VRL LOGISTICS LTD

Since 1976

Corporate Office:
Giriraj Annexe Circuit House Road
HUBBALLI- 580 029 Karnataka State
Phone : 0836- 2237511
Fax : 0836 2256612
e-mail : headoffice@vrllogistics.com

To,

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400 001
Scrip Code: - 539118

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G-Block,
Bandra – Kurla Complex, Bandra (E),
Mumbai – 400 051
Scrip Code: - VRLLOG

Dear Sir / Madam,

Sub: Disclosure under Regulation 30 (6) of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 – Transcript of the Earnings Presentation Call

In terms of Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirement), Regulations 2015, as amended, please find the attached transcript of the Earnings Presentation call held on 14th November 2024 for your information and records. This information is also available on Company's website on below link:

https://vrlgroup.in/investor_download/Investor_Meeting_on_14_November_2024__Transcript.pdf

You are requested to kindly take note of the same.

For VRL LOGISTICS LIMITED

ANIRUDDHA ANIL PHADNAVIS

Digitally signed by ANIRUDDHA ANIL PHADNAVIS
Date: 2024.11.19 14:43:14 +05'30'

VRL LOGISTICS LTD. HUBLI-580 029.

ANIRUDDHA PHADNAVIS
COMPANY SECRETARY & COMPLIANCE OFFICER

PLACE: HUBBALLI
DATE: 19.11.2024

"VRL Logistics Limited

Q2 FY '25 Earnings Conference Call"

November 14, 2024

MANAGEMENT: **MR. SUNIL NALAVADI – CHIEF FINANCIAL OFFICER – VRL LOGISTICS LIMITED**

MODERATOR: **MR. ALOK DEORA – MOTILAL OSWAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, good day, and welcome to VRL Logistics Q2 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Alok Deora, from Motilal Oswal. Thank you, and over to you, sir.

Alok Deora: Thank you, Siddhant. Good morning, everyone, and welcome to the Q2 FY '25 Earnings Conference Call of VRL Logistics. So we have with us today Mr. Sunil Nalavadi, the CFO of the company.

So I'll now hand over the call to Mr. Nalavadi to give some opening remarks and discuss on the performance, and then we can pick up the Q&A session. Thank you, and over to you, sir.

Sunil Nalavadi: Yes. Thank you, Mr. Alok ji. Good morning to all participants. I'm Sunil Nalavadi, CFO of VRL Logistics. I welcome all of you once again for the earning conference call for the quarter 2 of the financial year 2025.

This is a strong quarter, marked by substantial revenue growth, improved profit margins and robust cash flow, demonstrating effective cost management and strategic execution in all the aspects by the management of the company. As communicated during the last call about the increase in freight rates, we have successfully implemented the freight rate hikes across all the sectors and geography.

We believe that this exercise is great success to us to bring back our operational margins at optimum level along with maintaining growth in volumes. And please note that this is the first time we increased the rates without increase in freight rates and created a new trend in the industry.

Our operations were normal during the quarter and overcome from the disturbances, such as labor shortage, driver leaves, etcetera. due to the general elections and heat waves faced during the quarter 1. This has resulted into improvement in our operational efficiencies, such as increasing kilometers covered by our own vehicles, improving in turnaround time of the vehicles, increase in load factor of the vehicles, control on dependency on hired vehicles, etcetera.

Due to the improvement in our own vehicle utilization, the vehicle hire charges is drastically reduced as a percentage to the revenue in spite of increase in tonnage and slower addition of our owned vehicle capacity. Further, we established better control on the fuel cost by increasing the bulk purchase quantity with the discounted rates.

On a year-on-year basis, for the quarter, the revenues increased from INR715 crores to INR802 crores with a growth of 12%. The growth in revenue is mainly on account of increase in freight rates across all the sectors and geographies during the quarter, due to which the realization freight per tonnage is increased by almost 8% from INR6,681 per ton to INR7,241 per ton.

The growth in revenue is also on account of growth in volumes by almost 4% from 10.48 lakhs metric tons to 10.93 lakhs metric tons. The growth in volumes is from enhancement in our branch network in Goods Transport business. Year-on-year basis, we added around 82 branches, and these branches contributed around 2.5% to the tonnage.

We continued our initiative to increase the number of branches in the current quarter also and added around 12 new branches. The remaining growth in tonnage is from the existing market, predominantly by increase in contribution from the existing customers. Even though we saw muted growth in quarter 2 by most of the companies across the sectors, we are still in a position to show growth in volumes.

This is mainly on account of well-established branch network across the country and improvement in service levels by route optimization in key routes and hub connections. The EBITDA has increased by 39% from INR98 crores to INR135 crores, and percentage to revenues increased from 14% to 17%.

We reached EBITDA at our optimum level again, and this is mainly on account of increase in freight rates by passing all incremental costs, which were impacting the margins in the past. Further, the margin improvement is also due to good control on fuel expenses, which is a major cost of operation in our business.

We further increased the bulk purchase quantity in the current quarter from 30% to 35% to the total quantity consumed. The fuel procurement cost per liter is reduced from INR87 to INR86. On overall basis, the fuel cost as a percentage to the revenue is reduced from 31% to 28% in spite of increase in quantity.

The improvement in the operational efficiencies in the current quarter also leads to improvement in EBITDA margins. We saw major efficiency improvement in vehicle utilization by improving kilometers per vehicle and the increase in turnaround time of the vehicles and the load factor. This has resulted in to have a control on dependency on the hired vehicles, due to which the lorry hire charges reduced from 7% to 5.5% to the revenue, even though lower addition of own vehicle capacity in the current quarter. The rest of the expenses, even though increased in absolute terms, the percentage to the revenue reduced due to increase in freight realisations.

The improvement in EBITDA leads to increase in EBIT and PAT margins in the current quarter. The PAT of the company increased from INR19 crores to INR36 crores, and percentage to the revenues increased from 2.7% to 4.5%. On a sequential basis also, we have seen drastic improvements in in terms of revenue growth and improvement in margins. The operational revenues increased from INR727 crores to around INR800 crores.

And with other income, the revenues increased by around 8% from INR742 crores to INR802 crores. The growth in revenue is contributed by increase in freight rates. And the realizations have improved from INR6,723 to INR7,241 per ton and increased by almost 8%, along with a growth in volume by around 2%. The EBITDA margin has improved from 13% to 17%, mainly driven by increase freight rates and improvement in efficiency and operations are normalised in the current quarter from the obstacles faced in quarter 1.

With this, we reached a revenue of around INR1,544 crores for the first 6 months in the financial year '25, with a growth of around 10% on a year-on-year basis, with a net profit close to around INR50 crores. With the improvement in profitability and having good control on working capital, our post-tax net cash generated from the operating activities has been increased from INR209 crores to INR217 crores.

Further, our business is B2B focused LTL business, the less than truck load business, with a customer base of around 9 lakh customers covering with a wide range of sectors. Our key strength is having the different mode of collections from the customers, and 85% of our less than truck load business is on paid and to-pay basis, collecting the freight on spot from the customers immediately after the booking or completion of the service.

Our receivable days from the customers is hardly around 12 days and which is lowest in the industry. Considering the improvement in turnaround time of the vehicles and control on usage of hired vehicles, we moved slower on the vehicle capex during the quarter and invested around INR18 crores in the current quarter.

We also invested around INR43 crores to expand our own transshipment hub facility in Mangalore, and we are planning to have similar own facilities in Mysore and Bengaluru in coming days. With the improvements in cash flow and lowering capex, the net debt of the company reduced to INR259 crores.

Considering to reward to the shareholders, the Board of Directors approved an interim dividend of INR5 per equity shares. The company experienced a strong quarter with a robust increase in freight realisations, along with the support of growth in volumes and notable improvement in profit margins supported by operational efficiencies.

The cash flow from operations remain robust, positioning the company well for future growth and investments. With these achievements and the positive outlook, we are confident in maintaining momentum moving forward, both in terms of growth in the volumes as well as the realization.

With this, I will conclude my initial remarks. Now I request participants to open for question and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Amit Dixit from ICICI.

Amit Dixit: Congratulations for a good set of numbers in a very tough quarter. I have 2 questions. The first one is on capex. So if we look at capex, it is down 40%, if you look on H1 to H1 basis. Now with margins improving, it's a normalized quarter cost efficiencies coming in and 2 new transshipments you have alluded to in the presentation being set up. How do we see the capex trajectory in H2 and maybe FY '26?

Sunil Nalavadi: Yes. Basically, see, about cash flow -- about the capital expenditures, see, one, the vehicle addition is going to continue based on the utilization level. So every quarter, see, we are expecting around INR30 crores to INR40 crores investment in the vehicles. And apart from that, the 2 facilities what we are planning in Mysuru and Bengaluru, for Mysore, there will be investment of around INR20 crores, INR22 crores.

And for Bengaluru, actually, the total investment will be in the range of around INR240 crores to INR250 crores. And predominantly, the plan of the investment of these facilities is, see, basically, we are having a good cash flows. And in next half year, if you see, the generation from the operational activity will be in the range of at least around INR240 crores, INR250 crores, that is one.

And the second thing is we also declared a dividend of INR5. So based on this, the ouflow for this will be around INR44 crores will go for a dividend and around INR240 crores, INR250 crores goes for the Bangalore facility and around -- Mysore around INR21 crores to INR22 crores and vehicles we can say, around INR40 crores to INR50 crores.

With that, the total investment in next half year, if these projects are going to be invested, then total investment will be around INR350 crores. Against that, our -- the cash flow will be around INR240 crores. So the net debt addition will be around INR100 crores by end of 31st March.

Amit Dixit: Okay. That's very comprehensive. In FY '26, what kind of capex we can estimate?

Sunil Nalavadi: In 2016, again, predominantly, the capex will be towards vehicle itself. Based on the quantity improvements, we will decide on the investment into the vehicles. See, always, if you see as and when we grow, say, 4% to 5% in tonnage, then our capacity will be improved by around 3%, 4% in that way.

Amit Dixit: Okay. So just wanted to understand, sir, that why in Bangalore, the capex is so high INR240 crores to INR250 crores compared to Mysore and the other one?

Sunil Nalavadi: Yes. The Bangalore is -- currently, we are using that facility on hire basis. The total area of that facility is spread across around 25 acres. And currently, we are paying rent for the same facility, almost around, say, INR1.5 crores per month.. And since the owner is willing to sell that property we have decided to buy and invest in that property.

And basically, how it is going to benefit is, one is, we will save in the rental cost itself almost around INR17 crores, INR18 crores per annum. And apart from that, we have kept deposit of INR9 crores as of today, and we are losing almost around INR1 crores of benefit out of that also. And the net effective savings to the company will be in the range of around INR19 crores to INR20 crores per annum. Against that, if you calculate interest even at 8% to 8.15%, we are getting a loan proposal at that rate.

So definitely, the company is not going to lose even single rupee by investing into that property. And basically, we can add some more added facility to that own facility, like workshop, maintenance facilities and all these things. And apart from that, the incremental rental cost over a period of time, actually, we can stop it.

So one time, if we invest and after the repayment of the loan, the burden of the interest liability will come down. And moreover, there will not be any threat of shifting to the new premises or look at into the other premises that continuously that property is going to give benefit to us.

Amit Dixit: Okay. Understood, sir. The second question is on the procurement cost from refineries. Now we have already reached 35.51% this quarter. So do you think that this is the upper limit or how far we can stretch in terms of procurement of fuel from refinery? And associated question here is that what is the procurement cost differential between refinery and retail?

Sunil Nalavadi: Yes. The refinery is now we can say it is at the optimum level. There are 1% or 2% changes will be there. So considering the spread in network, we cannot increase this quantities. Wherever we are consuming more quantity only in those places, we have established our own pumps and purchasing from the refineries. And in terms of the price difference, it is between around INR2, INR2.5 per liter difference between the refinery price versus the retail price.

Moderator: Our next question is from the line of Krupashankar NJ from Avendus Spark.

Krupashankar NJ: Sir, my first question is on the price hikes, what you have already taken at the moment. You were indicating about 5% to 6%, but it has come in at around 8%. Just wanted to get a sense that, was there any benefit of mix with a higher lead distance in this quarter due to which the realization is higher? Or has there been an entire price hike of about 8% or so?

Sunil Nalavadi: Yes. This 8% increase in the realization is completely increase in the price. And what exercise we did in the rate excesses also, one, we did increase in the basic freight rate. And apart from that, we collect some of the other charges from the customers in the same invoices, say, it may be toll charges, It may be like miscellaneous, stationary charges and all. Actually, we revised in those rates also. So considering the revision in those miscellaneous charges and basic freight, the overall realization has been improved by 8%, and this is purely increase in freight rates.

Krupashankar NJ: Okay. So is it fair to assume, sir, that given that you have broken down the fare breakup across toll charges and so on, any increment in toll rates going ahead on an annual basis, whatever we see, will automatically gets passed through? Or is it like we will continue to take a call on pricing depending on how customers react to it? Something you can throw some light on?

Sunil Nalavadi: Yes. Basically, see, always, we take a call -- not only toll charges, we will see the movement in all the expenses as and when we'll revise the prices. See toll charges is one of the part of it. Even in the historically, if you see, whenever the toll charges are increased, actually, we have not increased only the portion of the toll charges because again, whenever we wish to face the customers, we go with increasing all the aspects of the rates rather than one element of the rates are like that. Again, it will become the same exercise to convince to the customers.

Krupashankar NJ: Right, right. And on the point of convincing customers, I think, you have grown at about 4% -- the tonnage has grown at about 4%. Just wanted to get a sense, sir, see, in the last conference call, you had mentioned that in the July month, the group was close to about 7% in tonnage. So what -- as in we are gearing up for festive season, what changed after that? Why has it come down quite drastically? Can you throw some light on that also?

Sunil Nalavadi: No, basically, see, we indicated a growth of around 12% in revenue, but we did more than that, almost around 13% growth in the overall revenue on a year-on-year basis. And moreover, the tonnage increase, as you are acknowledging from the market, that many companies are announcing the results now.

So most of the companies are declared a muted growth or negative growth across all the sectors. So basically, the across industry, there is a lower demand. But we are doing additional effort by opening the new branches, new geography, and we are continuously trying to add the new customers.

So because of that, actually, we are in a position to reach at least around 4% growth in the tonnage. And apart from that, even if we see some of the logistics companies, who have already announced the results. But most of the companies have declared muted growth in the tonnage.

Krupashankar NJ: Got it. In second half, any expectations or any guidance on how you are seeing the tonnage growth coming through?

Sunil Nalavadi: Yes, definitely, we will maintain some of the tonnage growth. Obviously, see, we have to put additional efforts by opening up of new branches and new geographies. That effort continuously we are doing. And definitely, see, there will be growth in the tonnage on a year-on-year basis. And apart from that, the realization, definitely, we will maintain this whatever hike in the rates are there. These rates have been already accepted by the customers, and this will be maintained even in the future.

Krupashankar NJ: Right. Sir, one more question, if I may. On the tonnage growth side. So just while I appreciate that you have given the branch addition, what was the contribution of the incremental branch addition over the last 1 year in the presentation? Can you throw some light on -- because we have been adding branches over the last 3 years? Can you throw some light on what has been the contribution if I were to take a cumulative basis over the last 3 years? What would have been the new branches contribution to our overall tonnage?

Sunil Nalavadi: We opened almost around close to around 250 plus branches in the last 2 years. And definitely, the branches are contributing almost around 8% to 10% to the total tonnage on a booking basis.

Krupashankar NJ: Understood, sir. Understood. Okay. And also if your -- if the tonnage outlook is going to be relatively muted, are we hurrying up with respect to vehicle addition? Or could we wait for some more time before adding these incremental capacities on vehicles?

Sunil Nalavadi: Sorry?

Krupashankar NJ: So with respect to the tonnage growth overall, we had anticipated earlier, the starting of the year about 12%, 13%, but then we turned cautious with respect to truck addition based on the underlying tonnage growth. Is it fair to assume that given that commentary also is quite weak across macro, will you take a very cautious approach to fleet addition? Or is it going to be like you're committed to spending that INR40 crores to INR50 crores per quarter towards vehicles?

Sunil Nalavadi: No, basically, it will be a cautious decision. See always what we do, we add the vehicle only if the vehicles are required for our operations. So depending on the growth in tonnage and the substitute is always available, we can switch over to the outside vehicle on an immediate basis. If there is continuous demand, then we can add our own vehicle capacity. So that cautious step will always be there. And with that, actually, we are expecting the additional tonnage growth. And accordingly, we have to incur capex.

Moderator: Our next question is from Achal Lohade from Nuvama Institutional Equities.

Achal Lohade: Sir, the first question I had was with respect to you have taken the price hike of 8%, has the competition also followed a similar increase? If not, what is the price difference between us and the competition now?

Sunil Nalavadi: Yes. Basically, after our announcement, even many companies have announced the increase in the rate. And see, step by step, again, other operators are also following the increase in the rates. And for this period, yes, there was a gap. But depending on our service level and the safety of the consignment and basically, the overall efficiency in the service, then definitely, we can -- we are the first movers in the market to increase the rates.

So whatever we thought on that, actually, it has been accepted by the customers, and we are in a position to increase the rate along with the maintenance of growth in tonnage. But considering this fact, even many other operators also following this step, after our announcement in rate increase.

Achal Lohade: Is that a similar quantum? Or if it is just 1% to 3% types?

Sunil Nalavadi: So depending on their nature of customers, actually, they are taking the call.

Achal Lohade: Okay. Sir, I mean, just a related question. What we had seen in the past is that we found it very difficult to increase the price in the past, right? So what has changed according to you? Where is that conviction coming from that this price increase will go through? And when was the last time we have taken this kind of a price increase and what was the experience? So how it is different and why it has changed, if you could elaborate a little bit?

Sunil Nalavadi: No. Basically, in the past, we used to increase the freight rates only when there is an increase in the diesel price. And the whole industry used to work towards that. Whenever fuel rate increase only during that time, they used to increase the freight rates. But this is the first time considering the increase in other expenses. It may be toll charges, it may be employee cost, it may be rental expenditures.

So considering increase in these costs, actually, we have taken a call to increase the rates, and we are in a position to convince the customers on this aspect. And the same trend is also following by the other operators. See, we are the first movers on the rate increase, you can say.

Achal Lohade: Correct. Where I'm coming from is that, is there a change in the industry structure, what you're seeing? Is there less competitive intensity? Have the unorganized segment kind of seen a reduction for whatever reason? If you could throw some light on those, that aspect as well?

Sunil Nalavadi: Yes. Obviously, you see the customers need a service. If you provide a good service, then definitely, we can charge rates or increase the rates. And moreover, even in some of the states, wherever we established or we have entered into in the last 2 years, especially in the Eastern, Northeast market, even the Northern side, there, actually, we have given very competitive rates initially. So considering those aspects also, now depending on the attachment of the customers in those areas, again, we have taken a call on increase in rates.

Achal Lohade: Understood. In terms of the branch addition, you mentioned 250 branches we have added in the last 2 years, and that contributed to 10% of the volume. Now wanted to understand your thought process going forward from next, let's say, 2-, 3-year perspective? How many branches do you think need to add? Where are these -- like, where are the white spaces left in a particular region, district, any segment?

Sunil Nalavadi: Yes. Basically, see, in the next 5 months, again, we are going to add another 40, 45 branches. On a full year basis, we are planning to add at least around 80 to 100 branches even going forward. That is what the thought process is. And it is completely into the untapped market, especially in the Eastern, North and Northeast markets.

There, actually, even in the Indian map, what we presented in the presentation, you see the number of branches state-wise, we are having still very low presence in UP, Bihar, Jharkhand and Rajasthan, even for that matter West Bengal. So we are planning to add more number of branches in these areas.

Achal Lohade: Right. And any experience you could share, how easy or difficult it is to move from South to non-South? Because we hear in the other industry, the experience has been a bit more painful, a bit more difficult one. So any...

Sunil Nalavadi: Obviously, We have to compete with the local competitors. And see, they are very strong in that particular route. But thanks to the increase in the compliance levels by introducing with GST, e-way bill and e-invoice because of that now across India, there are same practices. Earlier, there were a lot of differences between on the compliances between the states.

Now the difference is not there. All the states, every route, every vehicle owners or every operator in the country has to follow the same rules and regulations. So that is giving more comfort for us to being a organized player, actually, we can open up branches in those areas.

Achal Lohade: Got it. Sir, just last question, if I may. With respect to industry mix. Let's say, for first half of last year, what is the industry mix in terms of our customer segment? Like I remember textile is a large market for us.

Sunil Nalavadi: I mean, the product-wise, yes, the cloth and textile, which is majorly contributing to our tonnage, is almost around 16% to 18%. And next is followed by agriculture commodities, that is in the range of around 9% to 10%. And remaining all pharma industrial groups, the hardware, those are all in the range of around 5% to 6%.

Moderator: Our next question is from the line of Jainam Shah from Equirus Securities.

Jainam Shah: Sir, just wanted to recheck on the capex part. Are we doing around INR240 crores for Bangalore, INR20 crores for other facility and around INR30 crores, INR40 crores, let's say, INR50 crores for the vehicles, that would be INR300 crores in the second half. This is the understanding correct?

Sunil Nalavadi: Around INR350 crores, yes.

Jainam Shah: Okay, sir. I just wanted to check on the cash...

Sunil Nalavadi: INR350 crores including dividend, I'm saying, the total cash outflow.

Jainam Shah: Okay. Sir, just wanted to check on the cash flow side, as you told that we'll be increasing our net debt by INR100 crores, whereas if you see our 1H cash flow, we have done INR215 crores of cash flow from operation. But that rental cost, which is part of our interest and depreciation, is almost, sir, more than INR95 crores and that our interest cost is around INR12 crores.

So overall, we are paying INR105 crores into this cost. If we deduct then our cash flow from operation is around INR100 crores to INR110 crores. Then after INR350 crores of outflow, our net debt would be getting doubled from INR250 crores to INR500 crores or something is missing over here?

Sunil Nalavadi: So the Ind AS impact is, yes, definitely around INR40 crores to INR50 crores impact will be there. And even after removing that, definitely, the future cash flow, what we are expecting at least around INR200-plus crores, we are expecting in the next 6 months.

Jainam Shah: Okay. So around INR150 crores, there will be an increase in the net debt.

Sunil Nalavadi: Yes, the debt increase will be in the range of around INR100-plus crores -- INR100 crores, INR120 crores overall.

Jainam Shah: Okay. Sir, just recheck -- I just wanted to have your understanding on this. Of course, it's business decision to have a particular parcel on our books rather than paying on our rent. Overall, if we see capital employed is at around INR1,000 crores, whereas we are doing this much capex of INR300 crores.

It is getting increased by 33%. Of course, you'll be seeing it from an interest rate perspective, but market would be seeing it from a return ratio perspective. So is it matching of paying, let's say, INR250 crores and benefit of INR18 crores on a yearly, which is wherein our overall generalized return ratio will be more than 12%, 13%?

Sunil Nalavadi: No. Will you repeat your question, please?

Jainam Shah: So basically, our capital employed as of now is around...

Sunil Nalavadi: Your voice is not clear.

Jainam Shah: Yes. I'm just saying that our capital employed is as of -- as on 30th September is around INR1,000 crores. We are paying, let's say, INR250 crores for these facilities. It is getting increased by around 25%, and we are saving around 18% -- INR18 crores rent on a yearly basis. So just wanted to have your thinking of the same that, of course, we are saving on the interest by -- of course, we are saving on the rent, but on the other hand, we'll be paying on the interest as well as return ratios would be dilutive going forward with this much of high capex.

So of course, you are seeing that your outflow from the rent will be decreased. But at the end of the day, net debt effect is coming similar and our net debt is getting increased. So return ratio wise, it will be dilutive. So what's your thought on debt perspective because we are making 13%, 14%, whereas this saving would be somewhere around 8%.

Sunil Nalavadi: No, for the shorter period of time, yes, definitely, there will be impact on the return ratios. But if you see the long term, there will not be further spend on these assets as such. And moreover, as and when we repay the loan, then the capital employed will come down.

Jainam Shah: Got it, sir. And sir, this facility would be like -- we'll be getting benefit from, let's say, medium to long term, at least, we will not be adding up any other thing at the Bangalore because this would be enough for the next 5, 10 years...

Sunil Nalavadi: Yes, definitely.

Jainam Shah: Got it, sir.

Alok Deora: And see, just I want to clarify on this. See, currently, anyway, it is on the lease property. So based on the Ind AS adjustment, we are already creating provision for the interest and depreciation. Basically, it is a part of the rent only. So going forward, what can happen, purely, the interest cost will be there, and there is a small amount of depreciation because majority of the portion of this area is the land portion.

So on this, there will not be depreciation and always, there will be appreciation in the value. And moreover, there is always threat that there is an increment in higher rental costs because the new airport, that in Palani, it is very closer to this facility. And it is more -- since we are operating in more than 10-plus year, we are the hands-on experience using this facility for our business.

And being the Bangalore is one of the key market for us, that's the reason this investment is very much necessary for us, and it will make good return ratio or good returns even going forward. The reason is, one, on the -- there will not be threat on the increase in the rental cost. And moreover, we can keep on -- we can create some additional facility about the maintenance and other facilities in the same premises.

And definitely about -- see, basically, other infrastructure we can invest and we can create more value in the same premises. That's what I'm saying. So that's the reason, definitely, it'll create good value in the company going forward.

Moderator: Our next question is from line of Priyam from KP Capital.

Priyam: Sir, I have 2 questions. I understand that your in-source trucking model provides like control and flexibility advantages. But do you think it hampers the ability to scale? Like I would imagine that operation complexity would be very high with such a high number of employees and aspects.

Sunil Nalavadi: Will you ask again, Madam. Your voice is not clear.

Priyam: Hello. Is it clear now?

Sunil Nalavadi: Yes.

Priyam: Sir, I understand that your in-sourced trucking model provides control and flexibility advantages. But do you think it hampers the ability to scale? Like, I would imagine that operational complexity would be very high with such a number of employees and aspects.

Sunil Nalavadi: Yes. But even if you take other -- see, for the own infrastructure, this kind of employee strength is necessary. And basically, see all drivers, we are giving permanent employment status to the drivers. Basically, in India, what is happening, most of the operators are depending on the outside vehicles, and the availability of the drivers is acute problem in the industry.

But we are masters in management of the drivers. Basically, we are giving full-time employment to the drivers along with all statutory benefits. So because of the retention of the drivers and other labors, actually, we're in a position to run our operations very smoothly.

Priyam: Okay. I got it. And sir, next is, who do you think is your direct competitor? Is it just local competitors or any other companies?

Sunil Nalavadi: Yes. Considering our nature of business, the area of less than truck load market is a widespread market, we are having competition both from the local operators as well as some regional players and national players also. So depending on nature and depending on the customers, we are having different kind of marketing structure, different kind of the persons to do marketing.

In smaller towns and all, actually, our branch managers themselves will do a marketing activity. And similarly, we are having area managers. Actually, they are responsible for a particular area to do marketing and retention of the customers is also their responsibility.

And in metro cities, we're having an exclusive marketing team. They do the corporate marketing, especially in Mumbai, Delhi, Chennai, Bangalore, in around 8 to 10 cities, we are having market team. They do exclusively marketing to take care of the corporate clients. So there, actually, the competition will be the national players. For the local branches and area managers level, there are regional players and local players, they are the competitors.

Priyam: And at national level, who is your direct competitor?

Sunil Nalavadi: **we do** not a direct competitor. It is one small leg of operations, actually. See, in the contractual customer, what we disclosed in our presentation, the account customers, which is contributing around 15% to the tonnage. There, actually, we are having the competition with the national operators. But in their case, actually, the 100% of revenue is contractual customers.

Moderator: Our next question is from the line of Vikram from PhillipCapital.

Vikram: Sir, when you say that the improvement in service level and route optimization, can you give some examples because I think we have been already doing great work in that area. So is there any further...

Sunil Nalavadi: Yes, basically, just I want to give some highlights about how the kilometers per vehicle increased on a quarter-on-quarter basis. See, in the first quarter, if you see 10 to 15-tonnage capacity vehicle, we used to do around 175 kilometers per day. Now that has been improved by around 194 kilometers.

And similarly, in 15 to 20 ton capacity, we used to do around 222 kilometers per day. Now it has been increased to 250 kilometers. These are the main segments, more number of vehicles we are having. There, actually, we have seen around 8% to 10% increase in the kilometers covered by per vehicle per day.

And similarly, what exercise we are doing, basically, we are working towards a minimum TPT concept. In the sense, wherever the consignments are reaching, around 3 to 4 transhipments to reach end destination, we are planning, how to reduce it into 2 transhipment hub. And wherever 2 transhipment the consignments are reaching, how to make it one or direct from branch to branch, like this.

This is a continuous exercise, actually giving good result and turnaround time of the vehicles are improving. And basically, we are avoiding the time, which vehicles are waiting for the loading and unloading activities on a multiple times.

Vikram: Okay. Now understood. And how would be your share of Express parcel business?

Sunil Nalavadi: No, Express, we do not have. Actually, we call it as a door-to-door service. Basically, almost around 35% to 38% of our total business is door to door in the sense we pick up from the door and deliver to the door of the customer. That is similar to like Express Cargo.

Moderator: Our next question is from the line of Pranay Roop Chatterjee from Burman Capital.

Pranay Chatterjee: So my question is with respect to your volume growth. So in the first half, we saw about 5.5% growth. How do you see the festive month of October? How has it been for you? And after the festive month, do you see demand having completely fallen off or remaining steady? Like just in terms of growth, should we expect similar performance in the festive? Or has it been weaker than expected?

Sunil Nalavadi: Yes. Festival, see, we did some good tonnage in the month of October. And the good thing is about -- with the increase in freight rates. So that will give you a further enhancement on the margin side. That's what we are expecting. And similarly, in the next half year, the tonnage growth will be similar to what we did in the first half year with the increase in rate. So that will give a lot of boost to our margins.

Pranay Chatterjee: Got it, sir. Sir, my last question is, you gave a broad split of your sectors with clothing and textiles and agricultural commodities being your key segments. So is it possible to split your end factors into those, which are actually showing healthy growth, those who are flat and those who are actually declining? Or is it like broad-based muted demand?

Sunil Nalavadi: Yes. Now actually, see, the growth in all the sectors, all the commodities, the growth is there. But key thing is on the geography side, actually, since we opened more of the branches in North, Eastern, Northeast market there, actually, the growth rates are very high, in terms of percentage, because the base itself is smaller and in percentage terms, definitely, the growth is in the range of around 17%, 18% compared to, say, around 3%, 4% growth in the established market in the Southern and Western markets.

Pranay Chatterjee: Okay. So let me understand it this way. So you pointed out that the new branch addition has contributed to about...

Sunil Nalavadi: No just I will clarify on the product side again. So the product side, actually, we are not targeting on a particular product or a particular commodity. So basically, whenever we go into a particular market, say, for example, we entered into the Guwahati, whatever materials are available in that area, actually, we will target.

It may be agriculture product, it may be pharma product, anything. So unless we go with the product available in that particular area rather than having some planning for only agriculture commodity or textile market, we will not do that. We will understand the local market and accordingly, we concentrate on the products.

Pranay Chatterjee: Got it, sir. That's perfectly clear. Just a follow-up on this. You mentioned that there was a 2.5% contribution from the new branches to your tonnage growth, right? So -- and your overall tonnage growth was mid-single digit, right? So like the retail industry discloses something like same-store sales growth, which is basically how much growth on your assets, which you had only last year and excluding the growth from new. So is it fair to say your same branch growth, like the branches you had last year, those have actually remained flat and the entire growth is only from new branch addition, is that a fair statement?

Sunil Nalavadi: Yes, the new branch addition is around 2.5% in the current year, I'm saying, in the last 1-year growth. But if you take overall in the last 2 years expansion in the branches, then definitely, whatever new addition is coming because of the new branches, the whatever additional tonnage is coming.

Pranay Chatterjee: Okay. So is there any signs that you see that which says that growth is actually coming back in some of your existing assets, like you might actually grow without branch additions. Is that time anywhere in sight? Or we are still yet to see that?

Sunil Nalavadi: Look, there is -- again, it is completely depend on how the industry moves. And basically, you see in the current market, if you are seeing -- a lot of many companies, if you see the product-wise, the key manufacturing or it may be consumer durables and if any product, the listed entity data is immediately available and most of the companies are having a muted growth.

Moderator: Our next question is from the line of Alok Deora from Motilal Oswal Financial Services.

Alok Deora: So questions on the volume have been asked in different ways. Just wanted to understand with this price hike now undertaken, what kind of volume growth we are expecting for 2H of '25, FY '25 and in FY '26? And further price hikes we can take in FY '26?

Sunil Nalavadi: Yes. Just I want to clarify about the tonnage and the realization. Basically, we did say, almost around 5% plus in the half year and in terms of the tonnage growth. Going forward, also in next half year, we're expecting at least around 4% to 5% growth in the tonnage with the current realizations what we are having. So by doing this, what will happen, definitely, our margins will improve further.

The reason is the portion of the fixed expenses as a percentage to the revenue will come down. And moreover, since we are doing a lot of efforts on the increase in the efficiency within the organization, definitely, that will give additional boost to the margins. That's one. And in '26, by that time, rates will be completely absorbed in the market. We can definitely expect better tonnage growth in FY '26 from the current level.

Alok Deora: So in FY '26, could it be, like, 8% to 10% growth or even higher tonnage growth?

Sunil Nalavadi: Yes. Again, depending on the industry, it is possible. But definitely, we can expect better tonnage from the current year.

Alok Deora: Got it. But sir, this price hike impact has already come in this year. Now next year, the pace will also get on the higher side in terms of realization, right? So if we don't take any price hike for the next year, then is it -- could it be a case where next year, our revenue growth would largely be whatever is the volume growth of 8% to 10%?

Sunil Nalavadi: So basically, rate increase, it depends on the movement on the cost structure. And depending on the movement in costs, we will decide on the rates. See, if you're having the optimum level of EBITDA, then definitely instead of going for a rate increase, we will concentrate more on increase in volumes.

Alok Deora: Got it. Got it. So the price hike could come through. But if it does not come through, the volume growth could be there. So on a blended basis, it could be more like a 12%, 13% revenue growth could continue in FY '26 as well?

Sunil Nalavadi: Yes, definitely. Yes.

Alok Deora: Got it. Got it. Just one1 last question. This margin is 16-plus percent in this quarter. So is there any sort of one-off also or this margin could continue in 3Q, 4Q as well?

Sunil Nalavadi: No. This is a sustainable EBITDA margin. Basically, the reason is this EBITDA, we achieved based on the increase in rates as well as increase in the tonnage. And the increase in rates has been already accepted by the customers, and we are going forward. Further, there will not be anything that actually we may offer a discount or something like that. So that's the reason we are very clear that these realizations are going to be continued. And if these realizations are continued, then definitely, our EBITDA margins will be at a current level. The 16% EBITDA is going to be continued even going forward.

Moderator: Next was a follow-up question from the line of Achal Lohade from Nuvama Institutional Equities.

Achal Lohade: Sir, just 2 questions. First, on the fixed expense, if you could tell us of the current cost, excluding if we have to see, what is the fixed expense per month for us?

Sunil Nalavadi: See, almost around 30%, 35% of our costs are fixed in nature, especially the employee cost is fixed in nature. The rental expenses, which is almost around 8% to 9% to the revenue, it is fixed in nature. And the vehicle insurance, the vehicle taxes, what we are paying, these are all fixed in nature. See, totally around 30%, 35% expenses to the revenue are fixed in nature.

Achal Lohade: Understood. And that typically will grow at 6%, 7%, right? Or could that be even lower than that?

Sunil Nalavadi: Sometimes around 8% or so.

Achal Lohade: Understood. The second question I had, you mentioned about 35% to 38% of the volumes are door-to-door deliveries, right, the Express parcel, right? So is it like -- exactly like an Express parcel business? Or is there any further difference? And what is the price difference between us and the, let's say, Gati or TCI Express realization for that particular segment?

Sunil Nalavadi: See, door-to-door service, always our rates and Express Cargo rates are similar. There will not be much difference. Because in all the cases, what will happen, in Express Cargo, there will be additional cost of door pickup and door delivery. Normally, it is at least around INR2 per kg higher than the normal rates. That INR2 is nothing, but it is an additional cost for door pickup and door delivery.

Achal Lohade: Understood. And what is typically the normal rate...

Sunil Nalavadi: And just I want to clarify, since you mentioned the other Express Cargo Company, but the difference between them and us is they are highly depending on the corporate. But in our case, even on door-to-door delivery, non-corporate business other than contractual business. See, for example, total corporate business itself is 15%.

The another 15%, 20% door pickup, door delivery is other than contractual business for us. The reason here is whenever we wish to increase the rate or wherever we want to pass on the additional cost to the customers, we can do it easily. That is not possible in other companies, who are completely depending on the contract customers.

Achal Lohade: Understood. And what's the split in LTL, FTL, for us, sir?

Sunil Nalavadi: Yes, LTL is around 90%. FTL is around 10%.

Achal Lohade: And has that changed over last year, last 2, 3 years?

Sunil Nalavadi: No, it is very similar mix. And FTL is, again, it is not our core activity. So wherever actually, we do not have a return load, whatever vehicle needs to be, reach to the original destination, only in those cases, we are doing FTLs.

Achal Lohade: Understood. And just last question, if I may, with respect to whatever the initiatives the government is taking from a regulation perspective, specifically for the logistics industry, whether it is Gati Shakti Terminals and so on so forth, right, warehouses etcetera. Does that benefit us? Or it's really no significant change for us?

Sunil Nalavadi: For us, see, we are into LTL market, less than truck load. See, we are not into the bulk commodities. But on the compliance side, whatever more and more modifications are coming actually, those are supporting to us. And on the bulk transportation side, whatever modification the government is doing, it will support us, but not directly to us.

Achal Lohade: Not for us. Understood. And just LNG truck, what is your thought on this particular, like, is there anything we have in terms of LNG fleet? And any plans to get there?

Sunil Nalavadi: No. See, as and when the new product and new commodities comes up, always, we analyze it very closely. And if it is going to benefit to us, then only we invest into those products. And good thing in our case is we are very closely working with OEMs. Since we're having a direct tie-up with the OEMs, especially for supply of vehicle, supply of spare parts.

See, basically, we are into bulk purchase for them. We are the bigger customers for all OEMs. So that's the reason we are working very closely with them. And when any development in the -- on this aspect, definitely, we are the first people to -- if it is beneficial to the operator, then we are the first people to invest into those projects.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Sunil Nalavadi for closing comments.

Sunil Nalavadi: Yes. Thank you very much for all the participants and all your patience hearing. Basically, definitely, we are confident to maintain our growth level along with increase in the rates. So our margins are very intact as of today. And definitely, we are going to continue these margins even going forward. So with these closing remarks, I would like to conclude this call.

Moderator: On behalf of Motilal Oswal Financial Services, that concludes this conference. We thank you for joining us, and you may now disconnect your lines.