“TCI Express Limited's
Q1 FY'22 Earnings Conference Call”

July 28, 2021

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Moderator: Good day ladies and gentlemen, and welcome to TCI Express Limited Q1 FY'22 Earnings Conference Call. This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on the date of this call. These statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict.

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I now hand the conference over to Mr. Navin Agrawal, Head, Institutional Equities at SKP Securities Limited. Thank you. And over to you, sir.

Navin B. Agrawal: Good afternoon, ladies and gentlemen. On behalf of TCI Express and SKP Securities, it is my pleasure and privilege to welcome you to this Financial Results Conference of TCI Express Limited. We have with us Mr. Chander Agarwal -- Managing Director, and Mr. Mukti Lal -- Chief Financial Officer. You will have the Opening Remarks from Mr. Agarwal, followed by a Q&A Session. Thank you. And over to you, Mr. Agarwal.

Chander Agarwal: Thank you. Good evening everyone and welcome to Q1 FY22 Earnings Call of TCI Express Limited. I would like to thank all of you for taking out the time and joining us today. I hope you and your loved ones are staying safe and healthy.

I will start with the industry and business overview for the quarter, and then I will hand over the call to our CFO, Mr. Mukti to discuss the financial performance of the Company for the quarter. Earnings

Presentation has been uploaded on the website and stock exchanges, and I hope you've had a chance to review it.

As you all know it has been more than 15 months since the COVID-19 pandemic hit the country and the pandemic has had a far reaching impact on both personal lives and businesses. It has dynamically changed many business models across industries and sectors. With the ongoing vaccination drive, the recovery momentum has started. But we were hit by the second wave of Covid which has again impacted the economic recovery in Q1 FY22.

During the quarter, the index for industrial production saw a significant decline in output for the month of April and May consecutively. Manufacturing was down by 12.4% in April and 10% in May. And similar trends were visible across key industries. Similarly, E-Way bills generation after reaching its peak in the month of March had declined 17% for the month of April to Rs.6 crores and Rs.4 crores in May. And overall, it was down 33% quarter-on-quarter.

Logistics industry was impacted due to slowdown in manufacturing activity, coupled with the timing difference in the lockdown restrictions within states, had further impacted the interstate movement of goods.

Despite the challenging market conditions, TCI Express is better prepared this time to mitigate the pandemic impact on the business and continues to deliver a stable top line performance while maintaining strong margins and profitability. Our revenue from operations stood at Rs. 223 crores, registering a growth of 151% year-on-year, but declined about 20% QoQ. Our EBITDA was Rs.34 crores with margins remaining strong at 15% as compared to 4% in the same quarter last year. The EBITDA margin was lower compared to the previous quarter, due to slightly lower capacity utilization of 83.5% in Q1 as compared to 86.5% in Q4. And this was primarily due to the different lockdown timing and restrictions in different states. And, of course, the increase in employee costs because of the annual appraisals.

However, it is important to note that our asset light model and ownership of branches has allowed us to maintain strong margins and profitability even in the most challenging times. During the quarter, we have achieved another milestone as our Pune sorting centers had received the necessary regulatory approvals and is now operational. It will also improve operational efficiency by improving the turnaround time. We had incurred a CAPEX of Rs.16 crores mainly towards Gurgaon sorting center, which is expected to be fully operational by Q3 FY22 as communicated earlier. Furthermore, we have added 15 new branches mainly in the north and western region to cater to the growing businesses demand from the SME customers.

In terms of expanding our service offerings, we are capitalizing on our experience and learnings from Surface Express and had recently launched two new services -- the Cold Chain Pharma Express and C2C Express -- and both have started to contribute to the top line. I would like to highlight that through our Cold Chain Pharma Service, we have transported 50 lakh vaccines and 10,000 plus oxygen concentrators to the far-reaching corners of the country.

Sustainability is a core pillar of our long-term strategy and as an organization we are committed to reduce our carbon footprint and start using renewable resources of energy. With this in mind, I am pleased to announce that TCI Express has become the first logistics Company in India to install solar panels on its sorting centers. Pune will be the first to see that operational and all the sorting centers will be energy self-sufficient going forward.

Now looking ahead, I am confident of the tremendous growth opportunities for the express industry due to the government initiatives in strengthening the industry as well as investments in infrastructure development by the government to penetrate deeper in tier-2 and tier-3 cities. Furthermore, vaccination drives are going on in full swing and with the government businesses and individuals now being better prepared to navigate through the pandemic.

We remain optimistic of the recovery as the economy grows from negative to positive, and TCI Express is well positioned to cater to the growing opportunities and gain market share.

I would like to hand over the call to Mr. Mukti to discuss the Financial Performance of the Quarter. Thank you.

Mukti Lal: Thank you, sir and good evening, everyone. Now I would like to take it forward and discuss the financial performance of the Company. Our revenue from operations stood at Rs.223 crores for Q1 as compared to Rs.280 crores in the previous quarter and Rs.89 crores in the same period of last year. Significantly higher this time, the country was under micro lockdowns, which helped our businesses to remain operational; however, interstate movement of goods was faced with the certain challenges.

The revenue increased by 150% on year-on-year basis and declined by almost 20% on QoQ basis. Our utilization level was at 83.5% during this quarter as compared to 86.5% in the previous quarter. Our EBITDA was Rs.34 crores as compared to Rs.4 crores in same period last year and Rs.57 crores in last quarter. This decline in EBITDA was due to impact on top line as well as increase in employee benefit expenses on account of annual appraisal. However, we have been able to maintain strong EBITDA margin of 15% with our ability to pass-through select costs to customers. Net profit for the Company was Rs.24 crores with margin of 10.5% compared to Rs.1 crore with margin of 1% in Q1 of FY'2021.

During the quarter, we had incurred a CAPEX of Rs.16 crores towards our Gurgaon sorting center and we are focused towards making it fully operational in the next six months with automation. Our Pune sorting center is now operational from June which has increased our capacity and focus on west region.

I would like to reiterate the fact that we have been able to maintain healthy cash flow despite the challenges faced and during the quarter we were able to generate cash flow from operations of Rs.34 crores. As we are in asset light business model, we continue to strengthen our presence across the country and maintain a strong balance sheet and create value for our stakeholders.

So, thank you very much. And now I would like to open the floor for Q&A. Over to you please.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Alok Deora from Motilal Oswal. Please go ahead.

Alok Deora: I just had a couple of questions. One, just wanted to understand how has the situation been on a month on month-on-month basis like have we seen any significant improvement from July onwards and some part of June as well because of COVID second wave impact had come down, so have we seen any sort of positive development there? And secondly, also the margins, while they're still healthy at around 15%, they've still come up by nearly the 19% level which we saw in last quarter. So, what are the sustainable margins now which we are looking at over this year and even the next year, if you could just highlight that?

Chander Agarwal: So, question one, in situation month-on-month, yes, it is on the upward trend, I'm not seeing anything negative so far. Margins, of course, dynamic of your overall growth. So, since we had the lockdowns, we saw that the volumes had dipped and it's a function of that. So, when we see the volumes pick up, we will also see the margins go up back to the same levels of 17% to 18%.

Alok Deora: Sir, also did we have any kind of impact due to the fuel price change because in the opening remarks, what we understood is it was mainly because of the employee cost increase, so any fuel pricing also impact will be there in this 400 basis points drop which we have seen on …?

Chander Agarwal: Very less impact of fuel and the salary increments is very essential in these times, I think we would be the only logistics Company in India that would be doing that. So, if we look at the trade off, we did not substitute one for the other. We also gave increments and we also passed on the diesel fuel price. So, I think it was a good mix and match.

Alok Deora: Any change in our guidance or outlook based on how the first quarter has been because in Q3 and Q4, we had seen pretty strong rebound and outlook?

Chander Agarwal: It's like this, Q3 and Q4 are perfect example of how the economy was behaving. So, if the economy is behaving fine, then we will not be shy of two digits growth. I think it's all depending on the economic recovery of the country. And as it grows, we will also grow in tandem.

Alok Deora: What's the CAPEX guidance for this year?

Chander Agarwal: CAPEX still we will maintain at about 100 crores or something.

Moderator: The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: In the last call, you mentioned that you want to double your business in the next three or four years broadly. And your profits will probably go up three or four times I just wanted to understand how that can happen.

How will we it move from Rs.1,000 crores to Rs.2,000 crores in the next year?

Chander Agarwal: So, first of all, the top line will be a component of the economy. And similarly, if we were to double our revenue, which is let's say it will be about 1,800 or 2,000 crores, I don't know in four years, then EBITDA would be around Rs.400 crores. Mukti, you want to also include your reply in this?

Mukti Lal: Yes. So, rightly said, if we double our revenue, our margin will be almost four times of that, supposing we are right now 1,000 crores, we will make 2,000 crores revenue and PAT level will be more than Rs.300 crores

Arpit Shah: You had a margin of 19.5% to 20%. Would there be peak utilization at our sorting centers operations? What would be the peak margin level – would it be 20% or would it be higher?

Mukti Lal: Last Q4 was kind of a very good example, we have right kind of revenue and right kind of utilization of our trucks and we had like 19%-plus margin levels. So, in next three quarters we will be achieving even more than that. Full year we want to be in the marginal range of 17% to 18%. And our peak by 2025 at least we want to reach on a 22% kind of EBITDA level. And in our case, EBITDA and PBT does not have a big difference, because we don't have any significant interest costs and depreciation cost, so it will directly contribute to my PBT and ultimately it comes as a PAT. So, there will be two three contributing factors. One is obviously; we will be keep increasing our annual prices with the customers that is now a standard practice in our Company. And second thing utilization of trucks. Last quarter, we had done around 86.5% and we want to reach in the range of 89% to 90%, which is achievable.

Arpit Shah: What kind of competitive advantages we are building around that? Are there PE-funded players? Any kind of technology that we are using in implementing so we can get larger number of clients which are very much needed?

Chander Agarwal: Nobody is entering the B2B space, I mean, everybody is into the B2C space. Even the latest listing by that food delivery Company is in B2C. And all the other PE players are entering B2C for last mile delivery, which also has a short term run rate. So, I think B2B is still very difficult to enter to operate. And technology is something which is at least in TCI Express, it is the foundation, and the backbone of doing businesses. We use AI and data analytics, without which we cannot function. If you log into our ERP, it's all that information available, that's possible to data analytics. And we are now looking at also getting artificial intelligence for deciding the branch, distances, and which customer mapping and all of that. So, the technology is all integrated, the CRM is integrated with data analytics, which is integrated with GPS, so it's all integrated, nothing is standalone.

Moderator: We have a next question from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: Sir, I have two questions; one was the data keeping question. If you could just share the tonnage for this quarter?

Mukti Lal: Tonnage for this quarter is 1.75 lakh tons.

Dhruv Jain: I have a question on the branches. So, I see that this quarter we have added about 15 branches and over the last year working on a branch expansion mode. So, I wanted to understand, how does the majority pattern of this branch behave, as in when a branch typically hit peak revenue, and how do you see this number of branches expanding as you take the path of Rs.2,000 crores revenue in the next couple of years? Are you looking to add branches over the next couple of years?

And wanted to understand that when does a branch typically after you set up, in which year it hits kind of peak?

Chander Agarwal: Peak depends on the economic activity, first of all. So, there is no like set timeline or it's not like a run rate where you hit a certain business volume and it will stop growing, so it's not like that, it's continuous. In next two years, we are planning to add about maybe 200 to 250 branches and how we are adding them is based on where the manufacturing companies are coming up and the SME companies are situated.

Moderator: The next question is from the line of Shalini Gupta from Ashika Securities. Please go ahead.

Shalini Gupta: Through the quarter also we had a lot of lockdowns and SMEs and MSMEs are the majority of your business, so how come they were not impacted because finally, everybody's business was impacted because of lockdown, I mean, the lockdown itself started in May, but offices were shut before that as well, so I mean, if you could just please explain that?

Chander Agarwal: So, the kind of SMEs that we deal with is not the ones who are nearby shops, who deal in cash, they are far larger manufacturing companies. And even if their offices were shut, the back end, the plants were operational. So, that's not an issue. And we saw that, again, the same situation that the SMEs were first to bounce back compared to the larger companies. Larger companies also had their annual maintenance shutdown. They used that lockdown period for the annual maintenance lockdown , so a lot of the activity we saw with the large companies or the Company especially scaled down, but generally SME were active, and we really benefited from having them. And SMEs is not our large scale of our businesses, it is about 50%.

Shalini Gupta: The business you're in, which is the logistics B2B also is hyper competitive, and earlier in the call, you have said that nobody's entering the B2B space the express logistics. So, I could not really hear your answer. If you could please just help me understand as to where your competitive edge lies in this hyper competitive industry?

Chander Agarwal: Our competitiveness lies in B2B which requires a hub-and-spoke model and to build a hub-and-spoke model and before billions of dollars, it requires local country knowledge, which billions of dollars cannot buy. So, I think that is something which is very difficult and to approach manufacturing companies. And to create a sustainable model which can go through these turbulence times, and when the times are good to kind of like ride the wave is very important to build that business that way. And B2B business is something which also depends mostly on manufacturing. So, as long as the manufacturing is stable, is growing in the country, B2B business will also grow.

Moderator: The next question is from the line of Rahul Soni from SMIFS Limited. Please go ahead.

Rahul Soni: First of all, what is your current tonnage handling capacity and how it will move over next two years post the operationalization of your new sorting centers and addition of new branches?

Mukti Lal: So, Rahul, if you see all sorting centers are not the storage centers, material come in and out, that is the only function we have. Your question is that how we will make them as a more efficient. And that's why we started putting automation in these centers, example, supposing one time material is staying like 15-hours or idle time is 15-hours, our endeavor to bring it down to six to eight hours. So, that way in the same capacity we will move more revenue or more tonnage, that is the one aspect of that. And second aspect is of our trucks, so trucks addition is also very dynamic, in this quarter, this truck utilization level was 83.5% and in last quarter it was around 86.5% and our endeavor in next two three years, we want to reach utilization level of these trucks level at least 89% to 90%. So, this way we will keep our costs under control and further bring it down. So, our operating gross margin last year, we achieved 33.5% which we are now planning in this year to achieve at least 100 basis points more like 34.5%.

Rahul Soni: If you can provide some more details on your revenue breakup side like what was the breakup between your SME and corporate clients and also in terms of sectoral exposure?

Mukti Lal: Revenue from SME and corporate is almost 50:50 and we also want to keep that ratio, though profitability with the SME customer is higher than corporate customers, but yes, obviously, corporate customers provide big volumes and small customers are giving the good prices. So, we have to maintain this mix and match. And another aspect of sectoral is the 55% revenue is coming from our five sectors and these are basically auto, pharma, engineering, textiles and electronics. So, these are the major five sectors we are catering.

Rahul Soni: So, the contribution of the sector was more or less same compared with the March quarter?

Mukti Lal: Yes, that we also want to maintain. We don't want to depend on a particular one sector. And that is actually the strength of our Company. We want to have three, four kinds of diversification; one is number of customers, SME versus corporate we want to maintain a good balance Second one, diversification of sectoral revenues. That is also we don't want to depend on one particular sector. Third one, zone wise revenue and not depend on a particular zone. It is widely diversified in each zone. And fourth thing on supplier side also, we are not depending on particular supplier or route or vendor and that always help us to come through with all kinds of challenges and ultimately help us to improve our margin levels continuously and this trend is expected to continue.

Moderator: Next question is from the line of the Dipesh from Equirus. Please go ahead.

Dipesh: Sir, your rental cost in FY'21 was around 30 crores. So, just wanted to understand what will be your savings in FY'22 once Pune and Gurgaon both commenced operations and on an annualized basis if you can give that number please?

Mukti Lal: I think this year, we will have the same kind of cost, because sometimes some percentage of increases also happens plus we are also expanding branch network. So, we will keep adding the branches and that rental will also be added. More or less maybe same or like Gurgaon we will add on after Q3 basically, so we will not be able to save rent for the full year. Pune, we had last month of this Q1. So, this way, I think it will be the same in terms of amount.

Dipesh: Going forward, say in Q1 FY'22 or '23 which locations are you targeting for creating bigger sorting centers?

Mukti Lal: Yes, that is a very good question. So, next target would be like Chennai, Nagpur, Kolkata, Mumbai, these are the major locations we are planning to have in the next two, three years.

Dipesh: You have given that you have transported around 50 lakhs vaccines and all those numbers, but can you give what kind of revenues from a new service offering that is B2C in cold chain did you see in first quarter?

Mukti Lal: Revenue is not significant to be disclosed right now. But yes, we are gaining the market share and our complete focus is on pharma industry only, we are not going for other like food industry and others. So, we are gaining market share and also adding the customers in this sector.

Dipesh: Any rate increase you have taken for this year as you do every year like the base rate cut increase apart from fuel inflation?

Mukti Lal: This is a very good question. So, we have been able to increase, around 2% impact is there for rate hike with the customers

Dipesh: Already taken in April, May you're saying?

Mukti Lal: Yes, in this Q1 I'm talking about.

Moderator: Next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Just wanted to know in terms of volume. Last year same time, we had a total volume tonnage of 73,000 tons if I'm not wrong?

Mukti Lal: Yes, correct number.

Kunal Bhatia: How about in Q1 FY'20?

Mukti Lal: I don't know, I need to check it I will separately give to you.

Kunal Bhatia: My second question is after the Pune sorting center, what would be the total square feet which we will be having? And secondly, also you did mention about the improvement on the turnaround time. So, if you could give some sense on that what is it currently and how has it improved?

Mukti Lal: So, on Pune sorting center, we just started in June only. And this is area is around 1.5-lakh sq.ft. And automation has yet not put in this center. First, we will put the automation in our Gurgaon and subsequently we will put in Pune. I think we will be able to put the automation in Pune next year. Turnaround time, yes, it is very early to say something because it just started in Q1. So, I think once volume will pick up in this quarter or subsequently, then we will get that benefit, certainly we will get the benefit of 50 basis points in overall cut in my costs.

Kunal Bhatia: Finally, wanted to just reconfirm, you did mention that at about 2,000 crores of revenue say by FY'25. What kind of EBITDA are we expecting?

Mukti Lal: We are expecting EBITDA in the range of 21% to 22%.

Kunal Bhatia: So, from Rs.142 crores which we have in FY'21 we are expecting about Rs.400, 420 crores plus?

Chander Agarwal:1 Yes.

Moderator: Next question is from the line of Deepak Lalwani from Unifi Capital. Please go ahead.

Deepak Lalwani: So, my question was on the H2 number. So, as the economy is on a gradual recovery, what is the kind of growth that we are seeing in the H2 of this financial year given that last year the base was set quite high for our Company?

Chander Agarwal: If we look at the growth for this year in H2, if it's in the range of 7% to 8%, I'm not sure, I don't know what will be the impact of third wave, when it will be, people are saying it will be before Diwali, I don't know, very hard for me to comment yet. But going forward, I think if things are in in well progress, then I feel that we would have the top line growth definitely and bottom line will be accordingly.

Deepak Lalwani: The value-added services which you have added in cold chain and C2C Express, what will be the contribution of these services in H2?

Chander Agarwal: So, again, it's very difficult to say, if the third wave comes in, things will be a big question mark, but our goal is to maintain our profitability for this year, the guidance that we have given and also the top line, but as a product wise, I do not see much of a challenge in growth.

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

Prit: Are we right now at 86% utilization or still at the 83% mark?

Mukti Lal: No, that was a very temporary situation Q1 because we faced the challenge of timing difference in each state for the lockdown. Last year, we were fortunately or unfortunately, all India was equally closed down or under lockdown, but this time, there was a highly difference, like North India and West region were open, then South was going for slightly longer lockdowns because more cases they have and still they are under pressure or under lockdown, situations in some places. So, this has resulted in utilization level to come down to around 83.5%. And in July onwards, we already reached on a Q4 level.

Prit: One comment is that recently that GATI mentioned that they are also looking to follow a similar strategy of automating their sorting centers and spending a lot of CAPEX on that. So, I remember in the past calls, I think somewhere we had mentioned that you may be looking out to acquire GATI's customers and hopefully increasing the top line via that route as well. Any…?

Chander Agarwal: We are definitely all out in getting our competition customers. All competition has a lot of internal issues with corporate governance, with finance, with a lot of other issues, what that Company announced and what they actually do are very, very different. So, you will see over time as to what they're going to do and what they have announced, how much of a match or the mismatches in that. That's all I can say for the competition.

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

Prit: On the next CAPEX you make wherein you're setting up sorting centers in Nagpur, Kolkata and Mumbai, just wanted to get a sense at present are these sorting centers operating at full capacity, in terms of turnaround time, what you're anticipating on a 50 bps or perhaps in sorting center, would it be fair to say that 50 bps would be the expansion, the incremental sorting center giving model, is that a fair assumption to make?

Mukti Lal: You rightly asked that. So, whenever we will be going on newer one, we will put our effort to make them automated since day one. And yes, you rightly said whenever we will go, we will improve our efficiency and turnaround time will be faster for that. Ultimately, how it will work? So, like, one truck is idle for my sorting center like seven, eight hours right now, tomorrow it will be only idle for four hours, so, it will be reduced from eight to four and their trip count in a month will be increased. And whatever they save on that side, they will pass on to us, that is a one thing. Second thing, customer experience will also increase. So, that's why we will be able to get the right kind of price in future continuously. So, we have internal strategies to how we make this as a success story and get the right kind of achievements.

Prit: I understand that. But my question was that improving the turnaround time in one sorting center is a fair thing. But wouldn't the efficiency come in when you're pairing your hub and both the hubs are operating in an efficient manner. So, my question was more relating to is it fair to say that as and when you add in or modernize more and more sorting centers, that is when you will see a significant portion of margin expansion coming through?

Chander Agarwal: It works also independently, because you see that every sorting center is also an operational excellence hub, where material is coming in a second, where planes are coming in from different cities and departing for different cities, arrivals and departures. So, the faster you can do arrivals and departures, you can save on labor cost also through automation. So, there are multiple factors that you have to look at. And if my north is able to speed up the turnaround time, then the materials will reach faster to South India to West India to East India. So, overall, one sorting center will start giving the benefit also. So, when you have a culmination of all these other sorting centers, for sure, it will be giving out a very good result.

Prit: One other question was on the revenue guidance. Last time for FY'22, you had guided for 40% revenue growth. So, is there any revision in the guidance?

Mukti Lal: Not really, we are sticking with these guidelines what we have given, because we have not seen any significant reduction in our revenue in Q1, and hopefully, Q2, Q3 and Q4 would be robust for us. So, we will be intact on that.

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

Ronald Siyoni: I just wanted to understand the competitive dynamics like when we had lost market share and Safe Express had picked up and became a leader, so, at that point of time, whether it was the only Company to increase the market share significantly or we are also proportionately able to increase that share?

Chander Agarwal: Definitely, our market share will be the highest in the country in time to come, because we know the underlying problems, as I mentioned, before with the competition, they have a lot of issues and which easily said, when can be done. We are now geared already for a higher market share. We have always been conservative in declaring our market size because of the unavailability of data. But as I go forward, in collaboration with NITI Aayog and all the other industry data, I'm quite sure that by H2 end, I would have a fairly bigger market share than other competition.

Ronald Siyoni: You are also improving as a market leader in these comments like…

Chander Agarwal: Absolutely, there is no doubt about that. The simple thing is, when you increase branches, what happens? How many companies have you heard in the country, that in five years, they have announced, they have opened, so many branches, are they're doing this sort of expansion, everybody is talking only about getting out of their problems first, and then only will they be able to establish themselves in the market. So, your first comment about some other taking on the business. Sure. The business of the Company, which is not doing well, but at what pricing? That pricing was also you have to look, if you study the data correctly, that pricing was for throw away price, lower than FTL pricing. So, that sort of thing is not required to do market share.

Ronald Siyoni: The second one would be like going ahead, like everybody is targeting SME, MSME. So, going ahead, what do you see like a shift of market share between the players getting the growth or…?

Chander Agarwal: I'll tell you one very clear example, you had Rivigo, which came, which tried to take market share from everybody. And what did the SME customer do? He folded his hands and said, please, we cannot work with you. And they all came back to us. Same thing, when these new companies or old companies try to get into the SME sector, there is a certain degree of knowledge that you need to have for doing that business. The companies like what you have mentioned, do not have that, they don't have the branch approach, they have maybe the franchise approach. Now, when you have a franchise approach, the SME does not usually go very easily to the franchise in the express trucking business. So, I think that is a big factor. And you have to look at the organizational structure also as to how the SME reacts.

Moderator: The next question is from the line of Ayush Madhani, an individual investor. Please go ahead.

Ayush Madhani: I have a couple of queries. So, like I heard a platform is also in the trucking. So, it's a start-up. I have seen asset light model, everything is same for BlackBuck and TCI on most parameters. So, although it is not profitable but we are profitable as a TCI. So, how do we see the competition from like you said GATI and all their management and all those issues, but BlackBuck is a youth starting up and it has got customers like Vedanta, Tata, Asian Paints and a week back ago they received a good amount of funding also. So, how do we see the competition like such type of start-ups?

Chander Agarwal: Mr. Ayush, let me tell you about the industry. In express industry, we do not have the lead of something like a BlackBuck. BlackBuck is a vehicle provider. If you have different fleet, they give to the truck walas and then they provide to the transportation companies or anyone who wants the trucks, they provide that. So, they do not have any customers as such. It could be more than pricing, it's a question of stability that the truck that they provide if it's usable or not usable, if it's there or not there, their business model is totally different, it is not at all in sync with what we are doing. We have a customer now in hand, we have the operations in our hand. They are a Company which is run on computers which basically has tries to match buyers and all that. So, that's a clear contradiction of what they are doing and what we are doing. They do not have a hub-and-spoke mechanism. So, that's number one point. And second is the other companies which are in the limelight for getting funding and getting unicorn status, but here, we have a different goal altogether, we want to create value for shareholders by actually giving dividends.

Moderator: The next question is from the line of Hatim Broachwala from Union Mutual Fund. Please go ahead.

Hatim Broachwala: Sir, my first question is on the new businesses which we have introduced. I can understand that we cannot give any near-term guidance. But even it will be helpful if you can give some sort of long-term guidance on the new businesses?

Mukti Lal: So, we also mentioned in last time, the other services, including everything in next four, five years we want to make around 20-25%, right now we have around 10%.

Hatim Broachwala: Sir, what all is included in other services apart from that cold chain and the other businesses which you have launched?

Mukti Lal: I am talking about surface and non-surface. So, surface, we have around 90% business and 10% we have the air domestic, then air international and the cold chain and now this is pharma Cold Chain and C2C.

Hatim Broachwala: Just to understand cold chain transportation and C2C business, what of margins one can expect – is it the same as our existing business or it will be different than existing business?

Mukti Lal: Whatever business we are going to start, we keep in mind that margin has to be improved from the current level. We never compromise on a margin level. So, whatever we are adding on, it has to be on the same level or even more than that from the current level.

Hatim Broachwala: My last thing is I was not able to get the tonnage number for this quarter?

Mukti Lal: It is 1.75 lakh tons.

Moderator: The next question is from the line of Ravi, an individual investor. Please go ahead.

Ravi: My question is slightly from a longer-term. Apart from our core business growth plans, what are the government policy changes can really boost not just our Company business and also the overall logistics sector?

Chander Agarwal: Government should focus on fuel pricing and number two the quality of trucks that we have in India.

Ravi: I was hoping for a light on what you have mentioned in your presentation; multi-modal logistics and national logistics policy?

Mukti Lal: These initiatives that government is taking up, this is very helpful for the road industry and government is also putting their highest budget outlay on road sector development like they started Make in India initiative, then they increased the axle load in trucks, third one they are also putting highest effort to bring up this all SME and a new one is the PLI scheme. So, all things will improve the manufacturing in India and ultimately it will be benefited to express companies like us for the long-term.

Ravi: We recently launched cold chain express, right, we were not offering before that?

Mukti Lal: Yes, we started in last quarter.

Ravi: So, any particular reason which stopped us from offering the cold chain services before let us say COVID era or before the vaccine opportunity arise?

Chander Agarwal: The simple reason was that we were doing pharma logistics, pharma express and the demand of cold chain came now only. Earlier, there was not much demand for the cold chain pharma express. So, because of that we started now.

Moderator: The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: My question is on cost. I am just trying to understand the cost element a bit more on the other expenses ex-vans. I think the biggest contributor for cost in last year there was a decline in travel expense, I think it dropped from Rs.10 crores to Rs.2 crores. Now, as revenue ramps up, how much of this will come back and how much of this is sustainable is what I wanted to understand?

Mukti Lal: Very good question, Abhijit. So, on other expenditure side, you rightly said, we have very good reduction in other expenditure like almost we have reduced more than 20% and in this year this tempo will continue and still we will be low what we have in FY'20 before COVID period. So, I think we will maintain that because whatever we have done, we have done on a sustainable basis like we have done virtual meetings, we have done virtual tours, virtual conferences, virtual trainings, virtual docket and virtual billing, digital billing, digital collection. So, various things we have done for the permanent and for the longer-term. What expenditure we have incurred in '20, we may reach even by '23 or '24.

Abhijit Mitra: In terms of area that we have under owned or under leased category as of say FY'21 or Q1?

Mukti Lal: Actually, it is not important for us. We are not gauging this on this basis. We are just seeing that how we can make our turnaround time reduce on that. Important is that how we can make improvement in efficiency and ultimately reduce the turnaround time of that because there is no storage facility we have. So, how fast we can through the material, that is important for us. We are really not looking these figures internally.

Moderator: The next question is from the line of Rahul Soni from SMIFS Limited. Please go ahead.

Rahul Soni: Sir, I just wanted to understand regarding the gross margin. Despite the increase in the revenue during the last quarter, our gross margins have declined by 315 basis points while our realizations have moved compared to last year. So, have we not been able to pass on the price increase during this quarter? I am comparing with the YoY.

Mukti Lal: So, YoY basis you cannot compare because that time revenue was very low and that time we achieved our gross margin on 36% and that was temporary because all India was closed down, so the capacity utilization level was very high on that time and mix of material was also different actually because sometimes mixes of different, different sector is also important, some sector is giving the good profitability, some sector is not giving, what kind of return load we have. So, various factors have worked there. So, now we are very clear and whenever diesel is increasing even it is a positive arbitrage for us always because we are getting the right kind of increase from the customer and vis-à-vis we are not passing on the same kind to our supplier side also, we have some gaps there. Like suppose diesel is increasing 10%, so we will try to get 10% from the customers and in turn we will not give the suppliers equal to 10%, we may give 6% or 4%. I am just giving an example of that.

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

Prit: Can you give some comments on the progress on the automation? You mentioned that Gurgaon is where the automation will be carried out first, right?

Mukti Lal: Yes.

Prit: Given the lockdowns and all, are there any delays in getting that?

Mukti Lal: Yes, as you rightly said, we will first put in Gurgaon and it is not delayed, it will be operational in Q3.

Prit: So, when you start, you will operationalize as an automated center?

Mukti Lal: Yes.

Moderator: The next question is from the line of Radha Agarwal from B&K Securities. Please go ahead.

Radha Agarwal: I just wanted to know if you could just reiterate your revenue guidance for FY'22 and FY'23.

Mukti Lal: Revenue we are targeting in the range of 35% to 40% over '21. And subsequently, we want to be like 18% to 20% by '23.

Moderator: As there are no further questions from the participants, I would now like to hand the conference over to Mr. Chander Agarwal for closing comments.

Chander Agarwal: Thank you, everyone for your participation. And I am delighted to continue offering the best express service in the country with my well established team. And I look forward to having a call again next quarter. Thank you.

Mukti Lal: Thank you, everyone.

Moderator: On behalf of SKP Securities Limited, that concludes this conference call. Thank you for joining us, ladies and gentlemen. 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. Figures have been rounded off for convenience and ease of reference
3.