roughly to land?

Ravi Jakhar: So, I would like to highlight that there will be an impact of Blackstone transactions and a couple of other things also for an example is the consolidated debt. If you look at Gati we also spoke about how we have Gati company as a subsidy which is almost 100 crores in debt and we have already signed the term sheet and there is also in the process of being hived off divested and we should meet the debt 100 crores also go off our books are just to highlight that. And also, the working capital increase which will happen as the freight rates normalize that will also see little bit of a drawback and on top of that the Blackstone transaction would have a significant impact as well. I would request my colleague Deepal to answer on the impact of the Blackstone transaction as an additional incremental number.

Deepal Shah: So, currently we are at 1525 and we expect get that level like Ravi were raised rightly said a combination of Blackstone, combination of Gati and the shrinkage of working capital to by end of FY22 we expect it to be close to a 1000 to 1100 crores. That is our expected rates that we get there. We are hopeful of getting is below 1000 crores we are working towards it but if everything works out or at least 1000-1100 crores what we will be see the debt levels at the end of the year.

Akhil Dhawan: How much of a block warehousing would we be left with?

Ravi Jakhar: So, the current transaction of Blackstone covers our logistics parks across state of Karnataka, Haryana, Goa and Hyderabad. We still would have a large logistics park in Jhajjar which is actually also coming up as an ICD and a multi-model logistics park first and an upcoming logistics park in the JNPT area where we used to have in the CFS earlier and now it has been converted to warehousing zone. These will be the two key assets which would still be potentially outside the Blackstone perimeter but once the transaction can get consummated, the company would take a call on how to plan it focus and investment in the domain. Like I said earlier the priority is to move towards asset-light digitally enabled businesses and therefore it may not fit in the scheme of things. Any additional impact of moving these assets out also will be instrumental in terms of reduction of debt.

Akhil Dhawan: How much would these represent these assets that are left in just in terms of gross block?

Deepal Shah: That should be close to about 500 crores.

Moderator: Thank you. Ladies and gentlemen this was the last question for today; I would now like to hand the conference over to the management for closing comments.

Ravi Jakhar: Thank you all for joining and apologies for disruption at my end at the beginning. I would like to conclude by expressing that the company has performed very strongly over the last 12 to 15 months which were extremely challenging times given the pandemic situation restraints, constraints. The acquisition of Gati and its turnaround from an entirely remote working environment, managing the global ocean freight consolidation and general FCL operations.

All of this being done in a very new environment was not easy but I would like to highlight that the company management across businesses has come together very well and delivered a strong performance. As a group Allcargo is focused on asset-light, digitally enabled, high ROC value creating businesses and that has been the focus since quite some time. However, given the pandemic constraints the company had to first protect and grow the business and then look at opportunities to accelerate the plans towards asset-light focus.

Way to look at the Allcargo business would be to look at the three core segments; one being the global ocean freight business, the MTO LCL consolidation FCL, second would be the CFS ICD business and third would be the express and contract logistics which is sitting in two different subsidiary companies. These all four business segments in the three baskets have continued to demonstrate strong performance outside of this logistics park and P&D are slightly different businesses. But within those businesses we have seen significant turnaround, the project logistics seeing a significant increase in the order books, equipment going into an exceptionally high utilization level, which are far exceeding the industry standards. Logistics Park being fully occupied and if one wants to look at the business rationale it may not be the same way to analyze but those businesses have also continued to do well.

As a group we believe that the business performance continues to be strong. The restructuring initiatives such as the one transaction is Blackstone which is likely to be consummated would

further bring the debt levels down and allow the company to focus on high growth businesses and we continue to be confident about strong performance to continue. There is a lot of resilience in the business model that we operate in and that has come to the foray in the times of pandemic when the company is across most businesses seen significant growth in opportunity and that has been converted into a solid performance on revenue while maintaining similar or higher profitability numbers as well. The company is committed to the overall transformation in which is why we are working with multiple partners across sales, operations, digital IT and finance transformation, working with partners such as McKinsey, Alvarez and Marshal and KPMG, etc. That has certainly been helping company align with the long-term vision and in the coming times you would find the company would continue to transform its operations and become a more future ready, digitally enabled organization. Thank you all, that is all for today. Thank you all for joining.

Moderator:

Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us and you may now disconnect your lines.