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To,

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Exchange Plaza, Plot No. C/1, G-Block,
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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 11th November 2022 for your information and records. This information is also available on Company's website at:

https://www.vrlgroup.in/vrl_investors_desk.aspx?display=investor_concall#

You are requested to kindly take note of the same.

For VRL LOGISTICS LIMITED

ANIRUDDHA PHADNAVIS
COMPANY SECRETARY & COMPLIANCE OFFICER

PLACE: HUBBALLI
DATE: 12.11.2022



“VRL Logistics Limited Q2 FY'23 Earnings Conference Call”

November 11, 2022



MANAGEMENT: MR. SUNIL NALAVADI – CFO, VRL LOGISTICS LIMITED.
MODERATOR MR. ALOK DEORA – MOTILAL OSWAL FINANCIAL SERVICES.

Moderator: Good morning, ladies and gentlemen, and welcome to the Q2 FY'23 Earnings Conference Call of VRL Logistics Limited, hosted by Motilal Oswal Financial Services.

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 '*' then '0' 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 Financial Services. Thank you and over to you Sir!

Alok Deora: Good morning everyone, and welcome to the 2Q FY'23 Earnings Conference Call for VRL Logistics. We have with us Mr. Sunil Nalavadi, the CFO of the Company. I would now handover the call to Mr. Nalavadi to give opening remarks and discuss on the performance of the Company. Thank you, and over to you, Sir.

Sunil Nalavadi: Good morning to all participants. I am Sunil Nalavadi here, CFO of VRL Logistics Limited. I welcome all of you once again for the Earnings Conference Call of the Company for the period ended September '22.

As we indicated earlier, the Management of the Company is going to focus only on the higher growth oriented Goods Transport business. In view of the same, we have taken many steps, including sale of non-goods transport segment which were part of the Company earlier. I also would like to thank the non-promoter shareholders who have supported our decision by voting in favor on our decision of sale of bus operations to the promoter entity.

In Goods Transport business, we are taking many key steps to expand our business at unparalleled growth. The key steps mainly consist of expansion in branch network, addition of new customers, increase in infrastructure backup, by increasing in our own fleet, enhancements in the space in the transshipment hubs and branches, route optimization in-line with the increase in tonnage etc. And this is going to be continued even going forward.

As we envisaged, we are on a track to increase our volume growth by 20% plus in the current fiscal year, as compared to the last year. During the quarter we have handled total tonnage of around 966,000 tonnes which is almost 7% more than the previous quarter, and 14% more than the same quarter of the last year. Further, in the current half year, we have handled totally around 1858000 tonnes, which is 27% more than the last year H1.

With this background, the total revenue of the Company reached to Rs. 733 crores in the current quarter, which is again the highest ever revenue per quarter as compared to the previous quarters. This has resulted into year-on-year growth of 15%, and quarterly basis the growth is around 2%.

The major contribution to the revenue is coming from our Goods Transport segment. And the revenue from this segment reached to Rs. 650 crores in the current quarter. This has resulted into 14% year-on-year growth and 7% quarter-on-quarter growth. The growth in this segment is mainly from the increase in volume, without increasing in freight rates.

Apart from the better economic conditions and festive seasons in the current quarter, the increase in tonnage in Goods Transport segment is also due to expansion in network by the Company. During the quarter, we have opened around 29 additional branches and from April '21 we have opened totally around 188 branches. These branches have been contributed around 8% tonnage this is additional tonnage to the Company.

As we always mentioned that our industry comprises of many of or majority of the small fleet and unorganized operators, to curb on the evasion of the tax which were supported by the unorganized operators in India, the government has modified the Eway bill regulations. From April 2022 onwards, for the business entities who are doing the business of Rs. 20 crores and above, compulsorily they have to generate a E-invoice.

The same limit has been reduced to Rs. 10 crores from 1st October, 2022. This is further going to support us because of the increase in the compliances. We hope that the statement by the government clearly indicates the business transaction needs to be done in a complied and organized way rather than the non-complied manner, which were being supported by the unauthorized transporter, while transportation of the goods.

Due to which, we are acknowledging from the market that many of the commodities transportation, which used to be transported only by the unorganized operators till date, are gradually shifting to us. To name a few of a product like the coconut product and the leather product, the areca nut or supari products etc.

On account of shift from unorganized operators and the expansion in our network the base of the customers has been enhanced to 7 lakh customers as against 4 lakh customer base prior to COVID.

When it comes to the profitability analysis during the quarter, the EBITDA of the Goods Transport segment reached to Rs. 101 crores, which is around 8% lesser than the same quarter of the last year and increased by 1.4% as compared to the previous quarter.

The EBITDA margin of Goods Transport segment in the current quarter is 15.56%, which is reduced from 19% as compared to the same quarter of the last year, and sequential basis this is reduced from 16.38%. The detailed profitability analysis along with the reasons have been provided in Page #10 and #11 of the presentation.

Just to brief some of the reasons behind it. If you see the year-on-year decline in EBTIDA, is mainly on account of increasing lorry hire charges as a percentage to the revenue. This cost has

increased from 7.25% to 10.16%. The increase in cost is mainly due to sudden surge in festive bookings during the fag end of current quarter, especially from Surat and Ahmedabad markets. And to meet this requirement we were forced to engage hired vehicles, since our own vehicles were deployed in other routes and geographies. Further, the lorry hire charges per kilometer has also increased.

The toll charges are impacted in the current quarter and the percentage to the revenue of these cost has increased from 6% to 7.33%. The increase in toll charges is due to increase in toll plazas, toll charge rate, and increase in kilometers covered by the owned vehicles. Another increase impacted on the margin is on account of increase in the employee cost, which has increased from 13.76% to 14.91% due to annual increment effected in January 2022.

The decline in some of the costs such as vehicle repairs and maintenance, diesel costs and other expenses were supported in increase in EBITDA margins. The diesel cost is under control in spite of no bulk purchase from the refinery, and the cost per liter is less due to reduction of excise duty by the government on periodical basis. The procurement cost of diesel, it was around Rs. 90 earlier, now in Q2 it is almost same of around Rs. 90 only.

The quarter-on-quarter decline in EBITDA is mainly on account of increase in lorry hire charges as a percentage to the revenue. This cost is increased from 9.37% to 10.16%. The increase in cost is mainly due to sudden surge in festive bookings during the fag end, of the current quarter especially from Surat and Ahmedabad again, and further we were forced to engage outside vehicle on account of this sudden surge in the demand.

Further the vehicle repair maintenance is increased on account of increase in spare part rates during the quarter. And employee cost as a percentage to the revenue has been declined from 15% to 14.9%. On account of the increase in the volumes, since the employee costs is fixed in nature, on account of surge in the revenue the percentage to the revenue has come down.

Moreover, if you see the fuel cost, which has declined from 31% to 30%, and this is mainly on account of declined in the overall reduction in the procurement cost. In the Quarter 1, the procurement cost of the fuel was around Rs. 93 which has been reduced to around Rs. 90 in Q2.

I would like to quote another impact in the current quarter on account of sudden increase in the transit tonnage during the fag end of the quarter. Normally this freight amount is around Rs. 45 crores to Rs. 50 crores at the end of each quarter. But in this quarter this amount has increased to around Rs. 65 crores. Since most of the tonnages are in transit, we have not accounted this tonnage as a revenue in the current quarter, and further some of the expenses incurred on this transit tonnage has been additionally burden on the P&L account. In our view, around 50 basis points of margins have been reduced on account of this in the current quarter.

The net profit of the Company reached to Rs. 31 crores in the current quarter and decline in net profit from the run rate of Rs. 50 crores profit, from the previous quarters is only on account of decrease in the performance of bus business.

If we see the EBIT of bus segment, which is around Rs. 17 crores, which has been reduced as compared to the 1st Quarter. The 1st Quarter always we will see more demand and more profitability whereas subsequent quarters, the margins of the bus business will come down.

Further as we presented earlier also, the bus business is facing lot of competitions especially from the railways, and even from the regional air segment. So, on account of this overall there is a reduction in the demand, our number of passengers have been traveled less in the Quarter 2, and even realization per passenger has come down. On account of this the bus business is impacted very badly in the current quarter.

Further, there is a reduction of profit in around Rs. 3 crores to Rs. 4 crores on account of the windmill transactions. The windmill transactions as effective from 1st July 1, August and September profitability have not been considered in the current quarter. Because of that the profitability is reduced by around Rs. 4 crores to Rs. 5 crores in the current quarter. So, on account of these two impacts, the overall profitability has come down, but in terms of Goods Transportation business, it has maintained EBITDA and EBIT level profits.

Other things, just I want to highlight about the Goods Transport vehicles, we have purchased around 560 vehicles in the current half year. And as we committed the CAPEX plan, we are on track, and the rest of the vehicles are going to be added in the coming one-year period. By September '23 definitely this order is going to be completed.

And another thing is about the net debt, which has increased from Rs. 130 crores to Rs. 164 crores in spite of increasing in the CAPEX to the tune of around Rs. 170 crores in the first half of the year.

And as we disclosed the bus transaction is going to be consummated in the Quarter 3. And because of these transactions, the Company is going to realize around Rs. 190 crores additional cash flows, the net of taxes. And these entire cash flows are going to be used for retirement of the debt. So, on account of this, there will be savings in the interest costs by almost Rs. 3 crores to Rs. 4 crores in the quarter.

So, overall, on a future period, definitely we are expecting that the tonnage will grow in the range of around 20% on a year-on-year basis. And further the profitability will be maintained at a EBITDA level we are going to maintain at the range of around 16%. And at a PAT level, the reduction on debt is going to be supportive for us to increase at a PAT margins.

With this I conclude my initial remarks. Now I request the participants to ask questions.

Moderator: Thank you very much. We will begin the question and answer session now. We have the first question from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: I have two questions. The first one is that you mentioned in your opening remarks that there was services provided due to the sudden surge in festive booking. However, the corresponding revenue was not positive, is it possible to quantify that revenue. And will it come in 3rd quarter? And if so, what could be your EBITDA margin for the rest of the year?

Sunil Nalavadi: Yes, in the normal period of operations or even in the normal festive seasons, which are spread in months, this transit freight will be in the range of around Rs. 40 crores to Rs. 45 crores value. But in this quarter what happened, this amount has been reached to around Rs. 65 crores.

Amit Dixit: And this entire Rs. 65 crores has not been booked in this quarter.

Sunil Nalavadi: Yes, this Rs. 65 crores the transit freight is not booked as a revenue in this quarter. And apart from that, what happens, there are certain expenses which are incurred by the Company. Say for example, if the material is booked from Delhi, the booking office expenses have been incurred, the booking loading and unloading charges have incurred. If it reaches to the transshipment, again transshipment costs have been incurred and all these expenses have been already charged to the P&L account in the current year as period costs.

See in our estimate, if it would have been a normal transit tonnage, the profitability would have been improved by around 50 basis points in the current quarter.

Amit Dixit: The second question was essentially, if we look at the revenue growth in this quarter YoY it has been mainly volume led there is no increase prices, and we have seen your costs increasing. So, is there is any chance of passing the cost to the customer through price hikes.

Sunil Nalavadi: Yes, basically, we are in expansion mode as of today. And we are more concentrated to increase the volumes. Because of that reasons, we have not taken a call on the increase in the freight rate. And since we are maintaining the EBITDA level at around 16%, we want to continue this strategy even going forward.

If the increase in costs are beyond this level, say if a sudden increase in the fuel rate or something like that which are beyond our control or which is going to impact on our EBITDA margins, then we will think about the increase in the freight rate. Otherwise, we want to continue the same strategy and we want to acquire more and more number of customers. And more and more number of the sectors which were in the hands of the unorganized players till date.

Amit Dixit: What is the threshold profitability level that you are considering beyond which you would consider price hike?

Sunil Nalavadi: Yes, EBITDA margins, see our strategy is to maintain at around 16% and if it is below around 15% or so then definitely we will think about increasing the rate.

Moderator: Thank you. We have the next question from the line of Rakesh from HDFC Mutual Fund. Please go ahead.

Rakesh: I just wanted to probe a little bit more on the margins. If I look at your margins, and forgetting about the first half of this year, you have been in the range of about 19%, as high as about 20% to 21% in the goods segment margin for almost seven, eight quarters in the past. And now you are talking about 16% margins. So, I am just wondering, like even with the higher volumes, why shouldn't our margins be going back to the previous level. What explains the difference between the 19% margin we were doing and versus 16% we are guiding now?

Sunil Nalavadi: Yes, basically what happened this 18%, 19% or even up to 20% EBITDA margins we reached in the last year Quarter 2, Quarter 3 and Quarter 4. But subsequently, what happened the diesel cost has been tremendously increased. But in spite of that actually we maintained over freight rate. And apart from that there are increase in other expenses also. If you see the toll charges it has increased by almost around 1% to 2% to the revenue, only on account of number of toll plazas have been increased, the toll rates have been increased. And if you see the other costs, the lorry hire cost has suddenly increased on account of the festive season. The employee costs have been increased on account of the increment which has been affected from April 2022.

See that 19%, 20% which were there for three quarters, but it is not sustainable for going forward or even for a longer period. And since our focus has been shifted more towards acquisition of the new customers and new geography, new market, we want to grow on top-line with a maintenance of EBITDA level at around 16%, that's what the strategy has been fixed internally.

Rakesh: Just wanted to follow up on this. Should we take that during those six, seven quarters to competitive intensity because of the COVID was benign, and therefore you could charge higher margins and now again the competitive intensity is higher, and to grow volumes, you need to give up those margins. Is that the way to think about it? Or is there any other way to think about it, because you might not be taking a price hike? Does it mean the customers will remain sticky and you would have any opportunity to increase price hike in future as and when you get an opportunity.

Sunil Nalavadi: No, basically see since we are expanding in the new geography, we want to retain the price. And moreover, once the volumes grows at the expected level say around 20% to 25%, definitely we will have an operational leverage. And again, see around 1% or 2% margin expansion is possible at that level. But it is going to take its own time, until we reach at least around one or two years around 20% growth, that possibility we cannot see. And once continuously we grow at a range of around say 20%, then going forward then we will have operational leverage at that level around 1% or 2% increase in EBITDA margin is possible.

- Rakesh:** Are you undercutting prices relative to your competition, as and when you are expanding into new geographies or you are at parity? I mean is there a large difference between your prices and the competition prices, if you can help us understand that?
- Sunil Nalavadi:** No basically in the new geography considering our service strength we are offering the competitors rate to the customers.
- Moderator:** Thank you. We have the next question from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Just continuing with the last participant. So, you mentioned in the new geography you are offering competitive rate or the same rate to the competition, I didn't hear it, correctly.
- Sunil Nalavadi:** The competitors rate, same rate of the competitors what they are offering.
- Dhaval Shah:** So, now this, focusing on volume growth. So, in which geographies have you not taken the price increase? And by doing that, how has your rate card versus the unorganized sector narrowed?
- Sunil Nalavadi:** Our rates are not narrow than the unorganized players, especially in the compliance transactions. See across the board, we have not taken any freight rate increase, either it may be new geography or even in the existing geographies. Since our thought process is to increase the volumes. When it comes to another player, as even earlier I used to say for the comply transactions, yes definitely they will offer lesser than our rates, but when it comes to non-compliant transaction, they earn much of a premium rate, there actually we cannot compete with them, and we will not do that business.
- Dhaval Shah:** Now on the volume growth, so compared to the last June quarter, we would have gone into our newer geography where the distance traveled by the truck would be higher. So, average realization for per tonnes per kilometer also would be higher, now, would that mean your revenue growth should be higher than the volume growth? Is my understanding correct, should that be the way to look at it?
- Sunil Nalavadi:** No the realization per tonnes is a constant at around Rs. 6,700 per tonnes. The reason is again, there is a growth in the existing market also. If you see the contribution from the new branches or new geographies, which is around 8% of the tonnage, additional tonnage we got from the last one year. But that itself will not change the overall realization rate. Since there is a tonnage increase in the existing market also, the overall realization per tonnes, we are maintaining at around Rs. 6,700.
- Dhaval Shah:** And now about this debt on the book and so by when can we see this transaction getting done and the debt on the books, repaying the entire debt.

Sunil Nalavadi: As I said the bus transaction is going to fetch around Rs. 190 crores net cash inflow to the Company. And we are planning to consummate this transaction in the current quarter, the Quarter 3 for this financial year. So, definitely once this amount came into the Company, then again our financial position will be substantially improved. And apart from that, our focus will be on the main on the Goods Transport segment.

And on the interest side, since we are going to repay this debt entirely. So, we are going to become a debt free Company once this transaction has been completed. And apart from that every quarter our savings will be in the range of around Rs. 3 crore to Rs. 4 crore. So, that will directly add to our net profit.

Dhaval Shah: So, in this quarter also you have this, in the interest component you have this IndAS adjustment done, right.

Sunil Nalavadi: No, that IndAS is going to continue, even post the bus transaction, but the debt is going to reduce and whatever interest related to this debt is going to come down, it will be zero.

Dhaval Shah: So, IndAS component out of Rs. 15 crore will be how much, Rs. 6 crores to Rs. 7 crores?

Sunil Nalavadi: Yes, out of Rs. 15 crores in a quarter, the IndAS component is around Rs. 10 crores, Rs. 10 crores to Rs. 11 crores.

Dhaval Shah: So, your actually interest payout is Rs. 4 crores?

Sunil Nalavadi: Yes.

Dhaval Shah: And this is what saving you will have?

Sunil Nalavadi: Yes.

Moderator: Thank you. We have the next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: On the presentation, you have mentioned about 8% of your total tonnage in the 2nd Quarter has come from the new branch additions that you have done last year and first half this year. So, that means, I mean organically, it's been a lower growth, I mean, 4%, 5% growth. But just trying to understand, how much more can branch network, first of all expand? I think we have added about 100 branches this year, first half. So, how are we looking at this branch expansion?

And secondly because of this new branch addition in newer geographies, how is that the lead distances etc, may be higher and so, the realization per tonne etc. and how can that move, because we have had a significantly higher exposure to the West and South, but now that you are expanding, how will that change our business?

Sunil Nalavadi: See about the new branches, we are having a plan to open around 30 to 40 branches every quarter. And this will continue at least for next two to three years. So, wherever potential areas are there, definitely we are planning to open new branches and these are going to continue. And apart from that, when it comes to realization per ton, yes, as we have said, since the lead distance is increasing, but overall contribution it will be in the range of around 8% to 10%, the impact of realization per ton will not be there.

And going forward see once the new branches will be in the range of around say 250, 300 branches, then definitely the lead distance will be substantial. And at that moment, definitely we can see some improvement in the realization per ton.

Mukesh Saraf: Okay, so you continue to expect on the 8% to 10% kind of volume growth because of this branch expansion right now, it cannot be significantly higher?

Sunil Nalavadi: Yes, once the numbers further increase, and moreover, what will happen, since these branches are opened very nearby near future, see what is happening, we have to spend some more time, see at least these branches require around one or two years to give substantial growth in the tonnage. Now what is happening, as a benchmark at least these branches have to contribute 100 tonnes per month and these branches to reach breakeven. And branches are contributing 100 tonnes within a period of around two to three months and reaching breakeven. To add to the overall profitability and growth in the tonnage, at least those branches are required, at least around two to three years. At that moment, there will be considerable jump in the tonnage contribution from these new branches.

And just I want to tell you, even earlier, I used to say the new branches, they were, the contribution were hardly around 2% and 5% in the earlier quarters. Now we reached to 8%. And in the subsequent quarters again this percent is going to be increased.

Mukesh Saraf: Secondly, in relation to these businesses going out will be buses, the bus business as well as the power business, is that any possible reduction in the unallocable expenses, at the corporate level, would there be some employees that would move out or maybe some rent etc, that could come off, because we do have Rs. 8 crores to Rs. 9 crores of quarterly unallocable expenses. So, just trying to understand, is there some slack that we could kind of --

Sunil Nalavadi: Proportionately that expenses is going to come down even for a bus segment, see that expenditure component is in the range of around 12% to 15%. To that extent, those expenses are going to be reduced.

And moreover, since we are scrapping the vehicles, even on the new scrapping policy, whatever it is going to effect from April '23, some of this realization of scrape we are going to go support for margin expansion, especially this will be treated as these other income. And that may support in margin expansion in the next year.

Mukesh Saraf: On the employee cost is there an expected increase in minimum wages by the Karnataka State Government or say any other state that you are present in, because we are reading that there could be a possibility of a very high kind of jump in the minimum wages there.

Sunil Nalavadi: See currently when it comes to the minimum wages, anyway our employees are earning more than the minimum wages. See currently the minimum wages is around Rs. 11,000 to Rs. 12,000 in different states, in Karnataka it is around Rs. 12,000 per month. But most of our drivers and other people are earning more than this amount. Their average earning by the drivers is in the range of around 20,000 plus salary or earnings per month. So, once the minimum wage is revised, accordingly the salary structure of the drivers will be changed, but overall there will not be impact on the Company. Only it's allocation -- operational costs will change.

Moderator: Thank you so much. We have the next question from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Basically, I just want outlook on this new of biodiesel which we used to have very actively earlier. How is the current situation or outlook going ahead for the use of this biodiesel opportunity?

And the second question is that, share this lorry hire at a percentage of sales, but can you view the outside basis on the kilometer percentage like just to get an idea?

Sunil Nalavadi: Yes, one is about biofuel again in near future, we are not having the visibility of uses of biodiesel. But in some of the location, we started in the current quarter, but it is very small quantity as of now. And second thing about the fuel is, now entire fuel is consummating through the retail pumps, even the bulk purchase is ruled out because of the wholesale prices increased by the government. So, once these prices are going to be matched, and once these are going to get a benefit to us, definitely we are the first people to start usage of the biodiesel.

And the second thing about the hires kilometers what you have said, just I will give that figure to you. There is a cost increase of around 2% in the lorry hire charges per kilometer, on quarter-on-quarter basis. If we see the cost per kilometer year-on-year it is increased by around 17%. And on an overall basis, the kilometres the lorry hire charges we have incurred in the current quarter is around Rs. 57 crores as compared to the earlier around Rs. 66 crores. And the number of kilometers in the current quarter is around 56,91,000 kilometers which are contributed by hired vehicle kilometers in the Quarter 1. And Quarter 2 that that has been increased to around 65,28,000 kilometers, whereas last year, the same kilometers were around 40,39,000 kilometers.

Moderator: Thank you. We have the next question from the line of Shrinidhi from HSBC. Please go ahead.

Shrinidhi: First question on revenue growth outlook, more importantly, volume growth outlook as we go into H2. I know you have guided for 20%. I just wanted to know, how has been the lower

threshold for E-invoicing that is starting to kick in from 1st October, resulting into increased inquiries for you?

Sunil Nalavadi: Yes, definitely, there are, see we monitor based on the product price, just, I mentioned some of the products which were completely in the hands of unorganized people, those products are shifting to us. And in terms of number of customers, it is the group of people. The one coconut product, one particular market, like that entire market is going to shift to us, that way, irrespective of the number of customers based on the product wise, if it is there are a lot of inquiries and we are doing, and there is substantial increase in the tonnage from this product. So, that's the reason whatever government is going to take steps, now E-invoice is Rs. 20 crores to it is reduced to Rs. 10 crores. And we are accepting that all GST registered people are going to regenerate a E-invoice and that policy may come soon. So, once it happens, even the people are having a turnover of around Rs. 40 lakh to Rs. 50 lakh turnover, they are liable to generate an E-invoice. In that scenario, definitely it is going to support us a lot, being an organized player.

Shrinidhi: And wondering is this incremental revenue growth that you are seeing, because of this formalization, is it a similar margin business or it is coming at a lower margin?

Sunil Nalavadi: Yes, definitely it is a similar margin business. And because most of these retail rates, were fixed by the Company. We do not have contract with these customers. They just always we use to highlight about this paid and to pay customers. So, most of these customers comes under this category, paid or to pay which is almost 70% of our business as of today. For these customers, we do not have a contract, those customers have to follow the rate charge issued by the Company. New customers in this category, obviously, they have to book as per the Company's rate card.

Shrinidhi: And coming back to the margin guidance which you said that is, we are expecting about 16% kind of margin. If you look at this quarter margin, you did almost 16% margin and this quarter had a several one-off kind of things. So, wondering if those one-offs kind of normalization, shouldn't you margin go back to 17% to 18% kind of level as we go into second half?

Sunil Nalavadi: Well there is a possibility of around change of around 1% or so, because these lorry hire charges is going to come down, and even the transit tonnage what we are talking that may benefit in the next quarter but substantial around 18% of what we are talking, definitely it is going to take a time. So, once our strategy of volume increase, just continuously increase around 20% in next two to three years, post to that definitely we can look margins in the range of around 18%.

Shrinidhi: And last one, a bookkeeping question. Would it be possible to tell us how much was the total tonnage you did in full financial year last year?

Sunil Nalavadi: Yes, last year, I said half yearly we did the --

Shrinidhi: Like full year, sir, I wanted.

Sunil Nalavadi: Full year, I will share with you separately, okay. Half year information is available as of today.

Shrinidhi: Yes, 18 lakh something you said, right.

Sunil Nalavadi: Yes, 18,58,000 tonnes, and full year basis we did around 32 lakhs tones. Anyway, I will share you separately on that, okay.

Moderator: Thank you. We have the next question from the line of Vikash Khatri from Aviral Consulting. Please go ahead.

Vikash Khatri: So, my question is the kilometer of running, you have given last year 40 lakh kilometer to this year 66 lakh kilometer, increase of almost 65%. Is it due to having any relation with the retirement of your own fleet that market engagement has increased that's why your lorry cost is going up. And if so, then what's the outlook in the coming days, in terms of old vehicle retirement versus lorry hire?

And the second question is that you are adding new segments like you gave coconut, leather, supari what the impact on the top four contributing categories of the volume like, we are really known for the cloth. So, how that is moving up and how it will be in coming days?

And the third question is related to your existing wind business. So, are there any plans to enter in related business like Rail Freight?

Sunil Nalavadi: Yes, just to answer about the lorry kilometers, the kilometres have been increased mainly on account of a sudden surge in the volumes especially in Surat, Ahmedabad and some of the locations in Punjab, Ambala and other places. But this is a one-off increase in the kilometers, and going forward definitely it will not be this kind of a percentage. Overall, it will be in the range of around 7% to 8%, not in the range of around 10% to 11% in terms of kilometers. That's one thing. And second thing --

Vikash Khatri: its owned vehicle versus outsourced vehicle ratio.

Sunil Nalavadi: Yes.

Vikash Khatri: Okay.

Sunil Nalavadi: So, your second question is related to the wind power project. The wind power project, yes, it is a one-time investment we did long back in the Financial Year 2006/2007 only for the tax planning purpose. And since we got to the complete benefit on the tax side, and even on the return on this project so we got a good offer and we sold that project. And in the near future, we are not looking for any such kind of investment. And our focus will be only on the Goods Transport business going forward.

When it comes to product wise yes the cloth that we are doing around 18% to 19% of the overall tonnage, and agriculture commodity is in the range of around 7% to 8%. And when it comes to the food and FMCG product, we are doing around 9%. And the electronic goods we are doing around 7%, and the metal hardware are in the range of 8%. So, the major commodities are the cloth, and rest of all in the range of around 6% to 8%, to the overall tonnage contribution. So, we are not depending on any particular sector. And even if we see the customer base, we are having a 7 lakh plus customers, and the top customer contribution even if not more than 1% to the revenue. That's how the spread, in terms of the customers or even in terms of the product.

Moderator: Thank you. We have the next question from the line of Sanjay Satpathy from Ampersand Capital. Please go ahead.

Sanjay Satpathy: My question is that you are trying to gain market share through bit up aggressive pricing strategy. So, is that something which is going to be negative for you in the long term because you may like to get into parcel business or something?

Sunil Nalavadi: No, ours is a healthy growth, if we see many people are trying to, by heavy losses they are incurring and growing in the market. But our strategy is totally different. We want to earn a minimum operating margin and grow. So, our growth what we are seeing it is completely healthy growth. It is not at all risk for us.

Sanjay Satpathy: And my last question is that promoters are going to buy out this bus business. So, how are they going to fund that acquisition I mean because there are some speculation that they will sell, VRL shares in the open market to raise funds?

Sunil Nalavadi: They are planning internally among the promoters. And definitely, it is their plan, we don't want to comment on that.

Sanjay Satpathy: But when all these transactions likely to get over the whole uncertainty will go away, is there any idea?

Sunil Nalavadi: Yes in Quarter 3, we want to complete this transaction, because we received a shareholder approval by 30th October. And definitely we are going to complete this transaction by the end of this quarter.

Moderator: Thank you. We have the next question from the line of Ash Shah from Elara Capital. Please go ahead.

Ash Shah: I just wanted to confirm one thing, earlier you mentioned that 75% of the customers are to pay customers, right, if I am not mistaken?

Sunil Nalavadi: Yes, paid and to pay customers.

Ash Shah: And 25% would be contract business.

- Sunil Nalavadi:** Yes.
- Ash Shah:** And also one more thing, so since the bus segment is going to be carved out into a new entity. So, the management bandwidth will be divided between the two. So, how are we planning to deal with the situation if there is any?
- Sunil Nalavadi:** Yes, even currently see that bus business is completely running by the independent professional management. There is a technical team, who were running independently. And apart from that the operational person is from the inception of the bus segment. Actually, he is leading that business and that person is going to continue as Head of this operation. And about the management role, especially on the policy matters definitely, even currently their involvement is there even with this Company, since that segment is running. And going forward also whatever policy level decisions or policy level qualifications are required, definitely, there will be involvement. But on a day-to-day operations level, there is an independent team who are going to handle it. And currently, that's how the structure is and even going forward that's how the structure is going to continue.
- Moderator:** Thank you. We have the next question from the line of Suraj Nawandhar from Sampada Investment. Please go ahead.
- Suraj Nawandhar:** We have placed, two to three quarters ago we had placed a big order with Ashok Leyland and Tata Motors around 1400 or 1600 trucks please correct again. So, what is the timeline to receive all those trucks?
- Sunil Nalavadi:** As we informed earlier, this order is going to complete by September 2023. And we are on track. So, by September '23, all these vehicles will be purchased.
- Suraj Nawandhar:** So, is it going to be step wise delivery like every month you will received 50 or 100 trucks or anything like that or there are going to give us everything at one-go.
- Sunil Nalavadi:** No, see currently in the Quarter 1, Quarter 2, we added substantially good number, almost around 600 vehicles in the first half year. This kind of acquisition is going to continue, another 600 vehicles are going to be added in next half year. So, by that time around 1200 vehicles will be added. And another 400 vehicles will remain that will be added by September '23.
- Suraj Nawandhar:** So, can we expect this lorry hire charges to go down substantially in next six to eight months. Once we receive the delivery of all the trucks.
- Sunil Nalavadi:** Since we are going on a volume side also, the substantial reduction will not be there, but at least there will be reduction of around the 2% to 3% on overall kilometers.
- Suraj Nawandhar:** And if I heard you correctly, textiles contributes the largest percentage share in volume till today, right.

- Sunil Nalavadi:** Yes, it's around the 18% to 19% of our volumes are coming from textile.
- Suraj Nawandhar:** So, how is the slowdown in textile is affecting us, because we are seeing a really bad business in global demand from many companies. So, how is it affecting us?
- Sunil Nalavadi:** No earlier, if you see the textile was contributed around 14% to 15% to the volume, now that the contribution is increased to around 18% to 19%. The reason is earlier as we mentioned we were not having a proper infrastructure facility at Surat, and we were not having proper branch and network in the untapped market. Now, what is happening from the last two years except this COVID impact, we are having a proper infrastructure at Surat so that we can book the cloth material from Surat to across India. Earlier we used to do only from Surat to serve predominantly, now that has been expanded from Surat to South, Surat to East, even Surat to North, that's how the contribution from the overall textile is increasing. So, we are not depending on a few customers who are there which is going to impact on our total volumes, we are depending on the total market. And a lot of new customers have been added in this segment.
- Suraj Nawandhar:** And have you seen any number, like an upward cash, like let's say 25% of our volumes, let's say textile hits 25% of our volume. So, you will stop taking any more volume from textile, because then our dependence on the one sector will increase. So, have you put any cap on any particular sector?
- Sunil Nalavadi:** No, we do not have any cap or any minimum requirement of each segment. See when it goes to our branches, we handle all kinds of commodities, except some hazardous and liquid product we are handling all commodities, that's why we are not depending on any sector, and if you see the next sector wise contribution the maximum which is in the range of around 6% to 8%. That's how it is widely spread. We are not depending on any customer. We are not depending on any particular product. So, our volumes are spread across the industry and spread across the customers, even in slowdown on some of the products are not going to impact on our overall volumes.
- Moderator:** Thank you. We have the next question from the line of Krupashankar NJ from Spark Capital Advisors. Please go ahead.
- Krupashankar NJ:** I had a question relating to a branch addition, if I am not mistaken, you said, 30 to 50 branches is added per quarter. So, are you seeing that these branches will get added more in geographies where your vehicle goes typically, like for example, last year, you had around 45% of your new branches in the northern and the eastern region. So, is there a focus on expanding more branch center there? Or would we again focus on South and West where we are relatively stronger.
- Sunil Nalavadi:** No more focus is on Eastern and North Market and even the Northeast market so most of our new branches will be added in those areas. See South and the Western permit wherever requirement is there only in those locations we are going to add a branch, but the expansion model what we are talking that is only in the Eastern, North and Northeast geography.

Krupashankar NJ: So, the point that I was making earlier that around 100 tonnes per month is required for breakeven is achieved even in these geographies, is my understanding correct.

Sunil Nalavadi: Yes this 100 tonnes per month requirement is for each and every new branch irrespective of the geography.

Krupashankar NJ: No, what I meant was just taking on two to three months to breakeven is that the case with new branches opened in North and East as well right now.

Sunil Nalavadi: Yes, new branches where we are opening, these branches are taking around two to three months to reach 100 tonnes and by that time they reach breakeven. Whatever expenditure incurred over one or two months definitely it is burden on the P&L. And growth wise profitability contribution and growth in the turnover will be more visualized after one and one and a half year. That time actually the real contribution from these branches the profitability contribution will be emerged.

Krupashankar NJ: And a related question. So, what I can see in your balance sheet is that the lease liability proportion has gone up quite substantially. That's primarily only because of branch addition or is there any hubs also which we have renewed means that relative higher costs, which is translate into these higher.

Sunil Nalavadi: No along with the branch expansion we said that even space expansion is required in some of the key transshipment hubs. So, that's how actually we carried out in the last six months. And for all this actually we have entered into new lease agreements. So, because of that, the fees please liability has increased.

Krupashankar NJ: Well, how many hubs have you changed this year?

Sunil Nalavadi: In around 10 to 12 locations in a major area we have changed, but even at a small scale like if you see, almost around, it is a continuous process. And the major changes happened in around 50 to 60 locations in the first half of the year. Basically, to name some of the places like Pune, Ahmedabad, Raipur, Salem, Chennai, Kanpur, Delhi, Kolkata, Patna, Guwahati, Siliguri, Cuttack in all these places we have enhanced our space. And lot of volumes are coming in those areas.

And one more thing, just I want to mention about space expansion, always we will have a vision that even after three to four years, they should not be change in the space. If there is a requirement of 50,000 square feet, we initially go for one lakh square feet, if requirement is one lakh square feet then we go for around 150,000 square feet. We always keep a vision that in next four to five years also this space should not be changed, because of that reason, initially the utilization rate will be around 50% to 60%, gradually the utilization will increase around 70% to 80%. So, because of this reason also there will be some burden of expenses in the P&L.

Krupashankar NJ: Now all this benefit of operating leverage will be reflected after a year or two when –

Sunil Nalavadi: Definitely a year, year and half year then definitely the clear visibility come and definitely the margin expansion is possible.

Moderator: Thank you. We have the next question from the line of Alok Deshpande from Edelweiss Securities. Please go ahead.

Alok Deshpande: You mentioned about the timeline of this new fleet addition that is going to come. You added about 500 so far in H1, another 500 to 600 in the second half of this year. So, as this addition happens, do you see a possibility till you are sort of settled down with all these new additions that there can be some case of underutilization of capacity, until probably the second half of next year? Or do you think that utilizations are up and running even for some of these new additions?

Sunil Nalavadi: See the vehicle addition is always based on our requirements, from the date of registration itself, these vehicles are going to be utilized. So, to that extent the depending on the outside vehicle will come down and there will be utilization of the owned vehicles. Always the utilization will be maintained even for the new vehicles.

Alok Deshpande: Second question on the sale of the bus operation business. Now, given or assuming the stability completed this quarter. So, should one assume that starting Q4 of this year that segment will not reflect in book of accounts or will that be next year?

Sunil Nalavadi: Yes, once this transaction is consummated in this quarter, then from Q4 onwards those numbers will not be there. It will be a discontinued business.

And similarly if you see the wind power project now, so, this project has been, the effective date was around 1st August. The August and September revenue and profitability have not been accounted in the current quarter. The similar numbers will appear in the next quarter now the Q4.

Moderator: Thank you. We have a next follow up question from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Now, given we are expanding so, aggressively, will there be higher increase in the employ cost, in terms of more incentives, you will need more manpower, because we are also expanding, might be recruiting more senior people, because the expansion is happening at the rate which we have not seen in the past. So, will there be a substantive change in the employee count, the kind of employees we have, the employee mix?

Sunil Nalavadi: See as and when we increase the number of branches definitely the number of employees are going to be increased. And we are doing internal promotion to the people, giving promotion to the people who are going to handle these new geographies. See, we have sent some of the expert people who are already in the Company, who are very loyal to the Company to these new geographies, with all these promotions. To that extent definitely the absolute amount of the

salary is going to increase, but since the volume growth are better and growing at around 14%, 15% even 20% the percentage of salary our employee cost percentage to the revenue will come down, but in absolute terms yes, definitely there is some incremental cost will be there.

Dhaval Shah: So, our employee costs have been around, say I mean, if you just, this run rate of the current quarter will be R. 430 crores to Rs. 440 crores, Rs. 430 crores around now this absolute number will grow at what rate over the next three-year period?

Sunil Nalavadi: Now if you see in the 1st Quarter now, we were Rs. 106 crores in 1st Quarter, 2nd Quarter Rs. 111 crores.

Dhaval Shah: So, it was around Rs. 106 crores, now in 2nd Quarter it is, similar, some around Rs. 4 to Rs. 5 crores incremental cost will be there every quarter.

Sunil Nalavadi: Every quarter Rs. 4 crores okay. So, for the next two years every quarter on quarter you will see additional employee cost is what you mean?

Dhaval Shah: Yes, in the normal scenario unless we do the implemental at a board level to all employees. But then increment will come right. Incremental is a part of --

Sunil Nalavadi: I meant that it is not an immediate thought process, because we have already did it in April '22, that is not the immediate thought process, but till that time, definitely around the Rs. 4 to Rs. 5 crores on every quarter it is going to increase, because one is the new branches will be there we are appointing the new people. And we need a lot of new supportive stock also. And a lot of these internal implements to the people who are shifting to the new geographies, all these references are continuous exercises we are doing. And the more focus is only to establish these branches and stabilize these branches and increase the volume that is what the strategy is.

Dhaval Shah: And this unallocable income and expense, how will that be after the sale of the bus transaction?

Sunil Nalavadi: There will not be any unallocable that entire expenses will be treated as only goods transport segment expenses. And moreover, some of the expenses are going to shift to even bus operations. So, on a net basis these unallocable around Rs. 4 crores to Rs. 5 crores expenses are going to be treated as GT segment expenses.

Dhaval Shah: And the rest will go off.

Sunil Nalavadi: Rest will go off. And even we have to adjust unallocable expenses unallocable revenue also right.

Dhaval Shah: Yes. So, revenue how will that be?

Sunil Nalavadi: Means after adjusting all revenue and expenses around Rs. 4 crores to Rs. 5 crores additional expenses will be unallocable expenses that will be treated as the GT expenses.

- Dhaval Shah:** How have is the gross debt right now on books and cash?
- Sunil Nalavadi:** The cash is around Rs. 11 crores to Rs. 12 crores. And debt will continue as it is.
- Dhaval Shah:** So, debt it Rs. 169 crores, okay. So, by 31st March given that if the transaction happens as expected then you will be net cash Company, debt will be zero?
- Sunil Nalavadi:** Yes, we are expecting that and we have to see the CAPEX also. But anyway the internal accruals are going to support further and this fund is completely utilized for the repayment of debt again, there will be savings on the interest. The balance is still more stronger and even on a leverage side the Company will become debt free Company.
- Dhaval Shah:** So, how much CAPEX is due for Q3, Q4 of this year?
- Sunil Nalavadi:** Average around Rs. 80 to Rs. 85 crores CAPEX will be there, that's how it is even there in the Q1 and Q2 that will continue. And substantial it is for the vehicle addition, the goods transport vehicle addition.
- Dhaval Shah:** And the same figure, same Rs. 160 crores to Rs. 170 crores you will be spending next year, FY24?
- Sunil Nalavadi:** Yes, next half year, because Rs. 170 crores has been already invested in first half year now. So, there will be similar investments in next six months till March '23. And again, further, there will be similar investments till September '23 on a half yearly basis. Post that again, we analyze how the requirement of the vehicles and all, again, we will derive our CAPEX plan.
- Moderator:** We move on to the next participant. And the question is from the line of Shrinidhi from HSBC. This is a follow up question. Please go ahead.
- Shrinidhi:** Just wondering is the growth from corporate client is higher than your overall growth for last two quarters? And is the profitability in corporate clients significantly lower than your overall profitability?
- Sunil Nalavadi:** Proportionate growth will be there; this contribution will be there in around 20% to 25% even going forward. See wherever we are entering into new geography and even products what I have mentioned these are all, the paid and to pay customers.
- Shrinidhi:** And how is profitability in corporate customer lower than your overall profitability?
- Sunil Nalavadi:** See it is again similar profitability because the corporate client is assured business and we can plan it properly. And moreover, some of the legal escalation clauses are there in the corporate clients agreement. So, price are continuously revising in the corporate client, but that is not the case in paid and to pay customers. So, on an overall basis even margin side, it will be similar margin in accounts customer as well as paid and to pay.

Moderator: Thank you. The next question is from the line of Alok Deora from Motilal Oswal Financial Services. Please go ahead sir.

Alok Deora: Just want to understand so as this Capex progress, how much would be the lorry hire percentage now going forward as a percentage of the total requirement, because the CAPEX we have done in 1H also and now it's progressing at Rs. 80 crores to Rs. 85 crores per quarter so –

Sunil Nalavadi: Yes around 6% to 7% kilometers we have to do with the outside vehicle. The reason is in some of the routes, there will be not be return load. And some of the local from hub to spoke actually were engaging the hired vehicles, those scenarios will continue, so overall basis it will be in the range of around 6% to 7% of the total kilometers from the outside vehicles. And there will be sudden demand on account of some of the festivals and all to meet that one-sided demand actually, we have to engage outside vehicles only.

Moderator: Thank you. Sir, we do not have anybody in the queue.

Sunil Nalavadi: Just I would wish to again give a closing comments. The Management is highly focusing on the good transport segment. And there will be lot of expansion in this segment going forward. Our focus is more on a volume growth. And once volume growths are happening at the expected level, definitely we can maintain EBITDA margins. And currently our expected EBITDA margin is around 16% or so, and this may improve around 50 basis point or up to 100 basis points in the next quarter on account of some of the key increase in the expenses in the Quarter 2, especially on lorry charges, or even on the front of the non-recognition of some of the revenues and incurring of expenses on unrecognized revenues.

So, going forward, our focus will be more on the volumes and branch expansion and only on the goods transport segment. Since we are having a proper infrastructure backup, we will not face any threat of scarcity of the vehicles or other parameters in the industry. And apart from that, since our customer base is widely spread, we are not depending on any product, even the slowdown in the economy or recession, if we are expecting definitely that is not going to impact directly on the Company.

So, definitely we are more focusing on the healthy growth, not just incur the losses and grow the business. We are growing healthy. That's what actually I want to give as closing remarks.

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