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To,

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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 31st January 2023 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: 01.02.2023



**“VRL Logistics Limited
Q3 FY2023 Earnings Conference Call”**

January 31, 2023



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

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

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2023 Earnings Conference Call of VRL Logistics Limited. 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 S. Deora from Motilal Oswal Financial Services. Thank you and over to you Sir!

Alok S Deora: Thanks. Good morning everyone and welcome to the 3Q FY2023 earnings conference call for VRL Logistics. 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. Thank you and over to you Sir!

Sunil Nalavadi: Thank you Mr. Alok. Good morning to all participants. I am Sunil Nalavadi, CFO of VRL Logistics Limited here. I welcome all of you once again for the earnings conference call of the company for the period ended December 2022. We are glad to inform you that as we strategized to focus on high growth goods transport business the exit from the remaining segment process has been completed as on date. We wish to inform you that the other key segments such as wind power business and bus operations business are discontinued and received the applicable relevant regulatory approvals. Since the said approvals have been received in the month of January 2023 the profit on sale of these businesses will be accounted in Q4 of this year. As mentioned in the press release the profit before tax on sale of these businesses is to the tune of Rs.187 Crores that is from wind power business it will be around Rs.10 Crores and for bus operation business it will be around Rs.177 Crores this is profit before tax. The company has received the consideration on these sales transactions as on date and predominantly used for the repayment of debt, capital expenditure and also we invested around Rs.50 Crores in mutual funds to take care of related tax expenses on these transactions and which will be paid prior to the due date. We wish to say that the net debt of the company stands at Rs.46 Crores as of December 31, 2022 and it was around Rs.130 Crores during the beginning of this financial year and as of Q2 end it was around Rs.164 Crores. If we consider investments in mutual funds we are debt free as of today.

With respect to the performance of the business is concerned the performance of the goods transport business was better than the expected level in the current quarter. The revenue from goods and transport segments is increased to Rs.675 Crores from Rs.596 Crores on a year-on-year basis. The increase in revenue is mainly on account of increase in tonnage which has been reached to 1010000 tonnes in the current quarter as against 877000 tonnes in the previous year which is increased by almost around 15%. We wish to state that our average daily tonnage handling has been reached to 10900 tonnes in the current quarter. The

increase in tonnage is on account of increase in the branch network by the company. We added around 218 branches post pandemic and these branches have contributed around 12% to the total tonnage in Q3. Our strategy of expansion of branch network is going to be continued. I am planning to add around 25 to 30 branches every quarter especially in the untapped market. Apart from the expansion in branch network we are acknowledging that many of the customers are shifting from unorganized operators to us on account of increasing compliances under GST law. Some of the sectors have grown tremendously in the current quarter, to name a few the agro products and equipments these commodities have been increased by around 47% on year-on-year basis, the automobiles has been increased by around 25%, the educational goods related items which is increased by around 31%, FMCG products are increased by around 23%, footwear is around 36%, and metals and hardware around 28%. Further we wish to inform you that the turnover limit for e-invoicing requirement is further reduced to Rs.10 Crores to the business entity from October 1, 2022. This will force the many business entities to fall in compliance networks which is going to support us in the process of shifting of clients from unorganized sector. Considering the stagnant or little dip in realization we have increased the freight rate by 5% on non-contractual freight business which is contributing almost 60% to 65% of the tonnage and this rate increase we did from mid of December 2022. This will support us to increase the realization and pass on the increase in cost to the customer to maintain the better margins in the coming days.

When it comes to EBITDA margins of the goods transport segment we are again back to the normal EBITDA in the current quarter. We have reached to 16.5% EBITDA. The year-on-year EBITDA is impacted on account of increase in fuel cost. As we informed earlier the bulk purchase of diesel from the refineries has stopped from February 2022 due to abnormal increase in the cost as compared to the retail price and it impacted an additional cost of Rs.2 per liter we used to save earlier. We wish to state that currently on account of reduction in crude oil prices the bulk purchase diesel prices are in line with the retail prices and again we started to buy the bulk fuel from the refineries from mid of December 2022. As of today we are procuring 30% of our requirement say approximately 80000 liters per day from the refineries as compared to the total fuel requirement of around 250000 liters per day. The lorry hire charges also increased as a percentage to the revenue as compared to last year it was around 8.63% in the last year which has been increased to 10.2%. This is mainly on account of engagement of more outside vehicles and increase in the kilometers of higher vehicles and also the lorry hire charges per kilometer have been increased. The toll charges also have been increased as compared to last year. The percentage to revenue has increased to 7.42% from 5.98%. The increase in toll rate is one is increase in toll price from FY2022 around 5.6% not only that if we compare the toll plazas across India last year this number was around 867 numbers now the toll plazas in the country increased to 1204 numbers so

on account of this the toll charges are continuously increasing. The loading and unloading charges also increased from 5.9% to 6.56% is only on account of increase in the rate to the loading and unloading labors. The employee cost also increased from 13.76% to 14.45% this is on account of annual increment effective from the month of January 2022. Against these expenses increase the vehicle repairs and maintenance cost has been reduced this is on account of increase in the kilometers covered by the new vehicles so on account of that the vehicle repairs and maintenance as a percentage to the revenue has been declined. Similarly in the current quarter the revenue from goods transport segment is increased by around 4% and EBITDA margins we reached again from 15.5% to 16.5% almost 1% there is improvement in the EBITDA margin in the current quarter. This is mainly on account of one is the decrease in the diesel cost around the 0.33% diesel cost has been decreased and similarly the vehicle running and repair expenses have been decreased. The tyre cost is also decreased. The employee cost which is mainly fixed in nature this also has been reduced. So with this and considering the expansion plan in terms of expansion of branch network, shift of customers from unorganized to organized players and increase in the fleet size we are very much confident that our growth plans or the growth rate what we are maintaining today will be continued going forward. On margin side also since the bulk purchase of fuel has already started and also we increased the freight rates on non-contractual freight which is almost around 60% to 65% of the total tonnage from mid of December these two factors are going to help us to increase the margin side also and pass on the increase in expenses to the customers so we are hoping that there will be further improvement in EBITDA margins in the coming quarters. With this I conclude initial remarks. Now I request to the participants to have any questions or give more clarifications if any doubts. Thank you.

Moderator:

Thank you very much Sir. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We have the first question from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf:

Good morning and thank you for the opportunity. My first question is on the volume growth? You have mentioned that 12% of the volumes this quarter have come from the branches that you have added last year and this year which is about 218 odd branches so I was just wondering given that we have reported a 15% volume growth and one profit is coming from the branches that we have added is 218 branches and we have like 1000 plus branches so it seems like the growth is not so much in the remaining 800 odd branches so could you give some sense about why the growth is just may be a couple of percent 1% or 2% growth less in those other branches, is there still some kind of competition there or what exactly is happening there?

Sunil Nalavadi: So basically this 12% how we are computing is it is from both sides booking as well as delivery happening from these branches and connected with the existing branches. The reason why we are putting at 12% is we assume that if these branches were not there even the existing booking branches were unable to contribute to this business that is point number one and point number two is even many of the existing customers are using our network to increase in the tonnage that is also another reason and if you see on a one side basis if we consider the net increase will be around 6% the remaining all again it is from the existing branches also. In our operations how it will happen it is connected both booking and delivery offices.

Mukesh Saraf: Right so this tonnage that you report for the quarter like million tonnes that are reported that is one side only that is not like both sides?

Sunil Nalavadi: Yes.

Mukesh Saraf: Okay so actually the 12% is not a comparable number?

Sunil Nalavadi: Yes.

Mukesh Saraf: Right and my second question is relating to pricing I think the previous quarter also generally your commentary suggested that your focus is going to be more on growth and you might not actually look at price hikes but now in December we have taken price hikes of 5% for the non-contractual customers so is there some change or do you see competition increased (inaudible) 13:25 so what has led to this price hikes which was earlier not envisaged?

Sunil Nalavadi: No basically what happens this expansion plan we are doing now after the pandemic which is almost more than a year now and necessary the volume growth is also happening what we anticipated actually the growth is much better than that, so at this scenario considering the growth as per our plans the tonnage is going at our plan so at this moment we thought that why cannot we pass whatever additional expenses are we are incurring these are all mainly the variable costs like toll charges and other expenses say like lorry hire charges why cannot we pass it on to the customers that is the thought process and accordingly we take a decision of increasing the 5% rates.

Mukesh Saraf: Okay so this 5% will entirely accrue towards it is not like there will be some additional discounts, etc., this 5% will flow through in terms of realizations for us?

- Sunil Nalavadi:** Yes definitely and wherever in next quarter again we open around 25 to 30 branches. In the December quarter also we opened around 30 so these routes wherever we are incurring there actually there will be some competitive price but not across all the routes.
- Mukesh Saraf:** Okay understood and just one last one very quickly. Last quarter the margins were impacted because there were some goods in transit where the cost had been accounted for but revenue is not and so this quarter that has got normalized Sir that cost and revenue that mismatch?
- Sunil Nalavadi:** Yes it is normalized. As I indicated the margins on account of that say around 40 to 50 basis points so that has been normalized in the current quarter.
- Mukesh Saraf:** In the current quarter got it. Right Sir thank you so much. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.
- Harsh Shah:** Good morning Sir. Sir if I look at your lorry hire charges it has been consistently increasing so you have also mentioned in your presentation that cost per kilometer is also increasing so on one hand until now you took a price hike in December but up until now we were not able to take a price hike but the lorries which we used to hire they were able to take the price hike with us so how will you explain this sort of dichotomy?
- Sunil Nalavadi:** No about increase in freight rate this was our internal strategy since we were into more of expansion mode and to acquire many of the new market and new customers that was our strategy not to increase the freight rate it was nothing to do with the market whereas on the other side since the fuel rates increased and the costs of toll charges have increased so these lorry owners continuously they have increased the rates and the lorry hire charges rates are increasing, now to take care of these increases again we also take a rate hike in the mid of December we increased around 5% rates on a non-contractual customers.
- Harsh Shah:** While you have guided that we will continue to increase the number of branches what would be the guidance on vehicles will we be adding more vehicles or this lorry hire charges will continue to stay where it is right now?
- Sunil Nalavadi:** Now if you see on quarter-on-quarter basis the lorry hire charges is stagnant so at this stage actually it will not increase beyond this level it will be around say 10% to the revenue.
- Harsh Shah:** If I have to compare your own vehicle versus lorry vehicle what would be the margin differential where would we be making higher margins?

Sunil Nalavadi: Higher margins obviously it will be in the company owned vehicles because our vehicles are built as per our requirement. We are having lot of advantages in our own vehicles. One is on account of size of the vehicles, we carry more load in our higher vehicles, not only that we are having effective cost controls be it fuel price, be it driver payments and even the maintenance costs. These all costs are very, very controlled expenses in our own operations but these things we do not have control on outside vehicle. Outside vehicle diesel is going to increase as whatever he wants. The drivers actually cost is going to increase and apart from that the vehicles they will not maintain properly that will be additional cost for them and even the size of the vehicle the structure of the vehicles are not as per our requirements but that is the reason actually we focus more on addition of our own vehicles rather than depending on the outside vehicles but it is under these circumstances since the tonnage is expanding beyond our capacity expansion so we need to depend on the hired vehicles until we increase our own capacity.

Harsh Shah: That is what I was coming to since we are very confident about 18% to 20% volume growth for next say two to three years why have not we been aggressive on adding our own vehicles as well?

Sunil Nalavadi: No we are very much aggressive now. In the current year itself we plan to add around 1600 vehicles out of that around 800 plus vehicles have been already procured the remaining 800 vehicles are going to come before September. Moreover see 100% we cannot own and operate. Sometimes what will happen there will be change in the demand supply, some seasonality will be there, beginning of the month there will be less load, end of the month or quarter end there will be substantial demand, so considering all these factors we are very cautious on increasing our capacity also so with these all matrix we will analyze it properly, we will have to study route wise analysis and route wise demand also. Sometimes what will happen there will be sudden demand during festivals and all there will be huge demand from Surat and the remaining route but there will not be return route to Surat. All these vehicles have to come empty to Surat we cannot run empty again it will impact on the margins so considering all these parameters we will add our capacity. To see that our vehicles should be used at the optimum level and wherever excess demand will come excess tonnage we are going to handle that has to be handled through outside vehicle only.

Harsh Shah: Just one last question pertaining to buybacks will the promoters be participating in the buyback?

Sunil Nalavadi: Yes promoters are participating and the size of the buyback is around Rs.61 Crores. This buyback is again just to have a clarity this is only to the alternative to the dividend because of the effective tax structure. Every year we are paying the dividend now this buyback is an alternative to the dividend payout.

- Harsh Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.
- Ritesh Poladia:** Thanks for the opportunity. Sir just want to understand the realization per tonne of Rs.6649 what would be the average distance covered in this?
- Sunil Nalavadi:** The average distance we are not monitoring and this is across all the routes because we are handling the multiple routes. In a state alone every city is covered and every town is covered and like this if you cover the entire states there will be huge number of routes so we do not have that average kilometers concept.
- Ritesh Poladia:** But Sir pricing is always on per kilometers per tonne basis right?
- Sunil Nalavadi:** No it is not so it is always on a route basis.
- Ritesh Poladia:** Sir the other question is when we say that the company does about 11000 tonnes per day and your carrying capacity is 80000 per day so is it that your goods from point A to point B average days covered would be something like five to six days?
- Sunil Nalavadi:** Yes average that is the case and again we have to consider some of the maintenance some capacity will be hired for maintenance, the loading and unloading factors, and all these parameters we have to consider.
- Ritesh Poladia:** Okay that is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Ash Shah from Elara Capital. Please go ahead.
- Ash Shah:** Good morning. Congratulations for a good set of numbers first question was do the contracts that we have the 25 portion do they have a price hike clause and if yes then when do we see freight rate increase on those also?
- Sunil Nalavadi:** Mostly contracts are having the price escalation clause but it is related to only the fuel rates. If we increase in other costs are not part of these contracts only when the fuel escalation will be there of fuel increase or decrease accordingly those prices will change but if you see in the last one year the fluctuation is there but again it is very temporary. Again there are reduction in excise duty and if we see the Q2 versus Q3 there is a stagnant in diesel price but in spite of that there are increase in other expense which we were unable to pass even on

a contractual this one but these contracts are renewable once in a year. At that moment other than the fuel escalation we will consider increasing the freight rates as and when these contracts are due for renewal.

Ash Shah: So will that also be five portioned or will it be dependent on the client-to-client?

Sunil Nalavadi: Yes it depends on the client, it depends on the tonnage what they are contributing, and it depends on the routes also there they are contributing.

Ash Shah: The second question was that earlier last quarter we were focusing more on the volume growth and we were not focusing much on the freight rate increase and with the EBITDA margin cap of lower of 15% so has that stance changed right now so will we focus more on margins or how will it go ahead?

Sunil Nalavadi: Absolutely that stand has not changed. If you see the volume growth is continuously going to increase and the volume growth is basically the expansion of our network and expansion of our branch network, capacities and all these that actually anyway we are doing and apart from that I mentioned very clearly that wherever we are entering into the new market and new customer obviously we have to offer a competitive rate. At that time again there will be the lesser realization in those routes but in the rest of the routes wherever established, wherever we are not facing much of a competitions and those routes and those customers the rates have been increased. It is nothing to do with the increase in the tonnage versus increase in the freight. That increase in tonnage the enhancement in the capacity those plans are going to continue even going forward.

Ash Shah: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: Good morning Sir. Congratulations for a good set of numbers and thanks for taking my questions. Just two questions from my side. The first one is on the fleet size so is there any specific target you have for addition in fleet and what category are you focusing on in terms of fleet size and addition, also is it possible to let us know the relative profitability of your fleet tonnage wise if you have that which category is more profitable than the others that is the first question?

Sunil Nalavadi: One is about the vehicle addition as we explained our capex plan earlier we ordered 1600 vehicles in the beginning of this current financial year out of this already 800 plus vehicles have been procured and the remaining vehicles are going to be added in the next six months

and the category of the vehicles largely it will be in the range of 15 tonnes to 25 tonnes in that category and there are some smaller vehicles also but predominantly it will be around 15 tonnes to 25 tonnes in that category because these vehicles we are mainly using for hub-to-hub operations and there actually we want to add more capacity and there actually we are engaging more of outside vehicles also and when it comes to your second question was?

Amit Dixit:

Relative profitability if it is possible to share with us which category?

Sunil Nalavadi:

The product wise profitability we do not have those workings. Always we do a route wise how that particular route, what is the rate and how the realizations are there and what is the net actually we are seeing out of it but we do not have a product wise calculation of the profits. In a single vehicle we carry multiple goods. For example when it comes to Mumbai in a particular branch if you take say Bhiwandi or Musjid Bunder or any particular branch there actually the branch person will accept the goods as per our rates based on the weight as well as the square feet so depending on the size of the material and depending on the weight of the material the rates have been fixed irrespective of the commodity whatever nature it is he will book accordingly so it will not be product wise.

Amit Dixit:

So just a followup on this you said 1600 vehicles this year is it a similar target every year you are planning to go ahead from 1000 to 1500 or something like that is it possible to give a longer term target per year addition of vehicles that you will do?

Sunil Nalavadi:

Yes definitely now this is our plan till September so again in Q2 of the next financial year again we will revisit on our capex plan and based on that situation how the market is turning, where actually we have already established, and how the tonnage is contributing accordingly again we will define our capex plan and even in the past if you see always it will be around 85% to 90% always our own capacity we are using in our business that trend is going to continue even going forward.

Amit Dixit:

The second question is on procurement cost of diesel it is a book keeping question if you can let us know the procurement cost of diesel in this quarter versus the last one?

Sunil Nalavadi:

Q2 versus Q4 it is almost around Rs.89 to Rs.90 and even in the last year also it was similar so in the range of around Rs.80 to Rs.89 but here what happened in Q2 and Q3 of this year we were not having the bulk buses around 40% to 45% of procurement we used to buy from the refinery in the last year December. That opportunity was not there in the current year from Q1, Q2 and Q3 because the government has withdrawn subsidy on the bulk purchase and the rates have been sometimes around Rs.25 to Rs.26 the bulk fuel was costlier than the retail fuel rates. Now what happened because of the reduction in the crude oil prices now again these prices are matching now so the bulk purchase prices are similar to the retail

price, if we buy from the refineries then we will save around Rs.2 per liter that we started now.

Amit Dixit: Okay understood. Thank you and all the best.

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

Rakesh: Thank you for the opportunity Sir. Just one question on your capacity so based on the capacity plan what you have now how much volume growth is possible next year and the year after that?

Sunil Nalavadi: No again I want to clarify to you the capacity ownership and the increase in the tonnage both are independent. The tonnage increase always depends on our increase in the clients, increase in the branches, and increase in the networks like that. As and when the increase in tonnage happens accordingly we increase our capacity so in the current scenario since the increase in the tonnage is more than the capacity increase what we are doing that is why these outside engagement of outside vehicles are increasing but going forward we are very much confident that the current trends are going to continue and even in the next financial year we are expecting around 20% growth in the tonnage. That is possible based on the current plan what we are doing.

Rakesh: So this 20% tonnage growth based on the capacity addition what you have will the composition of your outside vehicle requirement will go down or will that remain the same the reason I am asking is this will have a bearing on your EBITDA margin right because we own the truck, the cost actually goes through your depreciation and interest line but whereas when you hire the truck from outside it goes from your EBITDA so just wanted to get the equation right that what is the right way to sort of look at for the next two years margins considering you are in a high growth tonnage phase and the certain plants hire vehicles from outside also?

Sunil Nalavadi: Our plan is very clear. We want to grow the tonnage at around 20% and accordingly the capacity is also going to be increased. Because of some temporary period there is increase or decrease in the lorry hire but it will not increase more than 10% to 12% to the revenue, so we will maintain EBITDA also.

Rakesh: Is it fair to say that if the tonnage continues to grow at let us say 20% then the contribution of the cost from outside vehicles will remain in the range of 10 to 12% would that be a right understanding of the economics how your P&L is working currently?

- Sunil Nalavadi:** Yes.
- Rakesh:** If the tonnage growth were too lower so let us say if tonnage growth comes down from 20%, so let us say 10% or 15% depending on economic situation how it pans out next year would that mean that our cost would go down in a similar proportion?
- Sunil Nalavadi:** Yes.
- Rakesh:** Secondly how much price hike we have taken during the last quarter and what is the benefit we will have in the P&L in the sense that how much of the cost we are taking in our P&L which is currently hitting and which we would recover going forward?
- Sunil Nalavadi:** So basically this price increase is on 60% of tonnage what we are handling today or 60% of the business on that we increase 5%.
- Rakesh:** So does that mean that all seems equal your margins should increase by 300 basis points?
- Sunil Nalavadi:** Yes see if cost is stagnant definitely that will be the additional EBITDA but again costs are increasing so we can see at least around 1% improvement in the EBITDA margin considering the increase in cost also.
- Rakesh:** I understood. One bit more on the margins so next year again we are talking about 29% tonnage growth how should we think about operating leverage in the business in the sense that probably would be let us say 17.5% margin if I go by your price hike commentary so from that 17% margin and you have a 20% tonnage growth what is the operating leverage that can play out for the margins to remain same or even go higher?
- Sunil Nalavadi:** Whatever the operational leverage will be there that actually we have to use for the expansion in the business. See wherever we enter into the new market obviously we cannot earn the equivalent margin what we are earning in the established market so on a net-on-net basis actually we are seeing that around 17% EBITDA level is maintainable.
- Rakesh:** Understood Sir. Thank you very much. Last one on the capex front so after this capacity expansion how much capex should we sort of think about as a sustainable capex in your business or would you keep looking for adding more trucks probably in next year also?
- Sunil Nalavadi:** Next year there are two, three developments here. One is about the scrappage policy still we are getting some clarifications from the government. It is a voluntary scrappage policy but every operator has to get a fitness certificate for the vehicles so how it is going to work going forward we have to see that is one and more than 15 years we are already having

around 1200 vehicles with a capacity of around 8 to 9% of the total capacity what we are having today so how that capacity is going to be used after the scrappage policy that is point number one. Point number two considering this expansion plan what is the capacity we require that also we need to work out but these are all more clarity we can give only in Q2 of the next year.

- Rakesh:** Understood Sir. Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.
- Vikram Suryavanshi:** Yes good morning Sir. I think most of the questions were answered but just to look at the fuel side one more opportunity we used to have was a biodiesel so how is the outlook on that front to save further cost or our biodiesel prices are still not attractive?
- Sunil Nalavadi:** Biodiesel again see some interactions are happening and currently we are using very, very low quantity and still there is a gap between this retail price and biofuel it is not economical but definitely considering the current fuel trend what is happening in the market if it goes down further then obviously there is an additional opportunity for us to buy or to use the biodiesel. Now it is not something which is materialized as of today.
- Vikram Suryavanshi:** Got it and this bulk purchase what we used to do that government has changed the tax structure or OMCs have changed the pricing to match with the retail price how is that basically turned out?
- Sunil Nalavadi:** No the government has not changed its policy but the bulk fuel prices are always linked with a crude oil price. Now what happens retail again the government intervention is there actually they can still control the retail price. See about bulk fuel just to have a clarity it is not a government regulated or something that is directly linked with a crude oil price. Since the crude oil price is continuously declining refineries are in a position to supply the fuel even to the bulk buyers which is more or less equivalent to the retail price so considering this opportunity now we started buying from the refinery. Since we are buying on a bulk basis actually we can save around Rs.2 per liter.
- Vikram Suryavanshi:** Got it so basically if goods remains low then probably at least on 35% of bulk purchase will continue to see that advantage at least for us?
- Sunil Nalavadi:** Yes.

Vikram Suryavanshi: Got it and last one we also used to add some electric vehicle in our plate particularly for last mile and sort so how is that addition we are looking going ahead?

Sunil Nalavadi: See as of now we are operating around 60 to 70 vehicles on a very, very small capacity and there also lot of these technology changes are happening so accordingly we are continuously focusing on those aspects as well so once these are definitely useful for us on investment side or even on the operating side if that is the case definitely we are going to add good number of electric vehicles but our continuous resource, analysis, everything is happening on all the aspects. It may be CNG, it may be electric vehicles and even we are working with some of the OEMs to convert the existing fuel diesel vehicles to the electric vehicles even we are working on those projects as well.

Vikram Suryavanshi: Got it and last question for me because if you look at our business is more on B2B side there might be very insignificant or low walk-in customers so when we say non-contractual what does exactly it mean?

Sunil Nalavadi: Even in B2B we do not have contract with the customer. See around say 40% what I mentioned with those customers we are having annual contract in that 25% is monthly billing and even some of the contracts are there in paid and to pay customers also, so on net basis around 60% of the customer we do not have any contract with them and those customers are B2B again.

Vikram Suryavanshi: Got it. Yes thank you very much.

Moderator: Thank you. The next question is from the line of Sanjaya Satapathy from Ampersand Capital. Please go ahead.

Sanjaya Satapathy: Yes thanks for the opportunity. My question is that you have mentioned that since you were going into newer locations newer network you are keeping your prices unchanged despite cost pressure so now that you have taken a price hike are you going to lose out on market share?

Sunil Nalavadi: After the analyzing all those methods only we decided to increase the 5% rate. Now to give more clarity on this see basically after the pandemic we are almost more than a year now from that date to till date we have not increased the rate and some of the routes have been already established even we opened new branches in the network those markets have been already established so considering these matrices or considering these parameters we took an increase in the rate hike. Now wherever again we are expanding wherever we are going for the new locations, new branches, new market henceforth again in those markets again we offer a competitive rate there again the realization will be lower, but that strategy again

it will be for a one year period or so, so once the market is established in those areas again we can take an increase in the rate hikes in those areas as well.

Sanjaya Satapathy: Understood Sir. If that is the case then you will be constantly adding your network in as much proportion as you have been this year and so the new routes will continue to be less profitable so considering that the mix will always remain somewhat like this then how will your margins improve?

Sunil Nalavadi: Before opening of these new branches just to give one more example if you see just year before our tonnage was almost around 25 to 30% lower than the current tonnage on that tonnage actually now whatever increase is there on the tonnage whatever the existing tonnage was also there on the entire tonnage we increased the rates so whatever the additional tonnage is going to come say 15 to 20% additional tonnage is going to come only on that tonnage the realization will be lower.

Sanjaya Satapathy: What kind of price difference is there between you and your competitor in new routes and old routes?

Sunil Nalavadi: Old routes again when it comes to comply transactions see definitely we are charging little bit premium to them. When it comes to non-comply transactions the other people are charging hefty rates it is just not at all comparable, two to three times more than our rates so that is why still they are in the market the most of the unorganized operators but that ratio is drastically going to come and it is coming down so that is how it is going to help us.

Sanjaya Satapathy: Understood and Sir last thing to understand is that this quarter your volume growth was about 13% odd so considering that there is kind of slowdown which we are seeing almost everywhere how is it that you are looking at sustaining 20% volume growth is that what I heard correctly?

Sunil Nalavadi: Yes. See the thing here is again we are highly diversified that is the plus point in our case. So dependency even the top customer contribution is not 1%. Even 10 top customers if you see it is not even 3% and even just I want to give one more information even if you consider the top route contribution it is hardly around 1 or 2% see that is a kind of diversity we are having it is highly fragmented. We are having 700 plus customers with all the sectors. If one side down another side will improve like this, so whatever the daily requirement to the Indian population we are carrying. If you slowdown the basic needs of the people the basic commodities that demand is not going to reduce.

Sanjaya Satapathy: That is true but Sir your growth was lower than this 20% which you were targeting in Q3. Q3 growth was some 13% odd right?

Sunil Nalavadi: Correct. Q3 is always a good quarter. Now what will happen this base will continue in Q4 and hence onwards so in Q4, Q1 if you see the last year those basis are small. So with this Q3 base definitely the percentage will be more in the coming quarters.

Sanjaya Satapathy: Very last question if you can just explain lot of your one-off transactions will get completed in Q4 including buses and power so can you give a sense like what would be your actual gross debt and net debt at the end of all this transaction getting over?

Sunil Nalavadi: See as of now including that investment in the mutual fund we are debt free as of today and going forward whatever new capex we are going to increase there actually we use our further internal accruals to meet our capital expenditure and little bit debt we may take but at debt level will not cross around 50 to 60 Crores at any point in time that is our view.

Sanjaya Satapathy: This is gross debt or net debt?

Sunil Nalavadi: It is net debt what I am saying and after this buyback also again there will be a change. See you can assume the debt levels will be always less than 100 Crores net debt.

Sanjaya Satapathy: Understood.

Moderator: Thank you. The next question is from the line of Keshav Bagri from VT Capital. Please go ahead.

Keshav Bagri: Sir my question is that the entire industry is moving on an asset light models and VRL Logistics is the only player which has a field size of around 5000 plus employees so this leads to depreciation being a major chunk in our expenses along with interest cost which leads to difficulty attaining double digit PAT margins so how do you see this playing out in the future like will we be able to achieve double digit PAT margins?

Sunil Nalavadi: No as I said our strategy is very clear. We will continue our operations with having our own infrastructure facilities (inaudible) 46:43 the vehicles that is going to continue. The depreciation yes there will be additional charge in the depreciation but always we more concentrate on the cash flows, the cash profit which is much, much better than as compared to other players in the industry so that is the reason this trend is going to continue. Around 90% of our operation we want to invest in infrastructure and operate that is very clear in our mind.

Keshav Bagri: My next question will be that we are in a time sensitive business so how do we plan to invest in automation of our hubs or we are planning to build some floating centers because it will help in reducing our turnaround time?

- Sunil Nalavadi:** Definitely we are continuously working on it and wherever on need basis definitely we are doing lot of automation. Even if we see the hub operations, even the material handling compared to earlier the technology updation and everything are much, much changed now. So that is the reason the turnaround times have been improved that is why we are in a position to add more of corporate customers also and more the customers who need the commodity on time.
- Moderator:** Thank you. The next question is from the line of Nemish Shah from Emkay Investment Managers. Please go ahead.
- Nemish Shah:** Yes thanks for the opportunity so I had a question on the branch expansion that we are doing so I like you mentioned we have added about 218 branches post pandemic and about 127 branches in the first nine months so can you help us understand how much of these branches would have breakeven by now and what would be the utilization levels for those branches?
- Sunil Nalavadi:** Except around the branches which are opened in the last quarter hardly around 15 to 20 branches are not reached breakeven but all rest of the branches have reached breakeven. So now to reach a breakeven it is hardly around 2 to 3 months the branches are reaching breakeven.
- Nemish Shah:** Understood and if you could help us understand what would have been the organic growth this quarter and in the first nine months, you mentioned the new branches contributed 12% to the tonnage if you could just help us understand what would have been the organic growth excluding branch expansion?
- Sunil Nalavadi:** The overall growth is around if you see nine months to nine months the tonnage has increased around 24% out of this in the current quarter this 12% growth is coming but this is since I clarified in the first question itself. Overall this is contributing both booking and delivery as the consignment. If you see the growth matrix or something it will be contributing around 6% and remaining is contributing from the existing branches.
- Nemish Shah:** So 6% would be for the first nine months or this quarter?
- Sunil Nalavadi:** For year-on-year growth I am saying. Year-on-year growth is around 15% on that around 6% from the new branches and remaining 9% from the existing branches.
- Nemish Shah:** Understood. Yes that is it from my side. Thank you.

- Moderator:** Thank you. The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.
- Shrinidhi Karlekar:** Hi thank you for the opportunity. In terms of there are too many moving parts in terms of buyback, receipt from the divestment of the business and ongoing capex programme I am wondering would it be possible to guide us on likely level of net debt as we end this financial year?
- Sunil Nalavadi:** By end of this financial year the net debt will be around say 50 to 60 Crores. As of now whatever consideration has been received out of that the 50 Crores is invested into mutual fund which will be used for the payment of taxes related to these transactions and excluding that we are having a debt of around 50 to 60 Crores and we have to do capex also. With buyback it will be around 100 Crores instead of 50 to 60 Crores it will be around 100 Crores.
- Shrinidhi Karlekar:** Sorry so including buyback you are guiding for about 100 Crores of net debt?
- Sunil Nalavadi:** Yes.
- Shrinidhi Karlekar:** Understood. Sir correct me if I am wrong. In the last call you guided that our margins in the contractual customer as well as non-contractual business is broadly similar is that correct?
- Sunil Nalavadi:** In what terms?
- Shrinidhi Karlekar:** In terms of EBITDA margin.
- Sunil Nalavadi:** Yes it will be similar. Now after increasing the rates the non-contractual EBITDA will be better but again it is a time gap because in contractual what will happen as and when we renew those agreements see we will do some rate hikes that is not possible in non-contractual. Over a period of time again it will be similar but as of now the non-contractual customer margins are better.
- Shrinidhi Karlekar:** Sunil in which month or in which quarter typically we revise contracts for the larger customers?
- Sunil Nalavadi:** So it will be on a continuous process but most of the contracts will be renewed in the month of April.
- Shrinidhi Karlekar:** Okay yes to start up new financial year.

- Sunil Nalavadi:** Yes.
- Moderator:** Thank you. The next question is from the line of Alok Deshpande from Nuvama Institutional Equities. Please go ahead.
- Alok Deshpande:** Hi Sunil Sir. Congratulations on a good set of numbers. My first question is in this quarter gone by and looking forward which are the top two key sectors from which you are expecting this 15 to 20% kind of volume growth to come in, so two or three big ones which can contribute to that volumes of numbers?
- Sunil Nalavadi:** Basically contribution is happening across all the sectors because we are depending on many sectors as I said but typically wherever the unorganized contribution is on a higher side from there actually the contribution of growth rate will be much higher. As I said in some of the sectors I mentioned about this agriculture commodity, the foot wear. Agriculture commodity is basically again the coconut product, the **(inaudible) 53:38** what I mentioned earlier also that is continuously shifting to us. These products we are expecting higher growth and similarly the leather market especially from UP and surrounding areas those markets are improving and apart from that even on textile front also the Surat and other areas most of this earlier they used to engage lot of this small players and other things even that market is shifting also, so broadly if you see even some of the FMCG commodities in the organized market also that growth is coming to us. See one is because of the change in the regulation because of the GST control, because of the E-invoicing these markets are contributing to us. Apart from that because of expansion in our network because there is a good connectivity as of today. Even lot of this additional customers also contributing to the E-invoice good growth so in my sense the more growth will come from the unorganized to organized market and the remaining will be in the range of again normal growth in the range of around 12 to 15% and since we are getting newer market and new customers and all put together definitely we are confident to grow at around 20%.
- Alok Deshpande:** Sure Sunil Sir understood and one other book keeping question was see this transaction of the bus business that you have contributed since it is completed in January now in Q4 do we see any profit from discontinued operation at all or how would Q4 look like when you report it only the trucking business and then we receive the cash on the balance sheet, right?
- Sunil Nalavadi:** Yes. There will not be P&L item from this discontinued operations in the Q4.
- Alok Deshpande:** From Q4 itself?
- Sunil Nalavadi:** Yes. For comparison purpose we have to show the previous number but for the current Q4 standalone as such there will not be any revenue or expenses related to the businesses.

- Alok Deshpande:** Sure understood. Thank you so much and all the best.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would like to now hand the conference over to Mr. Sunil Nalavadi for closing remarks. Over to you Sir!
- Sunil Nalavadi:** Thank you all participants for your patient hearing. If you have any further questions or if you need any clarifications you can reach out to me and as I said again I want to put the closure remarks in such a way that our expansion plans are going to continue, our branch network is going to continue the enhancement in the branch network and definitely this will help us to grow further in our volumes and there is a lot of shift from unorganized to organized players that is also the additional benefit for us being organized player and the rate increase is only to focus or only to pass on some additional expenses, the variable cost like toll payments and other costs, these are directly we can pass it on to the customers. Considering these expenses actually we have increased the 5% rate only on the non-contractual customers but our growth plan, our expansion plan, our intuition to tonnage plan is going to continue so with this actually definitely we are confident to maintain our growth rate in the range of around 20% and with the EBITDA margins of around 17% going forward. With this I wish to conclude this call.
- Moderator:** Thank you Sir. On behalf of VRL Logistics Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.