



“TCI Express Limited Q2&H1FY19 Conference Call”

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MANAGEMENT:

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Moderator: Ladies and Gentlemen, Good day and welcome to TCI Express Limited Conference Call to discuss unaudited financial results the Q2 & H1 FY19 Results. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chander Agarwal – Managing Director TCI Express Limited. Thank you and over to you, sir.

Chander Agarwal: Good evening ladies and gentlemen. We have done exceptionally well in the first half of financial year 2018-2019. The credit excellent performance in the second quarter along with the first half of the financial year majorly goes to our excellent services and also the management recognizes the significant contribution of our expansion in services to Tier-2 and Tier-3 cities and acceptance of policy level changes such as the GST and E-way bills in both the ecommerce the B2C and the B2B businesses.

We have opened to close to 30 new branches during this period. Today micro, small and medium enterprise SME contributes as high as 45% to country’s GDP and has an important role to play in India’s future economy. At TCI Express, sustainable business contribution from SME will be instrumental for growth in years to come. We have seen that the competition from both organized as well as unorganized sectors our ability to establish trust among our customers also sets us apart and helps us carve a niche over our contemporary. Since there has been a significant increase in customer base in Tier-2 cities, there has been increase in demand for Express delivery services.

The financial year 2018-19 our performance all across the metrics have been nothing short of spectacular. The company’s net Q2 revenue showed robust growth of 21.59% to INR 248 crores while the EBITDA stands at about INR 28.11 crores with a growth of 40% over last year. The increase in revenue has also increased our company profit after tax to rise about 25% approximately during the quarter when compared to the same period last year. The growth in revenue figures in Q2 are reflections of the company’s strong fundamental and is reflected in the half yearly figure as well.

The net revenue in the first half of 2019 increase by about 22% to about 496 crores while EBITDA stood at 55.56 crores approximately about 42.2% growth of a last year. The PAT also jumped to 32.39 crores for the first half of 2018-19 over the same period of 2017-18 showing about 29% growth. Tonnage wise we grew about 17% in volumes over the same period. We have spent about 16 crores during the first half year of 2018-19 mainly on expansion of sorting center and IT initiative. The debt of the company has significantly reduced from 62 crores in June 18 to 39 crores in September 18 quarter. Further the debtors’ cycle has also been improved to 50 days in September 2018 from 55 days in June 18 quarter.

On the back of sustained growth, the company has recommended an interim dividend of 60% that is at Rs. 1.2 per share on the face value of INR Rs. 2 per share.

With such strong numbers registered for the first half of the financial year and the entire festive season to look forward to, TCI Express is hopeful of registering record revenue this year. As per market as estimates manufacturing boom and Make in India initiatives along with online and ecommerce transactions are expected to contribute substantial portions to our sales during the October, December period. Thereby adding to the prospects of the Express logistic industry as a whole.

I am humbled and grateful to all of you and would like to open up to questions and any clarification.

Moderator: Ladies and gentlemen we will now begin the question and answer session. We have the first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Can you give me the sense of what is the pricing scenario right now is and what percentage for the fuel inflation remained to be passed on to the customer?

Chander Agarwal: So, we have introduced something called the diesel fuel surcharge that is calculated basically on the fuel average increase over say a period of one month. So, because of this what we have done is that we are able to pass on about the fuel increase about to 80% of our clients. The 20% of the clients they are gradually increasing as we speak, but by the year end it will increase as per our expectation. I think we are only company in India that has been able to pass on this fuel hike very diligently because our numbers are showing that. The fuel price has I think increase about 25% in the past six months, but overall our profitability has grown by 40% so that clearly shows that we have been able to pass on the fuel hike very diligently.

Baidik Sarkar: So, obviously I am sure your service standards are there, but what is clean acceptability of price hike at the client end, is it lack of competition or is it lack of alternatives we are just trying to understand that?

Chander Agarwal: So, what happens is what when we are out in the market now we have seen that lot of the unorganized companies they are not able to provide that E-way bills, GST like they are not able to carry it forward in their operation, they are not able to implement it. So, because of that we are seeing that the majority of our line are preferring a company like us. They know that the market has changed where they want the material to be delivered in next maybe two days earlier it might have been even two and half days now, they want to be delivered in two days. Hence there is a cost associated with it so they are willing to pay for it because that cost is actually cheaper than the holding cost and that holding cost of the warehousing and everything else is just like in today time it is not at all viable. Therefore when we demand the drive and we able to give the service the customer is accepting it and we are able to pass it on.

Baidik Sarkar: Just checking if I draw the numbers right your volume growth this quarter was 17% and value growth is about 3% is that right?

Chander Agarwal: Volume growth is around 17%.

- Baidik Sarkar:** So, obviously strong number is there. We will take a few expansion strategies in Tier-2, Tier-3 and what kind of investment are needed to sustain that and as far as volume growth is concerned over the next two, three years I was early days what you could peg your base risk growth visibility as?
- Chander Agarwal:** I did not get your last part of the question.
- Baidik Sarkar:** No I was trying to understand that obviously over last 7 to 8 quarters your volume growth sequentially has been very strong. Over the next two to three years what would you peg your base case volume growth at even the investment in expansion you are making to Tier-2 and Tier-3 cities?
- Chander Agarwal:** You know what happens is that we have a very robust hub and spoke system in the company. We are the only company that is operating its own hub and spoke, you know there are companies which are building big warehouses and everything, but it is all outsourced it is not the company operated and everything. So, in our case the hub and spoke system that we have it pretty much ensures that there is a hub in every state that we are operating into we have about 35 states completely and in that hub and spoke center the system that we have developed it caters to Tier-2 and Tier-3 cities very effectively. In fact the demand that we are seeing now is pushing through Tier-3 cities also. I mean Tier-1 cities there are where they are, but gradually the hub system is helping us kind of like navigate to the Tier-2 and Tier-3 cities very efficiently and very effectively. As per the volume growth that we see in the next two to three years it is going to be in the same range about I would say 18% to 22% definitely that is not going to come down. Volume growth is something which is kind of like it is a shadow of our revenue growth. So, if there is very strong revenue growth it also means there is very strong volume growth or vice-versa. For example last month we had a spectacular month ever in the history of the company volume growth was one of the highest and we will see those figures emerging in our Q3 numbers.
- Baidik Sarkar:** Given that 20% if your price increase remains is we are just curious to briefly do maintain margins I mean help us understand what kind of operating levers you have not seen a margin slip up in spite of a 20% price not being passed on.
- Chander Agarwal:** So, we have to all the time look at the operation you have to exanimate very diligently pretty much on a daily basis. We have analytics which are not very complicated, but easy to understand I mean IT plays a very important role in this. So, first of all the very way is to the operation efficiencies that we bring about operation efficiency means continuous like assessment of the routes that we operating on which is the shortest way the fastest way because new highways are opening up every day in India. There are new ways that are opening up it kind of helps us in reducing then at the same time Jio tracking in something which we are doing which is kind of important for a company like us and third of all the most important is load management. You know when you have a sudden spike in volumes we are initially able to scatter it across the network without the additional cost. So, we have been very diligent in doing that. We as management we spent considerable time in developing new methodologies and techniques in doing this. So, operational efficiency is the first way that we kind of have reduced our cost. Thus

second of course has been the diesel fuel surcharge that we introduced. And third the business model itself because we have always a positive cash flow, we get the customers payments in about 50 days, but we make the vendors payment in about close to 60 days. So, we always have some sort of a benefit and this is something which is very pertinent to our company because we have made at such in the Indian logistics industry.

Moderator: We have the next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir, my first question is in terms of the target margins correct me if I am wrong when we discussed last time we are seeing that target is to improve margin over next two to three years from double digit to high double digit 11 to 13 to 15 over next two, three four years can you give some color on that?

Chander Agarwal: So, we have already increased our EBITDA margin from about 8% to about 11% in two and half years and this is imagine in two and half years the diesel prices almost doubled. So, it is clearly showing that first thing there is enough business in the market there is enough demand for this kind of service in the market and number two as a company we are able to really push it through in terms of getting the bank for the buck. We our customers our profile has also as such that want company like us to be in the portfolio manufacturing companies large manufacturing companies and SMEs. So, I think going forward even we are expecting let say fuel price to be extremely volatile as it has been for two years, we would still be able to navigate that very diligently and one of the main foundation of this is that this continuous economic growth in the country. We are projecting 9% to 10% growth if this was not there then yes, I would not be so confident, but even with our GDP growth and the fuel price increase it definitely sets a standard for us to plan where we will be in the next few years and with that in the next two years we will be scaling up our EBITDA to up to 13% very easily.

Rajesh Kothari: Let assume the diesel prices remains where they are today without assuming that it will go up significantly or come down significantly then this 11 can it move to 15 or you think if it is a no change then 11 can move only to 13?

Chander Agarwal: It have a propensity to move up to 18 or so what we have in our plans over the next five to six years, but immediately for it increase to 13 can be challenged in short term maybe 11 can increase to maybe 12.5 so yes, it is a possibility.

Rajesh Kothari: So, when you say 12.5, 13 is basically about two years' timeframe whereas when you say 18% is about five to six years' timeframe is that the right way to look at it?

Chander Agarwal: So, the 12% immediate increase what you are talking about if there is you know if the government says the diesel price is fixed for one year then we will be able to move it up to 13% but this is never going to happen 13% if the diesel price is fixed.

- Rajesh Kothari:** No what I am trying to say let us assume that crude comes down to more so there is also possibility crude coming down so I am saying without assuming crude coming down or going up 13% is possible?
- Chander Agarwal:** Yes exactly.
- Rajesh Kothari:** And if let us assume the crude comes down then because you have a fuel surcharge mechanism which is I am sure very transparent mechanism with your client which helps them to understand why you are asking Express versus why your competitors if your crude comes down then you have to also pass on I mean is it a transparent way to work with clients or how works?
- Chander Agarwal:** So, this is not like an airline where B2C component which is our business is B2B business to business. What happens is that if the manufacture also decreases their price which will not happen we will not decrease the price also, but if you are doing delivery to say ecommerce company then yes if you are doing delivery for ecommerce company then maybe the price for that if it comes down they will also expect the logistic company to reduce, but in B2B scenario it does not usually happen. It is not an airline where the crude falls tomorrow the airline fares also reduce it is not like that. Express service is something which is like a very important element for the business for the manufacturing company. This is something that cannot be postponed or delayed passenger travelling for holiday that can be delayed or that can be purchased earlier, but this cannot be delayed this is something like very essential service. So, looking in that that is why we are seeing quarter-on-quarter growth for this division for this new company ever since it has been formed. If this was a regular FTL business or maybe warehousing or business definitely we will see a reduction in margins in profitability, but in our case when the fuel will come down it does not really happen.
- Rajesh Kothari:** So, basically you know further trying to understand little bit of diesel fuel surcharge mechanism, so when you say you have this mechanism in place is it internal to your company or because last time when we met you are saying all their sales team they know the pricing, today we know everybody knows at the same point of time how the pricing should be done to a particular customer irrespective of where it is your location, so is it an open pricing which includes diesel fuel surcharge mechanism transparently or no it is a combo price what you are offering to your customers?
- Chander Agarwal:** It is plus-plus pretty much. It is like if you have like for example if you have a base price a minimum selling price over that we are adding the diesel fuel surcharge.
- Rajesh Kothari:** Then it is transparent to the company to the customer I mean?
- Chander Agarwal:** It is totally transparent to the customer and it is actually put also on the E-way bill. So, I think as a company we known to be very transparent so I do not think this would be a question mark a charge which is a question mark.

- Rajesh Kothari:** Say for example suppose it is a Rs. 100 plus you are saying Rs. 10 is the diesel fuel surcharge mechanism total become s a 110 then after six month if the 10 becomes 12 you say 100 plus so 12 so it becomes 112 and then if the crude comes down from 12 to say 10 then you have to do 100 plus 10 am I right so that is a little bit which I am not able to understand because you see for B2B I understand the delivery is important, urgency is important therefore there is a pricing but if the pricing is transparent to the customer then A plus diesel fuel surcharge and if that comes down the B component how you will be able to retain the price?
- Chander Agarwal:** So, it is like this when we set our percentage of the diesel fuel surcharge that we would have been taking for that month because when we decide that if the price comes down we do not really reduce it because we have to factor in the previous price increase that has not been factored for the diesel fuel charge that we are going to be taking. So, looking into that we pretty much taken that financial year charges which have not been increased into account and we do not reduce it. So, I think it is a very robust practice because again this is not really defended by any customer, this is not defended by any vendors and this accepted very openly because of our transparency and we are seeing that the benefit roll in and our numbers are showing that.
- Rajesh Kothari:** My second question is with reference to the capacity utilization what is the current capacity utilization?
- Chander Agarwal:** We are at about 85%.
- Rajesh Kothari:** And if I am not wrong as you move from 85% to 88%, 90% it directly flows into the margin am I right?
- Chander Agarwal:** Yes. I think at about 5 years back we were at about or even not even 5 years 2.5 years back we are at about 80% and we have seen that benefit roll in because what is happening is again with the policies like the GST and everything which is like a game changer for our industry from at least for this company. It kind of like it opens the path for all the things all the positive things that has happened.
- Rajesh Kothari:** My last question is with reference to the tax rate, this quarter tax rate is pretty high if you can just tell us what one should look from the full year perspective?
- Mukti Agarwal:** Last year we were in a special rate category that was the basic rate was 25% and in this year it is 30% so that is why it almost 5% tax rate is increasing so effective rate would be around 34.5% in comparison to last year it was around 29.5%.
- Rajesh Kothari:** And next year CAPEX?
- Chander Agarwal:** We will spend close to about 60 crores next year. I think the following year if you ask me in 19-20 that is going to be little bit on the lower side maybe because of the election year.
- Rajesh Kothari:** So, what election is to do with it?

- Chander Agarwal:** If any state there is any sort of like we build sorting center and if there is any sort of like I do not know change in any law or something we do not yet. So, if anything emerges, we have to be careful and we cannot be just very gung-ho about investing in like maybe the period is unrest or something.
- Rajesh Kothari:** More of this CAPEX is basically to increase the size of the sorting center rather than number of sorting center am I right?
- Chander Agarwal:** That is absolutely correct.
- Moderator:** The next question is from the line of Deepesh Kashyap from Equirus Securities. Please go ahead.
- Deepesh Kashyap:** Can you please highlight from which all customer segment are you seeing such strong growth that is like Pharma auto textile etcetera which all segment?
- Chander Agarwal:** Pharma, auto and SME is where we are seeing the strongest growth happening.
- Deepesh Kashyap:** SME can you please specify which all sectors in the SME also?
- Chander Agarwal:** SME we are also seeing in Pharma and auto and in retail as well. In retail I mean is like the garment.
- Deepesh Kashyap:** Your competitors are like spending a huge amount in the next following few years so do you think that is there any risk that we will lose some market share to them because they are like doing a heavy CAPEX and we are like kind of doing a low CAPEX next year?
- Chander Agarwal:** I do not know which competition you are talking about because we have to be sure that we have the right competition mix. Our main competition is with the company called Gati. The second listed company that is our competition is with Blue Dart which is totally into air cargo business and their margins are falling. I do not see there any reference plan and third is our competition is with our unorganized segment. So, I have not heard of any unorganized segment which is doing heavy investments.
- Deepesh Kashyap:** So, Blue Dart is actually investing around 200 crores every year for the next two, three years that is the plan and they are actually expanding to more and more pin code in the country so that is what I was asking?
- Chander Agarwal:** I think their business is of course if you read their balance sheet 80% to 90% is all air cargo. So, air cargo is a forte and if you expand the pin code I mean I do not what their expansion is going into physically I have not seen any of their sorting center I have never heard of any warehouses that they have so I am not really sure where the investment is going I do not think they are buying new planes also because the air cargo business is a dying business in India.
- Deepesh Kashyap:** Can you please repeat like how much CAPEX you have done in first half and what is the plan for the second half?

- Chander Agarwal:** Our total investment for this year is about 60 crores and we will be spending about the same amount in the entire year?
- Deepesh Kashyap:** So, 60 crores you have already done in the first half?
- Chander Agarwal:** No we have done almost 16 crores in this first half.
- Deepesh Kashyap:** So, 16 again in the second half you are guiding?
- Chander Agarwal:** So, till full year we will be close to Rs. 60 crores. So, we are waiting some kind of land clearance uses so once we will get then we will start the construction on our existing land.
- Deepesh Kashyap:** Lastly can you please share the absolute tonnage figures in Q2&H1?
- Chander Agarwal:** So, absolute number we did not have but we have grown around 17% in this Q2 in volume wise.
- Moderator:** We have the next question is from the line of Preet Nagersheth from Wealth Fin Advisors. Please go ahead.
- Preet Nagersheth:** I wanted to get a sense on the impact here for possible Auto slow down, can you shed some light that if that were to happen or if that is happening how would that impact the company?
- Chander Agarwal:** So, we are not into the transportation of automobiles. We are into the transportation of auto components. So, even is automobile sales are slowing down the auto component movement spare parts is always there. So, there was a period when the result period was nothing being sold for that we saw robust growth in those times also. So, it is like the vehicles are not selling the vehicles are already on the road they need to repaired so that sort of business we are doing. So, we kind of shielded from the auto sales going up and down.
- Preet Nagersheth:** The second aspect we can know is how do you read the new measures of say the government helping the MSME sector the recent announcement of providing edge?
- Chander Agarwal:** That is a very plus point for our company and we are on the envelop of expanding to 1000 own offices in the next two years. In two years, we have already opened about close to 150 to 200 offices and this is very benefitted in our revenue growth. So, going up to doubling from the current number of our branch offices clearly shows that our focus on SME is very strong and this the type of SME that the government is referring to and our customer they are pretty much the same who do not cash and who are actually they have a decent tangible background. So, all these factors will definitely be a plus point for us.
- Preet Nagersheth:** How does the overloading norms impact you guys, is that something that is positive or that does not affect you all it is more in the FTL side of business?
- Chander Agarwal:** I think it is positive for us also, but again there is something which is not really clear about it in terms of whether it is possible or not because the problems come when in case there is a stoppage

of any vehicle what will be fine. If the government really take it out in clear black and white paper yes, it is allowed we kind of restrict ourselves. However, this will be out and we are allowing for it, it will be out and we will see that the benefit becoming coming us. We will see that operationally we will be more effective.

Preet Nagersbeth: The other question because of GST a lot of unorganized to organized was kind of expected and as we keep on saying that the market shares of unorganized is massive in your segment, so are you seeing more traction, more movement from that side to your side?

Chander Agarwal: So, I do not like to put my bet on the unorganized moving to organized because the business growth itself is so high that our attention is going on that. When I look at the unorganized segment whether this fasting or not it is trickling in now. Why am I saying it is trickling in because the government is not really clamping down on the unorganized segment hardly they are not it very hard, very strongly because they are of course there will be election and everything. Once they are back in power the clamping down will start because whatever the unorganized segment is doing somewhere or the other is revenue tax revenue loss for the government and the government want to curve it and this real clamping down will start let say by mid of next year then we will see possibly the trickling effect to maybe start becoming a little bit more stronger and then over the years obviously there will be gradual shift coming in.

Preet Nagersbeth: Last question would be ROC what kind of ROC do you see sustainable for the next two to three years?

Chander Agarwal: So, ROC we are looking for always on 45% plus so we will keep the same kind of growth rate on in spite of our CAPEX projections so we will maintain down that level.

Preet Nagersbeth: I think the CAPEX planning will say roughly what 400 crores over the next five years from this year onwards. So, the idea was to spend say roughly 80 crores a year I am just clubbing it back. Now you mentioned 60 crores this year 50 crores maybe next year because of election so instead of 80 crores or more number are you seeing some kind of slow down because of you which you want to not expand as much as you had originally considered?

Chander Agarwal: Not at all because it is like this maybe third year, we will spend about 100 crores. So, in totally you know it is something which we know that will depend a lot on the external environment also and we do not be like taking on any crazy amount of loan and being like one of those companies they are not able to repay and all that. So, whatever we are able to do we are able to do it from our own cash generation. Since we are doing that we are very careful in allocating that those funds also. So, I think looking at that we know that there is a very strong demand coming in for the next 10, 15 years for this business. So, we will allocate it accordingly.

Moderator: We have the next question from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.

Shailesh Kumar: Chander you have said that you have introduced diesel fuel surcharge, so when exactly have you introduced this?

Chander Agarwal: We introduced it the time when the government said the fuel prices will change daily. I think that was about 2 years back.

Shailesh Kumar: Second thing is what is our revenue on H1 basis from ecommerce segment?

Chander Agarwal: Same it was about 4% to 5%.

Shailesh Kumar: Have we seen any change in competitive intensity in the ecommerce segment?

Chander Agarwal: The way we work for our ecommerce business is that we do not go for large company like Flipkart or the other one or Amazon in a big way. We do that business which is profitable for us. Those are out which are profitable in Tier-2 cities. We also go for companies which are smaller that want delivery services in Tier-2 cities. So, I think looking at that our business is doing robustly every month we are seeing a growth happening and the best part is that it is profitable.

Shailesh Kumar: Last question how many clients we have added in last six months?

Chander Agarwal: I would say 2000.

Shailesh Kumar: So, what is our client count as on date?

Chander Agarwal: About 2 lakhs.

Moderator: We have a next question from the line of Kripa Shankar from Spark Capital.

Kripa Shankar: Just wanted to understand the growth of 17% in tonnage is how much percentage of it would come from the newer clientele which you have added in the Tier-2 cities and the existing clientele base?

Chander Agarwal: I think the majority of the gain is I would say that 60% is from the same customer business increase and 40% is new customer addition and these new customers addition is all not the large companies but SME.

Kripa Shankar: And in addition to that the contribution from ecommerce if are we seeing any increases which has happened in the second half with these festival sales is coming in?

Chander Agarwal: We already seeing that increase is happening, but never know there is any macroeconomic change or something like that then there could be a reduction maybe there is some change in some government policy we do not yet. So, if not I think the business we have scale up to a certain level in this business and we will maintain that.

- Moderator:** The next question is from the line of Varun Parikh from Samara Capital. Please go ahead.
- Varun Parikh:** Just wanted to understand what is happening on the ground in terms of E-way bill and has there been any adverse impact on transit times over the last couple of months?
- Chander Agarwal:** I do not think there has been any sort of impact on our company because we have been diligently following all the regulatory changes and whatever announcement that they make or they want us to change. So, we have not faced any problem as such.
- Varun Parikh:** But you do think for the less sort of for the unorganized or the guys who are not using appropriate IT system there would be an impact on their sort of operations?
- Chander Agarwal:** I would say that they might get affected if the paper work is not in order. If you move your truck without the correct paper work then anybody can get in trouble. So, what we are seeing, what we are reading is mostly happening in areas of the country where maybe the IT is not strong where they are lacking understanding so I think all this is happening. Signs also being laid off, but we have been shelved by all that.
- Varun Parikh:** And over the next two or three years in the medium term and excluding sort of DFS related price increases, do you see the possibility of the industry taking some sort of price/realization increase?
- Chander Agarwal:** I do not think there is going to be any price reduction anywhere it is not going to be any slashing of prices because we have been diligently increasing our prices and the reason, we can do it because we are setting the standard for express transportation in the country. Many companies are emulating us what happens is that you will see that maybe happening in the FTL segment where they will say that you are getting economies of sales, but the fact is that the government has anyway allow the tonnage to increase. So, the pricing will not really come down moreover the real cost of logistics is fuel. The fuel is one of the highest in the world that we have. So, definitely there is not going to be reduction happening on that front and hence there is not going to be any price cut in this sector.
- Varun Parikh:** And how is the competition from some of the so-called new age players like Rivigo, Delhivery of the world I think they had come in full swing and have started some sort of operations in the B2B Express base?
- Chander Agarwal:** Fundamentally you have to be sure of your what is your mission statement are you going to be a B2C company or you are going to be a B2B. If you are a B2C company and you suddenly become a B2B company obviously the management does not know what they are doing. I think this itself has created an opportunity for us to go to the market more and tell them that please be careful of these companies. We have had many customers come to us and say that we made a big mistake going to these companies and we want to join back the queue that has happened on the few. So, I think once they get the strategy right which may happen or which may not happen we will have to wait and watch.

- Moderator:** We have the next question from the line of Raunak Morjaria from Edelweiss Asset Management. Please go ahead.
- Raunak Morjaria:** Just wanted to understand and progress on the new sorting center if you could give some earlier what was it earlier and how many we have added this year and out of that how many are owned and how many are leased?
- Mukti Lal** Total number we have 28 and right now we owned 10 number in our balance sheet and remaining 18 on a lease basis on that front we already have acquired 5 land, on that we are waiting for the clear land uses. So, we will hopefully get the one or two permission in this year so we will start in Q4. So, I think after two years we will be a number of 15 like Delhi we already acquired the land Delhi, Pune, Indore and Napur and Calcutta and these five centers we already acquired the land and we will start the construction soon. So, next two year we will finish it that would be our strategy and we just want to be only on big locations we want to convert these sorting center from lease to owned ones on a small places we do not want to be. So, we want to keep adding 60% is owned and 40% is on lease after even three, four year.
- Raunak Morjaria:** Also, I wanted to understand on the branches front since we are seeing good set of growth from the branches so is it like from once we add a new branch we start seeing good set of revenues from initial period only or it take some time for us to get some revenues on the new branches?
- Chander Agarwal:** It start immediately because the business potential is there it is just that we do not have it. So, it almost grabbing it.
- Raunak Morjaria:** Lastly also if you could help me understand in the previous question also you mentioned that pricing power is there, so can we be confident like each and every year is apart from the surcharge which we take we will be able to take like 3% to 5% kind of hike because of our business strength?
- Chander Agarwal:** We usually take up to 8% every year now as a norm because 5% is something which is the inflation and 3% on top of that is something that we have to take.
- Raunak Morjaria:** So, that we are confident we will be able to take because of our strong business presently.
- Management:** Absolutely.
- Moderator:** We have the next question from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Can you help us with the volume growth for the first half as well like you mentioned for 17% for the second quarter?
- Chander Agarwal:** Yeah for first half it was around 18% so in cumulatively it is around 17.5% for our H1.

- Achal Lohade:** Number two I wanted to check these branches what you mentioned or the offices, is there any particular region where we are pushing more or it across the nation in Tier-3, Tier-4, Tier-5 towns or something?
- Chander Agarwal:** It is all over the country in fact we have opened offices in northeast India where it is a big delivery center. Majority of our offices have opened where manufacturing has increased the MIDC where we had only one factory one office say in city like Aurangabad, we have actually expanded like opened two more offices. So, obviously market mapping is done very relentlessly to get the best output and I think since we know this business pretty well the effect is also immediate we are able to see that wherever we have opened the offices it has helped us in revenue generation.
- Achal Lohade:** Third is in terms of the origination is it possible to get some color as to how each of these four regions North, East, South, West are doing where you are seeing more origination that is happening or vice-versa?
- Chander Agarwal:** We are seeing maximum growth happening in the western part of India in Gujarat and number two for our company we are seeing in Calcutta interestingly because this is again what we are not doing earlier was paying attention to SMEs. Now we have actually got a very strong hold of the SME in the eastern region which was never existing. So, things like this new pocket are emerging for us for growth like Ahmadabad region in one of the top region now for growth in the country. Same way South India like Chennai regions which was again falling back because the focus on SME was not there it is helping us grow. So, essentially what we are doing is that we are continuously mapping out the country and we are trying to grab the customer as much as we can. Our target for the next two years is to map about 1 million customers in our database.
- Achal Lohade:** The other question I wanted to ask is I am sure you must have got this question in the past interaction is basically when you have the DFC in place say about two, three years down the line what would be the change in your business model it will cost?
- Chander Agarwal:** DFC is not my concern at all because when the announcement came in the newspaper if you reduce the Exim cargo that goes from North India to JNPT on the truck it takes about two weeks they want to bring it down to five days. So, that is one of the reasons why the DFC is going to be playing a big role in bringing the logistic cost down in India in increasing our exports. Similarly, the second focus for DFC will be commodity. Here with the population of billion and half commodities like onion and all that they move by truck. So, government want to stop that also. Right now, moving by truck the cost is so high but they never say is that the cost is because of the logistic problem and because the DFC is not ready. So ultimately, we will see only container movement for Exim and even for commodities moving on the DFC. Our business is not going to get affected to express Cargo business that is a very time sensitive and has to be handled with carefully. It is almost like you have to put on the sticker of take care on that. So, that cannot move on the rail so that is not a challenge to us.
- Achal Lohade:** On the contrary would that lead to more vendors being available at better pricing power with us?

- Chander Agarwal:** I think so I mean there is lot of supply in the market already by the budget truck fleet owners. Every day we get proposals for joining with us. So, yes when that happens, we will see that there will be a more supply.
- Achal Lohade:** If you could help us in terms of the data points as to what is the percentage price increase in a rupee per kg or Rs. ton you have seen in the second quarter as well as first quarter on YoY basis?
- Chander Agarwal:** Price per ton I am not able to understand.
- Achal Lohade:** Revenue divided by the tonnage will give us the rupee per kg kind of a realization or rupee per ton kind of realization, what is that increase you have seen why I am asking because if I look at the basically sales minus the operating expenses I see there is a gross margin expansion from 24.6 to 25.9 almost 130 basis points QoQ second quarter over the first quarter and I am just trying to figure what has driven that I understand the qualitative aspect of it I just wanted to understand bit quantitatively as well?
- Chander Agarwal:** It is tough to say like how much what is the quantum increase tonnage wise and everything. Overall as I said we are increasing our prices by 8% but that is again not on the entire spectrum of our clients that is happen only may up to about 80%. It is really hard to say to calculate what you are asking.
- Achal Lohade:** Just a last question it basically what is the premium to the normal I know there is no direct apple-to-apple comparison, but just a ballpark number with respect to what has typical Delhi, Bombay cost for a full truck load for us in Express and as well as in case of air, just want to understand the price point what we are talking about?
- Chander Agarwal:** Air cargo is four time the price point for surface cargo.
- Achal Lohade:** And how much are we premium to the normal freight transporter?
- Chander Agarwal:** Double. Eventually what will happen is that Express will keep moving up and air cargo will keep moving down and when air cargo keeps moving down, they will come into serious trouble eventually that is going to happen and that has already started happening.
- Moderator:** We have the next question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.
- Pratik Kumar:** I have couple of questions. Firstly, on air cargo business do you see that I mean some of the passenger airlines are also now looking to participate with air cargo business, so while it looks like a low growth business but some of the passenger airline has also participating like if I can name it Spice Jet as we have been talking about it very openly?
- Chander Agarwal:** If that happens and they will lose focus whether they should focus on passenger or cargo then they will become like Jet Airways or they will become some other airline which is going down or which will become the kingfisher because to have first of all this business is getting just

transportation by air get that business is very tough and if you just want to fit their belly space at such high prices the demand is falling. So, I think these are very high aspirations of companies and I think they should be careful about it.

Pratik Kumar: Regarding axle load norms so for our type of business so we do not get impacted positively or negatively by axle load norms changes?

Chander Agarwal: It is positive for us only.

Pratik Kumar: But because of that voluminous product we carry we generally should not have any impact positive or negative due to it.

Chander Agarwal: Exactly.

Pratik Kumar: And just couple of other things like most of the competition direct or indirect including parent company as mentioned reasons like Kerala floods, transport strike, shift in festive season period timing as the reasons for some impact in their business performance in Q2, so did we also had some impact of all these in our business or shall I completely insulate it from all these as well?

Chander Agarwal: We have had, but again we have handled it very well for example the floods in Kerala we did not have as single consignment of our get damaged or get submerged in water or any complains. It just that the entry into the Kerala state was difficult booking out and booking in and anyway Kerala is a very small segment of our business for any logistic company it is a very small segment so it did not really matter to us. Number two as far as the diesel fuel price increase go we were able to pass it on very easily, there was no reluctance by the customers. Number three festive season demand yes, we have seen the boom happened last month and I think we were not really affected by that it was good for us. We are some of the ground-breaking number last month. Yes there was a fall in the business because of the strike, but again we have in spite of that you can see the number we are able to catch it up and we will cover it by year end.

Pratik Kumar: My question is I mean if these would had impacted our business so otherwise our growth could have been higher?

Chander Agarwal: We have already touched about 28%.

Pratik Kumar: 28% for what?

Chander Agarwal: Revenue growth H1 if all this has not happened. We are at 22% if all this had not happened we would have about 28 very easily.

Moderator: We have the next question from the line of Tejas Lakhani from Edelweiss. Please go ahead.

Tejas Lakhani: I just wanted to get a sense that if you extrapolate the H1 performance we are likely to do about 1000 crores plus of business in this year and you mentioned that there are about 2 lakh customers. So, simple arithmetic we will tell you that per customer we earn around 50,000, so could you

just help in giving a broad range of the services that these 2 lakh customers of ours how do we charge them and what is the range so?

Mukti Lal: We charge them by the kilo and of course the range can be the customer can increase also 300,000 or they can reduce also. So, it is kind of like it is like very hard to take out absolute numbers unlike manufacturing. So, we will have to always we get the numbers by the end of the year and also on other side our top 25 customers is not contributing my revenue more than 12% to 15% in overall basis. So, that is one customer may be give a crores rupees of a business in a month, but other customer maybe give a Rs. 10,000 only so that is the range actually and one customer may be giving a repeat order or maybe on alternate days small SME even gain a three time in a month only, but yes big customer maybe given a daily basis. So, that is way we are ranging on a various type of that and that is helping us to curve the business on a small towns and all this branch network.

Tejas Lakhani: So, our smallest customer who gives business as low as Rs. 10,000?

Chander Agarwal: Yeah it is even Rs.5,000.

Moderator: We have the next question from the line of Abhijeet Mitra from ICICI Securities. Please go ahead.

Abhijeet Mitra: So, I have one small questions, so you have mentioned on a year-on-year basis your volume has grown by almost 17%, can you give the same number on a QoQ basis how your volumes have moved?

Mukti Lal: So, on Q2 we have grown around 17% on a tonnage wise.

Abhijeet Mitra: That is compared to Q2 of last year, right?

Mukti Lal: Yeah.

Abhijeet Mitra: What about from Q1 to Q2?

Mukti Lal: Q1 to Q2 only 1% growth is there because if you see the revenue figures are also same almost, we have done that same kind of revenue. So, on volume growth only 1% is higher than Q1.

Abhijeet Mitra: So, if volume growth is 1% and the revenue is flat does it mean that we have not taken any price increase?

Mukti Lal: We have taken our price increase it is a vice-versa actually. Sorry volume growth is 1% down from the last quarter.

Abhijeet Mitra: So, effective pricing increase is 2% is it?

Mukti Lal: Yes.

- Abhijeet Mitra:** So, with the 2% price increase your gross margin has increased by almost 130 bps, so if you can help us understand clearly diesel prices have increased much more than this right?
- Chander Agarwal:** Yes. So, that is why we are saying we have just pass it on to customers.
- Abhijeet Mitra:** So, the pricing mechanism on which the surcharge that does not get captured in the top line is it?
- Chander Agarwal:** Not really.
- Abhijeet Mitra:** The surcharge you do not capture it on the top line?
- Mukti Lal:** But yes diesel price increase is also part of revenues also but it goes in revenues.
- Moderator:** We have the next question from the line of Preet Nagersheth from Wealth Fin Advisors. Please go ahead.
- Preet Nagersheth:** Just one question this is regarding guidance for 19, so are we still on track say for 22%, 25% for top line and 35% to 40% for bottom?
- Chander Agarwal:** Absolutely we are definitely in tune with that.
- Preet Nagersheth:** One more comment the recent Diwali sales for Flipkart and Amazon and others. These are massive increase seen by Tier-2 and Tier-3. You know this clearly point to lot more ecommerce expansion happening, so any plans to go on this last mile delivery side of that I know the company has not been looking for just volumes but effective gains on profitability, so do you have any change in view on that or you are still maintained your original position?
- Chander Agarwal:** We will maintain our original position. We are doing B2C we are doing a good chunk of business now and that is by smaller companies because companies like Flipkart and Amazon what they say that they are going to have big sales and all that we do not really know and the pricing that they offer to the government, to the companies are pretty much low which means it is very low. So, I do not think we will ever do that kind of business.
- Moderator:** Thank you. As there are no further questions, I now hand the floor back to Mr. Chander Agarwal for closing comments.
- Chander Agarwal:** Thank you very much. I really appreciate your time and I look forward to equally well managed and high growth and profitable H2.
- Moderator:** Thank you. On behalf of TCI Express Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.