



Mahindra Logistics Limited

9M FY2019 Earnings Conference Call

January 31, 2019

Moderator Ladies and gentlemen, good day and welcome to the Mahindra Logistics Limited Earning Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari Thank you. Good afternoon, everyone and thank you for joining us on Mahindra Logistics 9M FY2019 earnings conference call. We have with us Mr. Pirojshaw Sarkari (Phil) – CEO and Mr. Yogesh Patel – CFO of the company. We will begin the call with opening remarks from the management following which we will have the forum open for a question and answer session. Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Phil to make his opening remarks.

Pirojshaw Sarkari Thank you, Anoop. Good evening, everyone. Let me start by wishing you all a very happy 2019. I will first talk about the industry and sector update and then move to the financial results. Government continues with its emphasis on the logistics sector. The department of logistics under the Commerce Ministry has appointed Mr. Sivasailam as Special Secretary. Mr. Sivasailam was earlier the Telecom Secretary, importantly now the PMO has set up a special committee under the leadership of Mr. Bibek Debroy who is the Chairman of Economic Advisory Council to the Prime Minister to look at action areas to improve the logistics sector. I have been saying that for 'Make in India' to succeed 'Move in India' has to be more efficient. It was heartening to see continued action from Government in this regard. Some of the notable projects are project for de-congestion NCR region, shipment of containers from Kolkata to Varanasi on river Ganga. Ro-Ro on an island called Majuli on the Brahmaputra river in Assam, inauguration of India's longest rail-road bridge 'Bogibeel' to improve the logistics along the broader of Assam and Arunachal Pradesh.

Let me share a quick overview on the key end-use sectors for the logistics industry:

Automotive: Automotive sector reported subdued numbers in Q3 FY19 owing to sluggish demand witnessed by OEMs. Liquidity crunch in NBFC sector further compounded the challenges that the sector has been facing. The revenue growth of most OEMs is trailing the volume growth. Additionally, some OEMs had high non-

production days in this period to manage the supply and attend to other matters like maintenance, inventory count, etc. Most of the OEMs are confident of improving demand from Q4 FY19 with improvement in liquidity and easing of crude prices.

Consumer goods: Many Companies expected a better performance as festive sales were pushed to Q3 instead of Q2 last year. Like the earlier period, the rural growth has been more than the urban growth as seen in the results of the FMCG Companies. The Governments focus on agriculture, MSME, education, healthcare, infrastructure and employment are expected to directly impact the FMCG sector. These initiatives are expected to increase the disposable income in the hands of the common people especially in the rural area which will be beneficial for the sector.

E-commerce: During the quarter, the Companies in the sector had their peak festival sales. The major players further secured funding from the parent or investors. Competitive intensity was high as major Companies were fighting for their share of GMV. The sector right now is grappling with the policy changes initiated by the Government.

Now, let us move to operational and financial discussion:

Let me first cover the financials for the 9M and then the Q3. For the 9M period ending December 2018, our revenues grew 12.4% on a Y-o-Y basis to Rs. 2,837 crore. This growth is a result of combined contribution from existing and new customer. Our revenue from Mahindra Group Supply Chain business grew by 15.4% to Rs.1,557 crore. Revenues from Non-Mahindra Supply Chain segment grew by 7.9% to Rs.992 crore. In our PTS business, we grew from Rs.254 crore to Rs.288 crore registering a 13.2% growth. Proportion of revenues from the Mahindra Group to total revenues is 54.7% compared to 56.5% last year.

I would like to give some more details about the Mahindra Group business. I keep getting a lot of questions on the Mahindra Group business. I have been mentioning the logistics spend for the Mahindra 'Auto' and 'Farm' business is not directly proportional to their respective growth. It is dependent on where they manufacture, which product they manufacture and where the demand for the product comes from. Of course, if the 'Auto' and 'Farm' division grows, Mahindra Logistic will also grow. However, proportions will differ. Before the birth of Mahindra Logistics, it was a division of the Automotive and Farms sector. Therefore, we have been doing the entire logistics for this sector over the last 10 years of our existence and it has been a large business for us. However, over the year's new entities, joint ventures have been formed by the Group. These are in diverse areas including solar, defense, retail, auto components, etc. We compete for the logistics business of these Companies just the way we do for our Non-Mahindra customers.

Gross margin has expanded from 7.78% to 8.26% contributed by Supply Chain and PTS segments both. EBITDA for the 9MFY19 was Rs.116 crore, registering a growth of 33.27% on a Y-o-Y basis. The EBITDA margins for the period stood at 4.09% higher by 64 basis points. The PBT and PAT for the period was Rs. 98 crore and Rs. 63 crore registering a growth of 40% and 41% respectively. In our Non-Mahindra Supply Chain business, the revenue from warehousing and other value-added services have grown at 28.5% over the same period last year.

Now, let me share with you the financial performance for the quarter ending December 31st, 2018:

Revenues have increased from Rs.835 crore to Rs.981 crore, an increase of 17.5% year-on-year. Our revenues from Mahindra Group Supply Chain business grew by 17.9% to Rs.516 crore. Revenue from Non-Mahindra Supply Chain segment grew

by 15.5% to Rs.365 crore. In our PTS business, the revenue for the period was Rs.100 crore, an increase of 22.8% year-on-year.

Proportion of revenues from the Mahindra Group to total revenues is 54% compared to 53% last year. Revenues reported by Non-Mahindra SCM segment and the PTS business are respective highest ever numbers for each of the segments. In our Non-Mahindra Supply Chain business, the revenue from warehousing and other value-added services have grown at 33.5% over the same time last year. While our gross margin percentage for the quarter is marginally reduced from 8.19% to 7.94%, I continue to highlight that it is most appropriate to look at our business on a year-to-date basis.

Having said that let me explain the reasons behind the number for this quarter:

There has been a slowdown in the Auto industry. Auto industry had a challenging Q3. There was a drop-in volume from what was expected, some of our OEM customers also had higher NPD days, which is non-production days, which affected our realizations. Peak volumes handled for e-commerce business as you all know e-commerce players had huge volumes in the festive period. Scaling up for a short period of peak entails extra investment in man power and vehicle and thus is a pressure on the margin. EBITDA for Q3FY19 is Rs. 37 crore registering a growth of 21% on a Y-o-Y basis. The PBT and PAT for the period is Rs.31 crore and Rs.19 crore, registering a growth of 25.4% and 24% respectively. We continue our focus on margin expansion across business segments. We have stayed committed to our efforts to improve the working capital and free cash and cash equivalent reserves position. I had mentioned in our last call about the new business, one from marquee customer. Those projects are at various stages of implementation and will add revenues as we move on. Some of the notable wins this quarter are as under.

- 1) Multinational engineering and industrial major,
- 2) Global construction equipment manufacturer,
- 3) Global telecom equipment manufacturer,
- 4) India's leading lubricant manufacturer and marketing Company,
- 5) Multinational beverage group and a
- 6) Leading non-ferrous manufacturer.

I would be constrained to share more details here at this time due to contractual reasons with our customer.

Some other details: During the 9M FY19 we have added 1.3 million square feet in the warehousing space. I am also happy to report that we won the 'CII Supply Chain' and Logistics Excellence Gold Award' for overall excellence. This was for our work cutting across different elements of logistics services namely, transportation, freight forwarding and warehousing. I would also like to update on the key priorities.

- 1) Build strong customer relationships: We have continued to work on this. Our retention rate has been 96% for our top 25 customer.
- 2) Invest in technology in our operations: Our digital and transformation team is progressing on the road map it has prepared across both Supply Chain and PTS business segment. Our engagement with Transtech, the Company we invested in earlier is expanding.
- 3) Improve business partner engagement: Our business partner plays a very important role for us. We constituted a forum with key members the business partner council. The forum is generating active traction required for it to be mutually successful.

- 4) Do good while doing well: We continue with our interventions like festivals, celebrations, health checkups with our driver community.
 - a) On the PMKVY program of training 10,000 drivers: Till December we have completed almost 7,000 drivers.
 - b) On the CSR front: We continue to work with the people of our adopted village - Tembha near Shahapur in Thane district. During the quarter we handed over the second water supply project to the Panchayat and community. During the quarter, we also launched a zero accident zone project on the Nasik Bhiwandi Expressway which is a major arterial road in general and in particular for Mahindra Logistics. We are working in collaboration with the Police department, local communities and NGOs to make this a zero accident zone in the future. India hosted the Deaf ICC World Cup 2018. Our PTS division partnered with the organizers for providing surface transport solutions for this event.

Therefore, in the quarter gone by, we completed one year since our listing on the stock exchange. I am happy that we have continued to generate value for all our stakeholders. We continue to have positive outlook towards the sector as we help customers redesign their supply chain for effectiveness and efficiency.

On that note, I come to the end of my opening remarks and would like to now ask the moderator to open the line for Q&A. Thank you very much.

Moderator	Ladies and gentlemen, we will now begin the question answer session. We take the first question from the line of Mukesh Saraf from Spark Capital.
Mukesh Saraf	Sir, my first question is regarding the Non-Mahindra SCM business. So, we have obviously seen a very strong growth this quarter there, sequentially also the growth is quite strong. Just could you give a sense on how much of this incremental growth sequentially has come from newer customers, the contracts that you had announced say in the last 2 or 3 quarters? Could you give some sense on what could be a proportion from those newer customers?
Pirojshaw Sarkari	Basically, as I had announced in the last quarter that we will see growth in the third quarter in our Non-Mahindra Supply Chain business and I think as an organization we have delivered upon that growth in the Non-Mahindra Supply Chain business. This growth is primarily coming as a combination from both our existing customers and our new customers. New customers who we get in the transportation business, the growth is seen immediately whereas, new customers that we get in the Supply Chain side of the business which is warehousing and in-factory logistics, we take an implementation period of upto 3 to 4 months before which we see the total potential coming to our topline. Having said that, this period also saw the peak for the e-commerce business, which saw a growth coming during the Diwali peak and a combination of all these three is how we have managed to get a 15.5% growth.
Mukesh Saraf	And my second question is more general question. We have seen there is a lot of investment on warehousing space coming from lot of these PE funds and I mean, these are backed by PE funds using the embassy's and indo space's there is lot of warehousing space getting added and the future targets are also quite high in terms of these space that they want to add. Could you give some sense in this, are these warehouses first of all coming at the right locations and could they actually be beneficial for us and also could this also mean that we might get better terms, in terms of the lease rentals etc. in the future?

- Pirojshaw Sarkari** Post GST the need for 'A' grade warehouses in the Country was really felt and I think most of these Companies are now setting up what we call 'A' grade warehouses in areas where the demand is very high. So, for example you will see that beyond Gurgaon in the north is where these warehouses are coming up or in Bhiwandi in the West or in Bangalore in the South. The supply that is coming in the 'A' grade warehouses is taking time because the construction takes time and it is just been about a year and a half or 2 years that these investments have started pouring into the country. I think for Mahindra Logistics, which is an asset light company, for us taking anchor positions in these so called warehousing parks is mutually beneficial way of doing business, between us and these warehousing companies because we can try and get a good rate from them, being their anchor customer and they would always like a Mahindra name to be there as a tenant in their park. So, we look forward to more such warehouses coming in. Today they are at specific locations because all of them feel these are the locations where their warehouses will get leased out much faster. But there is also need i(for warehouses) n the hinterland of India where if a manufacturing plant is set up in a state where warehousing has not yet caught up then it will take a little time because, as you know the funds have to be deployed where they get the best returns.
- Mukesh Saraf** But in terms of say timeframe, do you think like in the next 1 year we can start feeling the benefit of this in terms of the rentals?
- Pirojshaw Sarkari** So, the benefits come even now, as we take positions in our warehouses the benefits come if we have taken the anchor positions. What I am meaning is, is there enough supply in the market today? The answer is no. We still need a lot more supply.
- Mukesh Saraf** And third and it is again a general question on your investment and digital technology. I mean, you had kind of emphasized a lot on this. But this again could you kind of just give a sense on how this would help in new customer acquisition? Or any example on if it is already started helping in some customer acquisitions. Could you just give some sense on that? That could be my last question, thank you.
- Pirojshaw Sarkari** So, our customers requirement is fulfillment of the need of the customer's customer and this I have been saying for some time now. The customer's customer has become more demanding. So, if you take an example of FMCG Company, the customer's customer is the distributor and the distributor is now more and more demanding the visibility once he places an order on the customer. And visibility can only come through technology. So, technology continues to play a very critical role as we move ahead as a differentiator for a logistics service provider.
- Moderator** Next question is from the line of Ankur Periwal from Axis Capital.
- Ankur Periwal** Continuing with the earlier discussions especially on the revenue contribution from existing and new. Now, you did mention some bit of let's say interim margin pressure because of higher customer which are coming in from a 3PL perspective. Will be good, if you can highlight that how much of these incremental client that we are adding are more like in-factory or their warehousing management which obviously increases stickiness of the business with them as well?
- Pirojshaw Sarkari** So like I had said in my speech also, this quarter we have grown our warehousing and value-added. So, when we say warehousing and value-added we mean warehousing and in-factory logistics. And we have been able to grow that at a 33% growth rate, right. That is in our Non-Mahindra warehousing business. So, if our overall growth in our Non-Mahindra business is at 15.5% and we have grown the warehousing and value-added at 33%, Ankur, you are smart enough to know how much we have grown our warehousing business.

- Ankur Periwal** Okay, so let me put it differently. So, our warehousing contribution overall has increased from 22% 9M last year versus almost 26% now. Now, when I look at the gross margin expansion here, it is not as strong now. Now is this partially because of the new client additions coming in or is that something more towards, so just wanted let's say some clarity on that.
- Pirojshaw Sarkari** So, there are 2-3 areas which I addressed in my opening remarks. Number one is the down turn in the automotive industries. So, when you are doing in-factory logistics for example for an automotive customer and if the customer has declared non production days much higher than what they normally would have declared in the month of November or December, your profitability goes under pressure because you have a certain fixed cost that you have to continue incurring in that place. The second area is of course, when you start any new customer and specifically in the post GST area where the new customer has redesigned his network and wants you to be a part of the redesigned network, there are a lot of challenges that are faced in implementing that warehousing business, because the data available to you based on which you actually designed your solution was based on the old way of doing business. Now it is a new way of doing business. So, it takes a little time and investment. It is a matter of 3 to 4 months before which you stabilize and then you start earning your profits from that particular business. And the third area of course, is the e-commerce peak which I said in my remarks. The scale that you have to really put in for a short period of time requires disproportionate investment and therefore, the margin percentage falls although the absolute margin does go up.
- Ankur Periwal** Phil, just one clarity on the last point. Now, since we are asset light here, so is there still a minimum commitment that we have for example just hypothetically let us say e-commerce demand is only for 3 or 4 months during the second half or the festive season. Our deployment will have some minimum guarantees there? Because otherwise being an asset light the cost should not have been ...
- Pirojshaw Sarkari** No, so let me give you a concrete example. So, let us say that you are running a sort center for an e-commerce company which is passing about 100,000 packages a day through that sort center. During peak, you are going to pass through 175,000 packages and this peak will last you for a period of 15 days, right. Now, you have to employ that additional manpower at least 5 to 6 days before the start of the peak and then you taper it down after the peak is over. So, you are actually paying for that manpower more than the actual utilization of that manpower and the reason is because you cannot put him on day 1 of the peak and expect the productivity from that person. However, having said that, the absolute margin always increases for you, the margin percentage may go down.
- Moderator** Next question is from the line of Abhishek Ghosh from DSP Mutual Fund.
- Abhishek Ghosh** Just wanted to understand one thing, you had multiple fluctuations in as far as the fuel prices are concerned. Has that somewhere impacted your margins because you obviously pass it on with a lag or whatever is your pricing strategy. But has that somewhere impacted and a stable fuel prices will mean somewhere better margin profile?
- Yogesh Patel** Fuel price fluctuations do get factored into our contract with our customers. There are similar arrangements for reset on the supply-side as well. So, it changes the amount you will bill or the amount of vendor cost you incur. It does not have an impact on the profitability of our, as we are 3PL player.
- Abhishek Ghosh** And also in terms of you spoke about, I think 1.3 million square feet of warehousing space that you have added. What would be the average utilization because they are

since they are in the initial stage, what would be the average utilization for those warehousing space?

- Yogesh Patel** For this space which we have added in this last 3 quarters which you mentioned just now it is already fully occupied.
- Abhishek Ghosh** So, there is no incremental margin that can come in because of margin improvement come in because of better utilization of this warehousing space, that is already there. Is that a right assumption?
- Yogesh Patel** No, so I think margins, as Phil was mentioning a while back that as we onboard a customer there is a ramp up period or the transition period, if I were to use that word, till the time we reach the peak performance level there. So, there is a little bit of lag time during which the operational efficiencies, the transition areas get streamlined and the profitability improves. So, as a new customer gets added, it would not be at the designed profitability percentage but it would reach that, once that transition lead time is done.
- Abhishek Ghosh** And what is the kind of warehousing space that we would add over the next 12 months?
- Pirojshaw Sarkari** So, we are looking at continuously adding warehousing space in the Country. We have over the last 1 year already added a few million square feet and we will continue to do that as we find good assets coming up with our partners.
- Abhishek Ghosh** And just last one from my side. Being at the start of the year, we were kind of the view that third party logistics in India will grow at 20% and we will grow faster than that and we should see a margin improvement of about a 50 bps every year. Do you hold on to that or is there a change in the trajectory?
- Pirojshaw Sarkari** So, I definitely hold on to the 50 bps margin expansion and if you see our 9M results, it is a little over 50 bps and we will definitely continue doing that. When it comes to the topline growth as you have seen that the first 2 quarters were slow and we have kind of made up for it in the third quarter and we will continue our endeavor to perform in the fourth quarter also.
- Moderator** Next question is from the line of Manish Goyal from Enam Holdings.
- Manish Goyal** I had couple of questions. Just to clarify on the Mahindra & Mahindra total revenues for the quarter and for 9M, if you can kindly repeat those numbers and comparative as well for quarterly and 9M?
- Yogesh Patel** Mahindra Group revenues for the Q3 was Rs. 516 crore and for a 9M period for Rs. 1,557 crore. And the comparative numbers of same last year quarter ...
- Manish Goyal** Sorry, for the quarter Mahindra & Mahindra was?
- Yogesh Patel** So, Mahindra Group revenue in Q3FY19, this quarter gone by, was Rs. 516 crore and corresponding number in the last year Q3 was Rs.437 crore. For the 9 month period it is Rs.1,557 crore this year and 9 months of last year was Rs.1,350 crore.
- Manish Goyal** And can you also give us, fine for PTS we will derive that number. And one more observation which we had from the data points what you have shared in the presentation that your top 20, I am referring to the SCM segment, that the top 20 Non-M&M customers have grown at, basically their revenue contribution is 66% and it was 62% in Q2 FY19. So, ideally what we have seen is that your top 20 customers

have grown at 25% Q-o-Q and the new customers have seen only gross or may be the small customers and the new customers put together have seen only a 5% growth. So, ideally most of the growth is coming from your top customers and not much from your new customers. That was the observation, if I am wrong, if you can clarify on that?

Pirojshaw Sarkari Numerically your observation is correct but like I said all the new customers that we are winning as specifically which we had said we had won in the end of quarter 2. Take a little time for implementation and for peaking their revenue potential with us. So, you will see that as we move ahead that will also increase. Also, one of the factors that the top 20 is showing so much growth is also that we had a peak in the e-commerce business where some of our top 20 customers are situated and therefore, they seem to be showing a much larger growth.

Moderator Next question is from the line of Rakesh Vyas from HDFC Mutual Fund.

Rakesh Vyas Couple of questions from my side. First, so effectively our growth in Non-M&M SCM business has slowdown considerably in this 9-month. Have we lost out on market share, I am just trying to understand whether market has grown much-much faster than what we have been able to achieve because till last year our growth was significantly higher than the market growth.

Pirojshaw Sarkari So, there has been a change in the way logistics is happening in the organized market and that change coming about because of the GST that has come into play. We stated this and we have done it in the third quarter. We have grown our Non-Mahindra business by 15.5%. And we will, we look forward to maintaining growths in the next quarter also. We have won a lot of customers between the second and third quarter and as they stabilize, we will see the growth coming. So, there is no real big change that has happened over there.

Rakesh Vyas And also on some more granular detailed of the 4-5 key segments that we were focusing on, in the Non-M&M business portion which includes e-commerce, consumer durables, engineering, bulk, pharma, etc. If you can just throw some light as to how they have performed or have we de-emphasized on any particular segment in last 9 to 12 months?

Pirojshaw Sarkari So, we have not de-emphasized on any segment. In fact, if you look at our 4 verticals they are somewhat similar of few percentage points up and down in our entire Non-Mahindra business. Yes, our consumer business has grown and as a percentage the highest growth on the topline and the concentration will be on consumer, FMCG. Post GST these are the companies that are changing the way they are doing their logistics. Having said that there is enough scope as I said in my opening remarks, we believe that the automotive sector in the next quarter will also bounce back and we will see growth there too.

Rakesh Vyas And just to get some more clarity, by what growth rate do you expect the general third party logistics industry to grow for next couple of years the rate at which we expect our Non-SCM also to grow at least?

Pirojshaw Sarkari So, as I talked to our few friends in the industry all of us believe that this year the third-party logistics should grow at about 10% to 15%. That will give a spring to the next year where we should see growth rates coming back to the prior years.

Rakesh Vyas So, we should be expecting closer to 20% kind of rates going forward?

Pirojshaw Sarkari Definitely, double-digit growth.

Moderator	Next question is from the line of Gurpreet Arora from Quest Investment.
Gurpreet Arora	My first question is, as you have been mentioning about the slight weakness in your core auto industry. So, if you can quantify what would have been the revenue loss because of this slowdown?
Yogesh Patel	So Gurpreet, the loss which we have had, obviously the impact on topline would be there and here the highlight would be more from a perspective that the bottom-line it impacts is quite significant in terms of percentage. So auto segment from our perspective, in our case we have Mahindra Group also as an anchor customer there and that obviously has grown. So if you see our Mahindra Group revenue growing and that has contributed to the auto sector balancing out in terms of absolute number. But on the Non-Mahindra Group auto customers, where the outbound volumes dipped and also non-production days come in obviously led to that growth getting softened in the Non-Mahindra auto segment which also impacted the profitability.
Gurpreet Arora	So, if you can quantify that in terms of top line at least?
Pirojshaw Sarkari	So, we do not want to go at sector level quantification over year. On an overall basis we have shown a growth of 15.5%.
Gurpreet Arora	So if we were to assume as a worst case scenario, the auto industry continues with the same momentum in Q4 as well. Then what could be your revenue guidance for this year and next year?
Pirojshaw Sarkari	So, we are very optimistic on the automotive sector revival which we are already seeing in the month of January happen. So, we do not believe that there should be any real pressure on the automotive sector.
Gurpreet Arora	My second question is related to the OPEX. Are there any one-offs in non-employee OPEX?
Pirojshaw Sarkari	No.
Gurpreet Arora	And if we can highlight, what sort of Non-Mahindra SCM customer base would you have today and how many we would have added in last 9 months?
Pirojshaw Sarkari	So, we have more than 200 customers in our Non-Mahindra customer base and we would have added a substantial percentage in the last 9 months.
Gurpreet Arora	My last question is related to PTS, we were to upgrade some technology. So, if you can highlight what are the growth prospects there and where are we in terms of technology and growth in margins, thank you.
Pirojshaw Sarkari	So, as you may have observed our PTS business has recorded its highest ever revenue in a quarter that Rs.100 crore this quarter and we have invested in technology in building out the optimization engine for our PTS business. We strongly believe that the growth potential will come if we become cost effective with the local players because the customers tend to pay the same price for the service. But they want to do more business with our dependable company like Mahindra because for them security is very important as they move a lot of women employees for their IT, BPO segments. So, we have invested in technology and we believe that the growth potential in our PTS business should be good moving ahead.
Moderator	Next question is from the line of Alok Deshpande from Edelweiss.

- Alok Deshpande** I have two questions. So, my first question is on, in the press release you have mentioned that the Return on Capital Employed for the business is now reached about 28%. I just wanted to understand specifically to the warehousing business. Firstly, when you expand on the warehousing space what are the typical investments that go into that and secondly, if the ROCEs, are they similar for the transportation business and the warehousing business or is there a very wide differential between the two?
- Pirojshaw Sarkari** So, basically being an asset-light business, we do not look at ROCE on service element. Having said that, in the warehousing business the typical investment depends on the contractual terms that you make with your customer. So, first of all as I have always made it clear we do not own any of the warehouses. So, all our warehouses are on lease. But the investments that we make depending on the contract is on the MHEs and the racking materials that we put inside a warehouse. For a typical large size warehouse if we have to invest both in MHE and in racking infra, we would be investing anywhere between Rs.1.5 to Rs.2.5 crore depending on the kind of MHEs that we need.
- Alok Deshpande** And second question Phil was on your focus on the consumer and FMCG segment. Just wanted to understand now in this space we have some pretty large players who are global players likes of HUL or Nestle or P&G and these companies would have sort of replicated there global supply chain models we should do to an extent. So, when you approach large players like that, what are the typical offerings to them? Are we trying to offer them services in regions where they are not there? I just wanted to understand that what difference sort of, what difference we can do there?
- Pirojshaw Sarkari** So, let me just kind of correct your statements. So, these large FMCG players when they came into India, they did not set up their network based on what they were doing outside of India. They set them up according to the tax regime that was there in India before GST. So, definitely there was a big change that they had done and that required them to work with C&F agents throughout the Country. Post GST, yes they are wanting to change their networks and they have started doing that where they are looking at large format and large distribution and therefore they have an alternative either they bring in their partner logistics player who serves them internationally. If he is available in India, they start with that and then they see if he is capable in India to do the same that he or she was doing outside. Or they will come to players like us who are Indian players who can give them that service. So, this has been a change, big change for the FMCG players. The second important thing that they look for is integrating the IT between their servers and the logistics player's server to have a smooth visibility forward and backward of the transaction. IT connectivity becomes a big challenge for the smaller players because there is a lot of security, etc. which you have to deal with their corporate headquarters and that becomes very-very challenging for the smaller players. The larger players can definitely take advantage of that. So there are many reasons why these FMCG Companies post GST are looking at changing their logistics service providers to larger players.
- Alok Deshpande** So, just one clarification, you mention on the investment that you have to do in MHE and everything so but Rs.1.5 to Rs.2.5 crore you said for a large warehouse. So when you say large warehouse typically what is the size we are.....
- Pirojshaw Sarkari** In my parlance, it is anything between 100,000 and 200,000 square feet.
- Moderator** Next question is from the line of Aditya Mongia from Kotak Securities.
- Aditya Mongia** I had two questions. The first question was on margins. Now, as you said it quite commendable that you have grown your margin by about 40 basis points on a 9M

basis or Y-o-Y basis in the SCM segment. And you are expecting this number to grow incrementally by another 40-50 basis points next year also. Could you provide some color as to what initiatives led to this margin improvement this year and will it be the same drivers or different drivers when you are thinking about expansion and margins next year in SCM.

Yogesh Patel

So Aditya, from a margin expansion perspective we are looking at obviously the first element which is operational efficiency is to be driven across our transportation as well as warehousing and line-feed segments. So, from a perspective of transportation meet better rate negotiation, consolidation, etc. and similar things in terms of operational efficiencies in the warehousing and other services segment. Now, going forward on a continuous improvement perspective, if you were to talk of operational rigor or efficiencies to be driven, answer would be yes but within that obviously there will be different elements one would touch in. In addition, from our quality perspective or a bigger perspective we run lot of Kaizens in our operational programs as well. And each of them gives us a very identifiable material savings or operational efficiency. So, with this philosophy being executed, we are confident that what we have set out to do and have achieved as well, we would continue on this path.

Aditya Mongia

Second question was more on the revenue front. Now, obviously FY17 and FY18 were great years for us. We grew our revenues on the SCM side by 30% plus. What according to you essentially needs to happen for that kind of growth being achieved again by MLL?

Pirojshaw Sarkari

So basically, once we have implemented the new businesses that we have already won in Q2, Q3; the confidence in the larger customers of players who can handle the change that they want to undertake in running RDCs and larger distribution will come in and therefore new contracts will be awarded to those players who have exhibited their skill sets to be able to perform and that is what will show larger revenue coming in through the post GST changes that we are already seen.

Aditya Mongia

So, just to kind of clarify, let us say now that you have good new customers having already been added. Do you see that for yourself in next year let us say a 30% growth can be an achievable target or do you think that kind of run rate is still some time away? Since the SCM ...

Pirojshaw Sarkari

So, I can tell you that the growth has started from Q3 this year and we will continue growing this business.

Moderator

Next question is from the line of Ankit Panchmatia from B&K Securities.

Ankit Panchmatia

Just to get your view on the comment which was made regarding freight forwarding. So how are we planning to get into this business and what sort of estimation or internal estimations if any we have regarding this business scaling up?

Pirojshaw Sarkari

So, if you really look at all the large International logistics players, majority of them have at least 25% to 30% of their business coming from freight-forwarding. We as an organization made a small investment in 2014 in Lords freight. Now, we are pretty serious on enhancing our freight forwarding revenues today. Our freight forwarding revenues are about 5% to 6% of our total revenue. We are definitely looking at avenues of increasing that to the next level that is 10%-15% of our total revenue. We will be looking at both the organic way of doing it as well as if some opportunity is come up on the inorganic side, we would also be looking at those. So, we are pretty serious about our freight forwarding business in the next couple of years.

- Ankit Panchmatia** Sir, here we are talking about the International freight forwarding or the containerized freight forwarding, right?
- Pirojshaw Sarkari** Yes, the International freight forwarding by both ocean and air.
- Ankit Panchmatia** And sir, just to get clarity on this new clients, so typically how do we scale up the revenue or we how did we mine these clients as we start with the plain vanilla transportation then move or migrate to in-house logistics and warehousing. If you can just give me a brief background around how do we mine more?
- Pirojshaw Sarkari** So, we basically have a sales team which is divided into two. We have the key account managers and we have what we call the hunters. And the hunters are the ones who go into new businesses and open up the doors for us to start working with a new customer and then we mine that customer by handing that customer over to our key account manager depending upon the potential of that customer. On the other side, wherever we are doing in-factory logistics, we keep an eye on what is the transportation that is happening for raw materials coming into the factory and what is the transportation happening for distribution of finished goods from the factory. We always collect data and then we go back to the customer to expand our business from in-factory to distribution or to inbound transportation. Also warehousing requirements are they come up. So, there is no fixed way that we get into a customer it is not that we start with transport and then move on to in-factory, it depends from customer to customer, either way is the clear intent is to gain more business from the same customer and that is why as you are seeing that our top 20 customers give us 67% of our Non-Mahindra revenue.
- Moderator** Next question is from the line of Kunal Bhatia from Dalal & Broacha.
- Kunal Bhatia** Just wanted to know as on date what percentage of Mahindra's logistics would be handled by us and secondly what is the kind of growth have we seen on that end? What is the kind of growth do we see on that going forward?
- Pirojshaw Sarkari** So, it is a question that I was waiting for really. Let me explain to all of you around the table that Mahindra is a federation of 126 plus Companies. When you ask me what percentage of their logistics we do, the question can be broken into what percentage of the Auto and Farm sector logistics we do because we were a division of that sector, then we were kind of spinned-off into a Company. So, for the Auto and Farm sector, yes we do 90% of their logistics. But there are another many Companies that Mahindra keeps either investing in, does joint ventures and where we have to go and bid for those businesses just like we would do with any Non-Mahindra business. For example, Mahindra's have gone into the solar business, Mahindra's have gone into the boats business, Mahindra's have gone into the car scrapping business. Most of these businesses they are going in with some external investor or some joint ventures that they are making and these businesses keep floating RFQs for their logistics and we have to go in and bid against our competitors and win that business. However, because of the nomenclature, we still put that under the Mahindra group business because that is what the legal system tells us to do. So, a lot of people look at Mahindra business as if it is a business that we get by right which is not correct. We have to bid for that business just like we do for any other customer.
- Kunal Bhatia** And sir, just an extension to the previous point in terms of freight and forwarding. Are in that case the margins would be lower or it could be higher to our average?
- Pirojshaw Sarkari** No, so the margin would be as per the service that we give and the intricacy of the service that we provide. There is no lower or higher than average for the Mahindra entities.

Moderator	Next question is from the line of Prateek Kumar from Antique Stock Broking.
Prateek Kumar	Couple of questions. Sir, according to you like what would be the e-commerce industry growth if we have an estimate during this quarter, I mean during third quarter, in terms of overall growth, in terms of GMV or something. So, for that is what, I mean would that be reflect in our business also, similar number?
Pirojshaw Sarkari	So, if you are asking about the e-commerce logistics growth or e-commerce as an industry growth because I would not be the right person to answer the e-commerce industry growths to you. The e-commerce logistics, we are pretty buoyant because we are seeing that the trend in the e-commerce industry now is to put up more number of smaller warehouses nearer to the consumption point, so that the delivery happens faster. And since we service these customers on the smaller warehouses we are seeing good growth happening and as you know warehousing is one of our focus areas to even expand our margins. So, we have pretty buoyant on that sector.
Prateek Kumar	But what would be, I mean we used to do I think in FY17 around Rs.200 crore revenue from this segment, e-commerce segment in Non-Mahindra SCM. So, that number would have moved up substantially from that number, I mean two year hence.
Pirojshaw Sarkari	Yes, so just as we are growing all our verticals, we also growing the e-commerce vertical and if you really look at vertical wise spread our e-commerce verticals should also be between 20% and 25% of our Non-Mahindra business.
Prateek Kumar	During this quarter in the subsidiary business there was a decline in revenue, any specific reason related to that?
Pirojshaw Sarkari	Sorry, in which businesses?
Prateek Kumar	So, console minus standalone numbers, there was a decline in numbers on a year-on-year basis.
Pirojshaw Sarkari	Yes, so the freight forwarding business did face certain challenges. The market itself in freight forwarding has become extremely tight, having said that we are a very small player in a big ocean. So, we are definitely looking at ways of coming, bouncing back in that business and enhancing our revenues over there.
Prateek Kumar	And sir, just one question more, I mean you have explained enough on margin performance but related to I mean was there any reclassification of numbers from other expense? operational expense to other expense because on a Q-o-Q basis if you see a change as 100 bps like to like change negative and positive in both these line items versus sales. So, is there one-off and other expense or is it the cost related to e-commerce which you talked about, I mean in your comments.
Yogesh Patel	So there is no new reclassification per say, this cost of other expense what you see there also includes (cost of) people which get deployed in our warehousing primarily and in fact in logistics overall per say. Whereas, transportation cost is direct one which you have seen. So, from that perspective it is the mix change which you are seeing in our businesses and with that there is a shift in costs between those 2-line items what you are seeing. It is reflective of the business mix itself right now, not one timer's there.
Prateek Kumar	So like warehousing what you mentioned increased deployment of workforce, etc. but I guess we have also changing our business to sticking to this private equity bagged REITs Company like Stellar, etc. So, are their rentals also higher than, I

mean versus the warehouse owners or warehouse builders which we used to deal earlier. So, is their rentals also gone up for us like-to-like.

Yogesh Patel

No Prateek, so nothing on that has gone up. So, what I was explaining was what you see in our line item of freight and other related expenses carries the cost of transportation segment of ours, the non-transportation which is warehousing and other value-added services which we provide the cost of that comes in other expenses line item since there is no different classification of it. So, the change what you have seen comes up as year-on-year movement between the 2 weightages is because of this swing. The warehousing and non-value-added service is going up by about 33% what we spoke of earlier. So, that weightage changing has cost differential there.

Prateek Kumar

But when we say that we are looking for this 50 bps margin expansion, so last year we had like this Rs.8 crore benefit, Rs.8 crore cost impact of this consultation fees which had like 20 bps impact on margins last quarter, last year same period. So, we are comparing it to 3 point, I mean we are comparing margins inclusive of consultancy fees last year or excluding that fees year?

Yogesh Patel

All included, I mean basically "as reported" our earned total spend, total margin earned.

Prateek Kumar

And sir, just one question, I mean this is just follow up question of the previous question. So, the kind of warehouse builders we used to deal with earlier versus now. So, has in there any change in rentals in general because we are grade 'A' warehouses versus earlier maybe we dealing with smaller warehouse owners. Obviously current ones are also bagged by private equity or looking for specific kind of returns. So, are they looking for a specific the higher yields versus, what your previous counterparts used to look at?

Yogesh Patel

So, again from a perspective of a Grade 'A' or a better spec warehouse if you say while if the cost there is a differential, there will be a revenue differential for that as well. From a perspective of what you will spend or what you will need margin on that does not get diluted. Now from a supply availability perspective depending on where the supply is available given the spread of India as a Country as well as the availability of facilities being different and different types of cities, etc. So, that way you would have dealt with different types of providers of warehouse spaces and the names could be different in our NCR region versus west versus east and probably somewhere in Central India. But from a margin profile perspective that does not make an impact. I mean, you would have A, it is a higher cost, the higher realization also for our better rated warehouse also.

Prateek Kumar

And sir, there any, I mean the status update on refund on taxes from Government?

Yogesh Patel

Yes, this year the beginning of the fiscal in the first quarter, for one-off the year we have got our refund collected itself for another year where we were expecting that we would be able to get it without scrutiny because you know your notices come pretty late but currently that has been picked up for a scrutiny so the assessment is underway, if the assessment closes faster that also will be lined for collection. So, the engagement in terms of assessment procedure is on. The assessment procedure also as you know has been changed to mostly online mode these days. So the to and fro as you would have seen earlier face to face basis that changes on the electronic mode and hope to and because of this electronic mode we expect that probably we could be able to turn it around faster as well.

Moderator

We take the last question from the line of Tejas Lakhani from Edelweiss.

- Tejas Lakhani** Just couple of data points that I am looking for. Today what is the exact warehousing area that we manage, you can say warehouse, stockyard, etc. How much have we added in F19 already year-to-date and how much are we looking to add?
- Yogesh Patel** So, in F19 we have added 1.3 million square feet of space and cumulatively we would be about 15 million square feet.
- Tejas Lakhani** And this would include the stockyards for Auto Companies or is this inclusive?
- Yogesh Patel** All inclusive, yes.
- Tejas Lakhani** And what is this that you expect to add in the fourth quarter?
- Pirojshaw Sarkari** So, we expect to add another half a million square feet of warehousing in the fourth quarter.
- Tejas Lakhani** Okay and how would you foresee F20 what kind of warehouse space do you plan to add? So, I think we will end Q4 let us say at 15.5 million square feet. What is the outlook for F20?
- Pirojshaw Sarkari** So we continue to look at anything above a million square feet addition.
- Moderator** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.
- Pirojshaw Sarkari** So, thank you, everyone. I hope we have been able to answer all your questions satisfactorily. However, should you need any further clarification or would like to know more about the company please feel free to contact either our team or CDR India. Thank you once again for taking the time to join us on the call and see you all in the next quarter. Thank you very much.
- Moderator** Thank you very much. Ladies and gentlemen, on behalf of Mahindra Logistics Limited, we conclude today's conference. Thank you all for joining, you may disconnect your lines now.

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