



## “Mahindra Logistics Limited Q3 FY20 Results Conference Call”

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LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Mahindra Logistics Limited Q3 FY20 Earnings 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, please signal an operator by pressing \* then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shogun Jain from SGA. Thank you and over to you, sir.

**Shogun Jain:** Thank you. Good evening, everyone, and thank you for joining us on the Mahindra Logistics Q3 FY20 Earnings Conference Call. We have with us Mr. Rampraveen Swaminathan – MD & CEO and Mr. Yogesh Patel – CFO of the company. I hope everyone got an opportunity to go through our financial results and investor presentation uploaded on company's website and stock exchanges. We will begin the call with opening remarks from the management, following which we will have the forum open for a Q&A 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 Ram – MD & CEO of Mahindra Logistics Limited to give his opening remarks.

**Rampraveen Swaminathan:** Thank you, Shogun. Good evening, everyone. At the onset, let me just let you all know that I have a bad cold, so I request you all to bear with me as I go through my comments.

I will focus my comments on 5 key areas as follows:

- Industry update,
- Our strategy and its execution,
- How we see end sectors and markets play out,
- Details of our financial performance for the quarter and year to date and
- Operational and business highlights.

The logistics sector continues to be an important area for the government. High logistics cost impacts competitiveness of domestic goods and the government is constantly focused on bringing down the overall logistics spend. Developing world class logistics infrastructure and reducing the overall logistics spend has been a key priority for the current government. Building road infrastructure, the dedicated freight corridor initiative, inland water transportation, SagarMala etc. are few initiatives which are under various stages of implementation. Creating world class warehousing infrastructure is also gaining traction across the country.

At a macro level, we see four emerging industry trends.

- The first one is an increased focus on multimodal networks and systems which we think will gain traction especially with the new logistics policy.

- We see a strong growth in demand for warehousing based services especially higher grade warehousing based services as we see a traction in terms of post GST consolidation by different companies this year.
- Emergence of Omnichannel distribution networks and lastly
- An increase in multi-category players.

In the budget announcement last week, there were two key developments which I think require calling out. Firstly, the Finance Minister announced a significant investment in transport infrastructure. This has a significant positive impact for our industry on a long-term basis. Secondly, she reaffirmed that the National Logistics Policy will be released soon. Several key policy areas will be enabled under the new policy. We are hopeful that under the aegis of this policy, there will also be measures to design sector focus labor policies, common standards and related initiatives.

Moving onto our business:

Let me first begin by just recapping our strategy and focus areas for the business:

We continued to stick to our 3 broad based principles for the business. The first one is growing our non-M&M business both in auto and non-auto verticals. Our focus here will be on growing our value-added services like warehousing, in-factory logistics and line feeding as well as expanding our secondary distribution services to this market.

We will continue to remain asset-light and enhance our network operations through business partners to bring in more efficiencies, scalability and flexibility.

Lastly, we would continue to invest in technological upgradation which we feel is a key differentiator for the services which we provide and will help us gain business and operational efficiencies.

Let me give a quick recap and overview of how our end markets have been performing and how we have looked at them in the near term:

Let us begin with Automotive: FY20 is likely to close with record decline in automotive sales across all the major segments, passenger vehicles, commercial vehicles. The recent pickup in retail growth for PVs and two-wheelers during the quarter which just went by points to some demand recovering in markets; however, with the whole push towards BS-VI in April 20, we do not expect a V-shaped recovery. This will be in our estimate a slow recovery.

The passenger vehicle segment has started showing some positive outlook, but it is still early to call out a definite trend. The commercial vehicle segment warrants a more cautious view due to a persistent supply overhang from the sharp rise in system capacity, stiff regulatory led cost burden and the risk of freight movement shifting to rail as dedicated freight corridors are planned to be commissioned in FY21.

If we move to the e-commerce markets:

Omnichannel and e-commerce industry is gaining traction and will continue to do so over the next few years as an effort to reach towns beyond the current physical presence on improving network for last mile connectivity and ensuring that these companies expand their pin code coverage. The growth of digital technology has steered the adoption rate of e-commerce logistics in a number of applications. The market growth is primarily driven by factors such as cross border e-commerce activities and upsurge in internet penetration and the growth of this market will intensify and drive consumption across various regions. I think as e-commerce continues to rise the companies will need to continue to adjust their business models to accommodate the fast, free and convenient delivery services that consumers demand. We have been a preferred partner for large e-commerce companies operating in India and the rising demand from the e-commerce industry, we are optimistic of growing this vertical at a faster pace by adding new customer and expanding our wallet share within the existing customers.

Consumer and Pharma:

The growth in the consumer and FMCG industry has shown some slowdown this year. What we see is the companies continue to drive towards consolidating their supply chains post GST. This was a trend which many of us in the industry had forecasted, but now seems to be gaining real traction. The consolidation drives opportunities for us to provide multiple solutions, leveraging our capabilities in warehousing, secondary transportation and technology integration. Various markets within this space such as FMCG, Durables have different supply chains and we will see the continued emergence of omni-channel distribution and increased focus on service lines.

Moving onto our performance for the quarter and the 9 months ended 31<sup>st</sup> December 2019:

Revenue decreased from Rs. 981 crores to Rs. 908 crores, down by 7.5% year-on-year for Q3 FY20. For the 9 months ended December 31<sup>st</sup> 2019, revenue stood at Rs. 2,659 crores. Revenue from SCM contributed 90% and from PTS contributed 10% for the 9-month period. Our gross margin adjusted for IndAS 116 for Q3 FY20 stood at 10.3% as compared to 7.9% in the corresponding quarter last year, an increase of 241 basis points. Reported gross margins for the 9-month period stood at 10.1%.

Reported EBITDA for the quarter stood at Rs. 44 crores and for the 9-month period ended December 2019 stood at Rs. 131 crores with an EBITDA margin of 4.9% adjusted for IndAS 116. EBITDA margins on a pre IndAS 116 basis are at 3.5% for the 9-month period.

PBT is down by 30.7% from Rs. 98 crores in 9-month FY19 to Rs. 68 crores for 9-month FY20 and PAT was down by 27.8% to Rs. 45 crores for 9 months FY20. PAT margins for 9-month FY20 stood at 1.7%. For Q3 FY20, PAT was at Rs. 15.5 crores, down 19.2% year-on-year; however, PAT did grow sequentially quarter-on-quarter by 39%. We have a negative impact on profits on account of transition to IndAS 116 this year.

For Q3 FY20 if we negate the impact of AS 116 of Rs. 5 crores and ESOP and RSU charge of Rs. 10.9 crores, our operating PBT for the 9-month FY20 period would be Rs. 83.7 crores compared to Rs. 99.3 crores for the corresponding period, down by 15.7%. The Mahindra Group remains a strong anchor customer for us. For the 9-month FY20 period, revenue from the Mahindra Group was at 51.5% of our total revenue compared to 56.5% of our total revenue for 9-month FY19.

Let me now share the segmental breakup of revenues for 9-month FY20:

The revenues from the supply chain segment reduced from Rs. 2,549 crores to Rs. 2,373 crores. The enterprise mobility or PTS segment revenue stood at Rs. 286 crores for the 9-month FY20 period. Our SCM revenue was impacted largely due to the continued slowdown which is witnessed in the auto industry which is still our largest and dominant vertical in the supply chain management business. Our revenue from the Mahindra Group decreased from Rs. 1,558 crores in 9-month FY19 to Rs. 1,336 crores in 9-month FY20 driven by the slowdown in auto industry.

Our non-M&M SCM business grew from Rs. 991 crores in 9-month FY19 to Rs. 1,037 crores in 9-month FY20. As we have mentioned earlier, this was due to a strong increase in our e-commerce, consumer and pharma verticals which helped offset some of the slowdown in the auto industry. Both e-commerce and consumer and pharma verticals sustained a growth rate of about 25% year-on-year for the quarter which has just been completed. Growth in e-commerce and consumer segments were due to deeper penetration existing customers and providing them more integrated services under the MLL roof.

Our warehousing and value-added services for the non-M&M SCM business which is the core focus and strategic area, has grown from Rs. 256 crores in 9-month FY19 to Rs. 331 crores in 9-month FY20 registering a growth of 29.2% year-on-year. Share of warehousing and value-added services in non-M&M SCM business has reached 31% in 9-month FY20 as compared to 26% for the corresponding period last year. Since our business model is asset light and is flexible and scalable, we have been able to sustain the margins despite our dip in revenues. Our gross margins on comparable basis under IndAS 17 expanded by 50 basis points in the 9-month FY20 period. We believe that the share of warehousing and value-added services and continued focus on productivity, we should see an uptick in the margins aided by these factors.

Let me close with some other business highlights for the quarter:

As mentioned earlier, we saw strong growth in E-Commerce, Consumer, Telecom and Freight Forwarding business segment. These segments grew, driven by new client wins and increased share of business coupled with new offerings. We have gained new accounts which included large auto component, ancillary business for whom we are doing transportation and warehousing. Some of you would have noticed in the press, we launched our new pharma warehousing operation in Northern India. Here, we are focusing on retail as a market and this quarter, we gained some strategic wins in the retail space, both our warehousing and secondary distribution.

During the quarter, we completed our integrated management systems certification with an integrated quality management system which integrates 3 different standards. This reflects the strength of our underlying processes and are continuing maturity of our processes and capabilities.

I am also happy to share that during the quarter; we won the “CII Award for Supply Chain Excellence” at the CII SCALE Awards 2019. The company was also conferred an award for “Supply Chain Brand Excellence” at ET NOW Industry Leaders Award.

So with that, let me open up the floor for questions and answers.

**Moderator:** Sure. Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sayan Das Sharma from Bank of Baroda Capital. Please go ahead.

**Sayan Das Sharma:** First question is on the PTS segment, sir. So if you look at SCM revenue decline was more or less on the cards, but PTS for the past 2 quarters has been a bit disappointing given that revenue growth from the segment could have supported the overall revenue. So why is that happening and how should we look at this segment going forward sir?

**Rampraveen Swaminathan:** It is a great question and I would refer back to, I think a similar discussion in the earnings call at the end of last quarter. So if you remember last quarter, I think we showed flat revenues for the PTS segment. And what we had shared with all of you is that what we have seen in the segment is that several of our large customers have actually seen a contraction in their business operations. Two of our large accounts, both in Southern India have essentially seen a fairly significant reduction in their scale of operations. As a result of that while our share of business remains at the same level which we had earlier, we actually saw a dip in revenues from those two accounts. We have added several new accounts to our business and they are in a ramp up phase. So I would say that by Q1 next year, we should be back to our normal rhythm of the business in PTS. Now on the positive side, we have been able to hold our margins in the PTS business despite that volume impact. We have been able to leverage our asset-light model and take cost out in line with those reductions in operations. So this is a correction curve and we will expect that by Q1 next year, we will be back on course.

**Sayan Das Sharma:** So second question is on the auto vertical. What is the sense on the ground that like we are expecting the production logistics should pick up in Q4 due to the transition into BS-VI inventory, are we seeing that on the ground sir according to the production schedule you would have already got for your customers, how has been the first 1.5 months in this quarter?

**Rampraveen Swaminathan:** So I would say, there are different parts of the automotive space or automotive industry. So on passenger vehicles, I think we are optimistic based on BS-IV pre-buy and BS-VI channel fill. There will be some uptick, but it is pretty hard to call out in a clear way at this stage. What we are seeing is also a lot of supply chain challenges which our customers are facing. So it is not just an issue of planning a volume, but you start dealing with very much on the ground issues saying “do I have enough SCR systems available, or is my vendor fully capable, how do I

transport vehicles in outbound because suddenly you do not have fuel available for BS-VI, instead have to move vehicles out.” So what we are seeing also is while there are some positive upticks at the macro kind of view at a very much on the ground view where there are some headwinds as well. So it has been a bit hard to call it 1.5 months into the quarter. How exactly is going to pan out? In commercial vehicles, of course, I think the space is a lot more challenged. There are multiple factors which, I think we have shared our view on it before. There is a lot of that in the press. So I think green shoots seem a little bit further away in the CV space, but I do feel that on the passenger vehicle space, I would like to believe that things are bottoming out. We should start seeing hopefully some improvement and obviously if there is a lot of prebuy, then Q1 next year maybe depressed because of prebuy, but it should correct itself going into the last 3 quarters of next year.

**Sayan Das Sharma:** Sure sir, that is helpful. Next question I have is on the non auto non-Mahindra segment, so basically if you look at the growth that you mentioned that our growth has been in excess of 25% in the key 3 verticals. So my question is if you can help us understand a bit more on how much of that has come from existing clients and how much has the new clients that you have added over the last few quarters, if you can give us some indication on that sir?

**Rampraveen Swaminathan:** So roughly, half of our growth would essentially come from existing logos. As I say existing logos, I mean there could be existing customers, but there could be something new we could be doing for them. So for example it could be a paint company where we are doing one site and now we are doing a second site for them, right. So it is roughly half our volume has come from existing logos which includes same business growing on new sites coming up and roughly half our growth is actually come from new accounts we have added. In those accounts, obviously as we commission them, we see early cycle warehousing revenue and transportation of what we call secondary distribution follows over a period of time.

**Moderator:** Thank you. The next question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.

**Pratik Kumar:** Sir, my first question is regarding this non-M&M SCM segment. Now the auto segment has dipped to like around 20% share in terms of overall revenue mix. So what would be like the remaining, how the e-commerce, consumer, pharma and bulk could be split? Have we recovered the impact of loss of volumes from bulk customers?

**Rampraveen Swaminathan:** So let me answer the last part of it and I will turn it to Yogesh. So I think firstly, on bulk, we have added accounts and we are in the process of building the revenue ramp up back. I think our go-to-market strategy on bulk now used to see diversified customers. Something which we have, articulated in the last earnings call as well and therefore we are consciously choosing to ensure that we have a diversified customer base and I not necessarily see a quick ramp up on those accounts. So there is obviously some impact because of slowdown in some of those end use segments as well. I will clarify the bulk direction and let Yogesh handle the segment mix part.

- Yogesh Patel:** Pratik, so you know that we right now do not split our numbers by sub verticals within our non-Mahindra SCM per se. We have a non-auto growth in the quarter of 12.4% which was the faster growth than what we had witnessed in the first half of the year itself. This is non-auto which includes the bulk as Ram mentioned just now. This includes post the impact and majority of the growth what you see is coming in from the consumer faced industries, or consumer & pharma vertical as well as e-commerce.
- Pratik Kumar:** Right, because the bulk segment would have also declined year-on-year like auto segment still the ramping up only quarter-on-quarter, but year-on-year because there was a big loss of revenue there?
- Rampraveen Swaminathan:** Your conclusion is correct, Pratik.
- Pratik Kumar:** So our subsidiary in freight forwarding has also grown faster than our standalone business. So is this non-auto business also growing like to that freight forwarding as well?
- Yogesh Patel:** Yes, it is.
- Pratik Kumar:** So that is showing 18% growth in that business?
- Yogesh Patel:** So, that is right. You see growth there as well and that contributes to our non-Mahindra growth overall; however, you also know that weightage of that business is pretty low, in single digit number. So the overall contribution will be in that proportion.
- Rampraveen Swaminathan:** And Pratik just to add to what Yogesh already said, I think the growth in that business is also largely non-auto driven,. And one of the positive things which we have been seeing in that business is increasing synergy between the rest of our SCM business and the freight forwarding business where we are now providing solutions to customers, which are more integrated, more cross border between leveraging both the India SCM business and the cross border freight forwarding capabilities. And that is the other thing which is helping us grow in that segment.
- Moderator:** Thank you. The next question is from the line of Krupa Shankar from Spark Capital. Please go ahead.
- Krupa Shankar:** My first question was regarding the growth. As Ram, you had pointed out that 50% of the growth is coming from existing customers while we are doing new things for them. So just wanted to understand what could be the share or wallet share increase over the last 2 to 3 years if you can share?
- Rampraveen Swaminathan:** I think my specific comment was to, the question around the growth on e-commerce and consumer where we said half our growth is coming from existing customers and half from new customers. I think from a share of business perspective, it is kind of moving target because let us take consumers an example. What is really happening is that our customers are consolidating their supply chains and therefore we have a sense of what probably the size of wallet was earlier,



but as I restructure the supply chains, it is pretty hard to estimate what is the new size of the wallet. So very honestly, that kind of something which will be hard to kind of really evaluate. What I can say for sure is that in many of our customers, we are picking up fairly good level of that business which is getting retendered. So as they restructure that supply chains, I think we have been in a position to win good chunk, so large parts of the business on the restructured network design. On the new accounts, of course our focus has been very specific to look at where we think the long-term growth opportunity. So retail is one. Last quarter, I think Yogesh and myself spoke about the focus we are putting on pharma and we have been able to grow that both import, export and domestic supply chain and in this quarter, we have been able to get more penetration in the retail segment. So we have been looking at specific end segments within the end consumer space and actually looking at how do we create leverage there and how do we build fulfillment solution opportunities. So let me stop there and see if you have any other comments.

**Krupa Shankar:** So just to add on that, so given that top 20 non-Mahindra clientele contributes about 63% of non-Mahindra revenues, what percentage of wallet share would we have in these services? I know it is an evolving number, but the broad percentage of wallet share if you can share?

**Rampraveen Swaminathan:** It is pretty hard; I think, to actually do it for the top 20. Let me probably answer the question a bit differently to the best I can. I say for those top 20 customers who comprise 63% of our revenues, we are number one or number two in terms of that service providers. That is probably the easiest, the closest proxy I can actually bring in to that.

**Krupa Shankar:** My second question was on the Mahindra part of business. Now that we are seeing the BS-VI and also the tractor business, outlook is pretty good for tractors at least. So what is your expectation on the Mahindra revenues?

**Rampraveen Swaminathan:** Krupa, is that question in terms of going forward?

**Krupa Shankar:** Yes, it is going forward sir.

**Rampraveen Swaminathan:** Well, I think on the agri and the farm sector, I think, as you know very well, there are some positives in terms of the overall environment, and I think there is rural distress as well in some ways. So broadly I think at this stage we are still working with our end customers to figure out what their plans for next year are. There are headwinds and tailwinds and obviously in the budget earlier last week, there were announcements which were more also targeted towards the rural sector, so we actually have to see how it plays out. I think at this stage, I am not very optimistic of very high growth. I think there is sectoral distress which needs to be corrected for. There is also increasing productivity in that sector which also as you know the means that the demand for equipment etc. starts coming down. So while there are green shoots there, I think there are some headwinds as well and we are certain of putting all that together along with our customers to build a view for next year.

**Krupa Shankar:** But just to add on have you won any Mahindra orders over the last 9 months which is non-automotive and farm equipment?

**Rampraveen Swaminathan:** Typically, every Mahindra business would essentially be an existing logo, so it is not will be a new logo as such, because we are already doing business with all of them. So based on how their businesses move, we have more up and downs. We have done some more work, let us say with Mahindra Defence, right but on the other hand, our volumes with the solar business has come down. We have grown our business with FirstCry, we have grown our business with Java quite significantly, we have added some work on secondary distribution with the Mahindra farm sector's distributors, so those are 4-5 examples of what we have won, but Krupa Shankar, technically they are all the existing logos.

**Moderator:** Thank you. The next question is from the line of Manish Goyal from Enam Holding. Please go ahead.

**Manish Goyal:** In opening comments, you did mention the overall revenue share of Mahindra-Mahindra total, can you please repeat that number and was it for Q3 or for 9 months?

**Rampraveen Swaminathan:** Manish, it was a 9 months view and what we had said was there is 51.5% for year to date compared to 56.5% for the same period last year.

**Manish Goyal:** 51% for 9 months?

**Rampraveen Swaminathan:** Yes.

**Manish Goyal:** Would it be possible to give us the PTS revenue from non-Mahindra in Q3 and 9 months?

**Yogesh Patel:** Manish, we don't have it handy here, but if you allow me I will circle back with you on this later.

**Manish Goyal:** Okay, sorry, you did mention about within Mahindra Group, there are few opportunities which you are like building up. So any sense as to like what kind of revenue share or growth we can see going forward?

**Rampraveen Swaminathan:** I think as you know we have 3 big parts to that pie, if you may, Manish. One is project based businesses like solar or defence, the second one is retail based businesses like FirstCry and the third one is let us say a two-wheeler business if I just call that out separately. So I think if I look at these three different buckets, I think the project business is really up and down, it moves project-to-project and I have mentioned this earlier, there are not sustainable or clear trend lines around it. On the retail business as well as the two-wheeler business, we continue to see reasonable growth there. As you know, Java continues to expand its position in the two-wheeler market, the high-end of the two-wheeler market, so we obviously have 100% share of business with them on the distribution side. We provide our integrated solution delivering from the plants up till the end dealers. We do the whole supply chain, so we have a strong position there, so

obviously we are aligned to their growth. And then on retail business like FirstCry, we do see some amount of growth which mirrors their own growth.

**Manish Goyal:** And also in past, you did mention that probably the auto ancillary vertical also like we are looking at that, so any development on that side?

**Rampraveen Swaminathan:** Manish, we are continuing to focus on that I think, and I mentioned even in my opening remarks of this quarter, we are in a couple of new accounts in that space. Both of them were Tier-I component manufacturers who manufacture multiple products. So it is not just a single product line but actually a multiproduct Tier-1 component manufacturer. So we have added those accounts as you know. Unfortunately, I think with the switch from BS-IV to BS-VI, there have been deep cuts into those supply chains. So have not been able to see the volume uptick which we expected, but that is not something which is going to back us off from executing that strategy. So I think I have mentioned earlier that is a long-term move we are making. I will conclude to execute that and continue focus on adding new logos in that space.

**Moderator:** Thank you. The next question is from the line of Ankur Pariwal from Axis Capital. Please go ahead.

**Ankur Pariwal:** First question on the non-auto business here. So now over the years, let us say last 1 or 2 years, the top 20 client set, the name of these clients, has there been any upgrade or any downgrade wherein some new client has ramped up and become a top 20 customer for us or it is largely a similar set of clients who are driving this growth for us?

**Rampraveen Swaminathan:** Ankur, it is good to hear from you. Yes, I think there have been changes in the top 20 accounts. On the positive side, one thing I would say is none of the accounts who were there last year in our top 20 have left us. What I have really seen is a decline in their volumes. It has either been and most of them have, very honestly, a problem in automotive companies because they have seen that sharp decline in their business and therefore they have moved a few notches down in the top 20 or they spilled out of the top 20. What we have then also seen is 3-4 new logos which have come in which are really more on the consumer space and the e-commerce space. So we have just seen that swap between e-comm and consumer which has been driving our growth and auto which has been declining, but the accounts are all still with us. We have not seen any loss in account, even the bulk customer where we saw a decline on, these were decline in share of business, but as you know we still do business with that company.

**Ankur Pariwal:** And the decline in business for the guys who have moved to beyond the top 20 was because of their slowdown in business or it was like we know we exited some of the businesses either purposefully or because of competition?

**Rampraveen Swaminathan:** It is a little bit of both, I think obviously on the bulk customer, we made a strategic choice that we will not.

**Ankur Pariwal:** Yes, non-bulk, excluding bulk and auto because bulk you had already explained earlier.

**Rampraveen Swaminathan:** See, excluding bulk; and auto, nobody has first slipped out of the top 20.

**Ankur Pariwal:** So in your earlier comments, you did mention that you have already expanded into pharma which is a new vertical for us. You did mention of expanding into retail as well. Two questions there. One, how different the expertise required here versus what we have been doing with consumer, the non-auto part, let us say with consumer or a durable or an e-commerce? And secondly, how has been the ramp up of the new accounts added over the last, may be 1-2 years because in between we did mention there was a slow ramp up because of the slowdown but are we seeing any early signs of recovery over there?

**Rampraveen Swaminathan:** This is a very wide question, Ankur but let me try and take the first part of it. I think what we have seen in terms of, every time we enter into a different part of the consumer businesses. Our consumer business is a lot of end markets within. It has got durables, pharma, retail, FMCG, so on and so forth. Clearly, each of those markets actually have their own different supply chains, right. So obviously with these solutions, we take fairly standard solution template and we actually tweak and adjust it both with the specifics of the industry and to the specifics of the customer. So there are changes we have to make, there are sometimes new capabilities you have to add, for example pharma required, you had a lot more understanding about quality, about certification, either retail requires a lot more capabilities around returns processing, so we have had to build differential capabilities and that is also one of the reasons why we have been focusing on targeted end markets instead of just doing kind of carpet bombing kind of sales approach. So that hopefully answers your first part. I think the second part in terms of ramp up, what you typically find in customers where we do your secondary distribution warehousing is we see the warehousing revenue momentum go live and the secondary distribution revenue tends to go along with the company's growth. So there hasn't been I would say consistent pattern there, so whenever we have done both our warehouses have generally been going live with expected revenue very early, but the transportation revenue has followed. But by and large, I think we have more growth stories in terms of deployment to target, then otherwise. I think at some stage we will probably then circle back to you with some more insights on that.

**Moderator:** Thank you. The next question is from the line of Ankita Shah from Elara Capital. Please go ahead.

**Ankita Shah:** Sir, my question was more to understand how has the overall 3PL market done in this first 9 months vis-à-vis our performance because we have seen slowdown across companies, so how has the overall 3PL market behaved in the last 9 months?

**Rampraveen Swaminathan:** Well, I think to be honest, obviously degree of publicly released numbers and I would say that within the 3PL space, I think the express logistics market continues to do well. It is showing good growth and I think the opportunity remains there especially as customers focus on distribution and they generally would like to focus on express or part truck load kind of applications. I think 3PL companies which have got who are long on line haul transportation, we obviously have seen the impact of slowdown in the end markets like auto. Auto is a very large end market for most 3PL companies in India and globally, so essentially all the leaders of

the industry I think would be impacted by auto, but there are other players who are in the space. So that at least anecdotal, obviously I think customers of 3PLs who are warehousing anchored, really around warehousing businesses probably continue to see growth right because as you have seen in our own numbers, there is strong growth in warehousing base services. So I think it is a bit of mix and match, I think companies have their own strategies and therefore they are seeing differential growth. Overall, my view would be that the 3PL industry, the growth has definitely slowed down. We still believe the industry as a whole has grown, right driven by the growth in express, driven by the growth in e-commerce and FMCG. So those remain fairly large in verticals for the overall 3PL industry and we think that growth there has overall continued to be a tailwind for the industry as a whole. Obviously, those of us who are more auto-driven have had to kind of whether the challenge with the auto industry provides.

**Ankita Shah:** And would you be able to share what would be the share of passenger vehicles and commercial vehicles that we handle in our auto segment and secondly, what would be the average capacity utilization at warehouses?

**Rampraveen Swaminathan:** I will take the second one first. Obviously, in terms of our warehouses space, I think we have no empty space which is there right now., we have some warehouses which are under construction, but we are not paying for that. All the warehouses space which we are paying for essentially is all contracted out. There is no empty space in our network, right now,. So in that sense if you call it, it is probably 100% utilization. In your first question, I think first part of that question when we look at passenger vehicles and commercial vehicles, we do different services for those industries. So we do inbound for some of them, we do warehousing, line feed and we do outbound. So if you just divide those 3 buckets and the value intensity of each of them is very different, so typically what you would see is that the value intensity in an automobile supply chain of outbound is very high, so it is a bit difficult. Just take a revenue cut on our volume based on passenger vehicles and commercial vehicles because of that. What I would say is that we have in the auto and farm sector space, I think our largest customers are passenger vehicles followed by farm and followed by commercial vehicles.

**Moderator:** Thank you. We move to the next question. The next question is from the line of Vikram Suryawanshi from PhillipCapital. Please go ahead.

**Vikram Suryawanshi:** Sir, my first question is about non-Mahindra supply chain growth. If you look at 9 months, we are below 5% and we have almost like 80% business which is non-auto in non-Mahindra, so what kind of growth rate we can expect because in this segment despite having non-auto we still see the growth rate at very low single digit?

**Yogesh Patel:** We would not have a guidance to be given in terms of growth ahead, but just to explain the growth what you see of single digit number therefore on the non-Mahindra piece, starting this year we had overhang of reduction in large portion of our revenue from our large customer in the bulk segment. So that what softens the entire growth what you see reported.

**Vikram Suryawanshi:** And in that basically so warehousing what growth we are seeing, how much warehousing capacities we can expect or basically my second question is also related to what was the CAPEX for 9 month and full year and probably how that warehousing capacity will ramp up happen going ahead?

**Yogesh Patel:** Our CAPEX obviously is at times linked to the warehouse space we add under our management and that is to what type of customer we get in that warehouse space which we allocate or provide for them. What we have done is about 1.4 million square feet of warehouse space addition this year to our customer and linked to that primarily any addition to what you would need for regular existing customers at times as well from a refresh perspective, our CAPEX spend would be around 45 crores till date.

**Moderator:** Thank you. The next question is from the line of Ronald Siyoni from Sharekhan. Please go ahead.

**Ronald Siyoni:** I had just one question that in the Mahindra Group, the revenues had dipped by about 18%; however, if you see during the past quarter, it had dipped by around 19 odd percent which had followed more or less the dip in volumes in say Mahindra Group, but this quarter they have seen 7% decline in both auto and combined volumes, but our growth is very steep compared to that so what is the difference here actually?

**Rampraveen Swaminathan:** Our revenues to them are a combination of inbound and outbound and so let me just start at that level Ronald. So what has really happened for us is this quarter which just went by is that as they started reducing purchases for BS-IV to BS-VI transition. Obviously, inbound volumes have been lesser and for us, inbound movement has come down. So where we have actually seen the reduction firstly has been at that end of it, so that mix has been lower for us and I think there was one question earlier from somebody saying that do you expect stronger production sets to happen this quarter because of BS-VI and we had just said yes, we actually see the pipeline getting filled, so we just got a time lag between that Ronald which is affecting our growth. The second thing is that if you look at what we moved for them on outbound, a lot more of movement which was there this quarter from an external sales perspective was shorter distances, longer distances got replaced a lot more by rail to help balance out cost perspective, so obviously we saw that as an impact. So really those are two things why we have shown sequential growth on the Mahindra business. Obviously, the year-on-year decline for us has been probably sharper than what you have seen for M&M or what you had heard about for M&M.

**Ronald Siyoni:** So one followup on this that if the cargo gets shifted to more towards rail with DFC and everything and clients going for rail transverse, so would that also continue to affect ours and this Mahindra volumes would they come back to us?

**Rampraveen Swaminathan:** Ronald, as you know, we actually do the multimodal business for M&M as well. What actually happens is that on quarter-on-quarter, the shipment profiles change and therefore you see this balancing which happened sometimes between quarters. As I mentioned earlier, the larger

challenge for the quarter in terms of our revenue dip was the change on the inbound side rather than the outbound side.

**Ronald Siyoni:** And second question was that you had mentioned that these three gives you different realizations for the same, so is it that outbound is the highest and then inbound and then inline, right?

**Rampraveen Swaminathan:** So they do not give us different realizations because spend is different. So typically if an auto-OEM spends Rs. 100, they will probably spend 60%-65% on outbound and 35% to 40% on inbound and in-plant. So realizations then and profitability then are not different, right. I think obviously our warehousing and value-added services profitability is higher than our transportation profitability always. So I didn't come across clearly, but it is not a realization of profitability comment, it was a share of wallet comment.

**Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

**Abhishek Ghosh:** Sir, if you can help me understand the warehousing expansion that you are going to undertake for the next 18 to 24 months from 16.5, how should we look at your warehousing capacity?

**Rampraveen Swaminathan:** So let me share two data points with you Abhishek. First, I think is what is driving the warehouses. What is driving obviously our warehousing growth is highly increasing our growth in e-comm and consumer end markets. Now, those are markets where we are confident about sustaining our growth curve right. So therefore one, I think we believe that we can maintain this growth curve in those markets and those will obviously carry a higher density of warehousing. You have seen in our opening comments as well as in the investor deck, there are share of warehousing as well as a percentage of total revenue has gone up significantly. The other details I will share with you, I think we have generally said that earlier as well that we expect to be in the 1.5 to 2 million square feet a year range and that is something which we are confident of basically meeting or touching upwards of that over the reasonable future. I won't share specific guidance because we generally avoid doing that, but those are I think are indicators of the way we see the business.

**Abhishek Ghosh:** But whatever rental or revenue per square feet that you are making today because you are largely at 100% utilization, is there a scope of further increasing the yield on that?

**Rampraveen Swaminathan:** Yes, I think there are couple of things. One of course is I think the different kinds of warehousing which we do, right. So Abhishek we do basic storage, we do value added, we do mechanized, we do automated. So obviously especially on a build to suite facilities, we are always interested and looking at churn and can I actually replace a basic storage kind of operation with something which actually provides me more yield per square feet. So to that extent, I think the real estate is churnable, it may carry some level of expenditure around MHE or rakes but intrinsically it is clearable to some extent, right, so that is something which we do try to work on; however, we also have a fairly aggressive and clearly laid out expansion plan around warehousing and what

we have been able to often see is that we actually are able to keep our existing customers and meet new ones right based on that footprint strategy we have.

**Abhishek Ghosh:** And sir, just last one from my side is, in the annual report in the vision thing you have mentioned that you have vision to raise to 6000 crores logistic service provider by 2021, any thoughts there?

**Rampraveen Swaminathan:** I think you captured well it was a vision for the company. We obviously at that stage made it and put an aspirational target based on the environment which we are in that one, we kind of frame the target to a window. Now, our target still remains that way, obviously it will move up and down based on the environment, but our goal is to be there at sooner or rather later.

**Moderator:** Thank you. The next question is from the line of Zahid Bagwan from Wealth Managers. Please go ahead.

**Zahid Bagwan:** Sir, can you please share details on new client additions this quarter, like for warehousing transportation or store line feeds or Control Tower?

**Rampraveen Swaminathan:** So Control Tower as you know, perhaps is actually a capability, we don't sell it as a service. I did mention a few things which I said in terms of account acquisition. So in the auto and engineering space, we did add a couple of accounts this quarter which are both component manufacturers. Both are the multi-product, Tier-1 component companies. In the pharma space, we continue to increase our share of business with existing accounts, new trans-portal lanes is a good example of expanding into more freight-forwarding with them. In the retail space, we also added a couple of accounts to strong retail brands in the apparel retail space, where we are doing warehousing and distribution for both of them. So those are some illustrations of accounts we have added. They are combination obviously of in-country transportation, cross border transportation and warehousing and distribution.

**Moderator:** The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

**Kunal Bhatia:** Sir, just wanted to get the sense on the growth one could expect from the non-Mahindra SCM business, because again to reiterate the fact that about the vision statement, so I agree this year was not so good but going forward, earlier we used to mention that there is a possibility that this part of the business could achieve CAGR of about 25% plus, so how do we see this going forward on a 3 to 5-year period?

**Rampraveen Swaminathan:** Yes, I think Kunal, we have been growing at high single digits this year in the non-M&M SCM business. This quarter, we grew at 12-13%, as you know in that mix we have two segments we are growing at the 25-30% level which we had hoped and targeted to which is the consumer and e-commerce space. The third segment which has been auto has been down because of what you already talked about and then on the bulk and commodities business, we had the adjustment of the reduction in business from one account. So it is 4 broad markets within that number which we use for non-M&M SCM. One has been economic; one has been a specific correction and two I think are doing at an aspirational level. So our belief is that obviously we will correct and adjust



for the bulk customer correction which will play itself out over the next couple of quarters and then we have to reset the rest of our business to that 25-30% growth contingent to when the auto correction happens.

**Kunal Bhatia:**

And sir, my second question was in regarding the new pharma warehouse which we have started, so if you could just give a bit more depth into that as in how is the square feet and how is the say a throughput per square feet on that?

**Rampraveen Swaminathan:** So to be honest, I don't have that readily with me, Kunal, but I am happy to have our team reach out to you and circle back. What I can tell you is a little bit about what the operation itself is. We essentially do an integrated what we call a fulfillment distribution operation from there, so it is a temp control warehouse where the warehouse we store more than about 2200 pallets of different categories of drugs in temp-controlled at a rack level and from there, we essentially do two levels of distribution. We distribute other plants and we also do distribution to CFAs or resellers for that company. So both of those are time defined distribution with service level metrics around each of those, so that is kind of what we do from there. That is we believe a strong template of how we provide integrated services because what happens in an operation that Kunal is, one part of it is the warehouse, on part of that warehouse we are actually able to do a lot more of transport based revenue which is completely asset light, so we do invest some lot of assets in the warehouse, then we multiply that with revenue from transportation. This is completely asset light and that actually expands our ROCE at a cumulative level. So that is the strategic basis of that operation. It is for one of India's largest pharma companies dedicated for local distribution, pretty much to all of the North India markets and in terms of more specifics in terms of square feet etc., please allow Yogesh or myself to circle back with you with those details.

**Kunal Bhatia:**

And sir, it would be a higher margin I suppose?

**Rampraveen Swaminathan:** Yes, on an integrated basis including distribution and the transport and warehousing, yes, it will be accretive.

**Moderator:**

Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

**Rampraveen Swaminathan:** Thank you everyone. I hope we have been able to answer all your questions satisfactorily; however, should you require any further clarifications, or would you like to know more about the company, please feel free to contact our team or SGA our Investor Relations Advisors. Thank you all for joining us this afternoon a

**Moderator:**

Thank you very much. On behalf of Mahindra Logistics Limited that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.