VRL LOGISTICS LTD

Since 1976

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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 7th November 2023 for your information and records. This information is also available on Company's website on below link:

https://www.vrlgroup.in/investor_download/Investor_Meeting_on_07_11_2023_Transript

You are requested to kindly take note of the same.

For VRL LOGISTICS LIMITED

ANIRUDDHA ANIL PHADNAVIS
Digitally signed by ANIRUDDHA ANIL PHADNAVIS
Date: 2023.11.09 14:42:46 +05'30'

ANIRUDDHA PHADNAVIS
COMPANY SECRETARY & COMPLIANCE OFFICER

PLACE: HUBBALLI
DATE: 09.11.2023

“VRL Logistics
Q2 Earnings Conference Call”

November 07, 2023

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

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

Moderator: Ladies and gentlemen, good day and welcome to the VRL Logistics Q2 Earnings Conference Call hosted by Motilal Oswal Financial Services. As a reminder, 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. Thank you and over to you Sir!

Alok Deora: Good morning everyone and welcome to the 2Q FY2024 earnings conference call of VRL Logistics. So we have with us today Mr. Sunil Nalavadi, the CFO of the company. I would now hand over the call to Mr. Nalavadi to give opening remarks and discuss on the performance of the company and then we can take the Q&A session. Thank you and over to you Sir!

Sunil Nalavadi: Yes thank you Mr Alok. I am Sunil Nalavadi here, CFO of VRL Logistics. I once again welcome all of you for Q2 earnings call of FY2024. Just to highlight about the results during the quarter the revenue has increased by around close to 9% from Rs.656 Crores to Rs.715 Crores on a year-on-year basis. The increase in revenue is only on account of growth in tonnage by around 8% and the tonnage has increased from 9,66,000 tonnes to 10,47,000 tonnes. The increase in tonnage again the main reason is on account of increase in the branch network of the company. Year-on-year we added around 120 branches and these branches have contributed around 4.45% of the total tonnage in Q2 of FY2024. Our strategy of expansion of branch network is going to be continued and planning to add around 25 to 30 branches every quarter, especially in untapped market. Apart from the expansion in branch network the contribution from the existing customers also supporting for our growth. Further we are acknowledging that many of the customers are shifting from unorganized operators to organized operators on account of increasing compliances under GST law. On the other side due to delay in onset of festive season in the current fiscal by a month has resulted into lower demand of cloth and textile materials in the current quarter. The year-on-year contribution of these commodities declined in the current quarter and we are expecting that this is going to benefit us in Q3 which covers most of the festive seasons of the year. The barcode and QR code system is stabilized and working smoothly across our booking and delivery processes of the consignment. During the quarter the relation per tonne is maintained at around 6,680 per tonne. Since the freight rates predominantly linked with the retail fuel rates in India and the fuel rates are constant we are unable to increase the freight rate. When it comes to EBITDA it has increased from Rs.95 Crores to Rs.98 Crores and the percentage of revenue is decreased slightly in the current quarter. The year-on-year EBITDA benefited due to decrease in average fuel procurement cost from Rs.89 to Rs.87

per liter. The decrease in diesel cost is also due to increase in bulk purchase of fuel from the refinery at a discounted price. The purchase of fuel from the refinery as a percentage to the total quantity has increased from 1.7% of the total quantity to 30.41% of the total quantity. However the overall cost of diesel is increased due to addition of own vehicles and increase of their kilometers in overall kilometers operated by the vehicles. Similarly the vehicle repair and maintenance cost, toll charges and tyre cost are increased due to addition of old vehicles and increase in kilometers operated by these vehicles. The increase in these cost has been compensated by decrease in lorry head charges by around 3% to the revenue. The lorry head charges have been reduced on account of low dependency on higher vehicles in the current quarter. The toll charges further increased due to increasing toll plazas from 1,182 to 1,285 toll plazas and also due to increase in toll rate. The loading and unloading charges also increased on account of increase in freights resulted into increase in variable cost and impacted on the EBITDA margins. The rent expenses which is fixed in nature has increased due to increase in number of branches and increasing space of majority of branches and transshipment materials during the current quarter. We increased the space in key location considering our expected growth in tonnage for the subsequent period. The same is resulting into lower utilization of space in the current quarter and impacted on EBITDA margins. The employee cost increased in the current quarter because of annual increments effective from September 2023 and also increase in manpower and internal promotions to the staff. The EBIT of goods transport segment is reduced in the current quarter only on account of increasing depreciation and the depreciation and amortization cost has increased. One is on account of increase in capex and second thing is on increase in the right of used assets as per Ind-AS 116 that is accounting of rental expenses on a long-term lease agreement entered for enhancement in major branches and transshipment space. The finance cost also increased in the current quarter on account of one is increase in the debt and second one is again amortization of rental expenses based on the Ind-AS 116 accounting policy. This has resulted into further reduction in profit before tax and again that impacted on the reduction of profit after tax in the current quarter. Similarly **5:50 audio cut** also the revenue of GT segment increased by around 5% and mainly on account of increase in the tonnage and moreover realization is constant because again the realization is mainly linked to the retail fuel price in India so the retail fuel price has not changed much. We are unable to increase the rate. Just I want to highlight that during the quarter we invested around Rs.112 Crores in the capex predominantly for addition of vehicle and on account of this the net of debt of the company reached to Rs.280 Crores and it was Rs.193 Crores as on June 30, 2023. The increase in debt, one is an account of capex and also some internal cash accruals have been deployed for payment of final dividend of the company. Going forward as a reference I would like to mention here that in October we reached a tonnage growth of 16% year-on-year basis and the cloth and textile materials alone has grown by around 45% which is a major commodity we are handling. If we do this kind of a growth for the remaining period of the year that will support to increase the EBITDA margins at around 15% to 16% levels. We have taken a call to increase in freight rates by around 5% to 10% of contractual customers from December and their contribution is around 20% to the total tonnage. Our network expansion is going to continue and there is a lot of scope to increase our branches especially in East and North and West zones of India. These steps are giving us to support increase in revenue growth in the coming period. Further on the expenses side the rent expenses is fixed in nature and impact of these expenses is much higher in the current quarter due to lower utilization of the space. The same space and rent expenses is going to suffice the requirement of space for the enhanced tonnage growth in the future. The percentage of these costs may reduce going forward and support for increase in EBITDA margin. The increase in employee cost from September 2023 is going to remain constant at least for a one year period .The impact of these expenses is much higher in the current quarter due to tonnage growth is not at expected level. The same expenses as a percentage to the revenue will decline once we have reached the volume growth by around 15% to 16% for the remaining period of the year. Similarly the increase in depreciation and interest in the current quarter is fixed and periodical in nature and these costs will not increase in proportion to the increase in revenue and will support improvement in EBITDA and PBT margins going forward. With this I will conclude my initial remark and I request participants to open for question and answer session.

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

Amit Dixit: Good morning everyone and thanks for the opportunity Sir. I have two questions. The first one is on the contribution of new branches to tonnage? While you have indicated that they contributed 4.48% to total tonnage if you can also highlight their contribution in terms of revenue and EBITDA if possible that would be helpful?

Sunil Nalavadi: No we do not have that, the revenue to realization will be more or less similar but when it comes to EBITDA level again we do not have branch wise EBITDA or something like that. It is a consolidated EBITDA number because most of the expenses we are incurring at a centralized level but these branches also say for example the minimum tonnage to reach a breakeven of new branches is around 100 tonnes per month. Once these branches reach to 100 tonnes then definitely it will contribute to EBITDA margins. Now whatever branches around 120 branches we opened in last one year so almost all branches are contributing more than 100 tonnes in a month.

Amit Dixit: Typically how much time it takes for these branches to reach 100 tonnes per month?

Sunil Nalavadi: See earlier around four to five years back if you see it used to take at least around six months sometimes one year period. Now that period has been reduced hardly around two to three months. In two to three months these branches are reaching to 100 tonnes per month.

Amit Dixit: Okay that is very helpful Sir. The second question is essentially on the overall guidance so now volume growth if you look at it and compare to last several quarters it was low and you mentioned again in your opening remarks that it is due to cloth and textiles? Now what is the volume growth that we could pencil in for the entire year FY2024?

Sunil Nalavadi: So next six months if we achieve around 16% growth then overall our growth in tonnage will be around 13% for full year, 13% plus.

Amit Dixit: So H2 would be 16% that is what you are saying and 13% or near above.

Sunil Nalavadi: Yes. This quarter what happened the cloth which is contributing almost around 17% to 18% of our tonnage which has grown a negative by around 3% because of delay in festival season. Actually negative by around 4.61% precisely and this tonnage has improved by around 46% to 47% in October alone on a year-on-year basis so definitely this momentum is going to be continued at least for **11:51 audio cut**.

Amit Dixit: Okay Sir got it. Thank you and all the best.

Moderator: Thank you so much. The next question is from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Thank you. So my question was related with the fuel expenses which has gone up quarter-on-quarter basis so are you looking to take any price hike to compensate it and how is the pricing environment right now?

Sunil Nalavadi: In India freight rates are mainly linked with the retail fuel price but since the retail fuel price is stagnant for more than one year period many of the customers whenever we go for a rate hike they refer only fuel price but having said that now for the contractual customers we have not approached even for the last more than one year period to enhance the rates. Now we have already decided to increase around 5% to 10% rates for contractual customers from December 1, 2023 so around 20% of tonnage is contributing by these customers so this is going to support us and this should take care of some of the enhanced expenses.

Abhishek: So most probably that in second half FY2024 we will see the some pressure on the margin because of the increase in fuel prices?

Sunil Nalavadi: No the fuel price if it increase immediately we can increase the freight rate across all customers. That is not at all an issue but apart from fuel rate whatever costs are increasing that is the customer acceptance on those cost is a little bit hesitant.

Abhishek: So how is the margin guidance for the second half FY2024 Sir?

Sunil Nalavadi: Yes if we grow by tonnage around 15% to 16% for remaining six months then definitely we will be back to at least around 15% to 16% margin on EBITDA level.

Abhishek: Okay Sir and my next question is on the geography wise revenue in the first half? Your North and West has been historically weak versus the other zones so what steps you are taking to increase your presence there?

Sunil Nalavadi: Most of these new branches which contributed around 4% to the overall tonnage these branches are situated at in the Eastern and Northern side of India and definitely the contribution from that is increasing but on overall terms it is not significant. Again even in current scenario the South is contributing almost around 40% of the tonnage and North and West is contributing around say 20% each and remaining 10% is coming from the Eastern part of the country.

Abhishek: Thanks Sir. That is all from my side.

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

Mukesh Saraf: Thank you for the opportunity. My first question is just looking at your sequential that is Q1 to Q2 movement in costs, the first question is regarding how the economics change between owned vehicle and hired vehicle? Obviously your lorry higher charges have gone down about 1.5% points but it seems like your vehicle running, repairs and maintenance, the tyre cost, lot of these other things are more than kind of compensating this benefit of lorry hire so is it just because we like initial days that you have just added vehicles and we should start seeing a benefit of owning vehicles rather than hiring or is there some other explanation to this Sir in terms of own versus hired?

Sunil Nalavadi: No basically what happened is own vehicle addition happened on a periodical basis in the sense it is not added on a first day so these vehicles are added during the period of the quarter and subsequently that benefit is going to come in next quarter now.

Mukesh Saraf: Right so the actual benefit of these own vehicles will only come in now is what we should think like?

Sunil Nalavadi: Yes so these are added gradually, but as and when tonnage comes actually we engage outside vehicle also and sometimes we have to do maintenance of the remaining own vehicles and other things. Since the capacity is available as on September 30, 2023 that benefit is going to come in Q3.

Mukesh Saraf: Right understood that and secondly on growth you did say that October has been very strong at 15% plus growth even if we kind of assume that the second half is going to be closer to the 15% mark we land at just below 13% kind of a growth rate 12.5% to 13% so this seems to be slightly lesser than what I think we were looking at? I mean our guidance was slightly higher than this especially given the move from unorganized to organized, etc., so even adjusting for this festive change versus last year the growth seems to be slightly lower? Is there and are you seeing some weakening in terms of demand trends or are you also going to be changing some of your vehicle procurement plans because this growth is slightly lower anything that you could talk on this?

Sunil Nalavadi: Yes see basically what happens if you see on an overall economic level there are certain lower demands in certain sectors. See one is the cloth is impacted because of the festival in the current quarter. Apart from that on a full year basis if we take most of the commodities which are linked to agriculture and rural economy there is some slow down. Basically it may be the agro related pesticides that movement actually we have grown hardly around 7% whereas some of the rural say for example consumer durable there also we are having some low growth as compared to the overall average growth of the tonnage so on account of these reason the key reason of lower of these demands is on account of staggered monsoons, monsoons are not equally good across the country. That is also another reason why the lower demand is and especially if you take Karnataka which is major contribution from our tonnage. In Karnataka there is a lower demand because of the low monsoon in the current year. So this has impacted on overall basis of reduction in tonnage at least around 2% to 3% on an overall basis, but whereas rest of the things for example branch network expansion we are doing and continuously we are doing a aggressive marketing across all the sectors and not only that about the vehicle utilization part, about the movement of the goods and everything we are concentrating and monitoring it, but sometimes because of these external factors on an overall basis around 2% to 3% decline than the expected level in tonnage growth and because of this the vehicle procurement again that will be staggered and whatever we plan for this current year some of the vehicle addition may shift to next financial year.

Mukesh Saraf: Okay so is it fair to assume that what we have done in first half will be for the full year or you will still see some addition of vehicles?

Sunil Nalavadi: There will be lesser addition in the second half year.

Mukesh Saraf: Okay got that Sir and just one last thing on fuel procurement from refineries, I think last quarter you had mentioned that because you are adding two new pumps it can go to 40% plus but it seems like we still at that 30% to 31% procurement from refineries so I mean the reason why this is lower Sir?

Sunil Nalavadi: No one is see that two additional pumps have not yet started. In Delhi it will commence shortly but in the other side what is happening because of the war situation the Israel war and other kind of things the crude oil prices have been increased so because of this reason what is happening the bulk purchase price has been increased and it has impacted in the September and same is continued in October also, so there will be some lower procurement going forward on this bulk purchase.

Mukesh Saraf: Okay so it will remain at this 30% to 31% for now until the bulk purchase prices kind of come down?

Sunil Nalavadi: Yes.

Mukesh Saraf: Right Sir thank you so much. I will get back in the queue.

Moderator: Thank you so much. The next question is from the line of Panni Raju an Individual Investor. Please go ahead.

Panni Raju: Namaste Sir. My name is Panni Raju from Andhra Pradesh. Sir I have a question, I noticed that the EBITDA margin for September 2020 is 20%, September 2021 is 18%, September 2022 is 14% and now September 2023 is 13%? Every September the EBITDA margin has been decreasing? May I know the reason?

Sunil Nalavadi: No in the first initial September what happened you referring September 2021 also. During that period see the economy is revamped immediately after the COVID period and on account of that suddenly there is a growth in tonnage. If you see the tonnage growth during that time we reach almost around 20% plus tonnage growth so that will result into reduction of the fixed percent margin percentage is as a percent to the revenue so on account of those things actually the margins have been improved. Now what is happening it is standard operating across all the years so there is no sudden growth. It is a gradual or normal growth happening across the year. During earlier those periods if you see there is a sudden demand in the tonnage. There is a sudden growth in tonnage. On account of that there is a good kind of EBITDA margin. That is the only reason.

Panni Raju: Sir but every September is same results EBITDA is down?

Sunil Nalavadi: See this September we are having a reason because we enhanced most of the spaces rent expense has increased and employee cost is increased on account of annual increment. Actually that was due in April itself but we staggered till September. From September actually we effected the annual improvement. Again it has impacted on the EBITDA margin and I said again because of the variance in the festival season also so once in four years this issue will be there. Now last year the Diwali and all festival were due in the September itself. Now it has been pushed to November this year so again the demand of certain product has been pushed for one month.

Panni Raju: I think I expect best EBITDA margin coming up?

Sunil Nalavadi: Yes actually see we are taking a lot of steps on that front. One is we are focusing more on increase in the tonnage. Basically we want to increase the volume because that will support to reduce the percent of fixed expenses as a rate to the revenue and that is the reason actually we are expanding the branch network and apart from that wherever possible actually we are increasing the rate say like contractual customer rates we are increasing and as I told earlier even because of the stagnant of this fuel prices for more than one year that is another reason that we are unable to pass on other increase in cost say like toll tariff increasing and loading and unloading charges increasing but we are unable to pass on these costs to the customers because always customer refer only fuel rates and they will not consider increase in other cost.

Panni Raju: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ankita Shah from Elara Capital. Please go ahead.

Ankita Shah: Thank you for the opportunity. Sir would you help us understand on the capex now how many trucks are we planning to add in this financial year and what could be the capex for FY2024 and FY2025?

Sunil Nalavadi: Yes now in half year we incurred almost around Rs.200 Crores so out of the overall plan of around Rs.200 plus Crores in the current year so we may invest another Rs.120 Crores to Rs.150 Crores capex in the next six months and for the next year at least around Rs.200 Crores to Rs.250 Crores annual capex will be there for FY2025 and in FY2025 if we plan to use the surplus money of our cash flow for is our purpose is to repay the debt and apart from that if debt level is reduced substantially then we may plan to add one or two property the transshipment hubs. Only after in FY2025 or FY2026.

Ankita Shah: What would be the average cost for a transshipment hub?

Sunil Nalavadi: That will cost at least around Rs.80 Crores to Rs.100 Crores per hub. We may add around one or two hubs.

Ankita Shah: Okay any particular market that we seeing are where we need to have a transshipment hub present?

Sunil Nalavadi: No this is actually just wherever rental costs are on a higher side or wherever we are not getting a proper infrastructure there we are planning but we have not identified the places yet.

Ankita Shah: Okay so sir this first half we have added a net addition of around 100 to 111 vehicles so second half will be how many vehicles against that Rs.150 Crores of capex and next year?

Sunil Nalavadi: Around 400 vehicle we are going to add in second half 400 to 450 vehicle yes and the scrappage will be lesser in the second half. Basically most of the vehicles have been scrapped and whatever vehicles are running today these are running in a good condition and except some major accident or something otherwise these vehicles will operate for a full year and on a scrappage side again it is not a mandatory rule as of today so just we want to continue with the older vehicles.

Ankita Shah: FY2025 how many vehicles will be added?

Sunil Nalavadi: See again for Rs.250 Crores so each vehicle will cost around Rs.30 lakh. Around 100 vehicles you can say.

Ankita Shah: Got it. Sure that is it from my side. Thank you and wish you all the very best.

Moderator: Thank you. The next question is from the line of Rahul Soni from ICICI Bank. Please go ahead.

Rahul Soni: Thanks for the opportunity Sir. Sir just two questions mostly on the sector side so once this scrappage policy becomes mandatory what will be the impact on the sector and your company?

Sunil Nalavadi: Yes for us currently around 900 vehicles are more than 15 years as of today and as compared to the capacity it around 6% to 7% of the total tonnage capacity in our case, but in the market if you say or in the industry almost around 35% to 40% of the vehicles are more than 15 years, especially in the shorter routes. In long routes anyway because of the national permit the life of the vehicle is 15 years. There all vehicles could operate up to 15 years we can have a national permit but other than national permit category especially the vehicles which are operating within state and neighboring states there actually the maximum quantity of older vehicles are operating as of today, so there it will hit very badly on the market if it is a mandatory rule.

Rahul Soni: You mean on the smaller players the impact will be higher?

Sunil Nalavadi: Smaller players and even in our case for example we are operating good in southern states. Even we are expanding network. For us also where some of the local competitors as of today competing that competition will become very weak once it is a mandatory rule and there is a huge amount of scarcity of the vehicle will be there in the market and that will lead to increase in the freight rates since we are having a lower older vehicle that will benefit us to get freight rates on a higher rate.

Rahul Soni: But in the long term that will be also like a deterrent for new players also to enter in this?

Sunil Nalavadi: Sorry.

Rahul Soni: So this will also like benefit the bigger players like you?

Sunil Nalavadi: Yes but in India nobody is having their own vehicle with own infrastructure. Most of the operators are depending on the outside vehicle so the moment it will become mandatory there will be scarcity of the vehicles in the market. Then the vehicle hire charges are going to increase like anything but that risk will not be there for us.

Rahul Soni: Okay understand and Sir second question is on the impact after the DFC is operational so what kind of volume shift you are expecting from road to rail after the full operational of these DFCs?

Sunil Nalavadi: See one is our commodities are much different as compared to what DFC can carry because most of our commodities are parcels the small parcels which ranges from say 15 kgs to say like 30kg or 40 kg for a single article. That kind of commodity we are transporting and most say for example if the person sitting at Delhi he want to distribute his material across India then his distribution should be at least around 100 to 150 locations so we have to carry his goods from one location and segregate those goods in our transshipment centres. Then we have to arrange a load from say Delhi to different, different routes so such customers cannot depend on a DFC which is connecting only the Delhi to Mumbai route so basically the commodity what DFC is going to carry versus the customer nature and commodity what we are carrying are different so that impact will not be there on us.

Moderator: Thank you. The next question is from the line of Rohit Pawar from RV Investments. Please go ahead.

Rohit Pawar: Sir my question was what is the level of OPMs and revenue we are expecting in the context? What level we are ready to take a hit on OPMs to reach preferred revenue levels?

Sunil Nalavadi: See one is as I told see once we reach at 15% to 16% growth in the tonnage definitely we can maintain EBITDA margin of 15% to 16% level so in the current quarter because of some of the shift of consignment to the next quarter and again overall decline in tonnage by at least around 2% to 3% on account of overall economic scenario that impacted on the margins so if we grow at a 15% to 16% tonnage in the remaining years then definitely we can see EBITDA at around 16%.

Rohit Pawar: Yes also sir the tonnage growth target was of 15% right so currently it is of 8% so when do we expect to reach the targets of 15%?

Sunil Nalavadi: See in our first half we reached on overall basis of around 10% growth in tonnage. See for remaining quarters we are expecting at least around 16% growth in the Q3 and Q4 so overall it will result around 13% growth in the tonnage. That 2% gap is on account of as I told you because of the lower monsoon or the periodicity of the monsoon is not accurate during the time. That is one reason and that may impact. On a full year basis that 2% gap will be there on overall basis.

Rohit Pawar: Yes Sir got it.

Sunil Nalavadi: When this is normalized and again we will back at least around 15% plus growth in the next year.

Rohit Pawar: Okay Sir got it. Sir my last question is the wind energy business was sold for Rs.187 Crores so which were to be used for the repayment of debt but now the debt has been increased so may I get the bifurcation for the spending accordingly?

Sunil Nalavadi: See Rs.197 Crores we realized in the last year itself and accordingly the debt levels have been reduced. Now what happened in the current year we incurred a capex of around Rs.200 Crores in first half year and that has resulted in increase in debt and apart from that we paid certain amount for the final dividend. That also is another reason for increase in the debt in the current half year.

Rohit Pawar: Sir the truck utilization percentage currently?

Sunil Nalavadi: Yes first half we are operating with 100% capacity up to hope there is around 60% to 65% utilization.

Rohit Pawar: Can we expect 80% in the coming future until when?

Sunil Nalavadi: The volumes growth again as I said always supports us. Some operational vehicle the turnaround time will increase and even hub to spoke capacity utilization from 62% it may go around 70% to 75% so always the volume growth will support. Even for the utilization and reduction in the overall variable and fixed cost so that is the reason we are more concentrating on the volume growth.

Rohit Pawar: Got it. Thank you. That is all from my side.

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

Mukesh Saraf: Thank you for the followup opportunity. I just had one question on the pricing that you mentioned 5% to 10% hike for contracts customers so would we kind of start seeing the benefit of the price hike from January or does this gradually come into effect through the next year for these 20% to 25% of your customers?

Sunil Nalavadi: What we are expecting now that exercise is already on. Some of the customers are accepting. We are not having a date, but some customers have accepted even for the November month also but the benefit will start from December.

Mukesh Saraf: Okay it will start and for the remaining 75% odd of your customers I think you took one general price hike last year so around April will there be a plan for a general price hike also? I think once a year or something you do plan to do?

Sunil Nalavadi: That we can plan and moreover again it is linked to the fuel rate what I have mentioned so if fuel rate changes then definitely we will take a call on increasing prices so in that case what will happen along with the increase in the fuel rate we can consider the increase in other cost also and increase the rate.

Mukesh Saraf: Yes because your general infra cost and your rental cost are all going up so hence the general price hike?

Sunil Nalavadi: Yes.

Mukesh Saraf: Okay so that is not going to happen immediately but it can happen after a few months is what you are saying?

Sunil Nalavadi: Yes.

Mukesh Saraf: All right Sir great. Thank you Sir.

Moderator: Thank you so much. The next question is from the line of Shivaji Mehta who is an Individual Investor. Please go ahead.

Shivaji Mehta: Thank you for this opportunity. Sir I had a question regarding these last two years since we have embarked on this journey to expand the branches in North and West so could you give an approximate contribution that these new branches that we have added in these locations in the last two years how much would they have contributed to the revenue?

Sunil Nalavadi: Yes see we gave the contribution in the tonnage by around 4.5% on an overall tonnage.

Shivaji Mehta: No but that is for the current quarter of the new branches or is it for all the new branches that have been added North and West for the last two years?

Sunil Nalavadi: No only it is on a year-on-year basis and quarter-on-quarter basis so for example year-on-year basis as compared to September 30, 2022 versus September 30, 2023 we added around 120 branches. These 120 branches have contributed around 4.5% to the overall tonnage.

Shivaji Mehta: Right it makes sense and Sir the last question from side is any split that you can give in the volume between say the EXIM volume versus domestic volumes?

Sunil Nalavadi: No most of the volumes is related to the domestic.

Shivaji Mehta: Right thank you. That is all from my side.

Moderator: Thank you so much. The next question is from the line of Nirav Seksaria from Living Root Analytics. Please go ahead.

Nirav Seksaria: Sir I missed you in middle could you also repeat the capex guidance for H2?

Sunil Nalavadi: For H2 capex you are asking.

Nirav Seksaria: Yes for H2?

Sunil Nalavadi: It will be around Rs.120 Crores to Rs.150 Crores.

Nirav Seksaria: Rs.120 Crores to Rs.150 Crores okay and Sir for the capex that you have mentioned in FY2025 it will be mostly through external borrowing or will there be some amount of internal accruals for it?

Sunil Nalavadi: Yes predominantly it will be from internal approvals but wherever there is certain shortfall then we go for a debt. See roughly on an annual basis we are generating around say Rs.350 Crores to Rs.400 Crores cash accruals. These cash accrual predominantly is used for capex plan. If overall and above if you declare some of dividend and some of the buyback we did in the last year so some accruals will be used for that purpose and for the purpose of capex we go for a debt but see if we do the dividend and all put together even if we spend around Rs.350 Crores to Rs.400 Crores in a year our debt level will not increase.

Nirav Seksaria: Okay and so is it possible that there can be some amount of scrappage in FY2025?

Sunil Nalavadi: Scrappage see what we decided now, we did a good amount of scrappage of vehicles in the last one to one and a half years considering that there is a scrappage policy which is going to be implemented or which is going to be mandatory. Now what internally we management has taken a call is let that policy to be a mandatory. Then only we will take a call on the scrapping of majority of the vehicle. Till that date whatever our earlier policy was there wherever major accident happens to the vehicles which we are unable to maintain again only those vehicles we are going to scrap. The numbers of vehicles which are going to be scrapped will be reduced in the coming period.

Nirav Seksaria: Sir you have also mentioned that 900 vehicles are 15 years and older so if the policy kicks in then the 900 vehicles will be scrapped together or it will be general over the span of FY2025?

Sunil Nalavadi: Pardon.

Nirav Seksaria: You have mentioned that 900 vehicles are 15 years older right?

Sunil Nalavadi: Yes.

Nirav Seksaria: So Sir if the scrappage policy kicks in, the 900 vehicles will be scrapped over a period of time or it will be like within H1 or H2 as such?

Sunil Nalavadi: See even in the policy what will happen even though they made it a mandatory. Say assume that April 1, 2024 so whenever these vehicles has to go for a fitness certificate only during that time they verify if these vehicles are unable to run then they will not issue a fitness certificate and then we have to scrap. That is what the rule is so it will take one year period gradually. Some some vehicles are due for a fitness certificate in April, May or June like that. It will not happen on a single day.

Nirav Seksaria: And Sir it is not compulsory that all 900 vehicles will be scrapped right?

Sunil Nalavadi: Yes. If it is mandatory then definitely we have to do and even other operators also.

Nirav Seksaria: Okay only if it is mandatory? If it is not mandatory there will be a fitness check of the vehicle post which it will be decided?

Sunil Nalavadi: Yes.

Nirav Seksaria: Okay thank you so much Sir.

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

Alok Deora: Sir just a couple of questions. Sir one is the shift in tonnage because of the festive season so if the differential was not there of the festive season days so what would have been the volume growth really for Q2 if you would have not seen the change?

Sunil Nalavadi: Now the cloth and textile materials itself has degrown by around 4.5% year-on-year. Now precisely it is a 4.61%. Even if it would have grown normally so our tonnage growth in the current quarter it should be at least around 12% plus.

Alok Deora: Got it and Sir there was this strike in Bengaluru last week of September any impact that had on the tonnage or not really?

Sunil Nalavadi: No it has not impacted much. You are saying this Cauvery issue.

Alok Deora: Yes?

Sunil Nalavadi: There is no much impact on it.

Alok Deora: Got it and just one last question? This net debt which is right now there since we are going now very slow on the capex so where do you see the net debt stabilizing now going ahead?

Sunil Nalavadi: See now as I said every quarter or every half year you say Rs.150 Crores to Rs.200 Crores cash flow will come in next eight months free cash flows and these free cash flows again as I said we are going to plan around Rs.120 Crores to Rs.150 Crores capex so these free cash flows are predominantly used for the investment in capex and over and above it is around some Rs.20 Crores to Rs.30 Crores reduction is possible as of March 31_.

Alok Deora: Got it but it will not increase in any scenario further?

Sunil Nalavadi: Yes. It will not increase.

Alok Deora: Got it. That is all from my side Sir. Thank you and all the best Sir.

Moderator: Thank you so much. I would now like to hand the conference over to the management for closing comments.

Sunil Nalavadi: Yes thank you all the participants for your patient hearing and basically as a closing remark just I want to highlight that this tonnage variance in the current quarter is on account of some of the specific reason, especially because of the festive season and because of some of the impact on certain sectors like agriculture and rural economic demand and the festive season again, it has been already recovered in the October that I already conveyed to you and based on that we are expecting that at least around 15% to 16% growth of tonnage in the coming six months so once we grow at a 15% to 16% then definitely our margins will improve and for this kind of a growth we have already incurred we have already planned for our expansion in area. We have already invested and incurred expenses about especially the godown and transshipment hub area what we required so these expenses may not be increase in proportion to the increase in revenue going forward so definitely based on that our margins are also going to improve so with this definitely again we will be back to our original EBITDA margin of around 15% to 16%. With these remarks actually I would like to to conclude this call. Thank you.

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