



“Mahindra Logistics Limited Q1 FY2020 Earnings Conference Call

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Moderator: Good afternoon ladies and gentlemen, welcome to the Q1 FY20 earnings conference call of Mahindra Logistics Limited. As a reminder, all participant lines will be in the listen-only mode, 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 would now hand the conference over to Mr. Shogun Jain from Strategic Growth Advisors. Thank you and over to you Sir!

Shogun Jain: Good evening everyone and thank you for joining us on the Mahindra Logistics Q1 FY20 earnings conference call. We have with us Mr. Pirojshaw Sarkari, (Phil), CEO, and Mr. Yogesh Patel, CFO of the company. We will begin the call with opening remarks from the management following which we will have the forum open for a question and answer session. Before we start, I would like to point out that some statements made in today’s call maybe forward looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now invite Phil to make his opening remarks.

Pirojshaw Sarkari: Thank you. Good evening everyone. The structure of my opening remarks is I will start with the

- industry update,
- end-use sector update,
- financial details and
- then the operational and business highlights.

The logistics sector continues to be an important area for the government. The Commerce and Industry Ministry under which the Department of Logistic works, articulated continuity in terms of focus areas- the logistics policy, improving logistics performance index and reducing cost of logistics. The budget proposals were also in this direction. Some of the important ones from a sectoral perspective are:

- To invest Rs.100 lakh Crores in the next five years on infrastructure.
- Jal Marg Vikas Project to smoothen internal trade through inland water transport.
- GST rate reduction in broad groupings of goods and services on commercial vehicles,
- Introduction of electronic invoicing system and
- Introduction of e-assessment.

Government has been aggressively promoting electric vehicles. This includes budget proposals on interest subsidy on EVs and more recent changes by GST council on reduction in GST for EVs and chargers.

Let me now share a quick overview on the key end-user sectors for the logistic industry. Automotive sector: Industry experts believed that things would turn better in Quarter 1 post the election results; however, this has not happened. The domestic volumes in Quarter 1 FY20 were adversely impacted due to variety of reasons, which I had mentioned in the earlier calls

- increase in the cost of ownership, (due to increase in insurance cost, road tax by few states)
- liquidity crunch faced by the NBFCs
- the rise in key commodity prices and volatile currency has led to increased cost pressures, which forced the OEMs to raise prices of vehicle.

According to SIAM domestic auto industry has witnessed one of the worst quarters in recent time with volume degrowth of 12% as compared to Q1 FY19. SIAM further states that this kind of slowdown has not been witnessed in the last two decades. The numbers released for the month of July 2019 continue to show subdued demand. The tractor segment is also experiencing a similar slowdown.

Consumer Goods: The FMCG sector has been witnessing slowdown or even decline in numbers from the past one to two quarters due to overall economic slowdown and pullback in consumption demand both in rural and urban area. Specific sub-segments within the consumer goods have performed differently and that is evident in the results of the companies in these sectors. Overall, the companies are continuing to work on the redesign of the supply chains in the post GST scenario.

In e-commerce; the companies continued to make their supply chains more responsive under their overall promise of giving their customers more variety and faster delivery. They have continued to invest in good quality warehouses closer to their consumption locations. Few quarters back there was some uncertainty due to the change in policy, that now seems to be stabilizing. Overall a good monsoon is likely to have a positive impact on the sentiment and there is also an expectation of some uptick in the volume ahead of the festive period across end use sectors.

Now let me share with you the financial performance for the quarter ending June 30, 2019. The quarter results must be viewed considering the macroeconomic and end-use sector scenario, which I mentioned earlier.

Key financial numbers for the quarter as compared to quarter results in the previous financial year are as under.

- Revenues down by 3% from Rs.928 Crores to Rs.899 Crores.
- EBITDA up by 8% from Rs.43 Crores to Rs.47 Crores.
- PBT down by 24% from Rs.38 Crores to Rs.29 Crores,
- PAT down by 24% from Rs.24 Crores to Rs.19 Crores
- PAT adjusted for the RSU charge down by 17% from Rs.25 Crores to Rs.20 Crores.
- Impact of the accounting standard change: Increase in gross margin and EBITDA by Rs.9.98 Crores and Rs.10.73 Crores respectively and a decrease in PBT and PAT by Rs.1.35 Crores and Rs.0.93 Crores respectively.

Proportion of revenues from the Mahindra Group to total revenues is 55.6% compared to 57.7% last year.

I would also like to throw light on the changes in accounting standard for lease under Ind-AS 116. Ind-AS 116 requires lessees to recognize long-term high value leases on their balance sheet. Due to this change in accounting standard, we had to create a “right of use” asset of Rs.112.17 Crores. Net investment in lease of Rs.1.76 Crores and a corresponding lease liability of Rs.121.72 Crores by adjusting retained earnings of Rs.10.52 Crores (including the impact of deferred tax created of Rs.2.72 Crores) as on April 1, 2019. However, this change in accounting standard does not impact the businesses or cash flows at all. Business dynamic continues to remain the same. We have given the effects of changes on profit and loss account due to this change in accounting standard in our uploaded investor presentation and I hope everybody had an opportunity to go through the same.

Let me now give some more details behind these numbers. One of the important initiatives I had been talking about was about getting the income tax refund. I am happy to report that we managed to collect Rs.36 Crores this quarter. This resulted into addition to the other income due to interest on this amount. It also improves the cash flows of the company. The revenue breakup is as under.

- Supply chain segment revenues reduced by 4% from Rs.838 Crores to Rs.801 Crores.
- PTS segment revenues increased by 9% from Rs.90 Crores to Rs.98 Crores.

The SCM revenue growth was a mixed bag across verticals.

- Our revenue from Mahindra Group supply chain business decreased from Rs.521 Crores to Rs.489 Crores. This is a result of the overall slowdown in the auto and farmsector.
- Our non-Mahindra supply chain revenues decreased from Rs.317 Crores to Rs.312 Crores as a combination of slowdown in auto sector, shrinkage of business from a major customer in the bulk vertical while growing Consumer & Pharma and e-commerce verticals.
 - Growth in verticals focused on auto industry impacted due to unprecedented slowdown in the automotive sector.
 - Consumer and Pharma vertical: I have been saying that we are consistently growing this part of our business, this quarter was no exception. Efforts taken over the last few quarters in building this business pipeline are yielding results. The incremental growth is a result of penetration as well as new customer acquisition.
 - E-commerce: We continued to grow our business in this sector. We have deepened our engagement with major customers in the sector with new locations and new offerings.

- The bulk vertical revenue was impacted due to shrinkage in business from a large customer. We have been adding new customers in this vertical during the quarter itself.
- Warehousing and value-added services revenues, which is a focus area has increased from Rs.77 Crores to Rs.96 Crores registering a 25% growth. During the quarter, we have added more than 400,000 square feet to warehouse space under management. I had mentioned about the plan to increase this business and we are on track on this.

The share of warehousing and value-added services has reached to 31% as compared to 24% last year. I must clarify that this has been also impacted by degrowth in the transportation revenues. We should reach the ideal mix of 70:30 on this while growing the transportation business as well.

- As a combination of shrinkage in business from a major customer in bulk vertical and growth in consumer, Pharma and e-commerce, non-auto revenues are at Rs.231 Crores as compared to Rs.232 Crores.

Now moving to details on margin.

Gross margin: I have already told you the impact of change in accounting standard has had on different line items. Gross margin has increased due to this. Even excluding this impact our gross margin percentage is at 8.6% and in line with the year-to-date March 2019 gross margin of 8.4%. Therefore, I have been saying that it is appropriate to look at our performance on a year-to-date basis instead of just one quarter number.

EBITDA, the impact of accounting standard change also applies to EBITDA. Excluding the accounting standard impact; EBITDA for Q1 FY20 is 4.04% as compared to 4.67% for Q1 FY19. There is also an impact of charge for RSUs.

To maintain our leadership position, technology and its adoption is going to be an important factor. We have continued to invest in this. Our tech and transformation team has grown three times over the last one year and is now a 100 plus strong team..

We are taking steps towards margin expansion; however, due to all these external challenges, the impact of these initiatives is not visible in the current quarter performance.

We continue to win new businesses from existing as well as new customer. Some of the major names that we have won are Vedanta, transportation; Volkswagen, aftermarket warehousing; Kalyani Maxion Wheels, transportation; Alstom, stores and line feed; ARAI, transportation; Beldon, both transportation and freight forwarding; Pfizer, Control Tower; Federal Mogul, surface express; Gulf Oil, transportation. These projects are at various stages of implementation and will add to the revenues as it moves to fully operational stage.

I would now like to update on the key priorities.

- We continue to build strong customer relationships, In the recently conducted survey, our net promoter scores for the customers is at one of its highest. This will be a strong foundation as we build the business further.
- We have continued to work on initiatives to increase our engagement with our employees. These include areas for physical as well as mental wellbeing.
- In marketing and PR, MLL is a leading voice in the industry and our views are sought after by media on various issues. Our Carma rating, (which captures frequency and favorability of mentions) has grown over the year
- And last but not the least empowering our communities to rise as we do well, we continue to do good. We continue to work with the people of our adopted village Tembha near Shahapur in Thane district. During the quarter we handed over one more water project to the community covering six hamlets. This completes our commitments to the village on water supply. Our work continues on the “Zero Accident Zone” project on the Nasik – Bhiwandi Highway. We are seeing early results in reduction in accident rates. As a follow through to the PMKVY project, we continue to train drivers in defensive driving. Additional initiatives like health checkups, celebrating festivals continue to impact the driver partners positively.

We at MLL continue to have an optimistic view of the Indian logistics industry, changes in the user industry does have a temporary impact on the logistic sector; however, there is enormous scope for organizing the unorganized, which lends huge opportunity for 3PL companies like us. We have already communicated about the leadership change at MLL. Mr. Rampraveen Swaminathan will take over as CEO of MLL with effect from October 1, 2019. He has joined MLL as CEO Designate and I am working closely with him to ensure a smooth transition. We are confident of MLL scaling greater heights under the able leadership of Ram. On that note I come to the end of my opening remarks and would like to now ask the moderator to open the line for Q&A. Thank you very much.

Moderator: Thank you Sir. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Good evening and thank you for the opportunity. So the first question is with regards to the margins, looking at the adjusted margins, kind of stripping out the impact of the accounting changes, margins have obviously come off and while we have added about 400,000 square feet of warehousing space, but we probably have not really seen the revenue still come from that, so just wanted to understand, what kind of fixed expenses we have and what kind of variable expenses we have in such cyclicity given that we are kind of asset light, so could you just give some kind of sense on that, is it that we have added the space, paying the rent and not yet getting the revenues and that is why it is like a temporary kind of a maybe a quarter or two of an impact or is there something thing to this?

- Pirojshaw Sarkari:** Well first of all, like I said in my opening remarks the gross margin even if we do not put in the Ind-AS 116 adjustment, it is still holding at 8.6%, which is more than the annualized gross margin last year, which was at 8.4%. Secondly, the 400,000 square feet warehouse that we have added is all upon customers request, it is not a forward warehouse possession that we have taken and therefore, the question of not having business in that warehouse does not occur. Yes, what does happen and this is what I have always explained is as we do new business especially in warehousing, the implementation and the revenue and margin takes approximately two to three months to settle down and then we see the full potential of that warehouse come through. So, as we have built these warehouses in the Q1, you will see the full potential of their revenue and margin come through in the next quarter for these.
- Mukesh Saraf:** You compared the margins with last year first quarter, which is fair, but I was just looking at...?
- Pirojshaw Sarkari:** No, I compared it last year full year, not Q1.
- Mukesh Saraf:** Right, no, so what I was looking at is just sequentially, I mean versus the Q4 how our revenues have moved versus how our margin has moved and obviously we have added some cost is what I was thinking on warehouses probably. So just to rephrase the question, it is more kind of trying to understand the fixed nature of cost that we have, so when you say that you have added warehouses on behalf of the customers, do we get paid or is the rent taken care of by the customer until the business starts or do we have to take care of that, just if you could give that kind of a sense?
- Pirojshaw Sarkari:** Generally, when we take warehouses on rental we have an implementation period, which means we have to setup the racking material etc., and therefore we generally look at even from the lessor a rent-free period of anywhere between 30 and 60 days depending on the size of the warehouse. So that when we are actually implementing the racking system, the fire extinguisher system, etc. in the warehouses, sprinklers and all that, we do not have to pay rent on those.
- Mukesh Saraf:** Right Sir understood and just my second question is on your non-Mahindra, non-automotive business, which is flat year-over-year, but we did mention about some of the end markets like consumer, Pharma and e-commerce doing well, and still the revenues are flat year-on-year, so are there any other subsectors, which are doing quite weak kind of offsetting this improvement in these three subsectors?
- Pirojshaw Sarkari:** So basically, our consumer, Pharma and e-commerce have grown more than 20% in this first quarter. It is just one large customer in bulk whose business has shrunk and therefore that has set off the growth that we have got in the consumer and e-commerce and of course that is why the non-auto, non-M&M business is showing as if there is no growth, it is almost at the same level.
- Mukesh Saraf:** Okay this is just one customer has probably seen a fall and we see this coming back or are we kind of trying to gain some other customer in that segment or how we trying to kind of recover this?

- Pirojshaw Sarkari:** So, the recovery process has already started in the names that I called out in the new wins. One of the larger wins is Vedanta, which falls under the bulk vertical and therefore we are on the road to recovery for that shrinkage.
- Mukesh Saraf:** Right Sir, I will get back in the queue for more questions.
- Moderator:** Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** Hi Phil. So just continuing with the earlier one, one clarification now you did mention that we are compensating this revenue loss with the addition of new customer, but does that mean that the existing customer's business remained as subdued as it is or probably that may also recover, if you can share some thoughts here?
- Pirojshaw Sarkari:** No Ankur, the existing customers business will remain as subdued as I have got in the Q1 and therefore we are kind of moving onto larger customers in the bulk vertical to substitute that shrinkage.
- Ankur Periwal:** Sure. That is helpful. Now on the auto space, if I look either Mahindra and Mahindra's overall volumes or the industry's overall passenger sales volume, the decline has been much sharper probably 10% odd for Mahindra and may be 12% as you mentioned for the industry at large. Our revenue decline on auto between Mahindra as well as non-Mahindra was more in mid single digit 5% to 6% odd. So is that a fair sort of assumption that our degrowth, now industry is degrowing which is fair, but our degrowth will be lesser than industry going ahead?
- Pirojshaw Sarkari:** So Ankur I have explained this earlier also that our growth or degrowth is not in the same proportion of growth and degrowth of the automotive sector. So, if the automotive sector grows of course we will grow and vice versa, but it would not be in the same proportion basically our logistic cost depends on where the manufacturing happens and where the demand comes from. So in scenarios where manufacturing to demand is a longer distance, of course the logistic revenue goes up and where the manufacturing and demand is a shorter distance, the logistic revenue goes down, so where we are directly proportional, is on the in-factory and inbound because that is for manufacturing, so as manufacturing reduces our inbound and in-factory logistic will reduce in the same proportion, but on the sales side, which is the finished goods distribution, it is always still dependent on the distance that the sale happens.
- Ankur Periwal:** Sure that is helpful and just lastly now you did mention new client addition and earlier also we have been adding new clients, but if I look at the growth, which is coming from the top 20 while the rest of the growth coming from the other customers, top 20 has slowed down as well as there has been a degrowth in the supply chain revenue from the other customers, so are we still facing delays in terms of business contribution from the newer addition that we did or how should one look at it?

- Pirojshaw Sarkari:** No this is a cycle Ankur as we add new customers it takes about depending on the warehousing or in-factory logistics, about two to three months to stabilize and then get the full potential of that customer and the older customer starts stabilizing. The problem that has happened is even the new customers especially in the automotive segment which we got let us say two quarter back, their volume has reduced tremendously because of the slowdown.
- Ankur Periwal:** Okay, but the other customers which we have added non-auto their contribution you believe is at par?
- Pirojshaw Sarkari:** Yes, and that is why I said both the verticals that is the consumer and the e-commerce have grown more than 20% in this quarter
- Ankur Periwal:** Sure. That is helpful Sir. Thanks a lot and all the best.
- Moderator:** Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.
- Jasdeep Walia:** Thanks for taking my question. Sir just wanted to understand if you open a one million square feet warehouse, how much transport business can you potentially bring let us say if you assume that all the clients come into that warehouse, you use MLL for distribution as well?
- Pirojshaw Sarkari:** It is a very qualitative question because it depends on what I am storing in that warehouse and where I am distributing from that warehouse, so I do not have an answer like this to give you just based on the information you gave, so I think your example needs to be more concrete?
- Jasdeep Walia:** So, on a blended basis if you can give some number, blended basis data that you see across the company?
- Pirojshaw Sarkari:** So basically I can tell you that if we open up a one million square feet warehouse, we would earn approximately Rs.5 Crores of revenue from that warehouse for warehousing, but on transportation it is extremely difficult for me to say what it could be.
- Jasdeep Walia:** Got it Sir, just Sir this bulk customer of yours, why is the business shrinking from the customer. Has the client reduced the scope of the contract or it is purely because of the volumes for the client going down Y-o-Y?
- Pirojshaw Sarkari:** So, the client has reduced the scope of the contract.
- Jasdeep Walia:** And why has that been done Sir, were you are not been able to meet the key performance indicators in that contract?
- Pirojshaw Sarkari:** So, this contract was basically won for a period of three years and post which a new RFQ got done for the contract. So, there were a lot of lanes that we won and a lot of lanes that we could not win, this was more based on commercial terms than any operational term.

- Jasdeep Walia:** Got it and Sir what is the cash in the balance sheet at the end of Q1?
- Yogesh Patel:** We would be at about Rs.172 Crores.
- Jasdeep Walia:** Got it. Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.
- Manish Goyal:** Thank you so much. A couple of questions, if you can just probably give some insights as to how is the progress on acquisition of business within Mahindra group from non-auto segment?
- Pirojshaw Sarkari:** So, like I had said last time also we have again bid for business from the solar company where they have a new RFQ that is out. We are also looking at business from the steel company that is Mahindra Accelo. These two in addition to that we have recently won business under CIE, that is Mahindra CIE, so there has been traction besides AFS Mahindra business.
- Manish Goyal:** If you can also, I missed the new clients, non-M&M clients, which you mentioned, would it be possible to repeat them, the names you mentioned and also related question would be, how do you see for FY20 overall growth, do you still maintain to grow higher than industry, which you said 10% to 12% and non-M&M business to grow much faster than M&M, if you can answer these couple of questions, please?
- Pirojshaw Sarkari:** I will repeat the names that I just said, we won Vedanta transportation, Volkswagen aftermarket warehousing, Kalyani Maxion Wheels transportation, Alstom stores and line feed, Beldon transportation and freight forwarding, Pfizer Control Tower, Federal Mogul, Surface Express, and Gulf Oil transportation. These are some of the major ones, which are under implementation. This is not an exhaustive list.
- Coming to your other question,, I think one has to also understand that the industries that we are playing in, major one being auto is showing no signs of improvement and therefore, our main AFS business is going to be down for the year. So, from that perspective we have to look at how we can grow our non-Mahindra, non-auto business aggressively such that we can grow our topline during the year. We are in Q2 looking at the non-Mahindra business growing much faster than the degrowth that we have shown in the first quarter for sure, but it will all depend on how and when the automotive industry comes back.
- Manish Goyal:** Okay, so you believe that it could be challenging to see an overall double-digit growth for FY20 at the moment?
- Pirojshaw Sarkari:** Yes.

- Manish Goyal:** And then on your second guidance on 50 bps improvement in EBITDA margin, would you probably look to revise that or still you believe that with the improvement in the revenue mix with the warehousing revenues growing up you still can see EBITDA margin improvement?
- Pirojshaw Sarkari:** So, our endeavor as an organization will definitely be to keep on expanding our margins in the long run. I do not want to comment for this current quarter or coming year, but the endeavor is to keep expanding the margin and you will see that happen over a period of time.
- Manish Goyal:** Sure, and the last housekeeping question, if you can please share the M&M revenue share on a overall basis, not only SCM, but overall basis?
- Manish Goyal:** Last year it was roughly 57.7% , so this quarter it is 56.5?
- Pirojshaw Sarkari:** 56.6%
- Manish Goyal:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Gurpreet Arora from Quest Investments. Please go ahead.
- Gurpreet Arora:** Thank you for the opportunity. Strategically given that the industry is facing a lot of challenges including the underlying industry facing a lot of challenges, there are a lot of things with respect to DFC, Inland Waterways etc., also going on, so I am continuing from the previous question from the previous speaker, when you say that for the industry itself double digit growth this year looks challenging and the non-auto segment revenue is what you are looking to focus more on, so what sort of reassessments at the company level or at the strategic level are we doing actually?
- Pirojshaw Sarkari:** So, like I mentioned earlier, the focus will be to grow the non-Mahindra, non-automotive business in a large way for the year. We are also focusing on getting some large bulk customers so that we can make-do with the shrinkage that we have in bulk for the Q1, so when we put all these together that is the realignment that the organization does; however, the automotive business also is not that we have a very large share of the automotive business of each customer and therefore, there is more new business that we can get, so we will continue to try and get new automotive business, so that we can compensate for the downturn in our existing business.
- Gurpreet Arora:** Your comments for the margin with respect to the previous question as well, even if we do not grow in double digit this year, the margin improvement remains a circular trajectory otherwise, is my interpretation correct?
- Pirojshaw Sarkari:** Yes.
- Gurpreet Arora:** Sure. At this critical time, we have a new CEO designate, so what sort of advice are you giving him at this juncture?

- Pirojshaw Sarkari:** So basically, right now he is in his induction with me, clearly the team below him is the one that has to perform now. He is just coming in new, but we will start looking at clear directions of continuing what we have started. There is nothing really that he needs to deviate from just because of a downturn in the user industry. We are as an organization, including him, very buoyant on the logistics industry and this is an industry for growth, so we will continue with the same focus.
- Gurpreet Arora:** My last question, parent Mahindra has also invested in a few logistics company of late, in Porter. So I always thought that for the group the logistic business will always be routed through us, so slightly difficult to understand why the parent would have investments in SmartShift and Porter outside Mahindra Logistics, so what would be our positioning within the group company?
- Pirojshaw Sarkari:** So, I have said this earlier also that Mahindra is not a group, it is a federation of companies. Each company is having its own CEO and its own board of directors and each company has the right to give its services to any company not necessarily to the group companies and therefore even the fact that AFS is giving its logistics to Mahindra Logistics is out of choice and not out of right or obligation and therefore if they believe that they needed to invest in Porter, they have the right to do that. So there is no such thing as group company having only one logistics and the group company having only one technology service provider, although we have TechM in the group each of us 120 companies have a choice of which technology company, we use or we invest. We as Mahindra Logistics just made an investment in Trans Tech, which is a technology start up you did not question why Tech M did not invest in that right, so the same analogy applies over here.
- Gurpreet Arora:** So, my last question if Yogesh can help us with the absolute number of debtors at the quarter end?
- Yogesh Patel:** So, from debtor days I would say that we have extended by 4 days to about 59 days compared to last quarter. Absolute number of Debtors was 667.4 Crores.
- Gurpreet Arora:** Sure. That is, it from my side. Good luck and thank you.
- Moderator:** Thank you. The next question is from the line of Hiral Desai from Anived PMS. Please go ahead.
- Hiral Desai:** Hi Phil, hi Yogesh. Thanks for taking my question. So, I actually had a question on the 3PL industry itself. Now the numbers that you had shared in your annual report for 2018 and what you have had shared in the RHP if I just look at the industry sizing almost three-fourth or 75% of 3PL industry is auto and auto components dependent. Now given that, that industry itself is facing severe challenges, on the offset you have consumer and e-commerce, which is doing well. So I just want to understand over a four to five year period do you feel that the share of auto will come off, so how do you see the entire industry mix shaping up over next four to five years, because we tend to keep comparing the industry with the West and the China, but we are not really a manufacturing-led economy when you compare ourselves with sort of the western countries and China versus in case of India manufacturing is largely auto and probably some

element of engineering, so the industry structure here will be very different from the way it has been in the West or China, so just wanted to get your thoughts on that?

- Pirojshaw Sarkari:** So you are absolutely right. First of all worldwide, the automotive industry is the largest consumer of third party logistics. Having said that post GST the consumption of third party logistic has increased in both the consumer and e-commerce industry irrespective of whether you manufacture or you trade, you still need warehousing and distribution for your finished goods in any country and therefore the consumer industry will always require warehousing and distribution and since post GST they are now focusing on organized warehousing and distribution that is a tremendous opportunity for 3PL players in this country.
- Hiral Desai:** Phil just within the non-auto, non-Mahindra SCM what would be the current share of consumer and e-commerce put together given that the bulk has actually been coming off over last four to five quarters?
- Pirojshaw Sarkari:** So our share would be about 50% to 55% of our non-Mahindra business.
- Hiral Desai:** Okay, the other question I had was given that we are witnessing this severe slowdown, do you have any kind of forward commitment with your business partners in terms of volume that you are supposed to provide?
- Pirojshaw Sarkari:** No, we do not give any forward commitment to our business partners. In fact, we do not give any commitment to our business partners even in good time because they know how larger player we are and how many of their assets we utilize.
- Moderator:** Sorry to interrupt Sir, if you can come back in the queue please.
- Hiral Desai:** Yes, I will come back in the queue. No problem. Thanks.
- Moderator:** The next question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.
- Pratik Kumar:** Good evening. Thanks for the opportunity. My first question is regarding the segment mix in supply chain non Mahindra segment. You mentioned pharma, consumer and e-commerce contribute 50% to 55%, but these numbers have been here only I mean earlier also, but given the bulk and auto would have shrunk sharply year-on-year during this quarter, so the proportion for other segment should have increased meaningfully, otherwise 20% growth would have not offset the overall numbers?
- Pirojshaw Sarkari:** So my auto in my non-M&M business is about 25%-26% of my business and since my bulk has shrunk, that is why I said 50 to 55, which if you take 55% that compensates for the shrinkage of the bulk.

- Pratik Kumar:** But even auto you said have slid down, with the recent customers which you have added and while consumer and pharma would have grown meaningfully offsetting the rest of the decline?
- Pirojshaw Sarkari:** So that is why there is no growth in my non-Mahindra business right. My non-Mahindra business overall has not grown, it has only shown being the same as in the Q1 of last year or even very slightly degrown.
- Pratik Kumar:** But I was asking about the mix, actually regarding the four segments, so bulk would have come down to may be 20% in that case?
- Pirojshaw Sarkari:** Well I am not exactly privy to that, but yes, we have increased our e-commerce and consumer business to around 55% of our non-Mahindra business.
- Pratik Kumar:** Sir regarding this M&M business, I mean diversified business outside farm and auto, so how would that have grown this quarter, so the segment has reported like 6% decline, so is this primarily auto led or so the other segment would have grown double digit where you mentioned that we have added Mahindra CIE business?
- Pirojshaw Sarkari:** So, our Mahindra business primarily constitutes of auto and tractor, which is more than 90% of our Mahindra business and therefore for the other business to make any impact requires it to be still much larger.
- Pratik Kumar:** So, it should not be, we diversifying into non-auto or tractor business, should not be taken for assumption purpose as in that other growth can offset the auto decline?
- Pirojshaw Sarkari:** To a very, very small extent right now, but as we further grow our non-AFS business of Mahindra side that should happen.
- Pratik Kumar:** But in medium term let us say it can go to how much percentage on the total number?
- Pirojshaw Sarkari:** So right now it should remain about 10%.
- Moderator** Sir please I request you to come back into the queue. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Thanks for the opportunity. My first question is the recent reduction in scope of work that you have seen from one of the bulk customers. What has been the rate in the past in your experience, how many such clients have you seen a reduction in scope of work and what is the kind of risk going forward. Are there remaining contracts which are coming up for renewal?
- Pirojshaw Sarkari:** So, I think in the last quarters that I have been on the call with you all this is the first time I am seeing this kind of a reduction in scope of work with an existing customer. We have not witnessed this earlier in our business and this is a one-off, so I would not say that any new renewals that come up would have any such big risk in them?

- Abhishek Ghosh:** Sir just one more question in terms of, if you look at our reported EBITDA out of that you mentioned about Rs.10.75 Crore impact would because of Ind-AS is that a right number, because I just joined in the call a late, so is that a right number of Rs.10.75 Crores?
- Yogesh Patel:** That is correct.
- Abhishek Ghosh:** So, the adjusted margin to that extent is about 3.2%, 3.3%, is that correct?
- Pirojshaw Sarkari:** Yes.
- Abhishek Ghosh:** Okay. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.
- Abhijit Mitra:** Yes. Thanks for taking my questions. I have three questions. First of all, can you help with me with your freight forwarding revenues for the quarter and how do you see it for the year. Can it offset some of the weakness that we see for other parts of the business that is point number one? Point number two if you can help understand what is the total decline in auto and Pharma business including Mahindra and non-Mahindra and point number three, if you can also help me in understanding what is the growth rate that you have seen in e-com and FMCG, and if you can sort of break that up that on a Y-o-Y basis, that would be all? Thanks.
- Pirojshaw Sarkari:** So, we are not right now giving out each of our vertical revenue separately, so freight forwarding is part of my non-Mahindra supply chain consolidated business. When it comes to e-commerce and consumer, I have already stated that each of these business have grown more than 20% in the Q1 year-on-year. freight forwarding business is around 5% of my total business.
- Abhijit Mitra:** The second question was the total auto business Mahindra and non-Mahindra combined, what is the percentage change on a Y-o-Y basis?
- Pirojshaw Sarkari:** So, it was, if you take both the AFS business and that is our Mahindra total business and our auto business of non-Mahindra, then can we share that with you later, please?
- Abhijit Mitra:** Sure. That is all from my side. Thanks.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Thank you for the opportunity Sir. Just wanted to understand from you with respect to margins for the bulk business, are those lower than your non-bulk business?

- Pirojshaw Sarkari:** So, like I have always said the margin depends on the service that we do. Of course, , line haul transportation margins give you lesser margin than what we get for transportation distribution and what we get for warehousing stores and line feeds.
- Achal Lohade:** Got it and the second question was in terms of the freight rates, how much have they declined and how does it work, are the declining freight rates beneficial to us or it is just a pass onto the customer?
- Pirojshaw Sarkari:** So, we actually do not work on any kind of daily market contract. We work on annualized contracts with our customers and with our business partners we work on annualized contract, so generally if there is a trend of freight rate going down, the customer would of course want some kind of savings, which we would generate by renegotiating with our business partner and giving it back to our customer, but we do not work on either a daily, weekly or monthly kind of market rate, we are not transporters.
- Achal Lohade:** Got it Sir. Thank you.
- Moderator:** Thank you. We have the last question from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** Thanks for the opportunity. I am sorry if the question has been already, then ignore it. Sir we are looking for SPVs on inorganic on freight forwarding, so can you just share your thought process what we would like to do in freight forwarding business?
- Pirojshaw Sarkari:** So, freight forwarding definitely we want to grow that business larger and faster because like I just said it is only 5% of our total business. We want to see freight forwarding business grow to at least 10%, 15% of our total business and we look at different avenues, by which we can generate that larger business. Whether it is organic or inorganic we definitely have a focus on growing that business.
- Bharat Sheth:** I understand Sir, how is the margin in this freight forwarding vis-à-vis the other part of the business?
- Pirojshaw Sarkari:** So, the margins on freight forwarding business are above the average margins of my existing supply chain business.
- Bharat Sheth:** Okay and Sir are we looking for this freight forwarding in other countries or within India?
- Pirojshaw Sarkari:** So, we keep an eye on both, outside and within.
- Bharat Sheth:** Are you looking for any of Mahindra and Mahindra outside India business for we are doing currently Mahindra and Mahindra in India plants?

- Pirojshaw Sarkari:** So, when it comes to contract logistic right now, we do contract logistics only in India, but freight forwarding definitely we look at Mahindra and Mahindra business outside of India also.
- Bharat Sheth:** So there is no plan in Mahindra supply chain contract manufacturing or outside India, correct?
- Pirojshaw Sarkari:** Not for now, yes.
- Bharat Sheth:** Okay. Thank you. All the best Sir.
- Moderator:** Thank you. We have one more question in the queue from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Thanks for the opportunity. Just wanted to know, I understand that this year is a tough year for us. So what would be your guidance per se over the longer term period if you could rephrase the same?
- Pirojshaw Sarkari:** So my long-term guidance still remains as optimistic as it was a year or even two back. The industry as you know is very large and there is huge opportunity of converting the unorganized to organized. In fact even in a downturn like this we at Mahindra logistics are further investing in digitization and technology within the organization, so that we are ready when the market looks up to really take a fair share of this pie.
- Kunal Bhatia:** But your vision which you had mentioned over the next two years does that remain stable or we move it ahead?
- Pirojshaw Sarkari:** So, we have set a vision of Rs.6,000 Crores by 20-21, which was just way back in 2012 and the vision always remain that is kind of a direction for the company and that will remain. We do not change our vision.
- Kunal Bhatia:** Finally, this full year is a high single digit or double digit growth possible or we would be optimistic on this year?
- Pirojshaw Sarkari:** So right now very difficult to comment on that, but I can tell you one thing that we are largely focusing on our consumer and e-commerce business and also like I said to somebody else on the call, the automotive while the business is down, so our current customers' business will be down, but there are many new customers that we can acquire, so we will look at both these possibilities
- Kunal Bhatia:** Okay. Fine Sir. Thank you so much.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments.
- Pirojshaw Sarkari:** So thank you everyone. I hope we have been able to answer all your questions satisfactorily; however, should you need any further clarification or would like to know more about the

company please feel free to contact our team or SGA. This being my last quarterly earnings call in my capacity as the CEO of MLL. I would like to thank all of you for the insightful questions every time I have met or interacted with you. I have continued to learn from all of you and I would like to end with a modified quote from Robert Frost, “the woods are lovely dark and deep and MLL has promises to keep and miles to go before we sleep...”

So, thank you everyone.

Moderator: Thank you so much Sir. On behalf of Mahindra Logistics Limited we conclude this conference. Thank you for joining us and you may now disconnect your lines.