“Transport Corporation of India Limited Quarter 1 Investor Conference Call FY 2022”

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MANAGEMENT: **MR. VINEET AGARWAL – MANAGING DIRECTOR,**
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Moderator [00:01]: Good evening ladies and gentlemen. I am Komal, moderator for this conference call. Before we begin with, I would like to extend my warm welcome to all of you for joining us today. On board 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 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, to embark on this meeting. Thank you and over to you Sir.

Ashish Tiwari [00:46]: Thank you Komal and good evening to all of you again for joining this call. I hope that all of you are safe and doing fine. To begin with, we would have an earning presentation which is updated for quarter-1 and then, we will be open to questions from the participants. Now, I would like to invite Mr. Agarwal for his opening remark and earning presentation. Over to you sir. Thank you.

Vineet Agrawal [01:23]: Thank you Ashish, thank you Komal. Can you put up the presentation please?

Thank you so much for joining us today for the earning’s presentation for quarter one for TCI. We are pleased to say that we had a good quarter in spite of the lockdowns in the middle of the quarter with the second wave. However, the divisions have done reasonably well and have gotten to some resemblance of what we are looking towards our target. So, just I’ll quickly go through some of the points and then we can take question and answer. This is the group structure as you are aware. We are close to 600-700 crores, $600 million at revenue and about roughly $1.25 billion in terms of market CAP.

Next slide please. We are aware of the industry growth drivers. So, predominantly consumer driven changes that are happening that is really helping the logistic sector. Simultaneously, customer driven changes are also quite rapid and they are essentially also changing because of the pandemic. For example, several companies are looking for more stock from moving from just in time to just in case. So, that means that more demand for warehousing is also started to increase and several large customers are talking about a full holistic 4PL, fourth party logistic solutions. So, that also is interesting trend that we have started to observed.

The industry is poised for a lot of changes and growth in line with GDP growth, as well as, the fact that logistic sector per se is quite underrepresented in the country as a whole and extremely fragmented. So, the chance, the ability for us to grow here is quite high.

Several regulatory changes are helping to formulize this industry, as well as, formalize many of our customers who want to work with organized players like us specifically, using the use of GST or eWay bills and e-invoicing is all helping. Clearly, infrastructure is going to be a big driver for us say, in terms of moving up the rankings for national on the logistic performance index globally.

Next slide please. A certain – apart from the strategy that we have, one of the few things that we do very well is, and those are now clearly our USPs are – the fact that we have a wide range of services amongst, and everything is internal. So, that gives us the confidence to really service customers much better and also that gives us higher margins also in some cases because we are able to cut out some middlemen.

Our strong multi model network, we are truly a multi model company now. We're using all three modes of transport. All our operations are very tech driven and we incubate new areas and new businesses, segments on a regular basis. And that's a culture that is in the organization which is very strong that we are able to understand customer needs and position ourselves well.

Next slide please. So, in terms of the range of services, you can see we've covered almost everything and a huge range of verticals. We – the presentation will be available on our website, as well as, after this meeting.

Benefit for customers are that we provide a single window solution. We bring about certain economies of scale and this helps us to capture a larger wallet share amongst our customers.

Next slide please. In terms of the multi model network, we have three trains. Two are already with us. One is in the process of getting delivered. Six ships, of course, road infrastructure as well as the container infrastructure. In the last year, we moved about 2 lakh EUs. In the first quarter, we moved about 32,000 of them. We also moved about 200 trains in the last quarter versus about 1300 in the full year for FY 21. So, these are all full trains that we have moved.

In terms of the incubation, we see a good growth opportunity in several sectors and we are very well positioned in all of these. Chemical pharma, the agricultural side, ecommerce, cold chain, and of course our neighbouring countries are, the subsidies that we have, we are seeing very good traction in many of these places. So, we believe that these are the opportunities that translate into higher growth opportunities for us in the future and keep up the growth trajectory for us as a group.

Next slide please. Earlier I mentioned about technology and that's very ubiquitous to us. We use it from our, not only from a customer interface perspective, but from our own organization employee perspective where almost everything is app driven. All our workflows are also available online, on a mobile or a tablet. So, people are very getting accustomed to using this on a very regular basis.

Next slide please. In terms of the highlights for the quarter, it is not really comparable to Q1 of last year because of the lockdowns. We know that the last year the lockdowns are more supply side lockdowns, because companies were shut, factories were shut. And also there was an impact on the demand side. This time around it is more on the demand side. Factories are not that badly shut, some are certainly in states like Maharashtra, Tamil Nadu etcetera, we did see a crunch in April and May but broadly speaking, it was not a national lockdown. So, there was a certain amount of business volume that continued and we were able to grow at about 71% over the last quarter from a revenue perspective.

We've really worked hard on our receivables and though it's tightened a little bit in the last few weeks, but we feel that we still have strength to pull through some of the receivables and the cash availability that we have out of our limits is almost complete. We've not utilized the limits at all. In fact, we've paid of several of our long-term loans as well, long term high-cost loans rather, and we are at a good number of only about 150 odd crores in terms of borrowings at the end of the quarter.

I talked a little bit about the robust pipeline that is quite strong right now. We have good traction with a lot of companies. And we're seeing that in cases where road infrastructure is slow because of lockdown etc, our other businesses, the rail, the sea have all helped us in a certain about of volume movement.

Next slide please. I'll talk a little bit about each division now. Moving on to the next slide about the freight business. You know that – the next slide please. Freight business is essentially our largest business. We operate 3500 trucks at any given time. Mostly all market – sorry, 4500 trucks at any given time. Mostly all are from the market or leased. We have 700 branch network here as well and provide a whole range of services both FTL and LTL, because we have seen customers want both of the those. They don't want only LTL or FTL like some of our competitors are focused on. We also have a strong key account management system so that we are managing large customer requirements at a pan India basis quite seriously.

Next slide please. Freight business grew about 82% in the quarter and margins are also in line with what we have achieved in Q4. In fact, is slightly better as well. LTL started to show some trends for pickup. In the last quarter, of course, we got hit in May but subsequently it started coming back in June and we are confident of achieving our target to get to 40% of LTL business as we go ahead.

The ROCs in this business have also, as you have been seeing steadily improving over the last few years. And based on the current trends, we think we should be able to cross 20% in terms of ROC for this financial year.

In the supply chain business, broadly speaking we are present in all areas of supply chain management. Of course, auto is about 75% to 80%, and as you are aware auto for us is not just automotive four-wheelers, but we also do two-wheelers, earth moving equipment, tractors and so on. We have a very strong multi model distribution network, again, quite unique to the industry where we have created a hub and spoke system for many auto majors for their finished good. And these help them to service their dealers more promptly across the country. And some of these hubs are also multi user hubs. So, we use both the combination of rail and road to service the dealers from these hubs.

Supply chain solution provides from conceptualization of the supply chains to final execution, all kinds of services including 3PL, 4PL as well control tower solutions. We have a large warehousing base over here of about 12 million square foot of space.

Next slide please. And own about 1000 odd vehicles as well. The business grew about 100% over the last year, again because in the first quarter of last year we got heavily affected by auto sales and that brought down the revenue and subsequently the margins as well. But we are in line towards the growth targets for this division as well. The trends that we are seeing in terms of automotive or FMCG are decent. However, there are some cost pressures because of increased fuel prices and the transfer of those fuel price increases are underway to our clients.

Next slide please. The seaways business, as you know, we own six ships. One ship was sold in February of this year. The business has been very steady and we've been able to grow quite rapidly also, in spite the fact that we do not have enough vessels right now. Clients have been using many of these services because of green logistics also.

Next slide. And the business has also grown by about 70%. In the last quarter of the last financial year, the business was still relatively okay because road sector was quite badly affected. So, the growth has been about 70%. We have been able to get a good amount of return cargo from Myanmar. As you know, four of our ships operate on the east coast, from Chennai to Port Blair. So, we've been calling on Myanmar and we've got good cargo back. Freight rates have increased quite dramatically on the international markets, as you are aware. We, of course, operate only on the domestic market, barring this little bit movement that we've done towards Myanmar.

The margins are better because we are, almost all the ships under operation. Only from this quarter, that is Q2 onwards, we have dry docks that are scheduled. And they are all one after the other. Every quarter we will have one dry dock per ship going forward. Though fuel prices are still on the higher side, they have not increased much. That is the bunker prices. So, the margins are more or less maintained of the last year levels. In fact, slightly better.

Our joint ventures also started to pick up in the quarter. The cold chain business has doubled its revenues from quarter 1 of last year. And we are seeing good traction for a lot of clients, including pharmaceuticals. In TCICONCOR business we have, the business has been more or less flat over last year. But again, as I said, when alternate modes of transport were being used in quarter 1 of FY21, rail was, of course, one of them as well. The joint venture of handling logistics of Toyota, that is Transystem, has started to pick up again. As you can see, it's about 170% growth on the top line, and bottom line has also started to stabilize.

Overall, for the quarter, the business grew at about 70 odd percent, and about 85% at the standalone level. The margins were, of course, much better at about 48 crores at the standalone level. At the consol level some margins are lower because of the, getting off of the dividend income that we got from Transystem. So, that brought the, the netting off brought the PAT levels or the consol levels slightly lower. But overall, we have seen good trends in terms of profitability, at least for this going forward.

Our debt equity ratios are at an all-time low, and we're definitely very well placed in terms of any kind of CAPEX or any kind of acquisition if the opportunity arises. The business has been consistently delivering returns from a PAT perspective or doubling, tripling in the last five years or so. ROCs in the business have started to improve in this quarter. Though it might come down a bit once as some CAPEX is initiated.

Next slide. The dividend ratios have, rather the dividend pay-out has been more or less the same. However, the ratio has increased quite substantially. And thus we have a good follow up from analyst like yourselves, where we have almost all buy ratings . Our short-term, long-term rating with CRISIL is at AA, positive and with ICRA is A1+. Clearly, this is one of the best in the industry.

From a CSR, as well as, social responsibility perspective, HSC perspective, we have been very active including during this pandemic in the second wave, where we moved oxygen. We also delivered oxygen concentrators, as well we, right now even working on the PSA plants. We moved close to 200 PSA plants for our clients across the country. And we have something called, Safe Safar, where we are talking to a lot of our customers about, and truck drivers, about safety. And on the environment side, we have included, added, roof solar in several facilities so that we are able to save on some cost.

In terms of an outlook, we are looking at the same 10% to 15% revenue growth and about 15% to 20% top line – sorry, bottom-line growth for this financial year, given that the trend seems to be okay. We were a little sceptical as to how the second wave will play out, and how the third wave is going to play out, if there is one. But with the kind of trajectory that we are seeing, I think we should be able to maintain this guidance. The CAPEX has been a bit slow in quarter 1. It is also because we've not been able to find a ship yet. Though it is part of the quarter 4 CAPEX, however, things did slow-down in the first quarter. So, CAPEX has been quite limited. I think depending upon how the ships are, how the ship is available, we should hit anywhere about 150 to 200 crores in terms of CAPEX for the full financial year.

The festival season is upcoming and we are seeing that inventory build-up has also started in many places.

Thank you, and look forward to your questions.

Moderator [19:27]: Thank you sir for the valuable insights. Ladies and gentlemen, we will not begin with the question and answer round. If you have any question, you may please use the raise hand feature in Zoom call. I would request you to start with your name and organization name followed by your questions. So, the first question is from Mr. Sunil Kothari. Sir, please go ahead.

Sunil Kothari [20:04]: Thanks for the opportunity. Hello?

Vineet Agrawal [20:07]: Yes, please go ahead.

Sunil Kothari [20:08]: Thanks , really commendable job during this very challenging time. Sir, my question is a little larger and structural change what we are observing is, things are moving from unorganized to organized, formulization is happening. You are using really good technology, you have hard assets also. So, my question is, if there is a sudden spurt in demand, how are we prepared? I mean, it's right you say this current year, 10%-15% revenue growth and all. But looking at our size, we are just 2.5, 3000 crore company, and looking at our country, logistics, supply chain, transportation and all these things, the size of the market must be very, very huge. So, the way you are speaking, I am hearing you since the last three-four-five years, the shift is happening, and we are preparing ourselves. So, on a larger scale, little bit longer view, that how well prepared you are for the bigger opportunity and on the size of opportunity. And second question is, from where we are capturing this business? I mean, whom we are removing from the competition or we are, it's just additional services we are providing? So, thoughts on all these things will be really helpful.

Vineet Agrawal [21:36]: Sure. So, see the business opportunity is large, but we also know that '19-'20 volumes, or rather, overall market was quite down. And then, 2021 we were hit by COVID. So, last two years have been a little subdued for sure, and we've not been able to really grow at that pace as we should have. But if you see our businesses where we had focused because of the long-term future, for example, our container business by rail, that business grew at about 71% - 70% plus last year. And then, our seaways business again, that we had positioned for high growth opportunity has also grown quite rapidly. So, the other story is that, how much business we want to take rather than what comes to us. And there we want to be careful in terms of not over extending ourselves because a lot of customers today are going to give you business, but not going to give you margins. And we know there are some companies who go for revenue buyouts versus really going for margin growth. Our attempt is, because of our experience in the last 60 years, is that, having a strategy towards only revenue growth, is not fruitful in the Indian market. You have to have a margin growth strategy, because that ensures that you are able to invest for the future and into newer areas, into larger scheme of things, and able to handle larger things if and when the opportunities come. And we have several 100 crore plus contracts that we run today or several in double digit 50 crore plus contracts.

So, that way we are addressing that growth opportunity. Certainly, the markets are getting more and more favourable. You are right that unorganized sector is tuning towards organized a little bit, as well as, they are becoming not directly competing with us also. So, they are becoming vendors to us or vendors to the larger companies. So, that is a change that is happening in the competitor landscape as well. I think we also have to see that the gamut of services we provide, helps us to really grab a larger market share from clients. One of the examples that I had shared in the last presentation for the full year, is how we started with a specific group, business group, large business group, which is freight business. And now we handle chemical logistics for them, we handle food logistics for them, by rail, by road, as well as, cold chain for them. So, the whole business has transformed from just pure transportation to lots of value-added services. And that business itself is in the 50 crore plus range, for the whole group as a whole.

So, these are some of the trends that we are seeing, and I am pretty sure that our positioning is such that we have to capture some of these growth opportunities better.

Sunil Kothari [24:53]: And sir, are we prepared for this – not, I'm not talking about current year, but maybe over next two-three years. If economies, now after maybe seven-eight, ten years, running hopefully back to normal course. So, are were prepared well, that is why my question is?

Vineet Agrawal [25:12]: Well, preparation is nonstop. So, it has to continue where we are – when we make these CAPEX plans are also based on the fact that we are seeing potential growth trajectory and growth opportunities. So, clearly, the front ending some of this CAPEX is necessary, and that's the idea. So yes, we are getting ready, we are ready in many places. We can take up larger volumes. You saw the fourth quarter, we have done 700 crores in terms of consol revenue in the Q1, we did 900 crores in Q4 of FY21. So, we have the potential, we have the capabilities to grow also as the opportunity comes.

Sunil Kothari [25:56]: Right. And sir, last question, just some understanding on some clients, like you say big clients, 50 crore, 100 crore revenue they provide, they give to us. Ultimately, they are at a cost benefit, they will be paying you overall – will there be savings in terms of their efforts and cost after doing every contract and services taken from you?

Vineet Agrawal [26:27]: Well, they look at not just the cost benefit, but also the fact that we are able to provide an integrated solution. Because many times a customer says that, look I need this – I need warehousing, but I also need a cold chain warehousing. So, for example – that's where our divisions or our different companies that we have come into play. So, we provide an integrated solution, rather than just looking at cost solution. And that is what is our, is a unique factor that we bring.

Sunil Kothari [26:57]: Thanks a lot sir. Wish you good luck.

Vineet Agrawal [26:59]: Thank you.

Ashish Tiwari [27:01]: Thank you.

Moderator [27:02]: Thank you sir. The next question is from Ms. Shalini. Ma'am, please go ahead. Ma'am, please unmute yourself.

Shalini [27:24]: Yeah, can you hear me now?

Vineet Agrawal [27:27]: Yes, yes.

Shalini [27:28]: Yeah, okay. Sir, I had a couple of questions. Sir, one of them – the first one is, how did you get this kind of 70% business growth, because even though you had like 30%, almost 40% decline in the previous quarter, as of the first quarter financial year '21. But then, even this year, at least for the whole of May, most of the country was shut down and I mean, before shutting down also there was a slow down in activity and even after the lockdown is opened. So, how did you get this kind of growth? Yeah.

Vineet Agrawal [28:12]: Well, you know the – as I said, this time round this was not so much of a demand led shut down – supply led shut down but a demand led shut down. So, a lot of the factories were not entirely shut. And definitely May was quite weak in terms of business, but June we did see a lot of pick up. And of course, April we did see the hangover from March continuing. So, April was also decent. So, I think the overall trends were good so, hence we were able to keep up the growth.

Shalini [28:44]: Okay. And sir, I just wanted to ask you, in the transport segment, through the whole of last year, and probably the year before that, we've seen growth below 5%, except for the last two quarters. So, I mean, and that is a trend witnessed across different segments in the company. So, I mean, in the last two quarters, or perhaps three quarters, what has changed?

Vineet Agrawal [29:16]: If you are talking about the last quarters of FY21.

Shalini [29:22]: Yes.

Vineet Agrawal [29:23]: We saw our business, with the – we – overall country had really started to increase in terms of demand, whether it was restocking that was happening, whether it was new production that was happening. Even we saw decent growth across all types of businesses. So, I think we are quite aligned to GDP growth and hence, we were able to capture some of that growth. And the trends before that were weak, not just because of COVID, but also Q4 of FY20 was also quite weak. So, that way the trends have been that, as unlocking has happened, whether it is revenge shopping or revenge purchases or certain government contract started to get executed, financial closure happening in some places, financials – sorry, money getting released by the government, infrastructure spending started, all of these things have helped some kind of growth for us. And including the agri side, so, we have done good movement in the last year, I would say, three quarters including now for movement of food grains and other such products.

Shalini [30:40]: Okay. And sir, now that you've mentioned food grains, just wanted to ask you, is moving food grains a profitable venture for you?

Vineet Agrawal [30:51]: Yes, of course we do multi model movement so, using both rail, road and sea. So, depending upon the kind of requirement by the clients so yes, it is profitable.

Shalini [31:02]: And sir, my last question is, that even EBITDA margins are at near high. They are not at all time highs, but at near highs. So, I mean, there is an increase in the demand for logistics, but what explains the high margins?

Vineet Agrawal [31:28]: So, some of the cost structures were definitely lower. For example, traveling and conveyance and all those cost structures. Admin related cost structures were lower. And some other repair, maintenance etc, costs were lower. Our finance costs were much lower. Since we were able to save money by, since we were able to utilize. Our receivables had come down, or rather we were able to – our cash flows improved overall. So, that helped us also. so, few factors helped us in improving the EBITDA.

Shalini [32:04]: Okay. And sir, going forward, you expect that the EBITDA margins on an uptrend? I mean, it's not just financial year '22, but overall, do you expect EBITDA margins are on an uptrend?

Vineet Agrawal [32:19]: Yeah, I do see some cost pressures in terms of fuel hikes, how fast can we get those fuel hikes. Of course, employee costs have gone up. We've given increments to every employee. We've not cut anyone's salary. We've promoted people. We've not laid off anyone. So, those costs also will increase. But I'm confident that with top line increasing as well, we should get some benefits on the economies of scale, as well as, the value addition that we are providing with different services, that should also help us to maintain the EBITDA levels as we are at right now.

Shalini [32:59]: Okay. And one last question from my end. Sir, freight rates, I mean, have freight rates gone up?

Vineet Agrawal [33:09]: Yes, freight rates have gone up across, not just in this quarter, but previous quarters as well for several reasons. One is, clearly fuel prices that are much higher. Secondly, the capacity that is available in the system is much lesser, because new addition of seaways has not happened to that extent. And specifically, because either many transporters don't see the value of adding new capacity right now, because they don't see a demand outlook. Or they are – they find the cost of the new BS6 trucks quite expensive. So, these are some factors where we have seen that – and of course, some imbalances on different sides where some growth has happened in some places, and in some places, things have gotten affected. So, that has created also an imbalance in terms of availability of trucks in certain locations, leading to freight price increases.

Shalini [34:11]: Sir, how much have the freight rates gone up on a y-o-y basis?

Vineet Agrawal [34:19]: It's sectoral. So, I cannot say, but at least, between 10% to 20% depending upon sectors.

Shalini [34:28]: Yes sir, okay. Thank you so much.

Vineet Agrawal [34:30]: Thank you.

Moderator [34:33]: Thank you sir. The next question is from Mr. Jasdeep Walia. Sir, please go ahead.

Jasdeep Walia [34:42]: Hello. Sir good evening, thanks for taking my question. Sir, in the presentation you mentioned that a lot of your customers want both FTL and PTL services, which is a bit intriguing to me, because FTL services are available pretty easily off the shelf. So, could you just talk about any case study here, just to explain the value for a customer for availing both FTL and PTL services from you?

Vineet Agrawal [35:11]: Sure. So, take the example of a large company which is manufacturing out of 20-25 locations and they are doing projects all over the country. And they need movement not just from the factories, but they also need it from third party vendors. And they are saying, "Okay, let's," so, there's a project that's happening let's say, northeast and they need to move 25 FTLs from different locations and several hundred tons of LTL from small vendors across the country. They need all of this in a consolidated service and all of them, origin points are multiple, and delivery point is just one. They need a single window solution as a key account where somebody can observe all of these movements, give them feedback as to where they are, because they are at a project site and project needs to get executed in the timelines that they have committed to their customer. And then, they want a common billing system, common CRM, common – and they might say, "Look, you have picked it up from 35-40 locations, but I want all this built in one location." So, we can do that as well. So, this provides a comprehensive solution to that particular client. and there are many, many such clients like this, who want both FTL, as well as, LTL services across the country.

You are on mute, Jasdeep.

Moderator [36:46]: Mr. Jasdeep.

Jasdeep Walia [36:46]: Hello? Yeah. Sir, thanks for that reply. Sir, just last question, what's the net debt at the end of first quarter?

Vineet Agrawal [36:56]: I think 151 crores, right Ashish?

Ashish Tiwari [36:58]: Yeah.

Jasdeep Walia [37:00]: Alright sir, thank you. And that's all from my side.

Vineet Agrawal [37:04]: Thank you Jasdeep. Thank you.

Moderator [37:06]: Thank you sir. The next question is from Mr. Preet Nagarseth. Sir, please go ahead.

Preet Nagarseth [37:15]: Yeah, hi guys. So, Vineet I just wanted to better understand the impact of not having the eighth ship. What would it be in terms of volumes or expectations for a shipless division?

Vineet Agrawal [37:29]: No, that's a seventh ship. We have six right now. Seventh was sold in February. So, the seventh ship addition was anyway planned for Q4 of this year. So, the impact is quite negligible right now in terms of revenues .

Preet Nagarseth [37:46]: Okay. But there's a lot of movement on the ship side. Containers are in short supply. So, would you have seen higher demand, higher business if the seventh ship was available?

Vineet Agrawal [38:02]: You know, we are, basically our 98%, 95% of our business, shipping business, would be domestic cargo only. So, really speaking, the international freight rates or the shortage of containers has not affected us to that extent. However, if we had another ship, it could have meant that we would have been able to add, perhaps more services. But at the cost, at the current cost that the ships are available, the pricing that has gone a little bit out of whack, would mean that we will not really make money on it. So, in that sense, we might lose a little bit of business opportunity, but from margin standpoint, I think we will be better off.

Preet Nagarseth [38:43]: Okay. Vineet, the ROC profiles for freight you mentioned, should be at around 20%. What about supply chain and seaways for the same?

Vineet Agrawal [38:52]: So, supply chain currently is at about 18…

Ashish Tiwari [38:56]: 18%.

Vineet Agrawal [38:57]: 18%.

Ashish Tiwari [38:58]: 18%, yeah.

Vineet Agrawal [38:59]: Yeah. And I think we should steadily get to the 20% level also depending upon some of the CAPEX that might happen in Q3-Q4. Some of it would be truck related or adding the train that is impending. So, which might bring it down slightly, but I think closer to the 20%. And similarly for seaways also, I think we should get closer to 20%. We are already – if you see Q1, the ROC's of course, much better. but for the full year, it will depend upon ultimately the Capex. So, yes sir, the objective is to cross 20%.

Preet Nagarseth [39:39]: Right. And lastly in terms of these three months, July, especially July, are we back on normalcy in terms of demand side as well? Or are you still seeing some kind of lack of demand?

Vineet Agrawal [39:55]: Broadly speaking June itself, what we can talk about is, yes was back on the same levels as last year, I would say at about 75% of March levels, I think and I think these trends continuing and more towards the positive side only. So, as I said because the festival season in impending and we are seeing that stocking has already started. For example, Onam is the first festival that is in August and already we are seeing some stock have – stocking for automobiles for example. Though Kerala is facing another wave right now but some movement has also started in many of these places.

Preeth [40:48]: Okay, thank you guys.

Vineet Agrawal [40:51]: Thank you.

Ashish Tiwari [40:50]: Thank you, Preeth

Preeth [40:51]: Thank you, Ashish.

Moderator [40:53]: Thank you, sir. The next question is from Mr. Krupa Shankar. Sir, please go ahead.

Krupa Shankar [41:02]: Hi, good afternoon. Thank you for the opportunity. Just one question on your one of your initial comments that you'd mentioned that there is some caption on 4PL how that is increasing and can you just elaborate a little bit on that on which sectors are you seeing this sort of a trend

Vineet Agrawal [41:27]: So, the trends on 4PL are essentially customers telling us that look there could be other logistic providers and you could be one of them, as TCI could be one of them, you manage all of them. So, that's how 4PL typically works. And we are seeing that some clients are specifically automobile side where we have lot of strengths, we are seeing clients actually asking us to do that. And but broad 3PL type of contracts are also coming about specifically in the area of let's say chemical logistics or even in some FMCG companies as well. So, we are observing the trends and I think we are also a little conscious of the fact that it should not be a cost exercise for some of these customers versus value exercise. So, if you are able to provide value then only we will really try to get bit aggressively for some of these contracts otherwise we would like to wait and watch it.

Krupa Shankar [42:32]: Great. And one more question on the automotive transportation side therein you had it a new auto rake , so are you intending to increase , just a way of moving automotive finished cars or bikes going ahead and you are seeing that more and more rakes would be added going forward !

Vineet Agrawal [42:56]: Absolutely, I think this is a complete shift that has started to happen because if you think about the plans of many of these automobile companies are in certain clusters whereas the demand is spread across the country. So, for that they will need to service different parts of the country more efficiently and which means that today if I'm a dealer I want to keep less stock but I do not want to lose sales also. So, if I order something I wanted in the next day or my – if I'm a dealer and my client order something I want it deliver to him in 24 hours or 48 hours and that's where hub and spoke system will help. And in the hub and spoke system, it's most efficient to move things by rail because you can move bulk at one shot itself. So, not just from our end but the industry wide change is quite visible. In fact, if you see some data around the car carriers in the country, their numbers have actually come down quite a lot but capacity addition has not happened to that extent in that space because some of the share has gone to the rail side. Whether we will had capacity is not necessary, we will add strategic amount of rakes as you know that we tend to adopt a middle asset strategy where we will take some risk of our own but we can also hire lease based on availability.

Kupa Shankar [44:36]: So, one reason why this was probably not used on this because of the mismatch so you have a originating cars coming in from the factory but on the destination side, you have to move back empty. So, how are you tackling this sort of a problem?

Vineet Agrawal [44:56]: Well, this happens even now but even then it is still because we are still a moving a bulk in one shot. You know that the cost of road transportation is much more than the cost of rail transportation. So, clients who are willing are still willing to use rail and let it come back empty because it is still cheaper than road so that is one fact. But the second is, the scale has increased. If a particular company based in North India was selling x volume in South India in let's say 4 years ago, maybe that volume is 2x now which means that I can send more vehicles in the train easily. So, that volume has helped. The third is that lot of mix loading has started to happened also. Customers are collaborating with each other to say that okay, I'll take half the rate, you take half the rate. Fourth is this yards are also multiusers that we've created. It is not just one type of customer, there could be a two wheeler, there could be tractor manufacturer, there could be a four wheeler in one yard itself because they are not really competing with each other and we have a created a level of sophistication also where we do certain amount of pre delivery inspection, cleaning and all that invoicing for the OEM before we supply to the dealer.

Kupa Shankar [46:20]: One last question on the cold chain operations. Just wanted to understand so this is service is vaccine distribution from logistic and even when you are looking at the cold chain space on a whole, how we see the opportunities lying by because clearly over the last three four years we have seen lot of facilities with already setup and they did not perform as expected so if going ahead, what is giving the confidence on cold chain side is something which I wanted to understand.

Vineet Agrawal [47:05]: So, the past you're absolutely right in terms of the invest, it was very investment heavy, a capex heavy and most of the companies that were in the cold chain space were essentially adding own capacity whether it is in the form of trucks or storage and that really put a – it's a challenge in specifically in conditions where the market is not really conducive and there is a lockdown or essentially many of these assets also tend to become quite old, quite fast as well as let's say if you invest into a cold storage facility and it consumes a lot of energy and if energy cost have gone up then that starts affecting you. So, our strategy here is that look at again a middle asset strategy, own certain key assets but went to lease from the market as well. What we observed in the last three four years is the changing trends towards very for many areas including the fact that the growth of QSRs, growth of cloud kitchens, dark kitchens, those are added on, the fact that several food ready to eat kind of companies have come about the areas around pharmaceutical where, of course, some of it is vaccine logistics but also lot of pharma companies are now starting to look at not just cold as in 0 to 10 degrees but also ambient temperature because as you know that ambient temperature in part of India in the summer can go up to 50 degrees also. So, several pharmaceutical companies are changing their policies around how to service clients. And then lots of other such areas that we are seeing how where cold chain is required, a cold storage is required. So, it's turning around now and we think that the next few years should see rapid growth and the first quarter of our cold chain business we've grown almost double that business. Also, from a small base but that should – its trends is visible. As you also know we have a JV partner in this company that is coming in, that is Mitsui & Company, they also bring a lot of expertise here as well as we are hoping some clients as well that they operate globally so we are able to provide more value added and comprehensive solution.

Krupa Shankar [49:44]: Thank you, I'll get back quickly.

Vineet Agrawal [49:45]: Thanks.

Ashish Tiwari [49:46]: Thank you, Krupa.

Moderator [49:49]: Thank you, sir. The next question is from Nitin Agrawal. Sir, please go ahead.

Nitin Agrawal [49:57]: Hi Vineet, this is Nitin Agrawal. Thank you for this opportunity. And first of all, thank you so much for this that you had done in the lockdown providing the oxygen transportation to the country, that's very glad to know, we are proud of the country for you. And sir, my first question would be which segment and which division do you see the very aggressive in the near term, in the one or two years?

Vineet Agrawal [50:33]: Thank you so much. I think it's very difficult to choose which division will grow the most aggressively in the next few years. I think all three divisions have a lot of growth opportunities. Some of it I s very specific to client addition, for example, in supply chain where we are typically bidding for large contracts so if we are able to get those large contracts, we are able to grow rapid. In the second business which is seaways, we are essentially growing by capacity addition which is adding new ships so we based on that and as and when we can do that we'll be able to see growth. And the Freight business tends chug along with GDP growth as well as the changes that we are bringing moving towards more and more less than truck load. So, we definitely see good and solid growth opportunities as companies are also want to work with organized players versus unorganized players. Simultaneously, we see our joint ventures that we have, specifically, the Concor business, the cold chain business is also doing good business. So, really difficult to tell you pick point and say okay, this division or this business will do exceedingly well but I think all of them have good positioning, some of them will see rapid growth based on either capacity addition or client addition. You are on mute Nitin.

Moderator [52:14]: Mr. Nitin, are you there?

Nitin Agrawal [52:17]: Yes, yes. Yeah, hi, sorry. It was muted. Yeah, my second question would be are you facing any cost pressure or would it be continued in the future?

Vineet Agrawal [52:32]: Well, temporary cost pressures are arise from the fact that when we pass on the diesel price, fuel price increases to our client and we get back most of that in the cost of following months after making those fresh bills etc . So, temporary cost pressure is there a little bit but the other admin cost etcetera are on the increasing side clearly because once the lockdowns are over things tend to move towards normalcy quite rapidly. So, yeah some amount of cost pressures are there but I wouldn't say that they are exceedingly high.

Moderator [53:24]: Mr. Nitin, please unmute yourself.

Nitin Agrawal [53:27]: Yes, I'm. Sir, my next question would be are you expecting any margin pressure in the near term?

Vineet Agrawal [53:37]: So, I think the margins that we've achieved in this quarter are quite decent compare to the previous quarters and some of it is also we've got benefits from our sea ways division. So, some might come down because of the drydocks that I mentioned but in other divisions things might pickup because of the volume increases. So, it could be balanced and we should probably maintain these numbers.

Nitin Agrawal [54:18]: Thank you so much, Vineet.

Vineet Agrawal [54:20]: Thank you, thank you.

Moderator [54:23]: Thank you, sir. The next question is from Mr. Srinivas Seshadhari. Sir, please go ahead.

Srinivas Seshadhari [54:32]: Yeah hi, am I audible?

Vineet Agrawal [54:34]: Yes.

Srinivas Seshadhari [54:35]: Hi Vineet , Hi Ashish. Just one question in the 2-wheller space now we are seeing this EV kind of shaping up in some formal manner, let's say, one company is already pure EV company is already selling and another one is about to begin so just to understand their in terms of how they are using logistics and my understand is the logistics footprint specially on the inbound side would be lower because of the lower parts and battery and all that. And secondly, since these are new companies we don't know how they are making business in terms of choosing logistic services , so can you throw some light on both the aspects in terms of how logistics as a service itself stands for the segment and secondly, how are we kind of present or trying to capitalize on this opportunity?

Vineet Agrawal [55:34]: Yeah. So, you are absolutely right that the value – the weight ratio that you have to volume for EV will be much lower rate because of the number of components in an ICE engine, ICE farm or then EV. So, clearly that would be a change that will happen to supply chains. There are of course, some heavy parts also in EV vehicle.

So, notwithstanding, the logistics is going to be quite similar depending upon how clients want them. So, typically for inbound logistics which is production logistics, you have a several models that companies follow. For example, Toyota follows a just in time model, Maruti follows VMI, vendor managed inventory model and some company follow a purchase model where they will purchase X factory for their products ,for the components. So, lots of different models float around I think it will depend upon the particular company what model they want to use for their supply chain.

We know that many of them are thinking about both the combination of JIT as well as VMI so that should be – those are trends that is quite visible. Apart from that, we think that the outbound logistics is going to be quite similar how it is currently, which the similar hub and spoke kind of distribution. Perhaps, some of it will change where they might not even have dealers and they might go D to C. So, that will be another element that will get added to the supply chain from an outbound side. And the broad fact is that we have been discussing with many of these guys, and I think a lot of it is an education process also for them to understand how supply chains in India work and how they can be using some of our services.

Srinivas Seshadhari [57:44]: Okay. But would that be a concern, if say, some bit of shift happens to EV especially the scooter side? Is there a possibility that we may be a net loser in terms of the OEM base that we are trying to service or would we be present there?

Vineet Agrawal [58:05]: Not really, because ultimately we still have less than 10% market share with these companies or overall, even in the two-wheeler segment.

Srinivas Seshadhari [58:16]: Okay.

Vineet Agrawal [58:16]: So, since it is less than that, the impact is not substantial.

Srinivas Seshadhari [58:22]: Okay. The second was a follow up on the discussion on that car, shipping cars by trains. So there, how should we think about this in terms of the competitive field? Like I'm pretty sure the road logistics for the outbound car is quite competitive and there will be various options. But in this, what is the playing field when we think about competition? And is this a net new business we get by getting into this or is this just substitution of what we were already doing in a better way? How should we think about that?

Vineet Agrawal [59:02]: Ashish, can you go to that slide of supply chain please? And on full screen. So, the outbound logistics in not specific only to cars, but as I said two-wheelers, three-wheelers, tractors, earth moving equipment. We do all kinds of movements in this multi model via rail. And surprisingly many of these products are able to move also via rail, also in the rakes that are available in the market. So, it's not just the trains that we owning, but we do also lot of other movements not including the trains that can be rented from the railways directly. So, we have a lot of those also that we are using on a constant basis. And this is something that we were doing in the past also. It is not that we've started new. So, it's just that some of this has started to change where we, last mile – where we were doing either directly from factory to the dealer, that has changed now where the hub has come in. So, it's not necessarily that it's a new business. The comparative landscape is also a little different in the sense, there are few rail companies that are trying to move into the roadside. But no one who has integrated play with the yards, as well as, the network including the last mile as deeply as we do. So, certainly we have some benefits here. and they will continue to remain competitive for us for some time also.

Srinivas Seshadhari [60:50]: Okay. Just a couple of things on the shipping side. One is, you mentioned you are getting some return cargo which is at the end of quarter. So, should we see that as more of an opportunistic something which happened in the quarter or is there any longer-term visibility on that happening?

Vineet Agrawal [61:12]: On specifically from?

Srinivas Seshadhari [61:13]: Return cargo for shipping, you mentioned about getting some…

Vineet Agrawal [61:16]: Right, right, right. It's more opportunistic because the government had opened up the pulses import from Myanmar.

Srinivas Seshadhari [61:23]: Okay.

Vineet Agrawal [61:23]: So, it was very specific to that opportunity.

Srinivas Seshadhari [61:27]: I see, okay. And since there are some dry docks coming up, can you just give some idea on what we should expect on the shipping side on a full year basis in terms of revenues and profitability?

Vineet Agrawal [61:42]: So, I think the revenue side we should possibly look at a 5%-7% - 5% to 10% top line growth because we don't have one of the ships that we had in FY – the one that we sold in February. If we are able to add a fourth ship – sorry, eighth ship, that will help us. The dry docks are typically, each dry dock takes between one to two months. So, the ships are out for that much period. But we had a few dry docks last year also, that is FY21. So, it should not affect our volumes too much.

Srinivas Seshadhari [62:25]: Okay.

Vineet Agrawal [62:25]: And most of the dry dock costs are capitalized. So, from a margin perspective, the impact is also limited. But I think – and I think we should be able to maintain this – right now it's about 30 odd percent EBITDA, so, I think between 25% to 30% EBITDA levels.

Srinivas Seshadhari [62:45]: Okay, got it. thank you. That's it and wish you the best through the year.

Vineet Agrawal [62:50]: Thank you. Thank you.

Ashish Tiwari [62:51]: Thank you.

Moderator [62:52]: Thank you sir. The next question is from Mr. Shivaji Mehta. Sir, please go ahead.

Shivaji Mehta [63:00]: Sir, with logistics being a sunrise sector, and so many companies now setting up manufacturing facilities in India with the PLI Scheme, and the China + 1 strategy, do you think that this is really the time to probably go aggressive on expansion given the fact that we are in a sweet spot wherein we are present across different modes of logistics? And also, in the long term if you could share some target in terms of say, top line, where we could be in say, the next five to six years?

Vineet Agrawal [63:34]: Certainly, I think the fact that there is a lot of opportunity right now in the market, gives us that confidence to look at aggressive growth also. And that's why if you see, we've been – we are adding capacity as well as doing CAPEX. We have another few companies in our space that have invested almost 1,500 crores in the business in the last 15 years. But the kind of scale that we are talking about with 150-200 crores of CAPEX yearly, is something that we've not done before. So clearly, we are trying to position ourselves for that growth opportunity. And we really don't share long term numbers because it's not fair based on what is happening with the pandemic and other kind of exogenous shocks that we see on very frequently the last few years. So, I think we would tend to go on a year-on-year figure if – but definitely, we are looking at a CAGR of 10% to 15% on the top line for the next five years.

Moderator [64:51]: Mr. Shivaji, please unmute yourself.

Shivaji Mehta [64:57]: Thank you, that's all from my side.

Vineet Agrawal [64:59]: Thank you.

Ashish Tiwari [64:59]: Thank you.

Moderator [65:01]: Thank you sir. The last question is from Mr. Vikram Suryavanshi. Sir, please go ahead.

Vikram Suryavanshi [65:09]: Yeah, am I audible?

Ashish Tiwari [65:11]: Yes, yes.

Vineet Agrawal [65:12]: Yes, Vikram.

Vikram Suryavanshi [65:12]: Yeah. Hi, good evening sir, and congratulation for good numbers. I have two questions. One is about our Express or probably LTL service business. So, I just wanted to understand the nature of LTL service. Is it predominantly along the existing brands network we provide as a complement service to LTL, full truck load and LTL as a complementary service? Or we really want to full-fledged having a dedicated service for LTL or parcel load with a dedicated sorting centre and also, enter into Express, larger part of Express business? So, I just wanted the thoughts on that understanding that business. And do you have any noncompeting clause with the TCI Express for Express business?

Vineet Agrawal [66:05]: So, firstly we don't compete with Express business at all, and we don't intend to get into that Express business. It's a group company, why would we have two competing services in the same group? So, clearly there is no reason for us to look at an Express kind of business. Secondly, the less than truck load kind of business that we operate, also has its own hub centres. It's a hub and spoke centre system also. but it is entirely for the less than truck load business. There are certain amount of dedicated trucks, but we also share them for FTL also if need be. So, it is not an LTL service which is like an Express service, it's a – there are lots of customers, like say, there are customers who are sending pumps. Now those pumps, they are sending 50 pumps, and the pumps are of less volume but heavy weight. We don't want to use Express cargo there. They also want to keep it in one of our normal godowns and pick it up from there also. Each customer says, "Okay, I'm going to pick up two pumps and take it with them." So, that's the kind of business it is. It is not very – we compete a lot with the unorganized players, we compete with, sometimes with, companies like VRL, ARC, etc. But it is not competing with the Express business.

Vikram Suryavanshi [67:36]: Understood. And the last question is about how you are reading the scrapping policy impact on the market, particularly in terms of tightness or availability of trucks may get impacted and if demand picks up from COVID? So, how are we basically getting prepared for that kind of uncertainty?

Vineet Agrawal [67:58]: I don't see a lot of uncertainty because of the scrapping policy, because I do not see a lot of impact because some trucks might go off the road. If you see the types of trucks that are essentially, might go off the road, would be in areas which are mostly on the unorganized sector. Perhaps in the mining areas or even inside a state. So clearly, I think it's a little premature to think that it will have a major impact on the freight rates or just the capacity that is in the country. It can help per some sales, new sales, but I also feel at the lowest level where these trucks are operating today, they are operating in a very unorganized manner. So, I do not expect much impact yet unless it becomes a very, very attractive policy in the long run.

Vikram Suryavanshi [69:00]: Understood. Yeah, thank you very sir.

Vineet Agrawal [69:03]: Thanks, Vikram.

Moderator [69:11]: Thank you sir. Here comes to the end of this earning call. Thank you so much for joining and gracing us with your presence. Take care, stay safe and healthy.

Vineet Agrawal [69:22]: Thank you.

Ashish Tiwari [69:22]: Thank you Komal.

Vineet Agrawal [69:25]: Ashish thank you.

Ashish Tiwari [69:28]: Thank you everyone, and stay safe and take care.