"Transport Corporation of India Limited Conference Call to Discuss the Q2 Financial Result for FY 2017-18"

November 3, 2017

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Transport Corporation of India Limited Conference Call to discuss the Q2 financial result for FY 2017 and '18 and to address investors and analysts query. 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 call, please signal for an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Tiwari, Group CFO. Thank you and over to you, Sir.

Ashish Tiwari: Hi, Good Evening to all, I am Ashish Tiwari, Group CFO, and I Welcome you all again to this half yearly conference call for the TCI results. Along with me, Mr. Vineet Agarwal, Managing Director, TCI, is here and I would hand over to him for discussing the results and answer your query.

Vineet Agarwal: This is Vineet here and Welcome to the call tonight. I would like to start by informing you that this quarter has been relatively good for us in spite of the demonetization that happened last year and consequently its impact on the Festival season as well as the implementation of GST, so in all, all of our divisions have performed reasonably well except clearly in some divisions we have had some challenges, but they were more on a month-to-month basis rather than on a quarterly basis and trend has continued in terms of the growth that we had predicted and that we are seeing also, so some of you might be new to the company and I would like to quickly give you a brief overview of the activities that we do as an organization.

The company is about 60 years old as far as the TCI group, which has revenue of about 3000 plus crores and we move about 2.5% of India's GDP. TCI, the company that we are talking about today has a revenue of about 93 crores consolidated with about 3500 employees with about 11 odd million square feet of warehouse space. This investor presentation is currently also online on our website, if you want to refer to it. The company also owns roughly 1400 to 1500 trucks, but at any given time we would have close to 10,000 to 12,000 trucks that are operating. Of course, apart from the old trucks, we have 3000 to 4000 vendors and then we have the others are essentially trucks that we hire on a spot-hire basis. The company also has five ships that are operating two on the West Coast and three on the East Coast.

In the last quarter, the performance has been good in all three divisions; the predominant divisions are the freight division, the supply chain division, and the Seaways division. Before I get to individual performance, I must tell you that there are several macro factors that are really beneficial to the company that are underway by the Government as well as the general trends of economy, which will have a very positive impact on our company, so amongst that the first one is clearly GST. As you are aware that the impact of GST is essentially to rationalize the impact of taxes, it should lead to consolidation of warehouses and subsequently change distribution network and perhaps even increase multimodal kind of moments because more volumes should move from one location that is the manufacturing plants to the hub locations. This should also lead to more business shift from unorganized players to organized players. Clearly, some of this has started to happen with the implementation of GST post July 1. We have seen that there have been some warehouses that have gotten consolidated with some clients that we have been operating in several zones, but this is limited because we see a lot of changes that have come in the GST itself as you are aware and that has prompted companies to delay some of this implementation and this network redesign and consequently build in better efficiencies.

Apart from that clearly because of the complexity of the GST system, we are seeing that there was a lot of resistance in companies actually complying entirely with GST legislation especially at the SME trader level. Lot of these companies are also grappling with how to do the invoicing, how to save credits and so on. It is trying times and I think what we feel is that as we have always indicated, it will be at least two to three years before we can see the real implication and impact of GST coming. Currently, we have not seen any anticipated shift of business towards us, but I think we are seeing trends of companies increasingly stalking towards more and more on looking at how to redesign this supply chain, post their understanding of GST. In effect, we are quite positive of this, however our cost of compliance and overall compliance has gone up substantially from filing five to six returns a quarter, we are now filing close to 180 returns every month because several services are from several divisions, yet we have to seek registration in individual states at the state level. Again, that hampers currently business for some of our clients, but I think once people get a sense of where they want to, what kind of service they want and what is the tax rate they fall under, I think it will get easier.

The second clearly, the large logistics growth driver for us would be how fast logistics infrastructure developed in the country. As you are aware that the government is pushing a lot of these new development including the Bharat Mala, the Sagar Mala, and even now a lot of emphasis on actually even the Railways, so we do expect this as well as a dedicated freight corridors all to add the need of road or on the rail and also logistics parks being developed in these areas. The third major impact in essentially the increase consumption growth is happening be it in the consumer sector or e-commerce sector as well as in other areas, so we have seen that has helped us to capture the new segments of business opportunity and growth and that is essentially something that we have looked cautiously because we did not want to jump into every kind of e-commerce player, but work with companies that are more attuned to long-term trend in sustainability and profitability, so we have been fortunate there and we have also added several business like in existing customers who are starting to add the e-commerce as well so more and more things are getting Omni channeled and that would be useful for us. We have added more capacity in our centers to close to about 200,000 orders.

The fourth major trend is essentially increased outsourcing of logistics that is continuing and when we go to customers today, we talk about integrated service and we have been able to convince some of our customers to offer them both 3PL and even sometimes 4PL kind of services. Now, I would like to quickly mention little bit about our divisions. The first is the TCI's freight division, which is essentially the premier organized freight service provider where we have a national presence and we offer both FTL and LTL services here as well as a combination of rail services through our joint venture with the TCI-Concor. This has been a division that as you know tends to move along with GDP growth, however, we have seen that in the last six months the growth has been quite reasonable and even the margin structure started to improve because we started to shift lot more towards less than truckload versus the FTL kind of growth, that reduces the capital need as well and it uses our assets much, much better and we essentially get benefit of economies of scale as well.

The second division is TCI Supply Chain Solutions, here 75% of our revenues come through the auto sector, and most of it is inbound, outbound logistics for the auto sector as well as spare parts management as well. We also do work in the FMCG, e-commerce, consumer durables, chemical sector and the growth for our non-auto business has been much more than our growth of our auto business. In this, we also run several large warehouses. We have one of the largest warehousing chains in the country and especially we are running some warehouses or other e-commerce fulfillment centers and there volumes in many of these locations have gone up quite substantially. We have also managed another joint-venture in this area with Mitsui & Co. where we handle the logistics of Toyota.

Next is that TCI Seaways division. We have five ships, three on the East Coast and two on the West Coast moving from Mundra to Cochin. Again, we have seen good volume growth here because we added a ship in the end of last financial year and that has added capacity to our overall system. The margin structure is slightly subdued in this quarter because of some taxation on the GST front on some international spares etc., but we do expect the margin structure to be in the 20% to 25% overall EBITDA for Seaways in the long run. In net-net, the company has done well in the last quarter and in the half yearly, we can see a growth of about 16% on the top line and about 20% in the EBID level as well. In terms of our CAPEX plan, currently our CAPEX's plan for is about 130 crores, which is predominantly to do some hubs as well as all warehouses as well as into trucks. In the first half, we have spent about 37 crores. We do expect to spend about 100 to 110 crores this year that are in the budgeted 130 crores.

The overall debt equity of the company is at 0.7 times, the EPS is at 11.28 rupees per share. In this quarter, we have had some pressure on cash flows because of GST where the billing structure has taken long for customers to capture in their own system and hence there have been some delays in payment from them, but we are seeing that in October as well as in November, the cash flow situation has considerably improved. Our current DSCR is at 3.34 times and overall ROC for the company is about 13.5%. The company also declared an interim dividend of 30 % in this. Going forward, we do expect growth drivers to help us continue our trend as we have been saying to the integrated logistics provider. We see that there are certain times when one division gets constrained because of economic situations, the other division helps out, so this consistency is unique to our company. The other uniqueness is the service offerings that we have for a multimodal solution be it road, rail, or road-sea or road-rail-sea, again it is very unique. The combination of warehousing is also unique and that has **(Inaudible) 16:01** have pretty higher margins. We have a relatively moderate investment plan and that is essentially to assure certain amount of replacement CAPEX and certain amount of CAPEX that we need for growth that is perhaps addition of new capacity as well. That is in all the sum of the last quarter, I look forward to your questions now. Thank you.

Moderator: Thank you, Mr. Agarwal. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Saurabh Jain from Astute Investment Management. Please go ahead.

Saurabh Jain: Just wanted to clarify on the tax rate for us, what is it that we are to assume for the full year and going forward and why do we pay a lower tax rate then the full tax rate?

Ashish Tiwari: We have certain percentage of Seaways income where there is not a full tax applicable, Seaways income **to tonnages which is very (Inaudible) 18.10** compared to the overall tax rate and we also have some wind income and dividend income, so overall percentage actually comes around 19 to 20%.

Saurabh Jain: Is this something that we have to assume even say for the next two or three years?

Ashish Tiwari: If you see predominantly for past five years, the rate actually hovering somewhere between 20% to 23% basically.

Saurabh Jain: My next question is for the Supply Chain Solutions division, have we seen all volume-led growth or have we also taken some price increases post-GST in light of higher cost products for compliance results?

Vineet Agarwal: Some freight increase happens because of perhaps the diesel price increase also happened in the last quarter, but lot of it is also volume growth. These are new contracts that we acquired in the first half of this calendar year and that has started to fructify now.

Saurabh Jain: By new contracts, do you mean are you getting on new customers or the existing customers itself actually giving you new business?

Vineet Agarwal: This is both, we do get additional business for some customers, but also we have acquired new contracts as well so I do not have a breakup of what is the percentage coming from new contracts and from existing contracts, but I think I would say they are probably roughly the same.

Saurabh Jain: Right, but post-GST are you seeing sort of an increased interest from newer customers as well?

Vineet Agarwal: Certainly, I think customers are approaching us and talking to us as to how we can provide more value and how we can help to consolidate the supply chain, how we can relook at the distribution networks, so there have been a lot of interest from clients but as I said in my opening statement that they are still a bit confused. They want to understand the complete level of changes that happen and then start implementing some of these things.

Saurabh Jain: If you can also just give us a sense that post GST has the time taken to travel for your vehicle from one state to another state, by how much would it have reduced and if it is possibility to quantify it?

Vineet Agarwal: It is very difficult to generalize this because nationally we cannot give you numbers, but I can definitely say that in some sectors like say Chennai, Kolkata, we have seen some improvement, but in certain sectors things have not changed, several states still have the check post and also let us not forget that this might be even temporary because the E-Way Bill is still yet to be introduced and once that happens, we do not know what kind of structure they will create to keep a track of these E-Way Bills and whether there will be some check post etc. also that might get created, so I think it is still early days to really say that the impact of any such change is going to be material, it is going to take some time for us to realize anything.

Saurabh Jain: Post-GST are you seeing some transporters who are much smaller actually giving up on the business altogether, not dong registration and the fragmentation of the industry actually reduce?

Vineet Agarwal: Not really because I think a lot of some of the transporters can also opt not to register, so I think there are large bunch of people, but again if you take a three-year or four-year horizon, it might be that company might stop working with some of the smaller guys, so once that happens then the smaller guys will become vendors to the larger companies rather than completely disappearing. I do not think that fragmentation is going to go away soon.

Saurabh Jain: In your presentation actually the slide number 12, you had mentioned that in the current status of GST that due to the recent changes in GST, road transport activities are out of GST requirement now?

Vineet Agarwal: There are some as I just said some smaller entities are not really in that coverage and hence they are out of that GST requirements.

Saurabh Jain: You mean they are not basically registering themselves?

Vineet Agarwal: That is right.

Saurabh Jain: How have the two joint ventures with Mitsui and Concor done in the first half?

Vineet Agarwal: Both have done well and we are seeing good growth in the multimodal parks has grown quite well. We are seeing a 40 plus percent growth in the first half in that business especially in the Concor business and we think that should continue and the other joint venture is also doing well.

Saurabh Jain: Would an improvement in margin also be something which can be expected over there?

Vineet Agarwal: Again both those companies will are in a growth phase so maybe you will see some improvement, but I think it will be probably moderate only.

Saurabh Jain: Is there any sharing of infrastructure that we have with TCI Express in terms of offices, branches or is it completely separate?

Vineet Agarwal: Certainly, we have assets that are shared jointly because, for example, take the corporate office it is the same office and we do share the infrastructure across country because it is in the interest of both companies to do that and the contracts are all at arm's length.

Saurabh Jain: About 600 branches are what we have, and they also have about 550 branches, so there would be an overlap in these?

Vineet Agarwal: Some places, but not entirely it is not that all these locations are common. I do not have a number, but I would probably think it will be closer to 100 locations that might be common.

Saurabh Jain: Do you see the Supply Chain Solutions business becoming bigger than the freight division and how soon do you think that might happen?

Vineet Agarwal: The growth trends are such that it should happen next year itself, so I think that was something that we had also envisioned.

Saurabh Jain: Your return on capital is currently at 13% and has been inching up in the last two years if you see the FTL division, so where do you see this number say two or three years out?

Vineet Agarwal: Two-three things, one is that the mix is changing, the more value-added service like supply chain is being added on which is higher ROC. I also expect the freight's business ROC to also improve as I have been committing that as you move more and more towards less than truckload, the ROC should improve their as well, so given all of that I think several factors will lead to this improvement, difficult to give you numbers because there is also certain level of CAPEX that takes place and also times like these where working capital requirements went up, so capital employed also went up substantially, I think it will neutralize to at least 50 odd basis point improvement year-on-year at least.

Moderator: Thank you very much. The next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: Just a question on the margins, Sir I am saying that you said that most of the growth is primarily volume driven, but if I look at the margins of all the divisions they have been inching up slowly, if you could just talk about the margins, firstly what is driving the margins up and say may be end of Financial Year '18 versus Financial Year '17 like what kind of improvement do you see?

Vineet Agarwal: Margin improvement is also because some amount of capacity utilization improved in certain areas and there is some certain level of economy of state and then also there are certain types of contract that we keep looking for which are higher profitability, so I think there are several things that happen with margin expansion, I do not think it is just one thing and I think again this trend is that they should continue to some extent, but the range that we maintain is that for the supply chain division should be between 10% to 12% EBITDA, for the Seaways between 20% to 25% EBITDA, and for freight business between 3.5% to 5% EBITDA, so I think that should be the trend that we think would be sustainable.

Shalini Gupta: Sir, the top line growth also has been very robust quarter on quarter, we have seen very robust top line growth in spite of a very poor economic growth for the overall economy, and again what would you say driving this kind of growth because the overall economy is not growing so robustly?

Vineet Agarwal: We believe that there are certain pockets of the economy that are still growing and there is still some volume increase that is happening, so certain consumption trends are higher I think that is one. The second thing is that if you take let us say just to set an example for a supply chain business, we work with lot of auto clients and there are auto clients that are producing an X number of cars or vehicles per month, but not essentially all of those are being sold in the country, some of these are being exported as well, but we get the benefit of actually doing the transportation for the parts, for the production of the cars, so that helps our business structure overall. Also, as I said that we have been able to acquire some new contracts in our supply chain business that has added onto volumes as well, so I think it is a combination of things, some sections of this economy are doing reasonably okay, but yes there are certain sections that are struggling still. I also have seen that some of the engineering sectors, there is a certain amount of volume movement that is also happening and some of them are up to full capacity utilization, but core sectors, we see some issues still.

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

Mukesh Saraf: Sir, firstly I wanted to just get some more sense on the LTL business that you are mentioning as to how it has grown, so could you give some sense of how much is the LTL now and how much is FTL within the trade business, Sir?

Vineet Agarwal: We do not share that number specifically because currently that is a business that is under incubation that growth, we have been doing it for several years of course, but we have the network for it, but we have honestly not been able to leverage that network as effectively as we could have, so that process is underway. Several things are in our favor, one is that we have the network of hub centers, we have the network of offices, we have a huge brand-name across our companies of TCI freight and we can offer not just less than truckload, but also FTL load as well, so that is a huge benefit as we have learned that from companies like VRL are there and or others we should be able to leverage our network better and that is the process that has started already and hence if you see the last two to three years, our margin structure in freight has also started to improve as well as ARP.

Mukesh Saraf: Sir, just wanted to understand how is this LTL business of ours different from TCI Express business, we do not offer Express as such or?

Vineet Agarwal: We do not offer Express, Express is clearly different business. Express, there is a time guarantee whereas business at times definite in service, so there are that two differences and the speed also in Express is much higher.

Mukesh Saraf: Right, like you had earlier mentioned some of the infrastructure could be shared between TCI and TCI Express, so these hubs and offices that you are mentioning probably could be shared between TCI Express and TCI, but you will offer LTL and they will offer Express, is that how it works?

Vineet Agarwal: That is right.

Mukesh Saraf: You mentioned about the E-Way Bill, just while we are all still awaiting like you said, but could you just help us understand how this would help in reducing unorganized transporters as such, is it only a difficult job for LTL guys or even FTL E-Way Bill is going to be difficult because of what we heard the vehicle number needs to be mentioned and lot of these things, so how does that work for FTL and LTL and would unorganized have a difficulty with E-Way Bills?

Vineet Agarwal: I think about FTL and LTL both will have an impact and also from an organized and unorganized also it will have an impact because all of these entities need to ensure that they are compliant in the first place, so they need to be all registered and when a manufacturer is sending a product out, they have to mention the name of the transporter as well as the GST number on that invoice itself and then that gets uploaded, so that can be tracked and that is where the challenges will happen whether it is FTL or LTL. LTL, the ultimate challenge is that because we are going to use multiple hubs instead of one straight A to B delivery, you will have to keep adding onto that E-Way Bill and again if someone does not do it and these are all areas which could lead to litigation or issues in the future, so that makes it even more complex for a lot of companies.

Mukesh Saraf: On one side, transporters are allowed not to register themselves for GST because they can fall under the reverse charge mechanism, but on the other side with E-Way Bill they will have to be registered, is that how it works?

Ashish Tiwari: Basically, for us entering into the E-Way Bill that registration is not required, the transporter has to be there in part B by the consignors and if the consignor is not actually doing it then the transporter who is carrying the goods has to do it with the GST…..

Mukesh Saraf: My question on the supply chain business, I mean we have been hearing a lot and there is lot of talks about how consolidation is happening and there is also some talks about how typically there will be about eight to 10 hubs that would emerge out in India where most of these large scale format warehouses will come, so how is our situation, do we also see that we have unutilized land already in such hubs that could emerge and so we have an upper hand or how is that, how are we placed there, Sir?

Vineet Agarwal: All of these hubs that are touted as the future hubs of India, we already have facilities there that are underway because these hubs are not developed in the last few years, but has been developed in several decades, so we already have facilities perhaps we do not have adequate facility of minting that capacity, in that we think that some places we might have additional land, but more or less I think we are quite well-positioned in all of these hubs.

Mukesh Saraf: Like you said you are in talks with a lot of new companies who are not your clients right now and so could you give some sense, are these more in the non-auto sector or is it more of auto companies that you are interacting with in order to them re-engineering their supply chain?

Vineet Agarwal: It is all kinds of companies, but yes, predominantly non-auto.

Mukesh Saraf: Just one last question on the other income, we saw it go up significantly to 7 crores this quarter, so what could be the driver for that?

Ashish Tiwari: Other income basically predominantly is the dividend income and as far as wind income basically is being converted to the least income kind of nature because of the Ind-AS compliances, so these are the two regions why it is 7 crores.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Two things, one on a broader prospects if I look at across the three key segments that we have, do you believe supply chain is the only one which will drive growth for us or do we have aggressive expansion plans on the shipping side as well?

Vineet Agarwal: For us actually the growth drivers will be all three, it will be different in nature for all three, so clearly the highest value add business for us is our supply chain business. The shipping business will keep augmenting capacity in routes like the western coast as well as on the eastern coast so that we are up in terms of competition as well as in terms of demand and as you can see the business has been doing well not just for the last two to three years, but for actually more in five and seven years, so we operate in a very different model there and we believe that it cannot be linked to any international freight scenario in the shipping side, so we have seen great business model emerge there which is predominantly multimodal. Then even the freight will have its own growth. As I said, we are shifting towards more and more LTL movement and that will certainly have more growth opportunities. Let us not forget that there will be a general movement anyways of cargo, so that is not necessarily going to get covered by either shipping or by the supply chain business, so we will require general movement of cargo and as long as the ROCs are in that plus 15% range and the business is sustainable even in the freight business.

Ankur Periwal: Sir, if I look at our historical capital employed, so freight has more or less been stable wherein you rightly commented that we are incrementally using more of on-spot lease, trucks available on lease to scale up the business, but shipping has significantly increased which is in line with what you just mentioned, based on the demand wherein we will be increasing capacity, now supply chain has also seen a significant increase is it predominantly because of warehousing or that is some more assets which we have deployed there?

Vineet Agarwal: Capital employed is a function of both assets as well as the working capital. Here the assets has increased of about some capacity addition trucks that we took end of last year because of pre-buying for BS IV implementation from April as well as some new contracts that we had acquired as well as some warehousing assets which is essentially, we do not invest into building etc. but we invest into the equipment inside and as I said the other is working capital, so working capital has increased because of GST and some invoicing that did not take place for some of our clients because they wanted to delay because they were trying to understand how the GST will, how to make the invoices and so on, and some of them have delayed that payment as well, so that has added to the working capital requirement from an overall capital employed perspective.

Ankur Periwal: Sir, will it be possible for you to share working capital across the three businesses, freight, supply chain, as well as shipping broadly or receivable days either ways?

Vineet Agarwal: The capital employed is available, you can see it also on the website with the investor presentation or on they may be uploaded the results.

Ankur Periwal: No Vineet specific to working capital not capital employed, so that number we have, but working capital how does it vary between the three business segments?

Vineet Agarwal: Okay, we will try to send that to you.

Moderator: Thank you. The next question is from the line of Krishna Prasad from Franklin Templeton. Please go ahead.

Krishna Prasad: You spoke about new customers and new contracts in the SCM business, can you highlight which are these industries or segments where you are seeing these contracts come from, mostly auto or is it in the non-auto and how much is e-commerce as a percentage of SCM now?

Vineet Agarwal: The contacts are coming from all kinds of industries. We have added contracts clearly in the fulfillment side, the e-commerce fulfillment side of the business as well, we have added a few retail clients, we have added some auto clients as well so this is ongoing, some contracts we acquire but rollout takes place and then it could be two to three months for the operations to really start so that is also underway and I think e-commerce is still a small percentage of our overall business, but I think we sort of cover it under retail, so retail is steadily grow be it e-commerce, be it the Omni channel kind of business or some warehouses that we maintain for certain retail apparel companies where we do the picking, processing, and delivery to the stores in the malls or high street that they have, so it is a combination of all of these things rather than just looking at only e-commerce.

Krishna Prasad: On the Seaway business any plans to add to the existing ships and how do you kind of typically look at it?

Vineet Agarwal: As I said, we would like to add more ships as and when they are available as well as looking at the demand. Currently, what we are seeing is that there is some demand and we are on the lookout for a ship though we do not expect it to come in this financial year, I think it might be closer to the start of next financial year.

Krishna Prasad: Also that kind of should increase your CAPEX in the next year then, how should we think about CAPEX for FY '19 and '20?

Vineet Agarwal: It is not that the ship costs are extremely high for us, it is still moderates into that 100 to 130 odd crores or 125 crores of CAPEX that we planned every year, so if something does not happen, this I think will carry forward to the next year, again with cash flows improving for all the divisions, I think that should not be a problem.

Krishna Prasad: Specifically on the coastal part, how do you see opportunity like how is this shaping up now, what kind of goods are getting added, how is the industry reacting to this opportunity?

Vineet Agarwal: Some companies have been very aggressive in this area and in that sense has not really worked too well for the industry because that is sort of bringing too much capacity also has reduced pricing in some routes, but what we see it as an extension of the existing business where we use our branch network and our relationship with our clients to really capture business rather than working with forwarders as a lot of our competitors do. We also have that whole multimodal aspects of the last man and the first man relationships that we have because of our network also helps out and the third part is that we can always also build in the Rail network into the sea network which we are doing also in some cases with certain clients, so that gives us a larger breadth of services, which I think is also unique to our company in the overall Indian market.

Moderator: Thank you. The next question is from the line of Jinit Mehta from Batlivala & Karani Securities. Please go ahead.

Jinit Mehta: Sir, just on the LTL thing if you could throw some more color on the CAPEX requirement so are we looking at a similar structure that we have in FTL or are we going to own vehicles over here and are we going to add hubs because to have an LTL business you need a network, I am sure the network is right now there, but do you want to put in more money because clearly I think from the earlier call that I remember that our focus was not too much on the freight segment, so there has been a change in the thinking process now any thoughts on that?

Vineet Agarwal: In the last two to three years our we have definitely looked at focusing a lot more on the freight business from an LTL perspective and that has started to shift and the CAPEX requirement there is not substantial, I think what as you said that we already have hubs in 24 locations across the country, we have the branch networks, we have the vendor network in place, so we will not make any additional capacity as in we will not need to buy any capacity from a CAPEX perspective, but more will be OPEX where there could be some trucks that could be running for the requirement of cargo and we might not necessarily get both return cargo as well, so it is a matter of investing into that network additionally as and when we get more volumes. In some locations, our hub might be of under capacity and that is why if you see our CAPEX plan, we do plan to add some amount of money for some hubs and some small warehouses, but that will not be substantial.

Jinit Mehta: Sir, is it possible to quantify the JV profit for the first half FY '18?

Vineet Agarwal: No, we do not have that number.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Sir, two questions, first on this SCS business, wanted to understand what kind of specialization you would need to cater to different end segments and what kind of CAPEX requirements are there for different end segment business customers, you may be catering to a fashion, to a e-commerce, to bulk etc., so what kind of different capabilities you need to develop?

Vineet Agarwal: Again, it depends upon the kind of service we have to provide, if the service let us say for an automotive customer is that they want inbound logistics then we might need to create trucks which are let us say side loading body which would mean that we can put pellets, take in pellet, put in pellet easily and take out pellets, that is the specialized kind of requirement. Then that specifically let us say if it is a warehousing contract then we might have things like investment into certain conveyors or packing equipment or maybe racks and other such things in the warehouse, so it will entirely vary on the type of contracts and type of service we have to provide to the customers.

Chirag Shah: What would be the minimum economical size which will make or decide to put up a warehouse at a particular place or what kind of anchor customer or base business you would look at to put up a new warehouse or a new SCS location or add up a new location?

Vineet Agarwal: One is that we take it directly with customers as in wherever the customer wants that particular location, we will provide that location to them as in terms of rental or lease, that is the back-to-back with the client, in terms of our own investments, we typically do not do that till we are sure that and again this will be much smaller warehouses or let us say 100,000 square foot not exceeding that. We will make sure that we have enough capacity in that area and from day one that new warehouse if we build then they will get utilized, so again it is entirely dependent on the customer requirement and not so specifically as a speculative thing that we do.

Chirag Shah: Second question on the truck side be it your own fleet or the associated trucks that you use, are you replacing your trucks post-GST or for that they are more capable of handling the speed aspect of the transport rather than other earlier requirements, what is happening on that side?

Vineet Agarwal: No truck in India is going to reach its full capacity speed; I think we can be very sure of that, so whatever trucks that we have invested into in the past also will all be suitable for any kind of increase in speed for the next four to five years. Only and until when they are very large expressways that come up with access control highways then only there is a possibility that the speed might increase dramatically and you are likely to augment your fleet capacity or fleet dimensions, but otherwise today, I do not think there is any problem with the existing fleet that we have to utilize in any condition.

Chirag Shah: Fleet modernization is not necessarily required post GST?

Vineet Agarwal: No, we do not think it is a prerequisite or in any way adds to any degree of efficiency.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to Mr. Agarwal and Mr. Tiwari for closing comments, over to you.

Vineet Agarwal: Thanks a lot. Thank you for joining guys and if you have any further questions please send us an email either to Ashish or me and we look forward to your comments or feedback. Thank you.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Transport Corporation of India Limited that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.