TVS Supply Chain Solutions Limited Q1 FY25 Earnings Conference Call”

July 31, 2024

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MANAGEMENT: MR. RAVI VISWANATHAN – MANAGING DIRECTOR, TVS SUPPLY CHAIN SOLUTIONS LIMITED
MR. RAVI PRAKASH – GLOBAL CFO, TVS SUPPLY CHAIN SOLUTIONS LIMITED
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Moderator: Ladies and gentlemen, we welcome you all to the Q1 FY25 Earnings Conference Call of TVS Supply Chain Solutions Limited.

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

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask question 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 over the conference to Mr. J. Sivakumar – Head, Investor Relation for TVS Supply Chain Solutions. Thank you and over to you, sir.

J. Sivakumar: Thank you, Moderator. Good afternoon and welcome all to the TVS Supply Chain Earnings Call for Q1 FY25.

We have with us today, Mr. Ravi Viswanathan - our Managing Director and Mr. Ravi Prakash - Global CFO.

Our Financial Results and the Investor Presentation have been already hosted in the company website and also reported to the Stock Exchange. We will commence the call now with the opening remarks from our Management Team followed by an open forum for question and answers.

Before we begin, a customary remark, I would like to point out that some of the statements made during today's call may be forward-looking in nature and must be reviewed in conjunction with the risk that the company faces. A disclaimer to this effect has been included in the earning deck that has been shared.

I now request and hand it over to Mr. Ravi Viswanathan - Managing Director of the Company to make the Opening Remarks.

Ravi Viswanathan: Thank you J S, and good evening to all of you. I would firstly like to welcome all of you once again to our Earnings Call to discuss the performance in the 1st Quarter of this Fiscal Year 2024-25.

I will share with you the highlights of our performance and my colleague, Ravi Prakash, will then take you to the analysis of our numbers. We look forward to interacting with you as part of the question-and-answer session.

Before I begin, it is customary that I provide a brief background to our company to the benefit of those participants who might be joining the analyst call for first time. TVS Supply Chain Solutions is a tech-led and asset light supply chain solutions provider with capabilities across the value chain. Integrated Supply Chain Solutions, or ISCS segment and Network Solutions or NS segment are the two business segments of the company. Our presence spans 4 continents, Asia, Europe, North America and Oceania with the diversified customer base spread across multiple sectors. We offer bespoke and tailor-made solutions to our customers, so our customer contracts are generally long term, and our customer services are predominantly in the 3PL space and evolved overseas markets, we also offer 4PL service.

To summarize:

TVS Supply Chain Solutions is a company with a strong Indian base and the global presence offering Best in Class supply chain solutions across the globe.

With this short introduction, I shall now move to the performance highlights for Quarter 1 of Fiscal Year 2024-25:

At the outset, I would like to state that we continue the momentum of quarter-on-quarter profit-led growth in both ISCS and Network Solutions segments. The ISCS segment delivered quarter-on-quarter growth of 3.4% linearly and growth of 8.1% on a year-on-year basis and grew both in India and the rest of world operations.

The Network Solutions segment grew handsomely and delivered quarter-on-quarter revenue growth of 6.4% and 14.8% on a year-on-year basis. Business development continues to be robust across the segments and contributed 10.7% of total revenue. At a consolidated level, the company achieved a revenue growth of 10.9% on a year-on-year basis and 4.7% on a Q-on-Q basis. The company reported PBT of Rs. 13.7 crores which reflects our resilience and quarter-on-quarter profit enhancement measures.

With this brief background, let me hand it over to Ravi Prakash - our Global CFO, who will then take you through a detailed analysis of the numbers.

Ravi Prakash: Thank you, Ravi. Good afternoon, everybody and thank you for joining the Q1 FY25 Earnings Call.

Let me walk you through the highlights of our Financial Performance for the quarter ended 30th June 2024:

In the last Earnings Call, we had called out that the company had reached an important milestone on its revenue and margin journey by growing consolidated revenue and delivering positive PBT. This is with reference to the earnings call in Q4. This Quarter's Results provide further evidence that we are continuing on this journey and further building on the growth momentum.

With that let me walk you through an analysis of the key line items in the financials:

Q1 FY25 revenue was Rs. 2,539.4 crores compared to Rs. 2,426.3 crores in the previous quarter and Rs. 2,288.9 crores in Q1 FY24. This translates to a year-on-year growth of 10.9% and quarter-on-quarter growth of 4.7%. The drivers of this revenue performance first, both our segments Integrated Supply Chain Solutions and Network Solutions have delivered strong growth. The ISCS segment grew 8.1% and the Network segment grew 14.8%.

In the Network segment, revenue growth was driven by healthy volume growth in the forwarding business. Revenues from business development maintained their momentum with Rs. 246 crores being clocked in this quarter, which is about 10.7% of the base revenue. The pipeline of orders continues to be healthy. So, these are the three components which kind of helped deliver the strong revenue performance. Other income for the quarter was Rs. 5.6 crores compared to Rs. 6.8 crores in the last quarter and 18.2 in Q1 of last year. Other income in the quarter was mostly interest from bank deposits and a little bit of FOREX gain. With this, total income for the quarter was Rs. 2,545 crores, which was a growth of 10.3% year-on-year and 4.6% sequentially.

I now move to a brief explanation of how the major expense line items have evolved and have resulted in margin performance:

Material costs for Q1 FY25 were Rs. 488.7 crores, which increased 17.3% on a year-on-year basis and 4.6% on a quarter-on-quarter basis. Incremental material cost is on account of the change in business mix in the rest of the world operations and this is due to the nature of the contracts that we have entered to in some of the geographies. The company can manage these fluctuations within its gross margin and offset any variations through it through operating leverage. Freight clearing, forwarding and handling expenses being variable in nature increased due to the higher volume of trade handled in the GFS business and due to additional cost charged by ocean carriers on account of the Red Sea situation. This expense line was up for the quarter by 29.2% year-on-year and 15% on a quarter-on-quarter basis due to the reasons that I have already described.

Employee benefit expense for the quarter was Rs. 576.8 crores up 4.9% year-on-year and 1.5% quarter-on-quarter basis. The year-on-year increase in employee benefit expenses is on account of the ramp up in customer engagements in the ISCS segments and these costs are absorbed in the gross margin of the respective contracts. In fact, the rest of the employee expense, which is mostly overhead in nature, came in pretty flat. With these numbers, the ISCS segment reported an adjusted EBITDA of 9.7%, which is pretty much in the range that we had always talked about EBITDA of 9.5% to 10%.

I would like to spend a little bit of time on the EBIT performance of this quarter. We have added about 30 basis points of EBIT margin versus the same period last year. That is the result of an increase in the absolute gross margin and the fixed cost leverage. This is in line with our midterm plan. EBIT improvement has been further supported by a drop in interest and we have managed the gross debt very tightly. In fact, you will notice that the gross debt is actually slightly lower than March numbers and we have funded the entire revenue growth through internal cash accruals. As a result, PBT margins have improved 100 basis points versus the same period last year, leading to a Rs. 13.7 crores PBT. We expect to build on this momentum in the ensuing quarters. This concludes a quick summary of our financials. I now hand it back to Mr. Ravi Viswanathan.

Ravi Viswanathan: Thank you, Ravi Prakash for the analysis.

Let me touch upon business development and the key engagements:

We have been able to grow revenue in both the ISCS and the NS segments for the quarter and also result in higher net profit for the quarter demonstrating turnaround of the business. Our BD continues to contribute 10.7% of the revenue across both ISCS and NS segments and for Q1, the BD contribution was Rs. 246 crores. And for those details, please refer to our investor presentation, pages 12 to 15.

We had significant new customer wins in both the segments. In ISCS, we had a global IT service provider in India, the metal forgings manufacturer in India, the passenger and commercial vehicle manufacturer in India, water management utility services provider in the UK and industrial machinery manufacturer in Europe and the passenger car manufacturer in the US are some of the customer wins that I wish to call out. Some of the new customer wins in the Network Solutions segment were the global electronic component manufacturer in the Asia Pacific, two-wheeler manufacturer in India, the furniture manufacturer in Asia Pacific, material handling equipment manufacturer in the UK and a system integrator on IT services company in Europe. What is exciting for us is that our pipeline of new opportunities continues to be strong and we are building on that strength quarter-on-quarter and it currently presents a revenue opportunity annualized in excess of Rs. 4,000 crores.

While on the subject, I would probably like to call out two key developments. Firstly, our contract in the UK with the leading energy major company which was announced last year where we offer best in class inventory optimization and final mile delivery solutions at a very large scale and complexity. This unique solution offered has now opened the doors for TVS SCS in Europe to participate in large deals in the UK region. And what is worthwhile mentioning is that the average deal size since we signed that contract has more than tripled to £9 million from £2.7 million before we engaged with this utility company. By the same token, farm equipment manufacturer in the US, we have an engagement of 4PL solution involving inventory and aftermarket warehouse solutions, again of large scale and complexity in the USA and offered by TVS SCS in North America.

Thanks to the fulfillment of this prestigious contract, we are now seeing actively engaged in similar sized opportunities, which otherwise we were not invited to. Now, the average new opportunity size in the US has more than doubled in the last 12 months if I look at my pipeline. We are motivated by these wins and given the large deals in the pipeline, we are confident on continuing the revenue growth and BD driven revenue growth momentum. In terms of deliverance meaning engagement, we have delivered of significance in the last quarter. I would add the following. We announced a 5-year strategic supply chain contract with the global auto major which amongst key deliverables include handling 8,000 SKUs and 65,000 order lines. This signifies the trust placed on the company to handle critical supply chains for the global auto major company. We achieved our milestone of handling 500,000 completely knocked down kits for a domestic auto major company for its EOU plant through our offer of world class sub-assembly and kitting services, which are unique in state-of-the-art solutions.

We had earlier mentioned about a global account management and on the way forward we are present across 4 continents in the bouquet of service offerings and marquee customers that we have. We are uniquely placed to grow the widespread captive customer base. The company has embarked on a global account management program for about 10 customers with three key objectives, namely cross sell more of this capability, cross sell across geographies and tap the economies of scale. Today, we have over 60 active proposals across these global accounts which we are pursuing. And all of this comes because of the growth enabled, which is the IT platform, IT systems and IT is the backbone of the supply chain service offering of the company and IT based applications provide the impetus for reaching new customers and enhancing the wallet share among our existing customers.

During the quarter that just concluded, we implemented several key tech initiatives across our businesses and what we would like to call out is predominantly in the area where we are deploying AI at scale. We have Alpha Platform in India which uses AI to validate Proof of Delivery, and this is in the India transportation platform. We implemented our vision inspection using AIML in the sub-assembly processes allowing for real-time quality checks for one of our large customers in TVS SCS North America. An AI based polarized light damage detection deployed for our beverage clients in Europe and finally working closely with academia we have a partnership with the leading UK based university focusing on AI governance and how to implement it as a core structure throughout our businesses globally.

In Summary:

Q1 FY25, we continued with our revenue growth, and we have revenue growth across both our segments, and we are back to quarter-on-quarter profit-led growth.

With that, let me open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanjay Shah from KSA Securities Private Limited. Please go ahead.

Sanjay Shah: Sir, Thanks for the opportunity congrats for the good numbers, nice presentation and I appreciate the way you explained and make us understand the company. The question which was coming to my mind was regarding the growth and the complexity of the solutions, what we provide and the third-party logistics that is 3PL which is growing at a very rampant speed world over and in India, so can you highlight upon it how we stand because we are now growing global. So, how do you see the difference between what you do for the customer in India as well as outside India, is there any change in the requirement and what we offer to them and what is our future offerings to them?

Ravi Viswanathan: Thank you for the question and the wishes. Let me answer by saying, we are operating across two distinct regions, India and rest of the world. What we are seeing in the rest of the world is, I would say large scale outsourcing, which means that organizations are outsourcing, bulk of their 3PL and 4PL activities and our solutioning combined with our ability to bring in a lot of technology into our solutions is the key differentiator as we deploy large scale outsource operations for our customers. Some of the example I gave, whether it is the beverage industry or the farm equipment or the commercial vehicle that we spoke about or the utility company, they are all mega projects if you want to call it, which is basically transformational in nature. So, we are taking over the supply chain operations, transforming it both from a process and a technology perspective and bringing in higher levels of efficiency. So, they are typically 5, 7, 9, 10-year contracts which clearly outlines how the transformation will layout. We had mentioned it earlier in our earnings call that India is an evolving outsourcing market. We obviously need to work very hard in ensuring that we propagate all our success stories and our capabilities and ensure that we are participating as the outsourcing market opens up. India, it is still a 3PL and maybe more value-added services like contracts and not supply chain outsourcing per se. But the key common thread in both of this is the use of technology. In both India and rest of the world, we focus on putting technology to play and bringing in high level of automation in the processes that we are deploying across the globe, but there are different platforms, one for India and one for the different parts of the globe. I don't know if I answered that question sufficiently, but I am happy to take more questions as we go along.

Sanjay Shah: Sir, that was really helpful. My second question was just to understand our ISCS and networking what we cater to and offer solutions to our customers, how do we actually do that? I am sure it is a basic question, but we need to really be helpful to us to understand how it is managed globally, we use the outsourced third-party to support our solutions or we have our in-house solutions for everything?

Ravi Viswanathan: So, most of the time, the solutioning is done by us, by our company of course, but we do engage with a lot of third-party providers or maybe services like warehousing or transportation, but bringing in together of all of the pieces and stringing it together with technology is where the differentiation comes and where the efficiency is built. So, for example, I said we are an asset light company, so we don't own any transportation fleet, nor do we have an extensive network of our own warehouses. So, we will lease these facilities from third-party providers and make it into our solution when we go in for our customer engagement.

Moderator: Thank you. The next question is from the line of Disha Giria from Ashika Institutional Equities. Please go ahead.

Disha Giria: Sir, first I wanted to understand, there has been degrowth in the ISCS segment in the India region. So, could you give some idea on the same? The NS segment has performed exceptionally well in both India and rest of the world, but the ISCS segment faced a 6% decline. So, could you give some flavor on the same?

Ravi Viswanathan: Let me probably first take it and then Ravi Prakash can add to it. As you have seen from the data, Q1 has been relatively soft in India, probably because of the elections, but what we did see was a higher push towards exports. And that explains why we had a higher NS business as compared to the ISCS business. But from an ISCS perspective, we have quite a few deals out there in the pipeline which is looking very healthy. I would call it a quarter phenomena rather than anything which is trending. Ravi you may want to add to this.

Ravi Prakash: Disha, I kind of build on what Ravi Viswanathan already said. I will look at this more as a timing thing. If you go back to what we had put out in the Q4 Earnings, we had given three years CAGR and you will find that across 3 years, all three businesses, Europe, North America and India were growing at about 17% to 18%. So, over a couple of quarters, these things normalize, sometimes because of the timing of deals or like Ravi talked about elections or a couple of things, one or two quarters might be up or down, but over a four to six quarter period, these things normalize.

Disha Giria: So, for the FY ending March 2025, what would be your outlook for the NS segment?

Ravi Viswanathan: For the NS segment ? Look for the NS segment in terms of the revenue that you have seen in this quarter, that is probably a good number to start with because we kind of see that run rate continuing. The only change and that maybe we can look at it towards the end of the calendar year is the Red Sea. Right now, prices are a little bit elevated. There is an impact of approximately Rs. 30-Rs. 40 crores on revenue this quarter because of the Red Sea situation. That maybe in the next couple of quarters we will have to reevaluate. Other than that, the underlying trends, I would expect them to continue.

Disha Giria: Secondly, in the annual report, if I see your total number of customers has been kind of declining like it was 10,531 in FY22, but 6,909 in FY24, so could you give some sense on it?

Ravi Prakash: So, Disha, actually I would like to break it up. So, we have two kinds of customers. About 2000 to 3000 customers are what I call the core customers who have been there for a very long time. But in the freight forwarding business, we have a long tail of customers. And many of them came on board during the COVID period and they are more tactical in nature. They might do a couple of shipments and they might fall off. So, that is the reason you will find that the number of customers has declined. But on the other hand, if you look at the business development every year, we have been doing the same numbers, Rs. 1,200-Rs. 1,300 crores and the revenue has grown. So, in terms of real revenue, what do you call big revenue contributors, we are doing well, and the number of Fortune 500 customers is actually going up year-on-year.

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

Anshul Agarwal: Sir, could you throw some light on the difference between the Indian supply chain market versus other developed markets. I understand we are far behind in terms of evolution, but say in terms of margins, competitive intensity or efficiency, productivity levers that we would have in the Indian markets versus the developed market?

Ravi Viswanathan: So, I think I partially addressed Anshul, in the first question, but the Western hemisphere is predominantly, I would say driven by large outsourcing opportunity. So, typically you would go and pitch for moving entire sourcing and procurement of the certain organizations or managing the entire operations of a certain industrial customer or managing the entire aftermarket for auto provider or the like. So, they are typically larger deals positioned as outsourcing opportunity and they are also typically multiyear deals with built-in efficiencies year-on-year. So, if you look at it from an IT perspective, which is multiyear every year, efficiency is being backed in, so that by the end of the outsourcing period the company has had a significant cost takeout and efficiency build in into their supply chain operation, in India it is more evolving. And secondly let me also say that it is highly system driven meaning IT, and it is easy for us to price the IT in those kind of outsourcing deals or bake it in as part of the pricing in a very transparent manner. In India, I would say it is still evolving. I don't think we are seeing the likes of such outsourced deals. We probably saw one or two early in 2021, but since then we are not seeing very large-scale outsourcing deals. So, where we see our sweet spot is in taking parts of operations which we believe are inefficient in a customer organization and go and build a tailor made or a bespoke solution using technology components and building in that efficiency. So, from a pricing perspective, it is aggressive, more competitive. From a competitive perspective, I would say the market is probably as compared to outside as it is here and on the ISCS side, the margin profile would be not very different. It will be similar, but maybe Ravi Prakash can throw some light on those. But largely I would say systems, processes, outsourcing and the maturity of outsourcing is high in the western market is more evolving here in the India market.

Ravi Prakash: So, let me build Anshul, with a little bit of specific numbers, which probably might help you. If you take a typical Indian supply chain contract, three years is probably a good number. The customer relationship itself might exist for 10-15 years, but normally you would probably look at a three-year contract. In the UK, 5–7-year contract is quite normal. In the US as well, you can actually look forward to 5-7. There are contracts in the UK which you can go up to 10. So, in general, the average length of the contracts and I would refer you back to our Q4 Earnings Presentation, where we have given the average length of the contract for various geographies, you will find it is longest in Europe and then India and then North America. So, that is this. In terms of preparatory phase, typically in an Indian contract you are working for about maybe 6 months before you start up from the time you know of an opportunity to actually you starting to recognize revenue. I am not doing exact math, but anecdotally I would say about 6 months could be the leader. In the UK, it would typically be around a year at least if you are talking about large contracts which are about 5 to 7 years old. Now, how does that help in the margin profile? I will go back to what Mr. Ravi Viswanathan said, systems, processes and that means SLAs and in terms of deliverables are very tightly and in a great level of detail defined in the overseas market. The plus of that is you can plan your operations very well, so the degree of predictability is very high and if you execute the plan, the predictability of margins is very high. The margin absolute percentage itself may not be very different, but the predictability of margin is very high outside of India as long as you are meeting your deliverables. So, the ISCS business itself from an EBITDA perspective as a portfolio, we don't look for a country versus another country because most countries are actually moving in a similar region, except that the moment when you have a much longer contract, you have a better chance to plan, and you have a good period of ramp up and you have a longer period of burnout. I hope that kind of gives you a sense.

Anshul Agarwal: Definitely. A follow up question on this, since contracts in India are slightly shorter or way shorter than probably US or Europe, scalability in India would also be a challenge because from what I understand in this market, you need to demonstrate, you need to first because these are all customized contracts, right, you need to understand the customers businesses, processes, then demonstrate how you will add value and then probably you will get that contract. Please correct me if I am wrong?

Ravi Viswanathan: I think what you are saying is right, but scalability is not a challenge. What you are saying is absolutely right. We have to prove the concept. We probably would run a quick pilot to ensure that the systems and processes that we are talking about are proofing the solution. But scalability per se, we can do a fair amount of lift and drop of processing systems across engagement. So, that is probably something which we are focusing on and to

Ravi Prakash: just to build on that, see look there is one thing which is very similar between India and rest of the world. The contract to me is only a paper definition of a project. The relationship actually in both cases is at least 10 to 11 years. In both countries, both India and rest of the world, customer might in India renew the contract every 3 years and the customer in the UK might renew it once in 5 or 7 years. But if you look at our 20-year experience has been that the length of the customer relationship continues. So, going back to your scalability questions, when we go into a customer, our intention is that we are going in with, hey listen, we are here to make a long-term difference to the customer's supply chain. That is how we operate and therefore we can actually deliver value.

Anshul Agarwal: And even just one last question on this again, so can I say operating leverage only kicks in by farming an account?

Ravi Prakash: No, let me clarify the operating leverage. There are two parts to the operating leverage. See, there is a contract level leverage and then there is a company level leverage. When you talk about a contract level leverage, at a contract, let us assume you are trying to take a contract at a gross margin of X. That leverage moves in a pretty narrow band, 50 to 100 basis points. If you have a contract, which is geared for X, it is never going to become 2x, nor is it going to become 0.5X because there at the contract level it is a pretty narrow band, and our contract is a unit of measure. What we are banking on is actually not contract level operating leverage, we are banking on company level operating leverage. What do I mean by that? If today we have, I am just making a few 1000 contracts in the company, all these contracts are supported by a sales team, a solutions team, finance, HR, management. That total cost of the company is approximately 10.5% to 11% to the company of the revenue. If I take a global benchmark, that number can come down to anywhere between 8% and 9%, so there is about 200 to 250 basis of leverage available. What we are banking on is if we can as a portfolio keep our gross margin percentage in a narrow band, every incremental contract at the EBITDA level and at the more importantly at the EBIT level contributes higher than the existing business and that is what I call company level leverage, which is what we have been, even again, I will refer you back to our Q4 earnings presentation, what we call as operating leverage that is what we refer to for long term margin growth.

Moderator: Thank you so much. The next question is from the line of Soumil Shah from Paras Investment. Please go ahead.

Soumil Shah: Sir, in your presentation you have a medium-term outlook of 4% PBT by FY27. So, how confident are we to achieve that? And can you also guide us on your revenue front by FY27, what revenue growth can we look at?

Ravi Viswanathan: Let me answer that question. Let us look at it as two parts. The revenue growth is driven, like I said across what I would call 3 fundamental drivers. One is what I would call as large contracts today that we are participating in, which otherwise we were not participating in. So, I told you that the average deal size in the UK has tripled, the average deal size in the US has more than doubled and what it basically means that today we are into more of the multimillion multiyear contracts than we ever were before and that was coming because we have a very strong now a track record and also the ability to now win and deliver large size projects. So, first and foremost, that is going to be a significant inflection point in terms of our revenue numbers. Our revenue should exponentiate going forward given that we are participating in quite a few large deals and winning just one, two or maybe three of them could significantly alter that graph in our favor. The second is we are today working with a lot of Fortune 500 customers and one of the things that we have done is to spawn off a global account management program where we are saying for an account, we do now have a one account manager who is looking at the opportunity landscape not just within one region, which is how it used to be in the past, but the entire account and globally and therefore creating more opportunities both away from the home geography and also in multiple capabilities that we operate in. That has increased the throughput of opportunities and therefore an expansion of the pipeline and the potential for us to convert them into revenue in the short to medium term, so again another driver which gets our revenue in. The third, I would say is a huge differentiator. I spoke about AI that we are deploying at scale. We have always showcased our technology and today we are showing more and more of that. We today in three main geographies, that is the US, in Europe and in India we are showcasing AI at scale, we have an early AI program now in Asia Pacific too. So, the entire operations of ours, we will have showcased AI programs at scale and how we are bringing that to bear when it comes to our solutioning and therefore differentiating ourselves in the market. And our engagement with one of the leading universities in the UK is only going to further that or accelerate that whole progress. So, three main components, large, very large deals, global accounts and thirdly, the way we are leveraging technology in our solution, all of that puts us on a path to exponentiate our revenue growth and of course with that revenue growth comes opportunity for us to scale our EBITDA and PBT numbers and Ravi, you want to touch upon any of the margin related, 4% margin that Soumil has spoken about?

Ravi Prakash: Soumil, to me, the 4% in the company, if we think about it as if you are about 3 years away, 12 quarters away. And that is what we have been saying from our first earnings call. Every quarter has to be better than the previous quarter. So, in four quarters, what can we demonstrate, the PBT margin in Q1 FY25 is 100 basis points better than what it was in Q1 FY24. And sequentially, it has been better for the last three quarters. That is what we are focused on. It goes back to my comment about company leverage. The three levers are very simple. Have a strong pipeline which leads to double-digit revenue growth, step one; manage your gross margin in a very tight band, step 2; keep your overhead growing at a rate lower than the revenue, step 3. Naturally, t3he incremental gross margin most of it falls down to the bottom line and therefore at the company level leverage improves your PBT margin. And we are managing our debt again in a very tight manner. So, that is how we plan to build it and at the moment, we believe we are on that track.

Soumil Shah: So, at least, in terms of revenue, we can see a double-digit growth, year-on-year?

Ravi Viswanathan: I don't want to fall short of giving you guidance, but the organization's focus is definitely towards converting all of these large deals and hopefully also gets significant mileage out of the global accounts that we have identified.

Soumil Shah: And sir, what is our gross total debt position as on today?

Ravi Prakash: Rs. 775 crores, all of it is only working capital debt. It used to be Rs. 795 in Q4 and before the IPO it was Rs. 1,700 crores. So, it came down from Rs. 1,700 crores to Rs. 795 to Rs. 775. I think what we have done is incremental revenue, the working capital required for that, we are funding internally. So, we are keeping the debt in a very narrow band.

Soumil Shah: But sir, I am unable to understand in every quarter, I think this quarter we have paid about Rs. 40 crores interest. So, yearly it comes to around Rs. 160 crore and the debt is around Rs. 800 crores. So, I am not able to understand why so much….

Ravi Prakash: Let me clarify that. The interest portion, because the interest number includes the IndAS interest. If you actually split it out, the bank interest is actually Rs. 17 crores. So, on Rs. 775 it is Rs. 17 crores per quarter. Right now, we are at about Rs. 17.2 crores per quarter.

Soumil Shah: And the remaining amount?

Ravi Prakash: That is the IndAS interest, the lease rental interest that is just an accounting thing.

Soumil Shah: And sir, same way with the depreciation part also?

Ravi Prakash: Same thing with the depreciation. The IndAS depreciation is different from the actual depreciation.

Soumil Shah: So, what could be the actual depreciation? Could you please guide us?

Ravi Prakash: I think we have given that in the balance sheet in Q4. You can look it up or later on, maybe follow up with our IR team, we will give you the numbers, maybe we give us another chance because there is a long question queue, if you don't mind, let us give others a chance.

Moderator: Thank you so much. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Sir, my question is related now when we are talking of large deal, see in some of the deal that where we have to buy the material on our account on behalf of the customer like particularly servicing ATM and all, such kind of a deal. Now, when we are talking of such a new deal which we want, does it include that also and on account of that how much additional working capital we may need to require?

Ravi Prakash: So, let me answer that Bharat. In general, we don't take inventory on our books, for example the large UK utility company deal, there is no inventory involved. In general, we prefer to take a pure service contract where we are only paying for people and maybe some of the equipment and technology that we put in place. That is the general policy of the company. Having said that there are a few deals and I underline the word few where large customers would like you to make their process simpler. Buy inventory on their behalf and just not buy, they would like you to store it. In many cases, do some kind of value addition to it in terms of assembly or whatever it is and deploy it. So, whenever we take a deal which involves some inventory purchase, we don't take a standalone inventory purchase deal. Typically, it is combined with other services that we offer and those deals are not, we are very careful about the number of such deals we take and those deals are always backed by very strong working capital practices from the customer. For example, we do these deals in the UK and US. In most cases, we have very favorable payment terms. So, the working capital that we deploy on that does not actually place a burden on the company. Therefore, in fact, if you look at it, our material cost this quarter has gone up significantly because of one of those contracts in the US, but you will see that my debt has not gone up. The gross debt has not gone up. In fact, it has come down because we are able to manage the working capital quite well.

Bharat Sheth: Then second question is now when we purchase inventory and keep in on behalf of the customer, so who in case of movement of the prices of those inventory, who will bear the risk?

Ravi Prakash: That we don't take any risk at all. So, we don't take any risk of total quantity or price of inventory. That is 100% with the customer. We never speculate on price or quantity. So, the inventory is always procured based on a fixed or a forecast by the customer. And typically, we always have an understanding in terms of the utilization of the inventory. So, in fact, if you look at our financials over the last 5-6 years, you will never see anywhere where there has been a risk either on price or on inventory write-off.

Bharat Sheth: And going ahead, it will not affect any way either our profitability or working capital requirement. Is that fair understanding?

Ravi Prakash: Yes. See, look at the profitability, right, you think of these contracts as part of the overall mix. There are some contracts which come here, and we tend to look at the advantages of doing these contracts because if you are doing inventory for a customer, the customer is that much stickier with you. We do it selectively for very good customers and we kind of do it. And like I said, we are quite confident that we can manage the gross margin percentage at the overall portfolio level.

Ravi Viswanathan: So, just let me add to that, Bharat. So, today one of our largest customers in the US, we started the relationship with an engagement which was probably more to do with the kind of one that you mentioned. And we were billing maybe about $5-$6 million a year to the customer. Today, we have expanded the scope of services with that customer, where we probably are billing the same amount on a monthly basis. So, many times it is to our tactical advantage, like Ravi Prakash said, getting into the engagement creates stickiness with the customer. We also have a very strong understanding of what happens to those inventory items and therefore the ability for us to go back with proactive proposals where we can value add and create more opportunities for us to engage in. So, this is a classic example in the US where we started predominantly with this kind of an engagement, but today we are full services player, billing almost $5-$6 million a month.

Bharat Sheth: Second question, last year we rationalized some of our warehousing, so currently now where do we stand in that process of rationalization of warehouses?

Ravi Prakash: So, look this thing as looking at our warehousing space and network is a continuous process. Every time as we look at our deals, as we see the business footprint, we keep evaluating our warehousing space. We keep evaluating the network and we keep adjusting it accordingly depending upon what we know of existing customers and what new contracts are going on. So, I look at this more as an ongoing process, it is not a onetime thing.

Bharat Sheth: And are we seeing more occupancy in our warehouses in India?

Ravi Prakash: So, in our case, we typically don't take warehouses on “a speculative basis.” All our warehouses are backed by customer contract. So, it is not that first we do a warehouse and then look for customers. It is typically we win the contract and then get a warehouse. So, most of our warehouses probably will be operating it upwards of 85% capacity.

Bharat Sheth: And international also the same way?

Ravi Viswanathan: Yes, the model is similar.

Moderator: Thank you very much. The next question is from the line of Vaibhav Shah from JM Financial. Please go ahead.

Vaibhav Shah: Sir, I had a few questions. So, firstly, you indicated that the margin in the ISCS business could be in the range of 9.5% to 10% going forward as well. But if I look at your last year, in the first 9 months, margins were around 10.4% between 10% and 10.5% range, so why has the margin come off and are these levels sustainable or there is further possibility of a reduction or we can go back to that 10%-10.5% levels as well?

Ravi Prakash: So, Vaibhav, actually if you go back last year, right, and we had said that in the earnings call earlier as well, there was about onetime income on consultancy that we had in one of those quarters which took the margin to 10.4%. In fact, as we went into the IPO, we had said 10% as an "aspirational goal" for the segment. And we have always been saying that we seem to have gotten there much faster and that is why we have kind of given a range of 9.5% to 10.5%, 9.5% to 10%. So, at the moment we are quite comfortable in the range of 9.5% to 10% and that is what we should see coming in the next couple of quarters as well.

Vaibhav Shah: Sir secondly, if I look at the growth in this quarter both in terms of revenue for ISCS and NS segment, so that revenue growth should be similar for rest of the year as well on a Y-o-Y basis?

Ravi Prakash: Let me put it differently, Vaibhav. If you look at the ISCS revenue, you can see sequentially for the last 4, 5, 6 quarters, we have been adding about 3%-4% every quarter, right. If you go back to our guidance, it is very simple, the business development is running at about Rs. 250-Rs. 260 crores. You have the base revenue of ISCS that can give you a pretty good sense of where we are. Revenue is predictable and from going forward, if anything, this quarter's revenue should replicate and might probably move up a little bit. That is where we are. On the NS segment, I also said that this quarter we had this onetime, how should I say, I won't call it a benefit, elevation because of the Red Sea surcharge, which is roughly equal to Rs. 40 crores this quarter. Now, I don't know how long this will continue, but at least for the next couple of quarters, that is something that is probably "extraordinary." Other than that, the rates if you adjust for that in the freight forwarding segment are pretty much back to normal levels. So, even NS revenue for that Rs. 40 crores, if you take that out, we are more or less on a decent run rate. So, that should give you a sense of where the year should end.

Vaibhav Shah: And sir, lastly on the debt side, how do we expect it to come off in the next, maybe by March 25?

Ravi Prakash: I wouldn't expect it to come off. This is probably, I would expect it to move in a narrow band, Vaibhav.

Vaibhav Shah: So, it should be in similar range, roughly around Rs. 775 odd crores?

Ravi Prakash: Definitely, I don't expect Rs. 775 to go to Rs. 500, for example, Rs. 775, maybe Rs. 800, maybe Rs. 750. That is more a quarterly may be we do, look significant portion of that is actually going into, as revenue grows, some of it is going with the investment. So, we will try and make it more the narrow. We will try and manage it in the narrow band. That is what I would say.

Moderator: Thank you so much. The next question is from the line of Disha Giria from Ashika Institutional Equities. Please go ahead.

Disha Giria: Sir, you briefly mentioned regarding the Red Sea surcharge of around Rs. 40 crores, so can you just elaborate on the same?

Ravi Prakash: So, what is happening Disha is because of the Red Sea situation, ships are having to go down the Cape of Good Hope, all the way around South Africa to go to Europe when they moved from Asia to Europe, right. So, that is actually creating an incremental cost for the lines which they are passing on to customers and freight forward with some customers as a surcharge. So, if let us say if a container normally used to cost say $1,000, now you have to add the incremental cost of this round trip around the African continent to the cost. So, that is the Red Sea surcharge.

Ravi Viswanathan: Typically, the carriers are incurring more costs, and we don't get a percentage of that increase. So, we see a revenue increase, but not a not a margin impact. Therefore, the margin percentage actually drops a little bit because of that surcharge. Does that explain Disha?

Disha Giria: So, going forward also would our entire like the margin percentage be around the same range as it was in 1st Quarter?

Ravi Prakash: I think as long as you have the Red Sea situation, at least for the next couple of quarters, I think that is where we will probably see this.

Moderator: Thank you. The last question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Sir, I just want a small question on, so in global freight forwarding, which are the major route we are operating? If you can give some color like Europe is contributing how much and other reason contribution of percentage or total?

Ravi Viswanathan: No, I don't think we are disclosing that as yet. Hopefully we will get to that level maybe a bit later, but we basically operate around 14 lanes across the globe, 8 sea lanes and about 6 air lane. So, China-Australia is an important lane, India to Europe, India to the US is a big lane, similarly China-Europe is a big lane. Airlines wise, Germany-Singapore, Germany-Australia, Singapore-Australia, they are all significantly large lanes, so broadly 14 lanes, 8 ocean lanes and six air lane.

Moderator: Thank you. Ladies and gentlemen, I would now hand the conference over to the management for the closing comments.

Ravi Viswanathan: Thank you so much. It was a very engaging session. I hope all of you had a good view into the company and also the performance of the company and the outlook as we go forward. I would like to thank all of the participants for being part of the discussion on the business performance and the outlook. It is a pleasure interacting with you and look forward to seeing and speaking with all of you in a few months' time. Thank you. Have a good day. Thank you.

Moderator: On behalf of TVS Supply Chain Solution Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.