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To,

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National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G-Block,
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Mumbai – 400 051
Scrip Code: - VRLLOG

Dear Sir / Madam,

Sub: Disclosure under Regulation 30 (6) of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 – Transcript of the Earnings Presentation Call

In terms of Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirement), Regulations 2015, as amended, please find the attached transcript of the Earnings Presentation call held on 22nd May 2025 for your information and records. This information is also available on Company's website on below link:

https://vrlgroup.in/investor_download/Investor_Meeting_on_22_May_2025_Transcript.pdf

You are requested to kindly take note of the same.

For VRL LOGISTICS LIMITED

ANIRUDDHA PHADNAVIS
COMPANY SECRETARY &
COMPLIANCE OFFICER

PLACE: HUBBALLI
DATE: 24.05.2025





**“VRL Logistics Limited
Q4 FY’25 Earnings Conference Call”**

May 22, 2025



MANAGEMENT:

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

MODERATOR:

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

Moderator: Ladies and gentlemen, good morning, and welcome to the VRL Logistics Q4 FY '25 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will remain 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Alok Deora from Motilal Oswal Financial Services for opening remarks. Please go ahead.

Alok Deora: Thank you. Good morning, everyone, and welcome to the Q4 FY '25 Earnings Conference Call of VRL Logistics. So today, we have with us Mr. Sunil Nalavadi, the CFO of the company.

I will now hand over the call to Mr. Nalavadi to provide some opening remarks and discuss on the performance and then we can pick up the Q&A session. Thank you, and over to you, sir.

Sunil Nalavadi: Thank you, Mr. Alok. Good morning to all participants. I'm Sunil Nalavadi here, CFO of VRL Logistics Limited. I welcome all of you once again for the earnings conference call for the quarter 4 of financial year '25.

This is again a strong quarter marked by revenue growth, substantial improvement in profit margins and robust cash flow. On a year-on-year basis, the revenue of the quarter has increased from INR722 crores to INR812 crores with a growth of around 5%. The growth in revenue is mainly on account of increase in realization of freight per ton increased by around 18% from INR6,724 per ton to INR7,944 per ton.

In addition to the freight hikes implemented in the earlier quarter of this year, in the current quarter, we further analyzed most of the business transactions or contracts with their contribution to the margins and potential addition to the overall tonnage of the company. In this process, we identified certain low-margin business and discontinued such businesses which impacted on the tonnage.

In view of the same, we reached higher EBITDA and EBITDA margins in our business in the current quarter. We reached volume of around 1,006,000 metric tons in the current quarter and the negative growth in tonnage due to discontinuation of a low margin business in the current quarter.

On a year-on-year basis, we added around 84 branches, and these branches contributed around 1% to the total tonnage. We also closed around 40 branches, considering the potential of these branches business can be served from the adjoining branches. We continued our initiative to increase the number of branches in the current quarter and added around 5 new branches.

Apart from this, the management of the company undertaken many steps to control the key operational costs such as increase in quantity of bulk purchase of fuel directly from the refineries and key route mapping to minimize the number of loading and unloading, which resulted into optimum utilization of our own vehicles and drastic reduction on dependency of the hired vehicles.

The EBITDA has increased by around 74% from INR109 crores to INR189 crores and percentage to revenue increased from 14% to 23%. Further, the margin improvement is also due to good control on fuel expenses, which is major cost of operation in our business. And we further increased the bulk purchase quantity in the current quarter from 31% to 42% of the total quantity consumed.

The fuel procurement cost per liter is reduced from INR87 to INR84. On an overall basis, the fuel cost as a percentage to the revenue has been reduced from 29% to around 26%. The improvement in operational efficiencies in the current quarter also leads to improvement in EBITDA margins. We saw major efficiency and effective utilization of our own vehicles. This has supported us to have a control on the dependency on the hired vehicles due to which the charges have been reduced from 8% to 4% to the revenue.

The rest of the expenses either in line with the revenue or reduced as a percentage to the revenue due to increase in freight realizations. The improvement in EBITDA to increase in EBIT and the net profit margins in the current quarter. The net profit of the company has increased from INR21 crores to INR74 crores in the quarter and percentage to revenues increased from 3% to 9%.

On a sequential basis, the revenues decreased from INR831 crores to INR811 crores. The growth in revenue is impacted due to decrease in volume by 9% from 1,104,000 tons to 1,005,000 metric tons in a quarter. The decrease in volume is on account of discontinuation of low margin businesses and due to which the realizations improved by almost 7% from INR7,390 per ton to INR7,944 per ton.

Due to improvement in realization, the EBITDA margin improved from 21% to 23% from INR172 crores to INR189 crores. And the Improvement in EBITDA margin is also due to increase in bulk purchase of fuel quantity from 39% to 41%. However, the purchase cost per liter increased from INR83 to INR84.5 due to increase in rates by some of the state governments.

The overall fuel cost as a percentage to the revenue is reduced from 26% to again 25% and due to further control on the hired vehicles in the current quarter also supported the improvement in EBITDA margins by 1% and the remaining costs were more or less in line with the revenue.

On a full year basis, the revenue increased from INR2,909 crores to INR3,186 crores and increase is mainly due to improvement in the realizations. The realizations are improved due to increase in freight rates from the second quarter of the last year and a thorough analysis of business contracts in terms of margins and discontinued some of the low-margin business in the quarter 4. The realization per ton is increased by 10% from INR6,682 to INR7,315 and the volumes are maintained at around 4,272,000 metric tons despite the substantial increase in the realizations.

The EBITDA of the company is substantially increased in financial year '25 from INR414 crores to INR598 crores and the EBITDA margins improved from 14% to 19%. The increase in EBITDA is due to increase in realizations, decrease in fuel costs, lorry hire charges and control on the remaining expenses, which are more or less in line with the revenue. Due to increase in

EBITDA margins, the net profit of the company has increased from INR89 crores to INR183 crores.

With the improvement in profitability, our cash generated from the operational activities increased from INR409 crores to INR587 crores. And with having good control on working capital, our post tax net cash generated from operational activities has been increased from INR423 crores to INR558 crores. These cash flow numbers are subject to the IND-AS accounting entries.

The strong cash flow is mainly through the internal accruals of the company, which led to robust expansion plans of the company. And the current year strong cash flows enabled us to make major capital expenditure of around INR440 crores in the year, including investment in purchase of some of the facilities at Bangalore, Mysore and Mangalore along with our routine capital expenditure on the vehicles. The investment in Bangalore transshipment is having its own business advantages with better financial metrics, which have been already shared during our quarter 3 results.

The strong cash flow enabled the company in maintaining optimum debt equity ratio of 0.4x to the equity with a total net debt as of 31st March of around INR396 crores. We wish to inform you that there is a considerable improvement in the return on metrics as well. The return on capital employed increased from 10% to 14%, including the lease liability as capital employed, and the return on equity has increased from 9% to 18%.

Considering the improvement in margin and robust cash flows of the company, the Board of Directors recommended INR10 per share as a final dividend for the financial year '25, which is subject to approval from the shareholders in the ensuing Board meeting. With this final dividend, the company declared the highest ever dividend of INR15 per share and reflecting the company's strong financial performance and commitment to delivering value to the shareholders.

Further, our business is a B2B local focused on less than truck load business with a wide range of customer base of around 9 lakh customers covering with wide range of sectors. Our key strength is having a different mode of collections from the customers and 85% of our less than truck business is on either paid or to-pay basis, collecting the freight on spot from the customers immediately after the booking or after the completion of the service. Our receivable days from the customers is hardly around 11 to 12 days and which is the lowest in the industry.

The company experienced a strong quarter with a robust increase in freight realization and notable improvements in the profit margins, supported by operational efficiencies. Cash flow from operations remains robust and positioning the company for future growth and investments. With these achievements and positive outlook, we are confident in maintaining the momentum moving forward.

We also would like to emphasize that the reduction in volume is the temporary scenario for a quarter or 2, and the tonnage growth will be normal from quarter 3, that's what we are expecting. Considering the wide range of customers and sectors where we are operating, we are expecting that we will put all our efforts to perform better in the industry.

With this, I would conclude my initial remarks. Now I will request all the participants to question and answer session.

- Moderator:** The first question comes from the line of Mukesh Saraf from Avendus Spark.
- Mukesh Saraf:** First of all, congratulations on the great margin performance. So, just on the lines of what you are mentioning with respect to discontinuing some of the low-yielding customers. Could you kind of, first of all, help us understand if this activity is done from your side? Or is there more such cleanup or discontinuation that we can continue to see going forward?
- Sunil Nalavadi:** No, most of the activities have already been done. Actually, we started this exercise at the beginning of March itself since most of the agreements are due for renewal. And even apart from the contractual customer, even some of the commodities also we have given some special concessions. So, considering their contributions and considering the margins in those businesses, we have taken a step to cut down those facilities, and again, pushing for the growth in volumes.
- Mukesh Saraf:** Right, right. So, just trying to understand that now that you're done with this cleanup, could you kind of help us understand what steps we are taking to get back some of the volume growth back in the system. Because the way I'm seeing I mean we've added 84 branches, but these branches have so far yielded just 1% growth in the tonnage. So what steps can we take to say, get back, say, high single-digit volume growth?
- Sunil Nalavadi:** Yes. Basically, we want to concentrate more on healthy growth in the volumes. That's our primary objective as of today. And to increase the tonnage, definitely, again, we are putting more concentration on the increasing branches also. We are planning to add again 80 to 100 branches in the next financial year as well. And the branches that have already been opened in the last year and prior to that, again, we will put to increase tonnage from those geographies.
- Mukesh Saraf:** But yes, I mean, finally, you might be dependent on the general economic activity. And I think in the last few quarters, you have mentioned that, that hasn't been great. So if the activity doesn't improve on the ground, is there anything that we could do, say, any new segments, any new geographies, any new services that we might want to kind of provide from our side, what can we do to revive some of this growth?
- Sunil Nalavadi:** Yes. Obviously, on the geography front, as you are aware, actually, where most of the cases, new branches are opening in the untapped market. There, actually, we are expecting some good contributions from the volumes. And even in the current year, if you see where the Eastern sector has been performing very well.
- So again, that concentration of the untapped market is going to be continued. But as you said, the overall economic conditions, again, it is not up to the mark as of now. So considering those developments, so our tonnage growth will be dependent on the future days.
- Mukesh Saraf:** Right. So just lastly, if the tonnage growth remains weak and if competition, kind of, obviously, you're competing with unorganized operators. So if competition keeps their pricing low and our tonnage remains weak, will we kind of go back to some kind of pricing cuts to get back some volumes? Or are we okay with, again, another year of, say, flat or weak tonnage, while we'll

continue to maintain this kind of pricing and will not go back into those low-margin businesses again?

Sunil Nalavadi: Considering all the aspects, actually, we did this rationalization in the freight rates. So definitely, we will maintain these rates going forward. And these rationalization has been done keeping the competitiveness in the particular sectors or particular route, so keeping in mind all the aspects, actually, we did this exercise, and we will continue these rationalization.

Moderator: The next question comes from the line of Pranay Roop Chatterjee from Burman Capital Management.

Pranay Roop Chatterjee: My first question is on the wider demand. You were talking upon it in the previous answer. So keeping aside the impact of voluntary client attrition, if I may call it that, keeping aside that in your existing clients, let's say, who were with you even 1 year back, 2 years back, in those clients, are you seeing a general sentiment of demand coming back, volumes increasing?

Is there even early signs of something like that happening where we can confidently say most of the sector is going to grow upcoming year? Are we there yet or we still have to wait and watch?

Sunil Nalavadi: No, the contribution from the existing customers is very nominal growth. It is in the range of around hardly 2% to 3%, but in the current scenario, what happened since we try to maintain the realization and we stick on to our pricing terms. So intentionally, actually, we closed some of the low-margin businesses discontinued.

And among these customers, again, they are approaching with our pricing terms and all. So going forward, see we may not get the equivalent volumes, but at least we get some volumes from such customers.

Pranay Roop Chatterjee: So my question was more on the wider market sentiment, with the context of consumption categories being sort of muted for the last 1.5 years. So any sense you can give us...

Sunil Nalavadi: Yes. That growth is a very low single-digit number. It's hardly in the range of around 2% to 3%.

Pranay Roop Chatterjee: Got it. And my last question is on pricing. So obviously, you have already commented that you will try to maintain the current prices.

My question is incrementally, FY '26, '27 and beyond, basis your latest contract structures, how can you increase pricing further? I'm not saying you will, but what are the occasions? Like, is it 100% of all your contracts across lines linked to input prices like fuel or you can take voluntary price hikes as well, probably like you did in January last year. So how should we think of price hikes and when it might happen in future?

Sunil Nalavadi: Yes. See, always our price increase depends on the margins. If you see the rate increase, what we did in end of quarter 1 or the beginning of quarter 2 in FY '25, it was completely based on our margin structure. The margins have been dipped in quarter 1 only because of an increase in the cost, so apart from the fuel cost, there are many expenses, like employee cost and even the toll charges across the country.

And many governments have been increased, especially in Karnataka and some of the states, they increased the permit fees on the vehicle. Vehicle tax rates have been increased. So, considering these aspects, in the industry itself, actually, we are the first movers on the rate hikes. Even on the future dates, depending on our cost structure, we will take a call on the increase in rate.

Moderator: The next question comes from the line of Achal Lohade from Nuvama Institutional Equities.

Achal Lohade: Sir, first thing, in terms of the volumes, what you mentioned is that you have let go the low-margin segment. So was it for the entire quarter, you said we discontinued only from early March. So if you could give us a sense as to what was the contribution of this particular segment from a full-year perspective in the past?

Sunil Nalavadi: No, basically, we started this exercise in mid-February, and we analyzed all the contracts. And subsequently, we informed to the customers that considering the existing price versus what the realization and how much they are contributing to the overall volumes, we informed to the customers and we informed our new rate structure also. So whoever actually not accepted, we discontinued such business from the March.

Achal Lohade: Okay. So that means their contribution was there in January and February?

Sunil Nalavadi: Yes. The moment it started in February, actually, they even shifted to some of the other operators.

Achal Lohade: Okay. So which means it started from February itself and March got accentuated. And by March end, you have fully done with that segment. Is that understanding right?

Sunil Nalavadi: Yes, yes.

Achal Lohade: Okay. Now if I were to ask you in terms of like-to-like growth, if you remove that customer segment or that particular segment from the base quarter as well and for the entire quarter in March, what would the growth look like? Would that be flattish? Would that be a growth? Or would that still be a decline?

Sunil Nalavadi: No. Without this exercise, we were expecting a decline of around 2 to 3 percentage in tonnage.

Achal Lohade: Okay. So is it fair to say that the core business, the core segment still seeing a decline? Is that...

Sunil Nalavadi: Yes. Marginally in the range of around 2% to 3%.

Achal Lohade: Okay. And when you say we are looking for growth, how do we look at any particular segment, geography? Because you did mention about the branch addition, but we have seen the branch addition in the past hasn't really contributed a lot. How do we see that, what will drive the growth?

Sunil Nalavadi: So basically, overall, the economic sentiments are weak in the country. And if you take the real estate volume growth even from the existing customers is not up to the mark. So with this,

actually, we are putting all our efforts to acquire more and more customers and especially we opened more of our branches in untapped market.

The new branches all we opened, these are all the contribution is small branches. See initially, we cannot expect a good number of volume from these branches. But over a period of, say, 2 to 3 years, definitely, we can develop good base of volumes from these branches.

Achal Lohade: Okay. And if I were to ask you, sir, the branches what you opened, say, 3 years back, what is their contribution now? Is that 15%, 20%, 25% or it's still 5% to 10%?

Sunil Nalavadi: Three years back and accumulate if you take the new branches contribution is at least around 8% to 10% of the total volume. See based around 3 years back, we are having around 900 branches. Now we reached almost around 1,251 branch. So the additional branch contribution is at least around 8% to 10% to the total volume as of today.

Achal Lohade: Understood. Sir, when you said the realization growth is not up to the mark from existing customers, what do you mean? You've take a, if I remember right, 6% to 8% price hike, right? So if you could elaborate a little bit on this particular statement?

Sunil Nalavadi: Yes. See, basically, what we did, we increased the rate by almost around 8% to 10% in the beginning of the quarter 2 in the FY '25, and during that exercise actually for the non-contractual customers, we increased our rate. And considering some of the commodities also we were given the concession, those concessions have been continued.

And for contractual customers, what we did actually, we increased the rate as and when those quotations or agreements are due for renewal. Since most of the agreements due for renewal in the month of March and before renewal also what we did, we decided in the month of February that we analyze each and every business transaction, either it may be the commodity transactions or some of the contractual customers where exactly the realization is there. And we did some modifications.

Just to give you an example, even in the cloth commodities also, we are not having any agreement with such customers. But earlier, we used to give some free storage facility to them for at least around 30 days, 60 days, 90 days in some of the sectors. But considering the increase in the rent, considering the cost of that particular space, we reduced those number of days. Even such additions have been impacted to some extent on the volumes.

And on contractual customers on the rate front, actually, we clearly said that these are the well-studied structure of rates what we define. These are all substantiated with the customers that why we put in the new rates, considering cost of operation, considering that particular route, storage facility, so many factors. So with that, even if such kind of explanation, some of the customers are not accepting, we voluntarily discontinued such quantities.

Achal Lohade: Just a follow-up, and I'll fall back in the queue. Sir, by and large, all the customer negotiations are done or it's still going on, like 80%, 90% is done?

- Sunil Nalavadi:** Yes. Most of the negotiations and the rate structure exercise, rationalization of the rates that exercise has been already completed.
- Moderator:** The next question comes from the line of Rahul Agarwal from Bandhan AMC.
- Rahul Agarwal:** Sir, the customers that we have discontinued, isme se, how many would be the ones we would have acquired maybe last 1, 2 years? And how many would be like our old customers wherein we know there will be no turnover?
- Sunil Nalavadi:** Most of these customers are old customers because whatever the new agreements we entered after the rate hike, actually, we enter most of the agreements with increased rates only. So some of the customers are old customers with us.
- Rahul Agarwal:** And broadly dominating which sector?
- Sunil Nalavadi:** Not specifically sector. These are all mixed with all the sectors. And as I said, even the changing policy in some of the textile materials also impacted, it is contribution in all the sectors, not precisely particular sectors. But most of the sectors are related to like hardware and electronic items such commodities, even FMCG goods.
- Rahul Agarwal:** Okay. The second question, sir, is for FY '26, when you mentioned that X of this also, you would have grown at volumes at minus 2% or minus 3%. So for this year, should we consider that maybe 2%, 3% volume degrowth, 6%, 7% realization growth, and the margin at the current levels? Is that a good outcome that we should work with?
- Sunil Nalavadi:** On a full year basis, yes, initial first 2 quarters, we are having a more visibility as of today. And we can give more clarity after the quarter 2.
- Rahul Agarwal:** But broadly, this type of margins, which is like 20 plus, is that something which we have historically not seen, it sustains for a quarter or 2, but on the longer term, it doesn't sustain. So how do you view that? Is it that we have now sustainably reached 20% plus kind of margins? Or you think there could be volatility in that also?
- Sunil Nalavadi:** No, at least around 19%, 20%, that's what we are expecting to maintain, but more clarity will be given after the quarter 2. But initially, the quarter 1 and quarter 2, there will be a dip in the volumes, but they will be more or less maintain the margins.
- Moderator:** The next question comes from the line of Harsh Shah from Reera Holdings.
- Harsh Shah:** Sir, my question is more from competition point of view. If I look at one of the listed peers who are also into partial truckload business, now they witnessed almost 19% volume growth in this quarter for this particular segment. And then when I look at their yield per kg, it comes to almost around INR11, whereas we are somewhere around INR8. I just wanted to understand when we are seeing 11% volume decline, the other listed peer is seeing volume growth of almost 19%, and they are also doing better realization per tonnage. Just trying to understand this difference between our approach.

- Sunil Nalavadi:** No, the realization, it depends on route also. Since we are having a lot of this entire state of movement as well, where the realization is less. In the sense, margins will remain same, but since the distance is less, the overall realization will look lesser than those operators. But most of their route structure is always the long haul operators. That's the key difference.
- Harsh Shah:** And sir, how would you explain the discrepancy between, because they are at 19% volume growth, we are at 11% decline, which would mean that they have taken significant amount of market share, plus they have also reported very good profitability in this quarter. So, just wanted to understand all that.
- Sunil Nalavadi:** Yes, this volume decline is intentionally we have decided and we analyzed some of the contacts, as I said, and we voluntarily decided to discontinue such business because of the low margins.
- Moderator:** The next question comes from the line of Raghav from Equitas Investment.
- Raghav:** I just had one small question. What are the particular sectors which we have catered to, which have contributed to some growth in this quarter specifically?
- Sunil Nalavadi:** No, there are no specific. One is the sector-wide growth at which we are not depending on any particular sector. But -- since most of the sectors have been impacted on the tonnage because of discontinuation of some of the businesses.
- Raghav:** I asked this question because normally, we depend more on FMCG kind of movement, but because that was muted, I wanted to gauge your understanding which sector has contributed to some growth in this quarter and which we can foresee for the next few quarters to grow.
- Sunil Nalavadi:** No. Basically, see, in that case, sector-wise contribution from each, if you take, it is not considerable in our case so cloth and textile is contributing major commodity. And again, in that also, we did 8% negative growth. And next comes to agriculture and food products, again, that has grown negative by around 6%. Next again metal and hardware, the growth is minus by almost around 13% quarter-on-quarter.
- Moderator:** We take the next question from the line of Alok Devra from Motilal Oswal Financial Services Limited.
- Alok Deora:** Yes, sir, just wanted to understand after all these adjustments, will see volume growth under pressure for 1H at least of '26. So if we look at the full year, what kind of volumes we could end up with? What could be the realization like because the price hike benefit will go out after the first quarter? And some realization benefit will be there because of this restructuring which you have done on the individual accounts.
- And secondly, what would be the margins, sustainable margins ahead because we did 23% this quarter. So FY '26, if I want to sum it up into volume growth realization and margins, then what it would look like?
- Sunil Nalavadi:** Now since this rationalization exercise has been done in the last quarter, so this negative growth will continue at least for the first 2 quarters. And we can see some improvement in tonnage from

the quarter 3 onwards. Since quarter 4 tonnage has been already dipped, we may show some good growth in the quarter 4. On a full year basis, again, the more clarity will come after the quarter 1 or quarter 2. So depending on how the customer approach and all actually, we can give more clarity.

And with the realization is concerned, we would like to maintain the existing realizations throughout the year.

Alok Deora: So you mean 8% realization could be there for next year for FY '26?

Sunil Nalavadi: Realization around 6% to 7%.

Alok Deora: Sure. And what about margins, sir? This 23% margin, which we did in fourth quarter, how that could shape up in next year considering the volume trajectory and realization, everything?

Sunil Nalavadi: See, volumes, again, the quarter 1, it will be maintained around at a good margin. But subsequently, what will happen, again, we have to consider some increment to the employee cost and other things. So based on that, the margins will be depending on these cost structures.

Alok Deora: So any guidance you want to give, could it be like 20% range for the margin for this year?

Sunil Nalavadi: Guidance can be more -- clarity will come at least after quarter 2.

Moderator: The next question comes from the line of Krupashankar from Avendus Spark.

Krupashankar: Sir, one question from my side. Given that we are anticipating weakness in the tonnage, just wanted to get your sense around the capex number for the next year. Is there -- while you did allude that scrappage of old vehicles will be quite limited going ahead, but we have seen close to about 300-plus vehicles getting scrapped in FY '25. Just want to get a sense on how do you see FY '26 on your fleet procurement as well as, if any, capex towards network like buying a hub or expanding your network, et cetera?

Sunil Nalavadi: Yes. Considering our good cash flows, again, the investment in vehicles will be in the range of around INR140 crores, INR150 crores that will be there. And most of the capex will be for the replacement and with some minimal addition in the capacity. And apart from that, we -- considering again good cash flows and lower debt level, again, we are looking for investment in some of the properties, around 1 or 2 properties.

Krupashankar: So far, what I can see is that you've taken Bangalore, Mysore, Mangalore and Ahmedabad. Any specific areas where you can highlight? Is it increasing your capacities in the North and the East market because there is a growing demand over there? Or is it in the existing markets where you're trying to expand based on demand?

Sunil Nalavadi: There are some exercises are going -- in the Kolkata actually, we are doing some exercise. And in Pune, we are searching some property, in Salem we are searching property but nothing has been crystallized as of today. But definitely, there will be 1 or 2 property additions will be there in the next year.

- Moderator:** The next question comes from the line of Jainam Shah from Equirus Securities.
- Jainam Shah:** Sir, just wanted to understand one part. As you are saying that 85% of the customer are to-pay or paid customer, rest 15% are our contractual customer, correct?
- Sunil Nalavadi:** Yes.
- Jainam Shah:** So sir, just wanted to understand on this part. As you are saying that we have started taking contract by contract rate revision and that's where our realization has increased and tonnage has dropped. But if you see on a Y-o-Y basis, our tonnage has dropped around 10% plus. And if we see 2%, 3% is something that we are expecting that balance 7% is because of this contractual customer maybe not coming -- maybe not giving us business going forward.
- So out of 15%, 7% volume growth, does it mean that we have lost 40%, 50% business from our contractual customer because to-pay and paid customers, there will not be any contracts that we'll be getting it in branches only.
- Sunil Nalavadi:** No, that understanding is totally wrong. As I said, it is not only contractual customers, even some of the business transactions in the sense we have given certain concessions to certain commodities. Just I gave an example of textile we were giving a lot of the storage facilities, even 60 days, 90 days free storage. We cut down some of the storage facilities.
- And some of the goods, we are not collecting the additional charges like the loading and loading charges we used to collect. Some of the stationary charges we used to collect. We are collecting from the normal transaction, but we have given concession to certain customers. So those concessions have been withdrawn even for the non-contractual customers.
- Jainam Shah:** So sir, assuming that the customers that we have taken with all these facilities would have been core customer for us given that we have given them the kind of facilities only when we would have expected those overall industry or those customers to give us more and more volumes going forward. Does it not going to impact our volumes drastically over the next few quarters?
- Sunil Nalavadi:** No, that exercise has been done and already the tonnage has been stabilized as of now. And these are voluntarily -- intentionally, we decided to withdraw those facilities considering very low margin from those sectors.
- Jainam Shah:** Got it, sir. And the facilities that we would have withdrawn, let's say, for warehousing, we would be giving for 3 months, now we are giving for, let's say, 1 month or only. So those facilities are also been given back to the, let's say, vendor or anyone or we are still holding those facilities and cost is still imputing on that?
- Sunil Nalavadi:** No those, again, the discontinuation of certain and all that exercise has been done. And moreover, these facilities or concessions are in line with other operators in the industry. That is another spend. Nothing of these concessions are providing by the other operators in the industry.
- See, just to give some clarity on the textile, most of the textile business actually other than the organized players, they are depending on the unorganized service providers. And those operators

actually are not giving facility what we are giving. So considering these factual things, we are hoping that, again, those customers will come back to us.

Jainam Shah: Got it, sir. And sir, just last one thing. As you said earlier that we have taken 6% freight hike and rest of the realization increase is mainly because of the other cost, which is being build up in our billing part. So fair to assume that, that particular thing will continue going forward as well as and when other cost increases, we'll, of course, pass it on. But our normal freight rate will be the same going forward.

Sunil Nalavadi: Yes.

Moderator: The next question comes from the line of Anshul Agrawal from Emkay Global.

Anshul Agrawal: Sir, my question is on this bulk procurement of fuel. We have already reached 31% of our consumption. Do we have levers to further improve this number to say about 50% or so?

Sunil Nalavadi: Yes. We already consuming at optimum level, but we are putting our own effort to -- see currently, we are operating with 7 own petrol pumps. Now we may add another 1 or 2 going forward. But again, it all depends on the volume in that particular area. So there will not be substantial improvement in these numbers, but at least 41% plus can be maintained.

Anshul Agrawal: Okay. And secondly, on external lorry hire charges, now with volumes being rationalized, if that is how I can put it, external lorry hire charges have also been optimized with the increase in volumes, if at all, we were to come in from H2, would these external lorry hire charges also bump up?

Sunil Nalavadi: No, we are expecting there will not be much increase in the outside vehicles because some of the tonnage has been already now decreased. But considering the capacity what we are having as of today, there will not be major increase in the lorry hire charges even though tonnage will increase from Q3 onwards.

Anshul Agrawal: Okay. We expect lorry hire charges to be at around this 4%, 4.5%?

Sunil Nalavadi: Yes, around 4%, 4.5% at least.

Anshul Agrawal: Just one last question on volume, sir, if I may. Any lead indicators that we may be on the lookout to expect volume growth coming in since H2? Would it continue to be better monsoons in Southern region or any such lead indicators that you would want us to track to see H2 volume growth go up?

Sunil Nalavadi: See, one thing I would like to mention here that we will put all our effort to increase the business. Wherever opportunities are there, actually, we wish to put an effort and grab such businesses. But ultimately, it should be a healthy business. That's what our motto as of today.

And considering the good economic conditions, you turn out after the quarter 1, quarter 2, good monsoon, what you are mentioning and some good industrial growth, definitely, that will support and definitely, we can accumulate those volumes going forward. But about the exact growth in the volumes and how it will be turned out, more clarity we can give after the quarter 2.

- Moderator:** We take the next question from the line of Sandesh Shetty from HSBC Securities.
- Sandesh Shetty:** Sir, you mentioned regarding capex that you will be looking at around INR140 crores to INR150 crores in vehicle procurement and you're also looking at investment in certain properties. So sir, ballpark, what would be the full year capex for what you're expecting for FY '26? And will it be similar for FY '27?
- Sunil Nalavadi:** No, this property capex, actually, we cannot define as of today. So basically, definitely, we are having a surplus cash flow, and we wish to invest the surplus cash flows in good facilities, considering the long-term benefit. But again, defining the exact amount as of today, as and when the transactions are crystallized, we can give those numbers. But for the time being, any surplus funds will be used for the reduction in the debt.
- Sandesh Shetty:** Okay. And sir, also can you further explain what are the steps you're taking to expand your footprint in the North region and because now that you have rationalized on the customers, can you further elaborate on that? What steps are you taking with respect to geographical expansion to drive volume?
- Sunil Nalavadi:** Actually, we are expanding our branch network over there. And moreover, we are highly marketing on some of the commodities, which are geographically contributing. Like as we said in the Northeast sector, earlier, we used to depend only the commodities which are consuming to the Northeast. Now actually, we are concentrating on the products like tea powder and tea products.
- Even we have analyzed those things and we have identified the customers and we have already finalized the rate structure with us. So we are expecting some growth from such products. Actually, wherever we go to the regional places, one is the product we analyze in that market, which are the product potential products which we can add into our services. So based on that, actually, we identify the customers and increase the tonnage.
- Moderator:** Ladies and gentlemen, we take the last question from the line of Achal Lohade from Nuvama Institutional Equities.
- Achal Lohade:** Sir, if I understand what you're saying, essentially, you're saying we want to sustain this margin. So margin is, are the core focus. Have I understood right, like 18%, 20% margin?
- Sunil Nalavadi:** Yes. Actually, we want to concentrate on the healthy business. See, margin, again, as I said, there are some employee cost is going to increase going forward. And there may be changes in certain cost structure, but realization will be maintained.
- Achal Lohade:** Sorry, I'm more asking from a thought process or strategy perspective from next 1, 2, 3-year perspective. If I see earlier, we did pick up this low-margin business, pushed volumes, obviously, had some impact on the margin, but we were growing the volumes. Now today, we have decided that we will focus on the healthy volume, profitability, so to say. And that -- I'm just curious to know, is that a number, 18%, 20% range? Is that a ROCE you have in mind when you decide what pricing you should offer whether to take that volume or not to take that volume?

- Sunil Nalavadi:** No. Now this first quarter, definitely, there will be good EBITDA margin. So similar to like quarter 4 because there are no major change in the cost structure. From the quarter 2 onwards, there may be change in certain percentage in employee cost because it is due for increment. So based on these changes in the cost structure, our EBITDA margin will depend. But however, the realization per ton is maintained. More clarity will come the margin again after quarter 2.
- Moderator:** Ladies and gentlemen, we take the next question from the line of Nishant Chowhan from BNP Paribas.
- Nishant Chowhan:** Sir, my question is typically only on the staff cost. So if I notice probably over the last 4 years, our employee costs have been growing by something around 16% CAGR, while our revenues are growing by 12%, 13% CAGR, and also our employee sales as a percentage of revenues has been increasing to almost say, 150 bps over the last 4 years.
- So going ahead, I mean, if we are in a particular scenario where the volumes are not going to be strong enough. And if we continue to grow employee cost by, say, a similar rate, don't you think that would have an impact -- how much negative impact would that have on our margins?
- Sunil Nalavadi:** Yes, definitely, that will have an impact on the margins. But ultimately, we have to give increment to the employees also. And last, the regular increase, whatever happened, these are all increased because of some internal promotions and some of the shift of employees to the newer geography. That's the reason. But as a regular process, actually, we are considering the increase in the employee cost in the second quarter.
- Nishant Chowhan:** Okay. And sir, what would be the nature of these employee costs? Are they like more fixed cost? Or are they like in some way related to...
- Sunil Nalavadi:** Yes. First it's fixed in nature. Other than drivers, rest of all employee cost is in fixed in nature.
- Moderator:** Ladies and gentlemen, with that, we conclude the question-and-answer session. I now hand the conference over to the management for their closing comments.
- Sunil Nalavadi:** Yes. Thank you, each and everyone. Basically, there are a lot of questions on the volumes and profitability numbers. So considering this, the rationalization exercise what we did, we can give more clarity on these numbers once we complete either quarter 1 or quarter 2. So with that, actually, we wish to conclude this call. Thank you.
- Moderator:** Thank you. On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.