“Mahindra Logistics Limited
Q3 and 9-Month FY2021 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 and 9-months FY2021 earnings conference call of Mahindra Logistics Limited. 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 call, please signal an operator by pressing "*"then "0" on your touchtone phone. 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: Thanks Rio. Good afternoon everyone and thank you for joining us on the Mahindra Logistics Q3 FY2021 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 question and answers. Before we start, I would like to point out that some statements made in today's call maybe forward looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you yesterday. I would now like to invite Ram, CEO of Mahindra Logistics Limited to give his opening remarks. Over to you Sir!

R. R. Swaminathan: Thank you Shogun. Good afternoon everyone. I trust all of you and you dear ones are well and keeping safe in these challenging times. As Shogun already stated, I hope all of you have got a chance to look at our results and presentation which has been uploaded on the stock exchanges and the company's website. As always in my opening comments, I will share some updates about the industry, how our end markets and segments are performing, and we will also touch upon operational & financial performance for the quarter just passed and nine months of FY2021.

Overall, the quarter under review saw a continued acceleration of our strategy focused on delivering customized integrated solutions to enterprise customers and supply chain and mobility. During the quarter, we reported our highest quarterly revenue levels, with continuing growth in EBITDA and PAT.

Let me talk a little bit about our two segments, supply chain and mobility. In the supply chain segment, the broad recovery we saw in Q2 has continued to be accelerated itself in Q3. In addition to structural improvements, growth was driven by consumption return to pre pandemic levels accompanied by the uptick in the festive season. While the growth has been witnessed across all our end markets, let me touch on each one individually beginning with the auto, farm and engineering business.

The Indian automobile sector has been trying to cope with the slowdown even before the pandemic, which was obviously aggravated by the outbreak of COVID-19 and the sector has now gradually being on recovery. As company picks up pace despite these challenges, we saw a strong turnaround in the auto sector in the Q3 and that flow through our demand as well. The rural and semi-urban demand continues to remain robust on the back of higher credit output, better cash flows and strong Rabi sowing translating into strong demand for tractors over the last few months across our OEMs including M&M. During the quarter, we saw a continued uptick in volumes driven by these factors and accelerated in some measure by the festive season and auto OEMs have shown strong improvements and industry across has done well especially in tier2 and tier3 cities translating the positive volume growth for our customers and in terms for us as well across all our accounts. Our auto volumes were impacted to some extent unfavorably by supply chain challenges in some of our key OEMs, but overall continue to show a strong underlying trend. Farm demand remains extremely strong in the quarter with strong growth in all our OEMs in that sector and obviously we saw strong offtake in the southern part of India in preparation for Pongal and the festive season there.

In the manufacturing engineering side, outside auto and farm, our volume growth was visible. Growth was driven both by expansion existing accounts as well as increasing volume from new accounts. On the flipside one of our larger auto OEMs in Maharashtra announced a shutdown of their operations on the back of the sale of their manufacturing operations right in that area. That shutdown was effective December 31, 2020. This will have some impact going forward, but we estimate that it will be offset with new accounts, which we have commenced business with.

Moving on to ecommerce, e-commerce continues to see really strong growth as all companies start accelerating their shift towards digital channels. Marketplaces have also increased their focus to adding more suppliers to their systems and platforms. In Q2, we saw an underlying improvement in addition to pent up demand on the back of the pandemic as ecommerce came to the fore as the preferred mode of shopping for many.

As we look at Q3, the ecommerce platforms continue to gain popularity as customers see the convenience and safety of having their purchases delivered at their doorstep. In this quarter, we saw strong demand right especially given the peak driving volume in October and November. We did see some unfavorable impact because of supply chain challenges from East Asia, which had some impact on durables and electronic products, where we have a strong presence.

For our business, we saw three positive trends. Firstly, peak driven volume with higher volumes for our processes, fulfillment solutions and increase in transportation volume. Secondly, we saw a strong focus from our customer partners to expand coverage and this was something we were able to service with our flex and popup solutions, which we talked about last quarter as well. Lastly, we have been able to develop and expand our presence in groceries and essential products and launched some fulfillment centers for those segments in the last quarter and will do so this quarter as well.

As we look into the future, we expect the demand from ecommerce will continue to grow. We have strong customer partnerships and fundamentally post COVID customers who continue to adopt the convenience offered by marketplaces and digital channels. We also expect to see a strong growth in electronics and heavy & bulky products in the coming quarters.

Moving on to the consumer space of what we call consumer, pharma and telecom you will see continuously positive traction in durables, FMCG, pharma and apparel while volumes clearly have started exceeding to pre-pandemic levels, the festive season has also been a catalyst for some segments such as apparel, which have shown strong growth for us. Post pandemic, most companies in FMCG, durables, apparel, and pharma have had to review their distribution fulfilment models with increasing attention to omnichannel systems and digital channels. Consequently, companies and our customers have been redesigning their supply chains with higher focus on digitization, multimodal fulfilment, and B2C models and all of those have translated into good uptick for us as well. The telecom vertical for us has remained sluggish despite the growth in the sector. Most of our customers have been working on the 5G upgrades and therefore there has been a sluggish volume trend in the short term, but we expect that, that will be followed by a spurt in demand right in the near future as companies start accelerating that more towards 5G.

As all of you are aware India has launched what is arguably the world's largest COVID-19 vaccination program. COVID-19 vaccine distribution represents several opportunities for logistics companies such as us, which is around domestic warehousing, transportation, cross-border logistics and last mile delivery. The initial phases are obviously closely monitored by the government with distribution in last mile delivered largely through government managed systems. Our special handling skills will need to maintain product integrity and monitoring the movement of the vaccines closely are some requirements, which enables 3PL companies and logistics players to maintain and provide a significant value proposition.

We have not seen a significant flow through or material flow through of volume from COVID-19 in Q3, but we remain focused on building long term cross border solutions for Pharma companies who are manufacturing vaccines and also supporting them on primary storage and distribution, and we expect to see you know some flow through of that starting next financial year.

Lastly let me talk a little bit about commodities and bulk. Our strategy for this segment and we have covered this earlier remains focused on selective customer partnerships where we can offer strong customer value added through inbound and distribution, leveraging network optimization and we continue to remain focused right on that strategy, but also trying to ensure profitable growth and positive cash yields from the segment.

Overall, I think it has been a strong quarter for us from an end market perspective and it is a trend line we hope to continue to accelerate as we look forward. At the supply end or the back end of the supply chain business, we have obviously seen some moving parts there. The freight forwarding business continues to see some level of tightening. Like globally freight forwarding rates have seen a strong surge and this has impacted rates on East Asian and European lanes with more blank savings by several carriers. This trend is expected to continue in the near future. I think, we have done a strong job in using technology analytics to be able to forecast our business and manage the supply side well there, but require to introduce continuing engagement there.

In the domestic market line haul truck availability has been impacted by fuel price hikes, a seasonal demand pickup and the liquidity crunch, which many transporters are facing. The farmer strike has had some impact to our operations in North India especially with movement of vehicles through Punjab, Haryana, and Uttarakhand. These trends have put pressure on our costs, but we have been able to maintain our contracted service levels with customers and have cost reduction programs, which have largely mitigated the impact of this. Overall, across the segment, we have seen an uptick in demand for integrated customized solutions.

During the quarter, we were able to score some key wins. For one of India's largest consumer durable companies, we will be starting providing end-to-end supply chain solutions, which manages the entire supply chain from vendor to distributor. We also are expanding our distribution solution in North India for a large pharma company. We went live during the quarter with a leading defense manufacturer providing them comprehensive warehouse management services and on the ecommerce side, for one of India's largest marketplaces we have commissioned a large grocery fulfillment center in Eastern India.

We are also partnering with a large food distribution marketplace with solutions for their upcoming grocery initiatives. For being the auto business, we have the one business with a large leading European OEM as their exclusive distributor for their passenger cars and SUVs. Most of these accounts predictably have not seen an impact in our revenues in the quarter just passed and as typical with our programs and new accounts there is a lead time before they start hitting our financials, which ranges between three and four months based on the nature of the solution of the program, but we continue to see that strong uptick in terms of order intake like built around our strategy around customized integrated solutions with a strong bias towards fulfillment logistics.

With that let me move on to the enterprise mobility segment. Our enterprise mobility business as all of you would have seen from the results remains severely impacted by the pandemic. Most companies are continuing to follow work from home policies and this has impacted the number of commuters and our trip level. While those headwinds continue to be there, we have made an aggressive effort to add customer accounts from manufacturing ecommerce companies and this has helped offset the sharp decline from IT, IT enabled services and banking, which is our traditional markets vulnerability. It will be several quarters we believe before we see a full recovery, but we believe the long-term dynamics for shared mobility for both work from home and business travel, the demand remains positive. We have been focused and we continue to be focused on driving cost optimization and service expansion and we will sustain that strategy while a recovery curb emerges.

Let me now talk about our financial performance of the quarter ended December 31, 2020. Our revenues for Q3 are increased to Rs.1,047 Crores compared to Rs.908 Crores for the same period last year up by 15%. Revenues were sequentially on a quarter-on-quarter basis up by 26%. Our revenue from our supply chain business contributed 96% of our total revenues and enterprise mobility contributed around 4% in Q3 FY2021.

Our gross margin for Q3 stood at 9.9%, which compares to 10.3% for the same period last year a decline of 46 basis points. The year-on-year Gross Margin decline was impacted by two primary factors. Firstly, the volatility in transport supply due to fuel pricing availability resulted in an impact in margins on transport and that had an impact on our overall mix. Secondly, new projects, which have launched during the quarter also have the typical margin ramp up and had a slower margin due to the startup phase. We expect our new project margins to stabilize in the coming quarters. As we had seen for projects which got launched in last quarter as well.

EBITDA for the quarters stood at Rs.55 Crores compared to Rs.44 Crores in Q3 FY2020 and Rs.46 Crores in a sequential quarter of Q2 FY2021 an increase of 20% sequentially. Adjusted EBITDA for ESOP and RSU charge stood at Rs.57 Crores in Q3 FY2021. Profit before tax is up by 17% from Rs.21 Crores in last year to Rs.25 Crores in Q3 FY2021. Our PAT was up by 24% to Rs.18 Crores. PAT was up by 17% and PAT margins for the quarter stood at 1.7%. PAT adjusted for the RSU charge right was up by 8.3% from Rs. 18.37 Crores to Rs.19.9 Crores. Our proportion revenue from the Mahindra Group comprised 49% of our total revenues in Q3 FY2021 compared to 48% in Q3 FY2020.

I will be talking a little bit on the segmental breakup of revenues as well. Revenues from supply chain obviously increased from Rs.817 Crores to Rs.1009.8 Crores in the quarter just passed. Enterprise mobility segment revenue stood at Rs.36.9 Crores for Q3 FY2021 down by approximately 60% from a comparable quarter last year. The supply chain side revenue is obviously seeing a continuing impact of our strategy execution as well as the overall recovery and the uptick in the festive season demand.

Our revenue from the Mahindra Group supply chain businesses increased from Rs.424 Crores to Rs.508 Crores a strong improvement in performance driven by both the continuing acceleration in the farm business and the recovery in the auto business. Our non-M&M SCM business grew from Rs.392 Crores to Rs.501 Crores in Q3 FY2021. This was obviously driven by our continued growth in ecommerce, freight forwarding, consumer and pharma verticals.

Growth in ecommerce and consumer verticals continue to see an increase due to demand and because of deeper penetration with existing customers and our continued growth in our integrated services portfolios. Our warehousing and value-added services for non-M&M SCM businesses, which is a core strategic focus has grown from Rs. 121.9 cores in Q3 last year to Rs.164 Crores in Q3 this year registering a growth of 34%.

Share of warehousing and value-added services in the non-M&M SCM business has reached 33% in Q3 FY2021. We continue to see obviously strong growth across all parts of that segment including auto, ecommerce, consumer & pharma and freight forwarding. Our focus on maintaining costs and cash flows, now remains strong. Cash and cash equivalent at the end of December 2020 was Rs.188 Crores compared to Rs.113 Crores at the beginning of this financial year.

Before I open up for comments, let me just wrap up by talking a little bit about our broader strategy execution. As we have done over the last nine months that the quarter just passed we remain focused on executing our four strategic platforms. Our first platform is our focus on integrated solutions and we continue to accelerate that growth as you can see in our numbers with a strong order intake for integrated distribution, fulfillment, sortation solutions and network optimization. We continue to expand on our targeted services lines in addition to our historical strength in line haul and mid mile transportation we have seen strong growth in our freight forwarding business, which has continued to grow through this financial year and has actually registered a 90% growth in the quarter just passed.

Our express services have grown by over 40% in the year-on-year in the quarter, which has completed and during the quarter, we also launched EDel our electric vehicle based last mile delivery solutions. Initial customer feedback on that has been extremely positive. We also continue to provide our customers multimodal offerings, so we are expanding a set of rail-based services and we have seen a strong growth there as well.

Our third strategic platform is operational excellence, and we continue to invest in developing deeper functional capabilities, driving cost reduction and expanding our warehouse equipment. During the quarter, we had contracted for build to suit warehousing infrastructure in Northern India and Mumbai. As you have noticed that we have expanded our warehousing by million square feet in the quarter and over the next few months several sites are likely to be commissioned.

Our fourth and last platform is digitization and innovation. We had launched several new systems this quarter with upgrades to our transport management system, a new warehouse management system, which is focused on fulfillment logistics, a new HR management system and an integrated site management platform. Through the mobility sectors catapult incubator program, we are partnering with nine companies focused on technology innovation, automation, transportation, last mile distribution and warehousing. The quarter passed has seen a strong and improving quarter driven by the exceptional efforts of our entire team focus on delivering results and continue to invest in our partners and communities. We remain pretty optimistic about the future economic environment and continuing recovery in the upcoming budget will be catalyst for future growth. With this, I open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. We will wait for a moment while the question queue assembles. The first question is from the line of Depesh from Equirus Securities. Please go ahead.

Depesh Kashyap: Thank you for taking my questions and congratulations for good numbers. Sir if you look at the Mahindra & Mahindra overall volumes for Q3 it is showing a low single digit growth while your growth in Mahindra supplies chain business is 20%, which is more like the farm equipment volume growth so just wanted to understand how to read this and it will be helpful if you can give a sense of contribution from the farm equipment, passenger vehicle, etc., and has the mix changed dramatically in this quarter?

R. R. Swaminathan: Yes, so I would say if you look at our overall growth, which is roughly around 20%, clearly stronger growth from the farm sector. Our farm sector volumes grew by over 30% during the quarter and so obviously that used to be a strong catalyst for our overall performance on the M&M side. Bear in mind that volume by itself is not a direct correlation since we run miles it also depends upon the distances covered, the destination, the way which we run the vehicles on and the transportation services on, but broadly farm definitely was a stronger contributor from a growth perspective. Overall, though I think our balance remains way more towards the auto side, the auto segment for us did grow at double digits as well driven both by growth on inbound network optimization services we provide them, growth in spare parts as well as out bound of vehicle movement in the auto side. So a combination of those things I think this result in double-digit growth on the auto side as well. From a portfolio perspective, we are still weighed more heavily towards the auto side than the farm side in M&M business.

Depesh Kashyap: Understood. Secondly sir I just wanted to understand the increase in the depreciation of the interest cost in the Q3 numbers? Your presentation mentions that this was on account of higher volumes on the warehousing services? Sir can you please explain that and how should we think about it going forward?

R. R. Swaminathan: Yes I think the commentary was right, but probably I will let Yogesh take that more specifically. Yogesh you wanted to talk some detail on that.

Yogesh Patel: Yes sure. If you recall post adoption of Ind-AS 116, which came up last financial year, the lease charges, which we pay for our warehouses now gets accounted under depreciation and amortization line combined with interest line. Earlier these lease charges were directly taken as rental cost or you know direct cost itself so that piece is I mean in our share of business also have you noticed over the years that we have had you know quite a bit of shift in revenue mix or business mix where we have higher component or growth in warehousing services itself so that piece cost related to that piece does get accounted under these two line items and you see the growth there as well.

Depesh Kashyap: Does the lease charge increase with the volumes?

Yogesh Patel: Volume from a space perspective and volume not from a unit handled perspective.

Depesh Kashyap: So, this is the base going forward right? This is how it should be going forward also?

R. R. Swaminathan: Yes. I think Depesh just to add to what Yogesh said as our warehousing base solutions businesses grows you will just see the increasing amount of square feet of that housing and therefore you will see that having representation on these two lines around this.

Depesh Kashyap: Sir I was wondering that is why because the warehousing space is like kind of decreased to 17.2 million sq. ft. from 17.3 million sq. ft. last quarter, but this depreciation number has increased so that is why I was wondering what is dragging this? Is it because of flexi warehousing solution is that also coming into place?

Yogesh Patel: The last quarter's number was around 16.4 million sq. ft. It was not 17.3 million sq. ft. as I recall unless and until you had added that launch of BTS what we had mentioned as well so those BTS what we had launched was in the quarter towards the end so the full quarter impact of that came in.

Depesh Kashyap: Okay got it Sir. Thank you. I will come back in the queue thanks.

Moderator: Thank you. The next question is from the line of Ashwini Agrawal from Ashmore Investment Management. Please go ahead.

Ashwini Agrawal: Good afternoon team. Congratulations on a good set of numbers. A couple of things in your opening comments you referred to a large auto customer who is shutting operations effective December 31, 2020 so obviously this impact flows into Q4? Could you give us a sense of how large this might be relative to overall revenues?

R. R. Swaminathan: Yes, we have shut down the operations which have impact on our business. We provide them stores and line feed services in that plant near Pune and the overall financial impact of it is in the broad scheme of things is fairly significant. It is one of our smaller contracts and therefore it is already offset by new business, which we have won.

Ashwini Agrawal: Good to hear that and second question is that on your people transportation business I mean you know it is already reduced to a fairly small number and I am guessing that you know this will take time to get back up to normal levels over the next three to four quarters as more and more companies seem to be talking about flexible attendance at work especially in the IT and IT space so as a core warehousing and logistics management and you know various other businesses increase would it make sense to continue with this business line, which has been very volatile and has been a source of pain for a couple of years now?

R. R. Swaminathan: Yes sure. It is a good question and I think I mentioned last quarter that we will at the right time do a broader strategic assessment of the business. At this stage what our hypothesis is that this is a 12 to15 months, three to four quarter window. Once the vaccine settles down you know in order of priority I think people obviously will choose personal transportation and shared mobility over public transportation. We also believe that you know companies and employees of companies as they come back to work will also have a higher accent on safety and security so while the next three to four quarters will be challenging for the mobility space there are two positive tailwinds. One I think is that we are the market leader in that space so we expect that when the recovery comes we will probably gain strongly from that. The second thing obviously is that the industry will see some amount of restructuring within the competitive landscape as potentially the fewer players emerge out of that situation and therefore we are optimistic that over the next three quarters if we continue with our strategy, we will still have a pretty strong and robust business and that is kind of our hypothesis around that. We continue to look at say how can we expand the business. So, I talked a little bit in my opening comments about how we are focused on ecommerce and manufacturing and we trying to diversify our segment base In the last quarter what I mentioned to you about the fact that we have launched on-call services and tried to do some service line diversification this quarter. We have really interested in doing market diversification. So we are making those tactical moves to supplement this kind of the strategy of slugging it out with cost optimization and kind of these initiatives and waiting for the recovery to come out. Now from an overall scheme of things obviously we are now at 96% supply chain logistics company and we are only 4% on mobility so one has to a strategic look at saying what is the best way to structurally balance these markets and this segment right and that is something, which we will strategically look at the leadership of the company in the coming few months.

Ashwini Agrawal: Okay and last question I wanted to ask was on your express side and on the B2C side. My understanding was that historically these were kind of large packages especially on the B2C side last mile delivery where you would do washing machines and large format televisions, etc.? I also heard you talk about you know doing a new contract where you are doing some fresh food supplies and things? These are all B2B right? B2C continues to be limited to these large format deliveries?

R. R. Swaminathan: Yes, I think as we have said earlier, we will largely do our express business in the B2B express business and we will provide integrated portfolio and our last mile delivery business has historically been dominated by large package, heavy bulky stuff. We do some amount of small package, but it is not a very large part of our revenue base and that mix continues. With EDel, we are obviously seeing and expecting to see some expansion in that small package volumes because we are in many use cases now able to demonstrate how an EV based delivery system is both sustainable and cost effective to our customers and we are seeing some early traction on that. You know the coming quarters we will probably talk to the quality of that strategies roll out, but that will be one peach head for some increased growth in B2C, but otherwise our strategic focus remains on B2B and the reference I had on the food delivery company was really around working with them on the grocery side of their business and not on the local food delivery side of the business.

Ashwini Agrawal: Thank you Sir. All the best and I will come back for more questions.

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

Ankur Periwal: Congratulations on a good set of numbers here. The first question on the warehousing side, now there is a good revival that we have seen across the segment not only non-M&M, but overall as well. So your thoughts there one as Yogesh earlier mentioned, ramp up of the last big warehouse that has also been contributor here, but is this also flex solution that we had started in the last quarter, which is contributing? Where I am coming from is whether this will be a base case let us say warehousing revenue for us, given this business is more sticky and here on probably there should be growth or there could be some one-offs?

R. R. Swaminathan: Without getting into the weed, what I would I say Ankur is that we expect to continuously grow there obviously we are I talked about the fact that we are contracting out obviously more warehousing space in multiple markets and we have a strategy to build a nationwide spine in our warehousing footprint, so that is something which we expect to continue to see growth on. As far as Flex Solutions are concerned we believe that providing customers resilient and flexible supply chain solution is critical and is the new model right. So as our customers try to expand reach, try to densify their network but also deal with volatility and demand there is a need to bring on and turn down capacity at short intervals and therefore we expect that Flex Solutions as a model and as an offering for us. The solution is an offering for us. We will continue to be one of our stable offerings going forward and it is increasingly now, moving away from just being a festive or a peak thing its really being a network expansion strategy as well. So, somebody goes into let us say West Bihar and says that we want to actually drive penetration in that market and you know can we actually turn on a short term fulfillment or a forward FC of some kind to provide short-term penetration and once we see volume visibility and traction you then put in larger and more permanent networking out there. So, I think we will continue to see this as a way of doing network expansion and also as a way of managing our peaks and kind of volume variability.

Ankur Periwal: Just a clarification now in your earlier opening remarks you did mention scale up in the integrated solution offerings? We will be offering transportation as well as warehouse and maybe even freight forwarding here is that also a contributor to the growth here or that has been a small portion in the overall scheme of things?

R. R. Swaminathan: Our integrated solutions, it is an articulated vision, which we developed as a business last year saying that we want to actually put a significant amount of energy around driving that to our customers. We believe that all our customers have unique and individual supply chains, which flow through their individual strategies and businesses and therefore they do need customization and at the same time as there is increased variability and volatility, there is a need for and value of integrating different elements of their supply chain, warehousing, distribution, inbound transportation and even within distribution between part truck load, full truck load and we are uniquely positioned to provide that number, so a lot of our newer business wins are actually accelerating around integrated solutions. My opening comments I talked about several of those wins for example groceries, we are doing XC plus we are doing delivery, end-to-end solutions for a consumer durables company that is everything that includes their entire warehousing, sortation processing, PAN India network of that infrastructure combined with primary and inbound distribution plus secondary distribution to their retailers and dealers. So more and more I think we are seeing that play out with our customers. I do not have the specific numbers but it is an increasing share of our order intake.

Ankur Periwal: Just one last question from a revenue ramp up perspective and I am referring both for new as well as the older customers. Will it be fair to say that all the client additions that we could have done in FY2020 would have start contributing to our revenues or there is still some bit of that is pending and they could be scaled up there?

R. R. Swaminathan: I think it depends on the service line, so on express, line haul transportation and freight forwarding, I think the translation of win to order from what we measure. We have a metric on order to revenue ratios in terms of latency those are pretty immediate. Those are probably you know 30 to 60 days based on the nature of the service, but anything which is an integrated solution or warehousing base takes a longer period of time so obviously most of our order intake in Q1 and Q2 is reflecting in our numbers and then you are seeing some of that show up in that growth, which you see there in addition to the seasonal uptick, which flows to our existing volumes, existing assets or existing footprint and a lot of the Q3 order intake is yet to flow in.

Ankur Periwal: Thanks a lot and all the best.

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

Manish Goyal: Thank you so much and congratulations on a very good set of numbers. Sir just clarifying on ESOP charge in current quarter in Q3 FY2021 is there any ESOP charge? Just want to clarify.

R. R. Swaminathan: Yogesh can you respond to that.

Yogesh Patel: Manish, the scheme what shareholders had improved is for four years and this is the third year underway and there is a charge for that.

Manish Goyal: How much is that for Q3?

Yogesh Patel: For nine months would be around 7 Crores.

Manish Goyal: And for this quarter?

Yogesh Patel: 2.5 Crores.

Manish Goyal: Yogesh just to harp again on depreciation number see as I am looking at the Y-O-Y number on space addition it is just only 4% that is our depreciation increase is quite significant even on if you see quarter-on- quarter basis also it has gone up so I believe even last year we had this Ind-AS 116 adoption already done so I am just wondering why like this quarter Y-O-Y depreciation is at 29% whereas warehouse addition is only 4%. Where is the disconnect?

Yogesh Patel: No Manish. On depreciation the earlier question probably I was explaining from a sequential number perspective but if you look at it year-on-year perspective the depreciation has no what a regular depreciation will be there of the fixed assets, what we would have invested in asset. So you know that we in the warehousing value added service business is only places where we have invested capital and suppose if I were to look at my last year's capex spend per se which was little over 60 Crores so a depreciation of that would have existed in last year would have come and added in this year as well. So, from that perspective if you break this up it will have components of both them together. Second thing also I will add it for you here is the way those things come up is you know the older warehouse space where you have declining scale on which the amount gets accounted, so newer once you will get a additional higher charge as well.

Manish Goyal: Okay, what will be the capex of current year so I believe depreciation increases also function of our investments into technology related investments so just on the current year what will be our capex?

Yogesh Patel: In nine months cumulative it has been approx. 39.5 Crores.

Manish Goyal: Just to get a sense on the mix of our non-auto business. I believe earlier it was like e-commerce and consumer was roughly 50% and so that number seems to be remaining constant at 50% despite our revenues growing up, so just would appreciate if you can give us a more clarity as to the breakup in non-auto business and now with I believe freight forwarding also growing so if you can throw some more light into the break up, that is one. Second related question in terms of our top

20 customers we used to share the numbers earlier in terms what used to be the contribution so maybe if you can give us some perspective as how is the top 20 customers contributing on the new client addition, so how is it shaping like new client addition on say one year or two years rolling basis how it has been growing in contribution some sense on customers? Thank you.

Yogesh Patel: I think our e-commerce or fulfillment logistic revenues, e-commerce, consumer, pharma, telecom and freight forwarding piece together now would be close to around 75% of our overall revenue on the non-M&M side, so those are continuing to be strong position in that size, there is an acceleration happening there and I think there is an overall lift happening as well so that the tide is increasing across the board and though the tide is growth, the level of the tide is increasing in all segments obviously a percentage does not bear across dramatically. One area where we have obviously seen is the commodity segment is declining at the percentage of our overall non-M&M business this reflects our broad strategy which I talked about so that is one. In terms of our top 20 accounts, top 20 accounts right now are little bit less than 60% of our revenues so obviously that reflects both, the account addition we have done. We have obviously added several accounts which are all contributing to our business line but it has not changed dramatically because you have a large account, some of our markets pretty concentrated in terms of industry contribution and we can expand within our existing accounts as well. So top 20 accounts today are a little bit less than 60% but overall, it reflects both expansion existing business but also the addition of new accounts.

Manish Goyal: Sure, I will come back for additional questions in the queue.

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

Pratik Kumar: Good morning everyone. Congrats for great set of results. My first question is can you explain this last-mile delivery venture more in detail so is this last mile we understand were we not in last-mile delivery earlier and now we are looking to expand with this EVs, we are stressing more on that EVs are making this business more remunerative, so would that not be the remunerative had we been using diesel vehicles so I want this clarification on last-mile delivery segment. Second question on the remarkable growth which we saw in Non-Mahindra SCM so is this like October was like significantly strong because of e-commerce festive sales or like growth has remained sort very similar in all the three months.

R. Swaminathan: I will answer the second question first I would say our revenues were reasonably flat across the three months. Obviously, we did see the Diwali month between Dussehrra and Diwali actually sees a higher blip than we would see but our weekly revenues which are measured weekly basis, we did not see 60:20:20 anything like that we saw more flatter trends with obviously a peak in the weeks where Diwali and Dussehra themselves fell in, on the non-M&M site of our business. Obviously in the farm side of the business both in M&M and non-M&M that follow the slightly that had a Diwali peak but also had Pongal purchasing on the farm sector which typically happens every year therefore had that pattern play out. In terms EDel, I think our last-mile delivery business we have historically been focused on the B2B side. We have a B2B and B2C last-mile delivery business. The B2B site is taken by our express business. On the B2C side we have largely been a company, which we have been focused only on larger appliances, durables, electronics, and so on where we have had a strong value proposition that we do both the delivery stations and delivery sets like physical last-mile transportation delivery to your house and my home. We are being doing small package, mid package, last-mile delivery as well which means smaller constituent of our business. Over the last year what we found many of our customers have been trying to figure out how to make that last-mile move sustainable and move carbon neutral. Obviously as that business grows at 25% to 30% a year for us it is just boils down from the go back customers as well. As sustainability becomes a bigger agenda many more customers have been saying can you provide us a solution around that and challenge has been the right quality assets but also have these services, which derisks customers and provides them with flexibility to operate them because you have to optimize the network and optimize the delivery routes and not just having a vehicle itself is not enough. So we have seen that as strong opportunity that we have a down a bunch of work both in terms of the product specification. This is a three-wheeler with moving up 500 to 600 kilo payload with a larger cubic box and therefore allows you to manage a larger number of packages keeping a 3 wheeler allows us to have a very small vehicle footprint and allows a lot of flexibility to move in and out of delivery stations, in and out of apartment complexes and so on. So the platform itself provides us the way we inspect provides us a degree of agility and then of course we provide this as a service which variable or package based, day based, trip base rather than just giving like monthly rental kind of model so that provides customers a lot of flexibility and this is a lot more of B2C deliveries so this is an electrical appliances and so on this is a lot of small package delivery and therefore the base and growth of this business, the share of B2C last-mile delivery will see growth. The value proposition to our customers which are market places and other companies and FMCG, pharma, etc., who are doing small pack delivery to the retailers or to end homes is really around providing them unsustainable like variable service providing them what are the contracting flexibility and network flexibility they have today raised the first part of it the flexibility drivers which electric provides them at competitive or comparable prices.

Pratik Kumar: So, our business partners will buy these vehicles which they were not buying earlier and they continue to operate the way we are operating?

R. Swaminathan: We are buying some amount of the vehicles in the initial phase ourselves and over a period of time it will be partner-driven model like the rest of our business.

Pratik Kumar: Thanks. I will get back to the queue.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.

Susmit Patodia: Good afternoon everyone. Wishing you a Happy New Year and hope you are all safe. My first question is you just mentioned that FY2026 strategic vision to be a 10,000 Crores revenue company that would be fair to say that you would be 40% warehouse, 50% sustain supply chain?

R. Swaminathan: I think the way see this is first of all we see all this is a supply chain management because we do not really own warehouses, we provide warehousing base processing and storage solutions to our customers. Now if you ask a question saying that as a 3PL we provide pure play transport solutions whether it is freight forwarding, express, line haul, last-mile that electric now last-mile all we provide warehousing solutions or we provide integrated solutions so there are kind of three elements in our basket broadly and if you ask me how much would be warehousing based and integrated solution so we have vision of around 10,000 Crores. Our vision would be to have around 40% of our business come from pure play warehousing and integrated solutions when we combine warehousing and distribution to provide customers majorly end to end solutions of different types.

Susmit Patodia: Following up from that what would be the non-M&M SCM, do you believe that 70 million square feet will grow 8,000 Crores, 4,000 Crores revenue would be five times warehousing space or is there a significant nonlinearity there at some point?

R. Swaminathan: I think there are two parts to it. As you know there are solutions which do not create long-term warehousing spaces, I think its three parts, first of all on your question of footprint obviously there will be an increase in the warehousing footprint per se so that is going to grow and you may have to grow a reasonable cliff to support this kind of projected long-term volume growth. Now if we would execute to that building we will have to obviously build out some footprint. Now in addition to a long-term footprint we also take short-term solutions footprints which are like flex solutions and in those we necessarily count as a long-term print because add and delete them, as demand comes in and goes out. They are not long-term sustainable footprints but they are just more short-term contracts in that sense but there will be a nonlinearity in the sense that pure warehousing footprint will obviously grow at slower cliff in our overall revenue growth because of our shift towards integrated solution so when you do integrated solutions that combines warehousing and transportation, so for example when we do a last-mile delivery of appliances for a market place or for a consumer durable companies as well what we are doing is we are running a warehousing of Xx square feet where we store and process the equipment but then we also do transportation of that material into that warehouse and transportation delivery from there so if you actually take the overall cake of business and let us say 100 dollars or 100 rupees of revenue from that account or that operation the warehousing part of that will probably be 35% to 40%. The rest of it actually a transport service and what we do is we blend that all together in to a single service plan for our customer but decompose that there is a transportation piece and analytics piece which is all combined together so footprint therefore as that grows there will be a nonlinear growth of revenue but I think footprint will actually lag that growth. Therefore, if you ask us your Mahindra Logistics if your visions is 5x growth are you going to increase warehousing 5x no, there will be nonlinear point where revenue growth will obviously outpace the footprint growth because of the transportation element in our integrated solutions work.

Susmit Patodia: The trial runs on DFC have started so what is the impact that may have transportation revenue in the next year or two and have you heard from the clients discussing this?

R. Swaminathan: Trial runs have obviously started, precipitated volume movements is to yet to transition but if you take a step back, I think we have seen that shift towards multimodal happening and we have adjusted this obviously concalls and meetings earlier as well I think multimodal works very well in a bunch of used cases. It does not always mean that there is going to be complete flip over of a switch from road today and we have been supporting customers with multimodal solution now for quite some time so if you look at the auto side and lot more of outbound vehicles are now transported through rail, this year we have actually transported a lot of tractors as well through multimodal rail platforms so that is something which we are providing the solution or service to our customers. In fact Honorable Minister Mr. Piyush Goyal some of the tweets which he shared on tractor movement through rail, etc., were all services which we are providing for customers like M&M so we have already been doing that and obviously that is exact and some of that movement will move from NMGs or under the AFTO policy towards AFTOs unskilled DFCs. You will some of the shift happen out but I think we are very geared to be able to manage that and build opportunities around it.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Good afternoon and thank you for the opportunity. Again continuation to this integrated solutions that you were talked about just trying to understand that currently for the warehousing business that we are doing basically it means that there is somebody else doing the inbound and outbound or probably customer himself is doing the inbound and outbound and so we are just trying to understand why we want to be doing already, number one and what would drive us to do that, is it something that is to do with ERP integration or customer getting confidence in us doing end to end what will exactly drive better?

R. Swaminathan: Mukesh, I think the dominant change is the opportunity to create value, so couple of things have happened like in our market place. Historically customers, I think, in India from a risk perspective would prefer to actually vulcanize their contracting and pick let us say a truck company of inbound movement and company A for inbound and company B for the warehouse, company C did PTL movements, taken an Express company for PTL, they will take another company for FTL movement and I think the idea largely was that you really want to derisk yourself and not put all your eggs in one basket because you saw the downside of the risk probably creating the upside of combining it there were customers doing it but few and far between. I think two or things have changed over the last four years. First one I think extremely has been the GST coming in. People have the opportunity to restructure the distribution infrastructure but as they build large warehouse and start distributing more widely, they actually have to be more accountable for the entire piece right and therefore there is a far great and need to say how do I sequence all this together effectively. The second thing is that what you have seen as digital keeps going and now with the COVID happening there is incredible proliferation in channel. So if you an apparel company like Arvind or Raymonds you are now selling to modern trades like Lifestyle or Shoppers Stop, exclusive brand outlets, online and distributors so some of them go with FTL, some of them go part truck loads some of them just go with small package courier and interestingly with time these channels are yanking themselves around volume so it is not like it is a predictable pattern anymore, you could have November where you have one channel being very large volume and December where another channel is growing and then you can have a January where all channels are growing volume. So I think customers have realized that incredible pressure on building an agile and responsible supply chains and therefore given these two parameters the question is how do I manage this a lot better and lot of customers are obviously talking about the risk of missing delivery and fulfillment is greater, it is pretty large as well so can we integrate all of these in a way where we get better inventory control, greater customer service, longer resilience within our supply chains we can respond to variability a lot harder. Those are I think external changes which are catalyst for this opportunity for the lack of any other word, now there are companies and our competitors who have definitely been doing this and our companies have been doing purely on the fulfillment side of the e-commerce and their peers who have been doing in bits and pieces in different parts. What has changed in our end is obviously done us as we started the work we felt the this was a core area where we could create value, you know Mahindra Logistics is well positioned because we have large stream of service lines so we are uniquely positioned because we do FTL mid mile, PTL, express, now we do electric, freight forwarding, I mean through warehousing and processing side we have returns, we have now pop-ups, have long-term storage solutions, have the ability to do contract manufacturing so we believe that we are at an embedded portfolio of different services which allows us to create this value proposition more actively and therefore there is this strategic thrust in doing that and that is two ends of it there is a demand side which is an opportunity created by external factors and then internal move towards the leveraging our existing capabilities and adding on to them both the expanding service lines and of course we are building the technology platform because today we are able to integrate across all these service lines with unified technology platform, we should provide end to end visibility which allows us to a integrated through ASTex and algorithms and there is more opportunity to do a lot more analytics as well to bring supply chain in an integrated fashion alive.

Mukesh Saraf: Just in continuation Sir is it fair assume it is a low-hanging fruit where you go to warehousing customers and offer the transportation part of it as well and is it like a low-hanging fruit and hence we can see that at least instead of a new customer getting added for integrated solution existing customer kind of adding on the transportation side of it. Can that happen really quickly if they are seeing the benefit of that?

R. Swaminathan: Mukesh, it is not a low-hanging fruit. It is a lot of work obviously hard work because you have to integrate all these solutions and actually make them dance and tango together, so there is a lot of capability development from our end both at a physical layer, process layer, as well as the technology layer to put all that together. There is also chase from customer end because while customers seek intrinsic benefits of this, if you are going to partner end to end and also in some ways taking a risk across the entire supply chain for us that is a big responsibility because we are in a contracted performance business. We are going to market place where we just come and order a vehicle and if the vehicle does not come it is your problem. You are along with these contracts from KPIs and SLAs and therefore one has to be very deliberate in picking the key bits to provide the solution. One is also going to be very deliberate in offering the solution to our customers that is not only we will have a big impact in our business. We also have the responsibility of ensuring that there is not a greater impact on their business. It will triple their business substantially if we do not deliver so it’s a strategy and not line graph, we are supposed to be very deliberately to ensure that we are attacking the right proposition with the right capabilities.

Mukesh Saraf: Is it also fair to assume that this integrated solution that will be offering would fetch us a higher margin than just transportation plus warehousing because you mentioned there is that lot more dependability there is a Tech involved, etc.?

R. Swaminathan: I think there are two to three things. I think one is combining, see this way if one gives big benefits and there is a lot more, drives a lot more customer retention because we are providing more integrated portfolio of services and therefore you are able to retain customers because are providing a larger value proposition is higher. The second thing is that you obviously will see a blend of warehousing and transportation-based services so the holy grail of this is the ability to get the higher margin potential of warehousing services with the velocity of transportation. The transportation always has been a higher return on capital employed business those margins are bit lower so we are able to blend that I think it provides the opportunity to create a more attractive and balanced return profile and third thing which has actually allowed us to do as you do logistics is an iceberg. The direct cost is actually greater and equal to the indirect cost because there is a lot of insufficiency exists in the system be able to do all of it together allows us to remove inefficiencies in this system so in a simplistically if we can run the warehouse and do transportation, you manage your shifts better therefore you resource the work a lot better you do not have detentions of vehicles, we put your manpower utilization and productivity can be improved, the technology allows you to plan the way you run your operations a lot more effectively so there is a lot of opportunities than the waste, which builds our margin profile over a period of time.

Mukesh Saraf: Thanks a lot for the detailed answer. I will get back to you in the queue.

Moderator: Thank you. We take the last question from the line of Rohil Gandhi from PPFAS Mutual Fund. Please go ahead.

Rohil Gandhi: Thank you for the opportunity and hope everyone is well on your end as well and congratulations on your number. Just had a quick question on the 'EDel' that any message that you can provide with respect to that and since you are adopting an asset heavy approach in the initial phases like you did with 2x2 Logistics any sense on how much capex would go in respect to that as well any detail that you can share with respect that would be helpful?

R. Swaminathan: First, I think I shared this in some other platform as well but we do expect over the next two to three years will build up partner cum company owned fleet of around 3,000 vehicles and we expect that it will be 100 plus 150 Crores in terms of revenue. It has the potential to be that, and initially accelerate the velocity from our customers more than e-commerce and other platforms where interest is pretty strong on it. That said we have been able to demonstrate in many cases the per package delivery prices of cost to our customers are included twice and therefore we are busting the belief that sustainability comes at a cost. Now in terms of what it does to our business in that fleet a very small percentage in initial phase is basically assets we are buying. The fleet overall largely is going to be a partner fleet. So over a period of time as the fleet builds out I think you will see that it will take a normal characteristic we will remain an asset light operation right in large part there will be small critical mass of company owned assets and also say that our business has been profitable overall has been positive contributions from day 0 so we have been able to build start up cost but beyond that in more consistent operations beyond the first few weeks, our business has been hitting our financial targets and therefore consumption does not carry the cyclicality of the auto industry so the two differences, one is assets are not that expensive, your post fame subsidy most of three wheelers costs somewhere in the 3 lakhs rupee range and therefore the asset cost itself is much lesser and the second thing which is there is your consumption markets do not have the cyclicality sometimes that auto has and you are seeing some of the impact in our 2x2 utilization in the last 18 months where we obviously have taken a dip in the utilization as auto volumes have come down. Now that is a scenario which does not pay out so much because consumption by intrinsically less cyclical trend line and of course in COVID kind of situation but for the large part it is a lot more secular, so we expect to see far healthier long-term utilization as well. By and large those broad contours from the financial characteristics.

Rohil Gandhi: Just a follow up on that going forward as the battery prices and these technologies get cheaper like how do you expect that to affect our matrix considering we continue to adopt asset light approach in the future, how would that help us manage our cost as well as the pricing strategy for the consumers compared to the ICE vehicle?

R. Swaminathan: I think there are two trends which is the positive trend which is hydrocarbon based fuels may not really get cheaper in the long term, so I think you have seen a sharper increase in the recent past but this will probably stabilize but still will remain it is not overall 10 dollars a barrel, you cannot just black swans, but generally it will not happen towards a large part. I think we will see a bit of floor there. I think in terms of the technology change as well obviously we are going to see battery costs come down, but you are also going to see vehicles becoming more native and not ICE vehicle being adapted to EV both of those will bring down capital intensity in the business and that actually a positive trend line and that is one of the reasons why we feel is this initiative is important for us because last-mile delivery and fleet application we think that over a period of time as EV becomes more cost effective, there is a natural propensity towards using electric .Urban logistics is inherently requires slow speed, high maneuverability and cost efficient solutions and electric in many ways supports that intrinsically quite well, its barrier has been some of the capital cost and obviously the applicability of that cost structure different used cases. So either we believe that we will be able to prove even with this cost structure that we can actually in many used cases be ICE compatible not ICE equivalent but ICE compatible and as obviously an capex costs come down we will be continuing to see a higher upside for electric vehicle based solutions in the cargo and fleet space especially in last-mile delivery where the sweet spot less than a ton payloads it is a easily sweet spot where EVs actually are able to do a reasonably good solution within 200 km range. We are very optimistic about it overall.

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.

R. Swaminathan: Thank you everyone and thanks for joining us today. I hope we have been able to answer all questions satisfactorily; however, should you need any further clarification if you would like to know more about the company or any followups in the questions which you raised today please feel free to contact our team or SGA, our Investor Relation Advisors. Like all of you I think I hope that the budget would be a great catalyst for the year ahead and once again wish you all a very happy New Year and thank you for taking the time to engage with us and thank for taking the time to join us today on the call.

Moderator: Thank you very much. On behalf of Mahindra Logistics Limited that concludes this conference. Thank you for joining us. Ladies and gentleman you may now disconnect your lines.