Updated: 05-11-2018 10:10
Tags: @vishnu570

74-94 minutes

Hubli Nov 4, 2018 (Thomson StreetEvents) -- Edited Transcript of VRL Logistics Ltd earnings conference call or presentation Saturday, November 3, 2018 at 12:00:00pm GMT

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Ladies and gentlemen, good day, and welcome to the VRL Logistics Limited Q2 FY '19 Earnings Conference Call hosted by ICICI Securities Limited. (Operator Instructions)

Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhijit Mitra from ICICI Securities. Thank you, and over to you Mr. Mitra.

Abhijit Mitra, ICICI Securities Limited, Research Division - VP of Metals, Mining and Defence [2]

Okay, thanks, operator, and good evening to all the participants. So we have today Mr. Sunil Nalavadi, CFO of VRL Logistics, to discuss Q2 FY '19 results of VRL Logistics. Without further delay, I would hand it over to Mr. Nalavadi for his opening remarks. Thanks.

Yes, thank you, Abhijit.

Good evening to all. I'm Sunil Nalavadi, CFO of the company. This is a new call of VRL Logistics of our quarter 2 for the financial year 2018/'19.

Let's take over some brief financials for the half year ended, half year-to-half year, then we can move on to quarter-on-quarter.

In terms of half year-to-half year, the total income of the company increased by around 10.3% from INR 952 crores to INR 1,050 crores. And the EBITDA of the company decreased by around 12.68% from INR 136 crores to INR 119 crores, and percentage to total income decreased from 14% to 11.34%.

The PBT of the company decreased by 18.31% from INR 81 crores to INR 66 crores. And percentage to total income decreased from 8.47% to 6.27%.

The PAT of the company decreased by 19% from INR 55 crores to INR 45 crores. And percentage to total income decreased from 5.8% to 4.27%.

The growth in revenue mainly contributed by the goods transportation segment. The goods transportation segment revenues increased by 13% from INR 733 crores to INR 829 crores. And the growth in GT business is on account of increase in tonnage by around 8% and increase in realization by around 5%. The increase in tonnage is on account of increase in business from the existing customers as well as we added some good number of new customers also.

The EBITDA of goods transport business decreased by 5.4% from INR 97 crores to INR 92 crores. And percentage to total income decreased from 13.26% to 11.09%. The decrease in EBITDA margin is mainly on account of increase in fuel cost. The percentage of fuel cost to the revenues increased from 23.6% to 26% of GT revenue.

As compared to the last year, the diesel prices increased from INR 59 to INR 75 per liter, but then our procurement cost has increased from INR 55 to INR 65. We try to control on fuel cost by procurement of more biodiesel quantity as compared to last year, and the quantity of biodiesel has increased from 12.46 in H1 '18 to 22.71 in H1 '19 for the total quantity of diesel consumed. The rest of the expenses are in control and increased more or less in proportion to the revenue and not embedded on the margin.

With respect to passenger segment is concerned, the passenger segment total number of buses are reduced by 21 number as compared to last year. But in spite of that, the revenue has increased from INR 181 crores to INR 188 crores, from -- by around 3.8%.

The increase in bus mainly is on account increase in number of passengers, increase in occupancy level and increase in realization per passenger since the diesel cost has increased from INR 59 to INR 75 per liter, which is beyond increase in realization as well as increase in of occupancy levels. And same has resulted in lesser EBITDA margins of passenger segment.

The EBITDA of bus segment has decreased by around 42% from INR 28 crores to INR 16 crores. And percentage to total income decreased from 15% to 8.6%.

And with respect to wind power business, it is consistent in revenue.

When we compare the results of quarter to -- stand-alone quarter 2 with last year, the total income of the company is increased by around 14.24% from INR 454 crores to INR 519 crores.

The increase in revenue is mainly contributed by the goods transportation segment. The goods transport segment revenue increased by 17% from INR 358 crores to INR 419 crores. The growth in GT business, goods transport business, is on account of increase in tonnage by 10.5% and increase in realization per ton by almost 7%. The increase in tonnage is on account of, again, increase in the business from the existing customers. Also, we added some good number of new customers during the period.

The EBITDA of the goods transport business is increased by 7.74% in absolute number from INR 46 crores to INR 49.8 crores. And percentage to total income decreased from 12.9% to 11.88%. The decrease in EBITDA margin is mainly on account of increase in fuel cost. The percentage of fuel cost to the revenue is increased from 23.75% to 26.22% of GT revenue. As compared to the last year of the same quarter, the diesel prices increased from INR 57 to INR 75, whereas our procurement cost is increased from INR 55 to INR 65.

Again, we try to control on fuel cost by procurement of more biodiesel quantity as compared to same quarter of last year and is increased from 6.33% to 27.5% of the total quantity of diesel consumed. Overall, we are in control of the rest of the expenses, and some of the operational expenses, such as lorry hire charges, vehicle repairs and maintenance cost and employee cost, are decreased as a percentage to the revenue. Since the growth in revenue is more than increase in these costs, hence the EBITDA margin declined by 1% even though the impact of increase in diesel cost is by 2.5% on the margin.

Again, on -- in the PT segment, because of the increase in diesel cost is not completely passed on to the passenger, again the margins in PT segment have been impacted.

When we compare our results quarter 1 to quarter 4 to current year, the total income of the company is decreased by 2% from INR 531 crores to INR 519, and the changes in revenue is mainly on account of decrease in the passenger revenue on account of seasonality as well as increase in GT revenue by 2.28%.

The EBITDA of the company has decreased by around 10% from INR 63 crores to INR 56 crores. And PBT of the company decreased by around -- from INR 36 crores to INR 29 crores, and same has resulted in decreased impact from INR 24 crores to INR 20 crores.

With respect to goods transport segment is concerned, the revenues increased by around 2.28% from INR 410 crores to 420 crores. And growth in GT business is on account of increase in realization per ton by around 6.5% and decrease in tonnage by around 4%. The decrease in tonnage is on account of seasonal variance as well as delaying of some festival seasons in the current year, and also due to long truck strike during the current quarter, especially in the month of July, started from July 20 to almost 8 to 10 days.

And the EBITDA of the GT business in absolute terms, it has increased by around 18% from INR 42 crores to INR 50 crores. And percentage to the GT revenue increased by around 1.6% from 10.28% to 11.88% in spite of increase in diesel cost.

The percentage of fuel expenses remains constant at 26% in spite of increase in diesel rate from INR 68 to INR 75. So we pass on most of the increase in fuel expenses in there by increasing the rates. And the lorry hire charges especially has declined as compared to the total percentage to the revenue. This is on account of lesser kilometers we operated through hired vehicles. And overall, rest of the expenses are in line with the increase in the turnover. And the same has been translated into improvement in EBITDA margin by 1.6% in GT segment.

When we come to passenger segment, again it is mainly on account of seasonality as well as the increase in fuel cost; resulted into a decline in the EBITDA margin in passenger segment.

And the rest -- entire -- we consider -- the board has considered to pay the interim dividend of INR 3.5 per share. And also, with respect to the increase in capacity of the vehicles, we are in the process of this -- increasing the actual load increase, and almost around 80 vehicles have been already processed and the rest of the vehicles are in progress. Due to this, we may do some modification in the CapEx plan, what we announced earlier.

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

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Sandeep Matthew from SBICAP Securities.

Sandeep Mathew, SBICAP Securities Ltd., Research Division - Analyst [2]

Sir, the first question I had was on your tonnage decline that we have seen on a sequential basis. So between last quarter and this quarter, as you had indicated in your opening remarks, our tonnage kilometers are down. Can you explain why this has been the case, sir?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [3]

You're asking about the tonnage?

Sandeep Mathew, SBICAP Securities Ltd., Research Division - Analyst [4]

Yes, the 1Q and through this year, yes.

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [5]

Yes. As I told you, this is on account of -- one is the truck strike, which was there in the month of July, which started from July 28 to almost -- continue 8 to 10 days. So there -- during that period, the operations were completely halted. And subsequently, what we expected, that some of the new tonnage have not been accumulated. That's one. And apart from that, there are some delayed festivals also in the current year. See normally, what will happen in quarter 2, quarter 3, 3, 4 festivals come early, the -- some of the tonnage will add in quarter 2. Now that means you shift to quarter 3.

Sandeep Mathew, SBICAP Securities Ltd., Research Division - Analyst [6]

Right, sir, but I think it is early part of quarter 3 that the festivals are coming, right? I mean, to -- would -- have you already started seeing a pickup in Q3 in your tonnage kilometer, sir, or...

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [7]

No, that's more especially with -- there are more festivals again in the month of October, but the festivals fall in the month of November.

Sandeep Mathew, SBICAP Securities Ltd., Research Division - Analyst [8]

Okay. Right. Sir, the second one is on your EBIT margins for the goods transport segment again on 1Q versus 2Q. It's encouraging to see that you likely improve your EBIT margin. Could you -- I mean, what more specifically have you done on the cost side to kind of help this improvement?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [9]

As I told you, one is the realization has improved in spite of decrease in the tonnage. So on account of that, the margins have been improved in the second quarter.

Sandeep Mathew, SBICAP Securities Ltd., Research Division - Analyst [10]

And sir -- but you are -- ideally speaking on your cost base, since your fuel prices on a sequential basis are also up pretty significantly, you should have actually had higher expenses as well. So there have been other expenses outside of fuel that you might have done in this quarter to actually bring in a slightly better margin. So I'm just trying to understand, what is the -- you've got a very similar revenue run rate. You have been able to improve margins. So what is the cost base that has ideally helped you outside of fuel this quarter?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [11]

No basically, the lorry hire expenses is decreased compared to the first quarter.

Sandeep Mathew, SBICAP Securities Ltd., Research Division - Analyst [12]

Okay. So lorry hire has been the key, decreasing expenses.

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [13]

And there are minor changes in the other expenses. But more or less, plus or minus, it remained the same. Lorry hire has not declined on account of lesser kilometer we operated through outside vehicles because tonnage is also restricted.

Sandeep Mathew, SBICAP Securities Ltd., Research Division - Analyst [14]

Right, okay, sir. And...

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [15]

And again, what happened, the realization per tonnage improved.

Sandeep Mathew, SBICAP Securities Ltd., Research Division - Analyst [16]

Okay, sir. So sir, the third question I had was on your total CapEx plan. Now with the revised axle load now coming into play, that you're actually getting better clarity. Well, have you bumped up our plans in terms of how much is it that we intend to spend on acquisition of new cars and trucks? And the other question I had on CapEx was how many of our passenger vehicles are up for renewal next year? And what is the plan over there?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [17]

Yes. The first one, with respect to this axle load, we are modifying the order, that is, the order in the process. Basically, what we are thinking is rather than hiring the higher-capacity vehicles, 14-wheeler vehicles, we are thinking to add more of our 12-wheeler and 10-wheeler. The reason is, if you want to -- if you add a 14-wheeler vehicle, the size of the body will remain same as compared to 12-wheeler and 10-wheeler. So that's the reason. Now whatever 14-wheeler vehicle we purchase, they're on the 70 we have already purchased and some 30 vehicles are in the pipeline. But whatever the next supply will be there, those vehicles will be 12-wheeler and 10-wheeler. See basically, payload, how it will change, in 14-wheeler our earlier payload is to -- we used to get there 24 tons. Now they will come to around to 29 tons. But in case of 12-wheeler, we used to make around 19 to 20 tons payload earlier. Now we'll come to around 23, 24 payload richer. That's the reason, right, to considering the fuel efficiency as well as considering our nature of the goods and other things.

(technical difficulty)

Operator [18]

Ladies and gentlemen, there seems to be a disconnection from the management line. We request you to please stay connected while we reconnect the management. Thank you.

(technical difficulty)

Operator [19]

Ladies and gentlemen, thank you for bring on hold. We have the management reconnected to the conference call. Over to you, sir. And we also have Sandeep Matthew from SBI Capital with a question here. Thank you.

Sandeep Mathew, SBICAP Securities Ltd., Research Division - Analyst [20]

Yes. So you were explaining. If you could just quantify how much is it finally going to result in terms of your costs coming down for CapEx on the goods side? And also on the passenger side, how many vehicles are due for renewal next year? And what are our plans on that side?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [21]

Now in terms of -- in goods transportation, instead of 1,200 vehicles, in the range of around 680 to 700 vehicles, what we are planning. But that is we announced shortly with what capacity along with deposit and everything. And in terms of passenger, yes, some of the vehicles are expiring the permit, but we can extend those permits for another 4 years. That is permitted in some of the states. So we actually think some of the vehicles to extend to 4 years. And if we are unable to extend the permit, we will scrap those vehicles. And as of now we are not thinking to add any further vehicles or to incur any additional capital in that shipment.

Operator [22]

(Operator Instructions) The next question is from the line of (inaudible) B&K Securities.

Unidentified Analyst, [23]

Good set of numbers on goods transportation. Sir, my question is regarding this. So I -- regarding the number, 17 are already purchased, the 14-wheeler. And...

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [24]

7,0

Unidentified Analyst, [25]

And -- 7, 0, 70?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [26]

Yes.

Unidentified Analyst, [27]

And 30 are in pipeline?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [28]

Yes.

Unidentified Analyst, [29]

Okay, okay. And sir, regarding our visibility in terms of how the EBIT has been panning out, how strictly it's been implemented, any comments? Or any qualitative comments from your end would be very helpful, sir.

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [30]

Yes, really, the EBIT will -- it was helping to the -- especially we are less than 70 -- helping to us. The reason is based on some of the feedback from the customers earlier days who now operate with some of the different customers in transport really in different route. Now they are consolidating their operations, and such kind of business is coming to us. Apart from that, we are hearing from the market that some of the -- these smaller operators, they've got -- use penalty notices and all, but -- and because of noncompliance overall or because of non-following the procedures. But that kind of incidents are not complete because we are capturing most of the information at the time of booking, which is -- unless those things are complied, the booking itself will not occur in our system. So that's the reason of such incidents. Hardly 1 or 2. And overall, we end up with paying penalty of probably around INR 3 crores to INR 4 crores -- 3 lakhs to 4 lakhs, sorry. So that's the situation. So our systems are more efficient to handle this, and we will process entirely.

Unidentified Analyst, [31]

Okay, okay. Sir, regarding lead extended, if I can get kilometers traveled for the quarter, the numbers for this quarter as well as the earlier quarter as well.

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [32]

Yes, there's discount on an overall basis. So there is improvement in kilometers probably own vehicles. It has improved by almost around 2%.

Unidentified Analyst, [33]

Okay. Okay.

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [34]

And in the current quarter, a revenue decline on (inaudible) the vehicle also. And that was to the percentage to the revenue. It has come down.

Operator [35]

The next question is from the line of Mukesh Saraf from Spark Capital.

Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [36]

Yes, sir. Sir, firstly is on pricing. You did mention that you have taken -- and there is a realization jump of 7% this quarter vis-à-vis last year same quarter. Could you give some sense on how much more pricing hike would be required, let's say, to offset the entire diesel hike? Also, you have some long-term contracts. So you said that the earlier hike that you've taken will only material in subsequent quarters. So what is the situation with respect to the entire pricing?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [37]

In terms of diesel, if you compare to last year, which is the current period, it is our most seasonally higher sales at around 2% to the revenue.

So one is we have already increased, and we are reading some sense that the prices are also coming down, diesel prices. So on a periodical review, again, we will take a call.

Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [38]

So as of now, like you said, 2%. Do we expect this 2% to kind of -- I mean, to see that reduction in that -- diesel as a percent of revenue in this third quarter itself? Or do you think it'll stay like this for some more time before you can say that...

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [39]

Actually, it will come. And moreover, the -- apart from -- the more -- another important thing here is apart from depending on this normal fuel, we increased the biofuel quantity. So you can see out there basically so it has increased by almost 3%. But quarter-on-quarter, for instance, in second quarter, we raised up to 28%, 29%.

Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [40]

Right, right. So either by way of biodiesel or by way of pass-throughs, do you think, maybe not immediately in the third quarter but by the end of the year, we'll be done with -- if you assume diesel stays where it is, you'll be done -- and you'll be back to the earlier levels in terms of fuel prices and passengers revenue, sir?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [41]

Yes, that's our internal target. Actually, we want to come back to the original margins. But again, now since new customers are coming and the volumes are also picking up, so we have to concentrate on that as well rather than to be contemplating on the margin side. But there are improvements. So we want all of that improved again. So earlier, employee cost was almost -- it was increased. Now because of, I think, volume and other things, same with the fixed costs, it is coming down as a percentage to the revenue. So that's the reason internally, not only the fuel costs, where you see the momentum in other expenses also. Accordingly, we will take a call.

Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [42]

Right. And so my second question is again with respect to the new customers. Could you quantify by any means new customers' contribution to the overall tonnage either -- in some way, that could -- or revenues or anything like that, could you quantify, sir?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [43]

Currently, it's very difficult because our customer numbers are (inaudible) as our revenues number except some of the corporate clients or (inaudible) customers. In the rest of the business, actually it's a cash and carry business. Either they will pay at their booking time or delivery time. Yes we can, but we have to quantify based on the GST number. Right now we don't have that information, then we can forward it on a later date. How many -- the most recent number we had, I don't have it available with me. We can do that.

Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [44]

And then, sir -- and just lastly, on the trucks that you're adding, could you give some sense on what will be the key markets that you're going to be plying them on? Any new regions like, say, Delhi or maybe Orissa and Delhi? But any new areas that you're looking to -- in term of these new trucks that they're going to start and by then that can happen?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [45]

Yes. Last time also, we maintained the whole project, where it'll exactly be. Now recently last week, we got it registered the. The land is already -- will be purchased, the -- whatever land portion expenses were there, that much of investment has been already done. And the building is also in the process. So we are expecting -- by this year-end, we are equipping the sales facility, make it operationalized. So once it is done, we require -- then we book a number of retailers out there. So we are confident really from Surat and Daman area to rest of the routes. That area is highly concentrating right now.

Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [46]

Right, but, sir, I mean, you're seeing like a huge 700-odd vehicles. I mean, majority of these will be around Surat, sir?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [47]

Yes, Surat demand currently, like you say, with most of the routes, currently what we're handling from Surat right now within only Surat to the South Indian route or from the North end -- Northeast. We're very selective of routes we are operating. And once we have our own facility and our own booking -- right now, we are depending on our franchise holder. So once we shift to our own facilities, definitely we are expecting good growth into this area.

Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [48]

Right, right, right. So next year, we should start seeing this materialize?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [49]

Yes, yes.

Operator [50]

The next question is from the line of Rajarshi Maitra from CIMB.

Rajarshi Maitra, CIMB Research - Analyst [51]

So just wanted to ask you about this revised axle load. Now this has been completely implemented, right? And in this quarter, did we see the full impact during the quarter? Or that has come in only towards the end?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [52]

No, out of the total vehicles, we got a -- permitted to carry additional load for 82 vehicles. Rest of the vehicles, still we are in the process because these vehicles have to be certified by the IPO.

Rajarshi Maitra, CIMB Research - Analyst [53]

Okay. So should we see...

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [54]

(inaudible) of the division.

Rajarshi Maitra, CIMB Research - Analyst [55]

Okay. So should we see the full impact in Q3? Or will it take another quarter beyond that, for the full impact?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [56]

Well, it takes some more time.

Rajarshi Maitra, CIMB Research - Analyst [57]

Okay. And if you could give us a sense, how much would it help in your margins? How much -- because as I understand, obviously, the -- increasing the load by over 20% should have a positive impact on your margins as well, right? So can you give us a sense how much should we consider going forward?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [58]

Look, considering our nature of [goods] and the kind of customers, what we're handling, we may not use these impaired [metrics] into our vehicles because they have increased at full load, but they have not increased the sale of the vehicles. Sale of the vehicle will remain the same. So we have to do some [around increment] in our mixing of the goods to better carry more [vehicle] mix and at [the end], with a more [vehicle boost around a select] vehicle like this. We have to do some load impact [converter] change. And right now, see, we don't have a specific number on this, how much is going to improve and all. And whatever vehicles we are getting now (inaudible) basis, there is an increment of -- around 12% to 15% are made in these vehicles.

Operator [59]

The next question is from the line of Vikram Suryavanshi from PhillipCapital.

Vikram Suryavanshi, PhillipCapital (India) Pvt. Ltd., Research Division - Analyst [60]

How is the working capital now? Is there any material change?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [61]

Yes. About working capital, there are no material changes, except some incremental. It will certainly improve, increase in (inaudible) and (inaudible) load. The reason is we bought some of the commodities or some of the goods which we require to build all these for the vehicles. But because of this notification about the change in the actual load, so some of the spare parts, steel or whatever [handles] we have purchased, we are gradually -- we are leaving those -- move to materials to look. So currently, we are [winning] gradually. So that's the reason some -- there is increase in inventory level. But apart from that, the rest of the inventories and the -- our result, which you will [hear] from this -- moving forward, the [sales power], that is also [offsetting] this quite a long time. That is another reason why the [petro] fuel has also increased. But on an overall basis, about the main reason (inaudible) position, there are no much changes in terms of (inaudible)

Vikram Suryavanshi, PhillipCapital (India) Pvt. Ltd., Research Division - Analyst [62]

Okay. And just a [housekeeping], what was the outside vehicle (inaudible) percentage of?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [63]

It's around 8% to 9%.

Vikram Suryavanshi, PhillipCapital (India) Pvt. Ltd., Research Division - Analyst [64]

In this quarter?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [65]

Yes.

Vikram Suryavanshi, PhillipCapital (India) Pvt. Ltd., Research Division - Analyst [66]

And compared to what was it in the last year, same quarter?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [67]

Just one second. It's around 8% in the current quarter. And in first quarter, it was around 11% to 12%.

Vikram Suryavanshi, PhillipCapital (India) Pvt. Ltd., Research Division - Analyst [68]

11% to 12%?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [69]

Yes.

Vikram Suryavanshi, PhillipCapital (India) Pvt. Ltd., Research Division - Analyst [70]

All right, sir.

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [71]

Okay. There, we are seeing pretty much.

Vikram Suryavanshi, PhillipCapital (India) Pvt. Ltd., Research Division - Analyst [72]

So our new capacity, what we're adding in terms of trucks, they are called utilized basically, again, which we're replacing outside the vehicle.

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [73]

Yes, it is.

Operator [74]

The next question is from the line of Bhavin Gandhi from B&K Securities.

Bhavin Gandhi, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [75]

So first, so if you can just give us a differential between conventional diesel and biodiesel, the pricing?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [76]

Pricing?

Bhavin Gandhi, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [77]

Pricing of the biodiesel fuel.

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [78]

It's around [INR 5] per liter.

Bhavin Gandhi, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [79]

[INR 5] per liter?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [80]

Yes.

Bhavin Gandhi, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [81]

And to the extent you have already gone up to about 28%, 29%, how much more can this increase? Or is it the maximum...

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [82]

The max that can go. And again, because of all this winter season in this [country], this percentage may come down in quarter 3.

Bhavin Gandhi, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [83]

Okay, okay. Taking this [devolvement] of almost about [INR 3.5], so (inaudible) current profit, totally first half, has been paid out. So has been there -- are you looking at a material cut down on your CapEx numbers or there's no indication of that?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [84]

No, CapEx number, as I told you, it's in terms of -- the [INR 200 crores] was what we planned earlier. That will be an overall (inaudible) around 700 vehicles, all those -- these [1,200] vehicles. So just -- we are working on which category of the vehicle to be ordered and all these things that you can (inaudible)

Bhavin Gandhi, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [85]

Sure. Sir, if you can just highlight, what's the cost differential between a 14-wheeler and a 12-wheeler approximately?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [86]

Around INR 3,00,000 to INR 4,00,000.

Bhavin Gandhi, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [87]

INR 3,00,000 to INR 4,00,000, okay. And sir, the guidance that you had given out at the beginning of the year of about 10% growth, are you trying -- are you looking to revise that or remains unchanged?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [88]

Yes. Half year, we issued around 8% in volumes. At least, we will achieve this in the coming days. That's what I am hoping. But in our business, given guidance is really difficult. There's more impact to the (inaudible) in that last second quarter, suddenly, the first strike has come. We never expect it, almost 10 to 12 days (inaudible).

Bhavin Gandhi, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [89]

Sure. And sir, just one final thing regarding the [CapEx stage], will that (inaudible). When we had announced, we had some price locking advantage for those trucks. So if you want to renew that order now, was those probably -- you're talking a better work or your views will also change?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [90]

(inaudible) will continue.

Operator [91]

The next question is from the line of Shrinidhi Karlekar from HSBC.

Shrinidhi Karlekar, HSBC, Research Division - Analyst [92]

Sir, your test upon going back to your original margin levels in the GT business by cutting down some of the costs and all. So may I ask you what number are you referring to when you say original margins and by what period?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [93]

More around 12% to 13%

Shrinidhi Karlekar, HSBC, Research Division - Analyst [94]

Debt-to-EBITDA margin?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [95]

(inaudible) GT segment (inaudible)

Shrinidhi Karlekar, HSBC, Research Division - Analyst [96]

And is that EBIT margin, sir, or EBITDA margin?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [97]

EBITDA. EBITDA.

Shrinidhi Karlekar, HSBC, Research Division - Analyst [98]

Okay, (inaudible). But sir, traditionally, we did something in higher of 15%. So those kind of a margin, you don't think are kind of realistic in today's price environment, the current price environment?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [99]

Currently, there's (inaudible) one is fuel, we can monitor. We are having the option of biodiesel in all -- this quarter, the employee cost headwind increased over the last 2 years -- 2, 3 years. That is -- already, a higher percentage is there. But since the volumes are picking up a little bit, it is coming down as a percentage to the revenue. So still able to grow. But by that time, again, we will need to give some small incremental or these things will come up. That's the reason -- the fix (inaudible) beyond their limit. And actually, the percentage of the fixed expenses will come down as -- to the revenue. So that's why (inaudible) we'll input.

Shrinidhi Karlekar, HSBC, Research Division - Analyst [100]

So this 12% to 13% margin is -- you are referring to kind of volume growth environment kind of 8% to 10% (inaudible)?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [101]

Well, our growth -- diesel price will be under control, so always (inaudible). Right now whatever (inaudible) we have (inaudible) in spite of increasing the fuel cost.

Shrinidhi Karlekar, HSBC, Research Division - Analyst [102]

So my second question is if I look at the branches and agencies combined, it has actually come down by 9 branches to something like 905. And sir, if I was -- I was under the impression that under GST, you are getting an opportunity to expand your branch network. So how should we see -- look at it?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [103]

So we are working on this, but these -- whatever agencies or branches have been cut down, these are very small branches, they have no much contribution from [these businesses], like smaller towns and all. But actually, we closed some of the places and other branches were closed. But in -- below the expansion to the newer (inaudible) [dealer] locations, [3] we are examining, still, we need some more improvement in the compliances, then we can explore such opportunity.

Shrinidhi Karlekar, HSBC, Research Division - Analyst [104]

But sir, if I look at -- you have like kind of announced of a big CapEx on the vehicle side, so I suppose you need to add branches as well. So have you kind of roughly worked out plans to increase your branch networks year by next 2 to 3 years? Because I presume, capacity planning, you have done considering 2 to 3 years. But I'm presuming you might have done on branch side as well, branch and [trans] shipment side.

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [105]

Not the -- CapEx, [still considered] in multiple [regions]. One is -- I mentioned about the (inaudible). Now currently, for (inaudible) players, we are operating on a selected route. Now we can explore that opportunity to other routes, that's one. And second thing, about the change in the government policies. There, basically, the government is thinking to increase this -- the enrollment [numbers]. On [account] of that, by 2018, there are shipping in [more] kind of vehicles which we need to (inaudible) addition. So there, actually, again, we can [save] some of the [course] over there. Then apart from that, they are talking about these vehicle [strategies] also. So considering all these, actually, we have a lot -- we were -- not all listings, and we decided to have some good kind of CapEx.

Shrinidhi Karlekar, HSBC, Research Division - Analyst [106]

Fair enough, sir. And then last one, if I may. Sir, I just wanted to understand the efficiency increment that you have seen because of GST. So would you be able to quantify how much of increase in average kilometer is run by our typical truck on a daily basis, that is pre-GST and post-GST? A ballpark number would help.

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [107]

When initially GST has entered over there, at that time, actually, all the (inaudible) have been abolished. There was an improvement of around 5%, 6% during that period. But subsequently, now again, since the (inaudible) are talking for verification and all, there is an improvement not like the previous, but there are improvements and effectively around 2% to 3%, that is the improvement.

Shrinidhi Karlekar, HSBC, Research Division - Analyst [108]

Okay. So that's it, it's not like significant like in the range of 10% to 15% that media tends to report? You are not experiencing that?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [109]

Moreover, in our operation, again, we need to operate through hub (inaudible) and some loading, unloading activities in the (inaudible).

Operator [110]

The next question is from the line of Jayakanth Kasthuri from Dolat Capital.

Jayakanth Kasthuri, Dolat Capital Market Pvt. Ltd., Research Division - Associate [111]

I missed out on the realization. You said there was an increase Q-o-Q, how much was it?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [112]

6.61%.

Jayakanth Kasthuri, Dolat Capital Market Pvt. Ltd., Research Division - Associate [113]

Sir, what were the CapEx for this quarter or the first half of this year, if you can pull that number?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [114]

Yes. In first half, we incurred rupee CapEx of -- rupees around INR 67 crores. Part of that, (inaudible) CapEx is around INR 58 crores. And majority is for the vehicles is at around INR 43 crores. And we purchased one of the lands in Mangalore. And about land and building overall, we invested around INR 14 crores, and there are some other expenses that is around INR 1 crores. And for Passenger segment, we [input] a capital of around INR 1 crores, especially we -- where some of the vehicles, their permit expires, we extended to another 5 years.

Jayakanth Kasthuri, Dolat Capital Market Pvt. Ltd., Research Division - Associate [115]

Okay. Sir, in terms of like new customers, like if you can give some kind of a qualitative color like who -- and like which kind of a segment they are in, in terms of new customers? Are they into like more of (inaudible) textile, those kinds of industries? Can give some color on that?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [116]

No, more of our customers related to SME, you can say in all segments.

Jayakanth Kasthuri, Dolat Capital Market Pvt. Ltd., Research Division - Associate [117]

Okay, okay. Sir, in terms of CapEx for this financial year, how much you're seeing it like need to be?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [118]

So that, we will give you shortly. We will file an (inaudible) filing, we are working on some of the -- that modification in the order, and we will announce soon.

Operator [119]

The next question is from the line of Mukesh Saraf from Spark Capital.

Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [120]

My question is on the SCM and RCM, sir. I mean, we are seeing some of the supply chain. There is [LPL] express transportation guys. 70% to 80% of their billing now is on SCM. What is our plan? I mean, I know this year, we had an RCM, but do we think next year, we'll see RCM at all?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [121]

No, right now we are not thinking that. We will continue the RCM only.

Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [122]

Okay. There's quite (inaudible) and it's still beneficial for us given that (inaudible). And like I said, we've seen the express (inaudible) to that. I mean, you don't see LPL movement, LTM transportation (inaudible)?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [123]

No, right now the (inaudible) we continue as it is, unless there is a change in government policy. Or if any changes, then appropriately, we'll commit it.

Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [124]

Okay. And my second question is -- I mean, when you had planned the earlier CapEx of [INR 200 crores] approx, then probably, the (inaudible) rates were (inaudible). Now I mean, how much do you think (inaudible) will be the incremental interest expense because of the hike that you are seeing, because of the liquidity issues that we are seeing within [overseas]?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [125]

No, earlier, we used (inaudible) 8.4%, 8.5%. Now it is in the range of around 8.6%, 8.7%, probably like that [earlier].

Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [126]

Okay, okay. And so now we are locked in...

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [127]

(inaudible) they want to funnel it out of coverage...

Unidentified Company Representative, [128]

(inaudible)

Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [129]

Okay, okay, okay. So it will not be a major (inaudible) in terms of interest expense on these...

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [130]

No, no.

Operator [131]

The next question is from the line of Ravi Mehta from Deep Financial.

Ravi Mehta, [132]

Just one question. You are already at the peak of biodiesel blending in Q2. So when we plan to get back to our earlier margins, obviously, many (inaudible) hikes to be taken in this quarter?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [133]

Yes, (inaudible) we will decide. Based on the [moment of] instances.

Ravi Mehta, [134]

(inaudible) since we took in (inaudible)?

Operator [135]

(Operator Instructions)

Ravi Mehta, [136]

When was the last freight rate hike and quantum, if you can specify?

Operator [137]

Members of the management, are we connected to the call? (Operator Instructions) Ladies and gentlemen, thank you for being on hold. We have the management reconnected to the conference call. And sir, we also have Ravi Mehta.

Ravi Mehta, [138]

Yes. Okay, just so -- the same, in the last call, you mentioned that from first [year] onwards, you were taking a [fees wise] freight hikes. And I think that was on 60%, 70%. So how has that panned out? And what was the reason like -- if you can just quantify?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [139]

No, we obviously -- we do a lot of changes on a route basis, customer basis and all these things. But (inaudible) basis. Is it audible, please?

Operator [140]

Yes, you're audible, sir.

Ravi Mehta, [141]

So that's 70% what we -- initiatives. Have we done on the entire customer base? Or we are still yet...

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [142]

Yes, we've done for all -- the entire, this one. That's the reason even [the relation] is improved in the current quarter.

Ravi Mehta, [143]

Okay, okay. And given where the fuel prices are and maybe the blending mix, where we are, so do you foresee any hikes to be taken in the current quarter? Or you see more of cost-cutting measures and other things to help you get back to the earlier margins?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [144]

So right now, we are not taking any hike. The reason is -- one is the diesel price, in the current quarter especially, it is under control right now. And some of the (inaudible) have reduced their fuel price also. And our overall business who run the overall fuel supply (inaudible) also. (inaudible) the diesel price. So at this juncture, we have not increased the rates.

Ravi Mehta, [145]

Okay. And if you -- one more question, also, if you have to modify your vehicles, if you get those permits of high axle load carrying capacity, so what kind of spend that could be?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [146]

No, there are no modifications required.

Ravi Mehta, [147]

Okay. So whatever that -- [82] vehicles, you've got the...

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [148]

There it is without any modifications.

Operator [149]

The next question is from the line of Ankita Shah from Elara Capital.

Ankita Shah, [150]

Sir, the new [offline television] that we've highlighted, now that 680 to 700 vehicles, this would be done on what award time frame, sir?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [151]

It's [scheduled] next financial financial year through December (inaudible)

Ankita Shah, [152]

To next December?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [153]

Yes.

Ankita Shah, [154]

Okay, okay, okay. Got it. And secondly, sir, have we taken any rate hike post September as well?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [155]

As I told you, right now, we have not increased because we have to see the moment of expenses now. Based on that, we can (inaudible)

Ankita Shah, [156]

Okay, okay. And just -- I mean, I know I'm repeating this question. But in the past, you've seen biodiesel consumption has gone up as high as 35% of your total fuel consumption, I know the total fuel consumption would also increase now. But is there not more room to increase the consumption of biodiesel? And if not, what would stop us from increasing that ratio?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [157]

Basically, it is -- the supply is from one place. Over there, we are preferring the diesel. If we excel and applied to another relocation also, then we have to enter more incur more cancellation charges. So it did not made sense as compared to the normal fuel. Although that's the reason, this is, I know, the highest. City hall actually modeled the increase of to, say, 29%, 30% max. It's not beyond that.

Operator [158]

The next question is a follow-up from the line of Rajarshi Maitra from CIMB.

Rajarshi Maitra, CIMB Research - Analyst [159]

Just wanted to check this. You spoke about the trucker strike for -- in this during the quarter. So what -- ur operations also halted for 8 days during the phase or what was it?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [160]

Completely halted this time. Earlier, some sites used to [happen] to all the locations, some of the routes and some of the routes we can operate. But this time, most our vehicles have been completely halted.

Operator [161]

The next question is a follow-up from the line of Shrinidhi Karlekar from HSBC.

Shrinidhi Karlekar, HSBC, Research Division - Analyst [162]

Sir, would it be possible to quantify a ballpark, how much volume would you have lost because of, say, the strike? And (inaudible) have been getting pushed to next quarter, just in your guess, how much will be the quantum?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [163]

Actually, we expected to be online (inaudible) quarter 1. Yes, but we are unable to reach that.

Shrinidhi Karlekar, HSBC, Research Division - Analyst [164]

And sir, I just wanted to understand this unique truck economics better. So may I know how much like a typical freight revenue you can earn from the recently-acquired (inaudible) trucks? Like how much revenue a truck can earn on an annual basis in current pricing environment?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [165]

Normally, around 2 to 2.5x of the investment was -- we are investing on the vehicles. Well, actually, it's around 2.5x.

Shrinidhi Karlekar, HSBC, Research Division - Analyst [166]

So if these -- the trucks are coming at INR 30 lakhs, you can typically expect INR 160 lakhs, is that correct, my understanding?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [167]

Yes.

Operator [168]

The next question is a follow-up from the line of Jayakanth Kasthuri from Dolat Capital.

Jayakanth Kasthuri, Dolat Capital Market Pvt. Ltd., Research Division - Associate [169]

Sir, you said there was an increase in terms of (inaudible) of passenger segment, increase in passenger, your occupancy and the realization level. Like if you can quantify that like year-on-year, like if you can give me that number.

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [170]

Yes, half year to half year, the increase in passenger is by 2%. And the increase in realization for passenger, we're around 1.7%. And the increase in average fees (inaudible) 3.5x -- 3.5%, sorry, (inaudible) percentage.

Jayakanth Kasthuri, Dolat Capital Market Pvt. Ltd., Research Division - Associate [171]

3.5%?

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [172]

Yes.

Jayakanth Kasthuri, Dolat Capital Market Pvt. Ltd., Research Division - Associate [173]

Sir, and in terms of the quarter, like quarter-on-quarter if you can...

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [174]

Yes. Year-on-year, typically, the last quarter, the number of passengers [entry] were around 4%. And the realization, 4% is almost the same, there is no increase. And the occupancy levels are increased, were around 4%. And in terms of quarter-on-quarter, there is a decrease in number of passenger by 14% and decrease in realization by around 12%. And the decrease in average (inaudible) occupation by around 4.5%.

Operator [175]

Mr. Kasthuri, does that answer your question?

Jayakanth Kasthuri, Dolat Capital Market Pvt. Ltd., Research Division - Associate [176]

Yes.

Operator [177]

(Operator Instructions) As there are no further questions from the participants, I now hand the conference over to Mr. Vijay Sankeshwar for his closing comments. Over to you, sir.

Vijay Basavanneppa Sankeshwar, VRL Logistics Limited - Chairman & MD [178]

(inaudible) for hosting the call and for -- also (inaudible) Nalavadi to -- would like to give any closing comment before we end it.

Sunil Nalavadi, VRL Logistics Limited - CFO & Investor Relation Officer [179]

Yes. Thanks for all the participants. (inaudible) Thank you.