



## **Mahindra Logistics Limited**

### **Q1 FY19 Earnings Conference Call Transcript**

**August 03, 2018**

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**Moderator**

Ladies and gentlemen, good day and welcome to the Mahindra Logistics Limited earnings conference call. As a reminder, all participants' 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 the operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded.

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

**Anoop Poojari:**

Thank you. Good evening everyone and thank you for joining us on Mahindra Logistics Q1 FY 2019 earnings conference call. We have with us Mr. Pirojshaw Sarkari (Phil) – CEO and Mr. Nikhil Nayak – CFO of the Company. We will begin the call with opening remarks from the management, following which we will have the forum open for a question-and-answer session. Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

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

**Pirojshaw Sarkari:**

Thank you Anoop. Good evening everyone and thank you for joining us to discuss the results for the quarter ended 30<sup>th</sup> June 2018. I would like to begin by briefly sharing my views on the sector following which I will take you through the operational and financial highlights.

Financial year 2017-18 has been a significant year for the logistics industry due to emphasis on the sector by the Government. The process continued with the implementation of E-Way Bill in this quarter. GST as well as E-Way Bill have long term positives, but the logistic service providers and the end-use sector Companies are still grappling with the implementation challenges. For example, Companies are working out mechanisms to migrate from reverse charge mechanism to Forward Charge Mechanism to derive full benefit of input tax credit. Government has announced that it is working on the new logistics sector policy. Moreover, for improving the logistics infrastructure, Government is also trying to bring in competition between States by bringing in logistics index for the State.

**Let me share a quick overview on the key end used sectors for the logistics industry:**

**Automotive sector:** The auto Companies are likely to continue on the growth path this year. This is on the back of strong rural demand expected due to forecast of a

normal monsoon. As you know, the growth in the logistics sector is correlated to logistics cost of auto sector and not the auto sector at an aggregate level.

**Consumer industry:** According to industry reports, consumer good Companies are expecting decent growth. This is aided by improvement in macro-economic situation, pickup in consumer sentiment and growing rural demand on expectation of a third year of normal rains. Overall, outlook is positive as consumption remains one of the key constituents of our economy. From a logistics sector perspective, the key issue to be watched out would be the redesign of supply chains in the post GST scenario for these Companies.

**E-commerce:** This quarter witnessed one of the major deals in the present time with Walmart acquiring the poster boy of Indian startup and E-commerce canvas -Flipkart. Overall, the sector continues to be dominated by two large players as horizontal players and multiple small players in niche verticals. From a logistics perspective while there will be a volume growth, pricing is likely to be under pressure due to focus by E-com Companies on costs and logistics startup Companies taking on business to increase their top-line.

**Now let us move to operational and financial discussion. First, I will cover the financials:**

Our consolidated revenues grew 9% on a year-on-year basis to Rs.928 crore. Revenue from Mahindra Group Supply Chain business grew by 11% to Rs.521 crore. Revenue from Non-Mahindra Supply Chain segment grew by 6% to Rs.317 crore.

Our growth in Non-M&M Supply Chain business was lower due to change in the business mix. Revenues from transport services remained flat as compared to the same period last year. This was due to stagnation as well as restructuring with some of our major customers. On the other hand, the revenue from Warehousing and Other Value-Added services has grown by 27% over the same period last year.

Due to uncertainty around the GST implementation over the last few quarters, customers are taking more time to finalize new contracts and therefore the new business acquisition is at a slower rate. We are right now experiencing some impact of this.

We are focusing more on Warehousing, Secondary transportation and Value-added services. Even after securing these types of contracts, it takes more time for implementation as it requires large integration of technology. I had briefly mentioned about it in our last call. In hindsight, we underestimated the challenge on this part.

As a combination of these factors, there has been a slowdown in the growth of Non-M&M SCM business. We are hopeful that in later part of the year this situation will get corrected and we will be back on our growth trajectory in line with the industry.

Some other statistics to round up the revenue number; - Proportion of revenue from M&M stood at 57.7% compared to 55.5% on a year-on-year basis. Our PTS business we grew from Rs.86 crore to Rs.90 crore registering a 4% growth.

Now coming to the profits; - Our profitability for the quarter has improved as compared to the same period last year. Our overall gross margins improved by a 113 basis points to 8.71%. Within the business segment, the gross margin in our Supply Chain business has improved to 8.5% from 7.31%. In the PTS business, our margins have improved to 10.62% from 10.05%. Going ahead as the new business kicks in,

this may not remain at the same level, but we are confident that we will achieve expansion of margins for the full year.

EBITDA for the quarter stood at Rs.43 crore, registering a growth of 52%. EBITDA margins for the period stood at 4.67% which is 133 basis points higher compared to same time last year. This was led by improvement in our gross margin as also nil fixed term strategic consulting fees. Our PBT and PAT for the period was Rs.38 crore and Rs.24 crore registering a growth of 60% and 61% respectively.

On the Cash flow front, tax refund and higher rate of TDS has been an issue. I have been updating you about this on the prior calls. I am happy to report that we have received refund of Rs.17.70 crore including interest of Rs.1.9 crore. We have also been able to get the lower TDS percentage for this financial year. This will have a positive impact on our cash flows during the year.

**Some operating details now:** Both our multi user, multi product warehouses are at optimum utilization. During the quarter, we launched new businesses for marquee customers like L'oreal for the warehousing and secondary distribution and Mobike for special operations in shared mobility. These are only indicative names and not exhaustive list. We announced yesterday an agreement to acquire additional stake up to 8.69% in LORDS which is our subsidiary for freight forwarding. Our current stake in LORDS is 60% and after additional acquisition it could increase up to 68.69%.

**I would now like to update on the key priorities that I had mentioned last time:**

- 1) Firstly, build strong customer relationships - we have continued to work on this and our retention rate has been 92% for our top 25 customers.
- 2) Invest in technology in our operations more aggressively. I mentioned the specifics on the last call. We have now created a new position of a chief digital and transformation officer and the person is on board. He will drive the digitization agenda for MLL. I will keep you updated on the progress made on this journey.
- 3) Improve business partner engagement - We have formed a business partner council comprising of 10 of our business partners. This will be a joint forum for taking initiatives of mutual interest forward.
- 4) Do good while doing well.
  - a) **Driver welfare:** This is the area of driver training and welfare, community work and other social initiatives. We have made progress on the Pradhan Mantri Yojana scheme of training 10,000 drivers. Till June end more than 1,000 drivers have got trained.
  - b) **CSR:** On the CSR front we continue to work with the people of our adopted village Tembha in Shahapur district. A personal moment of satisfaction was when we could provide portable drinking water to the villagers for the first time.

To conclude, logistics sector is undergoing transformation and so is MLL. It is an early state of a new era and therefore has some teething problem which will eventually get addressed.

On that note, I come to the end of my opening remarks and would like to now ask the moderator to open the line for question-and-answers. Thank you all very much.

- Moderator:** Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ankur Periwal from Axis Capital Ltd.
- Ankur Periwal:** First question on the Supply Chain revenue growth. In this quarter you did mention warehousing probably growing at a much faster pace versus transportation. And you also highlighted some challenges in terms of scaling up business. So will be helpful if you can throw some more light on that?
- Pirojshaw Sarkari:** So, Ankur I thought your first question will be 61% growth in net profit you will congratulate us.
- Ankur Periwal:** Sir that was a derivative so while the margin expansion is healthy, but revenue growth is much lower so just wanted more clarity there.
- Pirojshaw Sarkari:** Sure. So, let me do a little deep dive I am sure it was a question on the mind of everyone over here. Basically for the revenue on the Non-Mahindra supply chain business. So, first of all I want to state here that barring a few large customers, the rest of the business has shown a growth rate even higher than the industry growth rate. This is both in transportation as well as warehousing and this has been in line with our communication to all of you in last few quarters. The challenging part was in transportation revenue for few of our major customers that we have on board. Some of our customers the revenues were lower as the material movement shifted to shorter distances as compared to longer distances in the earlier period and therefore the logistics spend reduced. In case of other customers, the pricing was under pressure. Many of our lanes in transportation became unattractive for us to continue and we had to make a tradeoff between revenues and profitability. We chose to give up some of these lanes and therefore there has been a drop in revenues. Having said this, we have done some internal realignment also and we are sure as a management team that we will get back by the end of the year at growing more than industry levels in our Non-M&M Supply chain business.
- Ankur Periwal:** Sure sir. Sir just follow up on that. So, warehousing has grown pretty significantly in this quarter which is also visible in the margin expansion there. So, the full benefit of let say Chakan and the Tauru Road warehouse is visible here or there is still some utilization to be captured over there?
- Pirojshaw Sarkari:** No. So, while Tauru Road is kind of at its optimal stage, Chakan is only at the beginning stage. So the full benefit of Chakan will only come in by end of second quarter.
- Ankur Periwal:** Okay, fair enough. And in terms of top 20 customers while you did mention that few of the larger customers were in a way stagnated or their revenue did not grow as much; will it be possible to share the top 20 customer growth in this quarter?
- Nikhil Nayak:** The top 20 customers have contributed 63% as compared to 67% last year. So as he was explaining the share has gone down a bit from the top 20, but the share is still at 63%.
- Moderator:** We will move on to the next question that is from the line of Aditya Mongia from Kotak Securities.
- Aditya Mongia:** Sir I have a question for Mr. Nayak on Cash flows over here. Now I see that conditions are becoming better as you are stating from a cash flow perspective. Just wanted to get a sense from you that can FY19 turn out to be the year in which we do reasonable amount of free cash flow generation as you see things today let say

Rs.100 crore plus? Is that a possibility or is there a target you are looking forward for FY19?

- Nikhil Nayak:** So at this stage at the end of the year it will be little difficult to predict but yes for the first quarter we are comparatively better than what we have done for the last year. So, as a percentage of PAT the last year the operating level cash positive was at about 18% which has improved to 29% for this first quarter. So, we are seeing positive things happening there and we are confident that by the end of the year we will improve further. Also, you would have picked up from our presentation, we have received the lower TDS certificate, and this has started from 1<sup>st</sup> June onwards and next three quarters should see substantial benefit.
- Aditya Mongia:** Sure. So, that is where the question was coming from, so to conclude it would be reasonable to assume that while last few years have been negative on free cash flow basis this year there should be a positive number coming around.
- Nikhil Nayak:** Yes. So, we will not see a negative cash flow for the whole year.
- Aditya Mongia:** Got that. The second question which I wanted to ask was that, now the warehousing business has started doing well for you. And we understand that from our margin perspective it does add to your margins. It would be useful to know if you can give a relative comparison of the returns for ROCEs let say a warehousing business would be doing versus a pure trucking business.
- Pirojshaw Sarkari:** So, I have always said this earlier also that a pure trucking business would get margins anywhere from 6 to 8% whereas a warehousing business would be margins between 12 to 18% depending on the commercials of the contract.
- Aditya Mongia:** So, I would want to assume that as a Company you would be investing bit more on the balance sheet side and warehousing versus pure trucking business wherein typically the vehicles are not brought or not bought. I am just trying to get a sense that as is the variance in margins. If there a very big variance in returns also that you made let say return in capital employed in the warehousing business versus the...
- Pirojshaw Sarkari:** So even on the warehousing business as you know we are on a leased basis we do not buy our warehouses, so it is an OPEX cost that we have on our P&L.
- Moderator:** The next question is from the line of Krupashankar NJ from Spark Capital.
- Krupashankar NJ:** My question is more pertaining to the new multiple-user warehouses. Are we planning on opening few more in this year and also can you just throw some light on any new RFQs which you have got in this quarter which is giving a clear indication on the demand front?
- Pirojshaw Sarkari:** So, to answer your first question; yes definitely we are looking at setting up more multi user warehouses. The areas that we are looking at right now as we speak are another multi user warehouse in Delhi, since our first one has already overflowed and we have lot of demand over there. We are also looking at a multi-user warehouse in Bangalore and in Chennai. With regards to RFQs, the only thing I can tell you is that, we have got some good wins made in the first quarter which are under implementation for us. These have been post GST wins where it is more about setting up regional distribution centers with distributing the goods to a much larger area than what was happening before and the customers which is good for us are insisting on integrating our IT systems with their ERPs, so it is two things that happen when you do that. One is you get stickiness with the customer because once you kind of get your IT systems linked up, it is very-very expensive and difficult to move

away unless of course you do not give the right service. But getting the integration process in itself takes a lot of time and that is what we have been experiencing in the first quarter.

**Krupashankar NJ:** Alright. And sir second question which I had was more on the truck strike which happened in the month of July. Has it disrupted our operations or is there any issue because of that?

**Pirojshaw Sarkari:** Disrupted is a wrong word because operations have started again, and everything is normal but definitely for those three-four days a lot of revenue goes down for both the customer and the logistics supplier when trucks cannot be moved on the road.

**Krupashankar NJ:** Okay. And sir, we have seen that lot of Companies have been impacted due to hike in minimum wages even for the third party as well for smaller players as well. So, are we seeing any cost pressure on that front? Is there a pass through which comes in because of such increase?

**Pirojshaw Sarkari:** So most of our contracts are a pass through when it comes to minimum wage hike specifically where we have cost plus contracts with our customer. Having said that, there is always a time lag from the time the minimum wages come into the time the customer actually agrees and that is why we have always been telling all of you all to look at our business from a year-on-year basis rather than a quarter-on-quarter basis.

**Moderator:** The next question is from the line of Dheeresh Pathak from Goldman Sachs.

**Dheeresh Pathak:** Sir you mentioned that some customers there was pricing pressure in the Non-Mahindra SCM business and you had to give up some lanes. So, can you talk more about that in terms of why we are not able to compete, and you know what sort of players are these, are these organized players that we lost business to unorganized players can you give color on that?

**Pirojshaw Sarkari:** Yes sure. Mainly this is attributed to startup Companies coming into the vanilla transportation field where a lot of them are looking at growing their top-lines for the near future. I think it is only a temporary phenomenon that is happening but I do not think Companies specifically customers will continue because they will realize that cost is not the only thing when it comes to logistics.

**Dheeresh Pathak:** Okay. But we have seen that in certain categories these things depending up on who is funding and what deep pockets they have these behaviors can carry on for quite some time as we have seen this sort of other startups in other industries. So do we have a plan B?

**Pirojshaw Sarkari:** Of course, we also have internally restructured the way we will approach these lanes and will get back into them, but what I am seeing is a phenomenon where this had happened some time back also with one or two startups coming in trying to undercut, get business and then not being able to perform and get out. So, that phenomenon has happened earlier, and we have gone through it but we have got back with the customer.

**Dheeresh Pathak:** Okay. And these were just plain vanilla transportation services there was no value-add offering so that...

**Pirojshaw Sarkari:** This was mainly plain vanilla transportation yes.

**Moderator:** The next question is from the line of Vikram Suryavanshi from Phillip Capital.



- Vikram Suryavanshi:** Sir in terms of efficiency gain and the impact of E-way bill how we are seeing that benefit coming into or has it remained with the transporter or can we also see the benefit of that?
- Pirojshaw Sarkari:** I think what the E-way Bill really has been put in place for is basically to make sure that the transport community falls under the GST net. So, basically that is the whole idea with which E-way Bill has come into play. What it has done for transportation is that it has created more visibility for everyone on one single platform rather than depending on various individual's State wise platforms. So, to get a work permit earlier each state has its own platform which has been substituted by now a single nationwide platform. So, definitely there will be some efficiencies that already are coming into logistics, one of them being that goods can be moved the day they are ready for movement rather than waiting two days for the permit. But on the road, it is same; once you start it is the same as it was earlier, there is no change.
- Vikram Suryavanshi:** Okay. Because what we heard that at least the time on State check post has come down but there are huge penalties even if there are small errors in E-way Bill and all that, and that is impacting some of the transporters and all that, so I just thought your views on that.
- Pirojshaw Sarkari:** So, there have been a couple of cases where large penalties have been levied for just some clerical errors on the E-way Bill and I think that is being relooked by the Government as was announced post-the strike.
- Vikram Suryavanshi:** And what will be your views on this axle load increase how that would impact?
- Pirojshaw Sarkari:** Since it is a prospective announcement that the Government has made which means that only trucks which are purchased post the announcement it will take some time before the whole industries sees any big impact of it.
- Vikram Suryavanshi:** Okay. And sir last question in terms of redesign of Supply chain which you are talking about. How is the customer response post this Government support or are we see the traction the way we expected our still there is, customers are most of the Companies are still not ready kind of for this Supply chain development or 3PL outsourcing?
- Pirojshaw Sarkari:** So, one of the industry verticals which is really moving fast on the post GST network redesigning is the FMCG vertical. Which is the consumer vertical and we are seeing a lot of the large Companies already implementing post GST strategies of regional distribution centers and distributing to more than one State from them.
- Moderator:** The next question is from the line of Abhinav Bhandari from Reliance Mutual Fund.
- Abhinav Bhandari:** One question on this increase in stake that you have done in LORDS. So, basically, wanted to understand who is the other partner and is there a thought process to buy out the remaining stake as well and how much consideration and total we would have paid for this almost 70% stake now?
- Nikhil Nayak:** So, for the 60% stake we have spent Rs.8 crore and for this purpose the additional stake of 8.79% we will be spending about Rs.1.86 crore.
- Abhinav Bhandari:** Okay. And what is the thought process of increasing the further stake there and who is the partner from which we are buying this stake?
- Pirojshaw Sarkari:** So basically, when we bought out LORDS, 60% it was made up of five ex CEVA logistics employees who had got together and were the joint co-founders of this

Company. And they were also two investors who had put in money into the organization along with some of the employees been given shares. So what we have done right now is we have bought out the shares of the employees and the two investors. The whole idea of retaining the shares of the five founders is because they are the ones who actually are drivers of the business and we would like them to continue to be in the business and drive it. We have seen some very good growth in the last one year as well as in the first quarter of this year out of our freight-forwarding business.

- Moderator:** The next question is from the line of Chirag Shah from Edelweiss Securities.
- Chirag Shah:** Sir first question was on L'Oreal. You indicated you have one new business from L'Oreal; is it possible to indicate what kind of business it is?
- Pirojshaw Sarkari:** So basically, with L'Oréal we have won a couple of businesses. The one that I indicated was setting up their regional distribution center in the North at our Tauru Road facility and distributing from there to the NCR region.
- Chirag Shah:** Okay. And another part was.
- Pirojshaw Sarkari:** And the other part we have two more distributions that we do for L'Oreal one from Pune into Bombay and one from Ghaziabad to UP.
- Chirag Shah:** So these are primarily distribution business, or is it managing the entire warehouse and their entire supply chain?
- Pirojshaw Sarkari:** So managing the entire warehouse and the distribution for the first one which I spoke at Tauru Road and managing their distribution for the second and third one.
- Chirag Shah:** And sir just a follow up on this new axle load norms which has been announced. Now there are talks that it can become retrospective and for all the trucks. If it happens so, does it change your way of doing business? Would you be looking to carry more load on the trucks, how do you look at it?
- Pirojshaw Sarkari:** So, let me just clarify over here because generally people believed that this is over the whole industry, it all depends on what kind of load you are carrying. So if you are carrying volumetric load there is no way you can load a truck more than what the cubic of the truck allows you to load. So for example, if we are loading for e-commerce, the container even if I fill it up, the weight of that load does not even match today's current load and same for some of the consumer and FMCG goods. It is only dense cargo where the dead weight really matters. So, first of all it is not over the board applicable and secondly yes for dense cargo definitely it will help but it will not help on all the old trucks because it is not just the load factor of a truck but there are certain changes that the manufacturers will do to enable it to take that kind of weight. So, I would say prospectively only it will happen well, retrospectively it will just change the unorganized sector which was already overloading to kind of make it as per law.
- Chirag Shah:** So, but for someone like an organized player like you; you would not be taking extra 15% load on the existing fleet that you have whether your own or contracted fleet what I mean to say because now the rated capacity for your entire existing fleet also goes up.
- Pirojshaw Sarkari:** No, so you are right. A player like Mahindra Logistics on certain transportation of dense cargo and depending on the nature of the asset that we are using, we will look at increasing the capacity.



- Chirag Shah:** Okay. So, you may look at on certain cargo to add more weight on the existing truck?
- Pirojshaw Sarkari:** Yes.
- Chirag Shah:** Right. Sir the last question was on the tech. issues that you indicated. In the SCM business you are facing certain tech. issues which are getting prolonged. So any light by when you can see some resolution of these issues or what are these exactly so one you have indicated integration of ERP and your IT system. And by when these issues could be resolved and revenue start flowing in?
- Pirojshaw Sarkari:** So, it is customer-to-customer. Certain customer technology resides outside of India and therefore we have to deal with their International teams for integrating our technology with their technology and there are lot of security issues that come up. One-by-one of course each one of them is a unique case in itself and we keep resolving them, it is only that it takes a couple of months more than what it would have generally taken for us to start off the business if the integration was not there.
- Chirag Shah:** Okay. So, it is not that big an issue, it would get sorted?
- Pirojshaw Sarkari:** No, not really.
- Moderator:** The next question is from the line of Achal Lohade from JM Financial.
- Achal Lohade:** Most of my questions got answered. I just wanted to check is there any growth guidance you would be putting up for FY19 or FY20?
- Pirojshaw Sarkari:** So, my growth guidance as I have spoken earlier remains the same that we will grow our M&M business as M&M grows and our Non-M&M business will grow higher than industry rates. And that remains for even for FY19.
- Achal Lohade:** And what would be that industry rate broad range, let say for FY19?
- Pirojshaw Sarkari:** Right now, we are looking at industry growths which are anywhere between 10 to 15%.
- Moderator:** The next question is from the line of Manish Goyal from Enam Holdings.
- Manish Goyal:** Sir if you can just give me housekeeping questions. Within Supply chain management what is the revenue breakup between transportation and warehousing?
- Pirojshaw Sarkari:** So, if you look at my Non-M&M Supply chain business, today in the first quarter we are at 76-24. Non-M&M supply chain business my transportation is at 76%, my warehousing is at 24%. Previous year full year FY18 it was at 78%-22%.
- Manish Goyal:** Full year?
- Pirojshaw Sarkari:** Yes.
- Manish Goyal:** Okay. And is it possible to give a breakup between M&M and Non-M&M?
- Pirojshaw Sarkari:** Yes sure. So, my M&M business right now is at 57%, my Non-M&M business is at 43%.

- Manish Goyal:** And just to know in terms of as you have mentioned that we have seen few new customer wins. So can we expect that the revenue ramp up should probably start getting reflected from quarter two onwards or you expect it to be probably back-ended?
- Pirojshaw Sarkari:** Definitely from quarter three onwards.
- Manish Goyal:** Okay. And would it be both on transportation as well as warehousing?
- Pirojshaw Sarkari:** So as an organization we want to now concentrate more on warehousing and distribution. So, of course distribution falls under transportation. But we would want to unless we can add some value not do vanilla transportation.
- Manish Goyal:** Sure. And last question on margins front as a year as a whole earlier we had guided on a 50-bps improvement, so do we continue with that sir?
- Pirojshaw Sarkari:** Absolutely, so we still continue to say that we will grow our margins 50 basis points by the end of this year.
- Manish Goyal:** Okay. And last question on the CAPEX front. What kind of CAPEX are we looking for?
- Nikhil Nayak:** CAPEX as in the previous year, it would be in the range of about Rs.20 crore to Rs.25 crore or so.
- Manish Goyal:** And this would be largely on technology?
- Nikhil Nayak:** And material handling equipment's.
- Moderator:** The next question is from the line of Bharat Sheth from Quest Investments.
- Bharat Sheth:** Sir I have two questions. One is that we were also looking at some kind of initiative to grow this PTS business, so what is the status of that and how do we really look into it, going ahead? Secondly, we were in talk with some of the automobile manufacturer for in-factory logistics, so any development on that side?
- Pirojshaw Sarkari:** So, on the PTS business we are like I told you all last time also; we are looking at investing in technology for this business we have identified certain startup teams which are setting up good technology for us. This will help us to optimize and bring down the cost so that we can compete with the local competition that we face in this business. And what was the other question that you asked?
- Bharat Sheth:** On in-factory; I mean we were talking of other Company for providing in-factory logistic?
- Pirojshaw Sarkari:** So as we sit here today we are doing in-factory logistics for more than 40 manufacturing plants in the Country. In fact, in the first quarter itself we have won two more plants of an FMCG organization.
- Bharat Sheth:** And sir where is their revenue is reported under which head?
- Nikhil Nayak:** Under Supply chain itself.
- Bharat Sheth:** And how much is the part of the Supply chain, can you quantify?

- Nikhil Nayak:** For this particular thing it will be difficult to give...
- Pirojshaw Sarkari:** So our stores and linefeed business is under the warehousing and valued-added services which is now 24% odd of our Non-M&M Supply chain business.
- Bharat Sheth:** And you say it sir on this technology tie-up PTS business. So when we will likely to see the rolling out of the technology part?
- Pirojshaw Sarkari:** I would say by end of second quarter we will see rolling out this technology.
- Bharat Sheth:** And with being competitive will it be able to help us grow that business also?
- Pirojshaw Sarkari:** That is the whole idea that it will bring about optimization in our cost and therefore we will be able to grow that business.
- Moderator:** The next question is from the line of Ronak Morjaria from Edelweiss Asset Management Limited.
- Ronak Morjaria:** Sir if you could help me to understand the challenges which you mentioned in with respect to GST, the forward charge mechanism. So, how were we seeing the progress like when do we feel that this issue will be resolved and now the process would be smooth?
- Pirojshaw Sarkari:** So, basically these are big changes that we need to make on two sides of our business, the demand side as well as the supply side. So, the first thing is to convince the customers as to why we should move from RCM to FCM and a lot of the customers also come back to us stating that we have enough input credit, we do not want to increase our rate of GST. There are other customers who believe that just by changing from RCM to FCM from day one, we can give them a cost reduction. So, there is a lot of convincing that we need to do with the customers to tell them that in the long-run this will benefit them. On the other side, the bigger challenge is when you are trying to bring the transporter into the GST net because in RCM the transporter does not need to really register under GST because the GST is being paid by the end receiver of service but in FCM, the transporter has to register himself under GST. So we are explaining to them the benefits that they will get including input tax credit on all the supply side that they incur today which is basically not just buying the trucks but also on the tyre changes and the battery changes and the spare parts that they purchase. So it is a process but having said that I would say that our commercial and ground team have done a fantastic job, from the customer side 90% of our customers have now agreed to go on FCM. There are only a handful which we have to convince on the RCM, on the supply side yet we have a challenge only about 50% of our supply side has agreed which we will work on and bring both of them to 100%.
- Ronak Morjaria:** Okay. That is helpful and if you could also help me understand you mentioned in your initial remark that there was some stagnation and restructuring with your clients, so even on that when do you feel that the process of restructuring will be done, and you will start getting the normal business with those clients?
- Pirojshaw Sarkari:** So what I said is some of our larger transport customers, there is a restructuring in the way that they are selling their products. So instead of moving them long distances they are moving short distances but their sales are still high but their logistics spend becomes lesser. So it is not about us changing that but about us getting more business from either the same customer or getting new customers on board.

- Ronak Morjaria:** Okay. So, you mentioned the new startup logistics Companies are competing with us in terms of pricing. So apart from that, are they providing a similar kind of all the benefits which we provide in terms of transportation to them or it is just the pricing they are competing with us?
- Pirojshaw Sarkari:** So, for them mainly it is the top-line which they want to show as growth and you investor population only are looking at GMVR looks like and keep pouring money in these startups. So maybe it is the other way round, maybe now I will start questioning you all as to why you all keep pouring money into these startups without profitability.
- Ronak Morjaria:** Okay. And lastly in terms of the PTS segment, so you mentioned that you are doing a technology tie-up which would be done by the end of next quarter. But in terms of growth what can be the growth in this segment we can deliver?
- Pirojshaw Sarkari:** So, we should look at comfortably anything between 10 to 15% for this year.
- Moderator:** The next question is from the line of Vivek Kumar from Anand Rathi.
- Vivek Kumar:** Sir my question is related to the warehousing. We have seen that there are lot of warehouses coming across India, how do you see, is it going to impact the pricing in such a scenario?
- Pirojshaw Sarkari:** So in fact there is actually a shortage of good A quality warehouses which is not the requirement post-GST of most of the FMCG firms as I spoke before. So, whatever we are seeing coming up is not quite enough for the demand that is there. So for the next two, three years I think that is not going to be a reason for cost coming down. In fact, some of these in the Gurgaon area are demanding premium as we speak right now.
- Vivek Kumar:** Okay. But we are leasing out all the warehouses, but going ahead then we can face the pricing pressure?
- Nikhil Nayak:** No. So, our strategy is very clear that we look at our business partners who set up these warehousing complexes and we go in as anchor customers and commit to space right at the beginning so that there are two advantages to even these builders. One is they get a marquee name like Mahindra on their portfolio and secondly, they get a customer far before they have started building out the warehouse.
- Vivek Kumar:** But generally, what are the terms of this contract, how long it is?
- Pirojshaw Sarkari:** Generally, we do a five-year lease with an option on our side to take another five years.
- Vivek Kumar:** And what are the incremental rent in that?
- Pirojshaw Sarkari:** So, that depends from location-to-location and many a times even though we have that in the contract, we can renegotiate and not even have any increment for a couple of years.
- Vivek Kumar:** And we are able to pass-through to the customers?
- Pirojshaw Sarkari:** That is how we sign up our commercial terms with the customer.
- Moderator:** The next question is from the line of Jayakanth Kasthuri from Dolat Capital.

- Jayakanth Kasthuri:** Sir you mentioned that post the axle load norms you are planning to increase capacity of certain cargos. If you can put some color on what kind of dense cargos like in terms of you are looking at?
- Pirojshaw Sarkari:** So, what I said is that, since this is a prospective regulation that has come which means that only trucks purchased after the date of the regulation. This will take some time because immediately people cannot just buy trucks because of a regulation change right. So, as and when it comes up for change of your assets that is the time when this benefit can be accrued by players like Mahindra Logistics where only in the areas where the cargo is dense which means the actual weight of the cargo is far more than the volumetric weight. That is what I said.
- Jayakanth Kasthuri:** Okay. Sir in terms of you mentioned that you are planning to set up distribution centers for L'Oreal, one is from Pune to Mumbai and two more locations you said, which one was were those, the two locations in North?
- Pirojshaw Sarkari:** No, I did not said I am planning to set up distribution centers what I said was that, I am running a distribution center up North in Tauru Road and I am distributing to NCR from there and I am distributing already for them from Ghaziabad and from Pune.
- Moderator:** The next question is from the line of Dikshit Mittal from Subhkam Ventures.
- Dikshit Mittal:** Sir my question is on warehousing growth in the Non-Mahindra part. So, historically we have been growing North of 30% in this segment but in this quarter, we have grown by 27%. So is it because of delay in ramping up some of the customers or maybe because of high based growth may slow-down in future?
- Pirojshaw Sarkari:** So, basically if I recollect, my last times growth in the warehousing was 24% and I have now grown 27% which is in fact higher than my last times growth. It is also of course like you said as the base gets higher than the growth percentage number looks smaller but, I believe that as an organization we should be growing our warehousing business over 20%.
- Dikshit Mittal:** Okay. And sir in transportation you mentioned challenges in this quarter, but you also mentioned that by the end of the year you will be getting back to growth, so for the full year what kind of growth can we expect in the transportation segment of Non-Mahindra?
- Pirojshaw Sarkari:** So, basically segment wise I cannot comment right now but what I can tell you is that overall our growth will be above industry levels especially in our Non-M&M SCM business.
- Dikshit Mittal:** Okay. And sir lastly from my side, can you give the Mahindra business breakup in terms of transportation and warehousing?
- Nikhil Nayak:** For the Mahindra business large part of the business is transportation which is at about 89% and warehousing and line feed will account for about 11% or so.
- Moderator:** The next question is from the line of Romil Jain from JM Financial Limited.
- Romil Jain:** Just wanted to understand within our Non-Mahindra revenues, in the 76% SCM category, so I think auto is 27% I guess and 73% is the Non-auto and within Non-auto which would be the major segment like FMCG or any other?

- Nikhil Nayak:** As we have spoken earlier we operate in four industry verticals i.e engineering, consumer end pharma, bulk and E-Com. So Non-auto will comprise of all these four industry verticals.
- Romil Jain:** Okay, got it. And secondly sir in terms of warehousing I think we mentioned that demand looks quite good. So just wanted to understand what are the key triggers that are leading to the demand post GST?
- Pirojshaw Sarkari:** So, basically I have been saying this in all my calls that post-GST most of the logistics networks are being redesigned to be more logistics efficient rather than tax efficient. So earlier it was more tax efficiency based and therefore they needed small warehouses in every State. Now they are looking at RDCs which can cater to more than one State and therefore the warehouse becomes much larger and the distribution area also becomes much larger.
- Romil Jain:** Okay. So, basically this can also lead to increase in the transportation business?
- Pirojshaw Sarkari:** In the distribution yes.
- Romil Jain:** And sir second question is in the transportation segment on the billing side. So just wanted to understand if at all there is a price pass on that we have to do because certain costs have increased on the truckers' side. So within how much lag we can pass that on, if at all and how the billing is done?
- Pirojshaw Sarkari:** So, one of the main components of transportation is fuel and fuel basically is a pass on that we have in the contract based on certain formulas that we pre-agreed. With regard to everything else it is a negotiation that one has to do.
- Romil Jain:** Okay. And this fuel pass-on would it be quarterly, monthly, any guess on that?
- Pirojshaw Sarkari:** So, generally because of the way fuel is moving today we have now converted mostly into a monthly contract also with a certain percentage increase. So it cannot pass on below that percentage increase or decrease either way.
- Moderator:** The next question is from the line of Pawan Pareek from Renaissance Investments.
- Pawan Pareek:** On the warehousing side on the cost structure you explained the terms of trade with your business partners and the cost thing. Could you also explain similarly on the customer side what is the terms of pay and billing done? Is it like on per square basis or monthly charge, how is the billing done to customer?
- Nikhil Nayak:** For the warehousing purpose the billing will always be monthly. And different contracts are structured basically on two, three parameters – one would be cost plus contract where actual cost that is incurred there will be a markup on the same and the billing is done. The second, they could be based on variable kind of thing sometimes it is based on the value of the goods that we store in the warehouse or value of the goods that are transported from the warehouse. So, there are variable contracts as well as there are fixed cost-plus margin contract.
- Pawan Pareek:** Okay. So, essential there is no volume-linked in the contract with your client?
- Nikhil Nayak:** There are. When we do the variable contracting there are contracts which are dependent on the volume also as to how much volume that we handle during the month.



- Pawan Pareek:** But then in cost-plus contract if you will have say for example x million square feet of warehouse in a particular place and you might be only utilizing say 10% of that for a particular client then how do you calculate the cost plus and cost in the cost plus contract or is it on, I mean for your internal working or with the client whatever?
- Nikhil Nayak:** So, when we do the costing we do take into account the cost of the warehouse per square feet or rent, etc., but the component wise to the customer it is not based on how much square feet is used or, etc. In the internal working of course, we will take into account the space which is used for that particular customer.
- Moderator:** Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.
- Pirojshaw Sarkari:** Okay. So, thank you everyone. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarification or would like to know more about the Company, please feel free to contact our team or CDR India. Thank you once again for taking the time to join us all on the call and see you all next quarter. Thank you.
- Moderator:** Ladies and Gentlemen, on behalf of Mahindra Logistics Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.

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