



TCI Express Limited  
Q2 & H1 FY20  
Earnings Conference Call

**November 05, 2019**



**MANAGEMENT: MR. CHANDER AGARWAL – MANAGING DIRECTOR  
MR. MUKTI LAL – VICE PRESIDENT & CFO**

**Moderator:** Ladies and gentlemen good day and welcome to TCI Express Limited's Conference Call to discuss unaudited Financial Results for Second Quarter and H1 ended 30<sup>th</sup>, September 2019 and address Investor and Analyst queries. As a reminder all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Chander Agarwal – Managing Director. Thank you and over to you sir.

**Chander Agarwal:** Good afternoon everyone and welcome to the Q2 FY2020 Earnings Call of TCI Express Limited. On this call we will start with overview of the economy and industry, followed by financial and operational highlights of the quarter. Then I will hand over the call to Mr. Mukti to discuss the financial performance in detail.

Our Earnings Presentation has been uploaded on our website and stock exchange and I hope you have had a chance to review it. The domestic economy continued to face challenges which persisted from the beginning of the fiscal year and slowdown continued during the second quarter of financial year 2020 due to weak industrial activity across sectors, with a minor uptick in demand near the end of quarter with the onset of the festive season. Despite the macro headwinds, we will be able to deliver a robust growth which we attribute to our unique value proposition, our strong partnership arrangement with vendors and support from a growing and diversified client base of SMEs.

I'm pleased to report in Q2 FY2020, TCI Express reported a total income from operations of Rs. 271 crores, an increase of 9.3% from Rs. 248 crores in Q2 FY2019. EBITDA stood at Rs.32 crores with margins of 11.9%. In the light of strong quarter performance, the board of directors also recommended interim dividend of Rs. 1.5 per share which translates into a payout of 12.9% on EPS. During the quarter, we have opened 15 branches to deepen our presence in metro cities and this has been one of the core strategies in last few months which will also drive growth in the long-term. Including recent addition of branches, in total we have added 25 new branches in the first half, with a clear focus of tapping into more SME customers.

As part of our strategy to mitigate business risks, we want to own the sorting centers, but more than owning them we will also be expanding the current ones which were made 15 years ago. Therefore in Q2 FY2020 official groundbreaking ceremony was held for two of our new sorting centers in Gurgaon and Pune. The new 2 lakh square feet sorting center at Gurgaon will be located in Pataudi and 1.5 lakh square feet sorting center at Pune will be located at Chakan. The unique feature of this sorting center is that it is going to be 18% mechanized, one of its first kinds in India for hub and spoke model. The construction is expected to be completed by the end of the current fiscal year with commercial operations projected to begin from Q1 FY2021.

We will invest in automation and implementation of business intelligence tools which will result in direct cost reduction further. Most importantly the goal is to reduce the turnaround time and have enhanced operational efficiencies in the long run.

Looking ahead, the current economic environment remains challenging, we are anticipating that the recent initiatives of government such as target to become a USD 5 trillion economy, emphasis on logistics sector through multi-modal logistics parks policy, national logistics portals and industrial corridors are expected to drive overall growth in the sector and also bodes well with the company and its growth.

We remain cautiously optimistic about the domestic economic environment and we would continue to focus on core strengths of our business through operational efficiency, shorter turnaround and deliver superior and time definite solutions to both SMEs and corporate customers.

Now I will hand over the call to Mr. Mukti to discuss financial performance in detail.

**Mukti Lal:**

Good afternoon everyone. I will present the key highlights of our financials in Quarter 2 FY2020. Our revenue has grown by 9.3% from Rs. 248 crores to Rs. 271 crores and this revenue growth is basically supported by increasing customers from the SME sector and also driven by addition of new branches. In absolute terms our EBITDA has grown by 15% from Rs. 28 crores to Rs.32 crores and EBITDA margin has also improved from 11.3% to 11.9% in Q2, which is an improvement of 60 basis points. The margin improvement is basically attributed to higher operational efficiency and effective cost control measure taken during this period and profit after tax has also reached to Rs. 26 crores, registering a growth of 60% over last year same period. PAT margin levels touched to 9.6% in Q2, on CAPEX side our target has been revised to Rs. 80 crores for the fiscal year, which will be utilized for automation at sorting centers, resulting in higher operational efficiency and improved turnover time. In Q2FY20, we had spent Rs. 5 crores and in H1FY20 Rs. 7 crores in total have been spent on construction of sorting centers.

We continue to strengthen our balance sheet and in last quarter we became a debt-free company and now our surplus fund stands at Rs. 27 crores at end of September, 2019. Thank you very much and now we are ready to address your questions.

**Moderator:**

Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. We have a first question from the line of Prit Nagarsheth from Wealth Finvisor.

**Prit Nagarsheth:**

**Congratulations**, wonderful numbers in light of current economic environment, Could you shed some light on what are we targeting for the full year in terms of growth, given that our H1 stands at 6%?

**Chander Agarwal:**

We are looking at about double-digit growth in topline, so I would say that if everything is in place, that the lower teens is what I am looking at the overall topline growth.

**Prit Nagarsheth:**

So you are expecting the H2 to be at least 15%-17% to get that number?

**Chander Agarwal:**

Yes.

- Prit Nagarsheth:** Can you shed some light Chander on how are things looking on the ground, given that rains are still on at various places?
- Chander Agarwal:** I will be a little less optimistic, maybe not be 15% to 16% but probably around 13% to 14%, is I think achievable. What was your second question?
- Prit Nagarsheth:** How are things on the ground considering that rains are still on at certain places and are you seeing pick-up?
- Chander Agarwal:** We have seen the pickup in almost all segments, all of our verticals, but I have not really seen a slowdown in the auto spare parts as what everybody is expecting. What we were experiencing is that overall there was a reduction in demand and that is driving down the actual business. This is something which I feel is temporary, it's not like India will stop consuming. Our GDP is still growing at about 6% and based on that data having a GDP of 6.5 in the second half would possibly mean that we have the 11% growth also. So I don't see any big major change happening in terms of consumption but it's just slowdown that's all.
- Prit Nagarsheth:** There was a recent comment on twitter from the TCI Express handle about the pincodes where there are some 19,000 odd pin codes and but there was a mention of how the competition is expressing as 45,000 odd or something like that. Would you share some detail on this, meaning what prompts us to comment on this?
- Chander Agarwal:** What has happened is a lot of people are giving false promises to customers and misleading them in many ways and this has been the usual trend of unorganized segment. So as a company we thought since we are leading in this field, it's our duty also to educate the customers - how many real pincodes are really there, how many are with the army and how many are really achievable to deliver. So all these things were very important and that's why we have that twitter post.
- Prit Nagarsheth:** Are there any pincodes that we have plans to expand into or have we exhausted whatever were available and open?
- Chander Agarwal:** We have covered most of the pin codes. I'm sure like in the very northeastern part of India, maybe near the border of Burma, we have not possibly been gone there. But yes the major towns we have covered in pretty much in all states.
- Moderator:** We have a next question from the line of Sayan Das Sharma from Bank Of Baroda Capital Markets.
- Sayan Das Sharma:** Firstly, it will be great if you can share the tonnage growth for the quarter?
- Mukti Lal:** So tonnage growth in this quarter is 7%, against of revenue growth of 9.3%.
- Sayan Das Sharma:** When we spoke last time on the earnings concall, you mentioned that July was a good month where the growth was about 12%. So from there growth seems to have come down, so what went wrong in August and September if you can throw some color on that?

- Chander Agarwal:** August, in terms of the company, nothing was wrong, but it's just that the demand had lowered drastically. We saw that customer consumption all of a sudden just dipped and also the monsoon affect was very strong. There were 5 states which were flooded and there was absolutely no movement of goods, Jammu and Kashmir was shutdown and all of these things added up and in general, because of the political environment how it is right now, people were not willing to spend money and rather conserve it. It was nothing specific, but just a dip in demand which created this situation.
- Sayan Das Sharma:** You have mentioned that most of the growth that you have posted this quarter is coming from the new SME clients that we have added. It will be good if you can share some views on how the existing customers, particularly the corporate customers are shaping up and is there any particular issues with any large corporate customers that you have?
- Chander Agarwal:** All corporate customers volumes, except maybe in the Pharma vertical, are down. The reason why we had a heavy growth in profits in Q2 is because of the reason that the SME customers were giving us more business and SME customers also give us more profit. But the volumes obviously are not as large as the corporate customers. So there was a trade-off. We saw that the topline was not as high as possibly the bottom line. And if we had the corporate customers, the top line also would have been higher like in double digits. So this was the situation and what is happening is that India is going through too many shocks and this is affecting the consumption cycle more than anything else. And of course we depend on the manufacturing, so if consumption is lower or very cyclical then we are seeing that the manufacturing is also happening as such.
- Sayan Das Sharma:** Is there any pressure on receivables from any of these customers? Are you seeing that delayed, maybe because of a possible liquidity crunch at customers end?
- Mukti Lal:** We have also published the balance sheets, so you can see there is no pressure on our receivable side. It is just a normal trend where we have almost 48 days receivable.
- Moderator:** We have a next question from the line of Pritesh Chedda from Lucky Investment Managers.
- Pritesh Chedda:** Last quarter you called out acceleration of growth on a quarterly basis, do you continue to see the trend where as we move into the future quarters the growth rate should accelerate? The other question is whatever incremental CAPEX that we do, which is let's say 80 crores this year and you had a Rs. 300 odd crores plan over the next few years, what will be the asset turn on that CAPEX?
- Chander Agarwal:** Future growth, for example in this financial year's second half I'm expecting a double digit growth. Definitely whatever we do in top line, we will have a very solid bottom line as we have analyzed. For asset turnover, Mr. Mukti please provide information?
- Mukti Lal:** Our Asset Turnover ratio would be 3x plus.

- Pritesh Chedda:** Sometime back we had called out a Rs. 400 crores total CAPEX plan spread out in some few years.
- Chander Agarwal:** Correct.
- Pritesh Chedda:** How many years was that?
- Chander Agarwal:** It was 5 years plan, including the current year FY2020.
- Pritesh Chedda:** Basically FY20 to FY24 plan of Rs. 400 crores ?
- Chander Agarwal:** Yes.
- Pritesh Chedda:** Does it mean here additions of assets or it is just replacement or maintenance of the existing assets?
- Chander Agarwal:** Replacement and as well as expansion of some of the sorting centers which have outlived their life, so that would be in smaller towns. We are seeing that the business is picking up in these and one of the first investment that we have done is in Pune, which was a small town then and now it's in the top city category. So all these things matter because we are seeing that all the big cities are full to the brim capacity and Tier -II and Tier -III towns are coming up and those locations also requiring the sorting centers and that's where the investment will be going.
- Pritesh Chedda:** Does it mean doubling of capacity, because your volume growth rate is double digit?
- Chander Agarwal:** If we have about 2.00 Million square feet we expect that it should go up by almost 80% in time to come, in the next 4 years.
- Pritesh Chedda:** Last question, this 25% taxation under the new corporate tax law, is it applicable to us?
- Mukti Lal:** Yes, it is applicable to us.
- Moderator:** We have next question from the line of Nirav Vasa from Anand Rathi.
- Nirav Vasa:** My question pertains to the growth rate you are expecting and second half. So just wanted to get more color based on the demand that you are seeing, apart from Pharma and Auto ancillary, which are the areas or the industries that according to you are the industries where the growth can prop up in second half of the year?
- Chander Agarwal:** SMEs is what we are looking at, definitely there will be consumption increase there and at the same time SME caters to pretty much all the verticals that we cater to in corporate clients. So beside Auto and Pharma we are also seeing engineering, retail, though retail is not a big component—but I do see that it's going to be one of the drivers for revenue growth and also the textile industry. I think Textile is always evergreen, people will always buy clothes in India. So I don't see any change happening there.

- Moderator:** We have next question from the line of Kaushal from Dhanki Securities.
- Kaushal:** This is Kaushal here. In Q1, if I'm not mistaken we had guided for around 8% to 9% margin level and we are already at that level, so we will stick with this guidance ? and also on the revenue front, for the full-year what would be the estimated volume growth that we would be targeting?
- Mukti Lal:** Volume growth would be in a double-digit figure like 10% or 11% because our revenue target is almost 13%-14% for the whole year, so you can assume volume growth at 11%.
- Kaushal:** And on the margins?
- Mukti Lal:** For Margins, if you see the general a trend so we had a 2X to that of revenue growth or more than that. So we may grow by 25% at the margin level, over the last year.
- Moderator:** We have next question from the line of Ravi Naredi from Naredi Investments.
- Ravi Naredi:** Congratulations on the fantastic results. When GDP is Rs. 2.8 trillion and road transport is Rs.210 billion which you have mentioned in the report, so when it touches Rs. 5 trillion scale, what figure you imagine for the road transport?
- Chander Agarwal:** It's a very good question. I feel that it will hit about Rs. 4.5 trillion. So, definitely in terms of the logistics cost, it will be about maybe 10% of that figure, which means that the industry size would double. If for a \$4.5 trillion economy logistics cost at 10% would be about 450 billion, so it would be definitely more than double or what we are expecting. There will be lot of challenges in this because in terms of infrastructure India has to, to maintain that GDP growth, have the highways which are being built. For GDP growth you do not necessarily need the airports but you need the freight stations, the train freight stations, the ports have to be very strong, so all these things are happening. In Road segment, approx. 60% of the trade in India or the movement of goods happens by road and this is going to increase only, because ultimately the pricing will also be fundamental to the growth level of the economy. So as we now understand that the road system will make it faster to go from Point A to Point B, customer will not want to pay 4 to 5 times by Air. I think all these things will really matter in pushing the economic growth.
- Ravi Naredi:** And our share will be more than 5%, we are presuming that, right?
- Chander Agarwal:** Absolutely, because it has to. More and more companies and SME's growth is coming into our fold, SME's are the ones who have come into the GST gambit and once they have come in, there are many more companies which are following up and coming in day by day. So we are seeing that the importance of the organized sector is further going to increase.
- Ravi Naredi:** Is commercial truck business in trouble, as now the truck vendors are running trucks at the loss, is it like that?
- Chander Agarwal:** Not with our company. In our company, they are doing pretty well.

- Ravi Naredi:** Is our international business is also going well, in volume term?
- Chander Agarwal:** It is growing, yes.
- Moderator:** We have next question from the line of Paresh Jain from Bajaj Allianz.
- Paresh Jain:** Just wanted to understand about this 9% to 10% growth, was it evenly spread out during the quarter or was July slower and probably September saw some pick up?
- Chander Agarwal:** July and August are pretty much problematic time period because of the monsoons. But in general what we did was that we maintained our profitability and in spite of all the challenges, there was also a spike I remember in between for diesel, we did not really absorb that shock at all and we were possibly the only company in India which kind of like mitigated all the foreseeable risks, of course force majeure is not in our hand. But we were able to squeeze and take out as much business as possible and in this environment when the autos are not selling, when your manufacturing is down, we were able to kind of push it through, only because of our focused strategy.
- Paresh Jain:** It's fair to say that September was better than July and August? Is that the way to look at it?
- Mukti Lal:** July and August, right. As September a pre Deepawali month, yes we have done better.
- Paresh Jain:** And did I hear you correctly that you said that you were not seeing of slowdown in the auto spare parts business?
- Chander Agarwal:** We are not really seeing that. We are not seeing a slowdown there.
- Paresh Jain:** That's very strange because whether it's the OEM or the replacement market, everywhere we are seeing a slowdown.
- Chander Agarwal:** OEM market is very diversified, if you break it up its going to be at least 100 sub categories and the OEM which is growing in manufacturing that is 90% of the OEM business and that has taken a big hit and everything below that is not really affected, like the replacement market for cars is zero right now. But for spare parts, I see every day that we are sending like across pan India, all the automakers are sending the spare parts. People are actually now investing more in changing the spare parts of the car than considering buying a new car.
- Paresh Jain:** SME has been under stress, but for you gains in the SME is largely because of the network expansion.
- Chander Agarwal:** Absolutely and also because like I mentioned earlier lot of the customers, they were not in the GST gambit. Now they have come into the GST gambit and that is making a very positive effect and what is happening is that the government clamp down on GST waiters is getting even more stricter by the day. So I think all these things are really pushing customers whether small or



large, to come into the GST gambit. Now obviously when that happens, organized companies like ours would likely to get that benefit.

**Paresh Jain:** And as and when the invoice matching starts that would benefit you?

**Mukti Lal:** So it is actually good, because we are also providing them everything in the digital mode, so it is even easy for us and it is beneficial for company like us.

**Paresh Jain:** I'm saying will it help your business grow faster?

**Mukti Lal:** Yes, absolutely.

**Chander Agarwal:** We want our bills to be sent electronically, currently 50% the bills are sent electronically, if customers change their mindset and remaining 50% also take it electronically with electronic POQ, we have provided all that options, our billing cycle will further reduce. We are very confident in the next 2 years, at least 90% of our customers will come in this electronic billing format.

**Paresh Jain:** Rs. 80 crores of CAPEX is planned for the full-year and we have done only 7 crores till now, so do you expect acceleration or we will be lowering down our CAPEX?

**Chander Agarwal:** No, I think it will be around that much because the sorting centers are being built and as they require money we have to pump in. So it's in different stages. Every stage even when we are buying equipment or the next stage of like the advancement, all that will require the CAPEX.

**Moderator:** We have a next question from the line of Sanjeev Panda from Tamohara Investment Managers.

**Sanjeev Panda:** My question is regarding Rs. 400 crores CAPEX that you talked about for the 5 year horizon, could you please throw some more light into Rs. 80 crores plan for the current year and what is planned for the other things? And how effectively these will help us to get more business or more turnover that you said about, if you can help us to get a perspective on that?

**Chander Agarwal:** There are two things in this; the CAPEX is required for expansion of existing sorting centers which would mean that essentially we are building new ones. Anything which is built 15 years ago has outlived its capacity. What we are doing now is that we are making it about 18% to 20% mechanized i.e. automated and that is going to bring down the labor cost and it will also make the turnaround time faster. So if the goods are waiting in the sorting center for maybe 10 hours, our quest is to bring it down to 5 to 6 hours and to do that this investment will need to go in technology and not just in brick-and-mortar. So for this, I know that investment will be required in major locations, for example in Calcutta we do not have own sorting center yet. We do not have one in Bombay, very difficult to get land there also. So like that as it comes from we will have to, we need a 200,000 square feet sorting center in Bombay. We need at least 150,000 square feet in Calcutta, so looking all these, that is where all the investment is going to go and as we see that the labor cost is going to be increasing in time to come. It is very essential we do this CAPEX.

- Sanjeev Panda:** Can we say broadly that post Rs. 80 crores investment, at least 3-4 new locations you will be looking at?
- Chander Agarwal:** Wherever we have a sorting center, will be making a new one there, if it's needed like a big one like, a good example is Salem in Tamil Nadu we do not have it there, it's a rented property, it's not our own. But I'm saying that in the next 2 years Salem would require 100,000 square feet property. Even like Chennai for that matter will require a 200,000 square feet facility. So for all these things. I don't like to make investment from day one because I would like to see how the economy is moving and then be prudent about my investment. I don't want to be taking on any extra loans or unnecessary loans and not completing the projects. So all of these things I kept in mind before the investments are made.
- Sanjeev Panda:** And all will be funded from internal accruals?
- Chander Agarwal:** Absolutely.
- Sanjeev Panda:** Currently we have been hearing from the ground that the truckers are under pressure and then because of that the pricing i have been squeezed for them. So from our vendors do we also get affected when our business is also being asked for lower pricing and all? Does it work as a tandem?
- Chander Agarwal:** What happens is, the vendors we work with them on a very regulated pricing mechanism. For any changes to happen, we wait for a while and then we take the decision. We do not do it as and when the market changes and all that happens because we have a vendor management system. In other companies, they are doing on the spot hiring or they have their own fleet. So it's a different ballgame. So here we have to always analyze if on month and month we are having volume growth, they are anyway benefiting from that. So in all consideration we try to balance out the rate with them every 6 months. So, for example now we are in a process to drive down the rates of vendors and this is something which will ultimately make the impact on the bottom line. So all these things are very fluid, it's not very static at one stand.
- Sanjeev Panda:** My last question is on the competition side, if you can throw some light, it will help us understand, because we have been reading a lot of disruption that is going on, so how do you see it, is the competition intensifying or it has come down or how is it in the last 6 months?
- Chander Agarwal:** Competition for us is always the unorganized segment. I'm not seeing any disruption happening in this logistics space at all because anyone who is disrupting should get market share, should make profit, all that is not happening. So what they are getting, how they are getting the business is a question mark. In the organized segment, we are seeing that companies are not able to keep up with the changing environment. Either there is a problem with the paperwork or with their own issues. One of our biggest competitors is for sale and that is something which is we can never imagine. Of course they have their own challenges, but in general competition for me is the unorganized segment which stands today at 95%. So that is something for which I have a

strong feeling that in the next few years the government will clamp down on these companies which evade taxes and it will become a much more healthier competing environment for us.

- Moderator:** We have a next question from the line of Krupashankar NJ from Spark Capital.
- Krupashankar NJ:** I had a question pertaining to the automation in the sorting centers, so out of the 400 crores of CAPEX how many facilities are owned by us and how many are leased currently?
- Mukti Lal:** Right now we have 8 of our own and remaining 20 on a lease basis.
- Krupashankar NJ:** So predominantly the cost will be incurred on procurement of land, is my understanding correct?
- Mukti Lal:** Land cost not more than 25% of total CAPEX part.
- Chander Agarwal:** Land cost is not a major portion because we do not buy in prime areas, right. We buy it 40-50 kms away from the city, so we obviously get the really cheap land.
- Krupashankar NJ:** Second part is on the truck fill factor; can you specify what is the truck fill factor for the quarter?
- Mukti Lal:** It is around 85.5% in this quarter, in Q2.
- Krupashankar NJ:** To just get a clarity; the tonnage growth in July was estimated to be about 12% and September was better than July. So August was the key month wherein there was a decline in tonnage due to which our revenue growth has come off?
- Mukti Lal:** Yes, because August was totally disturbed, due to the monsoon and Jammu and Kashmir close down, so that is the only reason that is there..
- Krupashankar NJ:** And how is October been so far?
- Mukti Lal:** October is also good and in line with our expectations.
- Krupashankar NJ:** Any specific sector-wise performance you can highlight, for example, Auto has done well or Pharma perhaps?
- Mukti Lal:** In this month actually Pharma is picking up because the weather is changing and Pharma cycling is there. Retail is again slowed down after Diwali time. So that is going on so though in our industry if you see H2 is always higher than H1, and we will be picking up accordingly.
- Moderator:** We have next question from the line of Ankita Shah from Elara Capital.
- Ankita Shah:** We have added 25 sorting centers in the first half of this year and we have a huge CAPEX lined up for the second half of the year. How many are we likely to add next?

- Chander Agarwal:** 25 sorting centers has not been added in the first half, they have been added since the inception of the company but what we are doing now is that we are expanding some of the major key locations, so that is requiring the CAPEX. For example, we are building one in Pune, in Delhi, in Gurgaon, and we are also building in Kanpur, in Indore, Nagpur and all the main multiple locations.
- Mukti Lal:** So what you are mentioning about 25 additions, are additional new branches. We have added into 25 new branches in H1 of this year.
- Ankita Shah:** Okay, how many more are planned to be added in next half of the year?
- Mukti Lal:** Almost 40 branches we are planning to add in H2.
- Ankita Shah:** You are adding more sorting centers also?
- Mukti Lal:** No, for sorting center we are just replacing existing ones. Existing sorting centres right now are 28 in number, out of that 8 we already own, remaining 20 are on a lease, which we want to be convert from lease to own, with bigger size with the more automation.
- Chander Agarwal:** Over time, not right away.
- Moderator:** We have next question from the line of Ankit Panchmatia from B&K Securities.
- Ankit Panchmatia:** Just need to get some of the numbers; this 28 sorting centers are spread across what square feet, if I can get?
- Chander Agarwal:** Right now, it is almost is 2 million sq ft.
- Ankit Panchmatia:** In terms of geographical presence, even though some of the states faced some of these issues which were being highlighted; then too we had this 6.5% volume growth. If I can get my geographical distribution right, are there certain geographies which played well during the quarter and which benefited us versus the other players in the market, who were not been able to be up to the mark. How should I look at this?
- Chander Agarwal:** First of all, it was pretty much the same all over India but we did see that the South India was a little lower, Bombay was a little lower and North and Gujarat was doing very well. That is something which is unfortunately becoming the trend. The Southern part of India is pretty much Pharma and there was kind of expansion that all the other verticals were supposed to have but manufacturing plants didn't come up there. The idea is to always try to get new customers all across India, so we have a bigger base and that ultimately that the base will only give us the high volume.
- Ankit Panchmatia:** Just wanted to get your view on the realization growth. We have been putting the rate cards across our branches, so what are the strategies which would get the relation growth growing in the next year or maybe 2 years down the line. How should I say realization growing for us?

- Mukti Lal:** We want to be actually at least establish in this format, because now we have the MSR rates so we will be revising these rate upwards side two times in a year. Second we want to build customers, from credit customer we also want to take annual hike whenever they renew on each year. By mixing of these, at least we want to have 3%-4% higher realization on each year.
- Ankit Panchmatia:** Regarding the e-commerce companies which have been pushing the growth for this quarter; have we been also participating in that growth or we are being very choosy in terms of selecting routes and how has been the demand from that side of the?
- Chander Agarwal:** E-commerce has been very weak. Diwali was not a bonus but it was a dead year for those guys but they will never say that but the point is that overall demand wasn't there. So I'm very glad that my portfolio consists of B2C in a very small way and I did not expect this to pick up anywhere because the challenges are too immense.
- Ankit Panchmatia:** But Q2 didn't had this sale period right, Q3 had this sale period so maybe we would be getting those volumes in Q3; is the understanding right?
- Chander Agarwal:** Not really, because Diwali was in October which is Q2 and essentially when you have Diwali the first two weeks determine if there is going to be any good business or not. Unfortunately it was very dry this year, yes it wasn't that great.
- Ankit Panchmatia:** Your rough sense about our market share, how have we been gaining versus the other players in the market. We have been consistently growing over the past 3 years and how any math around it how or what is our market share?
- Chander Agarwal:** Market share I have put it at only 5% and majority of remaining was the unorganized segment.
- Moderator:** We have next question from the line of Pratik Kumar from Antique Stock Broking.
- Pratik Kumar:** My first question is just couple of clarifications; so when you say 13%-14% growth, so is it for full year or we are targeting that for the second half?
- Chander Agarwal:** We are looking for second half at around 13-14%, so for full year we will be around 10% to 11%.
- Pratik Kumar:** When we say 2 million square feet, is it our current space or is it something, we are targeting post expansion CAPEX?
- Mukti Lal:** This is total current space we have.
- Chander Agarwal:** But Pratik that does not really matter because what matters in Express Business is the volume of cargo that moves to a sorting center not really the size of the sorting center because here the volume also moves through our branches. So if I look at the 800 branches that we have that also adds up. That could possibly be another 2 million but that is not usually how we measure here.

- Pratik Kumar:** But just for some context, we have 28 sorting centers currently. Are we looking at some greenfield as you said we are largely looking at replacing some of the older ones or increase in the sizes so are there any greenfield ones also?
- Chander Agarwal:** Pune is there and it's also coming up, Gurgaon, Indore, Nagpur.
- Mukti Lal:** Chennai we are looking for yes. So we just will replace the existing one which are on rent actually. We are not buying these locations so we will be constructing new ones.
- Pratik Kumar:** So on all this five locations we have something smaller on rent, which we will be just replacing?
- Chander Agarwal:** Yes, correct.
- Pratik Kumar:** This 2 million square feet just for data purpose will go to how much number?
- Chander Agarwal:** 4 million, just double to existing.
- Pratik Kumar:** One last question on this lower taxes; how do we plan generally, in terms of utilizing our savings from lower taxation? This increase from 60 to 80 crores CAPEX this year, is it related to tax savings which we are having or are we looking to pass in lower prices or something like that?
- Mukti Lal:** In this year if you see major contribution of whatever cash we will generate, we will putting into our CAPEX plan. So major portion will be go to that and for next 2-3 years we are not planned what precisely will we do and obviously dividend will also continue to grow from time to time.
- Pratik Kumar:** So precisely we are looking to do more CAPEX because of tax savings we have for the year?
- Mukti Lal:** CAPEX had been strategically kept at Rs.80 crores in the year and we will also keep growing the dividend payout also.
- Chander Agarwal:** See we have to keep investing our profits. We just can't be holding it back and then accumulating it, so then our ROE will come down. So we don't want to be in that situation. I'm seeing that the entire CAPEX that we are doing will be funded from internal accruals so that is going to be a big plus point because we are going to be saving on the interest cost on that. In terms of saving tax, I don't think we do anything, we are not that tech savvy because our business is pretty straightforward, neat and clean. There is nothing thus needed. It's our good fortune that the government reduced the corporate tax.
- Moderator:** We have next question from the line of Shailesh Kumar from Sunidhi Securities.
- Shailesh Kumar:** There are couple of things I want to understand Chanderji. First thing is when the whole business environment is under pressure how come our end consumers are not bargaining hard with us? That is the first question and second thing is in this challenging environment we have been gaining, so who is the loser? There must be somebody who is also losing the business?

- Chander Agarwal:** The number two question I will start off with, Who is losing? I think nobody is losing. It's only about getting the right strategy in place, so to keep it simple we have the right strategy in place unlike other companies. Number one question regarding bargaining, yes bargaining is happening big time but we are not lowering our prices. We are not letting that happen and but at the same time we are also not letting go off of the customer because what happens is customer knows that if he goes to the some other company they will not get the same service, same paperwork all of that. So in a way we are in a kind of a win-win situation and I see this prevailing for a long time. I don't see any change happening here.
- Shailesh Kumar:** What is our CAPEX for this current financial year? I missed that number.
- Mukti Lal:** We have planned for Rs.80 crores and in H1 we spent Rs.7 crores.
- Shailesh Kumar:** But I think we have revised this 80 crores CAPEX plan in Q1 conference call, it was toned down to 60 crores odd or something like this?
- Mukti Lal:** Then we again revised it because earlier we had some delay in obtaining land clearances but that has been received, so we have again revised it to Rs.80 crores for full year and now as the construction is in full fledged speed we are confident to achieve it by March end.
- Shailesh Kumar:** What is our number of branches as on 30<sup>th</sup> September?
- Mukti Lal:** It is 800 around.
- Shailesh Kumar:** And we would be adding another 35 branches in H2 something like this?
- Mukti Lal:** Around 40 branches we want to add in this by end of H2.
- Moderator:** We have next question from the line of Kunal Bhatia from Dalal and Broacha.
- Kunal Bhatia:** I just had one clarification, with this Rs. 400 crores capex you mentioned that you will be going in from a 2 million to 4 million square feet, is that correct understanding?
- Chander Agarwal:** Yes.
- Kunal Bhatia:** With this Rs. 80 crores you did mention the breakup in terms of the land would be about 25% and what would be the breakup for the remaining and if you could just give for this time you have given to geographies; one is Pune and the other is Gurgaon. Which other places in the current year we would be doing the work on the warehousing?
- Mukti Lal:** One another that we want to be working on is Nagpur, Nagpur and Indore are next in pipeline. So, on these places we have already bought the land, now we are in a process to get the land clearances and approval of construction plan. So we are hoping we may start the construction in Q4 in these two locations.

- Kunal Bhatia:** So Nagpur and Indore is also included in the 80 crores, is it?
- Mukti Lal:** Yes, a very small portion as they will take longer period to construct so they will come out in a full-fledge in Q3 of next year.
- Kunal Bhatia:** For Gurgaon and Pune what would be amount of CAPEX for each?
- Mukti Lal:** For these a total is around Rs.60 crores for both of them.
- Moderator:** We have next question from the line of Prit Nagersheth from Wealth Finvisor.
- Prit Nagersheth:** Couple of additional questions, one is that as we build our own sorting centers we are moving from asset light model to just getting these assets for strategic reasons, so would this result in lower return ratios?
- Mukti Lal:** Not really, so what we have done, is that the kind of additional CAPEX we are doing and what additional profit we are generating in each year will keep intact our all ratios. so ROCE we will maintain on (+40%) and ROEs also would be around (+25%) always and all other ratios will remain on similar lines, so with this kind of CAPEX our improvement in efficiency goes on. So that will again help to us maintain these levels.
- Prit Nagersheth:** I want to better understand the developments on the expansion into the International markets? Chander you have been mentioning that, that's an area that you are looking into and spearheading, so could you share some light in terms of how that shaping up?
- Chander Agarwal:** We have a business called the International Air Express and that is trying to basically deliver our Indian customers, and our existing customers goods to wherever they want to. So in terms of international expansion that is what we are doing. We are not having any sort of like physical presence or any sort of asset purchase in any of the places outside India.
- Prit Nagersheth:** So is there a traction there in the segment or you expected to be at current level?
- Chander Agarwal:** Yes, the beauty of this is that from the 800 branches there are so many customers who want to not just send their goods for domestic consumption but they also want to export it. So this kind of environment nobody has, this sort of sphere of delivery not even the MNCs have, so I think it's going to be a very big business in time to come.
- Moderator:** We have next question from the line of Parimal Mithani, individual investor.
- Parimal Mithani:** I just wanted to know you want to increase the dividend payout over period of time. Can you say what is the company policy in terms of dividend payout and secondly in terms of your strategy going ahead in terms of sorting centers, what is the ideal level of square feet are you looking to add over a next 2-3 year period?



- Mukti Lal:** So, I will start with first question, so we have a policy in place and we keep it our around 18%-20% range for our dividend payout ratio and we will keep going. On sorting centers, can you repeat your question?
- Parimal Mithani:** What is the capacity you want to add, in terms of sorting centers, about square feet if you can tell me for next 3-4 years?
- Mukti Lal:** As we just mentioned we want to double it from 2 million to 4 million square feet and again as Mr. Chander has mentioned, it is not so important to what kind of capacity we are increasing as basically because our branch network is also supporting to these volumes. So important is how fast we will keep moving these good, so right now we have 14 hours as idle time there and we want to cut it to 7 hours. So our efficiency is just towards that also. So that is also adding to operational efficiency.
- Parimal Mithani:** These sorting centers under currently under the TCI Express banner, right now under the parent company, right?
- Mukti Lal:** Not at all, all are in our kitty.
- Moderator:** We have next question from the line of Shriram Rajaram from Ratnatraya Capital.
- Shriram Rajaram:** Basically with the side cost, what is the side cost per kilometer that you pay currently?
- Mukti Lal:** It depends on various factors, what capacity of truck we have, what distance and which route are going on so it's various factors actually.
- Shriram Rajaram:** But is there something that you can give an average of what is the cost you will incur per kilometer? I know it varies but if you could....
- Mukti Lal:** That we can't reveal actually. It is a confidential figure so otherwise to vendors we are paying as per kilometer so we are not paying them as per kg.
- Shriram Rajaram:** I was coming with that only; so per kilometer I know, but what I want to know is what is the cost because the reason is gross margins have expanded this time a lot more, so just want to understand from where is the freight cost per kilometer coming down for you or you are tracking a higher increase with your customers? Is that so?
- Mukti Lal:** It Is the both of that actually, so in both way we are going forward on it. We are increasing the prices and we are also improving our operational efficiency. So if you see at last 3 year we were at a utilization level of around 82% and now we are around + 85% and our next target is to reach at least 90% which is feasible, that we want to achieve it.
- Shriram Rajaram:** And the other question is on other expenses, there is some spike in other expenses this quarter, so what is the reason? Is it because of rental renegotiation or something?

- Mukti Lal:** It is basically because we are expanding our branch network and we opened almost 70 to 80 branches in last year and we also opened more in this current fiscal also. So that's the basic expenditure increase in rental part, because we are adding the branches so that is increasing in that way only and other expenditure is also related to that only.
- Moderator:** We have the last question from the line of Rahul Jain from Credence Wealth.
- Rahul Jain:** Are we taking market share away from some of the other unorganized sector or competition and how do we see our market share including in next 2 years or so?
- Chander Agarwal:** Market shares in India is very difficult to gauge because of the large number of unorganized segment. My understanding is that we are getting it but we are getting it in a very slow manner. There are a lot of changes happening in the environment, lot of the unorganized segments are dying out, lot of them are not able to survive because of the slowdown. Many of them are not able to survive because of the decent price increase. It's something which the government even doesn't have the data, it doesn't share the data. So as per my assessment I feel that if say a larger competition in the organized segment is not doing well, is going to shut down or is going to be sold is when we will see that business coming to us also and then we will see the market share increased.
- Rahul Jain:** In terms of CAPEX we mentioned that we have a total CAPEX about Rs.400 crores out of which we are doing about Rs.80 crores in this current year, is that correct?
- Chander Agarwal:** Correct.
- Rahul Jain:** If you can share for next 3 years, each year what kind of CAPEX do we have for FY21-FY22?
- Mukti Lal:** Again it's the same we will have Rs.80 crores in each year.
- Rahul Jain:** Rs.80 crores of CAPEX each year, right?
- Mukti Lal:** Yes.
- Rahul Jain:** You did mention that your asset turn-around will be 3X, so that means what we are saying is on this Rs. 80 crores of CAPEX each year it can result into of +Rs. 200 crores kind of revenue, in range of Rs. 200 to Rs. 240 crores ?
- Chander Agarwal:** That is the target.
- Rahul Jain:** So each CAPEX being done in the year can add that kind of revenue, when the CAPEX is complete for the next year, is that a correct assumption?
- Chander Agarwal:** Yes, correct.

- Rahul Jain:** You mentioned about realization increase from 85 to 90 which you have just mentioned couple of minutes back and overall how do you see the margins panning out in next 2 to 3 years, is there a scope of improvement of margins for next 2-3 years?
- Mukti Lal:** **Yes**, right now for our EBITDA level, we are around 12% which we want to grow up to 15% in next 3 years, so almost 100 basis points on each year.
- Rahul Jain:** So that's the target in next 3 years and we would like to move up to 15%?
- Mukti Lal:** Yes.
- Moderator:** Thank you very much sir. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Chander Agarwal, Managing Director for closing comments. Sir, over to you.
- Chander Agarwal:** Thank you very much. Appreciate your presence.
- Moderator:** Thank you very much sir. Ladies and gentlemen on behalf of TCI Express Limited that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.