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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 11th August 2022 for your information and records. This information is also available on Company's website at:

https://www.vrlgroup.in/investor_download/investor_transcript_11_08_2022.pdf

You are requested to kindly take note of the same.

For VRL LOGISTICS LIMITED



ANIRUDDHA PHADNAVIS
COMPANY SECRETARY & COMPLIANCE OFFICER

PLACE: HUBBALLI

DATE: 16.08.2022

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**“VRL Logistics Limited
Q1 FY 23 Earnings Conference Call”**

August 11, 2022



MANAGEMENT: **MR. SUNIL NALAVADI - CFO, VRL LOGISTICS LIMITED**

MODERATOR: **MR. ABHIJIT MITRA - ICICI SECURITIES**

Moderator: Good morning, ladies and gentlemen. Welcome to VRL Logistics Limited Q1 FY'23 Earnings Conference Call, hosted by ICICI Securities. 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. Abhijit Mitra, from my ICICI Securities. Thank you, and over to you, sir.

Abhijit Mitra: Yeah, thanks operator. And good morning to all the participants and thanks for joining in. We are hosting VRL Logistics Management for discussing Q1 FY'23 results. So without further ado I hand it over to Mr. Sunil Nalavadi, CFO of VRL. Forward to you Mr. Nalavadi.

Sunil Nalavadi: Yes. Thank you, Mr. Abhijit. Good morning to all participants. I am Sunil Nalavadi here, CFO of VRL Logistics Limited. I welcome all of once again for the earning conference call with the company for period ended June 2022. As compared to quarter one of the last year, which was impacted due to COVID restrictions. Later on the economic environment was substantially improved across all the sectors in India. In this connection, I wish to state some of the data points released by the Ministry of Finance, government of India. The GST collections have crossed 1 Lakh Crore for every month from July 2021 onwards and reached an all-time high GST collection of INR 168,000 Crore in April 2022, which have been driven by for 11 year high GDP growth as well as tightening of compliance by the government. The generation of E-way bill hit all-time high in February 2022, which is around 26 Lakhs average E-way bills per day from the date of introduction of E-way bill system. The improved economic environment in the country and the initiatives taking by the government to curb the non-compliant transactions supported us to reach the all-time higher revenue in the current quarter.

The total revenue of the company reached to INR 720 Crore as against the revenue of INR 417 Crore in the last year and as against INR 672 Crore in the preceding quarter. The EBIDTA of the company reached to INR 117 Crore as against the EBIDTA of the last year of the same quarter of INR 40 Crore. The profits for the quarter reached to INR 49 Crore as against a loss during the last year of INR 6 Crore. The growth of the Goods Transport business, which is contributing 90% to the revenue is extremely good in the current quarter as compared to last year. The revenue from this segment reached to INR 609 Crore as against a revenue of INR 385 Crore in the last year, which is increased by 58% and quarter-on-quarter bases the revenue has increased around 4%. The increase in GT business, the Goods Transport business is an account of increasing tonnage. The tonnage is increased by around 45% and remaining growth is an account of increase in realization. Apart from the better economic conditions the increase in tonnage in Goods Transportation segment is also due to expansion in network by the company. During the quarter, we have opened around 68 additional branches and from April 2021 to till date around 157 branches have been opened.

These branches have contributed around 8% of the total tonnage in quarter 1 of the current year. As we always mentioned that our industry comprises majority of the small fleet and unorganized operators. To curb on the evasion of tax which were supported by the unorganized operators the government modified the E-invoicing regulations. From April 2022 all the business entities with turnover of INR 20 Crore has to compulsorily generate the E-invoice irrespective of the value of the invoice. And from October 2022 they are proposing to reduce this limit to INR 10 Crore and above turnover entities. We hope that these steps taken by the government clearly indicates that 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 unorganized transporters 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. On account of the shift from the unorganized operators and the expansion in our network the base of the customer has also tremendously increased,

it has increased around 4 Lakh it was there the pre-COVID level. Now the number of customer base increased around 7 Lakh. When it comes to the profitability analysis during the quarter, the EBIDTA of the segment Good Transport segment increased to INR 200 Crore from INR 43 Crore and percentage to revenue has also increased from, increased to 16% from 11%. The quarter-on-quarter basis the EBIDTA is decreased from INR 122 Crore to INR 100 Crore. The diesel cost which is a major cost in our operation has increased further in the current quarter. The diesel cost has a percentage to the revenue has increased from 29% to 31% on quarter-on-quarter basis. The increasing in diesel cost is due to increase in the procurement cost. The cost of procurement as compared to previous quarter increased from INR 85 to INR 93. During the current quarter we are unable to buy the fuel from the refinery, which was around 40% of our total consumption.

The same was declined to 25% in quarter 4 and absolutely the 0 quantity in the current quarter on account of increase in bulk purchase fuel rates by the government. Due to which we were almost losing savings of INR 2 per liter. The lorry hire charges are also increased in the current quarter on account of increasing in fuel rates. The cost of lorry hire charges year-on-year increased from INR 25 Crore to INR 57 Crore and percentage to revenues has increased from 7.42% to 9.37%. The higher growth in duty allowance resulted into higher growths and revenue during the year and the percentage of certain variable cost to the revenue has been declined due to operations -- in our operations. The one example is the vehicle reverse maintenance expense, which has been reduced from 7% revenue to 6%. And moreover, the employee costs, which is major fixed cost in our operation around 15% of the revenue in spite of incremental process conducted by the company in the first quarter, in the January 2022, the cost of, the employee cost as a percentage to the revenue has been maintained. The earning before interest and tax, the EBIDTA of Good Transport segment, we reached around INR 69 Crore in the current quarter. As compared to previous quarter the margin is declined on account of decrease in the EBIDTA margins. With respect to depreciation and accounting is concerned the company has strengthened the useful life of Goods Transport vehicle from 9 years to 15 years, based on higher increase life in the past due to our maintenance facilities. The bus operation segment has been turned to positive EBIDTA business segment post pandemic. The bus performance is also better in the current quarter on account of holiday season. The realization and the occupancy levels have been increased and that resulted into increase in revenue and EBIDTA margin since bus segment. Due to better profitability the overall net cash generated from operation in the current quarter reached to around INR 100 Crore. The majority of the capital used for a purpose of capex in the current quarter. During the quarter we have incurred around INR 85 Crore capex and which is predominantly used for addition of Goods Transport vehicles. The net debt of the company is also increased from INR 130 Crore to INR 155 Crore due to investment in the capex. To concentrate on the high growth oriented and high-return, less than Truckload Good Transportation business, the company has decided to sell the non-core segment. And as a step we sold the Wind Power business, and one of the aircraft also, which the company was owning. About the Wind Power project, the entire consideration has been received in the first week of August and the final documentations are in the process. Considering the shift of Goods Transport segment from the unorganized operator to organized operators, we are expanding and further expanding our network. We are hopeful that the turnover or volumes what the company has expected are inline. Since the excise return slowly is reduced from third week of May, the full benefit of reduction is going to benefit in the coming quarters. So the digital cost as a percentage also we are hoping that it'll be under control or it may little bit reduced in the coming quarters. Since the realizations are improving on account of root mix, we are hoping that the EBIDTA margins will also improve from the current level in the coming quarters in Goods Transport segment. The capex has announced by the company to purchase Goods Transport vehicle is in the process and will be completed as scheduled. The change in usefulness of goods vehicle will result into lower depreciation charge as a percentage to the amount of investment will result into improvement in return metrics going forward. So with this I conclude my initial remark. Now I request all the participants for any queries or questions.

- Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Alok Deora, from Motilal Oswal. Please go ahead.
- Alok Deora:** Good morning, sir. So, just a few questions. First, sir, on the bus segment. We saw significant traction in terms of the revenue as well as on the profitability side. So just wanted to understand, is it sort, some part of it is like one time thing or is it sustainable? I mean, for bus segment what's the revenue which we are forecasting now for the full year, because INR 90 Crore, almost a INR 100 Crore kind of a run rate we have not seen since a while.
- Sunil Nalavadi:** Basically this is on account of good holiday season in the current year. And even post-COVID now the people are traveling and that's the reason in the current quarter actually we did a good, even occupancy levels were good and realizations were good. So that's the reason the revenue is on a higher side and going forward also, I mean, there is a possibility of dip in the bus revenue.
- Alok Deora:** Okay. So, what's the full year number we could look at for the bus segment?
- Sunil Nalavadi:** And definitely, as against the INR 90 Crore there will be average around INR 60 - 65 Crore of a revenue in the coming quarters.
- Alok Deora:** So around 270 or so for the full year, could be INR 270 - 300 Crore.
- Sunil Nalavadi:** Yes.
- Alok Deora:** Sure.
- Sunil Nalavadi:** And even in the month of July post this June, we are seeing that again, there is drastic reduction in the revenue. Because again the people are taking precautionary steps to travel and they're hesitating to travel now.
- Alok Deora:** Sure.
- Sunil Nalavadi:** It is a one-time holiday season, actually that resulted good revenue.
- Alok Deora:** Got it. And sir, in this good segment we have seen the margins come off quite a bit. So we understand that we have not taken a price increase despite the diesel price change, so it has impacted especially in the first half quarter. So in the second quarter we should be good with the margins back to Q4 run rate or it could take some more time.
- Sunil Nalavadi:** No, it will not be to the extent of Q4, because if you see the increase in the diesel price, it has increased from INR 85 to almost INR 94 but after the post reduction of this excise duty also that much of reduction is not there. And even against the average for INR 94 Q1 cost, now the current average again it is in the range of around INR 90.
- Alok Deora:** Yes.
- Sunil Nalavadi:** And even we lost some of the benefits of this fuel consumption from the refinery. There actually we used to save almost around INR 2 per liter. That benefit is no longer it is there.
- Alok Deora:** Right.
- Sunil Nalavadi:** So, even as of today our average cost of fuel, say in the month of July or so, it is in the range of around INR 90 - 91. So that's the reason. There will be some improvement in the EBIDTA margin, but not to the extent of Q4 of the last year.

- Alok Deora:** Okay. Just the last question. So sir, this depreciation because of the increase in the life of the asset, the depreciation is down by around INR 10 Crore for the quarter. So, is this the quarterly run rate for depreciation going ahead? How should we see that?
- Sunil Nalavadi:** Yes, definitely. For this current year, every year, quarter, that kind of a benefits is going to come. And going forward, it'll become again, see overall charge to the P&L will be less compared to earlier. Earlier what used to happen, even whatever capex we used to incur, say for example, if we incur a capex of INR 100 Crore in the vehicle, we used to depreciate over a period of 9 years, now instead of 9 years it has stretched to 15 years.
- Alok Deora:** Okay. Got it.
- Sunil Nalavadi:** Since we're growing and we're investing in the capex, the overall depreciation charges as compared to the investment is reduced.
- Alok Deora:** Got it. And in this air segment we have booked 0 revenue. So there it's like no further revenues are expected going forward also or it's a small piece, but just wanted to understand its 0 revenue for us, right?
- Sunil Nalavadi:** No, that revenue and costs have been allocated as unallotable segment, because it is no longer reportable segment based on the turnover and the assets which are in that particular segment. That the reason we've treated it as a unallotable segment
- Alok Deora:** Sure.
- Sunil Nalavadi:** And, at the time of two areas we used to make around the, say 11 Crore revenue, now it will be half of that.
- Alok Deora:** Got it. If I have more questions, I will come back in the queue. Thank you and all the best, sir.
- Sunil Nalavadi:** Yes. Thank you.
- Moderator:** Thank you. The next question is from the line of Ankita Shah, from Elara Capita. Please go ahead.
- Ankita Shah:** Thank you for the opportunity and congratulations sir, on a very good set of numbers. So my first question is on the capex side, we've added net 200 vehicles this quarter. So, how many more are we planning to add in the next 9 months and what kind of capex outgo will go for this and related to that what would be the impact on leverage, debt levels going forward?
- Sunil Nalavadi:** Yes, basically the capex will be in the range of around INR 85 to 100 Crore on a quarterly basis. Though this quarter we incurred total capex of around INR 84 Crore and predominantly it is for the purchase of the vehicles. So similarly in the coming quarters there will be similar kind of the investments, INR 80 - 85 Crore of a total capex, and in the Good Transport segment, it will be in the range of around INR 80 Crore. And the addition here is, actually we added around 320 vehicles, out of that some of the vehicles have been scrapped also. 312 vehicles have been added, and 92 vehicles have been scrapped. The net addition is around 220 vehicles. And when it comes to debt level we are seeing that there will not be increase in the debt level because one is the INR 48 Crore what we received from the sale of Wind Power project that has been completely utilized for the capex purpose. And apart from that whatever cash flows we are generating on a quarterly basis, say for example, this quarter we generated 100 cash flows, so that considering these cash flows and this one time receipt on account of sale of wind mill also, even though we invest around INR 80 - 85 Crore of a capex in a quarter, the debt levels are not going to be increased.

Ankita Shah: This number should be kind of maintained for the full year?

Sunil Nalavadi: Debt level will be in the range for around INR 130 - 140 Crore.

Ankita Shah: And total gross addition, how much are we planning or net addition, how much are we planning for this year vehicles?

Sunil Nalavadi: As we announced 1600 vehicles, these are over a period of 18-months work effect. So accordingly every month the addition will be in the range of around, 80 to 90 vehicles we will add every month. So that every quarter it will be in the range of around 270 - 300 and scrappage will be there, again 75 - 80 vehicles we have to scrap on a quarterly basis, depending on the condition, depending on the fitness that is there.

Ankita Shah: 75 to 80 you said per month.

Sunil Nalavadi: Per quarter.

Ankita Shah: Per quarter scrappage?

Sunil Nalavadi: Yes.

Ankita Shah: Okay. Secondly sir, on this sale consideration we have booked that in the revenues or other income?

Sunil Nalavadi: No, basically it is the sales consideration we have to account the profit on sale of this project, the profit will be in the range for around INR 7 - 8 Crore. Only that much of amount will come to P&L account. Rest of all will go to, it is a balanced adjustment.

Ankita Shah: And that is adjusted in another income.

Sunil Nalavadi: Yes. It will be shown as another income in the current quarter, in quarter two because the transaction is going to be completed in the month of August.

Ankita Shah: Okay. Got it. And given the robust growth in volumes in the GT segment this quarter 45%, do you think that for the full year you want to revise the number that you've given earlier 20% plus that of a growth number that is you had told earlier, do you think there is a possibility that we can do better than that for the full year levels?

Sunil Nalavadi: Yes. As I said, last year Q1 is impacted due to some COVID impact and if you see the subsequent quarters in the last year the performance is also good. So considering those incremental tonnage as compared to quarter 1 of the last year, and this year we're expecting on a full year basis as we said around 20%, volume growth year-on-year basis.

Ankita Shah: Got it. That's it from my side. Thank you and wish you all the best, sir.

Sunil Nalavadi: Thank you.

Moderator: Thank you. The next question is from the line of Krupashankar NJ, from Spark Capital. Please go ahead.

Krupashankar NJ: Good morning, sir. And thank you for the opportunity. First question is on the new branches which you have set up. So you have highlighted that whatever was set up in FY'22 as well as first quarter is contributing close to about 8% of total tonnage. Given that historically you have been highlighting that more and more branches are coming up in the north and eastern parts. So the lead distance, so incrementally is just driving 1% increasing overall realization is that how you have to see on a sequential basis?

- Sunil Nalavadi:** No. The quarter-on-quarter if you compare, the Q4 versus Q1, the overall revenue has increased by % out of that the tonnage growth is 1%. The remaining 3% is on account of improvement in the realization. That realization is only on account of the route mix, not on account of increase in the freight rates.
- Krupashankar NJ:** Understood: But we don't intend to take any general pricing hike as well because traditionally we have seen inflationary price hikes taken on annual basis. Are we not taking one this year?
- Sunil Nalavadi:** No, just we are waiting for some more time, how the things will turn, but as of today there is no plan to increase in the freight rate. So we are more focusing on the increasing the volumes, since we are getting a lot of new customers and new routes we are adding. So rather than increasing the freight rate, we are concentrating more on the accumulation of the work volumes, that's what is the current objective of the company.
- Krupashankar NJ:** Understood. And looking at also the extent of passenger growth because of seasonal reasons, can you highlight what will be the passenger growth for the quarter and the realization per passenger?
- Sunil Nalavadi:** Yes, sure. See, basically the capacity is increased to 90% in the current quarter. So in Q4, it was around 84% and last year it was around 75%. The realization is per passenger INR 1300 in the current quarter and Q4 it was INR 1022 and last year it was around INR 1100.
- Krupashankar NJ:** Understood: Thank you, sir. I'll get back in the queue.
- Sunil Nalavadi:** Yes. Thanks.
- Moderator:** Thank you. The next question is on from the line of Sanjaya Satapthy, from Ampersand Capital. Please go ahead.
- Sanjaya Satapthy:** Hi, sir. Thanks a lot for the opportunity. Sir, you've mentioned that your margin will improve led by better realization. You also said that it is mostly because of the route mix, I could not really understand this aspect that, are you saying that that there are some routes which are more profitable than others?
- Sunil Nalavadi:** Now, basically when it comes to the long haul, since we are opening the branch in the untapped market, especially in east and north east, north eastern market. So basically here what will happen, these are all additional new tonnage what we are getting. But for these new tonnage, no need to investment further in our fixed expenses. Only that for related to those branches will be there. Say, for example, if it comes to the common fixed expenses like the employee cost, and even for the purpose of these vehicle taxes what we are seeing, and similarly, the insurances expenses what we're paying to the vehicles. And apart from that this corporate expenses, what we're incurring. Even though the tonnage is increasing say around 20 - 25% or whatever tonnage is on account of this expansion in the network, correspondingly or in proportion to that these expenses will not increase. That's the reason the proportionate of these expenses will come down as against to the revenue. So definitely we will have a savings on this course and EBIDTA margin will improve. And apart from that, if the more number of branches are open, more number of routes are open in the network, then we will definitely have a better utilization of the vehicles and the kilometers of the vehicle will be better. So on account of this, again there is a possibility of reduction in certain variable cost also as a percentage to the revenue, say it be a vehicle maintenance expenses, like that, even driver payments.
- Sanjaya Satapthy:** And sir, you have not taken price hikes despite this diesel price hikes. Is it because of the competitive intensity or it's a deliberate strategy to kind of take market share and we just grow through volume driven efforts.

- Sunil Nalavadi:** Yes, it is a deliberate at the management side, basically see how it is happening. Now there are lot of things happening at a government side, even they want to curb, say as you know our industry is totally comprised, almost around 70 - 75% of the contribution is coming from the unorganized operators. And even on the other side government is increasing a lot of these compliance procedures. So considering these things, many of the customers, actually they are looking for an easy solution and they want to come under the complied network. So we want to gain out of this. On account of this whenever we approach to the new customers, we cannot go with the higher rates and all these things. So considering these environment in the market, we want to maintain the freight rate as usual to grab more number of customers into our foray, to increase our volumes further.
- Sanjaya Satapthy:** Understood. And lastly, if I can just take way through considering this new strategy, unlike in the past where your medium term volume growth is to be somewhere around mid-single digit, can we expect your volume growth to be consistently above 15 - 20% range going forward?
- Sunil Nalavadi:** Yes. In at least next three years we're accepting our tonnage growth will be in the range of around 20%.
- Sanjaya Satapthy:** Understood. And with some amount of margin improvement because of our operational expenses.
- Sunil Nalavadi:** Yes. The moment volume start increasing we will have more flexibility on the expenses side, even we can have a better control on the expenses and that will result into increase in the margins.
- Sanjaya Satapthy:** Understood. Thanks a lot, sir.
- Sunil Nalavadi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abhijit Mitra, from ICICI Securities. Please go ahead.
- Abhijit Mitra:** Yes, I hope I'm audible?
- Sunil Nalavadi:** Yes.
- Abhijit Mitra:** Just to understand from dynamics here, your branch additions over the last 3 - 4 quarters has been upwards of 100, so it's more than a, you know, 12, 13% addition in branches, but your q-o-q increase in volumes is charting a 1 to 2% rate. So are we getting ahead of ourselves in terms of capex or the volume guidance or you feel you can catch up over the remainder of the 3 quarters? What kind of trends you see on the ground in terms of volumes because q-o-q movement has definitely slowed down over the last 3 quarters is what we can see.
- Sunil Nalavadi:** See, basically this number of branches, the numbers we cannot calculate, we should not calculate in proportion to the total branches and we cannot expect the tonnage should grow in the proportion to the branch addition. So basically these all are new branches handling a very low quantity as of today. So going forward the volumes increase from these places and these branches have been opened up gradually, not in a single day. Even in the last year, see, we started opening of our branches on a quarter 3 onwards. So most of the branches have opened after the first half and current year, considering the growth and the performance of these branches, we suddenly take a decision and we opened 68 branches in the current quarter. So basically what will happen, to develop these branches at least it will take, earlier it used to take in the range of around 9 months to 12 months to increase the tonnage at expected level, at least to reach breakeven. Now what is happening, within 2 to 3 months these branches are reaching to breakeven and expected level of volume growth is coming. That's the reason the more volume growth contribution will come

in the coming quarter, rather than the expectation at the immediate level. On account of that actually we are hoping that in the current quarter, even though quarter-on-quarter growth is at a very low, at a 1% tonnage growth and even the realization improvement say 2 to 3% is on account of these new branches only. So that's the reason going forward these branches will contribute more tonnage to the, our total tonnage and that will result into increase in the volumes as well as increase in the realization. So that will support the entire growth in the revenue as well as profitability margin.

Abhijit Mitra: Right. No, I am just trying to understand. So then this theme of shift from unorganized to organized that has sort of played out for the time being or...?

Sunil Nalavadi: See, prior to April '22, that E-invoicing as I said, the limit was around INR 50 Crore, now it has been reduced to 20 and government has already proposed to reduce it to 10 Crore and above entities, compulsorily they have to generate an E-invoice from October onwards, October '22. So these kinds of decisions are definitely going to support us, because for them also they have to comply on and every regulations. So as I said, some of the commodities like product, the leather product, even some of these, the cashew-nut and these kind of commodities actually the growth rate is very and these are all on account of shifting your customers from the small fleet and unorganized players to us.

Abhijit Mitra: Right? And just last question, this 1% or 2% q-o-q growth won't help you achieve your 20% target. So you are expecting significant uptake in Q3, Q4.

Sunil Nalavadi: At least we have to grow in the range of around 4 to 5% quarter-on-quarter.

Abhijit Mitra: Right. Okay. Thanks. That's all from my side.

Sunil Nalavadi: And we're expecting that, again the season is coming now, the quarter 2, quarter 3 will be much, much more growth will be there because the season starts now, the festival season and all, so more of a commodities actually we are getting now. So we are, based on that we are hoping that the 20% it is an achievable number.

Abhijit Mitra: Got it. Thanks, that's all from my side.

Sunil Nalavadi: Yes. Thanks.

Moderator: Thank you. We'll move on to the next question that is from the line of Alok Deora, Motilal Oswal. Please go ahead.

Alok Deora: Yes. Thanks for the follow up. Sir, just wanted to understand we had given a target of 100 branches in, opening 100 branches in FY'23, and we have already done 68 additions in first quarter itself. So any change in that number now or, just some color on that?

Sunil Nalavadi: Yes. These numbers are going to be increased, not restricted to 100, but most of the branches have been opened in quarter one, because to take advantage or benefit of this season, what is going to come now, festival season and all. Going forward, the number of branches will not be to this extent, say around 60 to 70 branches will not be there every quarter, but those numbers will be in the range of around 25 to 30 branches average.

Alok Deora: Sure, sir. Sir, you briefly mentioned in the previous question about July, August, some color on the second quarter, just wanted to understand how has been the volumes been after the first quarter ended? I mean, in particularly in July and August, not really a number but just in some qualitative sense.

Sunil Nalavadi: Yes, July actually we're again highest at the tonnage as compared to last three months.

- Abhijit Mitra:** Okay.
- Sunil Nalavadi:** And definitely that 4 to 5% expectation was quarter-on-quarter we can achieve based on the July turnover.
- Abhijit Mitra:** Okay. And how about August? I mean, it's short term.
- Sunil Nalavadi:** August is better than July now.
- Abhijit Mitra:** Okay. Great. And also just one last question from my side, so last we had taken a prize hike of around 8 to 10%, if I remember correct correctly last year sometime in June or July.
- Sunil Nalavadi:** April, yes.
- Abhijit Mitra:** After that we have not taken, right? Because we generally end up taking once in a year. So any price hike is there around the corner or we'll kind of hold onto it for now?
- Sunil Nalavadi:** No, for the time being we are holding on the increase in the freight rates, basically we want to gain more from the market as of today.
- Abhijit Mitra:** Sure. All right, sir. That's it from my side. Thank you and all the best.
- Sunil Nalavadi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Krupashankar NJ, from Spark Capital. Please go ahead.
- Krupashankar NJ:** Thank you for the follow up, sir. Just couple of more questions. In the presentation, of course, you have talked about expansion of existing branches, there is increase in branch density in key markets. So just understand what has changed with respect to existing markets so that you're setting up newer branches?
- Sunil Nalavadi:** Sorry. Will you repeat your question, please?
- Krupashankar NJ:** Sure. So you are also setting up rather than, apart from new branches in the untapped market, you are also setting up newer branches in existing market few of the key locations. That's what I could out gather out of the presentation. So, just wanted to understand the key reason behind setting up more and more branches in the existing locations, just because of the unorganized to organized shift which you are saying of compliance reasons or is there any other driver which you've seen?
- Sunil Nalavadi:** No, basically, see, customer wants to have branches nearest to them is because in our case they're having option even to collect the goods from our branches also. So that's the reason actually they will see the branches to be nearest to their business location. And apart from that if we do a ODA consignment more, say for example, we can give service to anywhere to anywhere, if our branch location is, if it is distancely covered as compared to their business location, then again the cost of operation will be more. Then we have to charge them ODA charges, door delivery charges, all these things. So instead of that wherever, there is lot of this industrial area, then wherever these markets are there, nearest to them if potentially is there, then again we are opening branches in those areas.
- Krupashankar NJ:** Right. So some part of it might be cannibalizing from existing branches, but you get access to your client, your customers whom you were not catering to earlier, is that the right way to understand?
- Sunil Nalavadi:** Yes.

- Krupashankar NJ:** And, second thing was on the biofuel procurement. I do see that the palm oil prices globally have come up substantially and given that the biofuel procurement looks lucrative vis-à-vis the diesel price at this juncture. How do you see that going ahead? Will we go ahead and increase procurement? Is that something that is away from us right now?
- Sunil Nalavadi:** No, currently we are buying very low quantity of bio diesel. Only in, almost very, very negligible quantity and going forward also say always we're interacting with the manufacturers. If the price is matching at our expectation, then definitely we want to buy the bio diesel, but still as of today also they're unable to supply at the expected price. So at least we need around INR 5 to 6 lower as compared to the retail diesel price, then only there will be benefit by using this biofuel, otherwise there will not be a benefit much.
- Krupashankar NJ:** So given that this time around, because the refinery procurement was curbed and the price was INR 2 higher. Does that make it a lucrative proposition is what I was trying to find out?
- Sunil Nalavadi:** Definitely, see if the product is available then definitely we are the first people to use it. But we are interacting with the manufacturer, still their cost of manufacturing is on higher side. Still they are unable to supply the price what we want. Basically it should be a gap of around INR 5 to 6 as compared to the retail price.
- Krupashankar NJ:** Understood, sir. Last question from my side. Sir, you we've also seen that there is a fair bit of increase in organized competition in the space and I just wanted to get a sense that is it, are you seeing more of shift just going in from unorganized to organized rather than competitive intensity increasing amongst organized players? Is that how you, how do you view the space at this juncture?
- Sunil Nalavadi:** Yes, there is this scope for every operator, every organized player, absolutely no doubt in that, but some of the results what we observed in the recent past, when LTL market, the quantity what they used to handle earlier, actually they have shown the lower performance. Even there is no growth in their volume. So if we see such kind of a performance, then definitely we are in a better position compared to them.
- Krupashankar NJ:** Right. But traditionally, being on a pre-COVID basis, when we could see, even the LTL market was growing anywhere closer to about 10% roundabout, if I look at it from a tonnage standpoint. So if you are taking in a 20% tonnage growth CAGR over the next three years, and competition of unorganized, organized side is also increasing. So the confidence is more that the share, predominant share will come in from unorganized. Is it a fair understanding at this juncture?
- Sunil Nalavadi:** Yes, as of today, if we see is a more and it's not the case also. See, predominant increases coming from this unorganized, organized, that is one, and there is a growth from the existing customers also. And even in an organized level actually there are some customers actually, they have shifted to us, consider lower service level, or poor service level, service from other organized players also. Some of the customers have been shifted to us.
- Krupashankar NJ:** Understood.
- Sunil Nalavadi:** But that percentage is not in the range of say around 15 - 20% or something like that. But more percentage growth of is coming from the unorganized to organized players.
- Krupashankar NJ:** Right. Sir, sorry if I may squeeze in one more question. Just wanted to check, let's say given that your newer branches have come up on the northern and eastern side, so I just wanted to see, is a mix of the geography, has it shifted vis-à-vis what we have seen in FY'21, if we can quantify what will be the contribution from southwest versus north and east, that would be really helpful.

- Sunil Nalavadi:** Based on the source of the commodities what we are resourcing from different region, the percentage is not very much, but there will be some changes after 1 year or so, because we are more concentrating on this eastern and northeastern part. So those reasons will contribute little bit to the overall tonnage. So definitely at that, post 1 year or somewhere period, the percentage will change. As of today there are no much changes.
- Krupashankar NJ:** Understood. Thank you. And all the best, sir.
- Sunil Nalavadi:** Yes. Thank you.
- Moderator:** Thank you. We'll move on to the next question that is on the line Amit Jeswani, from Stallion Assets. Please go ahead.
- Amit Jeswani:** Hi, sir. Sir, I wanted to understand, now you've increased pre-COVID from 4 Lakh customers to 7 Lakh customers, for last 5 - 7 years before COVID you were growing at 5 - 7% volume growth. Now you're speaking about 20% volume growth. So that's a big change that is happening in this segment. Sir, what kind of margin do we expect? Because there's been margin volatility that we faced this quarter and a heavy margin volatility. It shows that you don't have pricing power, at least on the quarterly level. What do you think, sir, what kind of margins, EBIDTA margin is sustainable and in guidance for revenues for this year?
- Sunil Nalavadi:** See, the revenue increase will be in the range of around 25% because there will be some improvement in the realization on account of the change in the route mix. So if the tonnage growth is 20%, then overall you can see the increase in revenue in the range of 24 - 25%. And when it comes to margin side, again there will be improvements. See, in the first quarter, this is mainly on account of the increase in diesel cost. See, post-election the government has suddenly increased the diesel prices. And on account of this increase in the bulk price also it impacted on the other side. That's the reason diesel cost has impacted very early in the first quarter. Since they have reduced the excise duty on the diesel from the third week of May onward, now that is resulting us to increase our margins. So compared to Q1, again we are expecting that the Q2 margin should be better. So in my view, definitely this maintenance of EBIDTA margin in the range of 17%, around 17% is absolutely not an issue.
- Amit Jeswani:** Got it. Sir, we've sold our wind energy business, we have sold one aircraft, so we are cutting out noncore asset, any plan on selling the bus business as well, because then we'll be a focused logistic.
- Sunil Nalavadi:** See, as of today we do not have such plans, if any such development then definitely we will inform.
- Amit Jeswani:** Got it. Sir, you've got excellent ROICs despite being a brilliant, despite being a truck owner, being an asset heavy model, right? The new investments that we are doing, what kind of ROIC are we reinvesting our capital at, because we are doing INR 100 Crore investment, INR 80, 90, 100 Crore a quarter, for the next four quarters. So broadly INR 400 Crore. What kind of ROIC we should expect on these investments?
- Sunil Nalavadi:** See, normally the payback period according to the internal analysis it is in the range of around 4 years, 4 to 5 years. So considering those the payback period definitely will 20% ROIC for the new investment.
- Amit Jeswani:** Got it. So, we've got very strong operating **[inaudible 46:26]**. Sir, what kind of dividend payout would you, would you still be able to maintain dividend payout? We've got INR 150 Crore of net debt. Last many years, sir, we are not expanding our capacity, so you are doing massive dividend payouts of 70, 80, 50% kind of dividend payout of our profits. So, just trying to understand the reinvestment structure going forward. So this year if you are saying that you'll do 25% revenue growth that means

our revenues last year was INR 2,400 Crore and this year our revenue will be closer to INR 3000 Crore. You're saying we'll have 17% EBIDTA margin that means INR 500 Crore of EBIDTA margin you'll have. And then of course, depreciation, so broadly is INR 25 Crore the right estimate for the PAT this year.

- Sunil Nalavadi:** There actually we have to exclude the bus segment, since you are calculating the growth and profitability for the entire turnover. If you see, only the Goods Transportation segment, then you'll arrive the correct.
- Amit Jeswani:** Got it. Sir, the bus segment last year was INR 205 Crore of revenue.
- Sunil Nalavadi:** Yes.
- Amit Jeswani:** This quarter, if I'm not wrong you've done INR 100 Crore closer to that. So, and you said that we'll do INR 60 Crore in the next three quarters. So that is 16 to 3, 180 plus 100, you'll do actually 40% growth in the bus segment also. No problem. Got it. Sir, is INR 250 Crore the right --
- Sunil Nalavadi:** About the Goods Transportation segment, in FY'22 we did INR 2137 Crore. If you redo 25% growth, then it will reach to around INR 2650 Crore. With 17% EBIDTA it will be in the range of around INR 460 - 470 Crore.
- Amit Jeswani:** One more thing, sir, we received INR 48 Crore from the wind business and INR 7 Crore from the airline charter. So that will decrease the net debt, right? The net debt doesn't reflect the airline and the bus, sorry, the wind business.
- Sunil Nalavadi:** No, that will come in the quarter 2. The amount is received in August first week.
- Amit Jeswani:** Got it. So or net debt, so we will generate INR 100 Crore of cash flows this quarter.
- Sunil Nalavadi:** Yes.
- Amit Jeswani:** In Q2 I'm speaking about, out of the INR 100 Crore we will also get INR 50 odd Crore, 48 from the wind business and INR 8 Crore from the charter, the aircraft thing and we'll have to pay --
- Sunil Nalavadi:** No, I want to clarify here, the INR 8 Crore has been already accounted in Q4, that has been sold in quarter 4 of the last year and in quarter 2 this Wind Power consideration is going to come.
- Amit Jeswani:** So basically 100% of our operating cash flows will go into capex, that's broadly...
- Sunil Nalavadi:** Capex, yes.
- Amit Jeswani:** Got it. And that capex will get into...
- Sunil Nalavadi:** And on this INR 48 Crore we have to pay certain taxes also on the sale consideration. So overall there will be the reduction of a debt in the range of around INR 35 to 40 Crore.
- Amit Jeswani:** Got it. Sir, my last question to you is about your competitive advantage, right? Because you are fighting with many listed players now, like Delhivery, et cetera. But you're also fighting with large unorganized players. What was the reason that we didn't increase our freight rates this quarter, when you knew that diesel prices were going higher? It was not something which you couldn't expect or you didn't know, what was the reason why we didn't increase prices by 2 - 3%?
- Sunil Nalavadi:** No. As I told see, we are adding a lot of these new customers and even lot of new routes also. So considering these environment, these scenarios, right now we want to

maintain the freight rate. So once the market is acquired then depending on our cost structure, how the profitability will move, accordingly we'll decide on the increase in the rate?

- Amit Jeswani:** So this quarter also we've not taken any rate hikes by until now.
- Sunil Nalavadi:** No.
- Amit Jeswani:** Got it. So we are taking a short term risk on our cash flows, which is like a marketing activity?
- Sunil Nalavadi:** There is a sufficient cash flow is coming and even we are flexible at a debt level and all these things, and we are flexible on the investment side as well in the capex. So that's why the focus is now to acquire more market, to increase the customer base, to better grow in the top line, the increase in the volumes and all these things.
- Amit Jeswani:** Got it. So you're taking some short-term pain for long-term gain. I got it.
- Sunil Nalavadi:** Yes.
- Amit Jeswani:** Sir, also on the number of, so you're now at 5,000 trucks, my congratulations to you and your team for that. Sir, when do you expect to reach 10,000 trucks kind off number? Because there's a large...
- Sunil Nalavadi:** Now we've planned already 1600 vehicle addition, so by end of this year...
- Amit Jeswani:** We are scrapping also, right? So net number I'm speaking about?
- Sunil Nalavadi:** See, it'll been in proportion to the increase of the volume. See how the volume will increase accordingly the number of fleet will increase.
- Amit Jeswani:** Got it. So sir, when I think about long term, do you think that VRL, as you said that next 3 years you are a 20% CAGR kind of story. Do you think long term you can be like a 15% CAGR, because there's a massive unorganized market out there and you are an advantage, you don't burn money, you are cash flow positive, so like aggression and reinvesting for growth is the right strategy. And I fully agree to you. So just trying to understand, do you think that VRL for next 10 years is at 15% CAGR story or 20% CAGR story, or we go back to that 8 - 9% growth level ever?
- Sunil Nalavadi:** That's the reason, see, we are now visible for the next 3 to 4 years, that's what actually I said. Then depending on the further situation, again the things will change.
- Amit Jeswani:** Got it.
- Sunil Nalavadi:** But consolidation and the whole industry shape is going to change.
- Amit Jeswani:** Got it.
- Sunil Nalavadi:** That's what I can say.
- Amit Jeswani:** Got it. Now sir, since October the INR 10 Crore E-invoicing is coming, it's a big advantage for players like you.
- Sunil Nalavadi:** Yes.
- Amit Jeswani:** Sir, thank you so much. I wish you all the best.
- Sunil Nalavadi:** Thank you.

Moderator: Thank you. The next question is from the line of the Depesh, from Equirus Securities. Please go ahead.

Depesh: Yes. Hi, Sunil, sir. Thanks for taking my question. So I wanted some more color on the industry and how it's shaping up. So over the last 1, 2 years we understood that the small truckers was facing operational issues due do COVID and organized players like VRL won market share. Now with increasing compliance again organized players look on a strong footing. So 1 to 2 years down the line, how all this will add up, right? So will the small players keep on losing market share or they become more compliant and take back their market share? Or third maybe, they may join the forces with the asset like truck aggregators and try to gain market share that way. So, just want to understand your thoughts on the market share argument, how much we can more gain and sustain.

Sunil Nalavadi: Now, basically the contribution from the unorganized people, the small fleet operators is going to come down going forward.

Depesh: But they will become organized, you're saying that way or they may, you're saying they will just shut the shops.

Sunil Nalavadi: No, many of their financial position is not up to the market. And most of the operator, they are unable to rerun their businesses. That's what actually ground level we are acknowledging some of the operators. So considering those things, we are seeing that there will be consolidation in the market. The number of operators are going to be reduced substantially in the day to come. So more and more consolidation take place toward the organized players and the bigger operators.

Depesh: Got it. And sir, do you have any plans to maybe acquire some of the small operators or you basically look to organically grow in your number of trucks and everything?

Sunil Nalavadi: No. Our policy is to grow organically. See, we can open the more branches, even the opening of say 100 branches, 150 branches in a year, it is just like adding of a new business or acquiring of a new business, is equivalent to that.

Depesh: Understood. Thank you, sir. I will take it offline.

Sunil Nalavadi: Our focus is to grow organically.

Depesh: Sure, sir. Thank you, sir. All the best.

Sunil Nalavadi: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.

Sunil Nalavadi: Yes. Thank you all the participants for your patience hearing and basically see, most of the questions related to about the future growth of the company, we very much sure that there be a volume growth, especially we used to concentrate more on our Goods Transport and there actually we are more concentrating on increasing the volumes by extending our network and by doing aggressive market to acquire the new customers. And that's the reason, definitely we are hoping that the volume growth will be 20 plus percent onwards in the next coming days. And by opening up this new branches in the untapped market or especially in the eastern and northeastern market is giving some of the flexibility of the number of kilometers per vehicle, even the vehicle utilization front, on account of that even some of the realizations are improving. So considering all these benefits, even we are hoping that definitely we can maintain over EBIDTA margin also in a good manner. So with this I wish, I would like to my words. Thank you. Thank you once again.



VRL Logistics Limited
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Moderator:

Thank you. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.