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Dear Sir / Madam,


Sub: Disclosure under Regulation 30 (6) of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015

Ref: Scrip Codes - (BSE – 539118) (NSE – VRLLOG)

In accordance with Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find the transcript of investor's and analysts' call held on 02nd August 2016 as intimated to your goodselves earlier

You are requested to kindly take note of the same.

For VRL LOGISTICS LIMITED


ANIRUDDHA PHADNAVIS
COMPANY SECRETARY AND COMPLIANCE OFFICER



Place: Hubballi
Date: 05.08.2016

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“VRL Logistics Q1 FY 2017
Earnings Conference Call”

August 02, 2016



ANALYST: MR. SANDEEP P - ICICI SECURITIES LIMITED

MANAGEMENT: MR. SUNIL NALAVADI – CFO - VRL LOGISTICS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to VRL Logistics Q1 FY2017 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participants' 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 "*" and then "0" on your touchtone phone. I now hand the conference over to Mr. Sunil Nalavadi- CFO of VRL Logistics. Thank you and over to you Sir!

Sunil Nalavadi: Good morning and welcome to all. Basically this is the earning call with respect to the Q1 financial year 2016-2017. To begin with the total revenue of the company as compared to the last quarter of the same quarter has increased by around 2.35% from 448 Crores to 459 Crores including the other income and increasing revenue was mainly contributed by the goods transport revenue increased by around 4.23% from 340 Crores to around 354 Crores and passenger travels revenue decreased by around 3.69% from 95 Crores to 91 Crores. The other segment like sale of power was down by 3.31% from 7 Crores to 6.8 Crores. Air charter segment revenue had increased by around 25% from 2.68 Crores to 3.35 Crores. The EBITDA of the company has decreased by almost say around 19% from 86 Crores to 69 Crores and the same has resulted into decreased in EBIT also from 64 Crores to 46 Crores and PBT decreased by 27% from 54 Crores to 39 Crores and resulting into the PAT has decreased by around 27% from 36 Crores to 26 Crores.

To explain some of the segment wise developments in terms of goods transport business, which is recorded by, say around 4.23% growth. This growth is mainly on account of increase in the realization per tonne and realization per tonne has almost increased by around 7% whereas tonnage of the goods transport segment has been decreased by around 2%. This is on account of weak consumer sentiment has reported by MNI India and also because of some external pressure in the market and apart from that in the current year if you see the movement in the expenses basically the EBITDA of the company had been decreased by around 15% from 54 Crores to 46 Crores. It has decreased by around 2.95%. It is mainly on account of increase in the employee cost as a percentage of revenue from 13% to around 16% and in rest of the expenses there are no major movements. When we come to the passenger segment, the passenger segment revenue is decreased as compare to the last year. This is mainly on account of the decrease in the overall occupancy level by around 1% and decrease in the realization per passenger by about 9%. The EBITDA of the passenger segment decreased by around 24% from 27 Crores to 20 Crores and percentage to the revenue decreased by around 6%. This is on account of as I told you the decrease in the realization per passenger and apart from that the key movement in the expenses are concerned about diesel expenses. The diesel expenses in the current quarter we used very less biofuel because of non-availability of the biofuel. In the last year same quarter we used almost around 26% of the total diesel procurement as a biofuel whereas in the current quarter we used hardly 3%. When we come to the capex plan of the company total capex of the company we incurred around 18 Crores. This is mainly spread into the goods transportation we incurred

hardly around 43 lakhs whereas in case of passenger segment, we purchased almost around 44 vehicles and incurred an amount of around 14 Crores and we purchased one of the property also by investing of around 6.5 Crores. These are the main highlights about the results. If you need any further clarifications or information now forum is open for question and answers session.

Moderator: Thank you. We will now begin with the question and answer session. We take the first question from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: Good morning Sir. My first question is on volume growth in the goods transport segment as you highlighted that is down 2%. So now if you see a broader economy various sectors like pharmaceuticals, FMCG, automobiles, coal, cement I mean all the sectors are reporting growth of like low single digit or high single digit kind of growth but we are reporting a decline or a flat growth in last year and this quarter as well. So either exposure absolutely insulated from all these sectors or which sectors are we looking at and when should we expect the recovery in our numbers in the goods transport segment? This is my first question.

Sunil Nalavadi: Basically when we compare growth in the volumes as you know we are not concentrating on a specific sector actually we are providing service to all the sectors except some bulk commodities and other kind of liquid stuff but if you see the movement compared to say compared to the Q1 of last year versus current year yes it is decreased by around 2% but when we compare to the Q4 last year versus this quarter it is showing a growth of around 1% in spite of increase in the realization per tonne by around 4.3%. If you see the last quarter versus this quarter the revenue of the company is almost in the goods transport segment it is increased by around 5%. This is mainly contributed by increase in the volume by around 1% and increase in the realization per tonne by around 4.3%. So we are hoping that definitely some growth anticipating from the market. This time we are hoping that there will be good season and definitely we are anticipating some growth in the coming days.

Prateek Kumar: More specifically which specific routes or which specific sectors we should track to I mean track the company's growth. Which specific routes we cater to I mean if we see all India basis?

Sunil Nalavadi: No when we come to the route wise analysis even the top route what we are handling the contribution from that route is not even more than 2%. So our service level is widely spread and it is contributing from across the sectors and definitely see we are hoping that we may get some good volume growth in the days to come and apart from that compared to earlier we expanded much of our branches in the State of Bihar, in the State of UP, so we are hoping some good kind of development in these states as well.

Prateek Kumar: Sir my second question is regarding this bio-diesel availability. Sir what impact availability of this fuel and I mean what is the outlook of it usage it going forward?

- Sunil Nalavadi:** Basically see we are the first people to adopt new things, which are going to benefit to the company basically what happened in the last few months, the fuel price had been decreased and accordingly the input raw material cost also increased in the case of bio-diesel. So they are unable to compete with the prevailing fuel rates in the market that is why even the availability of the bio-diesel was not there. Again we are discussing with the suppliers and we may buy in the days to come.
- Prateek Kumar:** I will get back into the queue.
- Moderator:** Thank you. We take the next question from the line of Harsh Shah from Dimensional Securities. Please go ahead.
- Harsh Shah:** Good morning Sir. I was unable to get you on in bio-diesel thing going ahead. Can you repeat what exactly, why exactly the usage of bio-diesel was low in this quarter?
- Sunil Nalavadi:** This is on account of non-availability of the fuel. The suppliers are unable to supply because of increase in their raw material cost they have stopped their production and apart from that they were not able to compete with the fuel price what is currently running in the market.
- Harsh Shah:** In passenger segment so you said the realizations were down by 9%, so any specific reasons?
- Sunil Nalavadi:** Always what we do in the passenger segment the pricing is very dynamic. We always go with the occupancy levels. So as I told you the occupancy levels we almost maintain a similar kind of occupancy level as compared to the last year. To maintain that kind of operating level actually we competed with the rates. So on account of that the realization per passenger has been decreased. It is basically because of low demand from the market.
- Harsh Shah:** Sir can you guide us regarding how this freight rates have moved over last three, four months and in the month of July how they were?
- Sunil Nalavadi:** Basically as I told you the realization per tonne has been increased compared to last quarter by almost 4% that is on account of increase in the freight rates and in the coming days again continuously we are monitoring the cost and even the fuel price which is changing once in 15 days. Considering these movements definitely we will take a call on freight rates.
- Harsh Shah:** Last question, can you highlight the benefits of GST for your company like it is lower the margin of GST is almost certain as of now it looks. So can you just highlight the benefit that might accrue to you going ahead?
- Sunil Nalavadi:** In terms of GST is concerned, basically this is change in the entire tax structure of the country. Basically now what is happening lot of state wise taxes are there, lots of local taxes are there. The

moment GST is introduced and implemented definitely it is going to benefit to the entire sector and obviously the logistic sector is going to get the first benefit. The key reasons are even I was sharing with lot of forums also basically what is going to happen the kind of commodity handling by these manufacturers as of now be it pharmaceutical companies or electrical companies and many manufacturing companies now they are having a state wise warehouses to comply with these local taxes. The moment GST is introduced actually this additional leg of warehousing will not be there and from primary location say from manufacturing to last mile connectivity they will look for the logistic service providers. Since we are having a pan-India presence and hub and spoke model operations definitely we will be the beneficiaries out of the GST implementation.

Harsh Shah: Another thing is service tax for the logistics is currently around 4.5%. So after GST comes will it go to 18% what are your views on that?

Sunil Nalavadi: Basically right now what is happening see there are two things, one is negative list in the service tax and apart from that we are having a taxable services with certain kind of abatement. Right now these goods transport services part of the abatement service and going forward if the rate is if we are claiming the abatement then we are not eligible for claiming this input tax credit as of now. Now in the coming scenario assume that there is no concept of abatement if they assume that we have to share the full tax then obviously we are eligible to claim input tax credit. Since we are having lot of input services as well as excise duty is what we are paying on our entire spare parts purchases etc, on our maintenance expenses etc, definitely we can take a credit of all these taxes what we will pay and effectively on the company there will not be major changes.

Harsh Shah: Fair enough that is it from my side. Thank you.

Moderator: Thank you. We take the next question from the line of Hitesh Jain from Max Life Insurance. Please go ahead.

Paresh Jain: This is Paresh Jain here. Sir just wanted to understand this bio-diesel thing. Now you think availability has reduced. Is my understanding correct?

Sunil Nalavadi: Yes.

Paresh Jain: What is the reason for that because is it more expensive than diesel?

Sunil Nalavadi: It is not that actually now the diesel rate is completely governed by this government. Now whatever supply will happen alternative fuel they have to compete with these rates and since the raw material cost of bio-diesel manufacturers has been increased they are unable to supply the fuel to compete with this existing diesel price that is why they stop the manufacturing.

Paresh Jain: What is the basic raw material for bio-diesel?

- Sunil Nalavadi:** They use predominantly the palm oil and other similar kind of raw materials.
- Paresh Jain:** Palm oil and this is supplied largely what by the OMCs only or by some other producers.
- Sunil Nalavadi:** Producers. So we are directly dealing with the producers and most of the producers are located towards the coastal belt of Andhra Pradesh. So that is why major consumption also in our case we use in the southern belt.
- Paresh Jain:** Have you done some sort of analysis of what price level bio-diesel become more viable for you to use?
- Sunil Nalavadi:** When we were using in the earlier period that was almost we got a concessional price of almost around Rs.5 to Rs.6 as compared to the prevailing diesel price and definitely we may start again, but margins will not be to that extent, the gap between diesel and bio-diesel may not be around Rs.5 to Rs.6. In our case what we do if bio-diesel is not available then we are buying the fuel from the refinery units. Since refiner units again in the current quarter substantial fuel has been purchased from the refinery units. So more than that if it is beneficial then only we were going to switch over from the normal diesel to bio-diesel.
- Paresh Jain:** From your own standalone financials of business perceptive GST is neutral for you is that what you are implying?
- Sunil Nalavadi:** Basically we may get good kind of demand in the movement of goods once the GST is implemented.
- Paresh Jain:** That is something, which is external. What I am saying is from your own business perspective financial perspective GST is neutral because earlier you were getting abatement but now you under GST you will probably paying 18% service tax but getting the abatement also getting the benefit in terms of input credit?
- Sunil Nalavadi:** Basically now what is happening in the current scenario like some of the expense cargo companies and all courier companies they are charging full service tax and they are claiming some of the input tax credit. Especially the service providers predominantly who are into this road transportation they are applying the abatements. In the current scenario also assume that if we will not claim abatement and decide to apply full service tax rate we can take input tax credit definitely will have a more advantage because we are having lot of input credits like excise duty on our spare parts purchases, service tax payment son Insurance, rent etc.
- Paresh Jain:** How much is that Sir if you can just quantify?

- Sunil Nalavadi:** Right now I do not have exact quantification but definitely we will have a more advantage once we start claiming an input tax credit. In the current market we cannot switchover to say 15% tax and claim the input tax credit because we have to compete with other players. Because of that reason again we are forcibly applying the rates under the abatement. So definitely it will become advantage for us and apart from that another advantage of GST is about the fast movement of vehicles across the country. Now we are having lot of checkpost at the time of entry of a particular state as well as the exit. Now if uniform tax structure is there across the country definitely the movement of vehicle will improve and efficiency of the vehicle utilization will improve drastically. So since we are predominantly operating with our own vehicles almost around 90% of our operation is covered with own vehicles definitely the efficiency level will improve.
- Paresh Jain:** This advantage of bio-diesel that we had in the earlier year is that fair to assume that that is gone away.
- Sunil Nalavadi:** Yes but in the last quarter definitely say hardly 3% we used as against 26% last year what we used. So definitely the different cost has been impacted on the PT, passenger transportation and one of the reasons for decrease in EBITDA.
- Paresh Jain:** In the goods business, can you give us a sense as to what are the top five commodities that you would be carrying?
- Sunil Nalavadi:** In terms of commodities we do not have exact classification. Basically when customer comes to book the consignment to our branches we accept all the commodities. Absolutely there are no restrictions except for some liquid product and the bulk commodities. Apart from that whatever customer wants to book and he needs for transportation definitely we accept all the goods. We do not have any kind of restrictions.
- Paresh Jain:** That is fine but the top five commodities would be accounting from what percentage of the volume.
- Sunil Nalavadi:** Basically see commodity wise classification we will not give much importance to it because we are not deriving our growth plans accordingly. Our growth is actually we always have believe in the expansion of the network and we believe on the coverage of more and more customers.
- Paresh Jain:** So how many routes will you be covering or what expansion of network you would have done let us say two years and you intend to do in the next two years?
- Sunil Nalavadi:** Basically in terms of networks we are providing now pan-India service. The customer can book the consignment from anywhere to anywhere in India and in terms of the number of branches yes

in the last quarter we have not given much emphasis but we added substantial branches in the last year. Just we are giving more focus on these new branches to give for increase in the volumes.

Paresh Jain: No because my point is Sir that you are increasing branches, you are expanding a network and your volumes are still down by 2% if I understood correctly right. So the point is that I mean branch addition would have also been 10%, 15% is that a fair understanding?

Sunil Nalavadi: No not to that extent we added hardly around 60 branches in whole year last year.

Paresh Jain: 60 branches what percentage like?

Sunil Nalavadi: Against around 1200 branches.

Paresh Jain: So that is still 5% branch addition.

Sunil Nalavadi: Yes.

Paresh Jain: Still volumes were down 2%.

Sunil Nalavadi: No these branches will contribute very less in the initial stage. These are all new locations. Contribution from these new branches will not be even 0.5% you can say. Most of our presence will be there in the existing branches. Those branches will contribute significant of amount in the tonnage. So basically what is happening there is a lesser demand from the existing customers also because of non-growing of the business at their end again it is impacting on overall tonnage handling by us.

Paresh Jain: That is what my question is if you can just throw some light that which customer segment is not growing for you?

Sunil Nalavadi: Basically we are handling the consumer goods. That is one thing actually which is impacting and we are dealing with lot of this readymade garments and other kind of stuff that is also little bit impacted in the last year and a lot of agrochemicals and all these products we used to handle and even there are a lot of food grains and other kind of stuff that has been impacted in the last year and that trend has been continuing in the current quarter also and because of some good monsoon and all we are believing that it may revive in the coming days.

Paresh Jain: So realization decline of 9% in the bus segment largely competitive in nature.

Sunil Nalavadi: Not exactly see overall again the movement of the people was lesser in the last quarter. Basically what we do our occupancy level has not been decline. So basically what we do we monitor these prices on a very closely manner and these prices are very dynamic. So depending on the situation of each route and occupancy level immediately we will do the changes in the prices. So

considering that actually of more demand will be there then definitely the realization would have been maintained since there is a lesser demand so we are unable to increase prices much.

Paresh Jain: Thank you.

Moderator: Thank you. We take the next question from the line of Mandar Pawar from Kotak Mutual Fund. Please go ahead.

Mandar Pawar: Good morning Sir, some of my questions have been answered but just on the passenger side when you say there is 3.7% decline if you can break this up between how much was the realization decline on a year-on-year in terms of passenger volume?

Sunil Nalavadi: The passenger volume, occupancy level decreased by around 1% and the realization of passenger also decreased by almost around 8.66% but overall since we added more number of vehicles so that has resulted into carrying more number of passengers.

Mandar Pawar: So that would be how much?

Sunil Nalavadi: That overall number of passenger travel increased by around 5%.

Mandar Pawar: 5% okay and Sir just one clarification on the bio-diesel usage you said Rs.5 to Rs.6 liter difference, which was there in the past. So this is referring to the corresponding quarter previous year or we are talking about on a full year basis??

Sunil Nalavadi: No first quarter to this first quarter.

Mandar Pawar: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Utkarsh Rajvanshi from CIMB Securities. Please go ahead.

Utkarsh Rajvanshi: Sir, couple of questions. One with regard to the IPO proceeds you seem to be having still 30 Crores left? So are you behind schedule and using the same?

Sunil Nalavadi: Not exactly even if you would have noticed in DRHP the proposed capex plan is spread into two years. We are in line with that and yes actually in terms of goods transportation business we are very cautious while adding the vehicles. So considering the growth and the tonnage we decide to buy the vehicles, further we are planning to add the rest of the vehicles in the days to come.

Utkarsh Rajvanshi: In that sense what will be the capex for this year versus what you spent last year?

- Sunil Nalavadi:** Last year we did almost around 100 Crores of capex but this year since we added almost around 44 buses in the last quarter itself. Overall we did say around 18 Crores of capex in the Q1 of FY2017, similar kind of capex may continue in the next quarters.
- Utkarsh Rajvanshi:** But it looks to be on a run rate basis lower than the last year capex?
- Sunil Nalavadi:** Yes.
- Utkarsh Rajvanshi:** Coming back to the bio-fuel side if I understood rightly lower the diesel prices the lower will be the mix of biofuel for you?
- Sunil Nalavadi:** Exactly.
- Utkarsh Rajvanshi:** Looking at your bus and goods what proportions of buses go with the biofuel versus trucks?
- Sunil Nalavadi:** Yes in case of buses it will be major consumption. Say in the last year we use up to around 40% to 45%.
- Utkarsh Rajvanshi:** In buses?
- Sunil Nalavadi:** In buses and overall at company level it was around 26%.
- Utkarsh Rajvanshi:** So trucks very, very minimal. Is there any disadvantage why or advantage for buses why you use it there versus load and overloading it Sir?
- Sunil Nalavadi:** The source of the bio-diesel is Andhra Pradesh, the coastal belt of Andhra. Since many of our buses are flying in southern states that is why we are using more bio-diesel to the buses whereas in case of trucks we are moving across the country so the fuel consumption will happen across the country. That is why it is lesser in goods segment.
- Utkarsh Rajvanshi:** Thanks and all the best.
- Moderator:** Thank you. We take the next question from the line of Nishit Jalan from Kotak Securities. Please go ahead.
- Nishit Jalan:** Sir I have two questions. Firstly when you mentioned that in your good segment your realizations have gone up. How much of this is due to the product mix and how much is due to the freight increase that you would have taken?
- Sunil Nalavadi:** This is mainly on account of increase in the freight rates.

Nishit Jalan: These freight rates have gone up in the last two to three months or is it just a YoY phenomena because what we were hearing in the last two to three months there is some pressure on the freight rate side?

Sunil Nalavadi: Exactly we are not in a position to increase the rates exactly to pass on whatever additional cost will be but in spite of that in some of the routes wherever we are having more competitive edge in such routes yes we increased the rates.

Nishit Jalan: So basically the full impacts of diesel price increase and all you have not been able to pass on?

Sunil Nalavadi: Yes.

Nishit Jalan: Sir secondly when you mentioned that your tonnage volumes are down 2% Sir how much of that is because of the competitive intensity and what would be your assessment in terms of how the industry would have grown or the industry tonnage also down basically I am just trying to get a sense as to how much of it is due to industry pressures and how much of due to the really competitive intensity?

Sunil Nalavadi: When we compare with this IIP numbers and all other things actually our tonnage would have been declined much more than what it is. Since we are having added advantage as compared to other operators still we are gaining some of the portion from the market.

Nishit Jalan: So as per you basically the industry would have seen a larger decline.

Sunil Nalavadi: Yes.

Nishit Jalan: Just to get some numbers. What was your tonnage volume growth in the last quarter?

Sunil Nalavadi: Last quarter compared to the, YOY it is down by 2%.

Nishit Jalan: So last quarter also it is down 2%, this quarter it is down 2%. I think 4Q FY2016 tonnage volume growth or decline as compared to 4Q FY2015.

Sunil Nalavadi: Compared to Q4 versus Q1 it has been increased by around 1%.

Nishit Jalan: I am asking Sir Q4 versus Q4 of last year.

Sunil Nalavadi: it was almost flat.

Nishit Jalan: So basically you are seeing incremental pressures on the demand side.

Sunil Nalavadi: Yes.

- Nishit Jalan:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.
- Vikram Suryavanshi:** Good morning Sir. This capex you said that around 18 Crores will be continued in coming quarters. So it will be this quarter we have mostly additions in bus segment and we are cautious on goods transport. So what would be the trend in capex between these two?
- Sunil Nalavadi:** In the coming days predominantly it will be in goods transport segment. Passenger we may not increase any further capex.
- Vikram Suryavanshi:** For this year at least?
- Sunil Nalavadi:** Yes.
- Vikram Suryavanshi:** In case of employee cost have we already done the increment or will it come in this quarter.
- Sunil Nalavadi:** No this time there will not be increment. Basically in terms of employee cost if you see compared to last quarter Q4 of last year versus this quarter we maintained almost same level of employee cost. So since last year we did increment from July it has been started impacting from the quarter two. So since there will not be any increment then we are expecting that the impact of employee cost on the margin in the second quarter will not be there as compared to the last year same quarter.
- Vikram Suryavanshi:** Would it be possible to give what was the average for fuel cost for this quarter in absolute numbers rupees per liter or something broadly?
- Sunil Nalavadi:** Yes definitely. As of March 31 the average cost of diesel per liter was around Rs.49 as at March 31, 2016 whereas June 30 it is around Rs.57. It almost increased by around Rs.8.
- Vikram Suryavanshi:** Thank you very much Sir.
- Moderator:** Thank you. We take the next question from the line of Jimit Mehta from B&K Securities. Please go ahead.
- Jimit Mehta:** Good morning Sir. In the bus operation segment, you said, that to maintain the same level of occupancy you have to drop your realization by 9%. So what is the rationale behind adding 44 buses? Have we identified some routes where these buses can be added and become profitable?
- Sunil Nalavadi:** Basically at the time of addition what we did, these are all Volvo multi axel vehicles these vehicles we operates for a longer routes say from Bangalore to Jodhpur kind of routes. There

actually earlier we use to operate with old vehicles those have been replaced with new vehicles and the older vehicles we shifted to short hauls.

Jimit Mehta: Overall you are saying that there will probably be a demand revival post good monsoons. So your incremental capex would be towards the GT segment. So have you identified any sectors or have you seen any sectors that are showing signs of revival?

Sunil Nalavadi: Yes some good moment is happening at agriculture sector and even the consumer products and even this automobile sector is also some revival is happening.

Jimit Mehta: Lastly Sir could you give us an absolute number for the realization per tonne in the LTL segment for this quarter?

Sunil Nalavadi: No we are not sharing that number.

Jimit Mehta: Not a problem, thank you so much Sir.

Moderator: Thank you. We take the next question from the line of Nikhil Garg from BNP Paribas. Please go ahead.

Nikhil Garg: Sir I have some questions from the long-term outlook for the company. First is how do you see competition from digital companies which are moving into this space?

Sunil Nalavadi: Basically they are more into this B2C segment if you take a example of all the e-commerce companies and other kind of operators they are more into business from B2C but we are only in B2B segment.

Nikhil Garg: What about companies like Rivigo?

Sunil Nalavadi: Rivigo again in terms of network and other kind of stuff they are having their own limitations and they are predominantly in the full truck load segment not exactly the parcels what we are handling.

Nikhil Garg: So is that impacting your FTL business?

Sunil Nalavadi: No. again FTL is not our focused business. Wherever we are not getting a return loads only in such scenario we are engaging our vehicles for FTL. So that is not a focused area from our end.

Nikhil Garg: I understand that but do you think there is a pressure on overall realization because of more efficient player coming into the FTL segment?

Sunil Nalavadi: In our case FTL contribution is hardly around 7% to 8% and still we are maintaining at 7% to 8% and with a good kind of growth.

Nikhil Garg: Sir secondly how do you see competition from railways over the next few years especially after DFC starting?

Sunil Nalavadi: DFC again they are more concentrating on these bulk commodities. It is not related to the product, which are in parcel in nature or small parcels. To give specific example we are handling a people like Raymonds and all they will give around 40, 50 tonnes of material in one location to distribute across around 200 places. So this DFC they are not into the kind of materials what we are handling they may provide point-to-point service with bulk commodities.

Nikhil Garg: With the GST coming in you said that there will be drastic improvement in the efficiencies. Could you throw some light on it when you said drastic improvement what would be that mean?

Sunil Nalavadi: In the current scenario what I highlighted basically to comply with lot of these local taxes and state wise taxes, each state government are having their own controlling measures say like check post authorities etc. Now to enter and exit from each state all these vehicles scrupulously they have to go with the checkpost verification process. In some areas say it is taking up time of around 4 to 6 hours and in some check posts it is taking a time of around 24 to 30 hours also. So the moment this GST is implemented this checkpost requirement will not be there. Since across the country there will be same rate of tax, no need to verify the documents at the time of entry and exit of the particular state. Thanks to the government even about the recent amendment what they did in GST. They withdraw this 1% inter-state tax has been withdrawn so definitely it will give lot of smooth in the operations and it will increase the efficiency level. This is in terms of operators benefits. When it comes to manufacturers right now what is happening pharma companies and all they are having a manufacturing set up in one particular location but they have to distribute their materials across the country. To comply with all the state tax laws requirements what these people are having they are having a state wise warehouses. Now the moment GST is introduced the requirement of handling these warehouses, monitoring the goods at a state level to distribute to the last mile that were not necessary from the manufacturers. So definitely they are going to handover that kind of service to the logistic service providers. See in our case for example I mentioned about just the Raymond they will give product in one location and we distribute across the country. Similarly that kind of set up is going to happen in all the products, be it all electrical electronic items, be it all manufacturing items, be it all auto spare parts etc. They will give in one location to distribute to multi locations across the country. Right now that set up is not there.

Nikhil Garg: So in terms of utilization can you may be give us some number that utilization would go or the running number of us could go by say 10% or 20% something like that?

Sunil Nalavadi: To give exact percentage, it is a very initial stage and basically what is happening now in most of the cases, we are spending almost around 10%, 15% of our operating time in these checkpoints. So that will come down that will not be there once the GST is implemented.

Nikhil Garg: So if next year GST gets implemented then is it fair to assume that the capex would I mean capex requirement will be not there next year or may be for a year or two?

Sunil Nalavadi: But if we maintain same level of existing volume yes what you are saying is correct but obviously considering the growth, now in transportation sector lot of these unorganized people are there because of the different tax structure and other kind of things and because of the mix of LTL and FTL they are also in the field. The moment the changes will happen even the dependency on the unorganized sector will shift to the organized sector. If that will happen then definitely we may anticipate good kind of volume growth also. So considering the demand and supply we define our capex plan.

Nikhil Garg: So basically you are saying that unorganized I mean the transportation would move from unorganized players to organized players because then the company which is spending money will be able to claim the service tax?

Sunil Nalavadi: The people who are booking.

Nikhil Garg: Yes the people who are booking they will be able to claim the service tax, which they pay to you?

Sunil Nalavadi: Yes. Everything will be integrated. Now that is happening different people are adopting different kind of practices. Now for sales tax they are having a different kind of setup. For service tax, indirect taxes they are having a different kind of monitoring. Now the moment both these taxes have been integrated then obviously they have to maintain one kind of process across the country. So they will be more familiar or they will have more comfortable to operate with organized players rather than operating with a unorganized players.

Nikhil Garg: Sir final question on your ROE your ROE has been coming down over the last few years so if the leverage does not increase can the ROE really go back to 40% odd levels?

Sunil Nalavadi: Definitely in the recent years what happened we raised some good kind of equity; the base of the equity has been increased as compared to earlier period that is also one of the reason but going forward if you see the return on capital employed on an overall basis we are maintaining good number. Since the base of equity has been increased in the recent past there is little bit impact on the ROE but if you see the ROCE we are maintain good number.

Nikhil Garg: Thanks Sir.

Moderator: Thank you. We take the next question from the line of Harsh Shah from Dimensional Securities. Please go ahead.

Harsh Shah: Thanks for the opportunity again. Sir another thing, actually it sort of a clarification that I would like from you in this GST when your service tax goes up to 18% what is the final customers is in case if you want the final customers be taking a hit of this incremental service tax you will be charging to him?

Sunil Nalavadi: No it will not impact directly to the customers. Currently what is happening One is abatement, and other is non-abatement. If it is other than abatement then we have to apply the full tax and we are eligible for input tax. If it is with abatement we are not eligible for input tax but we have to charge a concessional rate to the customer. Assume that tomorrow this concessional rate will not be there and we have to charge a full tax rate, the customer is eligible to take the input tax credit. Now whatever amount of tax they will give they can take credit of these taxes to their output tax. So that is why in the new GST what is going to happen see everybody has to come under the tax net to take advantage of the tax credits and its efficiency.

Harsh Shah: Sir do you see big shift from unorganized to organized player?

Sunil Nalavadi: Definitely we are anticipating that. The reason is now whatever tax customers are going to pay to through the service providers that is nothing but cash to them because they want proper information, proper credit to their accounts to claim again input tax credit. So that is why they believe on people who will have more informative more transparent and all these things actually they will expect from the service providers.

Harsh Shah: Another thing is once this GST comes we understand that there will be consolidation of warehouses. So companies would outsource the transportation business to the third party logistics but my understanding would not be the integrated players benefit more than their goods transportation companies like if a company has its own warehouse as well as transportation facilities are in they in a better position to take advantage of this opportunities?

Sunil Nalavadi: Basically the people who are having this hub and spoke model what happens now say in x case if you getting say around 20 tonnes of material to distribute to multiple locations, it is not a storage. Actually you should have a proper place to aggregate and segregate of these goods. The moment you accept the goods you have to segregate these goods into different, different locations to move it to the next destination. For that purpose actually we need a warehousing and the people who are having a hub and spoke model like us definitely they are going to get advantage out of this. Currently we are operating with around 48 transshipment hubs connected with around 1000 plus branches. Anywhere the goods come actually we are in a position to handle. It may be smaller and smallest goods also we will handle with the multiple locations.

- Harsh Shah:** Fair enough, thank you so much.
- Moderator:** Thank you. We take the next question from the line of Ashish Kumar from Infinity Alternatives.
- Ashish Kumar:** Thank you for taking my question. I wanted to understand as to at what rate of GST would we have a breakeven in terms of the input tax credit. You said a lot of things that has been taken by at what level of rate could this give tax credit?
- Sunil Nalavadi:** No in terms of the percentage of taxes basically it is a mix of it is more related to the people who are having the manufacturing and selling. For them actually they are in need of breakeven and other kind of steps is more important. In our cases what will happen for us actually the rate of tax is immaterial. Whatever tax actually the government is going to place that much of taxes we can claim as an input tax. Say for example out of our output tax say, now most of the people if they are depending on these hired vehicles and all they will have a neck-to-neck comparison. Basically they are paying output tax say round 18% or 20% whatever similarly they have to spend the similar kind of expenses and since it is an integration of both manufacturing and service level whatever difference in the margins say for example if I am generating Rs.100 revenue definitely our expenses will be around 80% to 85% the operational expense. On that again I am paying tax I can claim input tax.
- Ashish Kumar:** Thanks.
- Moderator:** Thank you. We take the next question from the line of Mahesh Bendre from Way2wealth. Please go ahead.
- Mahesh Bendre:** Sir my questions have been answered. Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Ankit Panchmatia from ICICI Direct. Please go ahead.
- Ankit Panchmatia:** Good morning. Thanks for taking my question. Sir the current quarter capex was 18 Crores out of which we have also bought a property. So just want to understand what is this property is it the newer offices which have opened?
- Sunil Nalavadi:** No it is an existing facility what we were having in Rajasthan. This property is situated at Rajasthan, which is on the way between this western part to Delhi. It is a connecting point between these two.
- Ankit Panchmatia:** So this would be used for official purpose?
- Sunil Nalavadi:** Yes again for transshipment hub purpose.

- Ankit Panchmatia:** So what would be the total area of this property?
- Sunil Nalavadi:** It is around 2 acres of land. We spend almost around 8 Crores on this.
- Ankit Panchmatia:** Out of this 1200 branches which we have any bifurcation on the owned as well as lease one?
- Sunil Nalavadi:** Most of the places are on lease basis and in around 40 to 45 places we are having own premises. Rest of the premises we are having in leased premises and when it comes to transshipment hubs totally we are having 48 transshipment hubs. Out of those 7 are owned by the company property and rest of all on the leased premises.
- Ankit Panchmatia:** Sir just want to get the average fleet age of our goods transportation?
- Sunil Nalavadi:** It is around 8 years.
- Ankit Panchmatia:** So Sir any update on the new scrappage policy, which has been kind of getting tweaked how, would we impacted with this Sir.
- Sunil Nalavadi:** About scrappage policy, yes it has an impact on overall industry and basically what is happening since our older vehicles are small capacity vehicles and those are all using for now only for the between hub to spoke level, not a hub to hub and hub to hub always we use higher capacity and newer vehicles. So in terms of total number of vehicles it is in the range of more than 15 years old around say 400 something vehicles but out of those vehicles if you see in terms of percentage to the number of vehicles what we are owning it is in the range of say around 8% to 9% but in terms of capacity it is hardly around 4% to 5% of the capacity what we are operating.
- Ankit Panchmatia:** But Sir this would be necessary if I want to get my goods transfer from hub to spoke right. So this owned vehicles would be key vehicles as well?
- Sunil Nalavadi:** In cities like Delhi and all always they put restrictions. There actually the moment it nears to 8 years or 10 years based on the restrictions on particular cities we shift these vehicles to the other cities. Again we put newer vehicles in those cities. That is how we are monitoring.
- Ankit Panchmatia:** Sir just an hypothetical question if the scrappage policy has been what kind of impact of what kind of capex we would need to incur if I want to replace this older vehicles?
- Sunil Nalavadi:** Basically if you see our capex plan every year say we are adding around 200 to 300 vehicles and in terms of capacity whatever this more than 15 year vehicles that much of capacity we are adding every year. So in our case actually the impact will be much lesser but if you see the overall industry impact it will be much, much impact on the industry and definitely the people who are operating stage definitely they are going to pass on that additional cost to the customers

again. So since if it is a lesser impact on us but impact on the freight rate will be similar to what the other people operators are there. So will have again more advantage the moment that policy applies to across the country.

Ankit Panchmatia: Thank you very much Sir. That is all from my side.

Moderator: Thank you. We take the next question from the line of Manish Goel from Enam Holding. Please go ahead.

Manish Goel: Good afternoon Sir. Just couple of clarification; first, on the tax setup so in our case on the input side we have fuel and most likely petrol and diesel is likely to be out of GST. So in that case how does it going to impact us because we will not be able to get the upfront?

Sunil Nalavadi: Accordingly if it is fuel is out of that then definitely they will put certain kind of media for the people who are completely depending on the fuel and right now say this abatement for example why this abatement has been fixed because of the lesser input tax credit which are available. Forget about VRL in case of other operators if they engage vehicle for the goods transportation purpose there is no service tax on that. They have given that exemption as well as they have put abatement on this goods transportation service. Similarly considering all these impacts they will put certain parameters by which transport sector also will have similar kind of impact as compared to other industry.

Manish Goel: So you are trying to say that whatever service tax we will pay will get the abatement over there.

Sunil Nalavadi: Input tax or abatement either of the one.

Manish Goel: We will not at a major disadvantage because of this.

Sunil Nalavadi: Absolutely no.

Manish Goel: Second point on once the GST comes in just to clarify you said that you said that we still need to do capex on a if the volume growth happens but ideally once the GST comes the productivity of your vehicles will go up to a decent extent may be say amount of time which is spend on the toll lockers and other places that time.

Sunil Nalavadi: Toll is not going to change.

Manish Goel: No not exactly but for the paper related work from interstate movement ideally the trucks would be saving lot of time and in that process your turnaround time would increase and then probably a better productivity. So ideally you should have probably in a way increase your tonnage carrying capacity.

- Sunil Nalavadi:** Definitely now even today also see how we are defining the capex plan. It is always based on the need. In our case we are operating with own vehicle as well as outside vehicles. 90% of our operation we are covering with our own vehicles and around 10% to 12% of our operation we are engaging outside vehicles. Say demand if demand is increased by say 5% hypothetically if we are having same number of vehicles then obviously this additional 5% of capacity we have to move through outside vehicles.
- Manish Goel:** No that I agree Sir.
- Sunil Nalavadi:** Similarly the moment GST comes in assume that the efficiency level is increased by around say 7%, 8% then that much of dependency on outside vehicles will be lesser if the same volume continues. If there will be a more demand obviously that whatever efficiency level will be there that will be observed in the growth and apart from that in addition to that if we may need vehicles then only we will incur a capex.
- Manish Goel:** So ideally basically 7% to 10% is something, which the efficiency can improve because of GST.
- Sunil Nalavadi:** Yes.
- Manish Goel:** Third question sorry I logged in late but your employee cost has been going up just wanted may be you would have addressed earlier.
- Sunil Nalavadi:** Yes in terms of employee cost say we did major increment in the last July. From second quarter of the last year it started impacting on the margins but if you see the employee cost of last quarter versus current quarter it is almost same. So we are having completely the control and we are not taking any increment to the salary and other things because we have given some good kind of substantial increment in the last year. So we are hoping that in the coming quarter definitely the impact of this employee cost will be lesser.
- Manish Goel:** But ideally say in the current year also there should be some inflationary based increment you would have to give right.
- Sunil Nalavadi:** Basically it depends on the place to place again. It will not be the mass increment, last year we gave substantial increment. That will not be there.
- Manish Goel:** Can you indicate how much say may be this July say for coming year?
- Sunil Nalavadi:** This July we have not given any increment and even as of now. As of now the stand is we are not giving any increment.
- Manish Goel:** Thank you so much.

- Moderator:** Thank you. We take the next question from the line of Harshad Borawake from Motilal Oswal Securities. Please go ahead.
- Harshad Borawake:** Thanks for the opportunity. Sir I think in the opening remarks you mentioned that there was a 2% decline in freight tonnage. So I was just wondering last whole almost 12 months we saw a 10% increase in diesel demand in India and we believe it is a reflection of rate movement. So can you just why this discrepancy could be in terms of diesel demand versus your freight tonnage. Thank you.
- Sunil Nalavadi:** These two are independent basically, the tonnage is always depends on the demand from the market as well as the kind of network what we are handling and in terms of fuel, fuel is actually is controlled by totally the government. They are frequently changing the fuel rates accordingly on a overall basis the fuel prices is continuously it has been increased but if we see in absolute terms compare to the last year same quarter versus the current quarter the fuel rate again it has been reached to the earlier stage but it is nothing to do with tonnage what we are handling.
- Harshad Borawake:** So typically I was trying to understand that higher the demand would mean higher the freight movement so we will also saw the similar increase in new sales in India. Somehow it is not translating into higher freight movement.
- Sunil Nalavadi:** Yes freight movement it depends on so many sectors even if you see the IIP numbers and other kind of stuff in the last year continuously it has been dropped except in the recent past it is showing some little bit positive sense. Apart from that if you see continuously it has been dropped especially the manufacturing sectors in the last year.
- Harshad Borawake:** Are you seeing any change in the July month?
- Sunil Nalavadi:** It is very early to comment on that. Still we have to pass on and even the monsoon impact may really show in the third quarter.
- Harshad Borawake:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Ashutosh Narkar from HSBC Bank Limited. Please go ahead.
- Ashutosh Narkar:** Good morning Sir. Couple of questions. One on your goods transport segment. Have you seen any impact because Container Corporation has started the Delhi-Bangalore route and it supposedly that has been getting pretty decent volumes? That is one and how much would this segment actually contribute to you given that Delhi is one of our major transshipment hub, Bangalore also being probably one given that 50%, 60% of volume should derive from there that

is one and the second question is if you could give me data points on that was been the volume growth for the last four quarters for the bus segment.

Sunil Nalavadi: Basically in terms of the movement of this corporation of India about Delhi-Bangalore yes that route again we are showing good kind of growth compare to other routes what we are operating. Really the impact of the new entrant is absolutely no impact on our business and in terms of volume data definitely I will share with you for all the quarters.

Ashutosh Narkar: So probably after the call.

Sunil Nalavadi: Yes after the call I will.

Ashutosh Narkar: No problem and just one more question is sorry to harp on the same point but in the last three to four months timeframe we have seen diesel prices actually go up as high as 30% sequentially. So is that despite this we have not seen any reason for us to kind of source bio-diesel because I guess 30% is a big amount differential right. You had said that the total differential between diesel and bio-diesel is only 15%.

Sunil Nalavadi: Yes, again negotiations are happening with the supplier of bio-diesel and definitely we may start again soon but in spite of decrease in usage continuously we used say around 3% of the bio-diesel in the last quarter also. But the thing is again because of this their input raw material cost also gone up. The manufacturer what they are expressing apart from competing with existing fuel price their input raw material costs also increased substantially. That is why they are unable to give exact competition to match this fuel price and some negotiations are happening. Instead of say saving of Rs.5, Rs.6 assume that if it is some good kind of benefit even Rs.3 to Rs.4 also we like to start the bio-diesel. Talks are going on we have to see how it will end up.

Ashutosh Narkar: One last question is sequentially we see in our fuel cost go up by around 16% or so the numbers which you give out during the conference right now. So effectively which means that you would have kind of on an average basis 50% that has been already passed in. So next quarter again we will see that the remaining 15% to 16% kind of go up on a sequential basis right. So what is the sequential increase in pricing that we have taken?

Sunil Nalavadi: Basically on a overall basis if you see the realization per tonne it has been increased by almost 4% on average basis but what we did in some of the routes we increased our rates even up to say 7%, 8% and in some of the routes we increased our rates around 3% to 4% and in some of the locations we have not increased the rates also. So on an average basis the increase in the realization is around 4.3% as compare to the last quarter.

Ashutosh Narkar: This is sequential right and we have not kind of increased the rates during the current quarter?

Sunil Nalavadi: No, since fuel price is already again declined by almost Rs.2 just two to three days back so right now we are not taking any call on increase in the rates but we are not decreasing the rates also.

Ashutosh Narkar: Thank you Sir. This was really helpful. All the best to you.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Sunil Nalavadi for his closing comments.

Sunil Nalavadi: Thanks to all for participation in the conference.

Moderator: Thank you. On behalf of ICICI Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.