



“Mahindra Logistics Limited  
Q3 FY2022 Earnings Conference Call”

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**MANAGEMENT:**

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**Moderator:** Ladies and gentlemen good day and welcome to Mahindra Logistics Limited Q3 FY2022 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 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 Strategic Growth Advisor. Thank you and over to you Sir!

**Shogun Jain:** Thank you Tanvi. Good evening everyone and thank you for joining us on the Mahindra Logistics Limited Q3 FY2022 earnings conference call. We have with us Mr. Rampraveen Swaminathan- Managing Director and 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 exchange. 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 now invite Ram, Managing Director and CEO of Mahindra Logistics Limited to give his opening remark. Thank you and over to you Sir!

**Rampraveen S:** Thank you, Shogun. Good evening, everyone. I hope you and your loved ones and colleagues are doing well and keeping safe. I hope you've all had a chance to review our results and presentation, which are available on the stock exchanges and on our Company's website.

I will provide a quick overview of the external environment the quarter gone by, in terms of our end markets and overall developments in the logistics industry.

#### **External Environment & Markets**

Overall the demand for logistics services continues to see improving momentum as companies focus on responding to demand & supply volatility with focus on agility. We continue to see a strong shift towards multi-modal

movement especially in commodities and automotive sector. The drive towards network expansion and omni-channel development is resulting in greater traction in fulfillment logistics, last mile delivery and integrated solutions. Global supply chains remain fragile with shortages in containers & air movement as we all some impact of geo-political factors. This has created a lot of pressure on customers operations as they try to manage a globally dis-aggregated supply chain. In these conditions, technology remains a key lever for driving increased efficiency and customer experience across the value chain. Let me now comment on specific markets:

**Automotive**

As we saw in the quarter ended September, the semiconductor chip shortage continue to endure and a structural improvement will likely take a few quarters more. Several factors like OEM price hikes, high fuel prices have added to the issues of chip shortages and demand has been subdued. During the quarter while there was a strong growth in CV sales, these have in some cases been driven from inventory. Demand for domestic 2Ws remains subdued. Our business in auto, both M&M and Non-M&M, was impacted by the slowdown given lower volumes compared to last year. The volatility in volumes also impacted gain-sharing programs we have been with our customers. From an outlook, we expect to continue to see volatility here with improvements coming through only in the later half of the next financial year.

**Farm & Agro**

The tractor & agro market has seen a slowdown in the last quarter and continues to have an overhang. Due to significant base effects and unseasonal rains, the domestic tractor sector had a year-over-year decline. This was also true for us with a volume drop, more precipitated in outbound movement due to lower sales.

**E-commerce**

The Ecommerce segment had the most important annual peak during the quarter which went by. Overall, the festive demand was relatively weak and the impact was more pronounced for electronics & large appliances. While October

showed positive traction, November was marginal and December was muted owing to the off season for sale of ACs, Fans, and Air Coolers. Categories such as Dishwashers, Laptops, Mobile Phones, Kitchen Appliances, and Microwaves continue to witness steady growth, though the high base of last year is catching up now. Metros and Tier 1 cities have seen good demand while rural demand has been subdued compared to last year. Multiple factors seem to have contributed to the same, including reopening of physical stores, wave 2 impact on consumer sentiment and supply chain issues on large electronics.

**Consumer – Pharma, FMCG etc.**

In addition to a high base, rural demand was affected by inflation in Q3FY22. Rising prices on farm inputs have been higher than those on output, affecting farmer earnings. However, we have seen growth in modern trade and ecommerce. Discretionary categories saw significant growth, aided by improved mobility, increased footfall on premises, a higher number of social events, and a rise in wedding demand. Our volumes showed moderate growth driven by these factors with more volumes in the first mile and mid mile. This was the first full quarter of the Bajaj project in the steady state and despite external factors we saw revenue growth flow through on account of the same.

**Enterprise Mobility**

Due to the continuation of Work From Home policies and the additional restrictions imposed by the state government, the enterprise mobility segment has had a subdued performance. We expect enterprise mobility to remain under pressure, but we've made a conscious effort to broaden our project portfolio in order to expand our customer base across industries.

**International Freight Forwarding**

Global supply chains remain overheated with shortages of containers and liner capacity issues. Due to these factors, there are shortage led inflation in pricing across the board in air & ocean products. The recovery in exports is aiding a broader growth pattern with an uptick across all categories. Imports pressure remained due to these supply chain issues. Overall the segment is benefiting from a positive demand & pricing environment though margins remain under

pressure. Our focus here remains to diversify our offering base and balance the right trade lanes and customers.

### **Operational Overview**

Overall while the environment was volatile, we had positive traction from a demand & revenue perspective in most segments. The auto business was most severely impacted, along with Farm. This resulted in a drop in the revenue from customers including M&M. Ecommerce, Consumer, Freight Forwarding all had revenue growth. Overall revenue in these segments grew by 24% on SCM side with unfavorable impact on the Non-M&M Auto segment.

Our warehousing and solutions revenue grew by 35% driven by our continued focus, despite the muted demand conditions. We have won several new accounts during the quarter including western India fulfillment & distribution for FMCG major, distribution/fulfillment in eastern India for lead Garment manufacturer, Inbound to manufacturing & distribution for EV OEM and expansion in retail with a multi brand retail chain. These projects will go live in coming months and continue to underline our strategic focus.

Operationally this was a challenging quarter and some of these are reflected in the results. Muted demand in Ecommerce affected volume flow through in many of our sites. This impacted our operational efficiency and the leverage we typically gain in earnings from the same. From a medium term perspective the capacity created should see stronger volume recovery. The peak was also characterized by manpower availability & cost challenges in several markets due to covid and other factors. The sharper drop in volumes resulted in additional manpower costs during the quarter. While we have taken efforts to address these, there was a period impact of the same.

On the Bajaj account we have now completed the transitions. As we have pointed out earlier the transition will be followed by a supply chain optimization program. During this period, we typically have higher costs. Optimization was delayed due to multiple factors but we are now focused on accelerating the same. In addition to lower volumes from auto & farm, we did see higher volatility. This resulted in lower gain sharing revenues on some

contracts. Though marginal, we had some impact of the same. The above factors resulted in margin erosion & cost escalations during the quarter. We remain focused on both short term and medium term actions around the same.

**Some other operational highlights for the quarter:**

Our Luhari warehousing facility, with a total size of 1.4 million square feet, is India's largest warehousing facility in a single park. The first 0.5 million square feet warehouse, which opened in mid-2021, is already fully operational, while the other two warehouses are now under construction, with a Q4 F22 / Q2 F23 delivery date. This new warehouse will play a pivotal part in MLL's pan-India network of multi-client facilities, which manage the fulfilment and distribution of its clients' services. Over 2500 employees and third-party associates will be employed at this site. This facility like our other new facilities are built to meet sustainability standards, including regulations for Liquid Discharge Management, Renewable Energy, and Waste Management, as well as state-of-the-art technology.

During the quarter we were recognized with the Great Place to Work certification. This affirmation continues to underline our investments in creating a diverse & inclusive culture at MLL, where employees can participate in creating a shared future. Our technology investments continued during the quarter. We went live with a new platform for Freight Forwarding, Warehouse Management and upgrades to our Mobility & Transport management platforms.

EDEL completed one year. During this period we have now operated nearly 5 million clean kms across 14 cities in India. With the fleet progressing to 700 vehicles and an uptime of nearly 90% we are well positioned to provide customers last mile delivery solutions. We continued expand our relationship with Flipkart & Amazon on EV based services.

During November, we announced the decision on acquisition of Meru. With this acquisition we will add airport ride-hailing and on-call services to our mobility services offering. Meru and Alyte's combined expertise will enable us to better offer our B2C and business customers with a broader range of services that deliver on Meru's promise of safety, customer satisfaction, and long-term

sustainability. We expect significant recovery in the Meru business as the normalcy returns in business travels. Our integration teams will launch synergy initiatives post closing of the transaction.

**Now, let me share the financial performance for the quarter ended 31st December 2021**

Revenue for Q3FY22 increased by 7% to Rs 1118 Cr as compared to Q3FY21. Revenue from SCM contributed 96% and Enterprise Mobility contributed 4% for Q3FY22. Gross Margin for Q3FY22 stood at 8.9% as compared to 9.9% in Q3FY21, an decrease of 99 bps. EBITDA for the quarter stood at Rs 50 cr compared to Rs 55 cr in Q3FY21. PBT was down by 71% from Rs 25 cr in Q3FY21 to Rs 7 cr in Q3FY22. PAT was down by 72% to Rs 5 cr in Q3FY22. PAT margin stood at 0.5%. Proportion of revenue from Mahindra group comprised of 44% in Q3FY22 as compared to 48% in Q2FY22

**Let me share the segment performance for Q3FY22**

Revenue from supply chain segment increased by 6% to Rs 1075 cr. Enterprise Mobility segment revenue stood at Rs 43 cr, up by 16% over last year. Our revenue from Mahindra group supply chain business decreased from Rs 508 cr in Q3FY21 to Rs 485 cr in Q3FY22. Our Non-M&M SCM business grew from Rs 501 cr in Q3FY21 to Rs 590 cr in Q3FY22. Our warehousing & value-added services for Non-M&M SCM business has grown from Rs 164 cr in Q3FY21 to Rs 225 cr in Q3FY22, registering a growth of 37%. Share of warehousing & value-added services in Non-M&M SCM has reached 38% in Q3FY22 as compared to 33% in Q3FY21.

Margin impacts were due to factors we outlined earlier. As we reposition the core 3PL business towards integrated logistics solutions we have seen lower volumes than what we had set up for the quarter and lower flow through impacted leverage and resulted in higher manpower costs. In addition the Bajaj account had an impact as we have a time lag between transition & optimization. These have had an adverse impact on the quarter on margins in warehousing & solutions. Our transportation margins have remained consistent, which includes the business from M&M.

Overall, across all verticals we continue to witness increased traction. We remain upbeat on the new opportunities that we have embarked on with recent acquisitions and are confident of turnaround in efficiency of operations sooner.

With that I will open the floor for questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Sumit Kishore from Axis Capital. Please go ahead.

**Sumit Kishore:** This is Sumit Kishore from Axis. Thanks for the opportunity. My first question is warehousing and solutions business grew almost 35% year-on-year even the non-auto business saw 24% growth just want to understand how should we look at the scope for operating leverage led margin improvement in your business model and on a relative basis, would the margin pressures have been higher in say transportation in the auto business which saw 6% decline. The second question is while you have touched upon it, but we have seen the COVID impact spillover into this quarter in fact, it was more severe, so would the seasonal manpower cost that you talked about something to be worried about in the fourth quarter as well, could you also elaborate on the startup cost for new projects that have driven margin pressure and one tries to disaggregate this 110 basis point of gross margin dip in SCM, how much is really the more prominent one is its freight cost is it the startup cost or the seasonal manpower cost or is it just spread over all these factors?

**Rampraveen S:** I think if you look at the concept of operating leverage, typically what happens, I think we mentioned earlier we signed most of our solutions and warehousing based services contracts with a minimum guaranteed volume. There is a volume flow, which typically works such that as we gain more volume we see greater leverage on earnings because that volume essentially absorbs all the operating costs or most of the costs in terms of facilities that is more fixed in nature. So obviously this quarter we have been building larger facilities as we look at further growth and further volume flow through our facilities, but this quarter obviously volume turned out to be lesser than what we expected, it was at the bottom end of that band. Sumit, we were not able to get the kind of returns we would typically generate, while the revenue was overall



incrementally favorable, it showed traction and was lower than what we are expecting. We had set up our operations at a higher level, so when revenue did come at a lower level of the band rather than the way we have designed and put up many of these fulfillment centers and distribution centers to take more volume throughout, we saw that impact coming in. In terms of manpower cost, I think there were two parts to manpower cost situation. I think that will answer partially or other questions as well. So part of it was the inflation manpower cost which we largely saw in some regions like the South, post wave two we did not see migrant workforce coming back. Therefore we had to have significant shortages and that created inflation in cost. The second thing was that volume tailed off pretty quickly. In line with our corporate philosophy temporary workforce contracts are for minimum durations of time, but volume tailed off much faster. We hired a large number of people during the peak I mean this year we went up to 13-14000 people, so that actually ends up being fairly material even if you end up having a one month lag or you are going to have several weeks of idle capacity, becomes quite impactful to us. So as you look forward I think we have obviously required to cut down and re-tune some of those manpower assumptions in our business and also work harder on productivity, so I think we will not see an excess capacity issue which we saw last quarter. Still, you will see the inflation patterns based on how COVID pans out. I cannot clearly say that we will or we would not see it completely given that these are dissolved manpower but what I can say is towards the end of January we have shown strong positive traction there during the Republic Day peak both in terms of cost per person and the capacity utilization has worked itself. From an overall margin perspective, I think at your question our transportation business it is largely stable. I think last quarter we had mentioned that we had some flow-through from a timing perspective on fuel cost increases. All that as we mentioned in the last earnings call has sorted itself out I think the transportation business is fairly stable from a margin profile perspective because of the warehousing and solutions business which is what it is supposed to, the richer part of our business and what we expect to drive margins was impacted by these factors obviously. I think you also remarked on the startup cost I think we do have some level of startup cost every quarter I think a large part of the startup cost this year at this quarter was really around the optimization of the Bajaj contract which is a large pan India contract where

we have been delivering millions of packages on an annualized basis, and we transitioned the entire network over the last couple of quarters, and then we have more than a quarter - one and two quarters that can optimize the entire network as it deploys our technology to optimize transportation lanes, optimization transportation systems and we also drive productivity in a large number of warehouses and FCs across the country. So we are always planning to have a quarter or two of optimization there and that is something which is showing up in the numbers this quarter. As we stand we do not expect for that window to overspill right, it will probably go on to parts of the fourth quarter, but we expect to be able to operate that optimization on the plan or a little bit ahead of time. If I had to break this all up into how what is the contribution of those in terms of overall kind of margins, I would say that we had probably at 60%-40%, 60% of it was really around the peak related issues both in terms of operating leverage and higher manpower costs and 35% to 40% was because of new project startup costs primarily being the Bajaj. I hope Sumit that answered your question.

**Sumit Kishore:** That was very comprehensive, and just to understand your P&L better, the depreciation increased quarter-on-quarter and year-on-year as well. What was the CAPEX in the nine-months FY2022 period, and what are you spending this fiscal and next fiscal probably?

**Rampraveen S:** Sumit, I will ask Yogesh to answer the details, but I think what we have said earlier on as well that depreciation line increase includes the right to use assets and as we kind of expand our warehousing facilities that grows in line with that and that is why the margin enhancements on warehousing and solutions business which have generally delivered are critical for us, but Yogesh can you please chip in with the specific numbers and then we can move on to the next person in the queue.

**Yogesh Patel:** Hi Sumit, specifically to CAPEX per se, our spend up to December would have been around Rs.70 Crores. If you would recall for the year we had kind of indicated our expense to be between Rs 80 Crores to Rs 85 Crores range so that kind of holds good up to December. We would have incurred CAPEX of Rs 70 Crores this year, last year as well we had incurred a capex close to in Rs 85 Crores full year capex it was and the increased depreciation of obviously is a

factor of last year's capex over the year getting amortized as well as what we would have done. In addition to it that the depreciation amortization as Ram explains also covers the lease cost which gets routed through that account in the accounting structure.

**Sumit Kishore:** That is very clear. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Depesh Kashyap from Equirus Group. Please go ahead.

**Depesh Kashyap:** Thank you for taking my questions so your Non-Mahindra warehousing revenues have increased 34% quarter-on-quarter while the underlying space has not increased, so I just wanted to understand how much of this growth is driven by the Bajaj Electric contract and how much is given by the flex warehousing solution that you generally do right in these festive seasons and also if you can highlight like what are the typical margins you will see in the Bajaj electrical given that integrated contract the margin should be generally higher than the typical 3PL contract is my understanding correct.

**Rampraveen S:** Let me comment on both of those. First of all our warehousing is not exactly flat quarter-on-quarter. Typically this is end of quarter warehousing and therefore obviously all the warehousing came through by September 30, 2021 but it was not operational fully during July to September. Effective warehousing utilized during the quarter gave Rs 225 Crores revenues which is a jump of 37% jump. Much of that was because of normal business not just Bajaj, business at usual volume versus what was it because of the flex accounts, I would say probably 70-30. 70% of the growth has been underlying volume growth perspective and probably 25% - 30% of it because of flex. We are hoping even higher to be honest because as you have seen the commentary I have made earlier volume did come in short of what we have planned for, so I hope that answers the question I think Yogesh anything you would like to add there.

**Yogesh Patel:** No Ram, it is about that 70-30.

**Depesh Kashyap:** Sir typical margin profile for this flex solutions that you provide and also for the Bajaj electrical?

**Rampraveen S:** I think flex is a function of multiple factors but if the volumes do come in as we plan, the margins tend to be in line with our general warehousing contracts. What we generally do on the back of the flex we normally also end up picking your transportation business and the integrated benefit comes in. On the Bajaj account, like all integrated solutions business is a blend of warehousing and transportations. At peak, we expect to earn margins in line or slightly north of our average profile. That kind of account or larger projects start up and then you have dip, then you carry a certain graph, the carrying cost, and then you optimize the supply chain then actually margins pick up, peak margins tend to be higher than the average and therefore at that point, we should see higher than typical warehousing and solutions margins.

**Depesh Kashyap:** Got it. The second question is just wanted to understand your thought process from the acquisition strategy. Recently you acquired Meru cabs from your group company right so now going forward like, will we wait for one year or so, are we still looking for acquisitions, and what are the capabilities you want to add going forward when you look at the acquisition pipeline?

**Rampraveen S:** Great question so the first thing I would say is that our acquisition strategy has two parts. First of all I think we do not look at acquiring order books or revenue books right I think what is important for us is to acquire capability and for us the capability part of it largely is around technology, capital and people capital, so that is also one overarching thing which I have said before as well but I just re-iterated for purposes of reaffirmation. The second part is that our inorganic strategy from a captable perspective is not tuned towards any specific, it is not biased towards mobility or towards supply chain, we continue to look at opportunities in both of them actively given the strategy of each of those segments. On the supply chain side I think where we are looking at is accelerating through inorganics. The third part we have talked about is freight forwarding. It is a business which we feel positive about and it is something which we continue to look at the right opportunity.. The second one is around last-mile delivery expansion that is an area where we see more traction from our clients around integrated fulfillment we have largely been a first mile and mid-mile company on fulfillment logistics now we continue to look at opportunities in life if we believe that they bring the combination of

people capital, tech capital and financial province and financial management with earnings quality perspective. The third area of course is technology right we have continued to make investments in technology a lot of that has been as I have said earlier a cloud-based suite of integrated solutions for different service lines, but we currently look at possibilities there either for partnerships or acquisition we have largely been using a partnership model till now and that is where the mobility side is concerned as I think we are keen on primary focusing on the enterprise segment and the core strategy for the mobility business remains about doing two things, expanding services to enterprise customers so we can gain more share of wallet and leveraging that share of wallet to drive supply optimization. So the Meru acquisition was really a fit in that sense 35% to 40% of the business is purely enterprise transport management services which is what a Alyte does so that is a straight synergy or fit and then it also provides other services like on-call etc., which allows us to get a higher share of wallet with our enterprise customers. We believe there are some strong opportunities from a supply synergy perspective that will probably be more visible once the market recovers. Still, intrinsically we believe that strong opportunities to drive tech driven supply chain optimization where we can use the same vehicles for multiple services and therefore utilize it for more kilometers in a month and drive better margin realization.

**Depesh Kashyap:** Understood, Sir. Thank you and all the best.

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

**Mukesh Saraf:** One of the comments you just made was that on the integrated business, the margins would probably be similar to the company average or probably slightly north of that so just trying to understand that with your targets of maybe Rs 10000 Crores revenue in FY2026 and probably a good portion of the business coming from new integrated solution contracts what kind of margins, I mean is that the average company level margins that we are looking at? Are we looking at a similar 4.5%-5% kind of margins because if these new contracts come in only at these margins then what are the margins levers that we have?

**Rampraveen S:** I think if you look at the broader growth plan for the Company, I think as said three broad parts I will skip the mobility piece that is part A, part C has been the core 3PL business to reposition ourselves more as an integrated solutions player and part B has been to grow some of these service lines that we historically had a low share of the business - freight straight forwarding, the B2B express, last mile delivery and probably create this electric vehicle category in some ways. So these are the A, B and C parts of that kind of roadmap for Rs 10000 Cores. Now, if you look at I would not talk much about mobility getting your questions driven by the supply chain on the services side. On the express side and the freight forwarding side we expect to maintain or sustain the margin levels which we are at right now, and I think we have been able to moderate and ensure that we are having reasonably good gross margin in forwarding as well and the express business, while we are funding it will mature to a moderate industry level margin profile. As Yogesh mentioned earlier, on the last mile delivery business we are cautious about growing there because we have specific margin targets and capability expectations there. Now on the integrated solution piece which is probably going to be two-thirds of that whole pie, over a period of time but I think what we have said historically is two things, one is that - at the gross margin level net of the AS-116 impact we expect the margin of solutions to be accretive to the gross margin and today I can say that on the smaller and mid-size solutions we have done over the last 18 months, whether it has been the pharma, whether it has been durable appliances, post the correction period where we have the optimization period that several projects are delivering, that is one lever of benefit just purely at a gross margin level. The other benefit is integrated solutions and its stickiness and size and that should give us leverage from an overhead perspective. I would leave this quarter aside, but broadly we expect that the margin profile on solutions would be slightly better than what we have done in the past. The volume growth which we get through that it should be able actually to start leveraging on overhead I think this quarter and Yogesh said specifically even this quarter I think overhead grown by 4.6% of sales so as volume growth comes in we get leverage on that line as well. From a modeling perspective Mukesh probably Yogesh can get back to you and have a specific conversation.

**Mukesh Saraf:** Sure, looking at last quarter and this quarter, last quarter we had seen an impact of fuel prices and that impacted our transport and I am assuming this quarter we have got a pass through and hence the transportation margins went up because diesel prices actually came off in November so in a sense, warehousing margins are much lower because the transportation margins Quarter-on-Quarter and probably this should correct is what you are saying after the optimization. We should see a significant increase in warehousing margin.

**Rampraveen S:** I would say is Mukesh I think I said in the last earnings call and that we are finished passing through all the fuel increases that is not the problem. Obviously transportation volume is kind of flattish and Mahindra business is down compared to last year, which is the large part of the transportation volume. So at a gross level I do not exactly know how it is, I have to get back to you with exact dollars values for that but broadly as I have said earlier in the call as well transportation margin profile was pretty stable and in line with the past and that is why we called out specifically that most of the challenges or the erosion or the pressure we have seen in this quarter has been on our warehousing and solution business.

**Mukesh Saraf:** Thank you so much, and I will get back in the queue.

**Moderator:** Thank you. The next question is from Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

**Shyam Sundar Sriram:** Thanks for the opportunity, Sir. Sir, you mentioned that the higher capacity build up in warehousing like expecting volumes to come through was one major factor for the margin drop, what steps can we take internally to plan better so that this does not reoccur that is my first point. Secondly you did mention the flex solutions are on similar margins as the standard integrated solution, standard warehousing solution contract. Now I am very surprised given the short-term nature and the enormous stress that it puts on your system, should not this business be a higher margin business or to think about it, is it/will it be worth doing this business with so much of the variability the details that it brings upon the system, this is my first question secondly are there any further startup cost in this first half calendar 2022



because this was a 45 bps kind of an impact per se at the gross margin level. Are there any further similar startup cost expected in the first half of the calendar 2022?

**Rampraveen S:**

I think as I said Shyam earlier also we carry a few startup costs every quarter right that is kind of normal to our business. This quarter we have seen the higher impact of the Bajaj cost and that network optimization which will have an overhang through the fourth quarter also. Still, as we plan right now we do not expect it to carry into the next FY. Given the scale of the contract three to four months pan India network we are doing 800-1000 trips every day across the 13 facilities across the country and delivering to more than 700 delivery points. It's a large optimization but that should get done though as I said the fourth quarter of this year apart from that I do not expect anything really to come out. There is a learning curve obviously on a scale as well. So I think next time I should do larger and more projects of the scale of these I think we will have a learning curve on getting better optimization as well right as more volume comes through. In terms of the flex contracts and the other question you had around optimization so obviously I think as we have been expanding. You have to take a call on how you build your warehousing infrastructure and warehousing capacity and so it is a shift function it is a step up function it is not a linear function so that is a bit of the broader and therefore the horizon of planning has to be a little bit longer. Shyam we cannot add 20000 square feet every month. That is also suboptimal in a different way it is probably low risk, but probably also creates low return from a long-term perspective what we have been doing to optimize it. If you look at our facilities which are and that capacity which is more flow storage based we have been trying to divert that across some of the newer clients and that is why and been trying to get better square feet utilization in terms of revenue yield and we are hoping to consolidate. We started that work already and I think hopefully through this quarter we will see more acceleration of that now with some of the newer businesses which are being picked up. The second part that obviously has been to re-tune our manpower productivity and recruitment assumptions and that is something which there will be some volatility which probably will continue basically those individual geographies but we broadly think that at least we are getting that under control and the giant peak thus far has been a



good result of the work we have done right. So I think the capacity issue very honestly I think we feel confident about the fact that it will kind of play itself out Shyam because as I said earlier on we have to take positions we cannot just build facilities every month and as we build larger facilities there are long term productivity and office benefits there which will start showing up in our margins as well. But as far as the flex question you had Shyam I think flex is a combination of different things right there. There are pure flexes we are going to middle of nowhere and actually building a short-term flex solution and those generally do carry a higher margin profiles and then there are large flexes which actually often are which are kind of attached to an existing node which we operate ourselves right so for example in Calcutta this year we did a 3 lakh square feet flex for one of our clients now that is next to another facility which you operate for the same customer and therefore the stress which you spoke about is a little bit different. Pricing is a function of multiple factors and I would say the flex model is also becoming more mature. Shyam, I think both in terms of cost management and of course in terms of the competitive functionality there also is an increase right so we do get I think margins typically we do not have any disruptive factors we look at margins slightly higher than our typical warehousing business but it is not a gold rush anymore.

**Shyam Sundar Sriram:** I got your point, Ram, but I am still wondering maybe our revenues have grown 10% sequentially we have done very well on that, but nevertheless, our earnings on this higher revenue have been lower than what we did last quarter right which means we are losing money by putting up these flex solutions that have lots of variability. Ofcourse there is a startup cost element also which is there but that will ease out I am just wondering whether is it worth at the end of the day to have these variable businesses that was my limited point.

**Rampraveen S:** Sure, the capacity issues I think to exclude the flex point so I would say that your flex is not counted as a capacity expansion which you talk about. The manpower problem was reasonably secular I mean typically you are hiring in many of these facilities they are manpower intensive to some extent, so you normally have 35%-40% cost of manpower even in a business as usual basis,

in some products offerings even higher. So when you see a sharp escalation there it does have an impact. I would say this quarter for sure flex was not the problem for us. That is what I will summarize, and I do not think flex does not overhang others.

**Shyam Sundar Sriram:**Just one last question if I may see even sharp inflation in manpower I mean not only for us across all industries we are seeing much higher inflation in terms of manpower cost, are there any elements in our contracts with customers that allows us some kind of pass through for this slightly higher than expected manpower cost?

**Rampraveen S:** I think the contracts are generally done in multiple ways Shyam. I think generally contracts which are more long-term like Bajaj or some of the other accounts which we do they normally either carry an index based on minimum wages and so on. Then there are contracts where the volumes are given every year which are manpower driven and there it is where we do discuss what the cost impact is. There are some thresholds which they cross then obviously we have a chance to go back to the customer but there are times within which we have to manage the performance ourselves. This year I think that is why it did not affect us on flex so much Shyam because on flex we actually have a much more near-term window to that cost structure but on our long-term contracts on our longer term operations when it suddenly result in a spike in cost it just affect your flex actually flex probably is better because you are contracted in the short term, it is your base business where actually you see the tail through effect.

**Shyam Sundar Sriram:**Thank you very Much

**Rampraveen S:** You take Bangalore as a location. Suddenly, I mean if you have 3000-4000 people in existing sites in the peak, the small flex site does not cause the problem the inflation across the board causes the problem.

**Shyam Sundar Sriram:**Understood. Got it

**Moderator:** Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

**Aditya Mongia:** Hi Ram, Hi Yogesh. I had a few questions from my side which I want to take your perspective on. The first one relates to the warehousing business of yours. Now I am just trying to get a sense that when you say that volumes were not up to the mark, was it more of an issue of demand being weaker at an overall level or was it an issue of competition getting in more and more? The other related question was that somewhere you mentioned that your new contracted capacities are all doing fine, they are fairly well utilized and still, we are saying that our utilization levels dip because we had planned for higher volumes and we did not get those volumes. Does that suggest that the older warehouses saw some customers not turning up and just kind of relating it to the competition.

**Rampraveen S:** When we kind of contract out the facility let us say which is x square feet. one lakh square foot for example, that capacity is contracted out through the year for a certain volume and for some parts of the year for much higher volume. Now we do not have any white space or we have very marginal white space in terms of contracting itself. Our facilities are all contracted out however what happens is that the contracts basically are built around a certain volume. Now in that volume bank there is a minimum guaranteed volume which happens and which the customer gives and then of course you have an higher band in terms of what is your peak capacity or idea, when you make really great margins. So this year the problem was not that we lost sites right I mean all our sites were contracted out. The problem was that if you expected let us say 100 units to come it was actually 85. So for example it is not like a plant was not utilized but the thing was instead of making 100 units of a product it actually made 85. And the challenge for us was that we did our peakiest days were still 100 right but then typically the peakiest days tend to last for a longer period of time, this time there is a sharp tail off in terms of volume. In fact in December some of our sites are actually below minimum guaranteed volume which of course our clients paid for the minimum guarantee, but so that was the fact that we are just playing about it. When we have a competitive situation let us say our volume went off to somebody else or we lost a site or our sites are not actually contracted what we have stated in terms of what I have said in the past is all that when we have talked about the warehouse contracting we said all our facilities are contracted out. We do not

have white space in terms of uncontracted warehousing but obviously, you expect the warehouses to have a certain flow through in terms of volume and this year and we had obviously added capacity with the assumption that this volume build up will happen right and I think this is a time of day or time of season kind of factor, your secular growth will bring in the volume to our facilities right at the higher end of that contracted time but this year unfortunately we are much closer to the lower end of the contracting band in many sites, and the higher manpower cost obviously did not change the cost basis of those facility.

**Aditya Mongia:**

Second question that I want to kind of ask was that it is related to the question asked earlier. There is an element of inflation and manpower cost on additional manpower and median existing power as well. Our contracts are structured in a manner where we cannot pass them through frequently. Should this be treated as an overhang on margins in incremental quarters or let us say even incremental years because these are long-term contracts that we are finding from a warehousing perspective?

**Rampraveen S:**

No, I would say Aditya there are multiple factors. We control productivity and the total manpower cost is a function of volume of manpower and cost per person. One of our competencies Aditya is actually driving better productivity that is kind of what our solution design, on our dexterity work, and our process capabilities are, and that is what we do in most of our sites. Even this year I think the manpower inflation was specific to some locations right. I mentioned earlier in my comments we did see a specifically larger problem in the south for example, which is where we do have thresholds which are contracted out as well but in the south we saw those in couple of locations where we saw a large spike those are big geographical locations for us and that was very topical to those areas, we did not see it in Delhi, we did not see it Ahmedabad, we did not see Bhiwandi or even in Pune. So but we always have a fair amount of capacity in the South so that obviously will impact us but we still believe that as I said we have even coming in right now we have re-tuned our work on capacity improvements and obviously we probably planned for a larger volume and you can plan differently as well, we

planned for a higher flow through this year because by most expectations I think the peak was expected to be higher than what we thought it was.

**Aditya Mongia:**

Last question from my side you have been talking about adding capabilities to the bouquet of what Mahindra Logistics has offered since the time that you came at the helm. What do you think that that exercise is largely and maybe the last mile is the only part that the company would take through adding to the capability set or do you think a lot more work still needs to be done to become more likable to your customers?

**Rampraveen S:**

It is a simple answer because I have to talk about this often to make other stakeholders as well. So two years ago what we said as we repositioned the business towards the future, we have to add capabilities in three things - expanding service lines, driving more ability to create custom industry solutions which are more integrated and the third one is technology capabilities. I think from the service line perspective we have established baseline now. We were doing 7 or 8 services two years ago and we have now expanded the offering, inside warehousing offers several types. On transportation sides distribution, freight forwarding etc., we have made progress. So I would say the larger challenge right now is what you pointed Aditya, which is last mile delivery okay. On the technology piece, I think it is a continuous journey. I have said this earlier as we had never done the technology but we will put out an 18 month road map to get a fundamental architecture on all these service lines together, which we could integrate efficiently. I think that one is probably 85 to 90% done. So we should really not see a significant bump up going forward from a tech investment. There will probably be a linear expansion on tech definitely but beyond what we have I do not see a significant bump up on tech. We may need some investments in the block chain, a bit in AI-automation, but I think those would be part of the core. On the solution design growth, we are doing some transformation work internally with the help of external consulting, and we probably have another 6 to 9 months of that work to go there because of that changing process, people, investing in domain knowledge, and then integrating obviously operation and tech in those solutions. So just recap

services almost there, tech 75 to 80% there and solutions probably half way there.

**Aditya Mongia:** Those were the questions. I will come back with more questions. Thank you.

**Moderator:** Thank you. The next question is from the line of Pranay Roop Chatterjee from Burman Capital. Please go ahead.

**Pranay Roop Chatterjee:**

Good evening Ram, Yogesh, and everyone present. Thanks Ram for all the details. Firstly you mentioned that about 60% of the margin dropped this quarter could be attributable to your excess capacity due to your manpower and volume. Now the question pertains to Q4, more on Q4. Given the impact of Omicron how do you see volumes, and is this overcapacity issues behind us or should we expect some impact of this in Q4 as well. Secondly, on Meru Cabs when do we expect the consolidation to complete in terms of your financials and given that Meru had Rs 18 Crores loss in FY2020 and about Rs 30 Crores loss in FY2021. I understand there would be certain rationalization and the loss would minimize but could we still expect like a Rs 5 to Rs 10 Crores pressure on your bottom line post consolidation and lastly a quick question for Yogesh there is this item called cost of material consumed in you P&L which came at about Rs 5 Crores this quarter, just wanted to get a sense of what this item entails.

**Rampraveen S:** I would say that on that additional capacity and the manpower cost piece, I think Pranay Omicron is resulting in fluctuating volumes so we have not really seen volume pickup, and there will be some impact of the flow through in our facilities through this quarter but what we have done I think the people's side is I think we got that under control. We do have productivity in process standards internally so I had remarked earlier on also as well. We are just kind of going through the January peak as you see. As you generally know most e-commerce customers and others actually have a peak in January and obviously things expand and coolers also start moving around this period and that is something which we have been able to mitigate the impact we saw on last quarter on. So

the manpower is taken care of, the flow-through and volume might still carry some softness.

On the Meru piece, I think you raised a great question right and I think you, all of you would have seen the historical result of Meru. Now what we know of Meru's existing management has already done has been trying to manage and optimize the cost further and what we believe is that as we were going in we expect three big waves of synergy. The first one is a substantial synergy from an overhead management perspective right. As the volumes have shrunk all of us have taken cost out, but still overhead typically in the mobility business in terms of tech, sales, marketing, site management etc., remain of reasonable volume. Now we think that is a straight just-do it kind of synergy which we expect to come through. The second piece really is around fleet optimization, typically both companies are largely asset light still we expect that on supply side leverage will go up significantly, we will be able to use the same car for higher miles and therefore marginal pricing is obviously, though the price should be the last slab with your vendors is always lower than price of your first slab right and that is in synergy. We have evaluated and assessed, and we have a fairly good lineup sight for that. The third synergy is actually around demand optimization and what you mean by that is two things, one is having a wider bouquet of services allows us to go and get a better share of wallet. If you are General Electric, GE for example and we are doing the EPMS for you, we know that you are also doing on call, you also have airport kind of pickup and drops, so our ability to cross-sell should pull in better revenue especially for the Meru business, the second part is going to be that better supply obviously means that you will have better availability so we believe that especially for the airport and on the call business one big lever is that our supply capability will help Meru which is for example when you walk out the Mumbai airport you order a Meru cab and it is not available right, so that kind of scenario might not happen because we will bring our supply capability. Now put those three together I think we expect to significantly have better earnings in the business then probably what Meru has had in the past. Having said that I think there will be some negative impact, marginal impact in the first financial year given the current demand environment. I am not in a position to fully

quantify that, but it should be of course of a much more managed order than what we may be able to, we may reduce from historical financial statement.

**Pranay Roop Chatterjee:**

When can we expect this consolidation to complete. Is it Q4 or is it going to flow into next year.

**Rampraveen S:** Yes, we are working for the timing of it Pranay, so I think hopefully somewhere between the latter half of this quarter or early part of next quarter we should expect to get that I think but governance perspective I do believe and Yogesh you should ask, but you can add but we have already updated the stock exchanges also about that.

**Yogesh Patel:** That is correct. I mean the last we had looked up like in the end of February. If there is any change, we will obviously intimate, but that is the timeline we are expecting.

**Pranay Roop Chatterjee:**

Ram quick followup, regarding our margins, I get your point, still if you try to look in terms of numbers can we expect to go back somewhere near Q2 levels of would say Omicron impact keep it somewhere in between.

**Rampraveen S:** No, our aspiration is to try it and take it back there. We are obviously working pretty hard on that right now. As I said, there are two three big impact. I think Bajaj optimization cost, which is the largest part of startup cost, I think that will have an overhang Pranay through Q4. I think from a demand perspective, we do believe that we will optimize while volume flow through in our facilities might be a bit lesser we will optimize other cost levers to offset that right and the manpower cost piece is already under control. So we do not think the Q3 issues will continue Pranay for this quarter, and we do not think Omicron will have an impact on that because we run a lot of high volume nodes right for our customers in their network and we also see seasonal uptakes in some areas right. For example on things like fan independent of Omicron we will see some seasonal pattern of strength in Q4 as well.



**Yogesh Patel:** As part of the value-added services we offer in our supply chain Pranay, that we do things in terms of component assemblies at our site. Things like what we used to do in terms of tire and wheel, in terms of completing a product or farm equipment's certain component also we do, so this is the cost of material consumed in delivering those services. From a breakup of accounting line items, since the service is now a defined service within that I mean that is kind of that but this cost of material consumed in delivering the value added services within supply chain.

**Pranay Roop Chatterjee:**

Understood. Okay great. Thank you Ram and thank you Yogesh.

**Moderator:** Thank you. The next question is from the line of Alok Deshpande from Edelweiss Financial Services. Please go ahead.

**Alok Deshpande:** Hello Ram, hello Yogesh. Two questions from my side. First question is on margins. I just want sort of understand the margin mix better across transportation and warehousing because if I were to compare the margin profile for the Company, which was roughly 8, 10 quarters back, and I am talking about somewhere around mid FY2020 when this was before COVID, we were at about 4.5, 4.7 now given the fact that warehousing has become nearly 25% of the overall revenue from 15% two years back despite the startup cost of this new project. I am just not able to sort of put this together that why should the margins be lower than the levels that we were at nearly 8, 10 quarters back when the warehousing fees was only 15% of the total that is question number one, and my question number is two Ram you spoke about the volume shortfall this quarter where the volumes were at a lower end. Now in these kinds of contract would not the fact that these are variable volume contract or variable price contract would not that sort of better pricing make up for the fact that if in the quarter there is lower volumes still the margins are quite decent. I just wanted to understand this conceptually better.

**Rampraveen S:** Let me just answer the second one first and then I think we will dial back and I will let Yogesh pull out some data which I am sure he may need to pull out as well to answer the first part right. But the second part if you even look at the

way the contract is done. Let us assume that this contract is for 100 units a month. We will normally carry a minimum guaranteed volume of 70-75. Now typically, what happens is that while we have a minimum guaranteed volume of 75 what will happen is that based on the customer forecast, two things happen, you size the facility for overflow and the second thing which is there we will also actually recruit manpower and plan shifts etc., basis of a certain volume. So when I said that the volume flow through has been lesser this month. I mean think about it in that sense saying that we essentially plan let us say in 90-95 volume and we have essentially lined up all our resources for that 90-95. The volume came in at 75 or 80. Probably we have been aggressively trying to grow the business and we have kind of gone after volume growth and putting infrastructure and resources to do that. So what has therefore happened is that you have certain more resources which are standard right. Some of it like your scheduled hours or electricity etc., you can turn off quickly, some like your manpower you do time stamp the contract with your vendors for some time. If you have contracted them let us say on a monthly basis the volume does not end up for the month then you end up with standard manpower which is the point I had made earlier, right so that is what played out so obviously if you are based on your relationship and your confidence in the planning work you can give your customers, you size the business for a certain level, kind of what we did this year and that is what was the capacity flow through a problem we had. If the volume had come at 90-95 we would have seen all those resources being used. Now the second part, which is what I had already said earlier that 85-90 people, let us say the cost of Rs. 30 an hour for them because of all this inflation it might have become Rs. 32 to Rs. 35 in specific geography. So your cost basis increases in some geographies and then you saw lesser utilization of these resources than what you had planned for. As I had said, because these are all manageable in some windows of time, we have taken action in most of that already.

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

**Prateek Kumar:** Hello and thanks for the opportunity. My first question is would you have FY2021 numbers for Meru top line PAT and how they panned out like in FY2022.

**Rampraveen S:** Prateek I do not have the exact numbers. I think there will be fillings etc., which will cover and obviously I think if you reach out to us separately we can answer that question more specifically and unless Yogesh you have the numbers handy, but I would say that compared to FY2021, FY2022 directionally obviously had seen growth for them Prateek.

Meru had three parts of the business. The first part is ETMS business which is 35% of the revenue which is similar to what we do in a way so that business has not seen a lot of growth it has kind of I think been fairly neutral but the airport business which has come down a lot because of the pandemic before Omicron at least the volume has started coming back, they have started showing some positive momentum on the airport side. So overall I think revenue was trending positive directionally for the business. There are multiple factors in terms of cost, but we know that they have also been working on cost optimization. I do not have the exact numbers with me Prateek unfortunately for FY2021; if you reach out to us definitely we can cover that.

**Prateek Kumar:** Second question. Over the past two quarters when you compare Q1 to Q3 our warehousing space has sort of remained stable in fact past four quarters warehousing space has remained stable and a lot of declines because I think some reasons which you highlighted last quarter but when we add depreciation plus interest which has a component of ROU asset that number has grown Rs 8 Crores over past two quarters. I am just adding depreciation and other expense simply, so why has that happened if we have not added any space. Because that is actually weighing significantly because your PBT in third quarter is Rs 7 Crores and that incremental Rs 8 Crores is sort of having significant impact on your PAT.

**Rampraveen S:** So Prateek what I said first of all is I think and that is just in our view, but your first point around warehousing space, I think if you see slide 12 and we added this last quarter Prateek I think in response to your question you had only asked in the first quarter and we started breaking down between warehousing and

stockyards. Stockyards are very low value, they are high space, but they are low value and low cost. So what you would see I think if you look at FY2021 we ended with 17.5 million and you could say we ended 18.8 million in Q3 FY2022. On a logical basis, say it has gone up from 17.5 to 18.8 but if you actually break that down, pure warehousing and stores has gone from 11 million to 15 million right so that is 35 to 40% growth in terms of the space, in terms of pure warehousing which is where the depreciation adds up Prateek, I think you had raised this question so we started giving this break up last quarter right Yogesh to help the people so we can respond your questions to help you understand the underlying factors so that is one. The second thing I would say business carries two parts, it carries out a straightforward central cost which is a restatement right our gross margins should compensate for that. The second thing is there is AS-116 timing impact because that timing impact was I think Yogesh had explained last quarter also that we saw Rs 3 to Rs 4 Crores impact in that quarter because of that and this quarter we have seen something similar. Yogesh can probably elaborate on that, but the overall numbers might not have increased. At the category level and specific to what drives debt Prateek there has been a fairly significant increase in capacity.

**Yogesh Patel:**

In our presentation this time we had split those two line items also, so you would see that split which is coming in because of this warehouse space, rental cost, which is 116 and the normal depreciation as well so that will kind of do that and other thing is the costlier space in terms of value added or more standard warehousing which has got added in.

There is another element - the third element, one more thing I will add it up on what Ram said which is certain space which was towards the end of quarter four of last year which was customer-owned space he used to work out which kind of translated to our own space which also meant that from a cost perspective the space count remains same but the rentals would have come down.

**Prateek Kumar:**

Sure. Thank you Sir. That helps.

**Moderator:**

Thank you. In the interest of time that was the last question. I would now like to hand the conference over to the management for any closing comments now.

**Rampraveen S:** Thank you all for joining us today. I hope we have been able to answer all your questions satisfactorily. If there are any other queries or questions, you may reach out to our Investor Relation Teams right our MLL and SGA our Investor Relation Advisors. Thank you once again for your interest in the company and thank you for taking the time for joining the call today.

**Moderator:** Thank you. On behalf of Mahindra Logistics Limited concludes this conference. Thank you for joining us, and you mady now disconnect your lines.

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