"TCI Express Limited
Q2 FY2022 Results Conference Call"

October 22, 2021

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Moderator: Ladies and gentlemen, good day and welcome to TCI Express Q2 FY2022 results Conference Call hosted by ICICI Securities. 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 for 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. Abhijit Mitra from ICICI Securities. Thank you and over to you Sir!

Abhijit Mitra: Thanks operator and good afternoon, good evening to all the participants. We have with us today the management of the TCI Express to discuss Q2 FY2022 results. We are representing the management, Mr. Chander Agarwal – Managing Director, Mr. Pabitra Panda – COO and Mr. Mukti Lal – CFO. Without further ado, I am handing it over to Mr. Chander for his opening remarks. Over to you!

Chander Agarwal: Thank you Abhijit. Good evening, everyone and welcome Q2 FY2022 earnings call of TCI Express Limited. I would like to thank you all for joining us here today. I hope you and your loved ones are staying safe and healthy.

I will first start with industry and business overview for the quarter and then we will hand over the call to CFO – Mr. Mukti to discuss the financial performance of the company for the quarter. Our earnings presentation has been uploaded on our website and stock exchange and I hope you had a chance to review it.

The overall macroeconomic scenario improved in Q2, and business were able to recover quickly from the initial shocks of the second wave in Q1. In Q2 FY2022 we saw a pickup in the economic activity and broad-based recovery was visible. Recovery trend was visible in both at data for index for industrial production and the E-way Bill generation.

During the quarter we saw overall improvement in the output for the month of July and marginal decline in August. The manufacturing index was up by 10.5% in July and 10% in August on year-on-year basis.

Another factor which helps us in gauging performance in the logistics sector is the generation of the E-way bills, which after decline in previous quarter demonstrated significant growth during the quarter. Overall, the E-way bill generation was by 41% Q-o-Q, 19% Y-o-Y with July registering 6.4 Crores growing consecutively to 6.6 Crores in August.

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The overall economic recovery had a direct impact on the performance of the logistics industry and as a result after having a subdued Q1 the logistics industry recovered quickly in Q2. TCI Express being the market leader in express logistics continues to deliver strong performance during the quarter; the total income of 276 Crores, registering a growth of 29% year-on-year and 23% sequentially basis the topline driven by the SME customers. Our EBITDA was 48 Crores with margins increasing to 17.3% as compared to 15.9% in Q2 FY2021 and 15% in the previous quarter.

The EBITDA and margins growth was primarily on account of 1) higher capacity utilization of 85.5% in the quarter as compared to 83.5% in Q1 FY2022 due to the growth key service areas of the company. 2) Improvements in overall operation efficiencies as well as higher demand, on account of festive season. 3) Also we have been able to continuously increase footprint by opening 15 new branches during the quarter mainly in the South and West region to cater to the growing business demand from the SME customers.

During the first half of the year, we have incurred total capex of 46 Crores which has been primarily spent towards construction and automation and sorting center in Gurgaon and Pune. The construction of Gurgaon sorting center is going as per planned schedule and will be operational by the end of Q3 FY2022.Our Pune sorting center which has been fully operational since June 2021 is helping us reducing the time in the region. From balance sheet perspective, we continue to maintain strong capital structure for the cash and investments increasing to 100 Crores at the end of September 2021.

In view of a strong performance in the first half of the year, I am pleased to announce that the Board of Directors have recommended an interim dividend of Rs.3 per share with a payout of 150% on the face value.

Recently launched Pharma Cold Chain Express and C2C Express services are going strength to strength. We have been able to deliver 101 lakhs vaccines in the end of September through our Pharma Cold Chain Service offerings.

We expect both the service offerings to contribute meaningfully to the topline in the forthcoming quarters. We at TCI Express firmly believe in working towards providing more value service to our customers in a cost-effective manner, as air cargo is on a decline due to its higher cost, and which is not sustainable in anyway we see a vast opportunity to fill the gap at a lower cost, service with the effective service offerings of the rail cargo.

With this in mind, I am delighted to announce that we have launched our new offerings called Rail Express which is a unique service offering to provide high value service at a lower cost and it is already gaining enough traction amongst our customers. Now, I can probably say that TCI Express is the fastest growing multimodel express delivery company in India.

Looking ahead the logistics industry is going through a lot of transformation as the government has identified it to be a key factor contributing to the growth of the country's GDP. Recently launched PM Gati Shakti National master plan launched by our PM is a testament to it and is aimed at seamless movement of good in the country and overall infrastructure development as well as improved to quality and ease of doing business, I strongly believe in such initiatives act as a catalyst driving demand to the remotest corners of the country.

As the economy gathers pace on the back of various government initiatives and mass vaccinations, ongoing festive season, a strong rural demand this is expected to drive in the near term. We remain confident of the superior value service offerings as well a leadership position to capitalize on going opportunities and deliver sustainable growth consistently in the upcoming quarters.

With this, I would like to handover the call to Mr. Mukti to discuss the financial performance of the quarter.

Mukti Lal: Thank you Chander Sir and now I would like to discuss the financial performance of the Company.

During this quarter, our revenue from operations stood at Rs.274 Crores for Q2 as compared to Rs.223 Crores in last quarter and Rs.213 Crores in Q2 of last year translating into a sequential growth of 23% and 29% year-on-year basis. This significant growth can be attributed to multiple factors like growth in demand from SMEs, higher capital utilization, increased demand from rural areas and festive season.

Overall, the total income for the first half of the year stood Rs.500 Crores as compared to Rs.305 Crores last year posting a significant year-on-year growth of 64%. So, we also witnessed the significant improvement in EBITDA and margin as well and EBITDA stood at Rs.48 Crores with the margin percentage of 17% and it is surpassing the full year of FY2021 margins.

Sequentially the EBITDA growth was 41% and year-on-year basis it is 40%. This improvement can be attributed to robust growth in topline as well as improvement in overall efficiency.

I am happy to report that for the first half of the year, our EBITDA was Rs.81 Crores as compared to 37.5 Crores for the same period last year and we have now been able to surpass pre-COVID levels.

The net profit for the company in Q2 was 34 Crores with a margin of 12% as compared to Rs.24 Crores as margin of 10.5% in Q1 FY2022 and Rs.23.5 Crores and margin of 11% in Q2 of last year.

Overall, the net profit for the first half was Rs.58 Crores with the margin level of 11.6% despite challenging condition in Q1 of this current year. For the first half of the year, we have incurred a capex of Rs.46 Crores towards construction and automation of a new sorting center in Gurgaon as well as towards ramping up our IT infrastructure.

I am happy to report that we are completely on schedule to make this sorting center fully operational by the Q3 which will result in improving the turnaround time in this north region and further improve the operation efficiency to drive growth and profitability.

Our Pune sorting center which is already operational since June 2021 and as I communicated earlier, we are keen to take the learning of our Gurgaon sorting center and then will go for automation at our Pune center.

So, our key strength is asset lite model and as a result we continue to maintain a strong capital structure and strong balance sheet. I would like to highlight that for the first half of the year, our cash and investments stood at Rs.100 Crores and going by the improvement in macroeconomic scenario of the country, improving demand trend and active participation of the government in improving the overall connectivity across the country and ongoing festive season, I am highly optimistic of further improvement in our capacity utilization, higher contribution from our new offerings like Pharma Cold Chain, C2C Express and Rail Express as well as overall operational efficiency which will be reflected in our financial performance in the forthcoming quarters.

Thank you very much and now I would like to open the floor for question and answer. Over to you!

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

Alok Deora: Good evening, Sir, and congratulations on great set of numbers. Just few questions, if you could just highlight that in the growth of around 28%, how much would that be through volumes?

Mukti Lal: Through volumes is around 26%.

Alok Deora: Okay and what would be the absolute volume figure for this quarter?

Mukti Lal: For this quarter volume figures are 2.2 lakh tonne and for the H1 it is 4 lakh tonne.

Alok Deora: Got it and the margins have improved to nearly 17% now, 16.6% EBITDA margin, so what is the outlook there now because we have seen sharp increase in diesel prices especially after September, so how are we viewing, I understand that the volumes may be higher due to festive season but how are we looking at the margin picture now from a two to three quarters perspective?

Chander Agarwal: The government has given a guideline already that for this quarter the GST collection will be more than one lakh, so it is clearly that is a very positive factor, so I think looking at that I see that the business should be robust and we would be able to pass on the pricing quite effectively, the diesel hikes very effectively.

Alok Deora: Sure, and in the presentation also it is mentioned that and you briefly mentioned about this Rail Express, could you just elaborate little bit on that what is the business like and how much it could contribute and what exactly we are doing here and is any other player also doing anything of this sort?

Chander Agarwal: The kind that the business that we usually do is express which means that it is not full rack, or it is not. It is LTL going rail which means that it is time definite and it is assured delivery in an assured time, so this what it is done is that we managed to convert a lot of the air cargo customers into the Rail Express business and this is something that nobody else has been able to do and this has a good following and a good acceptance in the market which I see in the long term and play out very well. The way air cargo is going ahead in today's time it is not going to have a very bright future in times to come. It may have had in the years when there was no highway, there was no road traffic because of the lockdowns but there was just one of thing in time to come is the huge price $100 barrels or more, it will not be sustainable for air cargo, So I think that market clearly shows us that it is a new that business can be converted to rail quite early because the rail speed is faster than the surface; however, the pricing is not as high as air cargo.

Alok Deora: Sure. Just one last question from my side, so we have been giving guidance of around 35% to 40% growth in FY2022, so any changes in that we would retain that number?

Chander Agarwal: No change in that number.

Alok Deora: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate. Please go ahead.

Rajesh Kothari: Good afternoon, Sir, congratulations for great set of numbers Chanderji and your team and Mr. Mukti. Just two questions from my side is, can you give little bit more color on terms of the new initiatives which you talked earlier during the last couple of conference calls in terms of the pharma as well as remaining of subsectors and how are you seeing traction on that side, that is number one and number two that consolidation in the industry are you seeing, are you experiencing the consideration in the industry that is number two and number three question is primarily on the digital initiatives side because I keep seeing you a lot of advertisements on the various sources of media platforms so if you can give little bit more update on that that how we are further gaining the market share using the digital as an initiative?

Chander Agarwal: Thank you Rajesh, pleasure speaking to you again. So, answering your question, the new business pharma, cold chain and a lot of the new initiatives they are growing pretty strong. I mean the way we have positioned it and the way we are guiding our pharma business, it is actually showing a very good traction and since we have also in a way first movers, we got that advantage. Consolidation in the industry I think it happens. It is such a large industry. It is not visible the way it should be, it is very hard to say because 95% is still unorganized and with that no real visibility, it is difficult. The third question digitization. We were the first company in India to come up with the usage of ERP and having in-house IT and all of that, so we are well equipped with all that is required, there is nothing we do not have at the moment for our business. Our business is more than the IT that is being that we are using, IT is the backbone is the figure of the operation and everything but it is not something which I will use it as to project the company being different or better or something.

Rajesh Kothari: Thanks and during the period of say two years to three years how do you see the new segments contribution to the current revenue?

Chander Agarwal: It is in investor presentation. I think they will contribute about one-fourth. One-fourth would be I think you see the investor presentation on the website.

Rajesh Kothari: Okay.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Chander again thank you very much for nice result. Will you tell what is the rail service, will you describe how this updating?

Mukti Lal: Sorry come again please.

Ravi Naredi: What is rail services which we are going to start, or we have started?

Chander Agarwal: This is again small cargo we will carry through this rail services and it is again point to point. So suppose, there is one branch in north collect the cargo and deliver in East India, so we will pick from customer door then connect with this passenger train basically and then deliver to their door, so it is basically substitute of this high cost of air cargo into rail on a very cheaper rates.

Ravi Naredi: Okay, so it will be like B2C, right?

Mukti Lal: No, it is again B2B.

Chander Agarwal: Only B2B.

Ravi Naredi: Okay, Chander, suppose Indian GDP is double in next five year then what is our target for our industry, how it will grow?

Chander Agarwal: Our industry will be $1 trillion by 2030, so $1 trillion and road will be 70% which means it is near $700 billion opportunity, so I think it is going to be massive. Otherwise, we have to expand our branches, we are lean, we are gaining speed, and we are putting all this automation to capture all the business, so we are planting the seeds now to capture that.

Ravi Naredi: out of 700 billion, how much we are targeting as a TCL Express?

Chander Agarwal: At least we will do about 15% to 20% of that, so already our market share has gone up by almost 2%-3%, so definitely yes, we will look at that 20%-25% for sure.

Ravi Naredi: Okay. Thank you very much. Nice everything you are doing in a wonderful way.

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

Prit: Just couple of questions, one is where there any price increase taken in this quarter?

Mukti Lal: Yes, in this quarter we have taken almost 1% price hike only because again this price depend on how much contract term so that way we have taken it as a number.

Prit: Fine and what is the outlook for October given the kind of high business growth we are seeing across verticals?

Chander Agarwal: Yes, so this even if you see the track record of last five years or seven years, usually our H2 is much robust than this H1, so this whole quarter would be fantastic even H2 is also.

Prit: The reason I asked is that I was reading recent report said that roughly for example the competitors that they are increasing the network pincodes 15%-20% so on and so forth, so has there been a requirement for TCI Express to increase its network?

Chander Agarwal: That statement itself shows that they are in trouble because they are not even prepared that they are expanding their network now, so it means that they are in trouble and they have to give investment and they do not have the money, so I think obviously it is totally opposite of where we are.

Prit: Right, so you feel you are fully prepared to take advantage of this growth that is going on or increase in business that is coming your way?

Chander Agarwal: Absolutely and we have not invested anything in capacity, dimension or network and all that which they are doing now, they are in serious trouble because they do not have the know-how anymore.

Prit: Chanderji, one another thing, is the Rail Express is the same? Would this complete again the LTM of TCI?

Chander Agarwal: Not at all.

Prit: The differentiator here is going to be the package size?

Chander Agarwal: Yes, this is express, so very different and TCI does FTL I mean full rack.

Prit: Got it, okay alright, thank you Chanderji and Mukti Lal. I wish you all the best.

Moderator: Thank you. The next question is from the line of Jitark Shah from JM Financial. Please go ahead.

Jitark Shah: First of all, many congratulations on a great set of number. I just had like two questions on competitive side, so I have been observing on the startup space also lot of companies are trying to one-fourth enter the full vertical segment of last mile as well as fulfillment and first mile, so do you see them as a threat in terms of taking away any share of your customers that is going to be my first question and second is going to be like how do you in terms of your strategy on boarding newer and newer set of customers and in what profile will that be like, will it be more early MSME front which accounts for your 50% or will it be rest of them?

Chander Agarwal: Let me say that we do not have any new company coming into B2B segment. B2C there could be and so we are not really concerned about that. Second question, how are we going to grow our business, yes it will be through MSME, and it will be through the top 1000 customers of India, manufacturing companies.

Jitark Shah: Okay, sure. Thank you, Sir.

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

Krupashankar NJ: Good evening and thank you for the opportunity. Just couple of questions from my side; one, on your guidance for FY2023, there is a still hold that about 18% to 20% growth or would you like to revise that number upwards?

Mukti Lal: No, we are sticked with those numbers 18% to 20%.

Krupashankar NJ: Okay, so just taking it little bit forward, what are the key sectors wherein you are seeing this growth would come in, that speaking specific to the MSME but it is more on automotive or textiles and other large sectors which we cater to, so which are the three sectors it is going to contribute to this growth?

Chander Agarwal: I think in all if you see that we are very well diversified, we do not have any prevalence in one sector, so all sectors will be contributing and I do not see any one sector like last year where pharma was contributing more, so nothing like that sort is going to happen this year.

Krupashankar NJ: The reason why I asked this question is because you are also expanding your branch network for quite some time and there in you would have targeted specific subsectors, so in respect to that I just wanted to check?

Chander Agarwal: No, we do not target sub sectors or something like that, we target our main verticals that we are in and most manufacturing is happening in those verticals only.

Krupashankar NJ: Right, just to add on to that question on competitive intensity, so the recent acquisition of Spot On Logistics by Delhivery, how have you seen the competitive pressure in terms of pricing and in this space and do you believe that it is going to be a threat given that it is almost like the Spot On fifth largest surface express player in the country, so just wanted to take the opinion on that?

Chander Agarwal: I am sorry what was your last sentence?

Krupashankar NJ: Any guidance on the margin side where are you are expecting margins to have in FY2022 and 2023?

Mukti Lal: In 2022, we will be again having aspiration to increase at least 150 basis points for 2022 and by 2025 we want to cross around 22% in EBITDA level.

Krupashankar NJ: Alright, okay. That is it from my side. Thanks a lot.

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

Rahul Sony: Thanks for taking my question. My question is related to this Gati Shakti program, I want to understand like in last few years, railways has lost its share to compare to this road transports because road transports offer a better service in terms of shorter delivery time while the railways they used to higher waiting period some time for these wagons, so going forward like government is focusing on increasing the railway share, so I want to understand how this is going to impact a TCI Express or other companies who were mostly running on road transport before?

Chander Agarwal: Road transport will always remain number one mode the transportation in India, rail cargo will be a very good substitute to air cargo, we are seeing that air cargo is been substituted by rail already and we are the first company to do that in a big way, so there are strength lies. Thank you.

Rahul Sony: Regarding that price hike which you were taken 1%, so was that sufficient to cover the fuel cost during the quarter?

Mukti Lal: Yes, so you have seen that our operating margins are maintained or even increased sequential basis also on year-on-year basis also.

Rahul Sony: Okay Sir. Thank you. I will be coming in the queue.

Moderator: Thank you. The next question is from the line of Alok Deshpande from Edelweiss Financial Services. Please go ahead.

Alok Deshpande: Good afternoon Chander, good afternoon Mukti Sir. Two questions, one if I heard you correctly, you said the volume growth year-on-year was 27%, right?

Mukti Lal: Yes, correct.

Alok Deshpande: I just wanted to understand this a little better because if you look at the diesel prices, if you compare the Q2 of this year to the Q2 of last year, the diesel prices are up about 20% average for the quarter, so I just wanted to understand this break up little better because the sales are up above 28% and you are saying that 27% of that is volume, so how should we think about this?

Mukti Lal: So, again because this is also composition of various aspects of what is the lead distances we covered in this quarter, which sector we have done more businesses like Pharma or Engineering or Auto. So, dynamic factor is here actually we are just in giving whatever we have improved on our realizations per unit and also some time depends how much business we have done intrastate or interstate and another aspect also is to see diesel is part of our cost and we usually it is not impacted like other companies has impacted by that because we have a vendor management and we have our own system to pass on to vendors with a time lag. So, we are not passing immediately even earlier we also said this is sometime very good positive arbitrage.

Alok Deshpande: Sure sir, thank you for that clarification. My second question is on the slide that you have in the presentations regarding the strategic goals that you have set out for the next five years. These four new businesses that you have mentioned, Pharma cold chain and rail express and couple of others, what would be the share of these businesses right now in the topline?

Mukti Lal: If you put together share is around 15% right now and after three years or four years, we want to make it as mentioned by Mr. Chandar we want to be one-fourth of total revenue.

Alok Deshpande: Okay, so if Rs.1000 Crores revenue goes to Rs.2000 Crores you are saying that this will be about Rs.500 Crores odd right?

Mukti Lal: Correct understanding.

Alok Deshpande: Just one last question specifically these two businesses of Pharma cold chain and rail express, now currently you have this model where your return on capital is exceptional, margins are great because operating leverage kicks in. I just wanted to understand the dynamics of these two segments, will these businesses require capital, what are the general margin range and what is the return on capital on these specific businesses?

Mukti Lal: Basically if you see our DNA is to make it always everything has to be on an asset light. In these two segments we are also following the same rule and we will keep ourselves as an asset light. So, we do not need to put any additional capital where you can see also our balance sheet of this quarter or this half year, even nothing changed on the part of current assets and current liabilities. Second thing margin level in rail and pharma cold chain both are very high, why I am saying because this is substitute of air. Like, rail is substitute of air one, so everybody is willing to pay higher and even with what kind of service they are getting in air we are also able to provide him through rail also. So, this way both the margin levels are very high even more than surface right now we have and that is why we have aspiration to be around 22% margin level by 2025 end.

Alok Deshpande: So to summarize you are saying that because these businesses are higher margins when your share of these businesses go up from 15% to 25% naturally the blend will change and your margins will benefit from that, right?

Mukti Lal: Yes.

Alok Deshpande: Thank you so much, Mukti. Thank you, Chandar.

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

Kunal Bhatia: Thanks for the opportunity and congratulations on a very good set of numbers. Sir, you did mention about the opportunity size of about $1 trillion by 2030. Sir, currently looking at the opportunity size which is at about $360 billion odd in case of logistics where we are about 5% market share. So, do you refer to that same kind of a graph or is there something which I am missing out because you mentioned that you want to capture about 15% to 20% at that time?

Chander Agarwal: Yes, that is correct, and we have inched up from also, now we are at about 8% and as the business goes, we keep capturing market share too.

Kunal Bhatia: Okay, and when you talk about the market share you mean to say the value carried by these, right?

Chander Agarwal: Correct, always.

Kunal Bhatia: Okay, my next question would in regard to the new launch of the rail express business, you did mention in case of the other cold chain business and the C2C express we have about 20% plus kind of EBITDA margins. Does that also hold true for rail express?

Chander Agarwal: Correct.

Kunal Bhatia: Okay, and just wanted to confirm last year same time the volume was 1.8 lakh ton if I am not wrong?

Mukti Lal: You can confirm me on one to one basis, I will confirm, send email to me.

Kunal Bhatia: Okay, and for the current year what would be your expectation of no third wave, so what would be your guidance for this year, any change on that?

Mukti Lal: No, we do not have any change on that, and we are on right path, and we will achieve what we have said in initially for this current year.

Kunal Bhatia: Okay, that would be about 25% to 30% kind of growth for the year?

Chander Agarwal: Even more than that the revenue growth and margin profit would be also again kind of 40% plus.

Kunal Bhatia: Thank you.

Moderator: Thank you. The next question is from the line of Pratik Singhania from Stage-one Investment. Please go ahead.

Pratik Singhania: Good evening, thanks for allowing. My first question would be with respect to the difference in the level of inefficiency in turnaround time between non-automated and an automated sorting centre, say if you can compare it with Pune with Gurgaon sorting centre once it gets automated?

Chander Agarwal: What we are working on is the different scenarios. It is something which we have to work out the modeling, we are doing the modeling currently as to if not India all the vehicles come at a turning time or all the vehicles from rest of India come at a certain time. So, it is a lot of modeling which is going on, our aim is to cut down the latent time by eight hours so, looking at that I will be able to give you a better answer by January of next year.

Pratik Singhania: Okay, eight hours on the base of how many hours?

Mukti Lal: From currently it is around 15 hours, which we want to be just half of that.

Pratik Singhania: Okay, that is 50%?

Mukti Lal: It is basically idle time in sorting centre, cargo is in and out in sorting centre and this is complete takes around fifteen to sixteen hours which we want to cut to half and this way my truck trip will increase because we will empty fast and load fast, ultimately they will be able to make more trips in a particular month obviously then we will get benefit here.

Pratik Singhania: Okay, and secondly with respect to rail express, in terms of if I have to decide from one route to another route as you send it via air versus rail express using TCI service how much will be the difference with respect to the time taken deliver and how would be the difference in the cost for the same as to like-to-like route?

Mukti Lal: I think cost would be less than one-third of that what air services is providing, and time gap is not there, even supposing we are offering service of 48 hour for air, we can deliver it in maximum to maximum within 72 hours or in some cases even 48 hours. Because rail also we have very good flexibility and number of trains are very high and right now they follow the complete tight schedule. So, that is why this opportunity has come out and we are grabbing that and enhancing our branch network because branch network is also supporting to get the customer across India.

Pratik Singhania: Okay, so one-third of the air freight is going to charge. Last question with respect to the new value-added services you said that currently it is 15% of the total turnover, right?

Mukti Lal: Yes.

Pratik Singhania: So, this 85% balance like-to-like, year-on-year growth how much we did; the balance 85% the traditional business that we do and the growth of that like-to-like?

Mukti Lal: Year-on-year this is around 25% and new services are growing bit faster pace.

Pratik Singhania: Okay, 25% this is what, value growth?

Mukti Lal: Yes, on year-on-year basis.

Pratik Singhania: Thank you so much for the answers. All the best to you.

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

Depesh: Thank you for taking my questions. Sir, just a clarity on the rail express services did you say that you will using the passenger rail for this cargo transportation?

Chander Agarwal: Majorly yes.

Depesh: Okay, so passenger rail you will be transporting the small size cargos along with the passenger train that is how it is going to be?

Chander Agarwal: We have one or two rack in every passenger train and we are majorly using that and wherever is cargo train is available we also using that.

Depesh: Okay, any plans to leverage the existing group company JV with Concor or you will be running two units separately?

Mukti Lal: No, leverage with them and we are doing separately because the touch point is also completely different, supposing we want to be sent from south particular city Madurai to Chandigarh, we will be using different model and different train and everything, like from Mumbai to Patna supposing we want to send it is completely different and what our other group company is doing they are differently in different segment.

Depesh: Got it and what is the margin differences in the air express and the rail express as you said most of the demand will be the transport from air to rail. So, what is the margin difference in these two?

Mukti Lal: Margin is slightly higher in rail express in comparison to air, because customer is willing to pay higher in rail but still it is cheaper or like two-third of the Air.

Depesh: Okay, any number like how much is 25%?

Mukti Lal: In the range of 20% to 25% EBITDA level.

Depesh: Got it and Sir lastly your capex you have already done Rs.46 Crores till the first half, so what is the capex guidance for the full year?

Mukti Lal: We are in line with that, we have planned for around Rs.80 Crores to Rs.100 Crores and will incur that.

Depesh: But towards the Gurgaon sorting centre only or anything else also planned?

Mukti Lal: Other acquisition of land, we are planning to acquire the land in Kolkata and Mumbai so this Kolkata land very soon it will be materialized, we shall acquire that, and we will start the construction as we mentioned on last call also and we also will start the construction at Nagpur and Chennai soon.

Depesh: Okay, in terms of Gurgaon still how much capex is left?

Mukti Lal: It is hardly on some automation part we are left, Rs.15 Crores more.

Depesh: Got it, Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Chandar Ji, thank you again. Just I would like to know TCI Express carrying $10 billion US business how you calculate the value?

Chandar Agarwal: We get the value from the customer, we get the invoices, what kind of amount of these invoices we carry in a year we are calculating that way.

Ravi Naredi: $10 billion to value of the goods?

Chandar Agarwal: Yes, correct.

Ravi Naredi: Okay, thank you.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from L&T Mutual Fund. Please go ahead.

Rahul Agarwal: Thanks for the opportunity. Sir, my question is more to understand what the industry growth has been because when I look at your sales number it is pretty much the same that you had in FY2020 second quarter. So, should we assume that industry was also flattish at that from that level, and you have retained your market share or how is it?

Chandar Agarwal: If you see comparison, we have not retained, we have actually grown at also, not just retained it and last year most of the companies were even negative in topline and this year also companies may not show topline negative in a large way, but I do not see them showing a very high growth also. So, I think in all the kind of performance that we have done this year is something which I have always be saying that it will happen when the economy improves it always shows the result that is exactly what is happening.

Rahul Agarwal: In summary what you are saying is that industry has degrown from those last couple of years back and you are gaining market share?

Chander Agarwal: Absolutely, if you even see that I was reading that our India's per capita GDP has reduced from $1900 to $1500, because of the lockdown and stuff. So, in all there has been degrowth everywhere not just in logistics.

Rahul Agarwal: Going ahead when you say that this industry per se you are seeing much better growth and GDP then there is a change in the trend that we have seen, is what you are saying.

Chander Agarwal: That is not the change in the trend because this virus and all that was just a blip and how many companies have managed to not deteriorate their balance sheet and come out stronger that has to be seen. So, a blip if you can survive and even can survive that means that it is a good going.

Rahul Agarwal: My second question was for the operating expense for those two years back you were at somewhere around 71%, today you are at 68%, so this benefit where has it come from and how much of it is sustainable?

Chander Agarwal: Summary I can give you if price increase operational efficiency, better asset utilization. So, all of these factors remain the same for us. There has never been any change.

Rahul Agarwal: So, this number should be sustainable?

Chander Agarwal: Absolutely, we have made it sustainable for five years and grown only.

Rahul Agarwal: Okay, got it. Thanks, and all the best.

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

Radha: Thank you for the opportunity. I just wanted to ask what kind of market size are we targeting for these value-added services of cold chain, rail express and C2C business.

Chander Agarwal: We are yet to get the market size of these businesses, but if you look at the investor presentation the main component rail cargo if you see is the next digits chunk mode of transportation in India so 70% is surface rail cargo is about maybe other 20% or something 25%. So, if you compute the GDP from that we have to further dissect it and see what the cargo volume is going on it. So, looking at that I should be able to put that in the presentation next time I did not have the complete data on my hands right now.

Radha: Okay, just one more question, what is the number of owned and leased sorting centres as of now and what would it be in the next three years?

Mukti Lal: Right now, the total number is 28 sorting centres out of that 10 we own right now and 18 are on lease basis and in next three years at least we want to convert major five like in Kolkata, Nagpur, Chennai and one or two more cities.

Radha: Those five will be owned?

Mukti Lal: Yes, then these number become 15 is owned one and 13 is leased one.

Radha: The total number of sorting centres remains same but owned will increase.

Mukti Lal: Yes.

Radha: That is it from side. Thank you.

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

Mukesh Saraf: Good evening and thank you for the opportunity. My question is again on the rail business. So, while you were mentioning that you are right now targeting the air cargo business, is this air cargo business that you are right now handling because you do still generate about 5% of revenues on air cargo?

Chander Agarwal: No, this is the competition that we are capturing.

Mukesh Saraf: Looking at the kind of transit times because we are talking about 48 hours, 72 hours kind of transit time on the rail, but air cargo currently like someone like what Blue Dart does less than a day, 12 hours – 16 hours it is less than a day. So, how are we going to compete with air cargo someone like what Blue Dart is doing?

Chander Agarwal: We have to break up the segment B2B or B2C what air cargo moves nowadays maximum is B2C, well I am not sure also how much of that is going and also courier, documents, and all that. So, we are not focusing that business. We are focusing not the same day and all that we are focusing on B2B which easily can be substituted, we are already doing it, and it is a good development that has happened. So, I will see good growth next year for sure.

Mukesh Saraf: Okay, got it and currently the way it works is that you are saying that you are going to be booking the wagon like a dedicated wagon on the rail?

Mukti Lal: We are not looking for the complete wagon and we are buying that space from the railways and other vendors and then putting our material in that.

Mukesh Saraf: Okay, got it. Could you give some sense on how many routes you have already started now on this rail express business and probably how many routes you want to add in the next a year or two years?

Mukti Lal: Yes, it is very good question. Almost we have already cross 35 routes in India and we have a plan to reach 100 by this year end and that is why it is a very, very good business and it is across India like we are doing in surface because there is no challenge in India we do not have airport everywhere but we have the rail connection everywhere and that is why as Mr. Chandar has rightly mentioned it is a business of B2B which we are targeting from air. And the transit time customer is happy with that because we have to be connected from door to door, what you are talking like 12 hours or 16 hours or 18 hours service it is just like airport to airport in metro cities.

Mukesh Saraf: Thank you so much for this clarification.

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

Ankit: Just wanted to ask at peak utilization what can be total revenue for the full year. Annually what revenue can we achieve?

Mukti Lal: This is not like this whatever capacity we have this is a vendor management managed capacity, in terms of trucks I am talking about, right now the utilization level of 85.5% maximum we can reach on 90% but revenues once gradually revenue increase we will keep adding our truck capacity as well. So, there is not any kind of hindrance, will add more trucks as business increases.

Ankit: Thank you. That is all.

Moderator: Thank you. The next question is from the line of Abhijeet from ICICI Securities. Please go ahead.

Abhijeet: Thanks for taking my question and congratulation to the team on starting rail express. It looks very impressive from the outside especially with the advent of DFC and the increase in share that trade is supposed to take. Just one short clarification, what about the loading and unloading and how does that fit into your overall aim of delivering packages in a time-to-time manner?

Chander Agarwal: Let me explain you one thing this rail express will not be piggy backing on the DFC, DFC is for container load which is for EXIM and for commodity. So, we are going to be using the passenger traffic which are all across India, passenger traffic train which are all across India, so our value proposition is very different, number one. What was your question?

Abhijeet: I was asking that given the existing loading and unloading of trucks how does that, did you have a plan?

Chander Agarwal: We have a very clear cut system of how we do this. We have branch offices whichever is near the railway station, it does the pickup and delivery and the rail itself when you are going to a railway station, they have a separate entrance for the cargo loading and unloading and our trucks go straight to that platform, so we do not need to really even touch the passenger platform and the beauty is that because we are in this express segment, we can do from any other railway stations in the city. If there are three railway stations or four railway stations, we can use any of those unlike the container cargo where you have to do only from that particular railway station. So, we have clearly identified that the advantages of this is humongous, it is massive, and we will definitely capture it.

Abhijeet: Okay, great. That is all from my side. Thank you.

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

Lokesh Manik: Good evening Chandar and Mukti. My question was again on rail express front, in your experience, has there been any barrier that prevented us or any other player in the past from exploring the service offering passenger trains are there since decades now. Were there any barriers to entry in the sense of operations, in terms of processing documents or delay in the trains and all those things? So, has anything changed since the past?

Chander Agarwal: I will explain you. We have bypassed the bureaucracy in managing the containers. There is more bureaucracy when you are putting your container or when we are using Concor or anything like that is really doing that. But in our case, it is straightforward we have identified that opportunity and moreover one of the biggest reason doing this study is, was the fact that conversion of air cargo into rail cargo. Now, this is something which is going to be very important for long-term sustainability. We all know that air cargo is not going to increase in India because till now with all the new airports coming up and all cargo facilities are still at the backend. There is never any mention of that. If you look at Delhi airport also, you look at Bombay's Navi airport coming up or Chennai anywhere else there is no provision for air cargo. Therefore, I do see the massive shift happening and the demand for the rail express also coming up.

Lokesh Manik: Have you guys been able to crack the bureaucratic system which can create a barrier for someone else to do this?

Chander Agarwal: I am sorry, could you repeat?

Lokesh Manik: In the sense that have you been able figure out how to implement this service offering and at the same time it can be a barrier for someone else to start rail offering?

Chander Agarwal: See, India is a country where it is a cut, copy, paste country. If we are doing something tomorrow there will be somebody announcing the same thing. How much of that they will be able to do is up to them, they will do it, but they will do it in a very dirty manner, at free cost or something. Tomorrow you will hear three, four other companies are saying we are also doing it but for that you need to have a team, you need to have people on the ground, you need to branch offices. So, all that will be a barrier to entry to some extent now for long time and if we play our cards right which we are, we will be the preferred choice of partner for most companies.

Lokesh Manik: You would be exploring to integrate this into your other offerings like door to door?

Chander Agarwal: This is only door to door.

Lokesh Manik: Okay, where you can alternate between road and railways depending?

Chander Agarwal: No, we do not do it that way. We do not approach our road customers who are going to rail because the pricing is different. We are clear cut in our strategy. We will only go for very large air cargo company customers. That is all we are going to be doing.

Lokesh Manik: No, what I meant was this service offering will remain independent of other service offering?

Chander Agarwal: Absolutely, every model, every mode cannot mix and match because there is pricing and there are also operational issues and all of that and commitment to the customers. So, from that point of view it is important to note that substitution is not a possibility already what is there can be done. One more thing you can go from high price to low price, you can go from air cargo to rail cargo, but obviously customer don't want to go from low price to high price.

Lokesh Manik: Okay, and just one last question the air cargo space, you will be having any idea in terms of distribution between B2B and B2C?

Chander Agarwal: No, we do not have the data yet. I will check it out and also we will target all these airlines also with their companies which are giving varied place and all that. We are going to target on a big way and there are no other players in the air cargo market. It is on the decline and better to grab these customers and shift them to rail cargo.

Lokesh Manik: Makes sense. That is it from my side Chandar. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question that we took. I will now hand the conference over to the management for their closing comments.

Chander Agarwal: Thank you everyone for joining us today. I would like to conclude by saying that we are witnessing improved economic activities and life returning to normalcy with the vaccination, increased awareness and better preparedness of the markets and the business. We remain optimistic of the economic scenario of the country and confident in our strong value proposition to deliver sustainable, operational and financial performance. I look forward to meeting you again next quarter. Please stay safe and healthy and feel free to reach out in case any questions remain unanswered. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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