“Transport Corporation of India Limited Quarter 4 Investor Conference Call FY 2022”

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MANAGEMENT: **MR. VINEET AGARWAL – MANAGING DIRECTOR,**

MR. ASHISH TIWARI – GROUP CHIEF FINANCIAL OFFICER

Moderator: Good evening, ladies and gentlemen. I am Komal, the 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. For management, we have on board with us, Mr. Vineet Agarwal, Managing Director and Ashish Tiwari, Group CFO. At this moment, all participants are in listen only mode. Later, we will conduct the question and answer session. And if any participant has question can use raise hand feature in Zoom call and wait for his or her turn. 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: Thank you, Komal and good evening to all of you again, for joining us today. To begin with, we would have our earning presentation, followed by the question and answer session. For presentation, I am inviting Mr. Agarwal, over to you, sir. Thank you.

Vineet Agarwal: Thank you, Ashish and thank you, Komal. And thank you to all of you for joining today's earnings presentation for TCI for Quarter 4 of FY 22. Last year has been quite eventful for us. We know that in the country as a whole there have been trends in terms of overall growth, and some buoyancy has been there, but in the last few months, we've seen that there has been a certain amount of disruption that has happened because of the war in Ukraine or subsequently now, the lockdowns in China, etc. So supply chains across the world are still quite disrupted and I was just sharing with someone the other day, it's so basic that if you think about today, we were ordering some printers and I got to know that some of the components of those printers are being made in the border of Poland and Ukraine. And because there was disruption, that component has not come and now printers are not being able to be made in India. So it's just that now supply chains become very, very intricate. The thought is always that as they always say is that your supply chain is as strong as your weakest link so given those circumstances, we are in a very dynamic situation. However, the company has done reasonably well in this period and has been able to deliver good results.

I think a lot of the industry growth drivers remain the same. For some of you who've joined us for the first time, we think that there are, let me just quickly mention some of them, the consumer driven trends that are quite visible from Omni channel based experiences to high degree of urbanization, which is leading to different kinds of logistics solutions. This is a big trend and this affects almost all companies and I believe, as it has been said that in the pandemic, a lot of this trend got accelerated also. So this is a trend that will affect the logistics industry for the next several years quite aggressively. On the customer side, as we are seeing that the changes because of consumer side, because of all the disruptions, they're also looking at a lot of areas of how they can manage their supply chains. Many customers are now moving from just in time to just in case, which means that building more additional warehousing spaces or ensuring that there is some flexibility in their supply chains. And they are looking to outsource more and more as we say speak. Clearly the fact that they are adopting technology and simultaneously asking us to also adopt technology is very, very positive. So in this dynamic scenario, we are seeing a lot of interesting opportunities from customer side also where they're looking to outsource more and more of the logistics. Industry is very fragmented, and the growth there is extremely directly linked to the overall GDP growth, but the share of the market that we have is increasing as things are becoming more and more formal and I'm also alluding to the next point in terms of the regulatory aspects. Clearly infrastructure is a big thing in terms of the government's push and we think that that will help us really bring down the logistics costs overall and the prompt from the government is very clearly moved to multimodal. They are doing as many things as possible to ensure that this shift starts happening so that the overall logistics cost starts coming down. The PLI schemes and also the trends towards Atma Nirbhar Bharat means that a lot of new opportunities are also emerging for companies like us. I will talk about a few going forward. As a company where our USPs are the fact that we have a very strong customized service base, this base of services that we have been able to create internally means that we are able to really address all aspects of customer needs internally. We are able to outsource things that are not too strategic also, simultaneously. The benefit for customers has always been that we can really provide them an end to end solution. We provide them a proper visibility across their supply chains and ultimately economies of scale also. We're working with many, many sectors, providing them all kinds of solutions all over the country. Of course, there are aspects that we are providing, which are technology linked, which I'm going to talk about subsequently. Our multimodal network, this is the other USP that we have has become very strong in the last few years. You are aware of the fact that we have our own three trains, we added one this in towards the end of March. We also do a lot of other movements. The overall rake movements came down a little bit because of the fact that in FY 21 there was a shortage of trucks etc because of the pandemic and a lot of cargo moved towards rail. This has come down a little bit but the trends are very obvious that at this point in time, we are loading close to four trains a day, as we speak. The coastal network is strong. It has delivered and we have our own 8000 containers and in fact ordered some more containers in Quarter 1 of this year as well. In terms of container management, we have all types of containers that we move, from domestic to international to chemical, marine containers and so on, and that volume has increased in the last year. We of course manage 55 yards across the country. These are multipurpose yards for automotive carrier, automotive companies mostly, could be in all segments of automotive. We also manage 60 terminals across the country, work across 60 terminals across the country also. We are incubating as I mentioned several areas in terms of long-term potential. I have talked about in the past the chemical, pharma, agriculture supply chains, these are going through a lot of changes and the demand for organized companies like ours has been increasing. We are seeing good traction towards renewables. For example, India has a very high thrust towards let's say solar market. Building the solar market so we are seeing a huge moment in terms of renewable. We have very specific capabilities around renewables from providing customized rail movement to warehousing, storage facilities, including some areas where we have dedicated terminals also for some companies. This is one area through the PLI scheme and Atma Nirbhar Bharat is where we are seeing good amount of growth coming in. You're also aware about our cold chain business as well as the SAARC business that has again high potential. In the last year we've seen SAARC including Bangladesh, etc, grow very rapidly. And we are now providing quite detailed, quite a comprehensive range of services there, including providing rails services directly into Bangladesh, so avoiding all the traffic that is there at the border checkposts in Bangladesh so all of these strategies of incubating these high growth segments are really playing out as we speak.

Technology I think I do not need to mention, but we are at the forefront of technology. We have a very strong team, developed a lot of tools, etc. API integrations is now very, very common. We're building that with customers and suppliers, including building control towers for customers. So again, technology wise, we are moving in a very rapid pace as we speak. So these are some of our USPs of the company.

In the last fiscal in the last quarter, I would say Q4, the growth has been flat, because the Q4 base was quite high. There was a lot of pent up demand last year, which was reflected in Q4 of FY 21, which we did not see this year. There is a lot of liquidity available with us. We've been able to pay off all our loans from at the beginning of the year, which was at 230 crores. We had only had about 42. Crores, plus we have about 60 crores plus cash as well so net debt is minus – 20-25 crores and of course, there is a very strong pipeline of customers that's available right now.

I'll take up now specific divisions. I think I don't need to mention about the industry, but the freight business has grown in the last year with our key account management system, as well as the fact that there is a robust demand for freight services across the country. Our LTL business, as we've been saying, has picked up and has now reached about 35% of the overall business for the freight segment. One important development here is that we have crossed 20% ROCE in terms of -- This is something that we've been saying that the business will deliver in the next as this ratio of FTL to LTL starts changing. So I'm quite confident that going forward, the EBIT margins that you see here the ROCE margins will remain at this 20 Plus level also. In terms of Outlook also – there is of course, because of freight rates being higher, but of course, there has also been a volume growth since we've grown by almost 20% over the full fiscal. The trends remain buoyant. We've acquired some large contracts here as well, which are both FTL and LTL contracts, combined contracts, which would mean that we should definitely look at a 10 to 15% top line growth and the similar kind of growth in the bottom line as well. Our supply chain business has, of course, a very wide range of services that we provide, and a real comprehensive way of how we are able to address to client needs. We have a lot of capabilities of managing distribution for customers. We have capabilities of managing large warehouses, as well as yards and on the automotive side, extremely one of the largest, in fact, the largest in terms of automotive logistics in the country today. The yards that are there about 55 and we are able to provide a hub and spoke system for many customers and do a lot of interesting value additions for them across the supply chain. Specifically, we are also quite focused on the EV space and we are seeing good results there. We are doing work for several companies where we provide not just movement on the component side but also on the energy side directly to consumers as well.

The Division, we grew last year in Quarter 4 because of the shortage of semiconductor chips. As we know it has been affecting the industry quite a lot but on the full year basis, we've had a moderate growth. We've also been adding new customers and some of that benefit of new customers will come across in this financial year. Our storage capacity has also increased with customers to about 13 million square feet of space and about 130 cubic feet. So this year, we do expect this business to do a lot better. Of course the disruption of semiconductors etc. will possibly have an impact for some more period maybe another few months but we are hopeful that there is already a pent up demand and that should translate into better business for us. So yeah, in this business, we are looking at in excess of 15% in both top line as well as bottom line growth. On the seaways side, our capacity remains the same. We have not been able to add any more ships because of the very high asset prices that are there. So we are on the lookout for new ships, but it has been quite tough. However, the business has grown tremendously in the last quarter, as well as of course in the last full year; it's more than doubling its EBITDA margin, as well as with a very high ROCE. We've been going to Myanmar as I've been saying in the previous calls quite frequently, and even now, there are some voyages that are planned but it is a little intermittent from the government side also. Things tend to slow down a little bit in the first quarter, because of monsoons also, but the Myanmar business is supposed to be retained for the entire year. So, we hope that we are able to capture some of that and deliver similar kinds of returns in this fiscal also. We have planned for three dry-docks as we did in FY 22 also.

In terms of the joint ventures, the Concord joint venture, we grew by about 7%. It was mainly as I said, the base was quite high. We had grown at more than 60% last to last year, 70% actually, so that base was high and hence business also had shifted from road to rail in FY 21 and now it has come back to some extent to road but a lot of customers that shifted have also permanently shifted to rail. So this is a business as I've been saying has a high potential, and we look forward to its continued growth.

The cold chain business has recorded a very high growth of 62% although from a small base. The trends are quite positive and we do expect it to grow as well. As you also are aware in FY 22, we had Mitsui & Company come in as a 20% partner in the joint venture.

I'm sorry, I have a power outage where I am but I'm sure you can hear and see me.

The transit system joint venture has grown also by about 30% and of course profitability has grown there. This is a very focused automotive logistics company for Japanese clients.

This is a snapshot of the growth on a quarter-on-quarter basis and for the full year console revenues are up slightly lower than the standalone levels. Profitability at an EBITDA level is almost same in both console level and standalone level, but about 450 crores in terms of console EBITDA again these are all time highs for us. The profitability of course is close to 300 crores almost doubled in the last year at a console level also. So overall the profitability and business has been quite good in the last year. Thank you.

Certain numbers as you can see in terms of console profit after tax sector has shown a 29% CAGR. Yes, you can discount a little bit of this year's exceptional results but the growth still remains in the excess of 20%. ROCE Of course has crossed 20% overall. Again, if we moderate it a little bit, perhaps 20 odd percent is the more reasonable number. This year, we've increased our dividend payout ratio and trying to edge between the 15 to 20% range in terms of payout. So the overall dividend percentage is at 300%, but it remains under the 15 to 20% range of payout. Our ratings at CRISIL etc have all been reaffirmed and we remain in our industry amongst the highest at AA+. In terms of ESG also we are quite focused and we have been able to start orienting our businesses towards ESG norms. We have been doing a lot of movement on CNG vehicles, as well as ensuring some amount of movement of clients towards multimodal network so which will reduce the greenhouse gas emission. As a company, we are very strongly focused on governance and our social aspects, in terms from our TCI foundation initiatives.

The outlook is looking at some headwinds in the short-term because of inflation and all the disruptions, but we are hoping that these will start moderating out as also government spending has started to increase. We are giving a guidance of 10 to 15% on the top line and the bottom line. If you recollect the first three quarters of the last financial year, we had grown quite well, but then we still kept the growth momentum levels in terms of revenues at 15 to 20%. Because we were expecting the Q4 of FY 22 to be slightly lower and we sort of came up to that range also in FY 22. FY 23 we think that maybe the first few months will be a little tighter, but over time, this will start picking up and we should look at a 10 to 15% growth.

The budget has been carried forward from the last two years. This has been a little unfortunate on our end, because we've not been able to find the right ship for us at the right price. We have now even increased the budget for us, moved it from you know in the past it was at 60-70 crores to 80 and now to 90 and we are willing to go up to 100 crores also if we find the right vessel. There is a planned expenditure on the other aspects of some trucks and rakes, perhaps some containers and of course, some land and building that's under construction so looking at possibly about 300 crores of CapEx in this financial year.

So we'll be happy to take any more questions. Thank you again for joining us today.

Moderator: Thank you sir for the valuable insights. Ladies and gentlemen, we will now begin with a question and answer around. If you have any question 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. So the first question is from Mr. Ravi Naredi, sir please go ahead.

Ravi Naredi: Naredi Investment Private Limited, Sir what margin we may take for Financial Year 23 first and second, this 300 crore CapEx you are – want to do which sector you will do that is my two questions.

Vineet Agarwal: The CapEx as I said, there will be about 120-130 crores of CapEx that will go into the shipping related business, which includes the ship as well as the containers. Some amount of CapEx will happen on trucks etc, which are essentially replacement vehicles as well as some new contracts and also we are planning for maybe one two rakes also. So predominantly, those are the sectors that it will go for. There's no CapEx going in to freight business.

Ravi Naredi: And what margin we are expecting Financial Year 23?

Vineet Agarwal: I would think that the margin structure should remain almost the same. It might come down a little bit in the seaways business, but overall we think it should possibly remain around same levels.

Ravi Naredi: So top line growth we may in June 20-25%?

Vineet Agarwal: No I think we are giving a guidance of 10-15%.

Ravi Naredi: 10-15% thank you very much sir. Likes and all the best.

Vineet Agarwal: Thank you.

Moderator: The next question is from Ms. Shalini Gupta. Ma'am please go ahead.

Vineet Agarwal: I think you'll have to unmute Ms. Gupta.

Shalini Gupta: Yeah, so can you hear me now?

Vineet Agarwal: Yeah, yeah, we can.

Shalini Gupta: Okay sir what I was saying is that there's a very high possibility that economic growth throughout the world slows down.

Vineet Agarwal: Okay.

Shalini Gupta: And should that should that happen we're also expecting crude to fall off, or to come off. So once when crude comes off then at that time, do we pass on the entire benefit to the clients and to vendors, I mean, how does it happen?

Vineet Agarwal: Sure. So our contracts typically have fuel escalation and de escalation clauses built in, and typically the contracts are, like a 5% escalation and then the rates change. So that's how it will happen if the fuel prices fall down also. So there's a formula typically, and there's a trigger price, that trigger that happens after let's say a 5% escalation or de-escalation. So it's quite simple in that sense.

Shalini Gupta: Yeah. So I mean, if crude were to fall by more than, say 10 or 15% because given how high it is, it may well fall to below $100 so then do we not see a pressure on our top line?

Vineet Agarwal: No, not too much because the percentage of fuel as a component of the freight varies in different contracts. It could vary from 35 to 50%. So yes, there could be some fall in terms of the overall billing that we are doing to customers. But as I said some portion of the growth comes from inflation, price, inflation, and some part comes from volume increase, and we are quite confident that there would be some volume increase and that and hence, we also that's why I factored in a 10 to 15% revenue growth and not a much more aggressive number.

Shalini Gupta: Okay, sir my last question so most of the CapEx has gone towards hub centers and warehouses. So I just wanted to check like, what percentage of hub centers and warehouses do we own and similarly, do we own all the yard areas that we use for the supply chain?

Vineet Agarwal: We own about a million to 2 million square feet of space across the country, and in terms of the yard areas, no we don't own the yard space. We hire and lease them from various vendors. And these have been strategic in nature for us, because we feel that there are some facilities that we need to have for ourselves, they also become showcase facilities for our clients, that's one and secondly, in some places, for our freight business we require hub centers, and those are some of the older ones have become quite small in terms of capacity, and hence, we needed new facilities. So this is an ongoing kind of investment that's happening.

Shalini Gupta: Okay and sir would you like to disclose the tonnage in the three businesses?

Vineet Agarwal: No, we don't have tonnage specifically because see our business is not based on tonnage only. It's based on value that we provide to our clients so we don't share that number specifically.

Shalini Gupta: Thank you, sir.

Vineet Agarwal: Thank you.

Moderator: Thank you, ma'am. The next question is from Mr. Krupashankar. Sir, start with your name and organization name followed by your question, please go ahead.

Krupashankar: Hello:

Vineet Agarwal: Yes, we can hear you.

Krupashankar: Yeah –

Vineet Agarwal: Can you be a little louder, Mr. Krupashankar? We can't hear you as well.

Krupashankar: Right. Is it better?

Vineet Agarwal: You're breaking up?

Krupashankar: Yeah. Let me just try and asking a question –

Vineet Agarwal: We can't hear you so well. Shall we come back maybe you can join back in the queue?

Krupashankar: Sure.

Vineet Agarwal: Thank you. Komal, we'll take the next question.

Moderator: Sure sir the next question is from Mr. Yash sir please go ahead.

Yash: Oh, hi, I'm audible?

Vineet Agarwal: Yes.

Yash: Yeah so I think you've briefly highlighted this but my question was on the seaways business. So this year, we have had an exceptional year in the seaways business. So how do you see this panning out in the next year? Can we can we maintain the FY 20 run rate, grow from this base and what would be the margins like, like this year they were higher, but what would it be like the next year?

Vineet Agarwal: Yes, so I think it's a challenge for us to retain the same margins going forward. We are confident that some of these international voyages if you're able to make them, we should be able to keep up the volumes as well as the margin, but I would possibly consider a little bit more flattish kind of growth in this business in this fiscal because of some of these uncertainties and the fact that there could be some pricing would also come down. But we're also hoping that in the latter half of the year, we are able to add the new ship and once that gets added on, we should build on capacity but that's an assumption right now, because as I said earlier, the ship prices are still very, very inflated, and we are possibly going to keep looking out for the best alternative.

Yash: So we wouldn't maintain on the top line and margin will be a little lower, that's right?

Vineet Agarwal: Yes, I would factor that in yes.

Yash: Okay. And the second one again, so we have increased our budget on the ship from 70 to 90 crores odd. So how are we looking at the payback period then, I mean, invest previously versus now or is the payback period extended or --

Vineet Agarwal: No, since the freight rates have gone up, the payback period has not extended. And when we calculate it in two years ago, of course, since then freight rates have gone up quite substantially, the container rates so we do think that it is still possible to get the payback in the typical six to seven years to eight years, depending upon the size of the shape.

Yash: Okay got it. Thank you and best of luck.

Vineet Agarwal: Thank you.

Moderator: Thank you sir. The next question is from Ms. Pooja Nagarse. Ma'am, please go ahead. Ma'am, please unmute yourself.

Preet: Hello, yeah can you guys hear me?

Vineet Agarwal: Yeah, yeah Preet.

Preet: Am I audible?

Vineet Agarwal: Good.

Preet: Yes alright. Okay so Vineet one question somewhere in your past I believe you mentioned that there is a visible shift in the rail business and because of I think the corridors that are coming up. Can you elaborate more on that and how do you see the landscape changing because of that, and how TCI could be taking advantage of it and just to add some context, right, I think Gateway Distriparks, for example, in their calls or other such providers are visibly seeing a lot of potential there and seeing a lot of chances of high growth because of additional service that they will be able to provide. So how can TCI take advantage of this?

Vineet Agarwal: So yes, the DFC coming up and just the fact that rail infrastructure is getting developed at such a fast pace, as well as the focus is there on rail infrastructure, including the announcement of 100 -- rail terminals by the railway ministry, these are all indicating that a modal shift is very, very critical. The government is pushing very hard for that to happen. So there will be growth in that infrastructure and hence the availability of providing more services.

For example, there are some companies who have started roll on roll off service already on the DFC on the western corridor from the outskirts of the NCR to Palanpur. Just it's a start where your truck gets loaded onto the train itself as it is and gets off. So like this, there'll be other services that will evolve in the next few years. For us, we are the people who provide the end to end, the door to door solution and that's very critical because we don't need to necessarily own the infrastructure to run these assets but we need to ensure that we have the customer with us and that is the focus for us and we are able to then deliver to customers irrespective of wherever, and whatever mode they use. So that's our advantage and I think, for us DFC sector will also be very, very beneficial in the long run.

Preet: Right. One more question your guidelines for 23 are assuming that you'll get the ship and then there's a pickup in economic [inaudible 00:35:26]. In case that doesn't materialize, are we looking at a flattish kind of year going ahead?

Vineet Agarwal: No, I think we've factored in a shift possibly in the fag end of the year so we don't expect a lot of revenues coming in to this business, overall business with the new addition. However, we do expect the other businesses also to start picking up for example, the supply chain business should pick up as automotive growth will happen in the country, as the chip availability improves. So we think the other businesses will catch up as well, even if we're not able to add capacity, additional capacity. General slowdown has an impact of course, but I don't think we will possibly be at 0% growth.

Preet: Great all right. Thank you so much. All the best.

Vineet Agarwal: Thank you.

Moderator: Thank you sir and sorry for the goof up for in the name as your name was being showed as Pooja Nagarseth. The next question is from Mr. Abhishek Singhal. Sir, please go ahead.

Abhishek Singhal: Hello, am I audible?

Vineet Agarwal: Yeah.

Abhishek Singhal: Good evening, sir. Thank you for the opportunity. My first question is relating to why you are planning to raise funds from non convertible debenture or bonds and where to utilize these funds?

Vineet Agarwal: Right so this is an enabling resolution that we have taken. We do not have any immediate need to add any more funds, but this is an enabling resolution we have take it for the next two years in the event that we have to raise additional funds we have the capability and the capacity to do that. We don't have to go to the shareholders at that time.

Abhishek Singhal: Okay, and second question what is EBITDA margin expected in FY 23, this 14% or down?

Vineet Agarwal: We expect it to be a little bit more flattish or slightly lower than in the current year.

Abhishek Singhal: Okay thank you.

Vineet Agarwal: Thank you.

Moderator: Thank you sir. The next question is from Mr. Kripashankar. Sir, start with your name and organization name followed by your question.

Krupashankar: Hello, am I audible?

Vineet Agarwal: Yes.

Krupashankar: Right thank you. Thank you for the opportunity, a couple of questions from my side. So, as you pointed out earlier, that the ship addition is expected by end of FY 22, sorry FY 23. Given that the capacity with respect to DWT will be much higher, are you penciling in substantially higher growth in FY 24? That will be my first question.

Vineet Agarwal: So this will depend upon when we are able to add the ship if and when we are able to add the ship, certainly, then we will factor in a higher growth rate for FY24.

Krupashankar: And is it fair to say that earlier we had a plan of adding a ship every 15 to 18 months, I think does that plan still hold true going ahead?

Vineet Agarwal: I wish it was possible but the asset prices are so high right now. I have talked about it in the previous call still what it was 3x of the prices we paid three years ago, it might have come down a little bit, but still there's just no capacity available. I think what's going to start happening is that the second half of this year, we will see new capacity coming in, the larger ships are going to start coming in. Once that starts coming in we'll see that some of the smaller ships, the kind of market that we are in for will possibly be available. Again, this is all speculative, based on the fact that the war might end sooner and we have the supply chains become a little bit more streamlined so all of these factors will play heavily on when we are able to acquire and if that trend starts then yes, we will look at least 18 months 15-18 months to that period for acquiring new ships

Krupashankar: Understood, Vineet second question would be on the LTL segment the [inaudible 00:40:08]. I just want to understand that the confidence we are getting on the growth side from 10 to 15% on revenue, and EBITDA, is it more led by an organized shift, given the increase in compliance, or is there a sort of a branch network which is driving our growth?

Vineet Agarwal: It's a combination of both. In the LTL segment, clearly, as you rightly said, some amount of shift that is happening towards formalization and that is helping us clearly. We also have a very strong brand name across the country. So I think that also helps and rightly so the network effect is also playing out where we have a large number of branches across the country with a proper hub network. We are adding, in fact, more branches based on when new growth areas are coming up. Just recited the example there is a new airport coming up in Jewar, in UP and we've opened an office over there or if there is a new industrial township that's coming out, we're opening offices there so all of these things will certainly help in the network expansion will certainly help in business growth as well.

Krupashankar: So you did mention that you have won a large contract with respect to FTL and LTL together. I just wanted you to understand if is there more of an integrated contract coming in because we are available across the entire logistics value chain, are there more contracts coming in for the FTL and LTL because of this reason, is that something to which we can look at?

Vineet Agarwal: Absolutely, absolutely I think the fact that we have options for customers certainly help us to sell those options, and then drive the contracts in that direction also. So it could be comprehensive enough to not just cover a specific division, but multiple divisions also. That's the kind of contracts that we are now working on and we do have some of them. So yes, I think these are some important trends that are quite visible in domestic supply chains.

Krupashankar: And is there a number or contribution of integrated solutions to our overall revenue, something which can give us an indication as to how the shift has happened with respect to customers preferring more of an integrated player?

Vineet Agarwal: Well you know it's very difficult to give that specifically. I think what we tend to do is that depending upon certain businesses, we assign them through certain divisions based on their capabilities and then we are constantly looking to optimize that so in reality it is very difficult to share that number right now.

Krupashankar: And last question from my side, bookkeeping question. I just wanted to see the precision on the seaways business has gone up sequentially, quite substantially in fact, I just wanted to understand what would be the reason given we have not added a ship as of now?

Vineet Agarwal: Ashish, can you answer that please?

Ashish Tiwari: Yes. So Krupa basically what has happened, we did a kind of a reassessment of all the ships, and there is a sort of reduction in the useful life and therefore, that component actually appearing as the increase in the normal depreciation.

Krupashankar: So this should be the trend going ahead?

Ashish Tiwari: This will not be a trend going ahead. This is a kind of one time exercise. Of course, the assessment is necessary in all layers, but it may not be kind of culminating into that higher depreciation every year.

Krupashankar: Got it thank you. I'll get back in the queue.

Ashish Tiwari: Yeah, thank you.

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

Alok Deshpande: Yeah. Hi, this is Alok from Edelweiss. Hi, Vineet, Hi Ashish.

Vineet Agarwal: Hi Alok.

Alok Deshpande: Two questions from my side, one there is a slide in the PPT, which shows about how the share of LTL has gone up over the last four five years. I just wanted to understand that even as the focus on LTL continues, what is the strategy in terms of owning trucks because I also see about 65-70 crores of CapEx being allocated to trucks and rakes. So, is it going to be predominantly leased truck model or are we going to buy more trucks as well?

Vineet Agarwal: The freight division has virtually no trucks. It has very few trucks that are operating mainly for specific cargo like over dimensional cargo, etc but otherwise all the trucks that we intend to buy would be for our supply chain division. So here yes, the model is completely outsourced.

Alok Deshpande: Okay, so the LTL share going up then should drive up the margins much in that segment, right?

Vineet Agarwal: Yeah because there's no EBIT margin and EBITDA margin is almost the same, because there is no depreciation, virtually no depreciation, and no interest costs, also since the division has is almost using no working capital.

Alok Deshpande: Sure, sure. And the second question is on the supply chain division. There can you give some color on some sectoral split in terms of which is the largest client sector there and also given the fact that you mentioned 30 million square feet of area, that number seems to be quite high, is it because it's largely for auto sector or how should we read that?

Vineet Agarwal: So the business pit is 75 to 80% of the supply chain businesses related to the mobility segment the mobility for us means, mobility for us would mean we do work in the four wheeler, three wheeler, two wheeler, commercial vehicle, earthmoving equipment, tractors, all of these so passenger, industrial and agri mobility is what we focus on. So that is a predominant component components of this business. Other than that, of course, we do large scale warehousing for our clients and the warehousing numbers that you see is not of automotive only, but of course of others as well. We one of the largest warehouses, the largest warehouse for an FMCG major, the largest high tech warehouse for a consumer durables company, also for other food based companies across the country so lots of different kinds of areas that we are running warehouses for our clients, and just not specific to automotive only.

Alok Deshpande: So Vineet is there a strategy to then expand your share or wallet share in the non auto or non mobility sectors because that's where I think a lot of people are seeing a lot of growth as well?

Vineet Agarwal: See, we've been also doing a lot of work on the retail side. We run fulfillment centers, or some of the e-tailers as well as some of the apparel companies, for example, have added a line in their warehouses for e-commerce as well. So yes, you're right, that there is a lot of growth opportunities that are coming up and we have the capabilities and the knowledge base to do it. We just want to avoid any kind of revenue buyout that happens, because there are a few companies that have either come in with IPOs or planning to come in with IPOs and or are flush with cash, and they are basically doing revenue buyouts. So we are trying to avoid some of that and trying to ensure that our variable to stick to our margin goals. That is very critical for us.

Alok Deshpande: Sure, sure understood Vineet. Thanks a lot for your responses and all the very best for the coming year as well.

Vineet Agarwal: Thanks Alok.

Alok Deshpande: Thank you.

Moderator: Thank you sir. So the next question is from Mr. Omkar. Sir, please go ahead.

Srinivas: Yeah. Hi, this is Srinivas from Mirabilis. Yeah. Hi, Vineet:

Vineet Agarwal: Hi.

Srinivas: Just a couple of questions. Firstly, you mentioned in your opening comments that you won some bit of new business in the supply chain. Maybe if you could expand on it to the extent you're comfortable with in terms of types of new clients or new business lines that you're opening, And if say the industry grows by x, then based on the visibility that we carry, what could be the delta growth for the division, say the next year or so?

Vineet Agarwal: Sure. So one of the models that we've been able to develop with a specific client who's in the EV space is not delivering it through a dealer network, but delivering it directly from the factory to the consumer. What we typically do is pick up that unit from the factory, take it to a hub, which is close to some customer to basically hubs across the country. We do certain amount of charging of that unit. We do some PDI pre delivery inspection. We get the RTO certification done also because you can now do the registration of those vehicles online as well. So we do all of that, and then finally deliver that vehicle directly to the home of the consumer. Now, this is a unique model, because an automotive unit getting delivered to the home of the consumer is absolutely unique. So this, we've been able to create a network for this company, and they are able to utilize this very effectively. And then subsequently, we also have a lot of capabilities on the component side. We do JIT, just in time, logistics for many companies. We do the milk runs, etc and we are selling those opportunities also to these clients as well. So this is an idea of how certain models are getting evolved in the mobility space itself. So yes, so that is quite interesting. The other thing that you just mentioned about the growth in industry, I think what has started to happen, as I mentioned earlier, is that there is some revenue by out that's happening. And some of our competitors are doing that. So there could be a higher growth in the marketplace but maybe we are not able to keep up to that because we are trying to protect our margins. So I would not venture out to say that we have a higher delta over the industry growth but I think to keep up with industry growth is what we are planning, of course, and wherever possible, enhance so it will be very strategic for specific industries, rather than just generally everywhere.

Srinivas: Okay. And the second point is, maybe, if you could comment beyond the auto as to what are the things, how it is evolving in the supply chain, and what kind of growth have we had beyond auto and the supply chain this year?

Vineet Agarwal: Again, we've added capabilities around chemical logistics. We're doing quite a lot of work around there. Some of the retail customers, we've been able to add, as I said, also add e-commerce capabilities for them as well. We've added a few warehouses and few areas in the FMCG space. We have got for FY 23, also some new contracts that will possibly start later half of the year. So the pipeline remains strong in the non auto space as well. And of course, that's a clear cut focus also, given the fact that there is a higher dependence on one sector.

Srinivas: Okay great. Yeah. The next question is on the supply sorry, cold chain this year has been quite stellar in terms of growth, though the business itself is still evolving and remains kind of small, but broadly what have been the drivers of if you had to kind of rank it in 1,2,3 or so, what are the drivers of growth for this business and was it more opportunistic or structural in nature in terms of how we are addressing a business? Where do you see it say after two, three years?

Vineet Agarwal: So what has happened in cold chain is that the business with joint venture partner coming in has become also quite attractive to companies that were possibly on the fence when they were looking at our business. Now they realize that there is a high degree of professionalism in the business. The services are of very high quality and that has driven some of the changes that have happened in cold chain in terms of our growth also. We've been able to capture businesses also on some of the dark kitchens that are there or some of the quick commerce businesses, a little bit of that, but also just generally the business market has started to mature and hence we are able to get some clients. We of course have done some pharma logistics also, Maxine logistics, and all of that has helped overall. Going forward, the growth should remain strong, of course, not at that 60-70% that we saw last year but definitely, I think in the next three years, we should be able to double the business.

Srinivas: Okay. Great to hear that Vineet and congratulations on the financial performance as well as my compliments on keeping up with all the emerging trends in logistics business and working with the new age partners and business businesses.

Vineet Agarwal: Thanks, Srinivas, thank you.

Srinivas: Alright.

Ashish Tiwari: Thank you Srinivas.

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

Alok: Hi, good evening. Am I audible?

Vineet Agarwal: Yes. Hi Alok.

Alok: Hi. So just had a few questions one was on the seaways segment. So with the share of seaways coming on down because the ship prices we have not been able to add so how much the margins could go down from these current levels, because current levels margins are more driven by the seaways segment. So, is there a possibility that we go towards 11% profit margins or would we be more towards 12 or 12.5 one?

Vineet Agarwal: I think I would not warrant an increase in margins for sure, but I would also not discount the fact that margins will go down a lot. So which means that I think it could go down, because of the fact that there will be possibly changes in the seaways side of the business but our other businesses should hopefully catch up, as well. So I think we should possibly remain in this range that we've been talking about, rather than very, very specifically giving you an indication that we will go down substantially. So I think the shorter answer is we will not go down to last year's level but we will not go higher than what we are today.

Alok: Got it. And so since you've been highlighting about a lot of issues with not just the sea, as in the ship prices, but also the geopolitical issues. So how confident are we that the ship could come through in this financial year, because it's been almost like one and a half years, since you have been looking to add. We understand that it's not really some things are out of control but are we really confident and that it happens in this year, or there also could be some further delay because of multiple reasons?

Vineet Agarwal: This has been very frustrating for us as an organization that we've not been able to add capacity. And unfortunate, as you know, as the situation is globally, it has had an impact on our businesses on the global rates. And we were not expecting in the earlier part of the financial year, I think of FY 22, we were thinking more related to COVID disruptions, but now clearly we've seen is beyond COVID, it's gone to the war, it's gone to other aspects of supply chains. So your guess is as good as mine. I think we all have to plan for this, but we cannot also buy ships at exorbitant rates, because it will put pressure on our margins over the long-term. So that also we have to be very, very careful because these ships over a 10-year cycle is what we need to look at in terms of the returns rather than just what you get in today and tomorrow.

Alok: Sure just one last question so particularly on the seaway segment only. So you know the asset values are much higher than what we would have bought the ships at you know, earlier. So even if we were to close a deal in FY 23, the prices would be higher than what it was before. So these margins or return ratios, which we have made on these ships in the past, those are like not happening even if you were to buy the ship now.

Vineet Agarwal: But the rates have gone up right so the container rates have also gone up so we are also factoring that as well. So that's why the returns that you get, the payback period remains the same.

Alok: With slightly higher –

Ashish Tiwari: And its rates.

Alok: -- slightly higher cost of the asset and slightly high returns on the freight rates? Just last question, are this freight rates continue to be elevated or have we seen a nice kind of stabilization on that?

Vineet Agarwal: Some ups and downs, I think a little bit of seasonality is also there in this. So on the coasts we see that there is monsoons, etc so that has an impact a little bit in terms of demand, but more or less stable.

Alok: Got it, got it. Thank you all the best, sir. That's all from my side.

Moderator: Thank you sir. The next question is from Mr. Deepash. Sir, please go ahead.

Deepash: Yeah. Hi, Deepash from Equira Securities. Thanks for taking my questions. The e-invoice, as I understand has been made compulsory for all companies with turnover within 20 crores from first of April and some of the competitors in the LTL space are very bullish on this shift that it can cost organized peers. So just want to understand your opinion, are you seeing any such shift that is happening and what are your growth assumptions for the freight segment?

Ashish Tiwari: Okay, so you know, there are two separate questions, I think broadly one on the e-invoice side, and the effector is there on the LTL side of the business, but predominantly, I think, generally FTL businesses or the other businesses also require e-invoicing desperately. I think the customer adoption rate is very, very low. They do accept e-invoices, but they do also want physical simultaneously with the physical PODs. So this is a very vexing problem, because it is increasing the kind of effort that everyone needs to put into ensuring that we are able to get a faster turnaround in terms of the billing systems. And we've been talking to some customers to see if we can do API based integration through ERPs so that we are able to share the bills electronically. Hopefully that will start happening soon. So yes, it will help over time, but customer adoption has to happen. On the LTL side, that's a shift more towards the formalization. So as there are companies that are forced to really are using the e-way bills are getting into the GST network will have to move to e-invoicing and hence have to really move towards a formal side of the economy. And I think those are the things that will help the LTL business also so yes, there are two aspects of the e-invoicing and both positive on these [inaudible 01:02:34].

Deepesh: So sir you think that the LTL will grow faster, like 15-20% growth rate, because of these buyers, that the government has taken?

Vineet Agarwal: Yes, our LTL business will definitely grow at a faster clip.

Deepesh: Understood. Secondly, the 13 million square feet that you manage, I just want to understand, will it be possible to share how much is the managed space on the client location and how much is actually leased by you and is there a difference in the two things that if you can point out?

Vineet Agarwal: No it will be very difficult to share those numbers. We have own facilities, we have client, we have client rented facilities, client owned facilities, completely third party facilities so very, very difficult to break this up into specific numbers.

Deepesh: But is there any difference the margin, so to say, when you have your own leased facility, or you're managing the client locations?

Vineet Agarwal: Not always. See, I think what happens is that if you have your own facility, sometimes you have also the risk of it being empty between two clients. If you have a leased facility anyways, you have to take the cost. Now the as per the AS116, you have to factor the asset into your books. In many cases, if there are very large facilities, we actually create a transparency between the customer and us and say that look, the rental is not where we want to make money, we want to make money on the services, the value added services, because ultimately, the client will get to know what the rent is. It's not too difficult to hide it. In certain shared facilities of course, there is some benefit from sharing that rent between clients

Deepesh: Understood sir. Thank you so much. Thank you.

Vineet Agarwal: Thank you.

Moderator: Thank you sir. This will be the last question of this earning call. The last question is from Mr. Kripashankar. Sir please go ahead.

Krupashankar: Yeah, sorry. Thank you for the opportunity. Just one question so I did notice that the decline in the Farm segment was one of the key reasons why revenues in supply chain had come off. So just quickly get a sense I know you don't need Vineet you don't provide segmental detail, but can you specify at least that what would be -- is farm a substantial portion of automotive revenues which we report?

Vineet Agarwal: So what happened was the UP elections and the elections in northern states, the typical subsidy that happens to farmers to buy tractors and so on and so forth, that came down or stopped completely. So that resulted in lower volumes that were moving through the system. And hence, as you can see an affect on the overall mobility sector, but it was very specific to the timing of the elections, but, of course, it's not an extremely large portion of the mobility sector, but we do a lot of work for the tractor companies there other ancillary equipment along with it, we do yard management for them, we do spare parts management for them. So yes, it is an important segment for us, but not substantially large.

Kripashankar: Understood. And one last question, I also noticed that the Cochin cold chain is great prominently asset heavy and when I look at the overall industry covering some of the peers who are in the cold chain business, the ROCEs are sub 10% In this space, and it's been such a case over the years as well. So what sort of target ROCE do you have on the cold chain business, given that we are seeing a large opportunity and if you're going to focus on fleet addition, wherein the yields are relatively low vis-a-vis storage side how do you intend to get the desired ROCE number?

Vineet Agarwal: Yeah, that's a very interesting observation Kripashankar because you're right that a lot of our competitors have grown because of asset addition in the cold chain business and hence even the return on capital is extremely poor, and years and years that has been and hence when we sort of started this business and in the last few years, when we've accelerated the growth in this business, we've particularly kept careful consideration into how much capacity should we own, versus leased and renting. And in all our businesses, we've seen that a combination of own, leased, rented, etc. spot hire basis always works and has worked quite well. This is the exact strategy we are also following up over here. You've seen that the capacity that we had in the capital employed rather that we had was about 38 crores the FY 21 and has grown to only 42 crores in FY 22. So, really, the addition in capital employed is quite less, but the profitability has gone up from 50 lakhs to 2.8 crores so substantial jump in ROCE. And this is because we've been able to leverage the assets better by having a combination of various models rather than just one of ownership.

Kripashankar: Got it. That's very helpful. Thank you and all the best.

Vineet Agarwal: Thanks.

Ashish Tiwari: Thank you.

Moderator: Thank you, sir. Now I hand over the floor to Mr. Ashish Tiwari for closing comments.

Ashish Tiwari: Thank you, Komal and thank you, all of you who are taking out time and joining us today. And I wish you all the best and stay safe and take care. Thank you.

Vineet Agarwal: Thank you. Thank you for joining us.

Ashish Tiwari: Thank you