Transcript

Transport Corporation of India H1 FY21 Virtual call

Event Date / Time : 4th Nov 2020, 16.00 HRS IST

Event Duration : 01 hr 03 min 15 sec

Naina : Good evening ladies and gentlemen. I am Naina, moderator for this conference call. Before we begin with, I would like to extend my warm welcome for joining us today for the discussion on the financial results for H1 financial year 2021 and addressing investors and analyst queries.

On board we have with us today Mr. Vineet Agrawal, Managing Director, TCI and Mr. Ashish Tiwari, Group Chief Financial Officer.

At this moment, all participants are in listen only mode. Later we'll conduct the question and answer session. At that time if any participant has any question, they can use the raise hand feature in zoom call and wait for his/her turn to ask a question. Please note that this conference is being recorded.

I would now request Mr. Ashish Tiwari, Group CFO to embark on this meeting. Thank you and over to you sir.

Ashish Tiwari: Thank you Naina. Good evening ladies and gentlemen. Again, I am welcoming you all to this earning call for FY-21 first half. Today we will begin with opening remarks from Mr. Vineet Agrawal on the business and the industry followed by our earning call presentation. I hope that you would have got the copy of the same along with the invitation. It is also available on our website TCIL.com.

Now I will request Mr. Agrawal to just give us opening remark, thank you.

Vineet Agrawal : Thank you Ashish !

Good evening and thank you for coming today, joining us today for our earning's call, for our six-monthly earnings call. It's difficult circumstances, but we are all here and we are here to answer all the questions that you might have related to our business.

So, let me start off by first talking a little bit about what is TCI, for some of you who joined us for the first time. And then I can get into specifics related to divisions or what has really happened in the last three months.

So, TCI is a 62-year-old organization and it's a group which is moving more than two and a half percent of India's GDP. We move through about 12,000 of our own trucks and we have got close to 7000 people on the payroll. Next slide please.

This is the group overview in terms of the divisions as well as the joint ventures and other group companies. So, there are three major divisions which is the Freight, Supply **Chain** solutions, seaways, and two joint ventures one ,which is CONCOR. We have one rail logistics with CONCOR and with Mitsui for automobile logistics called Transystem. We have subsidiaries called TCI Cold chain, and a subsidiary in Bangladesh and a subsidiary in Nepal, and group companies are Express and Developers. Next slide please.

We have a very illustrious board with many people from different walks of industries, different industries, and which helps us to really look at things from different perspectives as well as ensure that we keep up with the highest corporate governance standards. Next slide please.

Again, as a company, we are a thought leader as well with a lot of our publications that really go out to the market as well as to the industry. And we also are a benchmark in many ways. Next slide please.

The logistics market size as you all know is been growing and typically grows in line with GDP growth. But in the last few years, the kind of growth that we have seen in this industry is more towards the formalization of the industry. More specifically with GST coming about, we are seeing that the fragmentation, though it still exists, it still, it means that there are opportunities for larger companies to operate even more and more.

And we operate in various segments from our FTL, LTL, rail, 3 PL and shipping which is mostly coastal shipping. Next slide please.

So, in the last few months, of course being a very very challenging time, we have been able to ensure that we have been very responsive, not just towards our employees as well as, but also towards our customers. So, from an employee's perspective we have not cut anyone's salary, we have not removed any person from the organization, and we have also given the bonus that is typically due at this point in time. And we are also in the process of considering an increment for the year. Because we feel that this is the time when a lot of employees have stood up and been on the ground and assisted our customers in getting their cargo moving in terms of getting their warehouses operational and so on, forth. So, this has been an excellent time in terms of employee response, and we want to also clearly recognize that fact.

From a customer perspective, the huge number of calls that have been made, the emails that have been sent, the virtual video conferences that we have done have ensured that we have a very solid pipeline that's coming over the next few months, as well as our receivables have been also in a good, has been in good shape. So, we are using this particular connect that we have made with customers, and see how we can leverage not just now for this financial year, but how we can look at the next financial year and growth going forward.

From a vendor perspective, we have not held anyone's payments and made every payment on time and before time in some cases to ensure that we are able to get the support from vendors, be it at a labour and warehouse level where we are operating for let's say e-commerce players and they have really scaled up and they want more and more people to assist in the operations, or from our vendors who operate trucks for us in many places. So, they have been able to… we have been able to use that and respond very quickly to all our customers. Next slide please.

So, in terms of growth drivers, some of you must have seen this from the last year's presentation, last quarter's presentation rather. There are sectors that are seeing tremendous growth like the agricultural sector, food processing sector, pharmaceuticals, chemicals. And of course, there is some shift that has started to happen towards different modes of transport. So, it's not just the road transport, but rail and coastal shipping has also picked up quite a lot. Especially when we are seeing in the food grain movement etc. since the government has mandated that for free food grains till the end of this month if I believe, if I remember correctly. That has really helped in procurement and movement via using different modes of transport.

We have also seen in this period, now at least in the last few months, stocking and restocking taking place on the automobile side, on the retail side and certainly on the e-commerce side, huge amount of growth has been witnessed. All our customers are demanding additional space. Well, in some cases safety stock. A few cases where they have looked at consolidation, but definitely looking at larger warehouse spaces.

In terms of long-term drivers, we definitely believe in the India's story, not just because of the fact that we have a large domestic market, but also there is a possibility with the government's intervention using things like the PLI production link incentives and others to attract global value chains to India. And when that starts happening, we as a company should also benefit in some form or the other for logistics.

Other trends that are very visible, other than e-commerce of course, is the omni channel. Even this festival season we have seen a lot of people have perhaps gone to markets, seen things, but really gone back home and ordered things online, or maybe has seen some ads somewhere and ordered online, or seen some online and ordered offline, gone to the store. So, various omni channel aspects have been very, very visible in the last few months.

I'll mention a little bit about multi-modal transport, and specifically on digitization we are seeing a lot of initiatives by the government. And we as an organization have also been involved with the Ministry of Commerce where they have a logistics secretary and a wing in trying to see how we can digitize lot of the processes to make things, from an ease of doing business in India better, how can it be streamlined and smoothened. So, there is a lot of activities already happening in that space also. And we think those are also great drivers for us as an organization. Next slide please.

On the broad USPs that we have versus many of our competitors is the ability that we are providing a huge range of services and diversified operations. And we have seen that specifically during this pandemic that we were able to deliver using these various modes of transport, having the range of services from a basic transport to complex warehousing as well. Next slide please.

Amongst the other capabilities that we have in terms of complete design of supply chain, and we are seeing that some customers are coming to us and saying that, you know, can you do this for us, why don't you add this additional aspect. And we are seeing that, that scope is just going to grow and accelerate. We also couple this up with our digital solutions so that we have a platform where they can also view all of these things that we are doing. And accordingly, the interaction for us is more digital as we go forward. Next please.

As a company, we have always believed in the light to medium asset model, and I think that is mostly visible. So, if you see our trade businesses on a light asset model and our shipping businesses on our heavy asset model, and the supply chain is somewhat in the middle. And this ahs had a good benefit specifically even in this time where we have been able to bring some of our own trucks to operations where we have not been able to find market trucks. And on the other side, some of our competitors have rally face challenges when they have had too many trucks, because that has been difficult to control, not find drivers and not get those trucks on the road.

We have also seen this is a time when some of the suppliers have come together with the vendors and have cartelized. So, in several cases where companies have no assets, we have seen that happen as well. And we think that the model that we have adopted from a light to medium asset should help us in the long run. Next slide please.

I mentioned about multi-modal transport. I cannot emphasize more and more on the impact of this now. The growth in this area is immense. We are seeing a lot of demand for our services be it on the coast, be it via rail and a combination of road, rail, sea. We have been accelerating this growth opportunity by putting in more people, business development teams and also solution development teams, because sometimes the customer is not clear as to what it is… how can they move towards multi-modal transport. In fact, just before this call, I was on a call with a particular customer and they have movement of fly ash for example. And they are saying that how can you use fly ash through a multi-modal network. Because today fly ash moves on a regular rail network and it tends to fly off, and it's an environmental concern. So, can you put some liners or something to design a solution using containers so that we are able to not only move it multi-modal, but also be environment ready. So, like this we are seeing a demand for lots of different types of industries wanting to use multi-modal transport. Next please.

From a warehousing perspective, we have rapidly increased our footprint when it comes to not just the closed warehouses that is the, inside the box that we call for not just e-commerce companies and FMCG companies and so on, but also build large yards across the country. And wherever our customers feel that their production, to get their production there locally to their dealers etc. is going to take time, we have created yards for them. And this has really helped because customers have been able to capture sales at the right time, and also make deliveries to their further customers very easily. In some cases, customers have also bypassed dealers, because it is easy to bill directly to customers and save that extra margin. So, we are seeing this as a good growth area of creating these multiple yards. And that encoupled with a multi-modal network of let's say using in the automobile space, the rakes that we have for movement of cars etc, is creating a unique network which is multi-modal in nature, which is also quite… and is also sustainable for the future. Next slide please.

From a basic freight perspective, we are amongst the few companies who have a national network which handles all LTL and FTL. In this time, some of the large customers have also looked at a more frequent movement of cargo versus just FTL. So, we have helped them in many of these using our hub centres. And though some SMEs, MSMEs have taken a little longer to come back on track, but otherwise we are seeing that our LTL business is almost back to normal at pre-COVID levels. Next please.

I mentioned a little bit about technology in terms of what we are doing. Next please.

So, in the first half of the year, we have lost about a quarter of sales as compared to the last financial year. Obviously, this is mostly because of the last, first quarter of this financial year. Profitability is a little bit lower, about a third lower compared to last year. But the last quarter Q2 has been quite robust as you have seen, and we expect this continue. Next please.

This is division specific financial results. And if I want to specifically talk about what's happened per division, from a freight business perspective, we have seen that volumes have come back in quarter two and we are at just 9% negative over the last financial year. Though the margins are slightly better and we see that this trend should continue in terms of business growth as well.

So, industries, some industries have picked up specifically on the textile side a little bit pick up we are seeing perhaps because of restocking that has happened. Lot of the dairy product movement, food grain movement, some metals movement, all this has happened in the last quarter a lot more. And hence we are able to catch up to a great extent. LTL business is still lesser than the 33% in the last financial year, but we expect to catch up going forward as well.

The other… if you just go back Ashish… I think the other thing that we are seeing here is of course, freight rates have started to move up a little bit because of the fuel price hikes that have happened, or rather fuel prices have not come down. So, demand has been higher and hence some stretching has happened on the few… on the rates as well, freight rates. Though we feel that this will also keep growing because freight rates will keep increasing. Capacity expansion has not happened too much. A lot of capacity has been recycled or rather second hand sales of trucks are much better than primary sales of long hauls. We have seen good growth in the medium and the short haul, but not necessarily in the long haul in these six-seven months in terms of sales.

So, the next two quarters could be slightly tight from a cost perspective, but that is mainly to be seen in terms of how much capacity expansion happens on the purchase of new trucks. Next please.

On the supply chain side, you can see over quarter, over quarter we had a 2.3% growth, and this is in line with the growth that we are seeing with the automobile sector, as you know that this division has 80% of our business comes from the auto sector. Of course, growth in e-commerce, in warehousing and other areas have also helped us keep up the growth. And we are quite confident that we will make up the last quarter in this financial year itself. Overall as you also know that we have added two rakes for automobile transportation in this space, and that has started to also give us good results.

On the seaway side, volumes are higher than last year by about nine odd percent. This is because of an addition of one ship that happened last year and the… So, over last year we are seeing that benefit in this quarter. But one of our other ships was also under dry dock. We are still seeing high demand from the western sector. One of the ships that we were planning to buy in Q2, we have not been able to purchase. But we are looking to get this possibly in Q4. So, that was more or less in line with what we have been saying now, adding a new ship every twelve to eighteen months. So, here the trends are very positive, fuel prices have also come down quite substantially over the last six-seven months, so, that is bunker rates. And that has helped us to ensure that we are keeping up the margins. Next please.

Our joint ventures; the rail business as I said, the demand ahs been very high. So, the growth in this half year has been almost 70% over the previous financial year. And we hope, we can see that this growth is possibly going to continue with the demand that we have in terms of the pipeline etc , so forth currently.

The cold chain business has grown about 21% odd in the six months, and our transystem is down by half because of… clearly because automobile sector has not done too well.

Our debt equity ratio is very comfortable. We have been only utilizing only under 50% of our working capital limits currently, and we have been able to reduce our debts by about a 100 crores in this quarter as well. So, you can see that the overall capital employed is also lower compared to last year in this period. And all the numbers seem to be good. We have also got our re-rating done, rather our ICRA rating A1+ has been reaffirmed by them. Next please.

This is the overall results. Margins are more or less in line with… it's slightly higher than last year in the same period, and revenues are almost at the same level. So, as Q… if I compare Q2 to Q2, but n H1 to H1, two levels, revenue is still down about 23%.

So, the other, in terms of guidance what we feel for Q3 and Q4 is that overall as a company we should probably get to 80-85% of our FY20 levels both, in terms of revenues and in terms of profitability. The trends indicate that we should be able to get there. And depending upon how the last quarter goes, if you remember that we lost about a 100 crores of sales in March'20 this year because of the lockdowns et cetera. But hopefully if things are okay, we should be able to make up some of that losses in this financial year and reach that 85% levels of FY20.

So, that's all I had. If you have any questions please… sorry, we all know the CAPEX plan, CAPEX is at about a 150-crore plan versus about 111 crores that we spent last year and about 30 crores that we spent in the first half. So, we do expect about a 125 to 150 crores expenditure if we are able to purchase a ship that is under plan. So, if that happens, we should be able to get to 125 to 150 crores roughly.

Thank you so much and we are very happy that you joined us. Please let us know if you have any questions, thank you.

Naina : Thank you sir for the valuable insights. Ladies and gentlemen, we'll now begin with the question and answer round. If you have any question, you may please use the raise hand feature in the zoom call. I would request you to start with your name and organization name followed by your question.

Naina : So, the first question comes from Mr. Preet Nagarseth. Sir, please go ahead.

Preet Nagarseth : Right. Good afternoon everyone. I would like to better understand if you guys were planning to take advantage of the vaccine opportunity that might be there given that the cold chain business is growing. So, if you can share some light on that.

Vineet Agrawal : Certainly. So, vaccine logistics is an important factor and we believe that the requirement will not be only from a cold chain perspective, but from an overall maybe warehousing perspective as well. See, we do not know yet whether the vaccine will be fully requiring a cold chain or not even requiring a cold chain, what aspects would be required. But we are definitely thinking about it and planning for the same. I cannot tell you exactly what we are doing, but we definitely have plans for it and we have started our work already in patent capacity.

Preet Nagarseth : Okay. Along side that could you also share some light on the cold chain business where you say that you feel this could be a long-term driver or business, I think in the last call. So, given that the agri reforms have come in, how do you see cold chain developing from here?

Vineet Agrawal : So, cold chain is a very interesting business because in the last 10-12 years the amount of capital that has come into this business has been huge from a PE perspective. And that has meant that we have overcapacity in some areas of cold chain. So, what our strategy has been that we are not going ahead and buying more and more trucks or creating new warehouse capacity etc , but we are going in a manner of using some strategic assets as we do with our all our other businesses, that create some strategic assets, but also a lot of vendors or companies that we can get from, who can work with us together rather than owning those assets. And the growth areas that we have seen, we have started work for a cloud kitchen or a dark kitchen as they call it. We have started work in the area of an FMCG company, we started in a chemicals company, all these companies require cold chain. And we see good growth opportunity here. So, definitely in the next few years we see this as a growth driver for us. And simultaneously when we are getting some customers, let's say the FMCG customer I am talking about, we actually have built a large warehouse for them, rather got a large warehouse for them which is dry warehouse. So, along with the dry warehouse there is a cold storage warehouse. So, like, these kinds of solutions that we are able to provide, we get a lot of enquiries, and hence it becomes a good driver for us.

Preet Nagarseth: Thank you Vineet, thanks.

Naina : Thank you sir. The next question comes from Sayan Das Sharma. Sir, please go ahead.

Sayan Das Sharma: Hi sir, hope you are doing well. This is Sayan from Bocaps. Sir, basically two questions on the SCS segment. First of all, if you can highlight individual statement wise how the auto…

how do you see the auto demand panning, so, across two wheelers, four wheelers, commercial vehicles and individual segments, how do you see the auto demand. And do you see the recovery that we have seen over the last couple of months, do you believe that that is mostly transient factor or do you expect that to continue also? Would love to get your views on that sir.

Vineet Agrawal: Sure. Thank you Sayan and hope you are well as well. So, what we have seen in the auto sector is that the demand has been high and, in some cases, it is extremely high because of the fact that many of them have launched new products or there is restocking happening because of BS6. So, something has definitely triggered that. Clearly we also know that there are… because of social distancing norms, there is a demand for smaller end cars etc. or for bikes which has increased quite a lot. So, these trends are quite visible and we are hopeful that this will continue. Though, you know, there is some signs that it might not be that high, but I think right now the sense that we are getting is that, post Diwali we will get a better view of what is happening. But I think some of this will… you might see a slight dip in December because it's a model change year. As you know that we move to 2021, so some companies might not… some people might not buy new vehicle in December. But otherwise we feel that it should continue subsequently.

On the other segments in supply chain, e-commerce has been growing very rapidly, it added more capacity also on many of our clients. And as you know some of these guys are having not just now two-three days sales but month-long sales. So, month long sales means that we are continuously active with our clients, and I think the only let up will happen post Diwali. So, our teams working at full capacity at all of these locations.

On the FMCG side the demand has been little bit on the flattish side at the urban area because we service mostly urban areas. Because I think in the past people have been stocking up adequately during the lockdown et cetera. On the consumer durables side, again we have seen huge push, specifically I guess some of it was IPL driven, some of it was festival driven, some of it was just pent up demand driven, some of it was need based driven which is essentially that, you know, I need another smartphone at home because my children need to study or a laptop and so on, so forth.

So, I think many of these things have happened and that has pushed consumer durables to record levels at our warehouses also. That's predominantly the main segments in supply chain.

Sayan Das Sharma: Thanks sir, that's… thanks, thank you for your elaborate answer. Also want to get a sense on the supply chain segment, the non-auto segment, how has been the client addition traction sir during this pandemic, and now that we are somewhat out of the worst of the pandemic, do you see that there is a layback in the number of customers that you are talking to or you are adding in or client roster?

V**ineet Agrawal:** Yeah. So, we have… client additions are high as well as the same client also adding additional capacity is also there. As we talk about, there are three types of clients. One is a client where in that… and in that same facility they are adding more capacity. So, it could be a manufacturing plant that is ramping up their capacity. Or in the same warehouse we are adding more capacity. The second is that client giving us a new facility or new location. So, that's the other part. And the third is a brand new client. So, in all the three areas we have seen good growth and I think it will continue. The traction is there more on the FMCG side, more on the chemical side as well as on the later, on the last case which is nee customers, and on the expansion side and more on the e-commerce type of business.

Sayan Das Sharma: One last question from my side if I may. I mean if I look at that… based on the difference between the freight segment numbers on the consolidated statement and standalone statement, I see that the rail business you have done well, and you have also highlighted in your presentation that in H1 the growth has been 68% which is pretty phenomenal. I understand that rail is growing faster than food this year due to multiple reasons. But what is actually leading that superlative growth sir in the rail sector?

Vineet Agrawal: So, clearly it's the… you know the fact that we are able to give them solutions to various aspects of their problems. And some of these solutions were given during the lockdown period when road was not available to them. So, we have sort of made them aware of those solutions, delivered on those solutions, and that has made them very happy to work with us going forward. So, what I mentioned previously is, there is a… perhaps a permanent shift for some types of clients towards rail logistics completely. And that is one factor.

Second is, a lot of food grain movement has happened all across… I gave the example last time of an entity that we are working with in Rajasthan that has been contracted by the government to supply "Chana" to South India. So, we… and they have contracted us and we have moved that "Chana" by rail and then subsequently by sea to the south, to South India. So, like this, food grain movement is the other factor that has been quite high.

The third area that we worked with in rail is also the metals… sorry chemicals space. And there we have seen chemicals business has been robust across the country in all the areas. So, that growth has also contributed to some amount of growth for rail.

Sayan Das Sharma: Thanks, thanks a lot. That's it from my side, I'll go back to the queue.

Naina: Thank you sir. The next question is from Mr. Srinivas Shashadari. Sir, please go ahead.

Srinivas Shashadari: Yeah, thanks. Hi Vineet. Sir first question is, again just continuing on this… the CONCOR JV. It's good to know that even quarter to quarter it has grown, I mean despite last time's kind of very strong scale up. So, one question there is that the margins are around 2% or so. So, just wanted to understand if the business model is such that we basically, our responsibility is more kind of booking the business and then we get some percentage margin on that, or is there any kind of a scalability on the margin with respect to revenue going up?

Vineet Agrawal: Hi Srinivas. So, the, you know, the… basically it's a volume game and it's not just booking. I think the very important factor here is developing the right solution for clients and that solution development takes a lot of time as well as a lot of engineering in terms of how we are able to provide those solutions. And then of course the execution because, let's say a ray comes in, rolls into a plant and there are ninety containers that need to be loaded and then dispatch, coordinate with the railways, coordinate with CONCOR, coordinate with the clients. So, it's not so simple. We do a lot of handling also using stackers, restackers and other handling equipment. And in some cases when these rakes are going into ports for export, we also help in some amount of customs clearing as well.

So, it's quite a comprehensive and an end to end solution. And, you know, some cases where the rake is moving directly from plant to the port it's fine. But there are lots of cases where we have to do the first mile and the last mile as well. So, that also adds to the complexity. Now for all that complexity, the margin that we have is certainly… is constrained. But with volume growth we are seeing that this will start improving as well. Unfortunately, we have to get a fixed rate from railways and that input cost doesn't change much. So, it's only how much we can derive value from the customer by these value added services, will we be able to enhance the margin structure. And I do believe that this will keep increasing. The ROC on this business has already exceeded 25%. So, from returns perspective the business has become quite attractive.

Srinivas Shashadari: Okay. And the ancillary services you talked about, that is being done by the JV itself or that comes more through, directly through the TCI business?

Vineet Agrawal: So, some of those services, they are outsourced directly to the market wherever they find the cheapest possible solution. And in cases where they get value out of TCI they will use that. So, they work on arms-length basis.

Srinivas Shashadari: Okay, no, what I was asking was, are these services being given by the JV or are these by TCI apart from the transportation bit itself whatever you talked about in terms of the, say the handling, loading, or customs clearance and all those other ancillary services.

Vineet Agrawal: Yes, they are provided by the JV, yes, JV.

Srinivas Shashadari: Okay. Sure, and second question was on this supply chain. Last time we discussed… we were talking about some kind of sub-verticalization of the auto business and trying to get more customers and do better mining of those customers. So, if you could give some broad update on what has happened during the course of say this particular financial year in terms of what has been the wins. I mean qualitatively if you can talk about without naming, that would be useful to understand how these efforts are panned out.

Vineet Agrawal: Yes sure. So, like the segmentation that we have in automobile is the consumer side which is the two-wheeler, four-wheeler. Then we have the agri-side, and the third is the commercial side which is the moving equipment as well as the tractor… sorry, moving equipment and commercial vehicles. So, I think what has happened in this course of this last six months is that, all of these have had a… and that diversification has also helped us. So, you know, in the beginning of the year we had a lot of movement for tractors etc. So, though April, May was very poor generally, but tractor movement was happening as you know agri sector was booming, so we got that benefit.

Then over the course, in the last, you know, in the middle somewhere, May, June, July, August, we saw movement of earth moving equipment companies where some road projects started. So, there was some demand happening. There was some movement that happened in some of the border areas and so on, so forth. So, we have been operational throughout on that.

And then in the last half of the second quarter, August, September and now October onwards, we are seeing that the first element which is the consumer automobile business has picked up. So, again, lot of the business was at a miniscule level and has scaled up because they were not operational or they did not have enough… they were not using enough capacity. But in net net we don't have many new customers, we have a few new customers. But mostly it is the existing customers that have picked up growth and have grown. So, that is a continuing factor that we are seeing. And fortunately, with having all these three, our thing and all this, the price has helped us immensely in this period. And hence you can see on the Q2 we actually had a positive growth over last year.

Srinivas Shashadari: Okay, sure. Just one more question on the guidance or… I mean I don't know if they call it guidance or indication, but you said that you are kind of still hoping to reach about 85% level of last year. Despite the second quarter having ended on a positive note, now if I look at how the second half had been, last year the second half also was not very good, and especially in the fourth quarter because of the COVID you lost some sales. So, I mean when I look at the ask rate for the second half based on say reaching 85% level, that employs a drop of nearly 12% in the second half versus the second half of the last year which seems very, very conservative, So, I mean I just wanted some view on whether, are you anticipating any kind of head wins in the third quarter or the fourth quarter beyond like what we see in the current numbers which makes you quite wary on still giving a very modest guidance.

Vineet Agrawal: See, I think what we don't know as to what kind of impact might be there on the, both on the demand and on the supply side because a very, very awkward year as you have seen with every customer. The rest of the world is also going through different second stages of lockdown etc. We don't expect that to happen here, but at least there could be local level disruptions which I talked about, maybe when you have those demand and supply waves. So, demand side there could be some issues where some markets will not react or suddenly people might say acha, I want to save more, and some negative sentiments might come about. And on the supply side many factories get shut down because of COVID cases, or areas get shut down specifically but not largely. So, what we feel is, there is a lot of uncertainty, and based on that uncertainty, it is better to be slightly conservative and not go over aggressive.

The second aspect is we also have to be very cautious about credit at this point because there are lots of customers who are now just coming out of the moratorium and there could be possibilities, there could be challenges in terms of receivables. So, there could be chances of more aggressive business growth, but we have to be careful not to really let a guard down and lose money eventually because of receivables. So, that is a balance that we have to keep and hence it's slightly conservative note.

Srinivas Shashadari: Understood, okay, great. Thank you and wish you all the best.

Vineet Agrawal: Thanks Srinivas.

Naina: Thank you sir. Next question comes from Mr. Prateek Kumar. Sir, please go ahead.

Prateek Kumar: Hello, yeah, good evening. My first question is, first question is regarding your employee cost that has dropped by around… I think around 12%> You mentioned that we have not changed our employee base or changed salaries. So, is there any other line item, other, which has impacted or like resulted in cost savings year on year, and what is the more sustainable number going forward of this number, we should go back to 38-40 crore number on quarterly basis?

Vineet Agrawal: So, employee cost on quarter on quarter basis is in fact slightly higher than last year. If you see on September, just the standalone was 1898 in September'19 and it is 19 sorry, I think I was on mute. What I was saying is that employee cost at September'19 on quarter two for the standalone is at 1898 roughly versus 1983 in this current year. So, we are already ahead of the last year's number on a quarter on quarter basis. Most of the impact happened in the first quarter of the year where, of course where the CMD and the MD had not taken their salary as well as there were a lot of long absentees etc. and those people… And there were of course some people who did not, have not joined back because they have moved to their hometowns and so on, so forth. So, I do not expect this number to sort of come down anymore. I think we have already started recruitment again. Of course, we are seeing growth potential. So, both, on the MBA side we have recently given letters to almost 75 MBA students that we had interviewed pre-lockdown and we have started getting them on board already. And at the lower level we have also hired already almost 250 and that is directly on the payroll and we are adding more people. So, I don't expect this number to be lower anymore.

Ashish Tiwari : Prateek are you there?

Naina: Mr. Prateek?

Vineet Agrawal: I think he is on mute.

Naina The next question comes from Mr. Vittal. Mr. Vittal, please go ahead.

Vittal: Hello Mr. Agrawal, thank you for the opportunity. Glad to know that all is safe on your side and hope it remains so. On the cold chain logistics your sister's organization TCI Express, in fact your brother's organization, they also plan to enter into this stream. So, will it be a joint venture between yourselves? How would it go, if you can throw some light on that?

Vineet Agrawal: No, it's… in fact there is that the cold chain business in Express is mainly related to the pharmaceutical business that they are already doing mostly on the LTL side and on the small package size. So, not really. And we are working together on it.

Vittal: Alright, thank you very much, that's it from my side.

Vineet Agrawal: Thank you.

Naina: Thank you sir. The next question is from Mr. Vivek Tulsiyan. Mr. Vivek, please go ahead.

Vivek Tulsiyan: Ya hi. You guys mentioned that, you know, the JV with Mitsui didn't do well because, you know, the auto sector has not done well. But on the overall SCM side the revenue did grow. So, was that a particular client issue regarding the JV which is why the numbers were bigger there or on the overall basis also on the SCM side our auto business has seen significant decline?

Vineet Agrawal: So, yeah, overall it is slightly lower in the… but, you know, so, what happened was, the joint venture in the last quarter has picked up some amount of growth. The first quarter was of course very, very poor. But the last quarter Q2, they picked up some amount of growth, specifically the clients like Toyota etc. are really ramping up their production and movement. But on a half yearly basis as you can see that still that venture is at -15%.

Vivek Tulsiyan: Right. And could you talk a little bit about, you know the e-com and the warehousing business. The growth, what kind of growth we have seen for the quarter for e-com and FMCG and now what is their share in overall SCMs?

Vineet Agrawal: So, we don't split up the revenues of the business specific verticals in any of the divisions. But I can say that the growth… we operate about, close to about 12 million square feet of warehousing space. And this is not just from a square foot perspective, but we now are adding capacity on a cubic foot perspective as well. So, mostly the e-commerce warehouses are essentially fulfilment centres. So, material comes in and we pick pack and invoice and keep it ready for dispatch. So, that volume has been growing consistently. There are centres where we used to do about 25-30,000 orders a day and have gone up to almost 50-60,000 orders a day. So, overall capacity has expanded. The number that you see in terms of square footage has possibly not increased because of cubitc footage increase in terms of space.

Vivek Tulsiya: Okay, thank you.

Vineet Agrawal: Thank you.

Naina: Thank you sir. The next question is from Mr. Alok. Mr Alok, please go ahead.

Alok: Hello, yeah sir**.** Good evening. Just couple of questions. One is if we are… if in this year we do not procure the ship, then what would be the Capex sir for this year?

Vineet Agrawal: Without the ship you know, I guess it will be about closer to hundredish crore.

Ashish Tiwari: Yeah, so, Alok, the total Capex plan is around 150 crores and ship is around 40-45 crores. So, it would be 100 crore only, 100 or below 100 even.

Alok: Sure sir. And sir one question was on the SCM business. So, post COVID, I mean like few months into the COVID, have we seen any new customers who were not really looking at complete supply chain solutions, now sort of looking that, and have you added those to our client list, have you see any such trend happening?

Vineet Agrawal: Customers are talking about a lot of those ideas and we have been also selling them of course for some time. And the way that we see that this happen is typically you take up one sector, one type of activity and slowly start expanding into other areas. And this is typical and this is what we have seen happen. There are customers who are talking to us from both an outbound and inbound perspective that we should handle the whole thing. But my sense is that it is not going to happen so easily, Possibly, you know you take up one sector on an outbound, one sector on an inbound and slowly make your way through. So, that is a typical trend. But yes as I said pipelines are very strong in terms of all of these customers.

Alok: Sure sir. And sir just one last question. If you could just elaborate on the freight rates you were mentioning. How has that moved for you in the last few months, and also related to that, how has been the driver availability now, because we have heard that, you know people have paid like extra amounts to drivers to get them you know coming back. So, your suppliers might have paid that leading to higher cost for you. So, what’s the scenario now then?

Vineet Agrawal: So yes, we also paid extra because we also have a 1000-1200 trucks on our books as well between all… So, we also certainly paid extra when it came to getting drivers on board. And driver availability before the lockdown was also little bit of a stretch and now also it is still a bit, little difficult. However we feel that this should start improving now because there are different kinds of job opportunities that are limited at rural areas. So, we should see people trying to come back and taking up the jobs that they were doing earlier.

Freight rates will remain firm is our view because we don’t expect the government to really pass on the benefits of global fall in crude prices. So, that would mean that fuel prices will continue to remain high and put pressure on freight rates, which should tend to keep moving up because of, as I explained one demand typically going up in the second half of the year. And secondly because of capacity expansion with new CVs has been less in the market. So, if the government comes out with a scrapping policy, maybe we can see some amount of jump in CV sales. But otherwise some sectors that you have seen CV sales growth which is mostly in a closed user group like a construction site or in a mine or the small and medium sized vehicles growing because of the first mile and the last mile requirements. Those sectors have certainly are seeing growth in CV sales. But on the long haul high capacity vehicle we have not seen much capacity expansion.

Alok: Sure sir. Just one last question. In the SCM business do you feel that you have seen a sort of pent up demand which might not be there or which might, you know just stabilize going forward in any particular sector?

Vineet Agrawal: No, I mean pent up demand is still there. I guess consumer durables is still going through that phase, bounded by the festival season as well. And also now there are shortages of certain items as you know, like laptops and even television screens of a certain size etc. So, I think that has not completely been exhausted, the consumer durables. And I think some behavioural changes clearly happened from an e-commerce perspective. So, we certainly believe that the volumes that are there with, because of, perhaps because of festival season, would possibly continue to at least 80-85% levels post festival season also, post these sales also because of that behavioural change.

In some cases, you know in the past pre COVID typically after sales, if the sales used to be at a higher, let's say at 100%. Post those sales e-commerce activity used to come down to 50%. But I think this will come down to only 80% this time around.

Alok: Sure. Got it sir. Thank you so much and all the best sir.

Vineet Agrawal: Thank you so much.

Naina: Thank you sir. This will be the last question of this earning call, and the last question is from Mr. Parimal. Mr. Parimal, please go ahead.

Parimal: Hello? Hello?

Vineet Agrawal: Yeah go ahead please, yes.

Parimal: Yeah, thanks for the opportunity. I am an individual investor since long time. I just wanted to know your thoughts on the dedicated freight corridor once it becomes operational, and about the cold chain , you mention, there is excess capacity in the country, and how do we plan to go about it if you can just highlight that? Thanks.

Vineet Agrawal: So, the first... sorry, the first question on DFC is directly connected with the fact that we have been… we know that this is an area which has a lot of potential and hence we got into the rail business 6-7 years ago. And the DFC will help us use the services of the DFC as a common carrier. And we will use… put our road traffic on it, daily have rail traffic. So, for us it's a definite benefit rather than a negative factor. We also don't have any capacity that is running on that sector that will not, will get redundant etc. So, that way it is quite good. What was your second question, I am sorry? I missed it.

Parimal: Will it improve our margins once It becomes operational in terms of efficiency wise?

Vineet Agrawal: So, I am not sure about the pricing structure yet**.** And in terms of whether it will be substantially expensive, we know that they are going to carry double the length of containers and double stack at double the speed. So, that's an 8X kind of an improvement on productivity and efficiency, but what is going to be the pricing impact. So, we are not sure about all of those things yet. So, very difficult to comment on the margin. But I do not expect it to really come down anyway. I think clearly it is something that should help us only as an organization.

Parimal: And would the road sector get hampered with it?

Vineet Agrawal: No, you know the growth in the road business has it's own dimensions. And I think again it's like first mile last mile will still be needed by road. So, some of that will still continue.

Parimal: And the second is about the cold chain. You said there is excess capacity and you have some strategic decisions that you made about cold chain. If you can just highlight what do you mean by that, I didn't understand this one.

Vineet Agrawal: Well the strategic decision is not to invest into full creation or full capacity ourselves. Many of the companies that have done, that have struggled with 100% ownership of warehousing space and 100% ownership of trucks. So, that we believe is not the right strategy because you also have variability in terms of temperature etc. nationally because of seasons. So, utilization factors come down. Capex on this is quite high, so, better to moderate it as well. And the third factor is how can you get return cargo because not every location will you get return cargo for cold chain. So, given all of these factors we felt it's not necessary to own 100% of any kind of capacity, and that's the strategic framework that we are working on.

Parimal: Thanks, thanks for the… thank you very much.

Vineet Agrawal: Thank you so much, thank you.

Naina: Here comes to the end of this earning call. Thank you so much for joining and gracing us with your presence. Stay safe and healthy. Take care.

Vineet Agrawal: Thank you everyone.

Ashish Tiwari : Thank you everyone for joining call. Stay safe and healthy. Thank you.