Leap India

Operator: Good day and welcome to the LEAP India Limited Q2 FY27 Earnings Conference Call. As a reminder, all participant lines will be in 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Soumya Chachit from Go India Advisors. Thank you, and over to you, ma'am.

Operator: Good day, everyone, and welcome to the Q2 and H1 FY27 earnings call of LEAP India Limited. We have [inaudible] the MD, Mr. Rishi Gandhi, the Chief Growth Officer, and Mr. Rajeshwar Muley, the Chief Financial Officer. Please be reminded that the discussion on today's call may include certain forward-looking statements and must therefore be viewed in conjunction with the risks pertaining to the business. I now request the management [inaudible] business and provide more insights, after which we will open the floor for Q&A. Thank you, and over to you.

Management {? Sunu Mathew ?}: Good morning, everyone, and welcome to LEAP India Limited's earnings conference call for the second quarter and first half of FY27.

I would like to start with the business overview.

For those joining us for the first time, LEAP is India's largest on-demand asset-pooling company, with around 90-92% share of the organized pallet-pooling market. We provide pallets, plastic containers, and material-handling equipment on a pay-per-use basis.

We take full care of the entire asset lifecycle, which means deployment, tracking, retrieval, repair, and redeployment. Today, we manage a pool of 15.5 million assets valued at over 1,820 crores. We serve around 1,100-plus customers across 11,000 touchpoints through 27 fulfillment centers. A detailed overview of the business and the industry opportunity is available in our investor presentation. Today, I will focus on what has changed during this quarter, which is the second quarter.

One of the most important announcements that I would like to make is the acquisition of Wimprotech and TIPS. The most important development this quarter is our agreement to acquire 100% of the businesses of Wimprotech and TIPS for an equity value of 142 crores. Both are being acquired through slump sales into newly incorporated wholly owned subsidiaries: Wimprotech into Wimprotech Private Limited, which will be our manufacturing arm, and TIPS into Total Integrated Packaging Solution, that is, TIPS Private Limited, which will be our pooling arm.

Wimprotech is engaged in plastic manufacturing, providing end-to-end solutions, including in-house designing, mold making, and production through vacuum forming and injection molding across its two plants in Puducherry and Tamil Nadu.

TIPS is a crate and tray-pooling business, predominantly very strong in the automotive sector, with an asset pool of 0.25 million crates and trays. Together with a robust customer base of 200-plus customers, they reported FY26 revenue of 61.7 crores at an EBITDA margin of 28%, with revenue growing at a CAGR of 44% over the last 3 years.

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The strategic logic is straightforward. First, it gives us backward integration into plastics, boosting our innovation and building newer capabilities. This will reduce our dependence on outside vendors and improve turnaround time, quality control, and cost. Second, it increases our portfolio and leverages our customer base to cross-sell. Third, it adds a strong southern footprint that we can scale through our existing network in the west and north. You understand that 30% to 40% of the automobile business is in the southern part of the country. On an FY26 pro forma basis, the transaction is accretive to revenue, EBITDA, and PAT, and improves our net debt-to-EBITDA ratio.

We are pleased to announce that we have already signed the BTA on October 26. The key managerial personnel will continue to be associated with us, ensuring leadership continuity and a seamless transition.

I understand that there have been a lot of questions on GCC expansion. We have set up wholly owned subsidiaries in Saudi Arabia and the UAE. The GCC is a natural extension of our platform. Palletization levels are already high, automation and ASRS adoption are rising, and the movement-hire model is very well understood. We continue to take a measured, phased approach to this market. We are contemplating certain acquisitions in the GCC market as well.

A stronger balance sheet is the third point that I want to put forward. From our IPO fresh issue of 480 crores, 360 crores has been used to repay debt. On a post-IPO basis, our debt-to-equity ratio is about 0.5, and our net debt-to-EBITDA ratio is about 1.9x, with around 110 crore held as investment. This gives us the flexibility to pursue value-accretive opportunities such as this acquisition while staying disciplined on leverage. I am very happy to announce that in October, India Ratings and Research, a Fitch Group company, upgraded LEAP's long-term rating from A to A+, and the same has happened for the TARAN business, which is our MHE business; that has also moved from A to A+.

This is our third upgrade in about 3.5 years. We now have a leaner balance sheet, a top-tier short-term rating, and a clear runway to fund the next leg of growth, including value-accretive opportunities such as this acquisition while staying disciplined on leverage.

Let me come to certain performance highlights. I would like to tell you that, whenever you look at this business, you should compare it with the previous year. Quarter-on-quarter comparisons are not appropriate because we are not a selling company, and this is a seasonal business. Compared with the second quarter of last year, we achieved a turnover of 216 crores. We grew by 22.5%. We achieved EBITDA of 110 crores, representing growth of 24.8%. Overall EBITDA for the first half is 52.2.

We have delivered PAT growth of nearly 18 crores, which is a jump of 62% over last year. If you remove the break cost, the money that we paid to the banks for repaying the debt, and exclude 6.5 crores of that, we have actually grown our PAT by 109%. This is a very strong story, and you will be able to see this in the future, in the third and fourth quarters. We have put in around 417,000 net allotments of our pallets. Therefore, the question of whether there is growth when you have 90% of the market is also answered. We have added 37 new customers. LEAP has added 24 new customers, and TARAN has added 13 new customers. Overall, in the first half, we have added 85 new customers.

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If you look at our MHE business, we have grown by 60% in revenue and by around 28% in EBITDA.

If you look at the outlook, our priorities for the rest of the year are very clear: deepen penetration with existing customers, continue moving customers from static hire to movement hire, cross-sell across pallets, containers, and MHE, open up new industries, integrate Wimprotech and TIPS, and build the GCC business in a measured way. We will do this with continued discipline on asset utilization, returns on capital, and balance sheet strength.

With that, I will hand over to Rishi to take you through the operating and growth updates for the quarter.

Rishi Gandhi – Chief Growth Officer: Thank you, Mr. Mathew, and a very good morning to all the participants.

I would like to start with the business overview. Let me give you a quick recap of how our growth works.

LEAP grows on three engines: adding assets to the pool, keeping those assets productive, and moving customers from static hire, where assets sit at one location, to movement hire, where the assets travel across the supply chain and earn revenue at every leg. Underneath all three is our network of 11,000-plus touchpoints, which allows customers to hire anywhere and dehire anywhere.

Let me take you through how each of these moved during the quarter.

In terms of the quarterly update on the asset base and utilization, we closed H1 with 15.5 million assets compared with 13.8 million a year ago, an addition of 1.7 million. Pallet utilization stood at 89.3%, in line with Q2 FY26. Container utilization was at 73.7%, up from 71.7%, and MHE utilization was at 82.3%. As I mentioned on our call last year, we aim to take pallet utilization to the 90-91% range over the coming quarters, and we continue to deploy new assets quickly.

In terms of customers and network infrastructure, we now serve 1,100-plus customers, and we are constantly adding to that number. We have 11,000-plus touchpoints. We also continue to capture network synergies from the CHEP integration, where our fulfillment centers were close to erstwhile CHEP facilities. We consolidated with them, closing two facilities and bringing our network to 27 fulfillment centers without any loss of reach.

With regard to movement hire, there is constant improvement in the movement-hire business. We are converting customers from the dairy and textile sectors from static hire to movement hire, and that journey will continue.

As a quick background on Wimprotech and TIPS, the new acquisitions, Mr. Mathew has already covered the strategic rationale, so let me speak about the commercial side. Wimprotech gives us in-house design, mold-making, and plastic-manufacturing capabilities. That means faster development of designs and molds, customization of various products, shorter turnaround times, and better control over quality and cost. TIPS strengthens our container-pooling position, especially in the automotive business.

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The growth opportunity comes from three places: cross-selling pallets, crates, containers, and MHE across our 1,100-plus customers, as well as the 200-plus customers of the Wimprotech and TIPS groups; taking their strong southern presence into our western and northern network; and moving into newer industries such as FMCG, electronics, e-commerce, and agriculture, with integrated offerings that support longer contracts and higher wallet share through integrated products.

In terms of the GCC update, our subsidiaries in Saudi Arabia and the UAE are well established. We have obtained our licenses. These have been foundation-building months. We have obtained all the approvals, and we have been putting our ground infrastructure in place, including setting up our entities, obtaining all licenses, establishing warehouse infrastructure, hiring key people, engaging with customers, and obtaining regulatory approvals. At the same time, we are engaging with our prospective customers and building our pipeline. Getting the foundation right now will allow us to scale faster once we go live.

In terms of the way forward, our priorities are clear: deepen movement hire, cross-sell pallets, containers, crates, and MHE across a larger customer base, take pooling into newer industries, and build the GCC into our next growth market. Every asset we pool replaces single-use packaging, so the growth that builds value for our shareholders also makes the supply chain more sustainable. We have the network, the capability, and the balance sheet to do this, and I am confident about the road ahead.

With that, let me hand over to our CFO, Mr. Rajeshwar Muley, to take you through the financial performance. Mr. Rajeshwar Muley.

Rajeshwar Muley – CFO: Thank you, Rishi, and good afternoon, everyone.

Before the numbers, a brief word on how our model appears in the financials. Customers pay for our assets on a per-use basis through an allotment fee, per-day rental, and, increasingly, a movement fee at each leg of the supply chain.

Operator: I'm sorry to interrupt, sir. If you could come closer to the microphone?

Rajeshwar Muley – CFO: Yes.

This gives us a recurring, annuity-like income stream on a long-life asset base.

Management: Our financial levers are simple: grow the pool, keep the assets productive, and let operating leverage flow through to earnings and cash.

Key financial updates for the quarter:

With respect to the Wimprotech and TIPS acquisition, the acquisition of Wimprotech and TIPS is valued at an enterprise value of 1,020 million and 400 million, respectively, and is structured as slump sales into wholly owned subsidiaries of LEAP India. In FY26, Wimprotech and TIPS had revenue of 470 million and 180 million, respectively.

With respect to IPO proceeds and leverage, of the 4,800 million fresh issue, 3,596 million has been used to repay debt, and 1,200 million {? earmarked ?} for general corporate purposes. On a

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post-IPO basis, debt-to-equity is about 0.48x and net debt-to-EBITDA is about 1.9x, compared with 4.4x in H1 FY26. We also hold around 1,100 million as investments, and with India Ratings further upgrading our rating to A+ from stable A for both LEAP and TARAN, this should additionally optimize our cost of borrowing and give us a clear runway to fund the next leg of growth.

With respect to Q2 FY27 performance, total income for the quarter was 2,159 million rupees, up 23% year-on-year. Of this, asset-pooling income was 1,759 million rupees, up 19%, and MHE income was 393 million rupees, up 52%.

EBITDA was 1,097 million rupees, up 25%, with an EBITDA margin of 50.8%, up 91 basis points year-on-year, supported by higher income, cost optimization, and network synergies.

Depreciation was 576 million rupees.

Finance costs were 215 million, reflecting the benefit of the 3,596 million debt repayment from IPO proceeds.

PAT was 178 million rupees, up 62%, with a PAT margin of 8.2%, and cash PAT was 754 million rupees, up 26%.

Now, with respect to H1 FY27 performance, for the first half, total income was 4,294 million rupees, up 26% year-on-year. EBITDA was 2,239 million rupees, up 23%, at a margin of 52.1%. PAT was 425 million rupees, up 42%, and cash PAT was 1,566 million rupees, up 25%.

To sum up, our focus remains the same: scale the pool, keep the assets productive, and translate operating growth into stronger capital efficiency, now with a stronger balance sheet and a broader platform.

With that, I will hand the call back to the moderator for the question-and-answer session. Thank you.

Operator: Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press “*” and “1” on their touchtone telephone. If you wish to remove yourself from the question queue, you may press “*” and “2.” Participants are requested to use a handset while asking a question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question comes from the line of Kripashankar NJ with Avendus. Please go ahead.

Kripashankar NJ – Avendus: Good afternoon, and thank you for the opportunity. Congratulations on a great set of numbers. My first question is on receivable days. I did see a significant improvement in receivable days when comparing March with September. I wanted to get some sense of how much further improvement there could be over the medium term. You highlighted something in the first quarter regarding the SAP S/4HANA implementation driving a significant reduction. I wanted to get an update on working-capital days and how they could develop over the medium term.

Management: Thank you, Kripa. If you look at it, we have improved our number of days by 6, because when we started the year, it was 128 days, and now our DSO is 122 days. We understand

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that this is not the right place to be. However, as I told you, we have implemented SAP S/4HANA, the bills are being raised on time, and you can see that whatever we have billed, we have started collecting more than that. As a team, we are very confident that by the end of the year, we will be below 90 days. That is what we are working toward.

There are certain challenges with customers because even very large customers work on a PO basis. When they work on a PO basis, if they ask for more pallets and the billing for that month is 1 rupee higher than the PO, then we do not receive anything for that month, and we have to generate a PO from, say, 360 locations. We are talking to those customers in order to obtain a centralized PO. I think if we are able to resolve the issue with 5 or 6 customers that actually work on the basis of POs, we will be able to bring it much further below 90 days. You can take it from me that this will improve from 122 days to 90 days by the time we end FY27.

Kripashankar NJ – Avendus: Understood. That is very helpful. If I were to extrapolate from that, our cash flow from operations would be more than enough to meet our capex requirements for the year if we continue the trajectory on profitability. Is that understanding correct?

Management: If you look at the current trend, that situation will arise in FY28. However, there are certain acquisitions in the pipeline, in India as well as outside India, essentially in the GCC. We believe that we will have enough and more EBITDA to cover whatever we want to invest in our assets. However, since these acquisitions are under consideration, I would not like to comment on them. We will improve this much earlier than what we have actually communicated to the shareholders.

Kripashankar NJ – Avendus: Sure. I was looking at it excluding the acquisition cost, considering only the capex we are incurring toward adding assets. If I compare it only on that basis, cash flow from operations would be more than adequate to meet that requirement. Is that understanding fair?

Management: Yes, that understanding is correct. If you look at it, this quarter we incurred capex of 213 crores, compared with 201 crores in the first half of last year. However, growth has been 21%. You can see that we invested the same amount of capital, but grew by 21%. You are absolutely correct that overall, this year we will have capex of 450 crores, and we are looking at EBITDA close to that amount.

Kripashankar NJ – Avendus: Understood. My second question is on the pallet business. While I appreciate the extent of growth, the breakup between the pallet and container revenue streams for this quarter is not explicitly highlighted in the presentation. Would that number be available to share?

Management: Yes, it can be shared, and we will put it on the website. I think the presentation uploaded on the website contains it. The split is there. Technically, it is again a 64% contribution from pallets, around 20%, or 20% to 22%, contribution from the automotive side, and 14% to 16% contribution from MHE. More or less, the contribution structure has not changed significantly.

However, you can see that the cost of granules has gone up significantly; plastic costs have gone up significantly. The automotive sector has performed exceptionally well. If they asked for 4 crates, we were able to deliver only 1.5 crates to them. Even though we added 200,000 more crates to the

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system, demand was much higher. However, we cannot buy crates at a cost that is 60% or 70% higher. We are waiting for the cost to come down so that we can expand further in automotive.

Kripashankar NJ – Avendus: Understood. Taking that point forward, I wanted to get a sense of how lumber prices are looking. While you have given some information about granules for containers, on the lumber side, considering dollar rates and elevated shipping prices, how is that looking? On a like-for-like basis, what realization increase have you seen in the September quarter?

Management: Kripa, I have already told you that one of the biggest risks we carry in this business is that timber cost fluctuates continuously. That is why we created {? Flynova ?} 4 years ago, and today we have complete control over timber costs. You can see that in the last 6 years, our cost has not fluctuated by more than 2% to 3% of the overall cost. This is a highly regulated product. Once we have contracts with our suppliers across the globe, it is not CIF but FOB. Even if container costs increase 10 times, that has not had a significant impact on our pallet cost.

If container costs go down, the suppliers benefit. If container costs go up, we benefit. Currently, the average cost of our pallet, which is a 1,750-rupee pallet, is at that level. In 2 or 3 places, we have increased the price slightly, but timber cost is more or less completely under our control. We may have to review it if the current situation continues after March 31, 2027, but currently we are completely in control.

Kripashankar NJ – Avendus: Understood. My last question, if I may, is with respect to static and movement hire. I know it cannot be quantified on a quarterly basis, but could you provide some color on any traction or new business wins, and how that is developing within the overall pallet-hire business?

Management: If you look at the movement business, this time again, we achieved around 720,000 pallet movements, but we were expecting significantly higher movement and revenue. What happened is that we signed Sanathan Textiles and {? Delosa ?}. If you look at that, there is 100% growth in movement hire, but the base is very small. We were looking for 10 times growth in textiles, but the textile industry is not functioning fully. It is operating at 20% of its overall production capacity. The textile industry is not doing well because of the cost of granules. The plastic-goods industry has also been severely affected due to fluctuations in granule prices.

If you look at the pooling business, these crates actually travel on our pallets to different automotive-component manufacturers. That has also declined somewhat because of fluctuations in plastic prices. This has put a dent in movement hire. However, if you look at Amul and the dairy, agricultural, and industrial-goods segments, they are continuing to perform well. The quantum jump we were expecting in the second quarter has not happened, but at least we are on our numbers. Again, we achieved 720,000 transfer-hire movements in this quarter. Going forward, I believe the situation will be corrected, and we will be able to reach our target of 3.6 million transfer-hire movements for this year.

Kripashankar NJ – Avendus: Understood. Thank you very much for answering my questions. I will get back in the queue. Thank you.

Management: Thank you, Kripa.

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Operator: Thank you. Participants who wish to ask a question may press "*" and "1."

The next question comes from the line of Angad Saluja with UBS India. Please go ahead.

Angad Saluja – UBS India: Hi. Am I audible?

Management: Yes, Angad.

Angad Saluja – UBS India: Thanks. Good afternoon, sir. Thanks for taking my question. My first question is on the acquisitions. TIPS seems like a natural extension of the business and is more understandable. I wanted to understand more about Wimprotech, which is in manufacturing. Do you see the cost benefit of having this capability in-house as being much larger than having a vendor do it? Could you quantify some of the benefits you expect to derive from this type of acquisition, given that we have always been more focused on pooling and manufacturing has not been our strong area?

Management: [cut off]

Management: Good question, Angad, on the acquisition. You need to understand that I am always focused on the customer. However, in India, if you want to do business, there are certain things that need to be in-house. We gain an advantage over everybody else because we control the price of timber in the country. Recently, we understood that there is significant fluctuation. Sometimes it is 20%, and sometimes it is 70%. I cannot go to 400 automotive customers and keep changing the rates.

The second very important point is that Wimprotech is a mold-making, designing, and plastic-conversion company. If you look at any automotive component, or if a customer has to move something from one destination to another, they come to us. We create a prototype and then go to mold-making companies. They take their own time; they take 2 to 3 months. By that time, sometimes we lose the customer, or they give it to 2 or 3 players, and then competition starts.

If we have in-house production, we will be able to improve our automotive business by at least 600 basis points, because we will have someone who can turn things around in 1 week rather than making us wait for 2 months. The mold making will also remain with us. If somebody copies our mold making, even if we have taken intellectual property protection on it, it becomes a civil case, and we would keep going around the courts for the next 20 years. It is always better to have something in-house where all our intellectual property rights remain within the company, because this is a highly specialized design, and this is our brain, blood, and sweat, which anybody can copy at any time.

We want it to remain within the company, and that is the reason it is a great acquisition. We will also have a 10% to 12% improvement in the margin of the plastic crates that we manufacture. If we outsource it, the vendor may add a certain margin. If we manufacture it in-house, our ROCE and ROE will improve dramatically in automotive.

Angad Saluja – UBS India: Right. Got it. That is good to hear, sir. My second question is a continuation of the earlier participant's question on movement hire. You mentioned that this quarter was around 720,000 movements, compared with around 766,000 last quarter. On a year-on-year

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basis, what would the growth be with these 720,000 movements? What was the number in the same quarter last year?

Management: Let me give you the 4-year or 5-year trajectory in India. We moved from 500,000 to 1,100,000. From 1,100,000, we went to 2.1 million. Last year, we did 2.8 million. This year, we have told the market that we will do around 3.6 million to 3.7 million.

Having said that, we are currently at 1.5 million, which is 15 lakh pallets. We have said that we will do 36 lakh pallet movements. Our season is just getting started. You need to understand that this is the rainy season.

Angad Saluja – UBS India: Right.

Management: The second quarter is a rainy quarter, and this is the lowest level of activity for us. Our biggest jump will come in December, January, February, and March, when we contribute 34% of our total sales because everyone pre-builds inventory. Water, juice, milk, cola companies, cumin companies, and every other company will pre-build inventory during that period. That is when you will see around 1 million movements in the last quarter. We are therefore very confident that we will reach the numbers we have given to the market.

Angad Saluja – UBS India: Great. I have one follow-up. Could you qualitatively guide us on the traction you are seeing in converting customers from static to movement hire beyond dairy and textiles, and how those conversations are developing?

Management: As I said, we have signed 37 new customers. Of these, around 6 customers are on movement hire. This is again related to bottles and some dairy business. There are 3 customers that have also been signed on the textile side. One more company is involved in moving tower-type products to various geographies.

I think it is progressing well. We are in discussions with around 60 companies regarding transfer-hire movements. We track this on the basis of the sales funnel. In one quarter, only 2 or 3 customers may be signed. There is also a possibility that we may sign 20 customers in one quarter. It depends on the trial and the time it takes.

For example, I told you last time about what we are trying in solar panels. We have tried it, and it is approximately 90% successful because these pallets go to the farmlands of the country where solar panels are being installed. We are also considering introducing an active RFID tag on these pallets so that we can track them through computers. We will be the first company in the world to put an active RFID tag into any type of pallet.

That initiative is also progressing. Once it converts, there are 39 companies involved in solar-panel movement. That will be a very large number. If we have said 3.6 million, next year it could potentially be 7 million or 8 million. That is the kind of quantum jump that you can get in the pooling business.

We signed Sanathan Textiles, and then {? Welspun ?}. If you look at the textile industry, we are growing by 100%, but that is only from 7,000 movements to 8,000 movements. These 7,000 movements need to increase to around 200,000. That is the kind of growth we were expecting.

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However, since everything has been shut down, there is a certain lull. I am very confident because most of the states' villages have been declared drought-affected. If this drought-like situation continues, people are going to drink more water, cola, and juices. That increases our pallet penetration in the market, the introduction of new pallets into the market, and pooling from PET manufacturers to cola companies. We are very confident that we will be able to achieve it.

Angad Saluja – UBS India: Got it, sir. I think those are all the questions I had. Thank you very much, and all the best for the next quarters.

Management: All right, Angad. Thank you.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, you may press "*" and "1." The next question comes from the line of Viraj Kadam with {? B Wealth ?}. Please go ahead.

Viraj Kadam – {? B Wealth ?}: Hello?

Management: Hi, Viraj.

Viraj Kadam – {? B Wealth ?}: Hello?

Management: Yes.

Viraj Kadam – {? B Wealth ?}: I wanted to ask what the update is on the GCC market. Specifically, in this war situation, how are you planning the GCC operations?

Management: Thank you, Viraj, for asking this question. People have a lot of anxiety about this. Let me tell you that in the GCC, we have already been in touch with 26 customers. As Rishi explained in the earnings call, all our necessary licenses are in place. As far as customers are concerned, we are in touch with 26 customers, but suddenly 2 or 3 better tailwinds have emerged in the GCC.

As I told you in my earnings call, there are certain acquisitions that we may pursue. The situation is that we can give a price to our customers and quickly start the business, but we are waiting because if there is an acquisition opportunity in the GCC, customers will always choose the lower price. We are therefore holding ourselves back and looking for certain things to happen quickly in the next quarter or the following 2 quarters. If that does not happen, we will start offering prices and begin our business.

We are proceeding very frugally and evaluating the situation in the GCC. We have spent only around 2.5 to 3 crores on the entire licensing process, taking an office, deploying our people there, and meeting customers. We are treading very cautiously. However, in the future, there will be a lot of good news from the GCC market.

Viraj Kadam – {? B Wealth ?}: Thank you very much.

Management: Thank you.

Operator: Thank you. The next question comes from the line of {? Nilotpal Sahu ?} with JM Financial. Please go ahead.

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{? Nilotpal Sahu ?} – JM Financial: Hi, sir. Good afternoon. Am I audible?

Management: Yes, ma'am. Very much, Neel.

{? Nilotpal Sahu ?} – JM Financial: Thank you for the opportunity. Most of my questions have been answered. I have just a couple of bookkeeping questions. On the balance sheet, there appears to be an increase in other financial liabilities. Can you provide some insight into what this number represents and what is causing the increase?

Management: Radheshyam, would you like to take the question on other financial liabilities?

Radheshyam: Yes. Since we raised a primary issue of 480 crore and a 2,000 crore offer for sale, we earmarked around 112 crore for IPO expenditure. Since we are awaiting invoices from various consultants and brokerage firms, we have kept this amount as a payable under current liabilities.

{? Nilotpal Sahu ?} – JM Financial: Hello?

Management: Please repeat that.

{? Nilotpal Sahu ?} – JM Financial: Hi, sir. I could not hear you clearly. Could you repeat that?

Radheshyam: Yes, I will explain it again. We raised around 480 crore through the primary issue and 2,000 crore through the offer for sale. We incurred expenditure of around 113 crore toward the IPO. We earmarked this expenditure for payments to brokerage houses. We are showing it under current liabilities. This is payable in this quarter.

{? Nilotpal Sahu ?} – JM Financial: Understood. Thank you, sir. Could you provide any indication of when we can expect the first set of revenues from the Middle East? What is the approximate timeline given the volatile situation?

Management: If you look at the Middle East, we can start generating revenue as early as next month. However, as I said, we are evaluating certain companies that already have operations in the GCC. We will definitely show numbers from the GCC next quarter.

{? Nilotpal Sahu ?} – JM Financial: All right. Thank you, sir. Those were my questions.

Management: Thank you.

Operator: Thank you. Participants who wish to ask a question may press "*" and "1." The next question comes from the line of Vishal Mehta with IIFL Capital. Please go ahead.

Vishal Mehta – IIFL Capital: Hello. Thanks for giving me the opportunity. My first question is on the Wimprotech acquisition. My understanding is that, given this entity is involved in manufacturing, the sales would be in the nature of outright sales of these plastic products, not necessarily pooling. Do we intend to continue this business of outright sales of plastic-packaging products, and would we grow this business as well? I would appreciate your thoughts on this.

Management: Vishal, first of all, we will see what kind of growth we are generating within LEAP. We need 400,000 crates, and today we go to 3 different vendors to get them manufactured for us

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because the growth in automotive and in quick-commerce utility boxes is very high. First, we will try to utilize their complete potential for our benefit. Then, out of the 200 customers, we will identify the customers where we can grow the business.

Over a period of time, our intent is to move toward pooling. Even after selling those products, will we be able to pool the SKUs that are going to those customers? For example, I can tell you about a very renowned refrigerator brand. They take the plates that come inside the refrigerator, on which we keep our products. Currently, these plates are packed and sent to the customer in a poor manner. We are evaluating whether returnable packaging can be introduced there. It is a good problem to have, and we believe that from there, the plastic-manufacturing business will also [trails off]

Management: ...generate a certain amount of pooling revenue.

Vishal Mehta – IIFL Capital: This 48-50-odd crores of revenue that Wimprotech generates, will the entire revenue accrue to us, or will it partially flow through margin improvement and partially through revenue? Some color on this would help us model it better.

Management: As far as turnover is concerned, we will be able to recognize it from November because we signed the BTA only in October. Revenue will therefore start from November. There will be a definite addition to EBITDA margins, which will be reflected in LEAP India's consolidated balance sheet. However, because of goodwill, we do not know how much PAT will flow to our balance sheet. I am very sure that there will be healthy turnover and EBITDA, at least for this financial year, coming into the business.

Vishal Mehta – IIFL Capital: With this acquisition, how much of our manufacturing do we intend to move to Wimprotech? For example, if we add 1 million assets in our plastic business, how much will be supplied by Wimprotech and how much will still rely on third parties?

Management: Currently, it will be 50-50. They currently have 2 lines, and 2 lines can take only 50%. Once we see their productivity and the type of mix they produce, and assess their strength and all those factors, we will continue to improve it over a period of time. Eventually, 100% of our production will be in-house.

Vishal Mehta – IIFL Capital: These TIPS warehouses have 4 warehouses. Do we intend to retain all 4, or is there any overlap that we want to consolidate?

Management: No, we will retain them. They run the business very frugally. If I calculate the ROCE of a TIPS customer, because they operate in a very frugal manner, they can show a better ROCE than when the business comes to LEAP. LEAP operates to very high multinational standards.

Over a period of time, it is a strategic buyout. Smaller-company businesses, which are like one-flow or two-flow businesses, will be moved to them. Certain businesses that are of a consolidating nature will be taken by us. TIPS will operate our smaller companies, where shorter distances need to be covered. LEAP will handle all strategic customers such as Bosch, Cummins, Gabriel, and all these companies.

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Vishal Mehta – IIFL Capital: Got it. My last question is on margins. Specifically for this quarter, if I exclude other income, the margin appears to have compressed by around 80 basis points. Could you provide some color on cost pressures this quarter or anything else of that nature?

Management: Nothing of that sort. First of all, you need to understand that this other income does not represent interest income or something earned from money deposited in the bank. It is part of our business. It comprises something known as LEC, or lost equipment charge. If a customer loses the equipment, they have to pay the entire 1,750 rupees to us. Then there is BBR, or broken beyond economic repair. If they break 17 components or 10 components of a pallet, those components are taken and sold in the market. Technically, we receive the full cost of 1,750 rupees, but we take these components and sell them.

These are the types of items included in other income. This is not other income from interest or anything of that sort. It consists of proceeds from the business itself. This has always represented 0.5% to 1.25% of the entire pool through LEC and BBR, which we recover from the customer. We then sell the items to vendors and scrap vendors. This is the other income that is included. It is ancillary to the business and has always been present. It will change from quarter to quarter. I cannot sell half a truckload unless and until the BBR accumulates to a full truckload. Only then can I call the vendor and sell it.

Vishal Mehta – IIFL Capital: Sure. That is all from my side. Thank you, and all the best.

Management: Thank you. Thanks a lot.

Operator: Thank you. Ladies and gentlemen, to ensure that management is able to address questions from all participants, please limit your questions to 2 per participant.

The next question comes from the line of Priyank Jain with First Bridge. Please go ahead.

Priyank Jain – First Bridge: Hi, {? Sunu ?}. Congratulations to you and the entire LEAP team on showing such good growth and the fantastic momentum you have seen over the past 2 quarters. I would like to hear your view on the broader macroeconomic factors that would help LEAP maintain this momentum over the next few quarters.

Management: Priyank, we are fortunate that we cater to nearly 38 sectors. Even if 3 or 4 sectors do not perform well, other sectors increase their activity, allowing our growth to continue. Today, if you look at crude prices going above $120, that affects granule prices. The textile industry is affected, the plastic industry is affected, and transportation companies are asking for a 6% price increase and dealing with all these kinds of issues. At the same time, suppose the government declares most villages to be drought-affected. That means people are going to consume more water, cola, soft drinks, and juices. This is also a sector that we dominate, with a 100% share.

That is supporting our growth. Normally, the second quarter is subdued because of the rains, but this time the October heat was so intense that we allotted around 100,000 pallets from September 15 to October 15. This is the kind of momentum I am seeing. Industrial goods are performing very well. I also see quick commerce performing very well, even though quick-commerce companies have recently started using 3PL services to reach customers faster. If you look at our 3PL

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pallet-penetration growth, it increased by 355% this quarter. That is driven by quick commerce, which is growing very rapidly.

I can tell you that even though there is fantastic growth in the automotive-component sector, we are not able to tap that sector because the cost of granules has increased by 30% to 50%. Having said that, we still have a very good problem. We have to decide whether to grow in pallets, automotive, or TARAN. In TARAN, we have installed around 150 machines. India is continuously moving from horizontal racking to vertical racking, so there is very natural growth there as well.

If you ask me about certain industries and macroeconomic factors, we cater to around 1,100-plus customers, and if we add another 200 customers from Wimprotech and TIPS, we will be catering to more than 1,300 customers. We are therefore exposed to all sectors. For other industries, the third and fourth quarters may be difficult. But as far as LEAP is concerned, as I said, we cater to around 38 sectors, and we will continue this momentum and growth. Heat is going to benefit us the most.

Priyank Jain – First Bridge: Got it. Thank you very much. Congratulations once again to the entire team. I am done for now.

Management: Thank you.

Operator: Thank you. The next question comes from the line of Vikas Jha with Blue Sky Fintech. Please go ahead.

Vikas Jha – Blue Sky Fintech: Hi. Thanks for the opportunity. I wanted to confirm something. I heard Mr. Matthew speaking a while ago—

Operator: Mr. Vikas, your voice is not clear. Could you please use your handset?

Vikas Jha – Blue Sky Fintech: I wanted to ask Mr. Matthew about something I heard him say on TV18 a short while ago. He said that we are targeting {? 880 to 920 crores ?} of revenue for FY27, which implies close to 26% growth, while we guided for 20% growth in Q1 FY27. Is this a guidance upgrade?

Management: We have always said that we will grow between 20% and 27%, which is our natural organic growth, and that is what we have been able to demonstrate. People ask about this number every time. This is something we have shared with our investors, which is {? 900 80, 920 crores ?} of top-line revenue. We have also indicated an EBITDA margin of 50% and PAT of around 90 crores. This is the guidance we have given.

We are currently on that trend. The second quarter is somewhat of a lull season for us, so you will see much more improvement compared with what we have stated. Last year, we achieved around 62 crores, and we are saying that we will achieve 90 crores this year, which itself represents growth of 40% to 44% in PAT. We will be able to do much better than that. In my previous television interviews, I also said that we will not grow PAT by 40%, but by 60% to 80%. That is the guidance I can give you with respect to PAT.

Vikas Jha – Blue Sky Fintech: Thank you very much. That is all from my side.

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Management: Thank you.

Operator: Thank you. The next question comes from the line of Abhishek Chaudhury, an individual investor. Please go ahead.

Abhishek Chaudhury – Individual Investor: Thank you for the opportunity. Could you talk a bit about the company's capital-allocation philosophy? Where could we expect debt levels to be compared with equity, and what capex could we be doing? What could be the average capex for 1 rupee of revenue?

Management: We have given guidance that this year we will incur around 450 crores of total capex. We incurred 213 crores in the first half, which gave us growth of 21%. Last year also, you will see that we incurred more or less the same amount. With the same type of asset base in the first half, we were able to grow the business by 21%, and that is the benefit of pooling. Once you put the product into the market, there is a possibility that in that financial year you may receive 80 days, 90 days, or 240 days of rental revenue. However, from the next year onward, you will receive 365 days of rental revenue. That improves the entire mathematics of the business.

We have a certain amount of orders for pallets, crates, and machines. We therefore have to pick and choose. If we obtain a strong customer with an 8-year contract, we will install a new machine and purchase a new machine. If we obtain a contract for only 2 to 3 years, we will install a refurbished machine in the MHE business.

If you look at a pallet that is going into a 3-year or 5-year lock-in period, we will introduce a new pallet into the system. But if it is a seasonal hire-and-dehire arrangement, we will repair more pallets and put them into the market. We therefore have to choose between the machine and the pallet.

In the first quarter, we incurred only around 70-77 crores of capex. Even though there was a lot of demand for automotive crates, we did not buy new crates because they were available at a cost 60% higher than our normal cost, as the price of granules was changing every day. We therefore did not buy those crates in the first quarter, when prices were—

Management: ...actually reduced somewhat, reaching $90, at which point we booked it and introduced 200,000 crates into the system. The logic is that we have growth in all segments. We have to choose where to repair and put pallets, where to introduce new pallets, whether to improve our field-stock ratio in automotive, or whether to produce new crates. We also have to decide whether to buy a new machine or provide a refurbished machine. This is decided on a case-by-case basis.

For example, if I say BALCO, BALCO takes 54 machines. By default, I will have to buy and install them at BALCO because it is a 5-year, unbreakable contract. Otherwise, BALCO would have to compensate us for the loss. I would therefore not like to install a refurbished machine there. This is the basic thesis of our capex. Overall, we have indicated 450 crores, so we will be around that level. For example, if somebody comes and asks for another 300,000 pallets, there is a possibility that we may exceed our capex requirement, but that will be seen in FY27-28 along with higher revenue.

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Abhishek Chaudhury – Individual Investor: Thank you, sir. Thank you very much.

Management: Thank you.

Operator: Thank you. The next question comes from the line of Amit Thawani with Clear Blue Capital Advisors. Please go ahead.

Amit Thawani – Clear Blue Capital Advisors: Hi, Sonu sir. Thank you for taking my call. I wanted to understand the business a little better. Broadly, we are making about Rs.500 of rental on a pallet, with 50% EBITDA, which is about Rs.250 per pallet. Right now, our—

Management: We make Rs.564. We make Rs.564. If you look at our previous per-pallet yield, it was Rs.1.46 to Rs.1.48 per day, and now it has increased to Rs.1.54 per day. If you multiply Rs.1.54 by 365 days, we generate around Rs.562 to Rs.565 per annum. With a 50% EBITDA margin, yes.

Amit Thawani – Clear Blue Capital Advisors: Rs.565 with a 50% EBITDA margin comes to about {? 280 ?}. That is at 0.4 movement hire. I am trying to understand: if movement hire increases from 0.4 to 1.4, how much would the EBITDA per pallet increase?

Management: It will go up to 80%.

Amit Thawani – Clear Blue Capital Advisors: Will EBITDA increase by 80%?

Management: Yes.

Amit Thawani – Clear Blue Capital Advisors: But our—

Management: Because the same pallet moves. If I give a pallet to a cola company, they keep it and continue paying me under the rental model. The moment it is transferred to somebody else, we receive transfer-hire charges. However, when it goes to the other customer, that customer also continues paying me the daily rental. Therefore, the transfer-hire charge comes on top of the Rs.562.

For example, you have to look at this business as follows: if the pallet costs Rs.1,750, we generate Rs.565 per annum. Leaving EBITDA aside, we can say that the breakeven is 3.1 to 3.2 years. As the per-pallet yield of Rs.1.54 increases to Rs.1.62 or Rs.1.72, the breakeven comes down to 27 months, 24 months, 18 months, or 14 months. That is how the business works. The more you improve the yield, the better the outcome. You do not necessarily have to reach 1.4 times.

Even if you reach a one-to-one ratio, we have 94 lakh pallets, and if we achieve 94 lakh movements, our EBITDA will be very high. The per-pallet yield we were receiving previously was X, and now it is X plus 2. We do not want to disclose all these numbers because anyone who wants to enter this business would understand how to calculate it.

What you need to understand about breakeven is that for a Rs.1,750 pallet, the current breakeven is around 3.1 years. Last year, we achieved 2.8 million movements. This year, we have said that we will achieve 3.6 million to 3.7 million movements. That will take our per-pallet yield from Rs.1.54 per day to Rs.1.62 per day, and it will continue to increase.

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Amit Thawani – Clear Blue Capital Advisors: The margin from Rs.1.54 to Rs.1.62, with the margin going to—

Management: Which margin are you referring to?

Amit Thawani – Clear Blue Capital Advisors: EBITDA.

Management: That is just an add-on. There is no reduction in the margin. The transfer takes place on their truck. You simply multiply Rs.1.62 by 365 days. The Rs.565 will become Rs.612, then Rs.722, and so on.

Amit Thawani – Clear Blue Capital Advisors: Got it. And, sir—

Operator: Sorry to interrupt, Mr. Amit. I request you to come back into the queue for further questions.

Amit Thawani – Clear Blue Capital Advisors: I have had only one question answered, sir. I think—

Management: Yes, Amit, please go ahead.

Amit Thawani – Clear Blue Capital Advisors: My second question is on the EBITDA margin. Our standalone EBITDA margin was 60% before the CHEP acquisition, and now we are at 50%. Is there any chance we could return to 60%?

Management: It is a combination. Previously, we improved our business by 200% in TEFRON. If you look at TEFRON, it has an EBITDA margin of 30%. That has brought down our EBITDA margin. I am not too concerned about whether it goes to 55% or 48%. The quantum value should be considered. Over time, my EBITDA should be significantly higher than the capex I am making. That will allow the company, over a period of time, to consider paying dividends or pursuing better acquisitions in the future.

Amit Thawani – Clear Blue Capital Advisors: Thank you, Sonu sir. Thank you.

Management: Thank you.

Operator: Thank you. The next question comes from the line of Anand Mundra with Mytemple Capital. Please go ahead.

Anand Mundra – Mytemple Capital: Hello. Thank you for the opportunity. My question is about the industry. I wanted to understand why pallet-pooling penetration as a percentage is so low in China. Is there something particular about the country that keeps it low? What path do you expect India to take?

Management: When we talk about China, we have to use the data listed on the government website. If you visit China, it is absolutely 100% palletized. The country says that it is 50% palletized, but I think you should visit Hangzhou and similar places. They are technologically very advanced. Even when they use ASRS or robotic movement, the base is the pallet. It may be a metal pallet, but the base is still a pallet. I do not agree with the number shown on the website. China is fully palletized.

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Anand Mundra – Mytemple Capital: What about pooling penetration? Palletization is around 50%, but the more concerning point is that pallet pooling is only 9.5%, whereas India is already—

Management: Pallet pooling is much more extensive. It was 5 times larger than India. I think these numbers are not accurate because CHEP was present in China and was very large in automotive and in the pallet business. Merchants Group of China, which is a government entity, bought Loscam. Ultimately, CHEP sold its business to Loscam, but retained a 10% stake in the Loscam China business. It was a 4-5 times larger and better business than ours.

The second important point is that the entire manufacturing activity in China is concentrated in the southern part of the country, in a particular region. If you have to move to another region, the distance is enormous. Because the distances are so large, it is beneficial for companies to have their own pooling circulation. The north operates within the north, and the south operates within the south. That is why a direct comparison is not possible.

India is not like that. India is densely populated, but the distances are not as large as in China. Anything produced in Chakan goes to Gurgaon and Chennai. Anything produced by Sundram Fasteners, Delphi, or another company in Chennai goes to Nashik, Kandivali, and Gurgaon. In India, there are only 14 core locations as far as automotive is concerned, and pooling is much more feasible in India than in other countries. China is not a great comparison for our country because population density is spread across all regions in India, as are manufacturing locations.

This is one of the reasons. All the other questions about our increasing palletization also need to be put to rest. Every year, for the last 7 or 8 years, we have added 700,000 to 800,000 more pallets. When we started this year, everyone questioned whether we would be able to add 900,000 pallets. I can now tell you that by September we had already added, on a net-allotment basis, 417,000 pallets. We signed around 37 new customers in the last quarter, and we signed 48 new customers in the previous quarter. We signed 85 new customers in the first half. We are therefore very confident that we will surpass 900,000 pallets in this financial year as well. We will end somewhere at 1 million or 1.2 million pallets.

That is the pace at which India is growing, and pooling is growing as well. In automotive, pooling is 100% today, and companies really do not need cardboard. They are going to become carbon neutral, and we are the champions of carbon neutrality in the country. If you use an environmental calculator to compare a pooled pallet with a one-way pallet, you will see the amount of CO2 emissions that are reduced in the atmosphere.

In India, we do not currently have the concept of carbon credits. I am very confident that the government is working toward it, and if it is introduced in the next 1 to 2 years, all these people will buy carbon credits from us. All of this will go directly into our PAT, which will be a completely different situation. We learned this when we went to the GCC, because in the GCC you can buy and sell carbon credits.

Anand Mundra – Mytemple Capital: Got it, sir. That was all from my side. Thank you.

Management: Thank you.

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Operator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I now hand the conference over to the management for closing comments.

Management: Thank you, everyone, for joining us today and for your questions. I would like to take more and more questions from you whenever you wish. You can contact my management team. This is a new business and is difficult for people to understand. The more questions you ask, the more you challenge us, which also makes us clearer about what investors are looking for.

Overall, I can tell you that we are doing fantastically well as a company. We will grow and continue to grow at the pace we have maintained for the next 5 years. Acquisitions and mergers are the way forward for our company to achieve the kind of growth we have shown over the last 10 years. I thank everybody for joining. Thank you very much.

Operator: Thank you. On behalf of Go India Advisors, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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