“TVS Supply Chain Solutions Limited

Q1 FY27 Earnings Conference Call”

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MANAGEMENT:	**MR. VIKAS CHADHA – MANAGING DIRECTOR** **MR. R. VAIDHYANATHAN – GLOBAL CHIEF FINANCIAL OFFICER** **MR. KARTHIK VENKATARAMAN – HEAD, INVESTOR RELATIONS**
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Moderator: Ladies and gentlemen, good day, and welcome to the TVS Supply Chain Solutions Limited Q1 FY '27 Earnings Conference Call hosted by PhillipCapital India Private Limited. As a reminder, all participant lines will remain in the listen-only mode and there will be an opportunity for you to ask questions after the management's opening remarks. Should you need assistance during the conference call, please signal the operator by pressing star then zero on your touchtone telephone.

Please note that this conference is being recorded. Before we begin, a brief disclaimer. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantee of future performance of the company, and it may involve risks and uncertainties that are difficult to predict. I will now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital India Private Limited. Thank you, and over to you.

Vikram Suryavanshi: Thank you. Good morning, and a very warm welcome to everyone. On behalf of PhillipCapital, I'm pleased to welcome you all on the earnings call of TVS Supply Chain Solutions Limited. We are happy to have the management with us here today for a question-and-answer session with the investment community.

The management is represented by Mr. Vikas Chadha, Managing Director; Mr. R. Vaidhyanathan, Global Chief Financial Officer; and Mr. Karthik Venkataraman, Head, Investor Relations. We'll begin the call with opening comments from the management, followed by an interactive question-and-answer session. With this, I hand over the call to Mr. Karthik for opening comments. Over to you, sir.

Karthik Venkataraman: Thank you, Vikram. Karthik here. Good morning, and welcome all to TVS Supply Chain Solutions earnings call for the quarter ended June 30, 2026. I hope everyone had a chance to look at the financial results, which were posted on the company's website and on the stock exchange. We have with us today Mr. Vikas Chadha, Managing Director; Mr. R. Vaidhyanathan, Global CFO. We commence the call now with opening remarks from our management, along with the business performance update. It will be followed by an open forum for questions and answers.

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

Vikas Chadha: Thank you, Karthik. Good morning to all of you. Firstly, let me welcome all of you once again to our earnings call to discuss the, as I would say, the robust performance for Q1 FY '27. For the benefit of those participants who might be joining this analyst call for the first time, please note that TVS Supply Chain Solutions is a tech-led and asset-light supply chain solutions provider.

We have 2 main business segments, namely the Integrated Supply Chain Solutions or ISCS as we call it, and Global Forwarding Solutions or the GFS segment. We operate across 4 continents:

Asia, Europe, North America, Oceania, where we offer customer-specific solutions in the 3PL space and also offer 4PL services in select markets. For more details about the company, you may please refer to our website, www.tvsscs.com/investorrelations.

Coming to the performance of our company. Q1 FY '27 marked a pathbreaking performance for us. I don't think we could have asked for a better start for team TVS SCS. We crossed Rs. 3,300 crores in revenue, the highest quarterly revenues with a growth rate of 29% on a year-on-year basis.

We achieved an adjusted PBT of Rs. 32.1 crores, a sizable increase from Rs. 18.8 crores in Q1 FY '26. For this tremendous performance, I would like to thank all our customers and vendor partners and most importantly, our employees and other stakeholders without whom we would not have been able to achieve these key milestones.

There has been a sustained upward trajectory on a year-on-year basis across regions and segments. In the ISCS segment, revenue from operations grew by 22% over last year. India and Europe had a healthy growth aided by new business wins, enabling our overall performance and improved profitability. North America business registered revenue growth aided by the large project that went live last year. Moving to the GFS segment, revenue grew by 50.6% over last year, fuelled by significant growth in volumes and new business wins. Team GFS did exceptionally well on ocean volumes and especially in India.

Net-net, for Q1 FY '27, our consolidated revenue grew by 29% to Rs. 3,335.2 crores on a year-on-year basis and grew 10% on a sequential basis. As you heard earlier, I'm very pleased to state that both the segments delivered double-digit growth in this quarter. On the profitability front, for Q1 FY '27, the adjusted EBITDA was Rs. 232.2 crores as compared to Rs. 173.3 crores on a year-on-year basis and a very good growth of 34%, registering margin improvement of 30 bps to 7%.

Continuing our last quarter wins of Rs. 500 crores, we had yet another landmark quarter where we have beaten our last quarter numbers on new business wins. This has been earned from new logos as well as new business from our existing customers across both the business segments. Our new business wins accounted for 21% of our Q1 FY '26 revenues. We have completed the acquisition of Swamy & Sons 3PL in Q1, and our results for Q1 include its performance for 40 days in the quarter.

As you might be aware, we have already announced a joint venture with ALA Group following the MoU entered earlier in the year, which will help expand our footprint in defence and aerospace supply chain solutions. We firmly believe that these new partnerships allow us faster access to growing verticals, new geographies, and upstream opportunities in the value chain. We continue to be early adopters of technology and have integrated AI and robotics in our operations. We have recently implemented Oracle ERP for our India ISCS business, which will help us make processes faster and allow customers and vendors to integrate with our systems well.

On the warehouse side, we continue to add more automation and robotics. Our transport management solution is now fully integrated with vendors and customers, providing efficient procurement and analytics dashboards to our customers. With this, I now hand it over to Vaidhyanathan, our Global CFO, who will take you through financial highlights for the company.

R. Vaidhyanathan: Thank you, Vikas. Good morning to all. Thank you for joining us today. This quarter, on a year-on-year basis, revenue grew by 28.7%, adjusted EBITDA grew by 34%, and adjusted PBT grew by 70.7%. Before I get into the detailed financial performance, I would like to call out a few key highlights. Our performance came in strongly due to the new revenue from new contracts as well as the benefits of the cost actions that we took last year. GFS business posted a strong EBITDA margin of 4.1%.

This was due to our strategy of pushing more volumes in select lanes in addition to the cost optimization initiatives that we implemented last year in this segment. The margin was also aided by better sourcing efficiencies. I also want to highlight the significant growth recorded in the ISCS business. Overall, ISCS EBITDA margin was marginally lower at 8.1% due to the initial implementation costs that we incurred for the new contracts that we onboarded. This will stabilize in the coming quarters as those sites become fully operational.

Now I will take you through the detailed highlights of our financial performance for Q1 FY '27. Our consolidated revenue for the quarter reached Rs. 3,335.2 crores versus Rs. 2,592.3 crores in Q1 FY '26 and Rs. 3,032.2 crores in Q4 FY '26, reflecting a year-on-year growth of 28.7% and a sequential growth of 10%. India geography registered an impressive 44% year-on-year growth, aided by record new business wins and significant volume in the freight business.

From a segment perspective, ISCS segment delivered strong year-on-year growth with revenue at Rs. 2,417 crores in Q1 FY '27 versus Rs. 1,983 crores in Q1 FY '26 and Rs. 2,283 crores in Q4 FY '26, displaying a strong year-on-year growth of 21.9% and a sequential growth of 5.9%. The growth was due to sizable revenue from the new business wins.

GFS segment clocked a revenue of Rs. 918 crores in Q1 FY '27 compared to Rs. 609 crores in Q1 FY '26 and Rs. 749 crores in Q4 FY '26, marking a significant growth of 50.6% year-on-year and 22.6% sequentially, largely led by the growth in the ocean freight volumes in India and the benefits of a freight rate moving upwards.

Material-related costs increased from Rs. 484 crores in Q1 FY '26 and Rs. 653 crores in Q4 FY '26 to Rs. 666 crores in Q1 FY '27, primarily due to the new businesses in India and an increase in the volumes in North America and the Europe market. The movement in material costs and other related costs are in line with the change in the business mix in the ISCS segment. Now moving to the cost structure. Freight clearing, forwarding, and handling expenses increased from Rs. 680 crores in Q1 FY '26 and Rs. 813 crores in Q4 FY '26 to Rs. 991 crores in Q1 FY '27, which is in line with the volume growth in the GFS segment.

Employee cost on a year-on-year basis, employee cost increased from Rs. 619 crores in Q1 FY '26 to Rs. 676 crores in Q1 FY '27 due to the cost inflation and in line with the revenue growth.

The cost increase was also partially offset by the savings with the cost takeout initiatives. On a sequential basis, the employee cost was Rs. 641 crores in Q4 FY '26. Subcontracting costs increased from Rs. 381 crores in Q1 FY '26 and Rs. 407 crores in Q4 FY '26 to Rs. 444 crores in Q1 FY '27. This is in line with the revenue growth from the new customers.

Other expenses moved from Rs. 257 crores in Q1 FY '26 and Rs. 297 crores in Q4 FY '26 to Rs. 329 crores in Q1 FY '27. The rise was primarily driven by the higher rental charges due to the increase in the short-term lease rentals. Depreciation of right of use assets under Ind AS 116 increased year-on-year with depreciation increasing from Rs. 93 crores in Q1 FY '26 and Rs. 108 crores in Q4 FY '26 to Rs. 114 crores in Q1 FY '27.

Interest costs on lease liabilities under Ind AS 116 increased from Rs. 20 crores in Q1 FY '26 and Rs. 25 crores in Q4 FY '26 to Rs. 26 crores in Q1 FY '27. The increase in depreciation on leased assets and interest on lease liability is on account of the additional space taken for the new business wins.

On the profitability front, our adjusted EBITDA grew by 34% year-on-year with margins expanding by 30 bps to 7%. Sequentially as well, adjusted EBITDA grew by 4.6%, demonstrating the consistency of the underlying earnings trajectory. With respect to the segments, ISCS delivered a strong performance in Q1 FY '27 with adjusted EBITDA of Rs. 196.3 crores at 8.1% margin, up from Rs. 164.1 crores at 8.3% margin in Q1 FY '26. GFS delivered an improved performance in Q1 FY '27 with adjusted EBITDA of Rs. 38 crores at 4.1% margin, up from Rs. 13 crores at 2.1% margin in Q1 FY '26 and Rs. 18 crores at 2.4% margin in Q4 FY '26.

The margin improvement in GFS segment reflects the volume growth in India, the results of the cost optimization initiatives previously undertaken in this segment, and also due to the benefit of better sourcing arrangements with the GFS segment. We delivered adjusted PBT of Rs. 32.1 crores in Q1 FY '27 compared to Rs. 18.8 crores in Q1 last year and Rs. 30.9 crores in Q4 FY '26, reflecting the results of growth and the operating leverage.

PAT for Q1 FY '27 was Rs. 22.5 crores as compared to Rs. 71.1 crores in Q1 FY '26. Kindly note that Q1 FY '26 included an InvIT gain from TVS ILP. Excluding the InvIT gain and the exceptional items in Q1 FY '26, operational PAT was Rs. 8.8 crores, recording a year-on-year growth of 156% in Q1 FY '27. With this, I will hand it over to Vikas for the business updates. Thank you.

Vikas Chadha: Thank you, Vaidhyanathan, for the detailed analysis. I'd like to briefly touch upon our business development performance and pipeline strength, which reinforces our growth outlook. In Q1, we recorded new business wins, which is an all-time high in a quarter of Rs. 543 crores, which represents 21% of our quarterly revenue, a clear sign of traction across key geographies. Our order pipeline remains robust at Rs. 7,500 crores plus, giving us a view of the road ahead for the coming quarters.

Across both ISCS and GFS, we saw wins from several marquee customers. On the ISCS side, we secured mandates from India and major international markets, including a leading Asia-based renewable energy provider, a specialist clean energy solution organization, a leading kitchen appliances manufacturer, a leading Indian consumer beverages company, a glassware and consumer product specialist in India, a premium motorcycle manufacturer in Europe, a global retail media and analytics company in Europe.

These wins reflect the diversity of our expanding customer portfolio, the strength in our tech-enabled execution, and the trust our customers continue to place in TVS SCS, which acts as a testimonial of our delivery capabilities. Particularly, India continued to deliver exceptionally well on new business development with multiple large strategic wins across automobile, consumer products, and industrial.

These wins will drive revenue growth in the quarters ahead, especially in the ISCS business, where our positioning continues to strengthen across production, aftermarket, and distribution-led supply chains. On the GFS side, we added several customers, including a global sustainable packaging solutions company, a multinational telecom equipment provider, a top engineering and technology expert, a leading industrial automation and robotics player, a leading home appliances wholesaler. With this, we are now open for questions.

Moderator: Thank you. We take the first question from the line of Sucrit D Patil from Eyesight Fintrade Private Limited. Please go ahead.

Sucrit Patil: I have 2 questions. The first one is to Mr. Chadha is beyond the regular outlook, what are the top 2 to 3 execution priorities you are focusing on in the next few quarters? And alongside that, what do you see as the biggest risk in demand shifts, global competition, or regulatory changes? And how are you preparing to manage them while strengthening TVS Supply Chain position in the logistics and integrated supply chain services? Just want to understand the forward guidance on this. That's my first question. I'll ask my second question after this.

Vikas Chadha: Thank you. First of all, very good question, and let me answer it in both the parts. The first part that you asked was what are our top priorities in the next 2, 3 quarters. So, I would say our top 2, 3 priorities, the number 1 priority is growth. And we have had growth from our existing customers by increasing the volume. We have also done a very good job of getting new business and also building our pipeline. That continues to remain our number 1 priority, and we will continue to grow our volumes with our existing customers and also growing and expanding our customer base.

I would say our second biggest priority is tech. We have invested a lot in technology in terms of warehouse automation and integrating AI and providing customers deep insights into their procurement and their inventory, etcetera. We continue to work on this and especially with Oracle deployed in our business now in India, we have more flexibility, and we will be able to do a much better job on this.

I would say my third strategic priority for the coming 2, 3 quarters is partnerships and executing on the partnerships that we have already invested and also looking for further partnerships. As you know, we acquired Swamy & Sons 3PL. So that acquisition is well on track and has got integrated. Our partnership with ALA Italy for defence and aerospace is getting executed and will start business in H2. And hopefully, you will see further more partnerships coming because we firmly believe that in the value chain, we can go faster in new geographies and also upstream opportunities by getting into partnerships.

Your second question is on the biggest risk that we see going forward. I think like any other company at this moment, the biggest risk that I see is a recession coming. And because of where the financial markets are today or because of the war situation, we have only seen first-level consequences of all of this today.

And if tomorrow, there are major supply chain disruptions causing recession, that will be the biggest risk. I would say, but we will not be the only one seeing that risk, that the risk is going to be broadly spread across all the countries and across all the geographies. And how we are mitigating that is we are in very, very close touch with our customers.

Fortunately, a lot of the supply chain work that we do embed into the volumes, the manufacturing volumes of our customers. So, we have got a very good visibility as to what is happening and how they are proceeding. I would like to say that at this moment, we don't see this risk playing out. But if there is something that will happen tomorrow, we will be one of the first ones to know it, and we can take the action proactively in terms of cost optimization, et cetera.

Sucrit Patil: My second question is to MR. Vaidhyanathan is, again, along the similar lines, I just want to understand from a financial point of view, what key risks or challenges do you anticipate in the coming quarters? And what specific measures are being taken to manage margins, cash flow, and strengthen the balance sheet, especially in areas like fuel cost volatility, receivables, and compliance?

R. Vaidhyanathan: Sure. Thanks, Sucrit. I think the question that you raised with respect to the margins and the risk to the margins, I think we talked about just take the example of the fuel cost. I think the way we do the contracting with the customer is that as and when there is a fuel cost increase, it is passed on to the customers. I think that is how the contracts are done, not just in India, but across all the geographies, I think that is how the contracting is done with the customer. So, whatever is the increase in the fuel cost, it is passed on to the customers.

Of course, there could be some time lag in terms of making it in, but ultimately, it gets passed on to the customers. So, the other, I would say, more in terms of the manpower availability. I think this is probably a full-year phenomenon, not just a particular season. Each geography has a different risk in terms of manpower availability.

And we focus on this in terms of having dedicated teams, which ensure that the manpower's are available at the right time and any increase in the cost is also passed on to the customers. I think that is how we manage the risk. Of course, there are other risks in terms of interest rate risk and for which we manage it from a treasury point of view. But at operationally, these are the risks and that is how we manage it, Sucrit.

Moderator: We take the next question from the line of Saumil Shah from Paras Investments.

Saumil Shah: I wanted to ask on the ISCS side because, I mean, our revenues had increased quarter-on-quarter year-on-year. But when we look at our EBITDA, it was down. So, what was the reason for such lower EBITDA for this quarter? And how shall we look at the remaining quarter of this year?

R. Vaidhyanathan: Okay. I will take this, Saumil. This is Vaidhy here. I will take this. I think the revenue came in very strongly, Saumil. And because of the new contracts that we onboarded both in Q4 as well as in Q1, we obviously have to incur a few implementation costs or transition costs initially when we onboard these contracts into our system. That is why we had to incur some additional costs.

And that is why you will see a marginal dip in the ISCS EBITDA from a percentage point of view. But I think as these projects gets up and running, I think the costs will go away and we should start seeing the margin moving in the upward trajectory. And I'm not too stressed about the marginal drop in the ISCS EBITDA margin. No, once these projects are up and coming, the margins will start moving in the northwards.

Vikas Chadha: I would just like to add to this that you can view this as a onetime. And going forward, I don't think this will have any reflection on our future margins. It will be back to above 9%.

Saumil Shah: Okay. Correct. So, when we are guiding, I mean, we have been guiding for a few quarters that we shall be reaching that 4% PBT level by Q4 of this year. So how should we look at it? Because we are still at around 1% PBT for this quarter. So, for the balance quarters, will it gradually increase towards the 4% PBT margin by Q4?

Vikas Chadha: Look, let me answer that question. First of all, we have an aspiration to grow our revenues by mid-teen growth this year. And quarter 1 has been absolutely spot on. Our margin is also improving from 0.7%; it has improved to 1%. And compared with the Q4 and Q1 and Q1 generally is the start of the year, a softer quarter.

So, achieving 1% really is very, very good there. Going forward, this will definitely improve as our revenue grows and as we have new opportunities, we definitely are trending and going towards the 4% aspiration that we have set ourselves. Whether we will reach that 4% in this year-end, I would say it's our aspiration. But FY '28, definitely, we will be achieving our aspiration of 4%.

Saumil Shah: Okay. Okay. And on the partnership with ALA Group for defence and aerospace, so how are we looking at this? Has the revenue started kicking in? Or what could be the revenue potential?

Vikas Chadha: Look, we aspire to reach almost Rs. 2,000 crores in year 5 of the operations. At this moment, the first step -- aerospace and defence is a highly regulated and certified vertical. So, at this step, what we are trying to do is or what we are doing is that we have finalized our warehouse. We have hired a couple of people who are getting trained in Italy. And we will get the certification of the warehouse because without that, you cannot start the business in India.

And by certification, it means that every part that is shipped out of the warehouse is completely tracked where it has gone right from the source till the installation. So, all of that work is in progress. We will see some revenue coming in the second half of this year. But as I would say, this is the beginning of a partnership, which will also mushroom more as the aerospace and defence sector becomes more localized. And that is one of our government's biggest initiatives. So going forward, we will have much bigger numbers. This year, H2, we will have our revenues commence for this particular venture.

Saumil Shah: Okay. And sorry, what did you say by year 5, we can have Rs. 2,000 crores? What did you say? I didn't understand.

Vikas Chadha: Yes, we believe that the potential of this particular joint venture is in the fifth year of running operations, we can deliver Rs. 2,000 crores out of this particular joint venture. It's a huge market, aerospace and defence. And just to elaborate that why we are so confident is, one, that ALA already has contracts with Boeing, Airbus, Dassault, and many of these large customers.

So, as we establish the operations, certified operations in India, a lot of those contracts will automatically be transferred to the joint venture, and these customers are buying today. We have already had discussions with them, and they are looking forward to local supply being available, which will enable faster delivery and just-in-time delivery for them. So that is why because the existing business is already there, which the JV will do, that is why we are quite confident of achieving this number in the outer fifth year. Yes.

Saumil Shah: And on the EBITDA side, will it be EBITDA accretive or it will be on the similar lines as of now?

Vikas Chadha: This industry being regulated and entry barriers are very high; this will definitely be margin accretive. ALA Group as such was listed some time back, and you can look at their financials, their PBT levels were almost in high single digits. So, this will be margin accretive for us. The customers in this industry pay for quality and pay for availability and traceability. So, with all these elements that come along in the supply chain, the pricing is tends to be on the higher side.

Saumil Shah: Okay. Okay. And if I may ask last question. A few days back, there was some amalgamation update between a few of our companies with TVS Supply Chain. So how shall we look at it as a shareholder, what kind of equity dilution we can have? Or I mean, what kind of benefit we can accrue through that?

R. Vaidhyanathan: Okay. Saumil, all these things are already 100% subsidiaries of TVS Supply Chain Solutions, and we are only merging these entities into a single entity. Two things.. one is there will be a lot of reduction in the compliance costs, right? Because today, each of these are separate legal entities. We have a separate audit costs, other compliance costs. Once we merge into a single entity, I think there will be some savings on the compliance cost.

The second thing is obviously, at the operational level, today, we go to the customer to have different legal entities. Once the merger happens, I think we'll be able to go to the customer as a single legal entity, TVS Supply Chain Solutions. Operationally, there could be a lot of ease of doing business. But at an overall level, there will be no dilution because all these things are 100% subsidiaries of TVS Supply Chain Solutions.

Moderator: We take the next question from the line of Ankur Poddar from Svan Investments.

Ankur Poddar: Congrats on a good set of numbers. Most of my questions have been answered. Just one thing I wanted to understand is, as you mentioned that there were a couple of new contracts in the last couple of quarters in the ISCS business because of which the margins were impacted as the costs are upfront and as we scale up, the margins should normalize. So just wanted to understand what are the timelines by which whenever a new contract is added by, how many quarters does it take for it to give stable margins?

Vikas Chadha: Thanks, Ankur. Let me answer that question. Look, we are a specialty supply chain, integrated supply chain solution provider. Our contracts that we signed with our customers are to solve their problems and deliver the value that they seek from this partnership. So, all contracts are a bit unique in nature because some may have more implant work to be done, more subassembly work to be done, which could have a little longer gestation period like maybe 2 quarters. Some contracts are more on the aftermarket side and scaling up the operations of finished goods where the gestation period is just maybe 1 quarter.

So, in summary, we are not talking about years there. We are talking about just 1 or 2 quarters depending on how the contract is. So you can understand like when a new project is starting, you will first establish the warehouse, you will set up the work while the volumes are not coming in. So, some of the costs go in. But as the volumes jump, we go back to our original estimated margin. So, 1 to 2 quarters is what I would say.

Ankur Poddar: Understood. And my next question is on our GFS business. So, we have seen good volume growth this quarter as well as jumping up the margins to the guided levels. So, were there any one-offs due to the war in this case? Or are these margins going to be sustainable going forward?

Vikas Chadha: So, our freight volumes grew all across in India as well as in the rest of the world. We saw more volume growth on the ocean side, but air also saw substantial volume growth. So, a lot of the work that we have done this quarter is also to do with the new wins that we have had with our customers, and a lot of this has been incremental in nature.

Also remember, our margin is not only a reflection of the new business that we are doing, but also with all the cost optimization work that we have been doing in terms of consolidating our vendor base, et cetera. So, while the growth may not be so high going forward, I'm still confident of a very high double-digit number. But I would expect the margins to, by and large, remain around this number and not get diluted too much.

Moderator: We take the next question from the line of Kunal Sabnis from Nine Rivers Capital.

Kunal Sabnis: Sorry to hop on the same ISCS margin. I mean you have been adding new business each quarter, and you will have certain start-up costs every quarter, right? It's a little surprising to see that sequentially, even with revenue growth, your EBITDA margins are down by about -- from 9.3% to about 8.1%. That's a huge if it's only related to start-up costs, that's a big start-up cost, right? I mean, could you explain what's the one-off here?

R. Vaidhyanathan: Yes. Thanks so much -- I mean thanks, Kunal. So, I think what happened in Q4 is we also get the benefit of the price correction that we get from the customers. That is why typically in Q4, we also have a lot of price correction that we get from the customer. That is why you will see a good margin of 9.3%.

And as Vikas, explained is generally a soft quarter where volumes come down. And we also have the impact of the implementation cost in a few of the large contracts. So that is why I would do the comparison between Q4 and Q1. Q4 having the benefit of price correction from the customers, which is not there in Q1, plus the impact of the implementation cost.

Vikas Chadha: And Kunal, I mean, as I was explaining just to answer your question, we are a specialist player. And when we enter into contracts, some of the contracts, we are required to do more initial work to make deliver the SLAs that we have for the customers. So, it is not something that I'm worried about. It is not something that anybody should be worried about because as these projects start rolling up and delivering the customer volumes, we will be completely back on track.

Kunal Sabnis: So, this move back to 9%, is it like -- that should happen in, say, Q2 or it's more like year-end phenomenon?

Vikas Chadha: No, we will sequentially improve the margin. And I am fairly confident that in Q2 itself, we will achieve 9%.

R. Vaidhyanathan: Seeing it sequentially going up, and our plan is to take it about 9.5% to 10% by Q4.

Kunal Sabnis: Sure. Sir, the other thing is on growth. Both your businesses, ISCS and GFS have grown much faster than what the previous guidance or discussions have been, and that's very heartening. How do you see this compact between growth versus margins? Are we now gunning more for growth and margins will sort of be a byproduct which sort of eventually will come through? Or I mean, what are your thoughts on that?

Vikas Chadha: We very firmly believe in profitable growth. We are not a company that will run after growth ignoring the profits. All our projects that we win and that we pick up are accretive to our existing margins. So, you will see our profit growth having a bigger multiple as compared to our revenue growth. So, we are aspiring to achieve in the full year mid-teens growth on the top line, and the margins will be definitely growing at a faster pace than that.

Moderator: We take the next question from the line of Vinay Jaiswal from Wazir Capital.

Vinay Jaiswal: Sir, like the previous participant asked that we are aiming for 4% PBT margins, that will be 3% PAT margins, right?

R. Vaidhyanathan: Yes, 25% effective tax, it will be about 3% PAT, yes.

Vinay Jaiswal: And this delayed in that margins are due to macro headwinds like the U.S. Iran war, I'm assuming?

R. Vaidhyanathan: It is a combination of factors, Vinay. One is the geopolitical things where I think as Vikas mentioned in terms of overall recession, geopolitical risk, as well as in terms of the GFS. GFS we saw a 4% EBITDA margin. And ideally, we would expect this to be about 4.5% to 5%. And we want to hit that at least a 5% EBITDA margin in GFS for us to reach. So, I think it is a combination of multiple factors.

Vikas Chadha: Just to add, if you look at the trajectory where we have been moving, I think if you look at last year's Q1, I think our PBT was 1%, if you can go to the P&L, you will see our PAT margin and PBT margin has completely interchanged because of the improvement in the trajectory between the PAT and the PBT. So, you can see the improvement and we will improve this trajectory in FY '27 as we move towards the 4% PBT.

Vinay Jaiswal: That's really helpful. And I was looking at an interview of Mr. Ravi Viswanathan with ET Now and there; it was stated that we are looking to expand into Africa and Middle East markets. So is this still...

Vikas Chadha: Yes. Let me answer that question. So, as you know that we have got a very diversified portfolio. We are already present in 26 countries across 4 continents and one of the most unique supply chain companies from that perspective in India. And Middle East and Africa has been on our radar for some time. We are in discussions with some companies in the Middle East.

We firmly believe that for a Middle East and Africa kind of a market, perhaps a partnership would be a faster way to get into that market. So as soon as something crystallizes, we will definitely be coming back and announcing it. But it is a market which is of interest to us, though the interest because of the war, et cetera, we have to take more precautions at this moment. But yes, we like the market, and we are looking forward to entering into that market.

Vinay Jaiswal: Can I ask one more question?

Vikas Chadha: Sure.

Vinay Jaiswal: Like we are aiming to reach early teens EBITDA margin. And like Q2 is almost half done. So, is the business moving towards that target, not like early teen in this quarter itself, but are we moving towards that target?

Vikas Chadha: The initial signs in Q2 has been very positive. Similar to Q1, the volume growth that we have seen, the first 45 days, if I may say, are on fairly similar lines. So, I don't see any reason why we should not be able to deliver the increased margin that we are mentioning.

Moderator: We take the next question from the line of Rohit Ohri from Progressive Share Brokers Private Limited.

Rohit Ohri: A couple of questions on this new business engine. We see this business development pipeline increased from Rs. 6,100 crores to Rs. 7,500 crores. My question is that what percentage of this pipeline can realistically be converted over the next 12 months or maybe 24 months or so?

Vikas Chadha: Yes, thanks. Look, the pipeline, the past track record that we have had has been between 20% to 25%. Now recently, we have had a lot of sales effort in increasing the pipeline and the pipeline has gone up. So, I would say that in the 12 to 15 or 18-month period, definitely a similar conversion of 20% to 25%, we should be able to achieve.

Rohit Ohri: On this new order wins that we have around Rs. 543 crores, if you can guide us through how much of this is from the new business? Or if you were supposed to compare it with the historical average? What is the average contract size over here?

Vikas Chadha: So first of all, that Rs. 543 crores is new business only. That's the first thing. It is a combination of new business that we are winning with our existing customers and also new business that we are winning with completely new customers. So, all of this is new business only. What happens in our industry, in our business is that we might be doing for one customer, let's say, 1 warehouse, and we go ahead because they like our work, they give us another warehouse. So that is counted here as a new business because it is an existing customer, but a new business.

And in our investor deck, you will see that we have given the number of the new business, how it has gone quarter-by-quarter. And I would say the last 2 quarters has been very, very good in terms of how the new business has been there. And last quarter also, it was Rs. 524 crores and this quarter, it has been Rs. 543 crores. In the past, we have had almost Rs. 200 crores, et cetera, but the momentum in the last 2, 3 quarters of new business has been absolutely fantastic.

Rohit Ohri: Sir, what percentage would be new logo addition versus the ones from where we must be taking the new wallet share?

R. Vaidhyanathan: Rohit, I'll answer this, Vaidhy here. Probably I would say roughly about 2/3 would be from the existing customers where we get new contracts and 1/3 is probably the new logos. And probably I can give you the exact number, but at a broad level, I think this is directionally is the number, 2/3, yes.

Rohit Ohri: And steady-state EBITDA margin for these new wins, if you could share that over the next 3 years or so?

R. Vaidhyanathan: As I said, ISCS is something we always have about 8.5%, 9%. And that is what we keep targeting when we get into the new contracts. Obviously, if it's an existing contract, the margins could be slightly higher because we have the benefit of the existing team managing it. But if it's a new contract, it almost 8.5%, 9%.

Vikas Chadha: Also, you should look at the operational leverage, right? As we grow our business, some of the costs that are administrative in nature will get spread over a larger base. So, I think the growth in the EBITDA margin will continue as we are growing the top line.

Moderator: We take the next question from the line of Bharat Sheth from Quest Investment Managers Private Limited.

Bharat Sheth: Congratulations. Sir, I have first question on GFS side. If I understand that GFS, we are particularly operating in 6 to 7 major lines, which is the busiest route in the global. So, are we looking for any expanding the line? Secondly, recently, post war we have seen that there is a huge increase in the container cost, and container availability is also going down. So how much our revenue growth is because of this increase in container cost and how much we are able to pass?

And what are we really doing to mitigate that availability so that customer shipments are not delayed. So, if you can give. And our billing is in foreign currency, then what is the constant currency growth rate?

Vikas Chadha: So, you have asked a lot of questions. Let me try and answer. And if I miss something, Vaidhy will jump in. So, our business in GFS, we are present in multiple countries. And obviously, we engage with customers, many of our customers have been long-time customers for us. And we meet their requirements.

So, if it means that for meeting their requirement, if we have to add a line or go to another line, we definitely consider that. So, our expansion of the line is not determined by us going into a line first, but it is more determined by the requirements of our customers and that how do we engage with them, what is their requirement, et cetera.

In terms of the cost thing, yes, the container costs, et cetera, even on the air side also definitely went up. The way our contracts are structured is that we pass on these costs to the customer. And eventually, it is borne by the customer. And I think it is pretty much visible in the way we have been able to deliver 4.1% EBITDA margins in this particular quarter. So, the situation, the unavailability and all of that, we see this as an opportunity also because the team works very hard with the customers to find out opportunities to meet their requirements. And this has led to such high revenue growth in this particular quarter.

I think the last question perhaps you had was on FX. I would like to say that since we operate in those local countries, our revenue and our costs, both are in that local market. So, this has no impact on our profitability as such because our procurement also happens in those particular markets. So, FX doesn't as such play a major role on our overall profitability numbers.

Bharat Sheth: Okay. Great, sir. And how do we see managing this availability of container challenges, which is already there?

Vikas Chadha: Yes. So, look, the challenges, all I would say is that freight has become a daily business at this particular moment. Because of the fluctuation and changes that are there, the team has to fight on a daily basis to figure out how do we get capacity and how do we serve our customers. And the job has become tougher and more hours have got added, but I think our team is doing a fantastic job in terms of meeting the necessary requirements of meeting the customer needs with the suppliers.

I'm very proud of what the team has been able to achieve in Q1. And even in Q2, the initial signs that we have in the first 45 days continue to be very, very promising. So yes, I understand there is a challenge out there, but I'm a very firm believer that every challenge, there is an opportunity also. And it is for us as leaders to find out the opportunities and the challenges.

Bharat Sheth: Okay. And sir, since we have presence in so many countries, so are we looking, say, less than container weight, I mean, kind of container, which is there are specialized service. So, are we evaluating that at this moment?

Vikas Chadha: Our focus is on, as I said, meeting our customers' demands. And if that particular customer has a specific need and then definitely, we go out and try and meet any such requirement. But we are also focused on certain set of customers in certain verticals. And for those, if there is a requirement of a partial container or air shipment or whatever mode of transportation, we go and figure it out.

Bharat Sheth: Okay, sir, with your permission last question. Sir, we were not present in the last mile connectivity and after acquisition last year, that company we also remain present. So how do you see what is -- if you can give some colour on the total market opportunity and how we are really engaging our tech stack in those business to really make it more successful? And where do you see this business over next 3 years?

Vikas Chadha: Yes. So first of all, TVS Supply Chain Solutions is a B2B company. So, anything which is to do with delivery, et cetera, on the customer side, consumer side, we are not present there. And in the value chain, the supply chain value chain that is there for B2B customers, we see more value in implant manufacturing, finished goods warehousing, and aftermarket.

And those are the focus areas for us. I'm not saying that last mile delivery for B2B is not something that is off our radar. But at this moment, we see enough opportunity in the existing value chains that we are playing, and we are focused on those. However, having said that, we also believe in delivering end-to-end solutions for our customers.

And if last mile is a part of that end-to-end solution, we have our respective vendors with whom we work and we deliver an end-to-end solution. But the last mile in B2B is something that we keep on debating internally about. And as soon as something we see more clear on this, we will definitely come back.

Moderator: We take the next question from the line of Sai Nithik from CRISIL Ratings.

Sai Nithik: So, this is particularly regarding the amalgamation and mergers that were announced for our subsidiaries. I could say a few of the subsidiaries names was listed, but FIT 3PL Warehousing Private Limited, which was announced in September 2023, after that, there was no major updates for the merger. So, is there plans to merge FIT 3PL with TVS or is the plan called up?

R. Vaidhyanathan: I'll take this question, Sai. I think FIT 3PL, I think we want to keep it as a separate entity as such because of some GST reasons, we operate a different GST mechanism for some of our FMCG customers. So, we would like to offer those services from FIT 3PL. And that is why we would like to keep it as a separate legal entity instead of merging it with the parent company.

Sai Nithik: Understood, sir. So, the merger plan has been called up. So, no merging is not going to happen?

R. Vaidhyanathan: It was not at all announced, Sai. Even the original FIT 3PL was not part of the merger, yes.

Moderator: We take the next question from the line of Saumil Shah from Paras Investments.

Saumil Shah: As of now on the warehousing, we have about 25 million square feet capacity. So, what could be the capacity utilization of the warehouses? The reason I'm asking is I wanted to know on the same warehouse, how much more business can we do? Because if we want to increase our PBT, this depreciation cost also has to be curtailed, right? So, if you could give me your views on the same?

Vikas Chadha: Yes. So first of all, you'll have to understand our business model a little bit. We are not a company that will first go and search for the warehouse, set it up and then search for customers. Many of our warehouses, majority of our warehouses are driven by a project and driven by a customer requirement. So by and large, when we enter into a contract for a warehouse, it is backed by a customer contract. And this is the majority of the business. And if the volumes of that particular warehouse are going down, then we would typically cover it in the contract with the customer to ensure that we are not at a disadvantage.

Having said that, we also have warehouses where multi-customer locations are there. I would say, by and large, our warehouses are fairly well utilized and in the vicinity of 85%, but there is definitely room to improve, and we continue to explore investing more into even the racking and automation for the warehouse so that we can increase the capacity of the warehouse.

Saumil Shah: Correct. So as and when we will have more customers, more revenues coming in, this depreciation cost will also increase simultaneously?

R. Vaidhyanathan: If it's a large project, it will increase, Saumil. Otherwise, it will be, we don't do typical warehousing alone. We also do a lot of value-add activities along apart from warehousing. So normally as a percentage of revenue, the warehousing cost will keep going down. And as Vikas mentioned, when the utilization also increases, there will be a benefit of that aspect.

Saumil Shah: And generally, in our kind of business, what second half is generally stronger than the first half? How is it quarter-on-quarter?

R. Vaidhyanathan: Normally, the second. H2 is normally a strong quarter, especially Q4 will definitely be a strong quarter for us Saumil, because we are present in multiple geographies. So, each geography has got a different thing. But at an overall level, H2 will be better than H1 typically.

Saumil Shah: Okay. Okay. And sir, just one request. I think yesterday, the presentation was uploaded post 7:00 p.m. and morning 9:00 a.m., we have a con call. So, if you could either delay the con call or maybe we could post the presentation earlier, it would be better.

Vikas Chadha: I think that's a very fair feedback. You definitely need more time to digest the information. So, we will take this into consideration going forward.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

Vikas Chadha: Thank you all for your time and intelligent questions and your continued interest in our journey. After this robust Q1 performance, we believe a very strong and reliable growth trajectory has been set for FY '27. On top of that, we continue to see further opportunities to strengthen our market position, enhancing operational resilience, and building deep relationships with our customers.

Our focus remains clear, flawless execution on our customer conversion, retaining and growing our existing customer business, continuing the disciplined implementation of our cost and productivity initiatives that we have set in motion. I would like to personally thank all participants for your participation and invaluable inputs. Thank you once again for your support, and we look forward to engaging with you in the quarters ahead.

Moderator: Thank you, sir. On behalf of PhillipCapital India Private Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

Notes:

1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.

2. Figures have been rounded off for convenience and ease of reference.