Transport Corporation of India Limited H1 FY 2016-17 Conference Call

November 07, 2016

MANAGEMENT: MR. VINEET AGARWAL – MANAGING DIRECTOR, TRANSPORT CORPORATION OF INDIA
MR. ASHISH TIWARI – GROUP CHIEF FINANCIAL OFFICER

Moderator: Good day ladies and gentlemen and welcome to the TCI's Conference Call to discuss the H1 financial results for FY 2016-17 and to address investors and analyst's queries. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, you may signal the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Tiwari - Group CFO. Thank you and over to you sir.

Ashish Tiwari: Thank you Margaret, good afternoon all ladies and gentlemen, welcome to our TCI's half yearly conference call along with Mr. Vineet Agarwal – MD, Transport Corporation of India Limited, he would talk about the general performance of the company and along with the economic scenario and I will just handover to Mr. Vineet.

Vineet Agarwal: Thank you Ashish and good afternoon ladies and gentlemen and welcome to our half yearly call for the year of fiscal year 16-17. I would like to quickly start off by talking a little bit about the company. As you know, the company was established in 1958 and currently we have about close to 4500 people on the payroll and about 11 million square feet of warehouse space. We manage about 9000 vehicles on a daily basis.

The company has a very strong value system and very strong corporate governance system; we have a very strong team that has been there with the company for many years and has been as a forefront of all the innovations and growth that we have had in the last few decades. The company is now positioned as an integrated Multimodal logistics company. We have been consistently performing for the last more than a decade with strong growth in both revenues and profitability. We are present in almost all the major growth businesses in the logistics sector and they are all well prepared to take over new areas like GST, where we have several warehouses that we have ready in cold chain where we started a new warehouse in the last few months. In the neighboring countries, where we established an office in Bangladesh in the SAARC region very recently and in other areas like E-commerce sector.

In terms of the economy, this year as you know the monsoons have been quite good and in the last quarter we have seen decent growth with basically from the festival driven consumption growth. We have seen a lot of movements in the Auto sector, we have seen movements in some consumer durable sector and we have seen a movement at the apparel as well as the E-commerce sector. We do believe that this kind of a growth will be sustained for the next few months. Of course, this is not just driven by monsoon but is also been driven by the fact that there has been a lot of money available whether it is the 'One Rank One Pension' Scheme or the 'Pay Commission' increases in government salaries or just generally certain amount of wage growth that has been there in the economy. However, there is the demand from the Engineering Sector, from the Infrastructure Sector still remains a little poor and also in that sector we see credit also being tighter. In the last six months, we have also noticed that with increased business in some sectors a lot of money has gone in towards building more inventories. We have also seen that the capacity utilization, many plants have gone up and companies have started to talk about adding more capacities and making fresh investments, it is still early days though.

We also have seen company starting to talk about their preparedness for GST and they are taking out their old reports that they had made on what needs to be the changes with GST and now they are looking at certain amount of re-alignment when it comes to the 'Hub and Spoke' system. So, with all that we do expect the next few quarters to be much better compared to the last few months. In terms of the de-merger, as you know that the entire process is completed. The only thing that is pending as a de-merger of the TCI Express business which was declared last year but was concluded more or less this year. We are just awaiting clearances from the Stock Exchange for listing the entity and we do expect that will happen in the next possibly ten to fifteen days from now.

Going ahead, I am just going to start talking about the overall growth in the company in the last six months. The last six months, we have seen a 10% growth in top line and which is been much higher than what we had in the last six months before that and the reasons are; as I have mentioned with the slight uptake in the economy. We have also seen our margins improved by several basis points and more or less the reasons are again stability in cost, more economies of scale as well as certain amount of cost control. In the next few quarters, we do expect this trend to continue. Please also note that in this, the first six months we had not received any dividends from our joint venture companies, so the 'Other income' is also lesser by that extents. So, we are hopeful that some of that will come through in the next few quarters, then that will reflect better on the P&L statement. In the last six months, our CAPEX has been slightly lower; it has been approximately Rs. 35 crores odd but this quarter we are in the process of acquiring a ship and that should happen in the next few days and that will add about another Rs. 60 crores, Rs. 65 crores to the CAPEX, so we expect to end the year with approximately Rs. 125 crores odd of CAPEX.

Now I will come to division specific results; in the Freight business, we have seen good growth in this year compared to several years in the past. We have seen a 6.5% top line growth as well as the EBITDA growth; EBIT growth actually has been much higher at about 45%. Again, this is because of the shifts that the business is having, moving away from the full truck load to the less than truck load, also a lot of tightness, we have also controlled credit as well as stability in fuel prices where the first quarter we saw higher fuel prices and the second quarter the fuel prices were more moderated compared to last year. Our capital employed here is slightly up because of our receivables but overall the business has done relatively well. We do still see that our over dimensional cargo business has still not picked up and that continues to lag a little bit.

The second business that I am going to talk about is the Supply Chain business; that has seen a very good growth in the last six months of about 16.5%, again this is fueled by the fact the Auto sector picked up quite substantially in the last quarter and as you know that auto forms approximately 70%, 75% of this business and revenue. We have also seen profitability going up by almost 30% in the EBIT level though ROC has reduced slightly because we invested substantially into new trucks, for certain new contracts that we acquired in the last few months. We have also seen a good strong pipeline for our new businesses, for example E-commerce, in Chemical Logistics, even in the Auto sector, in Retail, there is a strong pipeline. There is a good demand for all kinds of services, not just transportation but also warehousing. With GST coming in, lot of companies have started talking to us about how should their warehouses in the future look like, how to consolidate some of these warehouses, how should we build in more automation, if necessary and how there can be more responses with how many channels scenario, where we are delivering not just by online but also to the stores. So, we see that as a good opportunity in the next few months. And we also expect the trend for both the revenue growth as well as profitability to continue in the Supply Chain business.

The third business is our seaways business; which had a moderate growth of about 11.5%, this was mainly because of the capacity utilization in the four ships that we have increased and we have been able to maintain our pricing in many locations; both on the East coast and the West coast we have been able to maintain our rates as well as capacity. On the West coast, of course, prices came down a little bit because of increased competition however, we have been able to keep up with a very good and strong service that we deliver to our customers. On the East coast, our service between Chennai and Port Blair continues as it is. The ship that I mentioned as part of our CAPEX will get added on sometime in the next few weeks and that would be on the West coast, again operating from Mundra to Cochin and maybe stopping at a few ports en-route or even heading off to Chennai in the future. We do believe that we have a good network of customers that are interested to use this service from Multimodal perspective and we move a lot of cargo coming from different parts from different branches that we book, not relying entirely on freight forwarders as many of our competitors do and bring the cargo to the port and then deliver it by both rail as well as by roads. So, we do believe that the Multimodal business will also continue to grow, especially with the government's trust in investment on several areas like the Sagar Mala as well as the dedicated freight corridor. This additional business should add a little bit more to our top line as well as bottom line however, that impact is going to be felt only for perhaps 3 odd months for the year. However, the margin for this division as you can see has improved by about 43%; that is at the EBIT level because we had less number of dry docks in this quarter as well as the profitability was maintained.

Overall, as I said that we have had a 10% growth in our top line and approximately 14% growth in our EBIT levels. We have been able to maintain some of our ROCE levels and we do believe that this will only get better in the next few quarters. Thank you and we are open to questions.

Moderator: Thank you. We will now begin with the question and answer session. The first question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: Good evening Sir, just one or two questions like if you could speak about which would be the businesses in the standalone entity and which in the consolidated entity? And secondly, if you could speak about the impact of IndAS on your numbers because what I find is that in the first quarter, quarter 1 of financial year '16 there was practically no change in the top line and the bottom line. Now second quarter there has been the change in the top line, so if you could just speak how IndAS has impacted you?

Vineet Agarwal: Sure. In the consolidated entity, the entities are joint venture with MITSUI which is Trans System Logistics, our joint venture with CONCOR which is TCI CONCOR Multimodal Logistics and few subsidiaries that exist for our global businesses. The impact of that is reflected at the full year end and I think I will not have exact numbers but I think we should have both positive impacts on the revenue as well as on the profitability side since we have written off a lot of our losses in the past related to our International business. So, that is the difference between the consolidated and the standalone. In terms of the impact of IndAS, I will defer to Ashish for that answer.

Ashish Tiwari: If I correctly understood your question, you are talking about the impact on last year's quarter 1 and quarter 2, right?

Shalini Gupta: Right.

Ashish Tiwari: So, we have an impact of Rs. 160 lakhs in terms of the revenue and Rs. 107 lakhs of impact in the cost. So, overall impact of around Rs. 55 lakhs in the profit in this quarter and a similar impact was there in the last quarter.

Shalini Gupta: Okay, no because when I compare your revenues and when I compare your profit after tax as it stood last year or end of last year for the second quarter, figure that is given in this quarter's numbers is different by about I think Rs. 5 crores, if I am not mistaken.

Ashish Tiwari: So, this is because of the IndAS impact. That is there and it is not about Rs. 5 crores, it is only Rs. 55 lakhs, so if you look at the results for this quarter, you would find that the profit was there around Rs. 23 crores 29 lakhs and now they are coming to Rs. 23 crores 85 lakhs.

Shalini Gupta: I will get back; I will just check the figures and get back on this, thank you.

Moderator: Thank you. The next question is from the line of Himanshu Jhaveri from Dhruv Gems. Please go ahead.

Himanshu Jhaveri: I just wanted to ask you when the margins are going to increase as they have been at these levels since the last many years, here and there a little bit up and down and also once GST is implemented, do you think our margins are going to improve in a big way?

Vineet Agarwal: Well the margin has been continuously improving by a few basis points and that is what we have always said that it is not going to be too dramatic in our industry because we are already at a very highly uniform state in terms of the business. So, we have seen some improvement, we have gotten up to almost more than 9.5% EBITDA and we think that this will be the trend, this will be if not go up too much more, it will be under 10%, that is the nature of our business. With GST coming in, again we do not expect any improvement right away, it is going to take few years for GST itself to be implemented in terms of with entirety where companies will take that long to re-check their supply chains in terms of reporting the right warehouses or just moving to a better 'Hub and Spoke' system. So, that impact is going to take much longer and I do not expect a significant amount of improvement in the profitability but I do expect significant jump in revenues over the next 2, 3 years and that should translate into better profitability because of economy's scale.

Himanshu Jhaveri: I just wanted to ask whether that new cold storage plant at Gurgaon; how is it? Like how the response is and is it fully operational and any further updates on that?

Vineet Agarwal: Yes. So, the cold storage was inaugurated sometime in the end of April and the process of commissioning it entirely, in the sense that to the testing, etc. finished just about 4 months ago and we have demand from a lot of clients though we are not in season right now but we are seeing people who are buying products related to that, let us say, the fruit industry where they are storing juices and a few other such products, it started and the demand is picking up. So, I think in the next few months, we will see full utilization of that storage facility.

Himanshu Jhaveri: This Diwali I saw the sales of E-commerce companies which were quite good and I just wanted to ask whether they have been translating to our company in terms of lot of orders in terms of the XPS division and the TCI Express right? I think that caters to that thing.

Vineet Agarwal: Correct. Though it is a separate entity now, it is a separate company and that numbers do not reflect, TCI Express' numbers and they will come out once the company is listed, we have put those numbers up but yes it has translated into good numbers for that business as well and also in the supply chain business we are seeing good numbers for some of the warehouses in the fulfillment centers that we run for E-commerce companies and not just that but there are some apparel companies who have also done relatively well where they have added an E-commerce line to their existing warehouses where they will be not just living to the stores but they are also packaging products to be delivered online. So we have seen good growth from both segments and some consolidation has also happened, I think not before, but in the first quarter of the year where we saw some of the E-commerce companies actually consolidating some of their warehouses based on what the expected demand was going to be for this festival season and that has perhaps helped the sector, though number of warehouses has gone up substantially but I believe the order delivery and the fulfillment has been much better in this festival season.

Himanshu Jhaveri: One last question; the warehousing space I think are for companies right now is around 11 million square feet, if I am not mistaken. So, what do you see in future also? Are you going to increase the warehousing space quite a lot from here and how much of it is our owned and how much is rented?

Vineet Agarwal: The warehousing would continuously increase with GST coming in and the demand for larger warehouse is going to go up even more because some warehouses will get consolidated and I think over time, we are going to evolve this, not just talk about square foot because now that is getting a little misleading but more in terms of cubic foot because we are also going higher but just on the square foot basis, we are expanding by half a million to a million every year based on demand and that will continue, perhaps accelerate a little bit more by next year. And out of this, we own I think about a million odd, a million and a half odd space.

Moderator: Thank you. The next question is from the line of Kaushik Poddar from KB Capital Markets Pvt. Ltd.. Please go ahead.

Kaushik Poddar: I just want to find out something about the competitive landscape; see the newspaper today has news I think which says that Warburg Pincus has invested something like Rs. 500 crores in Rivigo, which apparently is going whole hog in IOT automation, data science, etc. So, do you see some new competition coming in a new way which can disrupt the things or you need to scale up some way, your capability?

Vineet Agarwal: Yes, it is a pertinent area that we are looking at very carefully in the last several months almost a year, year and a half we have been following all the trends that are happening very closely and we have studied some of these models; they are not very different from what we have been doing. So, like the Rivigo model is very similar to what we do on some sectors ourselves where instead of actually having drivers who stop and transition, we actually send 2 or 3 drivers on certain routes. So, we maintain that same speed as well. So, in some way, that is not really too much of a disruption however, we are keeping as watch on the online side as well, where there are some other models that have come up with online aggregated exchanges and those are actually good for us because that they actually help us to source our trucks better at a better pricing. So, they will become tools to our business rather than becoming competitors. We do believe that customers still want an experience where several things they need which some of these startups do not provide; first is credit, second is a branch network because there are some isolated location where plants are located and they need to pick up from those locations as well as deliver to isolated locations perhaps. The third is just the network, fourth is customer accessibility; that is the customer’s feedback system that we have. So all of these things are not necessarily available with all startups, as well as most of these startups have certain funding that is coming through so they do not necessarily, I may might be mistaken, but not necessarily making money on transaction. So, as long as the funding lasts I think the startups are there. And the other initiative that we have taken in the last board meeting was that the Board of Directors decided that as a company we can make investments into small startups which will help, which are corrected to our industry and help us gain some technology advantage and that subsidiary that was created was called TCI ventures in the last quarter. We have not made any investments yet but we are actively looking at such ideas.

Kaushik Poddar: Are you looking for any fresh funding or anything? This sector is enjoying good amount of investor attention, are you looking at some kind of funding to get rid of a debt and scale yourself up.

Vineet Agarwal: No, we are not looking for any funding right now, we are at 0.6 debt-equity ratio, so relatively comfortable; however, we keep a watch on what are the opportunities both the inorganic as well as organic and if there are needs then we can always consider additional funding, but currently we are not.

Moderator: The next question is from the line of Abhijith Vara from Sundaram Mutual Funds. Please go ahead.

Abhijith Vara: Couple of questions, first question is this TCI supply chain has been growing quite strongly in the H1 compared to last 6 quarters, so what is driving this growth and if you could also comment on the sustainability of this growth.

Vineet Agarwal: As I mentioned, TCI supply chain 70 to 75% of our business comes from the auto sector and as you know the auto sector did pick up in the last few months and we also see not just on the finished goods side but also on the inbound side where we do pickup parts and deliver it to the production line so we are seeing good growth in both the areas. And for us, it is not just four-wheelers but it is also two-wheelers, it is a tractor segment, we do work in there as well and with good monsoon, we have seen the tractor segment also grow. In the construction equipment segment, again with some renewed activity in the construction segment, we are seeing good growth coming from those companies. And the commercial vehicle side also though it has been moderate but still we have seen a little bit growth there, so the auto sector has delivered quite handsomely in terms of the top line growth for the supply chain business, apart from that we have acquired a few other contracts in the retail side as well as on the E-commerce side as well as in the chemical logistic side so these are also again all high growth areas and they are contributing to topline growth. So what we do feel is this year at least the 15% to 20% topline growth would be maintained and going forward also we do expect that kind of a growth though coming up from a higher base but we do expect that 15% to 20% topline growth.

Abhijith Vara: Some sort of CAPEX, which is not yet budgeted for this year and also these contracts you are talking about are they multiyear contracts you know some such inputs.

Vineet Agarwal: Yes, so the CAPEX that has happened also in the last few months in the supply chain business has been because of new contracts for certain clients related to the automobile sector and these are all multiyear contracts because when we make certain investments we are certainly looking for a long-term return on that, so the contracts are typically at least 3 or 4 years and some extending up to 7 years as well, so we will continue to see return from these. In the next few months, the CAPEX somewhat will be there as well but not to that extent as we front ended that in the previous quarters and also in certain areas now where we are investing with our clients in warehousing as well because we are looking for better solutions and that could be more rakes, may be some automation, conveyor systems, some better handling equipment, so we see that also going impacting in the next few quarters in terms of CAPEX and those are things that are most sustainable because they are all typically long-term returns, so we should see that benefit coming in the next few years.

Abhijith Vara: Sir, if you could provide breakup for this 125 crores CAPEX in the current year as to how much for which segment broadly just to give an idea where we are seeing growth.

Vineet Agarwal: Sure, sir about 65-odd crores would go in to the shipping side of the business which is investing into a new ship and containers related to that and then approximately 15 to 20 crores will go into some small warehouses that we need to build and the remainder about 35 to 40 crores will go into new trucks that we need to acquire.

Abhijith Vara: Okay sure sir and my last question is I was just looking at your consolidate entry, of course, it included XPS but I was seeing that the CAPEX has been fairly descent for the company of your size for multiple years now, so when do you think the CAPEX will plateaued out and probably the free cash flow would improve or is it that since there are new opportunities opening up, you will continue to see additional capital expenditure opportunities.

Vineet Agarwal: Yes sir, in the last I would say 10 years we have invested close to a 1000 crores in CAPEX and again we have maintained certain amount of return so they have not gained roughly in the 12 to 15% range. I do not expect it to taper off substantially in the next few years as the percentage to the overall capital employed it might be lower; however, we do expect a minimum of a 100 crores of investment in the next every year for the next 5 years at least because of the growth opportunity that you just mentioned and what we are seeing as in the economy as well with all the macro changes that are happening, so this is a minimum need for us and I think in terms of support from our cashflows with 9% to 10% EBITDA level and that kind of a growth, I think we should be able to easily sustain it.

Abhijith Vara: Okay, so you would ensure that the debt leverage portion would not adverse as in probably the cash generated would match the investment opportunities.

Vineet Agarwal: Well for us the debt is of two types – one is working capital which is predominantly more than 85% of our debt is that, that will go up with business growing up and in terms of long-term debt which are essentially going into trucks or ships as the borrowings related to that, that also will go up a little bit because it is more efficient sometimes but our debt-equity ratio will continue to remain under 1.

Abhijith Vara: One last question sir if I can squeeze in this. Trade receivables it has actually improved but one of the comments was trade receivables were still high but this you know the improvement has it been because of the timing issue or in general the collections have been improving in the industry.

Vineet Agarwal: It is because of the demerger.

Abhijith Vara: Okay.

Vineet Agarwal: Otherwise, that in terms of receivable days for the standalone entity, it would be on par with the historic trends more or less, Ashish correct me if I am wrong. Trade receivables are lower than last year because of demerger, correct.

Ashish Tiwari: It is correct and so basically the receivables are like also going as a percentage of sales, so it has grown on a standalone basis without XPS undertaking it has grown by somewhere around 10% to 12%.

Moderator: The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: I had two questions – one could you tell me what kind of return on capital employed do we expect from say the major divisions of our company 2 to 3 years down the line, what is the sustainable range we should expect from different divisions.

Vineet Agarwal: Well our freight business, our capital employed is predominantly working capital so and the business turning around a little bit in the next few quarters we expect close to a 15% and we expect a similar kind of ROCE for our other divisions, so blended we look at (+15%) in terms of ROCE and our cost of capital is currently under 9%, so we are at a positive EVA territory.

Aman Vij: Okay and second question is regarding the general different divisions we have, sir what I could understand from the con-call is that supply chain division at least for next few years you have expected to do well, so sir any outlook for the sea ways division or which of the division is having say tailwinds along with it as of now and which are having headwinds as of now?

Vineet Agarwal: I think with the governments thrust on multimodal logistics on the use of coastal shipping for various kinds of cargo be it general cargo or even automobiles for that extent or the use of rail cargo for automobiles or for general movement of cargo with the DFC and other such investments and the fact that there is certain amount of turnaround in the Indian Economy plus consumption growth has been there. I do expect basically tailwinds for almost all the divisions. Of course, you know, no division is without its own challenges in its own sector. Broadly speaking I see lesser of macroeconomic headwinds more sectoral headwinds sometimes. For example, the freight business gets effected by local level competition, so that exist; however, again those things should help the business with GST coming in where the shift from unorganized to organized companies like us should be more and more, so I am quite positive in terms of the overall or almost all the divisions in terms of specific growth opportunities, I sometimes we do feel that some divisions might be challenged when it comes to credit because there are some companies that are still struggling with in terms of receivables and of course the long-term challenges are always in terms of keeping the right profile of people and keeping that they are more prepared as well as we are able to grow the management team.

Aman Vij: Okay, and last question from my side in the different segments we are in, sir could you help me with rough numbers of say organized versus unorganized players in the segments as well as roughly what will be our position 1, 2, 3 in the organized segment.

Vineet Agarwal: Are you talking about specifically each division or.

Aman Vij: Each division basically.

Vineet Agarwal: Well I think the organized and unorganized is predominantly in the freight business not in the others so in the freight business, I would say that we are in a minority when it comes to the organized side of the business. I would say there are no numbers really but I think possibly a third of the business is only the really the organized sector and in that we think we should probably have a 10% market share, so really speaking you know very-very miniscule market share overall, so potential to grow is tremendous.

Aman Vij: And in the other segments, the most of it is organized segment only.

Vineet Agarwal: Yes.

Aman Vij: And what would be our rough market share in say supply chain or the sea ways.

Vineet Agarwal: Again the supply chain business, we don't know because there has been no studies specifically highlighting the market share and but we know for example in our in the auto sector we are amongst the leaders possibly with a 20% market share in the auto logistic side, in the; otherwise, we feel that you know there are limited players in the supply chain side of the business, so we have definitely a lot of strength and higher market share and in the sea way side on the East Coast, on a specific route we are amongst the leaders there with more than two-thirds of market share as on the Port Blair sector. On the other East Coast side, again we do not operate so we are at a meniscal level. On the West Coast side, we have only one ship which has about 300 to 400 TEUs, I believe the market is more than 10,000 to 12,000 TEUs, so I think again as I said again small market share there.

Aman Vij: Okay sir, when you talked about freight division being where the most unorganized player is, so, is my understanding correct after GST this will have the most beneficial for companies like us.

Vineet Agarwal: You know, well for sure, because here will be a more push towards companies moving to organized taxation systems and be more transparent; with GST you have to record your transactions right away because even that is important for the proper movement of cargo, so the whole thrust and plus the whole thrust over reducing black money in the economy, again all of these things will help our sector.

Moderator: Ladies and gentleman, due to time constraints that was the last question. I would now like to hand the conference over to Mr. Ashish Tiwari for closing comments.

Ashish Tiwari: Thank you to all of you for sparing time and coming to this conference call. If any further question is there, I would be available to answer and happy to answer those questions. My e-mail ID is given on the invites which is sent to you and thank you very much. I will request Vineet to close the call.

Vineet Agarwal: Thanks Ashish. Thank you for joining in today's call. As I said that as a company we are well position to take advantage of all the macro changes that are happening in the economy as well as the local level changes as well with all the potential in various sectors like e-commerce, gold chain, growth in the neighboring countries, trans-movements as well as in certain new areas of logistics. We too as I mentioned again that our CAPEX plans are quite stable. The cashflow is also quite stable and we have been consistently performing versus our competitors over the last several years and we will continue to do that. Again thank you so much for joining us and if you have any further questions, please address in to Mr. Tiwari. Thank you.

Moderator: Thank you. On behalf of Transport Corporation of India Limited that concludes this conference call, thank you for joining us and you may now disconnect your lines.