TCI Express Limited

Q3 & 9M FY20

Earnings Conference Call

January 28, 2020

MANAGEMENT: **MR. CHANDER AGARWAL – MANAGING DIRECTOR**
MR. MUKTI LAL – VICE PRESIDENT & CFO

Moderator: Ladies and gentlemen, good day and welcome to TCI Express Limited Conference Call to discuss unaudited financial results for the Third Quarter and 9-Month ended December 31st, 2019 and address Investors and Analyst queries. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chander Agarwal - Managing Director. Thank you and over to you, sir.

Chander Agarwal: Good evening everyone and welcome to the Q3 FY2020 Earnings call of TCI Express Limited. On this call, as usual, we will start with the overview of the economy and industry followed by financials and operation highlights of the quarter. Then I will hand over the call to Mr. Mukti to discuss financial performance in detail. Our earnings presentation has been uploaded on our website and stock exchange and I hope you have had a chance to review it.

The domestic economy in third quarter of fiscal year continues to face slowdown due to weakening industrial activity across sectors. Index for Industrial Production, IIP, an indicator of growth of various sectors in the economy only turned positive in November after three months of contraction. Ye,t the industrial output on basis of end user goods such as consumer durables, capital goods, basic goods and infrastructure goods are still showing degrowth. Tighter credit conditions in the non-banking sector also resulted in weakening of domestic demand, subdued private consumption and have impacted the overall business sentiments.

IIP growth during April to November came in at 0.6% from 5% in the same period of 2018-2019. Hence, the lower industrial production growth clearly impacted the logistic sector. Furthermore, the logistic sector also saw moderation due to political disturbance and protests in North and Eastern regions, which impacted day-to-day operations.

In the light of challenging business environment, I am pleased to report that TCI Express has delivered a resilient performance for the quarter. Our total income stood at Rs. 269 crores, an increase of 2.1% from Rs. 264 crores in Q3FY19. EBITDA was at Rs. 35 crores with margins of 13.1%. The Board of

Directors also recommended a second interim dividend of Rs. 1.5 per share and total dividend for the year is Rs. 3 per share with dividend payout of 16.4% on 9MFY20 EPS.

During the quarter, we opened 10 new branches to increase penetration in the metro cities and acquire SME customers. With these, we have added total 57 new branches in the first three quarters. Our focus remains firm on expanding our geographic presence and cater to SME customers.

In Q3FY20, we also implemented various initiatives to improve operational efficiency. For example, we have increased axle load capacity in select vehicle categories which resulted in higher capacity utilization. The current capacity utilization stands at 86%. On the construction front of our new sorting centers - In October to December period, National Green Tribunal, in their efforts to control pollution, imposed ban in construction activities in Delhi NCR region. Consequently, construction in Gurgaon sorting center was halted in compliance of regulations. Construction is now back on track after lifting off the said regulations. We expect both of our new sorting centers to commence commercial operations from second quarter of next fiscal year. Due to construction halt, the CAPEX incurred during the quarter was lower than the planned CAPEX and we continue to judiciously spend money, depending upon the business requirements from time-to-time.

Looking ahead, macroeconomic environment acts as a crucial determinant in the general demand in consumption and the reason events suggest some stability in the economy and beginning of potential recovery. We are hopeful that the government in its upcoming budget will introduce major stimulus package to revive the manufacturing sector, address low consumption demand and support MSMEs which will improve overall business confidence. We continue to pursue our long-term growth strategy, stay firmly focused on our unique value proposition to deliver robust growth in coming quarters.

Now, I would like to hand over the call to Mr. Mukti to discuss the financial performance in detail.

Mukti Lal: Thank you Mr. Chander and good afternoon to all of you. I will present the key highlights of our financial performance for Q3FY20. Revenue from Operations

, as just mentioned by Mr. Chander, has grown to Rs. 268 crores from Rs. 263 crores with a growth of 2% and this revenue growth was primarily supported by increase in customer from small and medium enterprises (SME) sectors and in absolute terms, EBITDA has been grown by 11%, from Rs. 32 crores in Q3FY19 to Rs. 35 crores and EBITDA margins now is at 13.1% of total income as compared to 12% in Q3 of previous year which is an improvement of 107 basis points.

The margin improvement can be attributed two factors, mainly. One, effective cost control measure and second, increase in capacity in select existing vehicles which has resulted in higher capacity utilization and operational efficiencies. Profit after tax was also Rs. 26 crores in Q3FY20, representing a robust increase of 36% on Y-o-Y basis and PAT margins are also all-time-high at 9.5% when compared to last, the same quarter of 7.1%. On CAPEX side, we have incurred Rs. 16 crores in Q3FY20 with a total outlay of Rs. 23 crores for nine month in this current year and this was largely used for construction of our sorting centers and expansion of IT infrastructure.

Thank you very much and we are now ready to address your specific questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Preet Nagarsheth from Wealth Finvisor. Please go ahead.

Preet Nagarsheth: My question is regarding the topline growth. So given that the 9-month growth is roughly 5%, what do we see as guidance for the full year ? Clearly, it was 10%-12%, do we see this now, say another 5 odd percent in the remaining quarter?

Chander Agarwal: I think now we will look at the single digit for the topline, maybe 8%-8.5% is what we are looking at.

Preet Nagarsheth: Will this be for the quarter, Chander, or you mean for the full year?

Chander Agarwal: For the full year.

Preet Nagarsheth: So, this means you are looking to grow at around 15% in this quarter, to be able to get a blended average of 8% for the full year?

Chander Agarwal: Absolutely, yes.

Preet Nagarsheth: So are you seeing already that kind of uptake in January to support that belief?

Chander Agarwal: Yes. January is little bit not as strong as what I imagine it to be, but again we still have a few more days left and we never know, like the cycle is such nowadays that everybody tries to push out all the materials by the end of the last day. So I do not see a very bleak difference, but there will be high growth this month, compared to last month.

Preet Nagarsheth: The other question is, just curious here, we generally say that the Express industry will grow about 1.5 times the GDP, right?

Chander Agarwal: Yes, about double the GDP.

Preet Nagarsheth: Now, if the GDP say, looking at the data that has been presented and which may be also not apples-to-apple here, but for the sake of the discussion, if the GDP says that 4% then shouldn't we be growing, say even in quarter 3 at 8% or more or how do you look at this? If you can share your view?

Mukti Lal: When we look at GDP, we look into the inflation component also. And if you really see the real GDP minus inflation, this will give you not more than about 2.5%-3% and looking at that, I think our growth rate is pretty substantial. All the other logistics companies that I am aware of, are possibly not growing more than 1.5 times or actually even at no growth at all. So no growth versus 5% growth in comparison to other companies, is definitely showing that the express industry is at a better stage in comparison to the economy.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Sir, if you can just share with us the volume growth and the realization growth breakup of the revenue in Q3?

Mukti Lal: So in Q3, volume growth was primarily only 1% and 1% was realization.

Kaushal Shah: Also sir, we have seen a drop in our freight expenses, so that is primarily because of this axle-load factor where we have carried higher loads. Therefore, is the freight cost appear to be lower?

Mukti Lal: So again, it is a combination of 3-4 of our efforts, what we have rightly mentioned in previous calls also. So we are also utilizing highest capacity of our existing trucks and side-by-side we are also increasing these capacities, as we have just mentioned. So this is also combination of these various things.

Kaushal Shah: Okay. And sir we have seen fairly good jump in our EBITDA margins, so what would you say is the sustainable EBITDA margin that we can look forward to?

Chander Agarwal: So I think in general, we have to understand that EBITDA operational efficiency is again also a component of the topline increase and price increase also. Both of these are a factor to it. Obviously, the price increase we are looking at, maybe just 1%, the topline is at about 5%. So in general majority, majorly the efficiency will come only through the operation management. And this is something which we have been doing diligently since 2.5-3 years now. So going forward, I think we will take the EBITDA up to 15% also. It is quite possible in our asset-light industry business model and also when we put in the price factor, topline growth factor and the operational efficiency. I am quite sure it will cross 15% also, in the next few years.

Moderator: Thank you. The next question is from the line of Kshitij Chitransh**,** an Individual Investor. Please go ahead.

Kshitij Chitransh: Sir, on the face of it, the numbers seem to be quite good. So I have been investing the company for a long time and I have been tracking these strategies that the company has been implementing. So I was just going through the note that you have given regarding the NGT halt. So did it impact the quarter's topline to a great extent? Could you please quantify it and what is your strategy moving forward, are you pulling more SMEs into your topline?

Chander Agarwal: So, I think starting from the SME point of view, we have already added 57 new branches in 9 months and our target for this year is about maybe another 20 more branches. So in total we will add about 75 to 80 branches and yes, this is one of the main reasons that in Q1 also we saw the 10% growth that we had was because of the SME growth. In Q2, we saw 60% jump in profit, tt was because of the SME again. We have not been seeing the top customers increasing the way our effort to tap these SME customers have been. So SMEs, yes, they will continue to play a very important role and they are not being catered by any other logistics company, the way we are covering them. So they will hold a good potential in time to come. Your second point on the NGT ban, it didn't really affect the topline because you see, that is a construction happening separately. Our operations are going on in a separate sorting center. So they are not really affected and topline is a factor of the more of an economy perspective.

Kshitij Chitransh: In terms of the CAPEX target, if I am not mistaken, you mentioned that the CAPEX target for this fiscal has been decided to be around Rs. 80 crores. So, it was basically moving towards automation in sorting and as of now, I could see that around Rs. 23 crores have been deployed. So are you confident to hit the target of the CAPEX?

Chander Agarwal: In this quarter, this construction is going on in a full fledge. So we expect it to expand to Rs. 25- 30 crores in this quarter and by second quarter of next year, we mostly will complete this construction and next year we will keep the same kind of construction plan, so we want to be spend around Rs. 80 - Rs. 100 crores for the next year because this has also postponed for this year due to all these reasons. So next year we will also keep the same kind of plans.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Mr. Mukti, you gave the three reasons for margin expansion. One you said was the change in the fleet to higher tonnage. I didn't understand the other two.

Mukti Lal: What we have just mentioned, one thing is wherever we had a good revenue, then we have ~~to have~~ higher utilization in our existing trucks whatever we have. So this utilization has been increased again by 50 basis points. Like earlier we have the 85.5%, now this is 86% on an overall basis. So it is one of the reason. Second reason, is what we have just mentioned. Third one is, wherever we need a second vehicle, so we are not adding the second vehicle, rather we are replacing with higher capacity trucks there. So, suppose right now we have 9-

10 tonnes truck on a particular route and then suppose the cargo consistently increased and now we need a 12 tonne truck, so we are not adding another 9 tonne truck, instead we are replacing with 14 tonne capacity truck on the route. So that is why there has been various dynamic on a various route we are applying and that is why the operational efficiencies was incrased regularly, in all quarters for last 3-4 years. .

Pritesh Chheda: And sir the other reasons were, warehouse benefits from new warehouses?

Mukti Lal: So new sorting center actually has come in only 2-3 locations. So these are also part of it, yes, because then we are also able to put through a very good pace, how fast we can vacant the vehicle and unload and load the vehicle. That is also a part of capacity utilization which matters.

Pritesh Chheda: Did the 6%-7% drop in trucking rental or costing for us would have benefited the margin?

Mukti Lal: No. So that actually is not a matter for us in both side, in upside as well as downside, because with vendors there is the long term contract with them and generally we are not squeezing for the downside and we are also not increasing at the time when freight is on higher side. So it is not really material for us in the short term.

Pritesh Chheda: Okay. And my last question is, between the two conference calls or say the last 3 conference calls of this year, there was growth acceleration to about 9% type revenue growth rate in quarter two and now there is a growth rate of 2%. So if you could throw some more light in terms of these changes in growth rate in terms of any sectoral behavior or any customer specific behavior that you want to highlight because post quarter two, you are optimistic of accelerating the growth rate.

Mukti Lal: Yes, because in first quarter we achieved 3% growth and Q2 we achieved 9% and we were excited to achieve double digit growth for Q3. So there was actually after Deepavali there was no growth happening and no goods movement was there. And second thing that also badly affected was the protests in Eastern part of India. What happened, on India's one side is manufacturing happening in West, North and South side and Eastern side of

India is generally having the highest consumption of that. So we were not able to operate because there is protest going on in complete West Bengal and Assam and Northeastern part of India, so deliveries was hampered there. Otherwise, we could have been able to achieve at least near to double digit growth, kind of 8%-9%. So this was the major impact actually. If you see industry wise then there, again the auto sector is not growing and are in same state of mind, so the same thing is going on. But yes, retail has also helped us a lot and again addition of SME customer is continuously we are adding up and that is why we are achieving the revenue growth.

Pritesh Chheda: Any sectoral color and what is the sectoral import dependence of us?

Mukti Lal: So again, as we mentioned various times. So generally these 5 or 6 major verticals are giving the 50% revenue to us and these sectors are auto, pharma, electrical, engineering and retail.

Pritesh Chheda: And the sectors which would have showed you decline or lower growth should be auto and which other?

Mukti Lal: So, slightly in auto only, not the other one. Other sectors are okay.

Pritesh Chheda: And what makes you believe that you can deliver double digit growth rate in quarter four or again that assessment will be like quarter 2 assessment of yours?

Mukti Lal: So there are two aspects to that, because we are continuously opening up the branch. So these new branches are generating new businesses for us and second thing this CAA protest is coming down in Eastern part. So this has helped us to make our deliveries very smooth. So these are the only two reasons we have and otherwise, this industry is also going on that way and third thing, BS-VI is also roll out from 1st April. So parts movement will be also increase.

Pritesh Chheda: Is East India larger part of your sales mix or East, West, North, South are equal?

Mukti Lal: Larger part in terms of delivery because highest consumption is appearing in this region, manufacturing is generally happening in West India and North India and then is moved to Eastern part of India. So we have to deliver on these parts. Otherwise if you see from revenue generation part, then 85% revenue is coming from North India, West India and South India and then 15% from the Eastern part of India.

Moderator: Thank you. The next question is from the line of Sayan Das Sharma from BOB Capital Markets. Please go ahead.

Sayan Das Sharma: My first question is on the corporate customer segment. Like you highlighted in the opening remarks that we have added a lot of SME clients, which like the last few quarters helped us grow. My sense is that corporate customer growth is zero to slightly negative. But overall if I look at your sectors, like you highlighted maybe auto is weak, but others are still positive in terms of volumes, if you look at the larger companies, who are typically your clients. So is it only a factor of slowdown or are we seeing any competitive pressure and we are losing a bit of wallet share among the existing customers also?

Chander Agarwal: So, I think the most important part is that, the topline customers that you are talking, reduction is not really negative. None of our customers are degrowing, we did not have any degrowth. It is just that the quantum has come down. We are not in the auto segment or directly into the transportation of auto vehicles, so we have not seen a decline there.

Sayan Das Sharma: So what I am trying to get at is, this growth slowdown, growth deceleration that you have seen from Q2, is it only a factor of overall macros being weak or is it also the competition is playing a part because some of your competitors are more active ?

Chander Agarwal: Competition is taking a bad beating. You will see the financial results of most of the other companies and we have been very prudent in maintaining our cost, not letting it increase, you know what happens is that as soon as you have low topline, your bottomline gets affected first, you do not get economies of scale, you are not able to get per unit cost lower, but we have passed all those very clearly and that is because of the several reasons- the customer, type of customers we have, the pricing we have, the type of operations we do. So all of these things are kind of make it resilient to the micro and macroeconomic challenges. What we really can't fight is the political confusion and the creation of that. So that is something we or no companies really can fight that playing in the domestic field. Saying that, I think that if you remove the political disturbances, I would have seen a much better topline growth. If I am looking at almost touching 40% PAT growth, if my topline was better, I could have hit even 60% growth very easily with no problem. But again, it is the political reason which have kind of slowed down our performance.

Sayan Das Sharma: Fair point sir. But your sense is that you still continue to grow faster than our market and out of all competition?

Chander Agarwal: Absolutely. Our entire team, pan India is geared up. In spite of the challenges, we are the only company which has opened up 57 new offices in India and we are going to open up to 80 offices by the financial year end, in the next 3 months. I do not see any sort of like, the political challenges are immense like tomorrow there is a holiday, some people are saying that there could be a strike tomorrow, Bharat Bandh, I am not sure. So all these things are beyond our control, they are force majeure and beyond that, the team is very well geared to kind of get that high growth numbers.

Sayan Das Sharma: Fair enough sir. Sir, my second question is on the Gurgaon sorting center that we are about to open in maybe a couple of quarters time, basically if you can highlight what will be the benefits both on operational efficiency side as well as do you expect to maybe improve our service level and therefore attract any new customers. So what is the overall benefit that you see on the business from these two automated warehouses that is coming in?

Chander Agarwal: This sorting center will play a very important role, in connection with national logistics policy which is being formed.. Now by the time we will start operating this sorting centers and all the majority of the sorting centers of this type will come into operation in the next 2 to 3 years, as we have planned the 400 crores investment. And by 2023, the Government of India is planning to make a highway from Bombay to Delhi, where you can reach in 12 hours and this is something which we will be benefitting us because ultimately our goal is to increase the speed of delivery, to capitalize on the GST, which other logistics companies have not been able to do and to deliver the goods faster. So we will be in line with what the national logistics policy and what the government of India, the NITI Aayog is wanting. So the main concept of this sorting center is that, it is going to be about 20% mechanized. Today material comes into a sorting center, it halts for maybe 10 hours. We want to reduce this to 4 hours, so that the material comes in faster and departs faster. It is sorted for Pan India and leaves. So this will definitely bring in, internally also will increase the throughput, the speed of the material moving through our channel. And I think ultimately when customer is satisfied, we are bound to get a bigger market share and that is our ultimate goal.

Sayan Das Sharma: Alright sir. But does any of our competitors, the larger players who are into Air Express, do they have this kind of automatic sorting center, in your view?

Chander Agarwal: No, they do not have at this scale. They have some small courier so maybe ecommerce or not the kind we are making.

Sayan Das Sharma: Fair enough sir. One last question if I may. Sir, basically how is the progress on the international air express that you are highlighting that there is a growth area for us, what is the strategy on that side?

Mukti Lal: So, as we have last mentioned it is 1% of our revenue right now. So we are trying hard to scale up this business as this is very exciting business and with again highest profitability with 15% EBITDA margin, we are generating this business. So we had aspiration of 3% or 4% share in the next 3-5 years of our revenue.

Moderator: Thank you. The next question is from the line of Krupa Shankar from Spark Capital. Please go ahead.

Krupa Shankar: The growth which we are expecting in 4Q also will be driven by a new branch addition. So just wanted to understand, how much of SME growth are we expecting from these new branches because usually what happens is that these are more of collection centers, it takes a bit of traction, it takes about 6 months or 9 months to gain this traction, but we are expecting as soon as possible. So is there any void which we have spotted and we are trying to exploit that?

Mukti Lal: So, if you see from opening a branch, we first study a particular area and then after our all calculations and business proposition, then we open the branch and basically, we are going denser, so we are not opening up the branch on a farthest location, but we are opening the branches in a city area like Mumbai, Bhiwandi that kind of area, we want more branches and these branches generally achieving the breakeven point in a 2 month or 3 month maximum and because to serve of the big customers, we don't need the branch network. Some of the small customer and to collect the material from their door step, we need these branches. So these branches certainly will help us to generate new business in time to come.

Krupa Shankar: Is it more of pricing driven strategy which has led to the SME customer addition over the last 9 months?

Chander Agarwal: So, it is not a pricing strategy, but it is more of where the demand is emerging from. The demand in the top companies is almost nil from the top companies. India is the population that does not rely only on the top companies, top manufacturing companies. You also have the SMEs and fortunately we are in that business where we are able to cater to the SMEs and our company started also from catering to the SMEs. So it is not really a pricing strategy or topline shift strategy, it is from where the business is coming. So we are able to grab this business from where it is coming. Today if you go to say a top Tier-auto component manufacturer, he will first try to reduce his price, because his customer is 30% down. So if I start reducing my price, I will not get 37% PAT growth. So what I have to do is change the type of customer. That sort of flexibility I have with my branches, unlike other companies.

Krupa Shankar: So, higher tonnage trucks have aided our margin expansion in 3Q. So actually wanted to understand how many of our group have we deployed these higher tonnage trucks and is there further potential for expansion ?

Chander Agarwal: We have only converted about 40% of our trucks to that multi-axle load and we still have a long way to go. It is not like plug and play, where you just tell the vendor that okay, you change your truck now, he will do it right away. So on the circumstances that we operate, it takes long time, but we take that opportunity to reduce the cost and to include it in the reduction of cost as we go along. You know it is not something which is static. All the cost reduction mechanism that we have from axle load to better freight efficiency to load management, all that is done every day scientifically. And it is something which will go over time and that is not an absolute number. What it will do is that, it is going to give a return based also on the topline growth. So if I have a topline growth of 10%, my bottomline growth can go up to 60% or so depending on the kind of environment it is in. Similarly if my topline goes 20%, possibly I could be doubling my profits also. So it is a culmination of, I have created this business model in such a way that it is shock proof, it is also not very dependent on topline growth. But at the same time the returns are much better.

Moderator: Thank you. The next question is from the line of Rishit Shah from Dhanki Securities. Please go ahead.

Rishit Shah: My question would be on the gross debt side, so what would be the gross debt amount as on December and the cash amount?

Mukti Lal: So gross debt is nothing, we are the debt free company. We hardly had a Rs. 2.5 crores loan, basically for higher purchases agreements. So that will be also finished in 2-3 years time. We just keep this to have a relationship with the banks and we have the surplus fund of approx..Rs. 25 crores as on date.

Rishit Shah: And regarding the new centers in Nagpur and Indore, so what is the progress on that side?

Mukti Lal: In Indore, we will be starting the construction hopefully in Q1 of next year. Land has already been acquired and all permissions are in place and the construction in Nagppur would also start in first quarter of next year.

Moderator: Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Sir, just an extension to the tonnage of trucks which you mentioned. So if you could just make it understand what was the tonnage available and how much has it gone up by. So if we could get some sense on what was the leverage we got because of this?

Mukti Lal: So, it is very dynamic actually. We do not have the figure right now in front of us. So if I say 40% of our fleet, so maybe just 200 trucks is kind of what we have changed and that 200 trucks can vary, some routes have 6 tonnes, have 9 tonnes, have 12 tonnes, so I think it is a little off to say exactly the numbers that you are asking for.

Kunal Bhatia: Sir and also just wanted to know, on YTD basis, for the 9 months, what was our absolute volume?

Mukti Lal: So absolute volume is around 6.75 lakhs tonne.

Kunal Bhatia: Okay. Sir, and also in terms of our tax rate this time it was lower than 25.2%, so any particular reason for that and what could we assume for the full year?

Mukti Lal: So for full year, it will be 25.17%. Earlier we have taken slightly higher because there was no clarification on part of surcharge. So base rate was reduced from 30% to 22%, and then there is a surcharge, so we assume as a 12% surcharge and there are education cess**.** So now again after confirmation we have restated, so that is why there is hardly Rs. 50 lakh difference in tax amount. So full year it would be completely 25.17%.

Kunal Bhatia: Some adjustments for the previous quarters would come in this quarter ?

Mukti Lal: Yes, that is there.

Kunal Bhatia: Okay. Sir, and finally in terms of our CAPEX, you mentioned for the next year would be in the range of 80 crores?

Mukti Lal: Yes, Rs. 80 crores.

Kunal Bhatia: Okay, and sir, the percentage of the SME business used to be around 50% of the overall revenues. Has that mix changed, has that gone above the 50% range?

Mukti Lal: No, it has not significantly changed because our endeavor is to keep the same balance ,actually 50-50%, because the big customer is giving us the high volume, so they are able to help us to maintain our weight management and the small customer is giving the good prices, thus both customer are important for us and we want to maintain this balance at 50-50%. We don't want to increase one side, so they just help to each other.

Kunal Bhatia: And sir, the new sorting centers you mentioned would be approximately 20% mechanized, so the existing sorting centers, what would be the percentage of mechanization in that?

Mukti Lal: New one would be the fully automated, almost 80% would be automated and currently, we are doing just like in semi-automation in all sorting centers we have.

Kunal Bhatia: So what would be the current level of automation?

Mukti Lal: It may be around 40-50%.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: I just wanted to know how is the competition from the small unorganized players.

Chander Agarwal: That is always divine, that will remain forever and hopefully not actually forever, but they are not pretty affecting us as much. What is happening is that the large customers, the likes of the top manufacturing companies, they are moving towards them for lower pricing, but that is the temporary shift, so I am not seeing any major hiccup on those lines

Vikram Suryavanshi: Okay but with this E-Way bill, are we seeing any material change or that is not actually impacting them at all?

Chander Agarwal: No, that is not really impacting us.

Vikram Suryavanshi: And sir, just one more, this number of branches we are adding, typically what is the size of these branches and is there any fixed cost we have on these branches, so say for example, every year we are adding almost 100 branches, so how much typically is set up cost for these branches?

Mukti Lal: Typically for one branch, initially we are adding up the area of around 500 square feet to 1000 square feet depending on the location and what kind of business we have there and if you talk about fixed cost, there is hardly Rs. 50,000 CAPEX we have to do in one branch and others are just like variable cost, we have like employee cost and running truck cost and all and if you see that is why we are just making one branch in the 2 month or 3 month time as on a breakeven point.

Moderator: Thank you. The next question is from the line of Ankush Agarwal from Stallion Asset. Please go ahead.

Ankush Agarwal: My question is regarding that currently we have around 8 own sorting centers and 20 are leased, right?

Mukti Lal: Yes.

Ankush Agarwal: So once this CAPEX plan of Rs. 400 crores is completed, what would be the ratio like how many sorting site would be owned and how many would be leased?

Mukti Lal: Owned would increase from 8 to 18 and 10 will be remaining on lease.

Ankush Agarwal: And sir, can you give me the branch count for this quarter and the capacity utilization?

Mukti Lal: So in this quarter, we have made a CAPEX of Rs. 16 crores and in total up to in 9 months, it was only Rs. 23 crores and branch, till now we opened around 57 branches and in full year, we want to open to make this total number as 80.

Ankush Agarwal: So in Q1, the number of branch opened was 10, in Q2 was 15, currently it was 10, right, so how does it add to 57?

Mukti Lal: Yes, by mistakenly we mentioned an incorrect figure in presentation. Right number is 57.

Ankush Agarwal: In Q2 FY19 concall, you had mentioned that on the balance sheet we have 10 sorting centers, currently we have around 8 which are owned, so why is there difference?

Mukti Lal: No, I may have included these two current on which the construction is going on. Including that, we may be mentioned on that time.. Total number would be, after 400 crores spending, we will have 18 number owned.

Moderator: Thank you. The next question is from the line of Ankit Panchmatia from B&K Securities. Please go ahead.

Ankit Panchmatia: Sir, good to see your number of branches kind of visible across many of the areas in Mumbai, but sir, just to get your strategy right over here, how do we shortlist an area or a specific location for branch opening because some of the branches are visibly at the residential areas, so I just want to get more clarity on what is our strategy and how and why are we going more closer to the consumer versus more closer to the manufacturer?

Mukti Lal: No, actually we are not opening a branch near to residential area. Our branch is basically in the industrial hubs or near to manufacturing unit. That is where we are going and more into near to warehouses where they have to give the goods for the delivery and to pick up from and delivered to other location, so in our stand is very clear. We have to be go denser in the Tier-1 and Tier-2 cities basically and because in city if you see we have to go on a door to door to pick up the material and that is a very challenging task in a particular time because everybody want to give the material from like 12'o clock to 5 p.m. in daytime. So there is a window of only 5 hours, so that mean there is an entry barrier also there in all cities, so we have to cope with these kind of challenges and that is why I also open the branches to grab the more business to go to near to customer's door and SME customer basically again. That is our strategy. In cities, few companies which opened branches is basically for B2C and our focus is B2B, growth is coming from there only.

Ankit Panchmatia: And sir, how has been the ramp up from the newer customers, I have seen that close to more than 15,000-20,000, we have added new customers in the past 3 years, so just to get your perspective right on how has been they contributing to the overall business and if I get overall bifurcation that new customers versus the older customers, any flavor from your end, how has been the revenue growth from them?

Chander Agarwal: It is very dynamic. This year, it has been very dynamic, like Q1 we had addition of new customers and increase of business from the same customer and then in Q2, we had addition of new customer. I think the new customer component is very active in our company. Till now also, we are adding new customers pretty much on a weekly basis and this trend will continue because we are very aggressive in the market. So I think to actually quantify it is very difficult, you will have a better number by year end that how many were new and how many were increased from the same customer.

Ankit Panchmatia: And sir, what according to you is pushing or letting us add these kind of customers, is it our pan India reach? Is it our capabilities to deliver faster or persistencies are more better, what according to you is helping us to add these kind of customers and create a customer database?

Chander Agarwal: Lot of it is because of our simple reason of the branches. The more branches you add, the more SME customers you are able to tap and when we started the company, we did not have any of the top large customers as our clients. We started off with the small customers and I think this sort of management of not going to very small customers, not going to Kirana Stores, but going to customers which are part of the industrial production by index, going to those customers are bringing in the value.

Ankit Panchmatia: And as you mentioned that there is lack of availability of the finance we have been seeing that smaller clients or smaller customers or smaller SMEs are not able to get financing from the bank due to stringent norms, so how is our SME base impacted by that? Are we seeing some kind of stress in our receivables or there is a difficulty for them to increase their business aspirations, how are we seeing the SME side of it?

Chander Agarwal: Even in the SME segment, there are all kind of SMEs, you have Tier-1, Tier-2, Tier-3, Tier-4 and below to Tier-4 would be our Kirana Stores and these up to Tier-2 would be all cash guys, so we don't deal with them and these guys were selling. Tier-1, Tier-2, SME, they are our customers and they are very large in numbers across the country. And I think the pricing pressure has never come from them, the outstanding credit issue has never come from them and at the same time, our credit cycle is the best in the industry. So there is no two ways about that, I think not just the logistics industry, in general, our credit cycle is one of the best.

Moderator: Thank you. The next question is from the line of Priyankar Sarkar from HSBC Global AMC. Please go ahead.

Priyankar Sarkar: Sir, just one question regarding the unit economics of your CAPEX plan. So I understand there are three components to it, one is that new expansion taking place, one is where you were leased, you are going to be owning that and third is the technological upgradation, right. So sir, can you please take me through the CAPEX per square feet X of the technological upgrade, what would be the CAPEX per square feet for these other expansion?

Mukti Lal: So, actually we have not analyzed on that way, on three part what you are just asking. So usually if you see, to construct any, it depends on location also, what kind of land, what the area we have but typically if you see, the construction price is almost Rs. 2,000 per square feet and then land price, so land price is highly volatile depending on the location where we want but yes, we are not getting the land on a prime location, so it is also very economical, and we are buying it.

Priyankar Sarkar: So sir, if I get you correctly, you are saying X of land cost, the CAPEX per square feet is Rs. 2,000?

Mukti Lal: Yes.

Priyankar Sarkar: Sir that seems a bit on the higher side?

Mukti Lal: I am just giving the ball figure, I am not having a correct number, you can separately ask us for the particular thing, and we will be let you know.

Priyankar Sarkar: Sir but this Rs. 2,000, does it include the technological upgrade but is it exclusive of that?

Mukti Lal: No, it is including the technological upgrade.

Priyankar Sarkar: Sir, I mean this figure seems a bit inflated too, when you back calculate and what you talk to the competition and other players in the market, roughly it comes to Rs. 1,650-odd but this is Rs. 400 extra on a per square feet basis, so I was having a discrepancy in this figure that is why I actually asked this question?

Mukti Lal: Because in this if you see, the automation in express industry, nobody hiave in India. They may have e-commerce companies for the kind of package or envelop they may have and this is very small kind of CAPEX they are involving on automation, but our kind of facility, this is very on higher side, that may be the gap, plus also various kind of supposing fire equipment, and then also environmental kind of all clearances and then we will also make construction about that environmental and everything. So if you combine everything, so its cost is around that only. Again, it is also depending on city to city, if you want to be constructed in Mumbai that is in a separate cost, if you want to be constructed in Indore there are different cost for all things, kind of sand and steel and cement, everything is different cost. This all depend on the various factors.

Moderator: Thank you. The next question is from the line of Ronald Siyoni from Sharekhan. Please go ahead.

Ronald Siyoni: Sir, I have couple of questions. Firstly, with respect to realization growth like through 9 months of each quarter, we have seen about 1.5 to 2% in Q1 and Q2 and Q3 is just about 1% odd growth in realization, so have we decreased prices for the same and was this your guidance of 3 to 4% realization growth, so I guess you would be reversing to about 1 to 1.5% realization growth for the full year?

Mukti Lal: So again, depending on the market conditions, at this time to ask for any hike from the customer is also challenging, though we are increasing wherever it is possible, but we are not adamant for that for existing customers. For new customer, yes, we are heading up our prices and that is why we are able to get these price hikes, otherwise you see other players, nobody is able to get these price hikes and that our strategy, at least we had to be achieved by year end 2% price hike.

Ronald Siyoni: Second thing was the cash flows like you mentioned that surplus you have about Rs. 25 crores odd, so previously it was about Rs. 27crores, so this quarter there is good generation of cash flows, but still your surplus funds have gone down, so I guess your working capital is stressed during the quarter?

Mukti Lal: Not really, if you see my DSO is around below 50 days and last quarter was also same ,50 days was there.

Ronald Siyoni: Yes, but if you say Rs. 26 crores is net profit, then depreciation is to about Rs. 28, your interest is nothing?

Mukti Lal: If you see in quarter 3 we also disbursed dividend also, that may be the impact only, nothing else. CAPEX side was also there. In this last quarter, we incurred Rs. 16 crores and before that in 6 months even we just spent Rs. 7 to Rs. 8 crores.

Ronald Siyoni: And about this Nagpur sorting center, where are we sir, you had also bought land there?

Mukti Lal: Yes, in Nagpur also, we are about to start our construction in March month or maximum may be postponed in first quarter of next year, but permissions are all in place now and all design has been finalized, now contractors are finalizing and then we will start the construction as soon as possible for Indore and Nagpur both.

Moderator: Thank you. The next question is from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.

Dhiresh Pathak: Sir, for year to date what is the volume growth?

Mukti Lal: So, volume growth is hardly 3.5%.

Dhiresh Pathak: These branches which you add on a regular basis every year, so each branch, does it reach a saturation peak out revenues and what level is that?

Chander Agarwal: I don't think there is any peak out thing because it would depend on the number of manufacturing units around it, so they can never be some sort of complete utilization of the branch.

Dhiresh Pathak: So each branch would have different revenue potential like you have banks right, in order to grow they have to constantly keep adding new branches to get deposits, so I just wanted to understand obviously depending on the catchment area, each branch potential would be different?

Chander Agarwal: You have to understand one thing, you cannot compare us with banks. Banks work B2C, we are a B2B company.

Dhiresh Pathak: I was just giving an analogy that in order to grow, we have to add branches. So on a like to like, so let us say, branches which were opened 2 years back, how would their growth compare versus new branches?

Chander Agarwal: It would depend on the location, if it is in a far-flung area location in India, you would need that possibly not for business growth but for delivery. So there are many permutations and combinations we have to look at. In Eastern India, we have till the last border of India wheredelivery of material happens there, there is no booking, so it is very dynamic. It is hard to say saturation point or complete utilization of a branch happens.

Dhiresh Pathak: And just to understand like what percentage of the revenue is where you have direct client relationship and what percentage would come through, let us say where you do work for some other 3PL or some other service provider?

Chander Agarwal: We do not work for any other 3PL, all of the customers are our customers.

Moderator: Thank you. The next question is from the line of Nitin Rao from Alpha Ideas. Please go ahead.

Nitin Rao: Sir, my question is related to reverse logistics. Earlier in the call we mentioned that 85% of the sales are from North, South and West, only 15% from the East and East is primarily a consumption area, so sir, how do we manage the reverse logistics part of it, if you can throw some colour it will be great?

Chander Agarwal: India is still developing the reverse logistics business. Manufacturing companies, consumption, consumers, they still haven't like matured enough to understand the importance of it. I do not see it as a very big large component, as like say the air cargo business that we have or the international air segment that we have. So this is something which will grow over time, when the time comes out, when India get serious on the pollution front and all that, then we will see an uptake in this business.

Moderator: Thank you. We will move on to the next question that is from the line of Sarika Thorat from Union Mutual Fund. Please go ahead.

Sarika Thorat: Just wanted to know on quarter-on-quarter basis, there is a decline in the employee cost, will you explain that?

Mukti Lal: So if you see in the last quarter, we have the high growth, so there was some variable component was involved. That was slightly higher and in this quarter, revenue growth is low, so that is the only one reason we have.

Moderator: Thank you. The next question is from the line of Sriram Rajaram from Ratnatraya Capital. Please go ahead.

Sriram Rajaram: You were talking about branch expansion and the growth is coming from SME customers, so those customers who are giving you new business, who are they dependent on earlier for logistics? I just want to understand where they using the services of any unorganized player?

Chander Agarwal: Yes, so they would be with the unorganized guys and they would be the ones facing GST challenges, so that is where we come in and we take on that business.

Sriram Rajaram: So in between the organized players, how are the other players performing, any sense you could give?

Chander Agarwal: I am not sure, I cannot talk about other companies actually at this point.

Sriram Rajaram: So basically you are talking about this fixed cost for the branches at Rs. 50,000, so what is the variable cost like because I see lot of employees are getting added, also, just want to understand what is the variable cost and in between if you could give some breakup between employee and nonemployee expenses for a branch?

Mukti Lal: So,variable cost is employee cost and vehicle cost these are the two variable cost there and employee generally what we are developing under the current branch in charge or branch manager, and then we deploy them in a new branch, so this is our regular kind of practice we had and we are developing, and train them and then we putting on the main role. So this is a continuous kind of work we have. And another thing, initially whenever we open the new branch and we put two guys and then we increase wherever we needed according to business requirements.

Sriram Rajaram: If you could give some absolute figure to that variable cost number for per branch?

Mukti Lal: Again, it is Rs. 50,000 per month, not more than that. It should not be more than Rs. 50,000 per month like employee salary and whatever other running office maintenance expenditure, rent part and everything.

Moderator: Thank you. The next question is from the line of Devang Patel from Crest Wealth. Please go ahead.

Devang Patel: Sir, this 1% price increase that we had in Q3 is across all segments or it is higher in some subsegments, which subsegments would that be and in a weak market what helps us to push to this price increase?

Mukti Lal: It is majorly coming from the SME customer, not the big one customer because majorly whatever customer we are adding, we are adding on good prices and that is why it is happening through that only, in this quarter.

Devang Patel: So what is the range of price increase that we have from new customer? On a blended basis it is 1%, but for the new customer how much higher is it?

Mukti Lal: So it is the same, whatever kind of we are taking is again, it is very dynamic. I don’t have the number right now. So again it is from across the sector but mainly from the SME customer, not from the big customers in this quarter.

Devang Patel: And if Allcargo is taking over Gati, what kind of impact do you foresee for the industry going forward?

Chander Agarwal: I think it will be a good thing, consolidation will happen because lot of the Gati customers will come to us and I think yes, it is a good thing.

Devang Patel: Sir, could you explain why customers would change?

Chander Agarwal: Allcargo is not a B2B Indian company. Their operations are outside India, now for them to manage something like this, it is not going to be that easy to fulfil customer demands Pan India, so I see that it is a positive thing for us.

Devang Patel: And in terms of change in strategy, is there anything that you need to do, target more urban centers because earlier we are more focused on Tier-2, Tier-3?

Chander Agarwal: No, urban center, there is no manufacturing, it is all moving out, so we have to focus on where the manufacturing is going.

Devang Patel: So no change in strategy because of this event happening?

Chander Agarwal: Which event?

Devang Patel: Change in promoters for Gati.

Chander Agarwal: No, nothing at all. We are chasing their customers now in full force.

Devang Patel: That would primarily be on the SME side?

Chander Agarwal: All customers.

Moderator: Thank you. The next question is from the line of Parimal Mithani from Credential Investments. Please go ahead.

Parimal Mithani: Sir, I just wanted to know in terms of is there any policy towards dividend payout because you already given two dividends and what is the way forward since we had good set of numbers?

Mukti Lal: Again it depends on various factors, but yes, internally we are on opinion of that to at least giving around 16 to 20% range only.

Parimal Mithani: We already have 20% as of right now, so is there any full year target ?

Mukti Lal: It is in 16-17%, right now and by the year end, we will also keep the same range around 16 to 20%.

Parimal Mithani: Sir, since we are debt fee, is it not wise to reward the shareholder those who are with you since long time?

Chander Agarwal: So that will happen as we go along, like today we are seeing some sort of an economic slowdown and all that so we will look at it in a more better way next year.

Moderator: Thank you. The next question is from the line of Shreyas Bhukhanwala from Canara Robeco Mutual Fund. Please go ahead.

Shreyas Bhukhanwala: Sir, one question was regarding the higher axle capacities, so is this the first year from wherein we are seeing meaningful benefits accruing from this?

Mukti Lal: Yes, actually what happened, so initially that was benefite for full truck load vehicle and you can say it is open truck, they could immediately change their axle load capacity, but because we are running through containerized vehicle, so size of the containerized vehicle was not clear from the ministry side and afterwards they are given some clearances on that to increase the size and increase the weight and size of that vehicle and that is why first year we are putting effort to make them, putting more material in existing capacity.

Shreyas Bhukhanwala: So sir, current quarter was kind of the first one to see such a meaningful benefit?

Mukti Lal: Yes, you can say that, so we continuously working and, we will keep continuing, it will be going over in one or two years, gradually we will convert all these,wherever possible.

Moderator: Thank you. The next question is from the line of Preet Nagarsheth from Wealth Advisors. Please go ahead.

Preet Nagarsheth: Just one question, this is regarding your claim of an asset light model, at the same time we are investing in our own sorting centers, so that is a shift in strategy. Sir, can you explain what is causing that? What benefits do we get from that?

Mukti Lal: Again, as mentioned in last 2-3 calls also, it would be asset light company because if we have the CAPEX in the truck, then it will be high asset company but now this is our bloodline for our operations and if you see other side also, whatever we are putting money, it will not come down our ROC, so this is not the depreciable asset. So it will ultimately in longer term will also help us to increase our ROCE also and that is why we plan that CAPEX and we will improve our capacity utilization and operational efficiency which is ultimately giving the good margin level. If you see last 4-year journey, we also grown from 8-9% to now 13% level. We will make sure we will not come down from our current ROCE level. ROCE level would be continuously more than 40% kind of ROCE we will generate.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Agarwal for his closing comments.

Chander Agarwal: Thank you very much for your participation and I look forward to our next call. Thank you.

Mukti Lal: Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of TCI Express Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.