Transcript

Transport Corporation of India Q4FY20 Conference call

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Presentation Session

Moderator: Good evening, ladies and gentlemen. I am Bharati, moderator for the conference call. Welcome to Transport Corporation of India conference call to discuss the financial results for FY2019-20 and to address investors and analyst queries. We have with us today, Mr. Vineet Agarwal, Managing Director and Mr. Ashish Tiwari, Group CFO. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press star and one on your telephone keypad. Please note, this conference is recorded. I would now like to hand over the floor to Mr. Ashish Tiwari, Group CFO. Thank you and over to you, sir.

Ashish Tiwari: Thank you Bharati. Very good evening, ladies and gentlemen. Today we will begin this opening remark by Mr. Vineet Agarwal, Managing Director TCI followed by the investors presentation. I hope that all of you would have a copy of that, it is available at the website of the company as well.Now I will hand over to Mr. Vineet Agarwal.

Vineet Agarwal: Thank you Ashish and good afternoon, good evening to everyone. Ladies and gentlemen, we are sorry that we had to change the date of this investor call from yesterday to today, because of the impending situation in Mumbai due to cyclone, but we are thankful that everything went off well and not much has happened with Mumbai. So today, we are in different and challenging circumstances, not just the organization but the country as a whole and in that sense, the whole world. And what we are discussing today is, of course, the result for the previous year, but we will also talk a little bit about what is currently happening, not just in our business but also in supply chains in the country today. So, please do let us know if you have any questions and we will be happy to answer them. As Ashish has indicated, we have the presentation online available. Please download it so that I can refer to that, I will be referring to that as I speak, so that you are also able to get a sense of what I am talking about today. As I am moving to slide number 2, which about the group as a whole in terms of moving 2.5% of India's GDP with more than 12000 cuts that are operational across the country, combination of and rented. Moving to slide number 3 this talks a lot about our current divisions that we have, the joint ventures, subsidiaries, and the group companies. The company has been expanding as you know in the last several decades. In about 25 years ago we were just one services company which was the as you can see that in this period we have expanded quite rapidly into oil and many areas as well. The next slide number 4 is essentially talking about board of directors. We have a very strong board of directors today with a strong independent board, the latest entering to this board is Mr Ravi Uppal, who was the MD at JSPL and before that at ABB, L&T, etc. He has recently joined the board and we have others, very strong board members from their reputation as well as their outlook to business Mr. Bharat Ram, Ashish Bharat Ram from SRF, Mr. Vijay Sankar from Sanmar group and Mr. Madhavan who is on the board of ICICI bank right now and Ms. Geeta Nayyar, who is also on the board of TajSATS Company amongst others. So this gives us a very independent view of what our strategy and we are quite fortunate to discuss the same with them and look forward to their guidance. The next slide talks about a corporate governance and we have been very strong with this, we have been very careful, our policies are such that our, not just employee friendly, but also we have some policies that are in some sense, unique to the industry as well. And we have kept up with that reputation. In the last year, our rating has changed and in fact, it has become positive from AA- to AA and we have won several awards in many areas. Slide number 6, and essentially I wanted to talk a little bit about the domestic logistics market. As you know the overall market, though is very large, it is quite segmented in several areas. The industry segment that we typically deal with the full truckload and the less than truckload of the roadside, [inaudible 00:05:40] joint venture as well as the PPL business that we have, in our supply chain business and another joint venture called Transystem logistics. And of course, our seaways business which is the shipping business. So the whole idea, the strategy for the company has been that we want to be an integrated, multimodal logistics service provider. And this is a unique proposition that we bring to the Indian market. In our understanding, there is no company that actually has all these capabilities under a single roof and are able to execute this quite seamlessly. Given the fact that there is so much happening on the domestic market, we think, our strategy over years will be quite useful for a long term growth in the logistics sector. Specifics about the market are mentioned in the slide and I will not get into detail, but I can certainly say that in all the segments that we operate, specifically amongst the top three in each, barring the rail segment, we are possibly may be the fourth largest in the container rail transport. So, so overall our strategy has been there that wherever we get into, we would like to be among the top three in that bracket as well. Moving on, I also wanted to talk a little bit about the current state of logistics in the country and supply chain. I think the word supply chain is the most used word in this pandemic. Everyone from the Prime Minister has been talking about supply chain and I can say that in the current scenario, the supply chains are either very severely disrupted or in many cases, even broken. As you know, road accounts for more than 63% of traffic, freight traffic in the country and our estimation is that only 40% of trucks are mostly operational across the country. And therefore, the trucks that are operational at a regional level, more so but at the national level, the trucks operational is much lesser comparatively. This is of course on the basis of shortage of drivers, shortage of labor in many locations as well as because of, in some cases, many cases, demand. Demand is also not completed, not entirely available, so companies and factories have not completely started also. You heard about home congestion, some shipping lines have cancelled the voyages, the import-dependent products have been affected, rail movement has definitely been much better with more than 50-60% activity to 60% level though there is a shortage of containers right now and the shortage of crews also across the country. In warehousing, operations have been active in specifically areas like Ecommerce and FMCG kind of facilities, only now that we are seeing that other industry things have started to move more and warehouses are more active as well. Our sense is that the inventory in the pipeline is getting compressed for essentials because there is a time lag, I mean there are companies that have had stock in their warehouses and they have been replenished to some extent, but not to the extent that they have been sold. So there is a gap that has come about, mostly this gap is 15-20 days to 30 days, but there could be some shortages in certain areas in some places. This is our estimation and there is also a bit of pent-up demand currently and that is also leading to some in sales how much of that in last has to be seen because right after this kind of a disruption, our estimation after a few months is there could be a demand contraction, which would again mean the supply chains will get disrupted. So several aspects are in play here and this will have an impact on the way supply chains are being run in the country. Perhaps some companies will go for extra stock in their warehouses, [inaudible 00:10:21] stocks, perhaps some companies will reduce the number of warehouses where they have to cut cost. So there would be different implications for different types of customers and different types of industries. We are in talks with many of them and we are seeing how it plays, I think we are only in the third month of what has happened post-Covid or rather, during Covid, so it is still early days. The next slide on slide number 8 is what we have been doing in terms of the business in the last 2 months. Of course, clearly we created some important task forces to not just implement the SOPs and protocols in our workplace, in the product handling, in the field operations, but we also have a very strong audit system in place. We have quarantine facilities for 70 locations across the country. In case if anyone is not well etc, we move them to that quarantine room. Other than that, operations have started for us from virtually from day 5 of the or 4 of the lockdown with some warehouses starting up or even some movement of essential supplies. In the last 2 months, we have moved close to 2 lakh tons of food grains and agricultural materials which we would have typically done on an average of maybe 1/3rd of that much amount in this period. So our teams have looked at different areas of logistics, which was moving and has been able move, not just food grains, but also medicines and PPE equipment. It is our network that's the strength of the multimodal businesses that we have that has helped because we have been able to move customers between roads, rails, sea as we have seen that some things are moving more or less than the others. Customers felt that there were some issues with roads in certain areas, so we have moved them, moved containers by sea as well or vice versa by rail as well. So it has been quite useful to have this diversified portfolio in the last 2 months. Other than this, the connects that we have with customers has become very strong, we not only gave them communication on the pipeline that they had of the transportation, but shared WhatsApp videos on SOPs, and more than 40000 calls were made in the last 2 months to customers individually to request them for, to ask them how they were, if there was anything that we could help as well as also for business as well as for receivable collections, so that has helped us tremendously and we have also achieved record collections as our working capital limit that at the start of the year or end of March was at 73%, is utilization level was 73% is now down to about 45%. So we have built in more cash in the system as well. In terms of employees, we have had virtual meetings, town hall as well as increase the training coverage that we have with the digital training and covered 2500 employees in this period as well. We also extended support to partners and other industry players in this time wherever possible for migrant labors etc in our operations and as well as helped in policy formulation for the country as a whole. The next slide, slide 9 I wanted to talk a little bit more about logistic sector growth driver and some of this has changed from the long term drivers that we have already talked about and some of them have been augmented in terms of the understanding is getting built up further. So from a short to medium term specifically we have seen that agriculture, food processing, pharmaceuticals, chemical sector are sectors that are really driving a lot of movement and lot of growth, we see that this will continue. I have mentioned that there is a demand for warehousing [inaudible 00:14:54] stock as well as consolidation of location where customers are consolidating their stocking towards the bigger location. We are also seeing that because people want less touch point so modern handling system should come about sanitization, containerization, use of conveyor etc. Again this has not happened overnight, but this is the process that has started and I think it's a short to medium term this will have an impact. And certainly multimodal is going to get bigger and bigger. This is something that we have felt and said that alternative transportation mode from road onto others will be important. Long term drivers for India are getting stronger in terms of how we are able to attract global value chains to India, which would mean that certain domestic value chains we should get stronger, you know, we all as a country faced issue of importing APIs from China and we were all stuck and some companies were stuck because they could not import it. So these are trends that will lead to creation of domestic supply chains, again a big growth driver for logistic sector in the country with Covid and with the fact that there is a demand for less touch, we certainly believe ecommerce, omni channel sector will grow further. Of course, the governments imperative towards infrastructure development should continue and of course we believe that regulatory reforms are going to help companies that are more and more since we are organized and we have the capabilities of moving our operations more digitally as well as be compliant as much as possible. Slide 10 and 10 onwards is the key USP that we have in our business compared to some of the competitors as I will just mention that quickly. Slide 11 talks about our essentially complex supply chain design element that we have. We are able to look at the entire customers logistics and demand and supply chain and figure out how we can design the supply chains for them, customize to them as well as plugging into the network wherever possible. And this is clearly example that the automotive supply chain where we work right from the production to the after market segment as well. The other area that we have strong USP that I have mentioned is the multimodal transport element example is where we are able to move cargo between different modes of transport quite seamlessly, so if we have some cargo that is originating in the north of India, we can bring it by road or rail to let's say the west port, one of the coastal ports and then subsequently take it on a ship down to the south to any of the destination. So that is the strong capability that we have seen right now and when we have been able to utilize this period to move between modes of transport quite easily. The other unique positioning that we have is how we operate our CPL, OPL, HCM business. It is mostly how we operate is moderately asset heavy, so we are not completely asset light or completely asset heavy. There are companies today, in the last two months have been dramatically affected by having a lot of assets on their book and they have been struggling with getting their trucks or their own warehouses running and some competitors who have worked with completely no asset have had lot of issues with getting suppliers to come on board or even when they needed to some customers wanted some cargo to be moved or to be operated upon, they did not have capability where we were able to bring in some of our own trucks as well. So this kind of a balanced approach which is neither asset heavy or asset light has, we have seen this for the last several decades how it has helped us as well as control the market pricing as well. We are also good and strong in modern warehousing systems from running ecommerce centers to pure warehousing or even yard for customers. If you see slide 14, there are CDI activities we do for customers in several yards across the country. Again this is a capability that we have built in the last few years and integrating it with multimodal transport for the automobile sector has been quite beneficial. One of the other USPs from the road transport sector is actually having a single window for both less than truckload and FTL at a national level. So we are able to generate business for customers wherever want either, or service either LTL or FTL at the national level and this is one of the things that it is quite to us because there are mostly companies in India that are only FTL or only LTL. Last but not the least, but PE USP has been technology. Slide 15 talked about how we have been using technology into integrating everything that we do, from analytics and machine learning to sort of run the base of the operations to managing big data as well as all the IOT devices that we have from GPS provider to temperature control mechanisms. We have integrated everything onto app that we have both for our own internal team as well as for customers as well. We have also initiated e-invoicing now though the government has not started e-invoicing yet and/or rather made it compulsory, we have started e-invoicing as well in a big way and that has helped us to cut down some of the cycle that we have in terms of the cash to cash cycle. It is going to take some time because there are not many customers who are accepting it completely, but it is going to certainly benefit in the long run. In terms of moving to results on slide 17, we have had a flat growth over the year. It has been a challenging year. In the last few months we did pick up some momentum, but the last few days of March we lost almost 100 crores of sales because this is a month that we have maximum sales throughout the year. So this has had an impact on the overall top line and bottom line. As you are aware that the bottom line also had a nine crore odd impairment but by all of these things we have actually done slightly better like I said over the last year and though our trend is slightly lower in the last financial year and clearly FY21 the challenging year, but at least the basics are in place and we can see that there is potential that we have that we can grow the businesses quite rapidly. In terms of the division performances, if I have move to freight business on slide 19 first, the freight business grew by moderately only by about 3 odd percent, but we have improved our ROC here as we committed that move up again, the last few days we lost a lot of business, but the ratio of LTL to FTL remains at one third to two third. So our hope for this year, our plan and strategy for this year is that we will be able to hopefully maintain the business levels as last year, but try to push up our ROCs as well. Our sense is that if this financial year the SME business is going to be tougher, so the ratio of one third LTL might shift a little bit more towards FTL given that the SMEs are starting up slowly and they are typically using the users of LTL more and more. Going ahead in terms of a supply chain business, which actually recorded the negative growth of approximately 9% over the year, 7-7.5% over the year, this has come about because of the clearly the slowdown in the automotive sector, which has been hit very badly by not just changeover from BS4 to BS6, but introduction of GST as well as several other factors that has affected it negatively. A good area here that we have seen good growth here is warehousing as well as in the movement of tractors and agricultural equipment. This has done relatively well for us. However, because of lower margins as well as lower revenue, the ROCs have come down. 17-18 and 18-19 were good years for the company or the division as we grew by 17% on average, so a little bit of the base effect is also coming here. Our strategy for the coming year is that we are focusing a lot towards warehousing and the areas where we should be able to sustain business irrespective of any kind of downturn and, so that Slide 21 talked about our shipping business. In you know we added one ship in October 2019 because of lower volume for the full year we have had a moderate growth in terms of the top line as well as the bottom line as well. There has been immense pressure in the last quarter with rates coming down on the west coast as well as our cost structure going up of low sulfur fuel. The introduction of the low sulfur fuel actually led to some amount of shortage in the market in March and the pricing went up to more than 50,000 rupees a ton, which has now come down to about 20,000 rupees. However, that period hit us in terms of our cost structures though our ROCs have dipped in slightly because of the ship acquisition so far. The strategy for this year is to continue the growth plans that we have to have the same number of ships, however, some ships are going for the sector which is a standard process and we are hopeful that we are able to maintain these margins for the year. In terms of a joint venture, I mentioned that rail business has been doing relatively well. In fact in the first two months of this year they have done exceptionally well as well and they will continue to see this trend towards multimodal transport. Last year we demerged cold chain into a 100% subsidiary in the line of try and get another partner there. That process is still on, but the business has grown quite tremendously in the last year and we feel that now especially in these circumstances such businesses will have a long term impact on the company as we are able to focus more towards consumption side of the economy. The Transystem business is a joint venture with Mitsui. The business has come down because Toyota who is a principal customer there had lower business there. Moving on in terms of ratios, the debt equity ratio of the company is at 0.42, very stable in terms of our outlook for cash as well. I mentioned that we are using only 45% of our limit which is at 280 crores plus 7.5 crores of additional limits that we have got from banks currently. We have enough space to move up once the business increases as well as enough credit lines lined up in case if we need to borrow additionally. The ROC for the overall business has come down clearly because of margins have not really gone up and we added some Capex in the last year of the new ship etc. Widely speaking in terms of the Capex plan for the year, slide number 26 we are looking to spend about 100 crore this year. Roughly some of that will go into half centered small warehouses as well as acquisition of some trucks as well as rates that we have talked about in the past for automotive carrier. Mostly this would be self funded except the places where we can get good funding from the market so we would take in some debt, but net-net position should not really go up in the fiscal. So in terms of the full year, our outlook for 2021 is unfortunately we cannot give you a full detail outlook right now because things are so dynamic and fluid and I think possibly in the six months period, we can talk about how the year will look for the full in terms of both revenues, in terms of profitability. Certainly as a company we are very well focused on the long term growth of the company. We do not take these any short term bet and completely focused towards customer connection as well as liquidity management with a very strong team morale. These are some of our thoughts. We will be very happy to take in questions now. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press star and one on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing star and one again. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. First question comes from Dipeesh Kashyap from Equirus Securities. Please go ahead.

Mr Deepesh Kashyap: Hi I have got few questions on supply chain deliveries. Sir it would be great if you can give a rough break up of your transportation and warehouses revenue please?

Vineet Agarwal: Thank you. We do not give a break up of the revenues of the warehousing and the transportation side of that business because for us many of the revenues interlink and it is very difficult for us to split that.

Mr Deepesh Kashyap: Okay. Now for the last three years your warehousing space is largely at sq. ft. only, so what is the guidance going forward on this?

Vineet Agarwal: So the warehousing space, you are right and that has not increased in terms of square footage, but we have definitely increased in terms of cubic footage as some of the warehouses have been repurposed where we have been able to use space above in terms of heights, so that has helped the business as well as helped to bring down cost also for customers, so overall coverage of warehousing space has increased, but not necessarily in square footage space.

Mr Deepesh Kashyap: Okay, so but your guidance like earlier was like going forward in three-four year, so will that hold true now or leaving.

Vineet Agarwal: No we do not have a guidance of this year at least in terms of the warehousing space augmentation. I think we will see how it comes about because there are contracts. There are some customers who are not looking at contracts and they are saying, you know, let be the business usual whereas some customers are talking about different types of contracts. So it's a very very fluid situation. I think right now we do not have a guidance of the increase in warehousing space for this year.

Mr Deepesh Kashyap: Thank you sir. Sir how then the supply chain I believe 70-75% of your revenue is from the auto sector, right, so can you give a rough split, how much its from the two-wheeler, four-wheeler or the commercial vehicle segment?

Vineet Agarwal: So mostly the business, you are right 75-80% comes from the automotive sector, but we have now starting to start business into basically three areas. One is mobility as a whole as one which includes the two-wheeler and the four-wheeler and vehicles, etc. Then we have commercial vehicles like you know the likes of Volvo or Tata motors and so on. And the third is the agricultural input item. It could be tractors, it could be agricultural equipment so on. So when you split it into these three broadly speaking I would say about 60, two thirds of it comes from the first i.e. mobility and roughly about the rest from the other.

Mr Deepesh Kashyap: Okay. Sir lastly you are defining the freight segment of 1% is clearly like and answer so just wanted to understand which all industries you cater to in this segment and what would be industry share, revenue share of various industries in the freight segment please?

Vineet Agarwal: So freight segment we do a lot of work in the engineering sector as well as on the machinery shipment sector, so that business has increased, but we have also created a focus in the last year or so more towards the consumption side of the businesses there, whether it is FMCG companies or whether it is more localized kind of businesses which are LTL friendly that has helped us to keep up the margins.

Mr Kashyap: Okay. Thank you sir. I will come back in the queue.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press star and one on your telephone keypad and participants kindly request you to restrict with one question. I repeat, participants kindly request you restrict with one question at the initial round. Next question comes from Prit Nager Sheth from WealthFinvisor. Please go ahead.

Prit Nager Sheth: Good afternoon Vineet. Thank you for that detail analysis. So one question I wanted to understand is that what would it take to break even in this quarter given that say April was very slow and even May may be like in 20-40% [inaudible 00:35:02] how do you look at that?

Vineet Agarwal: So Ajay, you know, we cannot really give you details about specific about business for the month for the last two months, but I can tell you two three broad things that we looked at organizationally before we got down, around this we got into the lockdown in the first week of April. At that time, certainly our teams had sort of thought from a scenario planning perspective that we should try to hit a 10-15% in the month of our average monthly business for the last year, 8-15% of that in the month of April, may be about 25-30% in the month of May and about 50% to about 60% in the month of June. And that would have essentially meant that we would probably not have a cash loss in the company. Now we have a depreciation of roughly about 6 to 7 crores a month, that's about 20 odd crores of depreciation for a quarter as well. So given all of that, I think surely say that we have done better in the last two month in terms of those targets that we had. So we are quite hopeful that our customer connect and all the action that we have taken will help us to break even from, or rather not break even is not the right word, but perhaps not have a cash loss in the month of June.

Prit Nager Sheth: Okay, but would there also be additional cost cutting measures that, you know, would help you in this which has been factored in just because of less of travel or less of other expenses which normally would have occurred?

Vineet Agarwal: Yes, certainly, but you know, we do have a certain amount of fixed cost in terms of employees, etc. We have paid every employee that has been in the place of posting in the last two months. We have not had any layoff. We have also supported the labors and the migrant communities that work with us in all our facilities, so in that sense there is a certain amount of fixed cost because we are looking at it little bit from a long terms perspective and so, yes there could be a little bit of a hit this quarter, but long term we should be better off.

Prit Nager Sheth: Okay. Thank you. I will go back to the queue.

Vineet Agarwal: Thank you.

Moderator: Thank you sir. Next question comes from Sayan Das Sharma from Bank of Baroda Capital market. Please go ahead.

Mr Sayan Das Sharma: Hi sir. Good evening and thanks for the opportunity. So my first question is on the seaways business. So if I look at…

Vineet Agarwal: Can you please be a little louder, we cannot hear you?

Mr Sayan Das Sharma: Is it better now?

Vineet Agarwal: Yes, much better. Thank you.

Mr Sayan Das Sharma: Yeah. So sir what I was asking on the seaways businesses, you valued it to the fact that there has been a double whammy of realization pressure as well as the cost increase because of the IMO regulations taking in. It would be helpful if you can highlight how much of the cost increase that took because of this regulation and also what are your plans, I mean when do you see that we will be able to pass it onto consumer and therefore, go back to the normalized margins that you used to do in the past quarter?

Vineet Agarwal: See you will in terms of our shipping business accounts about 40-45% of the cost structure that had, so that went up by about I would say, the impact on the overall it would be about 10-15% in terms of cost structure. It is very difficult to pass this on, it was the last year of course with a hike of imperative situation it was very difficult to pass on many of these increases, however, fortunately with the oil prices falling in the month of April and May, this has come down and the realization, the next realization rather is better.

Mr Sayan Das Sharma: Okay, okay sure. Hello, and my second question if I may sir, hello.

Vineet Agarwal: Yes, please go ahead.

Mr Sayan Das Sharma: Yeah, yeah. If I look at your Transystem JV, your presentation mentions that your, that top line of that JV has gone down by about 13-14%, but if I look at the our profit share in the consolidated JV that is almost similar to last year, at around 25, so what is this activity to this increase in profitability for Transystem?

Vineet Agarwal: Again some of it is management as well as some amount of optimization there in terms of vehicle. The second is also the benefit of tax cut. I think we went from 33-34% to 25% so that was some benefit there.

Mr Sayan Das Sharma: Okay. Sure sir. I will go back to the queue for follow up question. Thanks a lot for your answers and best of luck sir.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. And participants are kindly requested to ask one question and can join the queue for further questions. I repeat, participants are kindly requested to ask one question and can join the queue for further question. Next question comes from Prateek Kumar from Antique Stock Broking. Please go ahead. Participant please go ahead with your question.

Prateek Kumar: Hello, can you hear me?

Vineet Agarwal: Yeah please go ahead.

Prateek Kumar: Yeah, so my first question is on driver availability and like the on haul operating rate, so we hear that, I mean you also mentioned that fright rates have been increased, so the trucks which are attached to us in terms of our procurement from brokers, so have they increased rates, spot rates for your procurement and as a result could there have been like a disproportionate impact on your margins for your inability to pass on to customers?

Vineet Agarwal: No, there has been in some sectors disproportionate increase in the freight rate for sure because of the shortage of trucks or shortage of drivers and shortage of trucks as well. Also many trucks have not moved specifically because there is no return cargo, so because of the lack of return cargo they said that we do not want to move, or they want to take a higher amount from as point of origin, but that has not affected our margins in any significant way. I think what we have done also in this scenario is talk to the customers and explain this is the current scenario and most customers have been quite happy to pass on some additional [inaudible 00:43:23] even though we might not have it in the contract. Now there are always some customers that would probably don't do that, but in the long term range of things it's not that significant also right now. So I would say there has not been any major impact on us with the freight increase.

Prateek Kumar: I will ask the alternately also, like for example because of some of the smaller operators shutting down would we benefit also disproportionately, I mean like in terms of organized segment market share?

Vineet Agarwal: Not exactly, I think what happens is that there are some of our competitors at smaller end might not be able to approach the client directly. So that is the change, perhaps that might happen, but [inaudible 00:43:20] that we feel that the presence of large group of potential vendors to us is good for the market and good for us.

Prateek Kumar: I will get back to the queue.

Vineet Agarwal: Thank you.

Moderator: Thank you sir. Next question comes from Krithika Mundra from JP Morgan. Please go ahead.

Deepika Mundra: Hi sir, this is Deepika. Thank you for taking the questions. Sir you commented on the freight rates, you know, they have moved up a little disproportionately. If you can just comment on the quantum or is it one and half time previous rates and secondly do you think that, that is the reason why there has been momentum in rail and once things normalize how will you foresee the rail-road equation to pan out? Thank you.

Vineet Agarwal: Sure. So I think it's sectoral. I don't think we can say definitely for one particular nationally that this has been the impact of increase of freight rate. Some sectors have been much more than others. You know the impact of mango season for example how has been very limited this time, but in some cases because of shortage of trucks, for example, in the eastern sector or in the west where there are lot many more red zones or containment zones the freight rates from those zones are much higher, so not, I don't have a national picture in terms of our rates there. In some sectors in fact rates are also moderate and lower as it is at this time of the year, so it has not been crazily high. And I think going forward there could be some factors that could play which could move these places around if the government decided to pass on the reduction in the global fuel prices domestically then we will see fall in oil prices, diesel prices and hence perhaps fall in freight rates also. But that doesn't seem very likely currently and the capacity utilization of trucks around the system is also quite low because there is not enough demand yet, so given all of that we do not expect the freight rates to really go up or significantly come down in the next few months.

Deepika Mundra: Okay and sir could you just highlight the relation because road rail as the rail is doing better than road right now, is that just temporary or do you think slightly more sustainable going into later in the year.

Vineet Agarwal: Actually it also depends upon the fuel prices. If the road rates increase then rail becomes more viable. So if road rates are go down then rail is a little difficult to grow, difficult for them to grow, but the other factors that is in play is the low touch points as well as the fact that the truck will not, or rather will not get stopped anywhere on the road. So that is the, I would say, to some extent a better time guarantee versus roads right now.

Deepika Mundra: Okay. Got it. Thank you.

Vineet Agarwal: Thank you.

Moderator: Thank you ma'am. Next question comes from Shreyas Bhukhanwala from Canara Robeco Mutual Fund. Please go ahead.

Shreyas Bhukhanwala: Yeah. Thanks for the opportunity sir. Sir two questions, one from the pricing. So are we seeing any pricing pressures from our customers? And secondly on the opportunity from, like, you know, from consolidation in freight business, like is there a possibility of gaining some market share there?

Vineet Agarwal: The pricing pressure is I think in our business is ongoing. This is never stopping. It never stops really because it is one of the areas that people, customers or rather companies look for cutting costs whether it is when good times or bad times, so that pressure is always on. I think it's a matter of convincing customers how we have been very contentious in terms of how we run the business and how it will help them in the long run. I mean the companies that we work with, for example, in the online space, and if we tell them that we, and if they tell us to just remove all these people that are there, we wouldn't do that because ultimately when businesses ramp up, at that point in time you need the skilled manpower, who is able to identify. Lets say you are picking a shirt which is size 42 in white colour versus a size 44 in while colour. Now that kind of a difference in productivity or loss of productivity is much higher than the cost of removing people at whe fancies of the market situation, so sometimes we have to bear with all of that and some customers understand that and like for example, we did see it happen. In the month of April, the first few days of April online sales were virtually zero and now some of the, some of our customers are telling us that they want that the sales are going to exceed numbers in February and January so we have to ramp up to that capacity and we are able to do that because teams are there. So cost pressures are there always, but I think we are trying to manage that as much as possible. The second is on the market share gain for freight business. I think there is always some scope there, but overall the market if you are expecting a negative, zero to a negative GDP growth this year, the overall market will be affected and I think there is certainly possibility of market share gain, but we have to be careful that then gain is not based on lower profitability or higher receivables because this is also a period when receivables tend to go up and we have seen this in several cycles that in eagerness to do business you do business with customers that don't end of paying at all and so, we would be cautious to take growth only and until it is, we are very sure about it.

Shreyas Bhukhanwala: Sure. And lastly on the shipping side, so you said, probably despite of the competition, on the website, probably we would be able to maintain our margins, right?

Vineet Agarwal: That's right.

Shreyas Bhukhanwala: Sure, and sir, last if I can, on the entry side, you are looking to raise around 200 crores. Is it…

Vineet Agarwal: That's an enabling resolution that we had to take, it's not something that we intend to do.

Shreyas Bhukhanwala: Sure, thanks. Thanks sir. Thanks so much.

Moderator: Thank you, sir. Next question comes from Krupashankar from Spark Capital. Please go ahead.

Krupashankar: Good evening and thanks for the opportunity. I have a question relating to the fixed cost, sir. So can you give me a number as to what would be the overall fixed cost per quarter? Of course, the breakup wise is not required. Because you suggested that the employee cost will suffer from this, but apart from that what are the other key things for quantum?

Vineet Agarwal: Sorry, can you repeat that?

Krupashankar: Right. So, I just wanted to know what would be the quantum of the fixed cost per month if it is available?

Vineet Agarwal: See, quantum of fixed cost is difficult to really identify, you know, directly in the sense that manpower cost is fixed, some of land and building is paid for, so you know, of course, there is some interest cost that is there, then certain amount of admin expenditure etc. but giving exact numbers is not going to be fair, I would still iterate that if we are able to achieve roughly 50% of our average monthly business in the first quarter, then we are able to not have a cash loss.

Krupashankar: Okay. And my second question is relating to the operations. So I just want to understand, how were the warehousing lease agreements structured and do we see that, given that warehousing is growing at a comparatively better pace than transportation, do we see more of non-automotive business driving this growth or is it more to do with automotive itself with more of value added services?

Vineet Agarwal: So certainly, it is more non-auto growth, online commerce companies are growing, one of the trends as we said in omni channel growth, so companies that are in various aspects of that business have not just wanting, I mean various aspects seen where sales systems are telling us that we don't want to just have , but also a line for Ecommerce in those facilities, so regular companies are adding warehousing space with Ecommerce capabilities. And Ecommerce companies are expanding spaces then. So, given all of that, we are seeing trends of more in the non-automotive space of our warehousing growth.

Krupashankar: And regarding the lease, leases of warehousing, how is it structured? Is it renewed on a annual basis or is on, a per three – year basis or five-year basis?

Vineet Agarwal: Effectively, the leases are back to back with the contracts that we have with our clients, we do not have any empty warehousing space and these leases are being accounted in the AS-116 as well.

Krupshankar:Thank you, I will get back in the queue.

Vineet Agarwal: Yeah so one more specification is that we have around 60 lakhs of that impact on the EBITDA level only and there is close to 23 crore of right to use that has been recognized, you would find in the balance sheet item.

Krupashankar: Right, thank you.

Moderator: Thank you, sir. Next question comes from Ankit Panchmatia from BNK Securities. Please go ahead.

Ankit Panchmatia: Hi sir, good evening. Thanks for taking my question. Sir, one data point, what would be the contribution from ecommerce segment, or to the overall business?

Vineet Agarwal: We don't have a specific number to share that, sorry.

Ankit Panchmatia: Okay, okay, okay. Sir, I have been seeing that our margins in the supply chain are close to six years low levels and our margins in the freight business are close to two-year high levels, so sir, just want your flavor on this HCS margins, how are we looking out to improve these margins, what are our steps going ahead?

Vineet Agarwal: So, you know, one of the reasons to have these various divisions is that we are able to sustain margins as well, so as there are times when certain divisions do well, certain divisions don't do well, rates and market conditions and hence, we are able to balance the overall portfolio better. You are right that the margins have come off, 2016-17 is when we achieved the same margin, it is little bit of a factor of economies of scale as we get more business in this space, there is a certain amount of utilization of space warehousing space, across e-center etc. has improved the overall margin exponentially. You know, cost cutting is there, we have reduced the number of trucks if you saw from 1300 trucks to about 1000 trucks but, and better capital management has also come about and you have seen that the overall capital employed has also come down. So it is, all factors that had playing here where we are trying to look at cost from a capital perspective, capital management and cost from a operations management to ensure that we have been able to think of the price.

Ankit Panchmatia: Sir, just want your view on new client addition during FY20. How has that panned out for and how we see these new clients, kind of slowly contributing to the growth, maybe from H2 FY21 but just this your, just want your rough view on how or which sector these new clients have been added from.

Vineet Agarwal: Sectors, of course, you know, some automotive business has been added. Some of the new companies that seen on last year we have been able to acquire some contracts from them. We have been able to acquire some FMCG clients as well, in this space as well. And so overall, and of course, some of this that, you know, there are basically 2-3 areas that we acquired new contracts, but is in the existing companies itself, that same business we get additional volume, the second is in that additional, in that company we get additional business from another location, or a different kind of business head and third is completely new business. So certainly in the first area, there has been not much growth, in fact, there has been deduction because many customers reduced their volume. In the second area, we have added maybe one or two locations where we have added a new facility for them, in the third, yes we acquired some new contracts completely like some of the new companies that came in last year in the automotive space and some brand new FMCG contracts as well.

Ankit Panchmatia: Okay, okay. and sir last last question, if I may, can.

Vineet Agarwal: Sure.

Ankit Panchmatia: Sir, sir we have been emphasizing on our USP of the whole multimodal logistics providing to the…..

Vineet Agarwal: Sorry, you are breaking up.

Moderator: Sir, the participant has withdrawn his request, sir. Can we go ahead with the next question?

Vineet Agarwal: Please.

Moderator: Thank you. The next question comes from Alok Deora from India Infoline. Please go ahead. Mr. Alok Deora, please go ahead with your question.

Alok Deora: Yeah, sir, good evening. I have one question now, what kind of revenue did we miss in the fourth quarter because of the lockdown?

Vineet Agarwal: Good afternoon, good evening. We lost about 100 crores of revenues in the last ten days of business.

Alok Deora: Yeah, approximately how much that number would be?

Vineet Agarwal: 100 crores.

Alok Deora: 100 crore, okay, okay. And this one …

Vineet Agarwal: I guess about 10% EBITDA level

Alok Deora: Sure. And just one more question, so how are things right now, I mean when we are now in first week of June, how has, how much of your, the situation has normalized? Are we at around 70-75% sort of normalcy or how the things are in your segment? Thank you.

Vineet Agarwal: So as I mentioned earlier, in the month of May we were able to do better than the 25 to 35% roughly targets that we had kept in terms of the average monthly business for the year and we have been able to exceed that. I would think that right now things at nationally for us at 40-50% only because see customers have to be engaged from both ends. They cannot be just engaged from one end and whatever we hear, on the ground the story is very different. Lot of the SMEs don't want to start up, till the fact that they are able to see the demand right away. Because they feel that operating their own plant with 30-35% does not make sense. So, there is a certain fixed cost they have. So the supply chains are not working to that extent and it will take time for the companies to ramp up. But nationally I think we are at possibly 40 to 50% only, under 50%. So I am hoping it will improve from it more and more as things open up, but it is definitely a slow process.

Alok Deora: Sure. Just one last question if I, so in this supply chain of the auto segment is also mentioned in the presentation that the supply chain is struggling at this point of time, so what is the outlook now for the next 2 to 3 quarters? Are we going to see similar built or because adding new customers from other segments might not be that quicker process, so how are we looking at that segment now in the near to medium term?

Vineet Agarwal: So one of the areas that we have actually had good success is the agriculture side of logistics where we have been able to move for several companies like the tractor manufacturers and so on a lot of material. So that has helped in the automotive, broadly speaking the automotive sector. Other than that the FMCG sector and even in some cases food processing businesses have increased their demand for both logistic as well as warehouse spaces, Ecommerce has increased capacity across the country. We have even in for example, in our cold chain business we have some of the large kitchens and cloud kitchens we started operating for them as well. So some of these extra and additional businesses have been acquired in last few months and we are seeing those trends a lot more visible versus others.

Alok Deora: Okay, that's all my side, thank you so much Sir.

Moderator: Thank you Sir, next question comes from Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Sir, the seaways business, how does it look like in the post-covid era and does it trying to gain by any chance? And in seaways, you know, when at the company level you mentioned that 50% of operation is sufficient enough for us to EBITDA neutral, how would it be for the seaways business?

Vineet Agarwal: I think from a seaways business also about 50% should, 60-70% about two third of our operations, If we are running at two third of the capacity we should be at cash positive.

Pritesh Chheda: and the seaway, has it gained in the last three-four months as a option for transportation or it stays what it is?

Vineet Agarwal: The option, I think, see the option has definitely changed, in the sense that people are looking at this differently, and are wanting to use this, but that doesn't mean that it has translated into more volume because volumes, the lost volumes are also from customers that was the regular customer. So let's say, tile manufacturers from Morbi and Gujarat are bulk, big customer for the seaways business, taking the materials , but those customers are right now, not moving much cargo. So, it has been replaced by other customers who are brand new to this sector. So yes, there has been more interest in this sector, but not translated into additional volumes yet.

Pritesh Chheda: Okay. And I missed your point on the difference in profitability that you saw in the seaways business on a net basis you were mentioning, between what happened in the quarter 4 because of bunker prices and what has happened now in the current quarter because of bunker price. So is it that on a net basis, are we making more money in seaways versus what was in the quarter 4 that's how I should read it?

Vineet Agarwal: That's only from an operational perspective, it is better certainly, but there is a certain amount of fixed cost, see because the utilization levels are much lesser, or volumes are much lesser. So operationally, yes, if you see that the operation cost of fuel was at 50000 plus per ton in March, which is now at 20000 rupees a ton, so definitely significant impact in terms of operational cost, but the fixed cost for certain volume etc means that we don't necessarily yet make money.

Pritesh Chheda: Okay, okay. Because of the utilization?

Vineet Agarwal: Correct.

Pritesh Chheda: And the utilization for seaways is now at what run rate?

Vineet Agarwal: I would say about 40 plus percent.

Pritesh Chheda: Oh that's fairly low to make actually any profits.

Vineet Agarwal: But that's what we feel that you know, the moment we hit the 2/3rds of the volume, we should be able to hit the break - even from cash perspective.

Pritesh Chheda: And any operator has shut down on the seaways business, anyone who is looking vulnerable?

Vineet Agarwal: Yes, in fact, I forgot to mention that their Container Corporation had started two ships in this sector, they have both the ships and they are not operating since April. Shreyas has also put I think three ships on to, have docked 3 ships and are not operating those as well. So, it has had an impact and especially companies that have invested very heavily into ships in the last 2 years, are certainly going to face heat in the next quarter and going forward.

Pritesh Chheda: Which means it is a better business environment in seaways over the next couple of years? Is that can be looked forward?

Vineet Agarwal: Certainly for us, as, you know, we have been cautious in terms of over investing into capacity, and we tend to add capacity once in eighteen months to two years, and that has helped us to a great extent and so this moderation should help us going forward, definitely.

Pritesh Chheda: Container Corporation has given away those ships or they have..

Vineet Agarwal: You know, we do not know the exact legal status but we know that they are not operating those ships, they had chartered those ships from share itself.

Pritesh Chheda: Okay.

Vineet Agarwal: Yeah, so they are not operating it.

Pritesh Chheda: Okay, okay. Thank you sir, thank you very much.

Moderator: Thank you, sir. Next question comes from Abhishek Joshi from CGS-CIMB. Please go ahead.

Abhishek Joshi: Sir, in the warehousing business, what is the difference in the margin which we are getting from the automotive sector and, versus the margins we are making from the business coming from FMCG or ecommerce?

Vineet Agarwal: So, you know, the margins are more or less the same level, because it's also, lot of times, the margins are driven by throughput that is there, so in some cases, if the throughput is higher we tend to get more margin, so let's say ecommerce business, there is a fixed cost but then throughput increases rapidly, that's why you get economies of scale and margins improve. If there is the, in an automotive side, perhaps the throughput has been lesser in the last year so that maybe reduces the margin but actually, in the last year, the automotive side warehousing has not really gone down much because if cars have not been sold, at least spare parts have been sold. So we have not seen any reduction there in terms of either percentage in terms of margin or quantum of margins also. So more or less, both of them operate at the same level roughly.

Abhishek Joshi: So does that mean, we would not, in the future, we would not mind diversifying more from the automotive sector towards FMCG and ecommerce? Just to diversify the portfolio?

Vineet Agarwal: No, that is 100% our strategy is to diversify as much as possible. Clearly, there is a large dominance towards automotive mobility side of business, which we would like to diversify into other segments and that's an ongoing process, so you know, the example is that the 80% of the business if it grows at 5% also, the non-automotive business has to grow at 20% to keep up with the same level. So automatically the challenge there is much higher. And we are constantly trying to do that.

Abhishek Joshi: So, do we have any target for 2 or 3 years, like where can we look at the share after 2 or 3 years?

Vineet Agarwal: Ideally I would like to see in three years, the share to be 1/3rd in non- automotive and 2/3rd in automotive.

Abhishek Joshi: Thank you. That's all from me.

Moderator: Thank you, sir. Next question comes from Priyanka Varma from ICICI bank. Please go ahead.

Priyanka Verma: Hi, sir. Thank you so much for taking my question. Sir, my question comes from freight segment. Do we have any breakup sort of thing in terms of FTL and LTL in the freight segment?

Vineet Agarwal: Yeah the 1/3rd of the business comes from less than truckload.

Priyanka Varma: Okay, okay, thank you sir. And how do we see this ratio moving, going forward?

Vineet Agarwal: This year, it is going to be a challenge since MSMEs are not doing too well. And we do not expect this ratio to improve towards LTL, but deteriorate to some extent, I think. Possibly we will do maybe a 70/30 ratio this year.

Priyanka Varma: Okay. Thank you so much, sir.

Vineet Agarwal: Thank you.

Moderator: Thank you, madam. That would be the last question for the day. Now I hand over the floor to Mr. Ashish Tiwari for closing comments.

Ashish Tiwari: Thank you very much to all of you for joining this call. I again, apologize for yesterday's postponement and any inconvenience to you. Take care of yourself and thank you very much.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of Transport Corporation of India Limited, that concludes this conference. Thank you for joining us. You may disconnect your lines now. Thank you and have a pleasant evening.

Note:

1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.