"TVS Supply Chain Solutions Limited

Q2 and H1 FY25 Earnings Conference Call"

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E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 12th November 2024 will prevail.

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Moderator: Ladies and gentlemen, welcome to the Q2 and H1 FY'25 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 date of this call. These statements do not guarantee the future performance of the company and it may involve risks and uncertainties that are difficult to predict.

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 star then zero on your touchtone telephone. Please note that this conference is being recorded.

Now, I hand over the conference to Mr. J. Sivakumar of TVS Supply Chain Solutions Limited. Thank you and over to you sir.

J. Sivakumar: Thank you Riddhi. Good evening and welcome all to the TVS Supply Chain Earnings Call for Q2 FY25 and H1 FY25. I hope everyone had a chance to look at the financial results and investor presentation which were recently posted in the company website and also in the stock exchanges. We have with us today Mr. Ravi Viswanathan, our Managing Director and Mr. Ravi Prakash, our Global CFO. We commence the call now with opening remarks from our management team followed by an open forum for questions and answers.

Before we begin a customary remark, I would like to point out that some of the statements made during this call may be forward-looking in nature and must be reviewed in conjunction with the risks that company faces. A disclaimer to this effect has been included in the investor presentation and I request and hand it over to Mr. Ravi Viswanathan, Managing Director of the company to make the opening remarks.

Ravi Viswanathan: Thank you JS and good evening to all of you. Firstly, let me welcome all of you once again to our earnings call to discuss the performance in Q2 Fiscal Year 2024-25 and for the first half of the Fiscal Year 2024-25. I will share with you the highlights of our performance and as always my colleague, Ravi Prakash, our Global CFO will take you to the analysis of our numbers. We look forward to interacting with you as part of the Q&A 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 the first time. TVS Supply Chain Solutions is a tech-led and asset-light supply chain solutions provider with capabilities across the value chain. The company has two main business segments, namely Integrated Supply Chain Solutions, or the ISCS segment, and Network Solutions or the NS segment. Our presence spans four continents, Asia, Europe, North America and Oceania, with a 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 in nature and our customer services are predominantly in the 3PL space and in evolved overseas markets, we also offer 4PL service in the ISCS space. To summarize, TVS Supply Chain Solutions is a company with a strong Indian base and a global presence, offering best-in-class supply chain solutions across the globe. Let me give a brief business overview, followed by the operational highlights and financial performance in Q2 FY25 and H1 FY25, and our focus areas for the remainder of the year.

The ISCS segment continues to drive the overall profitability of the company through robust customer contracts and pricing benefits. In the freight forwarding segment, the company grew its revenue impressively, despite the macro economic factors both in the ocean side – I mean, mainly in the ocean side of the freight traffic. Firstly, the Red Sea situation is continuing where quite a few carriers are being diverted via the Cape route, thereby limiting their effective carrier capacity, triggering longer voyages, increasing fuel consumption and therefore running costs.

Secondly, this quarter also saw dock workers' three-day strike in U.S. ports which impacted 36 ports in the Eastern Coast of the USA, and this strike impacted routine clearance and caused unusual delays in freight clearances across the Eastern sea board. As informed in the previous call, the integrated final mile or the IFM segment within the network solution segment is in the turnaround phase where we are witnessing the benefits of process excellence through digitization initiatives and smart cost reduction measures. We expect by end of H2 FY25, the IFM segment will be back to run rate profitability.

Now, moving on to the performance highlights for quarter 2 of Fiscal Year 2025 and H1 of FY24-25. Firstly, we continue the momentum of the quarter-on-quarter profit-led growth for the fifth successive quarter as envisaged. Q2 FY25 consolidated revenue remained flat in comparison with previous quarter, while it grew by 11% on a year-on-year basis. In terms of segmental performance, both ISCS and NS segments grew on a year-on-year basis. Business development continues to be robust across the segments and contributed 12.4% of the Q2 FY24 revenue in this quarter.

The company reported a PBT of INR 17.9 crores for the quarter, reflecting a strong resilience and orderly performance. Now, a quick look at the H1 FY25 performance. Consolidated revenue for H1 FY25 grew by 11% compared to the corresponding previous year. PBT for the same period H1 FY25 was INR 31.6 crores, reflecting progressive turnaround compared to the loss in the corresponding year. 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 evening, everybody. An opening comment, the Q2 results reflect the benefits of sustained revenue growth and our ability to manage our borrowings in a very tight band. That's what's driving the PBT performance. Let me walk you through line by line. Q2 FY25 revenue was INR 2,512.9 crores compared to INR 2,269.9 crores for the same period last year. That represents 11% growth year-on-year and this growth was quite driven primarily by the network segment, but also a pretty strong performance in the supply chain segment. The ISCS segment grew 6.2% on a year-on-year basis. The network segment grew impressively.

It delivered a quarter-on-quarter growth of 4.6% and 17.2% on a year-on-year basis. This was driven by healthy volume growth in the forwarding business which was also supported by higher ocean freight rates. Revenues from business development maintained their momentum, with

INR 280 crores being clocked in this quarter. This reflects a pretty healthy order pipeline. We have shared the numbers in our earnings presentation.

The pipeline today stands at about INR 4,500 crores. So the combination of volume, ISCS momentum and business development helped sustain the revenue performance. Other income for the quarter was INR 28.6 crores and that was primarily due to the interest from bank deposits and forex gains. With this, the total income for the quarter was INR 2,541.5 crores which is a 11.9% growth on a year-on-year basis. When we look at H1 performance versus H1 of last year, the revenue performance is quite similar. We again grew 11%, pretty much in line with what we have been indicating in the past.

So, the number was about INR 5,552.3 crores versus a corresponding number of INR 4,551.8 last year. Segmentally, ISCS grew 7.2% while network segment revenue grew 16%. Now I will quickly move to an explanation of how some of the major expense line items have evolved. Material costs for the quarter were about INR 434.3 crores. They reduced on a quarter-on-quarter basis, but increased on a year-on-year basis. The simple explanation is this is due to the change in the business mix in some of our overseas entities, which actually carry inventory as required on some contracts.

However, any fluctuation in inventory cost has been able to be offset within the gross margin through either operating leverage or efficiencies. 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 the additional surcharge levied by ocean carriers on account of the Red Sea situation. That's the reason that this expense line was up by almost 30.7% on a year-on-year basis and 1.6% on a quarter-on-quarter basis. Employee benefit expense for the quarter was INR 576.2 crores. It's kind of flat year-on-year as a quarter-on-quarter basis.

This reflects the fact that we are deploying additional manpower only as required within the gross margin of incremental contracts, but otherwise having a pretty tight rein on our employee costs. On the EBIT, Q2 EBIT numbers probably are better read after normalizing for the impact of forex losses and business transactions to the extent of about INR 7.51 crores. Normalizing for that, that would reflect a 6.9% growth year-on-year.

In conclusion, the ISCS segment continues to drive overall profitability, where you can see that EBITDA margins have hit almost 11%, and PBT margins have improved 100 basis points versus the same period last year leading to a INR 17.9 crores PBT. We expect to build on this momentum in the ensuing quarters. I'll be happy to provide further details during the question-and-answer session, and I'll hand it now back to Mr. Ravi Vishwanath.

Ravi Viswanathan: Thank you, Ravi Prakash, for the analysis. Let me touch upon business development and the key engagements. The sustained quarter-on-quarter profit led by growth is backed by strong BD. Our BD contributed about INR 280 crores for Q2 FY25 and INR 526 crores for H1 FY25, reflecting robust performance. We have those details in the investor presentation pages 11 to 13. We informed in the last earnings call how the company is able to win large deals in the mature markets, both in the UK and in the US after winning transformational deals in the UK and USA.

During the quarter, we won a significant new contract with a large industrial customer in North America. This is a multi-year transformational engagement with a total contract value in excess of INR 2,200 crores. This long-term transformational engagement is a testimony to TVS SCS specialized capabilities in complex assembly and automation and the value that we bring as a supply chain outsourcing partner.

Further in the ISCS segment, we had a global auto OEM based in the USA, leading beverages company in the UK, engine manufacturer based in India, a global agri-equipment company based in the USA and also from a kitchen equipment manufacturing company in the UK, where we have own fresh business.

Some of the new customers wins in the network solutions segment included a global engineering equipment manufacturing company, a system integrator/IT services company, a two- and three-wheeler manufacturing OEM in India, a global digital equipment manufacturer based in the UK.

As in the past, the 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 INR 4,500 crores. In the last quarter, we announced a 7-year strategic multi-supply framework contract with the UK agency for providing critical system spares and support, ensuring enhanced availability and operational readiness for their customers worldwide.

TVS SCS UK continues to be a key contributor by meeting the aspirational needs of the UK governmental agencies towards value creation. We also secured a new business contract from a leading manufacturer of earth-moving and construction equipment for managing their in-plant warehousing and logistics operations at their facilities for 3 years. This contract further signifies the growing contribution from the company to customer needs over the last two decades.

The company with a widespread geographical presence has been catering its bespoke solutions to multiple marquee customers. And through our global account management program, we have embarked on tapping the cross-selling opportunities within each of the identified marquee customers.

Currently, we have more than 190 proposals across these global accounts valued at approximately INR 1,800 crores, which are the multiple stages of contract structuring and negotiations. This capital base augurs well for revenue maximization and growth in the ensuing quarters. We continue to focus on delivering state-of-the-art IT-enabled solutions with security features enabled for every business area.

We delivered an end-to-end IT solution of order-to-cash and procurement-to-pay for a key auto OEM based in Singapore as part of our customer value enhancement during this quarter. As part of our security enhancement, we successfully moved to ISO 27001 standards in Singapore and USA with minimal/no open non-conformances. Deploying AI at scale is something I spoke about earlier and is a key focus area.

And in this regard, I'm glad to call out the following initiatives. We have an AI pilot project with large language model being used to support new business bids. We have a polarized light damage detection deployed for beverage clients in the UK and an auction price and target bidding module deployed for Courier Alliance in the UK.

In summary, the Q2 results demonstrate our ability to sustain growth momentum in both revenue and profit amid ongoing macroeconomic challenges. New business wins have added INR 280 crores of revenue for the quarter. Our global account management strategy helped us close large deals that gives us the confidence of sustaining the growth momentum.

Overall, when I look at the ability for the company over the last four or five quarters to close large deals, coupled with the fact that our pipeline is steadily increasing and given that there is a significant bias in this pipeline from our global accounts that we work with, it gives us tremendous confidence going forward that our revenue engine is chugging very, very efficiently.

Ravi Prakash spoke about the ISCS margins and we are at about 11% margins in the ISCS business. And with the network solution segment getting its improvement measures that we have implemented and with the confidence that the IFM will return to run rate profitability by the end of this fiscal, we are extremely bullish about what happens going forward. Overall, the results reflect our resilience in navigating a complex environment and we remain confident about our profitable growth in the coming quarters. 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 Vaibhav Shah from JM Financial Limited. Please go ahead.

Vaibhav Shah: Thanks for the opportunity. Firstly, on the margins for the quarter. So are these margins for especially ISCS business at 11% sustainable in the second half and even in the next couple of years?

Ravi Prakash: Vaibhav, any more questions or can I just go ahead and take that answer?

Vaibhav Shah: Yes, second question is that for the new order that we won INR 2,200 crores. So how big is the contract and how would the revenue flow over 2026 and 2027?

Ravi Prakash: Yes. So Vaibhav, first on the ISCS margins. Look, we've always been guiding that the margin around 10% to 10.5% would be our target margin for this segment. So I would kind of say that is what probably we would look forward to in the next few quarters. The 11% is kind of, we had a very strong quarter where two, three factors came together. A couple of contracts, we were able to invoice some of the startup, what you call consulting related services and stuff like that initially.

So I would say a more sustainable level is probably around 10.5%. That's what you should look forward to in the remaining quarters. In terms of the large contract that we talked about, we have started the buildup of the contract. The initial invoicing has started, but it will ramp up slowly and the full benefit of this contract will be seen from Q2 of FY26. That's when we'll hit the expected run rate revenue for this contract.

Vaibhav Shah: And if you could quantify your peak revenue annually and how long is the duration of the contract?

Ravi Viswanathan: So let me take that Ravi Prakash. Let me just say it's multi-year, more than 5 years. I'm restricted due to confidentiality on the term, but let me just say it's multi-year and more than 5 years in terms of contract duration and we expect the steady state revenue to be around about USD 30 million. So you can do the math there.

Vaibhav Shah: Okay. And so lastly on the NS segment, we saw the margins dip to 2.3%. So can we expect around the 4.5% to 5% margin in the second half or it will take some time to recoup maybe in fourth quarter?

Ravi Prakash: So look, 4.5%, I would say probably an exit this year is probably where we are trying to hit 4.5%. So look, we look at the NS margin in two steps Vaibhav. Till last quarter, we were doing about 4.5%. So the first step is to get back there. And that I would expect probably Q4, we probably have a chance of hitting that. But the ultimate goal remains at 7%. And that probably in the next three to four quarters we will get there.

I'll also offer a comment in terms of what's driving the margin this time, why we've got a hit on the margin. The Red Sea situation has added about INR 80 crores of revenue with literally no margin to the top line. So that is one factor. The second one is in the IFM business, we had messaged earlier that we expect the turnaround to be completed by Q3 and Q4 for the company to the business to hit run rate profitability. We are still on the same track. The IFM situation is all the cost measures and the pricing measures we have taken are helping.

We expect that by the end of this calendar year, those should be completed and we should start seeing the benefits in Q4. And that's why I'm saying that Q4, we should probably get back to initially about 4%-4.5% and later on then aim for a more sustainable 7% in the later part of next calendar year.

Vaibhav Shah: So 3Q could be somewhere in the range of say, 3%-3.5% somewhere between the 2Q and 4Q margins?

Ravi Viswanathan: Maybe we don't want to put a number on that. But I think I've given you a trajectory that should help you.

Vaibhav Shah: Okay sir. Those are my questions. I'll get back in the queue.

Moderator: Thank you. The next question is from the Jainam Shah from Equirus Securities Private Limited. Please go ahead.

Jainam Shah: So this question firstly is so the ISCS revenue India. If we see probably last 7-8quarters, the revenue has been quite stagnant. I guess in the first quarter, the comment was that because of the election and all, the revenue has been hit during that particular quarter. But if we see the second quarter also, it is down on a sequential basis. So what is happening in the ISCS India business? What kind of run rate we can expect going forward from this particular part?

Ravi Viswanathan: Okay. Any other questions?

Jainam Shah: We can go one by one, I guess.

Ravi Viswanathan: All right. So, yes, you're right. The first quarter was more to do with the macro. I would say the macro didn't significantly change, but we also took some significant correction in our business mix. So we exited some of, I would say, not so profitable revenue items in this quarter. So hopefully we'll get back to hitting the trajectory from Q4. In our model, that's the way we look at it. So this quarter, predominantly because we focused on profitability and exited significantly, I would say a couple of significant customer contracts, which were impeding our profit growth.

Jainam Shah: Got it. So on the network segment, as we are targeting 7% margin, if you would explain a bit how we would be going to that number. And what I understood from a normal industry perspective is that, of course, we can have additional margin in the IFM business, but freight forwarding might be having a similar margin going forward as well and if Red Sea is also going out then our revenue might be impacted because of the lower ocean freight rate.

So how we will be bridging the gap between 4.5% exit rate this year to the 7% in the next 1 or 2 years time? What could be the things that we would be doing specifically for the freight forwarding segment that might add up to the margin or is it just IFM that will be adding up to the margins?

Ravi Prakash: So let me take that question. I would think of two levers. See, the Red Sea situation is at some point, I mean, if you think of the P&L of the freight forwarding business without the Red Sea, you would already probably add 40-50 basis points to that segment because you will strip away unnecessary revenue and unnecessary costs, which are just inflating both lines. So that's the first step. The second step is, I think, as we have seen over the last couple of quarters, freight rates in general have normalized except for the Red Sea.

So therefore, margins are returning to a more normal level, which if you went back in history, we were able to do about 7% EBITDA margins in the freight forwarding segment. So we are actually not very far away from that on the freight forwarding segment. Now on the IFM, honestly, what is really pulling us back at this stage is, the IFM margins, which also used to be in the range of 7% or upwards, if you went back a few years, those are tracking significantly below where we expect them to be.

We have talked about it in the past this is because of a number of reasons, a few profitable contracts that were wound down, inflation in the UK, then there is increase in minimum wage in the UK, energy inflation. So a number of factors have come together. We have put in place measures to address all this, both pricing as well as cost measures. I always said that by end of Q3, we should be able to hit a more reasonable number there. And I believe we are on track for that. Q4 should be the first step.

So the IFM business, which is almost INR 1,800 to INR 1,900 crores of revenue on a run rate basis, the moment it hits reasonable margins, already you will see the impact on the network segment and that I expect to happen in Q4. And afterwards, when it hits its more normal run rate, that is the second step towards getting back to the seven. So that is the two steps that I see in this segment.

Jainam Shah: Got it. And sir, from a longer term perspective, if we see from the next 2 years, 3 years perspective, of course, we are having a really good order inflow as well as a really strong order pipeline as of now. What we are foreseeing in terms of the top line growth, like what kind of percentage revenue growth we can expect from a 2 years, 3 years perspective or maybe let's say medium term perspective, on a consistent basis?

Ravi Viswanathan: We are positioned to have a double digit growth and we are targeting somewhere in the mid-teens. That's the range you can think of as the rate of growth over the next 2 years to 3 years.

Jainam Shah: Got it. Sir, and just one clarification question. What has been the forex gain this quarter? It was INR 7.51 crores if I'm not wrong? The other income that we have reported of around INR 28 CR, what was the forex gain out of this 28 CR?

Ravi Prakash About INR 14 crores.

Jainam Shah: Okay. Interest would be around INR 7, INR 8 CR?

Ravi V Prakash: Yes, that would be the number.

Jainam Shah: Okay. Got it, sir. This is from my side. Thank you so much, sir.

Moderator: Thank you very much. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Thanks for the opportunity. Sir, my question pertains to the supply chain side of a business. India, as you explained, there is a decline. So, how is the future going forward? The growth will be led by the new customers or it would be volume growth from the existing customers? Also, which sectors we are targeting from India side?

Ravi Viswanathan So, we are in an interesting situation in India because there is definitely a lot of interest for a lot of companies to look at the China plus one strategy or the India strategy. And therefore, that is remaining a potential opportunity for us. We expected that to materialize sometime this year, but the velocity of that is not as much as we anticipated.

So, going forward, we clearly see that as an opportunity, clearly see a lot of MNCs moving part of their production base or their procurement base to India. That will give us opportunities both in the ISCS segment and the GFS segment.

We are in dialogue with a couple of our large global accounts who are looking at that as a strategy, and clearly that will represent an opportunity for us too. So, I would call that as new revenue. And then, for us the sectors that we look at, clearly we look at distribution, FMCG. This is a sector where we are seeing a lot of opportunities.

We are already participating in some of that and therefore we look at that growth continuing to deliver. So, that will be more what I would call an encirclement opportunity. As the volumes go up in each of these businesses, we will tend to grow.

And of course, we have a fair exposure to auto and with a good mix of two-wheeler, commercial vehicle and passenger vehicle. We see a clear uptick in the two-wheeler segment. The other two segments are still, I would say, flat to damp. We expect those two sectors also to kick in as we go forward over the next 2 years to 3 years. Maybe even in the next four to five quarters, we expect these two sectors also to start showing significant departure from their stagnant position.

Ritesh Poladia: So, India business can have a flat revenue at least towards the end of the year or the decline will continue?

Ravi Prakash: What was the question again?

Ritesh Poladia: On a full-year basis, can we see the flat revenue on a year-on-year basis or there will be a decline even on a full-year basis?

Ravi Viswanathan: So, there will be a marginal improvement, but on a year-on-year basis, it may probably remain flat.

Ritesh Poladia: Okay. Also, in the rest of the world business, you have delivered about 15% growth, but how do we see in the rest of the world business given your aspirational revenue target of USD 2.5 billion, what can be the growth going forward?

Ravi Prakash: So, that's why I was saying that for us, the growth number should be in the mid-teens as a company because as we return to normalcy in the network segment. As you can see, network solutions are already now at about 17% growth. So, the ISCS business we think will be in the 12%, 13% growth as a company.

And that will be aided both by the rest of the world and India business. The rest of the world is, if you look at the pipeline, it is split exactly in terms of how the revenue split is. It's about 30% India and 70% non-India in the ISCS business. So, I think the rest of the world will continue to keep its growth trajectory. So, we continue to push ourselves to get to that number, which is an aspirational number of USD 2.5 billion.

Ritesh Poladia: Sure. And last question would be, there is a new contract of INR 2,200 crores with the industrial customer in North America. So, what's the duration of this contract?

Ravi Viswanathan: So, I just mentioned to a previous question that we are bound by contract not to disclose the duration, but I did also mention there's multi-year and you can put a number greater than 5 years. And our annual billing would be about USD 30 plus million. So, you can probably look at it that way.

Ritesh Poladia: Yes. That’s all from my side. Thank you sir.

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

Disha Giria: Good evening, team. So, my first question is, I want to actually understand the interest cost and debt. So, last year, we had a decline in our debt and a INR 35 crores decline in interest cost. And this year if I see our debt has increased in the first half. So, what are we looking at as an exit for FY25 in terms of debt and interest cost?

Ravi Prakash: So, from our interest cost, Q2 should represent pretty much where we are going to be for the next couple of quarters. I think from our actual interest was about around INR 18.1 crores. And that's where we expect it to be for the next couple of quarters. In terms of gross debt for the company, I think we will probably be pretty much where we are today.

I would say the gross debt, just give me a second in terms of the number. It has gone up by about INR 100 crores in the last quarter. We expect that maybe in the next couple of quarters to fund a couple of working capital initiatives, maybe another INR 50 crores. So, we might end around INR 900 to 950 crores. That's the range, but then rates are coming down interest rates. So, that's why I would kind of keep the interest at the same level, around INR 18 crores.

Disha Giria: All right. My second question is, in the last few quarters we have been obtaining several contracts. And I want to understand what is, I mean, in what stage are those contracts currently? Are we recognizing revenue from it or is it still pre-revenue stage like last quarter also, we had certain new contracts. This quarter also, we have a new contract. So, just wanted to understand the same?

Ravi Prakash: So, this quarter, the supply chain segment actually benefited from some of what you would call the pre-revenue stage. Because even in the pre-revenue stage, we do get some fees from the customer for the initial planning and the setup cost. So, that's one of the reasons why I said, in my answer on the supply chain margins, we have got very elevated margins because we did get some unforecasted revenue from this large contract that we were messaging about.

The actual, I mean, what I call proper project revenue like we said for this contract will probably be Q2 of FY26. Now, this is an extraordinarily large contract, but in general what you will find is that we have a standard lifecycle for our contracts between 3 months to 6 months from the time we actually win the contract to execution and that's when we start recognizing revenue.

Disha Giria: So, till last quarter we were discussing about an agricultural contract based out of, I think, US or UK. So, are we recognizing revenue for that contract in this quarter?

Ravi Prakash: Yes, I mean, look, whatever we had messaged as last quarter, I think we are recognizing that revenue for this quarter.

Disha Giria: All right. Thank you. That is it from my end.

Moderator: Thank you very much. The next question is from the line of Saumil Shah from Paras Investments. Please go ahead.

Saumil Shah: Hi, thanks for the opportunity. I have a couple of questions. Sir, we have stated our vision for profits of USD 100 million that is INR 800 crores in next 3 years, whereas currently we are still doing INR 10 crores of profits quarterly. So, what do you think we can close this year at and by when we can reach our vision of INR 800 crores of profits?

Ravi Prakash: So, look, the vision we had stated was that on a USD 2.5 billion revenue, we want to get to a 4% PBT margin, which is about USD 100 million. And that is profit before tax, not profit after tax. So, I just want to clarify that. In terms of our profit, the way I would look about it is, if you look at our trajectory for the last few quarters, we hit breakeven in Q3 of last year. We hit about INR 4.5 crores in Q4 of last year. Then we hit about INR 13 crores in Q1 of this year and now we are at about INR 18 crores.

The endeavor of the company is to keep building this profit run rate sequentially quarter-on-quarter. And obviously, also build a profit margin also accordingly. So, at the moment, we are just around about a half a percent margin. And we keep kind of, if you keep building about we always message that about 50 to 100 basis points is what we like to see as an improvement on every four quarters. If we stay on the track, we should be able to get to that run rate that we are talking about.

Saumil Shah: Okay, so gradually, maybe next year, we can have 2% PBT and then the later year, 3% and then 4%.

Ravi Prakash: Yes, I mean, that actually is the outlook without actually putting numbers to every year, every quarter, we would like to do better than what we did in the last quarter. And we've been able to do that for the last three quarters.

Saumil Shah: Okay. And so almost all of our profits are eaten away by interest and depreciation costs. So are we planning to reduce this gradually or year-on-year as per our business model, this cost will keep on increasing?

Ravi Prakash: No, in fact, we always said that the asset turns that you take, if you look at our asset turns over the last 3 years or 4 years you will see that consistently, you take the total fixed assets in the balance sheet including our right of use assets, you will find that the asset turn has been steadily improving. And in one of the calls, I still remember talking about the fact that there is further scope for improvement.

So one thing is for sure, the rate at which our revenue on gross margin is growing, definitely the assets are not growing at the same rate. So there is operating leverage available there. And therefore, that would be one of the levers to actually improve the EBIT and the PBT.

Saumil Shah: Okay. That's it from my side. Thank you and all the best for future quarters.

Moderator: Thank you. The next question is from the line of Saniya Desai from Elevate Research Marketing. Please go ahead.

Saniya Desai: Yes, good evening. So thank you for the opportunity. I had a couple of questions lined up. My first question is, so you have mentioned that we won a large contract in North America in excess of INR 2,200 crores. Can you let us know the tenure of this contract? Also, is this equally spread across the years or we will gradually pick up?

Ravi Prakash: So, Saniya, I think as we'd already said, confidentiality prevents us from talking about the exact tenure. It is definitely more than 5 years. The revenue from the contract, part of it, the pre-revenue as we see, the start-up part of it, we already started recognizing. That's one of the reasons why the ISCS margin is elevated in this quarter. What we expect is between now and Q2 of FY26, we would be recognizing little bits of revenue as we get ready for the contract. The first full run of the contract revenue you see in Q2 of FY26, and probably by the end of calendar next year, the run rate will be achieved.

Saniya Desai: Okay, sir I got it. Also, what are the strategic priorities for impairment? Do we focus on revenue enhancement or we would want to stabilize the margins at the cost of our revenues?

Ravi Viswanathan: Okay, let me just take it and then Ravi Prakash can add more. So, clearly for us, the focus has been in ensuring that we bring the NS segment into a target profitability. So, there are two subsegments, the global freight services (GFS) and the integrated final mile (IFM) segment. So, in the GFS, the focus is really on saying how do we get better procurement and drive the margins. On the IFM, it has been work in progress. We message that we are in a good shape currently and we expect that we hit a target run rate profitability by Q4 of this fiscal year.

So, the focus is to first return to profitability. We do not want to say a compromising revenue, but if it comes to that, that would be the focus, get the profitability right, which is where we are currently. So, just want to message that that trajectory is as planned from our internal perspective. Anything you want to add?

Ravi Prakash: So, I will just add on to that. Look, we do believe that it is possible to add INR 1, 000 crores to INR 1,200 crores of revenue in a profitable manner. I am talking about overall as a company and that is what we have been trying to do. And we are committed to this 50 to 100 basis points improvement in margin across the company at an EBIT level every four quarters. So, it is profitable revenue growth. That is what we are after.

Saniya Desai: Okay, sir. Got it. That answers my question. Thank you so much. I will get back to the queue.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference over to the management for the closing comments. Thank you and over to you.

Ravi Viswanathan: Thank you and thank you for your questions. In summary, I would just like to say, look, Q2 has been a good quarter. We continue our growth momentum. We have had significant large wins and also significant BD which has enhanced our revenue capability and trajectory. Our ISCS margins are better than what we had planned. So, we hope we can continue on that same trajectory.

On the network solutions, clearly there are challenges in the macro as far as the GFS business is concerned, but I think we are riding that tide very well. There are headwinds coming from the Red Sea and other aspects, but it is a question of how well the management has navigated that. On the IFM, the work in progress, we have reached a stage where we are well on track for the business to return to profitability.

That ascendancy we can see from Q4, this fiscal and going forward. Like Ravi Prakash said, our target profitability or EBITDA margin for the IFM business is about 7%-7.5% and therefore for the network solutions segment too. So, I think when I look forward from a growth perspective and from the ability for us to manage the margins, we are well positioned as we exit Q2 of this fiscal. Thank you.

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