"TCI Express Limited Q3 FY2021 Earnings Conference Call"

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MANAGEMENT:	**MR. CHANDER AGARWAL – MANAGING DIRECTOR – TCI EXPRESS LIMITED** **MR. MUKTI LAL – CHIEF FINANCIAL OFFICER - TCI EXPRESS LIMITED**
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Moderator: Ladies and gentlemen, good day and welcome to the Edelweiss Securities. We cordially invite you to participate in TCI Express Q3 FY2021 Earnings Conference Call hosted by Edelweiss Securities Limited. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Alok Deshpande from Edelweiss Securities Limited. Thank you and over to you Sir!

Alok Deshpande: Good afternoon and welcome to all the participants. We have with us Mr. Chander Agarwal, Managing Director of TCI Express and Mr. Mukti Lal, Chief Financial Officer of TCI Express to discuss the Q3 FY2021 results with us. Without further ado, I am handing over the call to Mr. Chander for his opening remarks. Chander please go ahead.

Chander Agarwal: Good evening everybody and welcome to the earnings call of third quarter of FY2021 of TCI Express Limited. As this is the first time we are interacting in 2021, I would like to start the call by wishing everyone a Happy New Year and I hope you and your loved ones are staying safe and healthy.

Our Earnings Presentation has been uploaded on the website and stock exchange and I hope you have had a chance to review it. We will start this call with a brief discussion on industry and company's performance and then our CFO, Mr. Mukti will present the financial performance of the company.

Continuing the trend of second quarter, third quarter of the fiscal year saw sequential recovery in terms of macroeconomic indicators. The quarter started with a strong recovery in October with normalization in the economic activity, improved business sentients, demand also picked up during the festive season and MSME expanded their operations. However, in November we saw contraction in production for core industries, which has dampening effect on recovery of few sectors. As per data of index for industrial production 'IIP;, the manufacturing index registered a strong month-on-month growth of 4% in October and subsequently declined by ~2% and if you look at the sectors, machinery and equipment was up 4% in October and then declined by 7% in November and a similar trend was also visible in industry. This trend was also reflected in e-way bill generation information. In October, 6.4 Crores bills were generated while in November the figure stood at 5.8 Crores. However, in December there was again pickup in production and demand.

With these market conditions in mind, I am pleased to report that in this quarter company's revenue from operations was Rs. 262 Crores and EBITDA stood at Rs. 47 Crores with margins of 18%. The company posted strong sequential growth of 23% in revenues with support from our SME customers and we reached near pre-COVID levels. We delivered one of the best profitability margins, which can be attributed to not just the cost control measures and the high-capacity utilization operations but for creating a platform for sustaining these costs as we go along. We believe we will be able to drive the benefits of these cost saving measures in the quarters ahead and continue to deliver enhanced profitability. One of the main reasons for our performance is dedication and support of our employees, the most valuable assets of TCI Express and we would like to inform you that beginning from October 1, 2020 salary increments have been paid to employees.

We continue to move forward with our geographic and infrastructure expansion plan. We opened 10 new branches in the quarter and a total of 20 new branches in nine months. In Q3, we incurred a capex of Rs. 15 Crores for the construction of the sorting centers in Gurgaon and Pune. The Pune sorting center construction is complete and due to delay in receiving the regulatory permission alone, operations will commence in the next quarter i.e., Q4 FY2021. Gurgaon center, accordingly, will be operational by first quarter of next fiscal i.e., Q1 FY2022. Our asset light business model has allowed us to maintain a strong balance sheet and cash flows were further supported by timely collection from our customers.

I would like to inform you that Board of directors have announced interim dividend of Rs.2 per share with a payout ratio of 100% on face value and 13.2% on nine months EPS.

We have recently launched ESG Profile of TCI Express on our website to transparently disclose ESG related information. TCI Express has a strong governance structure focusing on creating an inclusive workplace culture and implementing environment friendly solutions are co-pillars of our business and sustainability. You can access ESG related disclosures on our website and we will be updating ESG profile on a regular basis and we keep all stakeholders fully informed at all time.

Looking ahead for the industry, the increased allocation of spent on infrastructure development by government as announced in recent budget and various new initiatives to promote the manufacturing sector will have a positive impact on logistics sector. And as a company, our two new sorting centers that will be operational in 2021 with state-of-the-art technology and will put us in forefront to serve our customers. Now, I would like to hand over the call to Mr. Mukti to discuss financial performance of the quarter. Thank you.

Mukti Lal: Thank you Sir and good afternoon to all of you. I will discuss key highlights of financial performance we achieved in Q3.

In the third quarter, the momentum of sequential recovery in revenue continued and we saw pickup in demand during October due to festive season, but in the month of November, businesses and specifically few core industries were again in a grasp of slowdown and after a relatively subdued month it only started on positive path again in December

In Q3 FY2021, our revenue from operation stood at Rs. 262 Crores compared to Rs. 213 Crores in previous quarter and Rs. 268 Crores in same period of last year and the company posted a strong quarter-on-quarter growth of 23% in revenue. We are now at around pre-COVID levels.

In absolute terms EBITDA was Rs. 47 Crores and we were able to deliver strong margin level of 18%, which is all time high and in Q3 it is almost double to what we had in 3 or 4 years back and compared to 16% in previous quarter, so in previous quarter we also achieved 2% more and 13%

same period last year. Improved EBITDA margins were basically due to increase in revenue as we have now scaled back to pre-COVID levels and higher operational efficiency due to cost control measure implemented by company in the recent past and also due to various initiatives taken on digitalization in process and businesses. We also continue to maintain high capacity utilization among our fleets, which has further supported the margin levels. Net profit of the company now stood at all time high of Rs. 34 Crores with margin of 13%.

In Q3 we incurred capex of Rs. 15 Crores and for 9 months our total capex outlay was Rs. 41 Crores, which is primarily used in construction of our ongoing construction in sorting center and automation. We continue to generate strong cash flow, in 9 months cash from operations stood at ~ Rs. 85 Crores.

So in conclusion I can say that barring a slight subdued revenue growth on Y-on-Y basis, we had a remarkable good quarter. As we move in a new calendar year we are optimistic about the growth prospects of our company as well as economy. As businesses recovers, we plan to move forward with financial discipline and prudence by focusing on efficient working capital management, strong cash flow conversion cycle and robust collections from the customers.

Thank you very much and we can now open the floor for the question and answers. Over to moderator.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of the Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Thank you so much for the opportunity. Just one question from my side, if you can share the revenue mix between the SME clients and from the corporates, which are mainly volume driven for this quarter.

Mukti Lal: In this quarter, we achieved almost 52% from the SME customer and 48% from the corporate customer.

Moderator: Thank you. The next question is from the line of Depesh from Equirus. Please go ahead.

Depesh: Sir, congrats for good results. Please give the total tonnage in this quarter and also in the Q3 last year and what was the total capacity utilization of your vehicles, please?

Mukti Lal: So, tonnage in this quarter is almost 2.15 lakhs tonne and in the same quarter last year it was around 2.25 lakhs tonne.

Depesh: Sir, have we have taken a price hike in this quarter also?

Mukti Lal: Yes, around 2%, we had taken the price hike in this quarter as well.

Depesh: Understood. Sir, secondly on your gross margins, which has scaled new highs this year, congrats for that, but just wanted to check two things, has our Air Express that is domestic and international segment, which used to be around 9% of your revenues, has that mix changed this year and secondly has the distance travelled by your vehicles dropped this year, which is leading to lower cost?

Mukti Lal: Not really. So, ratio in Air Express is same as what was earlier and another thing is that the travel distance is also not reduced actually we had our standard routes and every truck has to ply on those routes, so it is not reduced. Earlier we mentioned we increased the weight capacity in the existing truck so that way we have gained the benefit here.

Depesh: Understood, Sir. You added around 20 new branches in these 9 months and also you talked about the salary increment given to employees, but if I look at your employee cost it is still below the pre-COVID level, so how should we think about it going forward?

Mukti Lal: Well, in Q4 it will be more or less same and next year, yes, as a good gesture management is thinking to give good hikes to employees, so that may reach back in 2022 to FY2020 level or slightly 5% to 7% higher than FY2020.

Moderator: Thank you. The next question is from the line of Krupashankar NJ from Spark Capital Advisory. Please go ahead.

Krupashankar NJ: Good afternoon and thank you for the opportunity. I had couple of questions, first one was on the volume growth, so clearly last quarter you had mentioned that there were addition of new clients, so can you specify as to whether the incremental volume is coming from these new clients or perhaps you can throw some light on what are the key sectors which is driving the growth and also what will be the contribution of new clients, which were added over the last quarter?

Chander Agarwal: On new client basis, is I think at this point, about 50:50 ratio usually you know when the times are much better it is 60:40 and at this time it is about 50:50 and the sectors that have really seen an uptake is machinery, tools, the pharmaceuticals, the auto spare parts, but the textile sector unfortunately has not really come up to the levels that one would expect and going forward, I think with the budget announced, we would assume that we may see that the textile sector comes up. So in general, all our verticals that we have been working with have all come back to the pre-COVID levels, except just one or two.

Krupashankar NJ: That is good to hear. Can you also throw some light on how is January being and what is the outlook in February as well?

Chander Agarwal: So, January was pretty much same as last year, not much difference, but obviously no improvement also, and February looks slightly better than last year, so I think it is a momentum, which is building up in consumer confidence, we know that the whole year things were not straightforward, it was up and down, consumption is still below the pre-COVID levels, so I think all these temporary shocks that we are able to sustain with our asset light model in general, you know every time we are able to show better profits because of this reason, now once the manufacturing starts picking up, then we will see superb topline growth also.

Krupashankar NJ: That is good. My second question was on the change in truck dimension, in last quarter you had mentioned that about 40% of our fleets were converted to new dimension, so what is the progress there and have you seen any benefits of this change in the margin?

Chander Agarwal: Yes, absolutely we have seen the benefits, it is already showing in the results in the financial performance. The impact cannot be immediate change of the entire fleet because you see the demand is also less, so if we change the vehicle capacity to higher tonnage right away, then we may incur weight loss, so that is the problem that we have to also manage and carefully calculate. It is not just plug and play system where lookups should be just changed to higher capacity when the demand is lower, so we are doing it very tactfully and doing it appropriately as further demand.

Krupashankar NJ: So, any percentages can be provided as to what would be the progress or is it remaining at 40% so far?

Chander Agarwal: No, I think it has increased to about 45% to 47%.

Mukti Lal: Yes, it is correct.

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

Rishith Shah: Good evening. First part of the question is regarding the capex, so over the long period we had a plan of around Rs. 400 Crores capex over a period of 5 years out of which around Rs. 240 Crores is what is expected to be pending. After this Gurgaon expansion that is happening, so what is the plan post that basically if you have can share anything?

Mukti Lal: On that you rightly said we still have to spent Rs. 240 Crores and still on automation and remaining construction part we need to spent around Rs.70 Crores more in these two centers and remaining part of around Rs. 175 Crores we have to spent for which we are already in process to take the approval in Chennai, in Nagpur and in Indore, so these locations are already in pipeline and we are also looking to take land in Mumbai and Kolkata. So these are the pipeline projects we have for the next 2 to 3 years, so we intent to spent these money in the next two to two-and-a-half year.

Rishith Shah: Got it, Sir and initially may be around one-and-a-half year back, we had a very aspirational target for the branch count also with expansion of branches into the Tier-1 and metro cities say to around 1,700 to 2,000 branches, so right now if I am not wrong we are at around 800 branches, so what would be the expansion that we were looking at?

Chander Agarwal: I think as disclosed earlier, we will double our branches in the next 3 to 4 years, so that is very well intact in our plan and we will do it.

Rishith Shah: Okay, this would be again in the metro and Tier-1 cities, right?

Chander Agarwal: No, Tier-2 also, for Tier-3 again the problem is that it is very easy to open branches, but then the business volume should happen, so we are only opening where the business volumes are increasing.

Now just to give you an example, you can understand let us say a city like Jodhpur that has only one branch that was opened say 10 years ago, but the quantum of business or the number of SMEs has gone up drastically, so we would need a second branch there, so that would give us a better coverage and better business growth also. So I assume that a lot of the growth will also come from opening these branches, if we plan to double our business in the next 3 or 4 years, these branch expansions will assist in that and also may be possibly help us in more than doubling our business going forward.

Rishith Shah: Understood Sir. Second part was regarding basically the opportunity relating to the COVID vaccine, so we had some updates from you earlier when the plan was launched, so any updates regarding that?

Chander Agarwal: Yes, it is still all under government control and we are working with the government only on the transportation and whatever sector the government is opening up, we are getting that as per their requirement. Initially when all the logistic companies are opening this, I think that was pretty much very uncalled for because no one knew anything and we did not make noise about this because we have no idea also how it would play out, so it is still in the hands of government and they decide the distribution based on the capability of the logistics company, so we are already doing in certain sectors in South India.

Rishith Shah: Any quantification or any amount that you would like to add?

Chander Agarwal: Very hard to say because if you look at the population, only 60 lakhs have been inoculated by now, so that is almost nothing in 100 Crores plus population.

Rishith Shah: Understood and last one bookkeeping question, so what was the truck fill factor for this particular quarter or 9 months?

Mukti Lal: It is around 86% this quarter.

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

Kunal Bhatia: Sir, thanks for the opportunity. Sir, I had a couple of questions, A. I just wanted to know how much was your volume for the 9 months ended FY2021 vis-à-vis last year?

Chander Agarwal: So, in this last 9 months volumes were around 4.6 lakhs tonne in comparison of last year 6.75 lakhs tonne, so it is down by almost 31% in 9 months.

Kunal Bhatia: Sir, secondly in terms of the cost rationalization which we have YTD, how much of this going forward would be sustained because we are at an all time high EBITDA margins and we have already crossed our guidance of 1% improvement on year-on-year basis, so more of sustainable margins what should be the number, one should look out for?

Chander Agarwal: Yes, I think it is sustainable because now we have also created a platform basis, where we understand how the past are going to behave when business is low or when business is high and especially when the fuel price is high. Fuel is up almost 20%, so if the fuel is up 20%, most of the logistics companies have not been able to deliver and for us we have understood that the basic fundamental that is required to keep this momentum going, that particular understanding has been fed into the system, so we know exactly how everything behaves and we can have that in control.

Kunal Bhatia: Sir, for example you did allude to the fact that the employee cost, which has come down to very low?

Chander Agarwal: Employee cost is not so much of a big deal for us. We in anyway does not have very high employee cost, if you look at the industry, if you look at the country, if you look at the peer companies, it is not high, so that is not my bone of contention, you know what we have to look at is the operating costs, our indirect costs are very, very low, even with 1,000 branches and all the offices, that aspect is still one of the lowest in the country and the industry, if you look at the operating cost, which should be seen in detail as to how that will behave going forward.

Kunal Bhatia: So, we have almost reached like 68% to sales, so we will be able to sustain that kind of operating expenses?

Mukti Lal: Yes, you rightly said last year we were around 71% on an average and this year we will finish at 68% and next year we have taken the target to reduce it further by 1% at least, so that will continue and we are trying to find a way how we can keep it on control and even reduce, so we are doing very dynamically and now we have sharpened even our analysis to twice in a month or even sometime on a daily basis, so this tempo will continue for the next 4 to 5 years and our ultimate target to reach around 63% or 64%.

Kunal Bhatia: That is good to hear. Generally, you do speak about the turnaround time, so in this 9 months period how has the turnaround time improved vis-à-vis FY2020?

Chander Agarwal: So, turnaround time has obviously been much lower compared to last year and there are multitude of factors, like labour issue initially and then highway has been closed and all of that, so overall if you see that will get impacted, but this is something, which is temporary this is not going to stay.

Kunal Bhatia: So, if you want to do comparative, how would we standing as of now vis-à-vis FY2020?

Mukti Lal: It is slightly down over the last year, so as Mr. Chander mentioned, it is impacted basically due to certain reasons.

Chander Agarwal: Maybe only by about 15%, which is not a big deal, even the customers understand due to lot of issues have been happening.

Kunal Bhatia: Sir, in terms of this sorting center in Pune, could you give some more details in terms of the total square footage and what kind of capex entirely spend for this sorting center?

Mukti Lal: So, it is around 1.5 lakh square feet and total capex would be, there area two kind of capex, one is construction and another one is automation, so these two type of costs would be there, so construction is around Rs. 25 Crores and on automation we will spent around Rs. 15 Crores to Rs. 20 Crores on that center.

Moderator: Thank you. The next question is from the line of Sameer Chuglani from Edelweiss Securities. Please go ahead.

Sameer Chuglani: Sir, thank you for taking my question. My first question is that can you give some colour on what is the margin differential between large corporate customers as compared to SME customer and secondly, do you think e-commerce is an opportunity where you would like to expand, specifically into B2C, so any thoughts on that would be great?

Mukti Lal: On margin level difference, yes, there is a big difference in SME customer versus big customer, SME's usually giving almost 20% to 25% higher margin than corporate customers.

Sameer Chuglani: Understood.

Chander Agarwal: Now we had not put our focus on B2C, that is why we have actually shown robust results and going forward we will continue doing the same.

Sameer Chuglani: How much of your volumes would be from e-commerce even B2B?

Chander Agarwal: E-commerce B2B has not really picked up in India, but I would say that our e-commerce level is about 3% to 4%.

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

Ronald Siyoni: Good afternoon Sir. Couple of questions, first one being the competitive intensity how do you think some of the listed players are going into express also and they are also going to asset light models, so are they more venturing into B2C and avoiding B2B space something of that sort you are finding or you are saying competition increasing in B2B also?

Mukti Lal: So, if you see in B2B there is no intense competition is arising, they are actually focusing on B2C market. So if you see B2B and B2C operation is completely different for cargo size, if you see packet size or delivery location or pickup location, so everything is different and they are basically focusing on B2C and not the B2B.

Ronald Siyoni: So, the same level of competition exists as prior, there is no increase in competition levels?

Mukti Lal: Yes, correct.

Ronald Siyoni: Second thing, any specific sectors you are inclined towards in the space, like you said machinery tools, pharma, auto are doing good, so any of this one or two odd sectors, which comprises more towards your revenue?

Chander Agarwal: So, we also have telecom, equipment and there are many verticals that we are doing.

Ronald Siyoni: Can you mention only the sector, which contributes highest, one or two major sectors, which are core of TCI?

Chander Agarwal: So that would be what I mentioned.

Ronald Siyoni: These three, four sectors are the core sectors?

Chander Agarwal: Yes, but then we do not have more than 10% in these sectors.

Ronald Siyoni: No sector concentration. The last one is you also mentioned in this presentation that there were some issues with respect to government polices in few states, so are you relating it to the farmer strike or is there some other issues in some states and what kind of impact has there been due to the farmer strike?

Mukti Lal: Farmers impact, yes, slight impact is there and thereby turn-around time of trucks slightly increased in north part of India, as we are working across India and delivering across India so that is slightly impact, but no major impact which you can see in the results also, everything is okay.

Ronald Siyoni: There is no any other kind of issue in other states, this was the only thing which you had mentioned?

Chander Agarwal: Yes, see last year there were floods and all, so I think, we are fortunate nothing happed this year. In the beginning of this COVID year, and we had some altercations in the border and then anyway everything was shut and there was nothing moving, not much changes in the country this year.

Moderator: Thank you very much. The next question is from the line of Arjun Singh an Individual Investor. Please go ahead.

Arjun Singh: Thank you for the opportunity and congratulations to you Sir on delivering fantastic results. I just had one question, you mentioned different weight dimensions that you incorporated in the trucks have actually helped you in these gross margins, could you just elaborate what is actually are we doing with the different weight dimensions and I am assuming your vendors have been receptive in your suggestions to increase these weight dimensions or how is that worked?

Mukti Lal: It is as you may be aware government has allowed to increase the axle load in existing trucks and being a containerized movement company because everything of our material has to move in a container, so we were not able to take that benefit because government has not given the Regulations/Guidelines clearly for increase the height or width of these container on our trucks or outsource truck, so subsequently they allowed to increase the size of the container. So we are continuously in discussion with vendors and wherever we find the win-win situation there we have increased the size. As we mentioned, it has almost already reached to level of 45% and wherever we need in the future because we again do that and cannot add in one-go then it will be over capacity available here, so once we will be getting the revenue share, we will put into again increased capacity wherever we needed and that benefit will continue to come to company.

Arjun Singh: Understood, just a followup, can you tell me how much percentage increase or how much percentage improvement in your gross margin would be because of these and let us say the share increases from 40% to 50%, how much further improvement in gross margin can we see?

Mukti Lal: If you see gross margin in this quarter, it has almost improved 3% to 4% so out of that, this contributed by at least 1% from this mechanism.

Arjun Singh: You mentioned that over the last quarter you were at 40%, which has improved to 45%, so 5% increase in your trucks, which has higher load capacity is contributing around 1% increase in gross margin?

Mukti Lal: Yes.

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

Kaushal Shah: Thank you for the opportunity. Sir just wanted to know your thoughts on given the ongoing capex exercise and Mukti Sir has mentioned a little while back that an additional Rs. 70 Crores to 80 Crores will be spent, so if I kind of rewind back one of the key strategy of TCI was being a low asset company utilizing capital very, very efficiently and now that we have already added let us say about roughly Rs. 160 to 200 Crores we are going to add another Rs. 240 Crores odd maybe another Rs. 50 Crores to 70 Crores what Mukti Sir was talking about, how do you see our asset turns improving because of that or our margins improving because of that and your thoughts on this entire process of investing in centers rather than leasing them out or something like that?

Mukti Lal: So, here actually you do not have to see these in isolation, these capex plans, these are basically fundamental requirement for our overall operation across India. So we are seeing what kind of incremental capex we are doing or what incremental profits we are generating , so we will keep maintaining the same kind of ROCE and this is actually fundamentally required to convert our manual operation to automation and for that we need our control everywhere and location is also very, very important, so many time we said that, location for our operations is very important that is why we want it to be in our control. Now environmental norms, various regulatory requirements are very, very high because these are the backbone of the complete operation and we are not going to convert everything, we just want to convert at least half of the sorting center, which is right now 28 in numbers and we have almost 8 already moved from old one and remaining 7 to 8 we want to convert further which are under process, so that is our strategy.

Kaushal Shah: Sir, any impact that you see or any quantifiable estimate that you can share where we can put a number to the investment in the sense that can we put, may be an asset turnover number on this or may be tangible improvement in our EBITDA margin in next 2 years or so once we have done this exercise?

Mukti Lal: Yes, that is I am saying, you cannot consider them in an isolation, it has to be across India and it is giving impact on service levels. We mentioned that suppose we are having 12 or 15 hour idle time right now for any cargo in the sorting center, that will be able to reduce six hours and that six hours will be phenomenal for overall operation because my booking goods also go through that and also whatever goods come for the delivery that will also be very faster turnaround. So ultimately what we are targeting are gross margin level which are 32% and next target is going to 35% and these centers will be helping that to achieve these targets.

Kaushal Shah: Can we say that 3% improvement is likely purely because of this exercise?

Mukti Lal: No, I am just saying everything will contribute to this. It cannot be quantified in isolation.

Kaushal Shah: Right, so, what you are saying is that throughput will improve?

Mukti Lal: Yes, correct.

Chander Agarwal: Service to customer would improve, faster deliveries to customer would be improving, we can take on more business, turnover will be faster, customer now if we get some materials like say four days possibly later one can get it in two-and-a-half days, which would mean more business so it is kind of hard to really quantify as Mukti was saying. Most logistics companies, for them assets is the number of trucks they have and here we don't have a single truck, so from that point of view it is asset light also.

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

Preet: I congratulate you on very good numbers. One aspect that I wanted a little bit more insight on, was related to what the company would do to gain more market share and I think, Chander, may be in the past you had alluded to may be having vertical heads that would try to get some more business especially verticals, can you share any update on that or any other strategy that you have?

Chander Agarwal: Vertical is a very small aspect on how it can actually increase the business. One of the key fundamentals of increasing logistics business is having more locations, so our continuous approach to opening branches is what would really help since we pretty much know the art of opening branches, we know that going forward this will be a very big impetus to business growth. The vertical heads would just be a little small picture in the big painting. We have to look at the different products that we have launched that I will talk about in Q4, so I think where there is an integration of all the products, one office selling five products is where the real growth aspect will come from that I will speak more in Q4.

Moderator: Thank you. The next question is from the line of Krupashankar NJ from Spark Capital Advisory. Please go ahead.

Krupashankar NJ: Regarding the unorganized segment, just wanted to check that we are hearing that lot of unorganized players are not able to ply during this last 9 months period, so would it be safe to assume that some bit of volumes, which were usually going to unorganized has come to us?

Mukti Lal: It is very hard to say that because the real business growth can define if that transition has happened has not really happened, so when we see the higher growth then we will be able to calculate, when we see that from the existing customer a larger chunk is coming to us, already it is now 50:50, new customers versus existing customers, but when we see existing customers go up to 60% or 70% level is when we can safely calculate that the unorganized segment is shifting to us, so I think that will start happening next year. There is a belief that next year there will be many companies in NCLT, so I think we will see that shift happening next year for sure, starting from March itself.

Krupashankar NJ: Sir, second question was on truck fill factor, can you specify what was the truck fill factor last year same quarter and last quarter?

Mukti Lal: Yes, in Q2 it was around 85.5% and last year it is 85% and in this quarter it is around 86%.

Moderator: Thank you. The next question is from the line of Arjun Singh an Individual Investor. Please go ahead.

Arjun Singh: My question was initially, when we were only asset light company we were investing for our branches or our warehouses also, I guess we were not investing in land, so our rentals would have been higher then?

Mukti Lal: No, we are investing in lands also because we buy the land which is 40 to 50 kilometers away as it is available at very low and throwaway price. Logistics properties that invest in prime land warehouse will never make money in the lifetime, it has to be really, really low cost.

Arjun Singh: So, just for my understanding, we were investing in land earlier also and we continue to do so for our big sorting centers?

Chander Agarwal: Only for the main major centers in top cities like Mumbai, Delhi and all that.

Arjun Singh: So, our overall rental percentage share should be similar to historically, this new capex will not change that much?

Mukti Lal: Yes, it will not be changed significantly and will continue.

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

Dinesh Pathak: Thank you. Just continuing from the last question, so while we need to invest in the land even in sorting center, why do not you just lease it out given that anyway these are away from the city?

Chander Agarwal: It is a very simple understanding because land is such a thing where you have a landlord that is not organized and they can any day tell you to vacate and there are many other challenges and we have to ensure that the operations does not get disrupted, lot of logistics companies do that have faced that problem, but we are the group since 65 years we have never faced a problem like that because we know that the main centers had to be under our control, it safeguards from any sort of eventuality that might happen.

Dinesh Pathak: But just for my understanding, it is not like clients facing outlet so even if you let go off that land then you can be somewhere else?

Chander Agarwal: It is very difficult, because it is like you cannot build a shopping center, which has 40 gates on each side, automation with the machinery inside, you just not pick it up and put it somewhere else. So I think it may sound easy just to do that, but availability is not there, it is not the best, in India it is godowns what we get, so we are not operating godowns here and sorting centers are different altogether and for that you need to have that certain right calculation of the height of the platform and height of the ceiling and fire prevention and all of that, even distance from the highway, there are a lot of factors which matter.

Dinesh Pathak: Right, that is helpful. I think the practicality is that what you are facing, so that is why you have decided to do that. In this business that other 3PL companies do of managing other people's fulfillment centers especially e-commerce, that business you do not do in TCI Express?

Chander Agarwal: We are customer facing we do not do any of that 3PL and all that low margin business.

Dinesh Pathak: But do the other company of TCI do that or they also do not do that?

Chander Agarwal: They do that.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: I wanted to check if there is any plan to help our fleet owners convert to alternate fuels probably working with them on that and we have a good network setup, so we do have an idea in terms of point-to-point what is the distance covered and what these alternate fuels can be useful for, idea being that it reduces the cost of operation and then it can attract more volumes?

Chander Agarwal: So I do not think the alternative fuels is a viable option in India yet, because availability is an issue across the highways, recently I go about 1,800 kilometers on the highway where there is no CNG or anything of that sort for miles or for 100s of kilometer, I do not think that is a viable option. The mileage on that is very poor, so if you want to use that within the city, Delhi has CNG that is possible, but not on long distance yet.

Lokesh Manik: Sir, there was some talk in the middle for converting these heavy vehicles into LNG or using LNG as a fuel, do you think that is viable?

Chander Agarwal: Not really, not at all.

Lokesh Manik: So, mileage perspective diesel would still be quite competitive versus LNG?

Government did talk about it 20 years ago, but really did not happen and even in other country it has not really taken off, now the next evolution that will happen will be electric only may be after 20 years or something.

Moderator: Thank you. The next question is from the line of Rachita Gupta from Paragon Partners. Please go ahead.

Rachita Gupta: Thank you so much for the opportunity. I had a couple of questions, the first one was on the B2B express industry, so just wanted to understand how do you see B2B express verus non-express given that lot of companies have a very good idea of their inventory, of their timelines and they have a month planning well in advance, so just wanted to understand the express versus non-express requirement on an industry level B2B?

Chander Agarwal: I will explain you very simple thing, B2B express runs in a hub and spoke model and B2B regular runs on just point-to-point, so when a manufacturer looks at a B2B express what they do is they sent multiple shipments for multiple destinations across the country and then they save on the warehousing costs and they meet their customer demands as per their requirement. When you sent point-to-point it is no longer for high value, it is never for high value material, it is always for low value raw material or maybe very, very low value material. So B2B express has its own value proposition, which is only defined by the hub and spoke model, now B2B express is one of the main reasons why it is difficult to operate because it runs in a hub and spoke model, you need the branches, you need the sorting centers.

Rachita Gupta: Got it and could you please give me some numbers on spilt of the revenue between e-commerce and B2B express and Air Express this quarter?

Mukti Lal: So, if you see our composition of revenue, it is almost 8% on air express, almost 4% on e-commerce and remaining on surface side.

Rachita Gupta: What is the company targeting to have for this structure composition?

Mukti Lal: Again India is a road market, so share would be always higher in the road sector and we are not excited to increase the business more into an e-commerce sector, basically in B2C, so that ratio we are willing to keep on 4% to 5% only, air it may reach to 10% and remaining 85% is almost again surface express.

Rachita Gupta: Just last question from my end would be that any particular reason why the company is not looking to expand into 3PL segment?

Chander Agarwal: 3PL is low ROCE margin business and we do not have anything like that in express business as it is totally different, express business is running at about 10% PAT margin and not possible that margin in 3PL at all .

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

Ankit: Sir, thanks for taking my question. Sir just wanted to understand how have been the enquiries from the customers at this point of time, have we been able to add additional clients during the quarter and how are we placed because the unorganized market remains in shackles because of COVID, how are the enquiries from the customer shaping up over this 9 months for us?

Mukti Lal: We again had more enquiries from the SME customer and our focus is also more on that, so though we are still approaching big customers and top 1,000 customers are there, share will be depending on various aspects, like big customer always has two to three service providers at one time, so yes, enquiries are more from the SME customer and our target is also that.

Ankit: New client additions during the quarter?

Mukti Lal: So, it have more share of SME customer basically.

Ankit: Sir, the broad guidance we used to provide of doubling the topline and/or tripling the bottomline over the next 4 years does that still remains intact and how are we geared up to achieve the same any thought process around the same would be helpful?

Mukti Lal: Yes, that target is intact, we want to double revenue in 4 -5 years and triple our profits in 4- 5 years' time that is intact actually.

Moderator: Thank you. I would now like to hand the conference over to Mr. Alok Deshpande from Edelweiss Securities Limited for closing comments.

Alok Deshpande: Thank you Chander Sir, thank you Mukti Sir for taking out time to do this call with us and I also thank all the participants who participated with some very interesting questions, I think few questions are still remaining, but because of lack of time we could not take all of those, please feel free to reach out to Mr. Mukti Lal for those questions and queries. Thank you again and Mr. Chander, any closing remarks from your side?

Chander Agarwal: I thank every participant for listening to us out. We strive to be the number one express delivery company in India and number one logistics company in India, fulfilling all our customers' delivery needs and our shareholder aspirations. Thank you very much.

Moderator: Thank you Sir. On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

Notes:
1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings
2.