



**“Mahindra Logistics Limited
Q1 FY2021 Earnings Conference Call”**

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Moderator: Good evening ladies and gentlemen and welcome to the Q1 FY2021 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, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shogun Jain from SGA. Thank you and over to you Sir!

Shogun Jain: Thank you. Good evening everyone and thank you for joining on the Mahindra Logistics Limited Q1 FY2021 earnings conference call. We have with us today 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 the company’s website and stock exchanges. We will begin the call with opening remarks from the management following which we will have the forum open for questions and answers. 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 affect has been included in the earnings presentation shared with you earlier. I would now like to invite Ram, Managing Director and CEO of Mahindra Logistics Limited to give his opening remarks. Over to you Ram.

R Swaminathan: Thank you Shogun. Good evening everyone and I trust all of you, your dear ones and colleagues are all keeping well and safe. I assume all of you have had a chance to review our results and the presentation, which is uploaded . I will cover a few things in my remarks today. I will provide a quick update on how operations are shaping up as lock down is eased across the country and I will follow that up with some remarks on how our end markets are shaping up and how we see the things ramp up over the next few quarters and then we will talk about operations and financial highlights of the quarter gone by.

As we have detailed before as well, the last few months have been unprecedented in terms of the external environment and the challenges that are brought and as a B2B company we obviously saw very significant reduction in operations with cessation of operations by many of our customers in April followed by a gradual resumption in May and a substantial improvement in June. Through the quarter we continue to create demand and supply side challenges and we continue to do some of that today as well in the face of multiple ways of local lock downs. These local lock downs are disruptive to our customers operations and in many ways to our operations as well. Consequent to these issues, customer supply chains continue to witness a lot of volatility and that volatility & regional lock downs have impacted the return of drivers and warehousing persons across many regions in the country.

Cross border logistics, which is largely around international freight forwarding was initially disrupted by COVID-19 as there were challenges around material processing through ports & airports and carrier shortages in both air and sea, but this has recovered, but the current uncertainty in trade relations may have a continued impact even in the near to medium term. Despite these headwinds there have been several green shoots and emerging opportunities. While the reverse migration issues continue there has been a consistent increment in driver availability and labor availability. By the end of the first quarter our warehousing and value-added operating locations were back to almost 80% of the pre COVID utilization levels. Similarly, significant parts of our transportation business, especially on line haul and mid mile has seen a strong recovery and our last mile and freight forwarding business are also back to more consistent near pre COVID levels. The post COVID-19 scenario provides many prospects for logistics and warehousing and I believe due to changes in consumption patterns, growing digital channels and adoption of omnichannel distribution models we will see an inflection point, which will drive further growth. These patterns are likely to increase the need for supply chain redesign in almost all industries and will have a positive impact on demand for 3PL and contract logistics services.

In warehousing, specific hubs have been a challenge, specific regional hubs, but overall, we are close to our normal operating rhythm. Due to the COVID impact opening of new operations and sites has been slower. This of course has been impacted by cyclone in Eastern India and rains across Western and Southern Indian in June so there have been delays, but we are still continuing improvement on new facility construction and ramp up as well and we see a uptick on that in the coming quarters.

Safety in priority has been a big focus for us, and it has continued to be so as we operate today. As a company, we have moved more from just being focused on prevention to expanding our support systems to help our employees manage COVID-19 and its impact on the work site as well as at home. The company has added benefits like insurance for employees who work on sites. We have established a home counseling and home diagnostic medical facility in collaboration with Med-One so employees who are on home quarantine or their families on home quarantine can actually get those benefits and we continue to implement very stringent measures across all our sites right in terms of ensuring that we have the right sanitizations, the right lock down and restart protocols, social distancing norms across all our locations and I am pleased to share in almost all our locations now especially on warehousing we have redesigned processes to offset productivity impact of COVID-19 protocols. So overall I would say a very difficult April across but the businesses are strongly improving towards end of the quarter across all part of our operations.

Moving on to markets just to talk about our key markets and how they are shaping up in the current environment, let me start with auto and farm. Obviously COVID-19 has delayed prospects of recovery in the auto sector, which has been especially hit hard by the pandemic and all of you would

have seen virtually there is zero sales across all the major industry in April and again improving numbers in May and June, but still trailing from the historical demand patterns. Now clearly today we see in urban areas have been more impacted by COVID-19, the lock down and our own data sets indicate that rural India has a faster recovery and demand is better in tier 2 and tier 3 cities and smaller towns and obviously there is a month on month recovery across the board. The auto sectors performance has partially also been impacted beyond demand by supply side constraints, both from suppliers in India as well as from overseas suppliers of BSVI. In the coming month's those constraints should hopefully get debottlenecked. We should obviously allow impetus for increased deliveries of volumes in the sector.

The farm sector has been performing well, a favorable rural demand environment, prospects of better monsoons and increase in credit and obviously long-term government initiatives to restructure the farm sector I think augurs well. It is hard we believe with our OEMs and customers it is hard to see them recover the loss of sales in March and April, but we believe that the industry has generally come back to pre COVID levels across the board and that is a positive sign.

Moving on to discreet manufacturing and commodities, obviously again like auto a sharp drop in manufacturing activities for engineered products and commodities in the first half of the quarter, but we have seen an uptick in June as many of our customers' sites are returning back to normalcy in a scheduled way.

So, moving out of manufacturing and engineering and more towards the demand side industries. Consumption of industries has seen some strong tailwinds. The outbreak of the pandemic as you all know raised the demand for online shopping and home delivery and it is expected that there will be a sharp rise in last mile delivery speeding across our nation gives us an opportunity to avoid the risk of the virus and as a result many companies have started contactless delivery and there is a clear shift to online channels. This will increase the demand for not only express logistics and last mile distribution, but it should also increase the demand for the entire fulfillment team including mid mile transportation, warehousing, sort centers, fulfillment centers and other kinds of value-added requirements of e-commerce players. We also expect to see an uptick in omni channel business model and demand for services, which allow our customers to optimize across multiple supply chains, which cater to online modern and general trade and those lines will hopefully increase and it will get blurred right across the board so we have been seeing a strong uptick there, definitely of interest. The consumer pharma and telecom business overall we have seen recoveries in FMCG, personal care and food industries. These have all been obviously essential services in a large way and therefore we are operating through the lock down and I think there will be continued increase in growth there. The pandemic has resulted in bursts in demand and fulfillment for PPE products and different area which we have been able to capitalize on especially from freight forwarding subsidiary loss. FMCG and

retail markets do remain under significant pressure of volume growth along with the challenge of transition towards digital channels. As we look forward, many of the players in the industry will have to redesign their supply chains to invest and grow in digital channels and this will create some engaging business models and opportunities for the logistics and supply chain industry. So overall if I must characterize the demand environment there are obviously positive for us as we look at it from e-commerce, consumer, and pharma. The farm sector has been carrying good tailwinds. We obviously have opportunities as we work with customers in auto and manufacturing as they start coming back to a more consistent rhythm of operations.

Now before I go into specific financials let me just share a few highlights on our strategy existing and some key elements of our business, which may be of interest to you and let me begin with customer acquisition. So, customer acquisition was strong for us in the second half of the quarter. We did have our order intake rates in the second half of the quarter was pretty in line with prior years and that momentum was something which we could see clearly. We did invest and then settle large contracts during the quarter that included the secondary distribution and inbound transportation with a leading steel company. We also won a large contract for inbound transportation with one of the country's largest manufactures of decorative and automotive glass and we continue our focus on fulfillment services and logistics services and had some strong winds for e-commerce customers for fulfillment centers, expanding grocery operations and heavy and bulky product distribution in the second half of the year. We continue to expand both with existing customers and new customers in FMCG and personal care so overall I think, as I said, we had a good momentum on customer acquisition. Expanding solutions remain the key lever for us and we continue to invest in expanding our customer base by providing them solutions. In addition to earlier order acquisitions we have seen strong growth in setting up flexible or short-term capacity solution for customers. These are typically short term processing facilities, which operate for three to six months and help our customers essentially to manage the delays in existing projects or deal with its demands and we have seen a very healthy level of interest and growth in that. During the Q2 and Q3 we will be adding several such centers in addition to the ones we started this quarter, so we remain extremely optimistic about that. We also have continued to grow and expand our cross-border solution base, which is reflected in the growth of our freight forwarding business in the quarter, which grew on a year-on-year basis despite the COVID lock down. During the quarter we continue to expand on launches. Obviously, several launches were delayed because of the COVID situation, but we did go live for several customers with one of the country's leading independent engine manufacture, we had commenced supporting them on BSVI engine distribution and BMI operations. We also went live with inbound and outbound distribution solutions for a very large international elevator manufacturer with a strong presence India and we have started stores and line feed operations for a leading fuel systems manufacturer in Western India. So several launches continue to happen through the quarter. They did not add enough from a revenue perspective given the low industrial activity, but generally these are things we will continue to do

right through the quarter. We also launched several new transportation contracts as many customers are looking at support on that.

From an operational excellence and expansion perspective, we have used the pandemic to focus on cost and productivity across all our sites. We had a challenge during the quarter of increasing COVID cost across all our operations and we obviously had many of our sites, especially warehousing and value added sites run at less than optimal levels you know from an utilization perspective, but the cost improvement initiatives has offset all that and help maintain consistent gross margins there. We are continuing to expand our build to suite multiuser warehousing facilities, so three of our new facilities which are under construction or under commission, they have been delayed through this quarter, but we remain on target to go live in mid Q2 and Q3 with these facilities and they will add may be a million square feet of sustainable warehousing capacity to our network and they are all largely contracted out already.

From a technology perspective during this quarter we went live with SAP Hana for our company, which we call nucleus. We are virtually at launch with our new material management system, which is all SAP based and we continue to scale up and add capabilities to our transport management and warehouse management solution, so a challenging period, but we continue to stay focussed on strategy execution.

So, let me just come now finally before I wrap to some financial highlights. FY2019 obviously had a big impact on revenue and profits. All of you have already seen that and it has affected both parts of our business, both in terms of supply chain and enterprise mobility where as customers implementing work from home in this particularly challenging period.

Our revenues stood at Rs.410 Crores as compared to Rs.899 Crores for the same period last year down by 54%, while that was an overall number, I think if you break that down into a monthly basis you will see a very different trend where April was around Rs.77 Crores. It grew by 50% to Rs.120 Crores in May and June ended at Rs.215 Crores, which is close to 70% to 75% of our normal kind of run rate. It was making the right traction. Revenue from supply chain management services contributed 96% and enterprise mobility, which was obviously worse contributed only 4% of Q1 FY2021 revenues. Our growth margins were flat year-on-year. They are roughly at 9.7% comparable to last year. We obviously had a positive benefit in mix as share of warehousing improved, but that was offset to some extent by warehouses, which operated at lower than our target levels. We also had through the quater the challenges of offsetting of COVID cost increases and in our transportation services there is a sharp decline in revenue, but we obviously retained all our manpower and paid salaries fully for all of them, so there was a decline in transportation margin profile, but that was compensated by warehousing and the cost reduction work, so our gross margin was consistent for the

quarter. Despite all these challenges that you have noted before we did report a marginally positive EBITDA of Rs.60 lakhs for the current quarter and we reported a net loss of Rs.16.6 Crores at a PAT level for Q1 FY2021.

Proportion of revenue from Mahindra group. It stood at 42% for the quarter compared to the 56% in Q1 FY2020. Some more details on segmental perspective. The revenue from the supply chain segment stood at Rs.393 Crores or 96% of our overall revenue. Enterprise mobility of course stood at Rs.18 Crores or 4% of our overall revenue. Our revenue from Mahindra Group supply chain business largely auto and farm stood at Rs.172 Crores. This was down 62% year-on-year due to the lock down and slowdown in the industry. Our non-M&M businesses on the supply chain side were Rs.220 Crores for Q1. This was largely the way significantly improve impact and year-on-year non-M&M businesses degrew by 29%.

On ecommerce, consumer and pharma we continue to add more customers and increase our client position there. Our warehousing and value added services for the non Mahindra SCM business stood at Rs.85 Crores compared to Rs.96 Crores for the corresponding quarter last year, This was down roughly to around 12% and needs to be considered in the fact that we had very significant part of that quarter of more than one month, which was almost a complete shutdown. Our share of warehousing and value-added services and non-M&M SCMs stood at 39% in Q1 FY2021. Our net cash and cash equivalent at the end of June 2020 stood at Rs.188 Crores with a positive net working capital position for the period. Through the quarter I think our team did a really good job starting actually in April in an effort to preserve cash and that included working closely with our customers and also our suppliers and therefore we were able to show a fairly significant increase in our net cash and cash equivalents, therefore did not have to resort to draw down of usage of any of the additional loan facilities, the approvals of which the board had provided. Overall, I think it was a challenging quarter as I have shared in the press release. We believe it was the quarter that our team was pretty resilient in some challenging times and as I said in the last earning call, the challenge for the quarter is not just about managing through the quarter, but also setting it up well to recover in the remaining three quarters and I think we are well placed as we gear up to capitalize on new opportunities coming our way leveraging both our solution driven approach and a more technology led approach to our business. So, with that let me open the floor for questions and answers. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Depesh Kashyap from Equirus. Please go ahead.

Depesh Kashyap: Will it be possible to tell us how much was the warehousing contribution month wise?

- R Swaminathan:** I am not sure. I do not have the numbers off. Yogesh do you have any date or could you mail it separately to him.
- Yogesh Patel:** We will do it separately.
- Depesh Kashyap:** Sure, just if you can give a color you said like 80% utilization level in the month of June so just if you can highlight like was in Q1?
- R Swaminathan:** So I think if you at look I think obviously warehousing operations were from a utilization perspective probably 30% to 35% in the first half of the quarter and then they obviously kind grew and kind of doubled right through the second half and executed at roughly around 80%. Now that is roughly how the off sites are used. Now we are supporting essential services in many of them so roughly a third of them there open even in the first half of the lock down.
- Depesh Kashyap:** Understood. Sir what kind of increase in warehousing space do you see for this year? You said another 1 million on the next few months, but for the year how much space you want to increase?
- R Swaminathan:** We are not a real estate company as such so obviously our focus is on driving solutions and providing warehousing & VAS which are an important part of that. We have historically been started with 1.5 to 2 million square feet range as the band for the year. As we have already shared with you, we added quarter million square feet of warehousing space. It went live in the first quarter. It is not at peak levels, but we did go live. We expect to add 1 million more and obviously there are several other projects in the pipeline as well so I think the 1.5 million plus range is something which we will be targeting for the year.
- Depesh Kashyap:** Great Sir. On the transportation revenue side just want to understand did you take any price increase in the quarter as the freight rates are increasing also diesel cost, which have improved your gross margins?
- R Swaminathan:** So, I think as we discussed earlier that most of our customers do have contracts with diesel especially priced in or index into those contracts. So, when prices go favorably, they get most of the benefit of that, that flows through them, but as prices become unfavorable in any way, they also go back to them. So, during the quarter we did see obviously some level of increase, but really the most important increase really has happened around June and the sharp increase has being there and the way contracts normally have forth nightly or a monthly reset. So, I think a bulk of those fuel lead adjustments will probably end up showing only towards the tail end of the quarter or probably in second quarter onwards.

- Depesh Kashyap:** Understood and Yogesh Sir just a question for you the depreciation cost has reduced by Rs.4 Crores quarter-on-quarter is it linked to any rental waivers in the quarters and how should you think about it going ahead?
- Yogesh Patel:** Some part of it is linked to it, and if you would see our financials also we have note included over there that because the renegotiation of rentals and as much as accounting standards allow us almost Rs.1 Crore has been booked from a Ind AS 116 adjustment itself. Other than that you see last year when we adopted 116 itself the way the accounting happens is our facility which is newer you book in a higher cost, which reduces year-on-year, so from a tenure perspective as facilities become older your charge comes lower in the subsequent years.
- Depesh Kashyap:** Alright and lastly can you please tell me the employee expenses in the quarter?
- Yogesh Patel:** I did not hear the question.
- Depesh Kashyap:** I am saying can you give me the employee ESOP expenses in the quarter please?
- Yogesh Patel:** It was around Rs.2.17 Crores.
- Depesh Kashyap:** Thank you Sir. I will come back the queue.
- Moderator:** Thank you. Our next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.
- Abhijit Mitra:** Thanks for taking my question. I have two questions first mostly on the book keeping side if you can just take me through your working capital matrix at the end of the first quarter the net cash position, the Capex that you have incurred for Q1 and which you intend to spend for the full year?
- R Swaminathan:** Yogesh you want to take the first half the working capital and start with the overall Capex and I will add to that.
- Yogesh Patel:** So Abhijit from a working capital perspective, we did substantially better in terms of managing working capital position and our working capital deployed would have shrunk by about close to Rs.100 Crores in the quarter, which has reflected in the additional cash equivalent amount, which kind of Ram mentioned in his opening speech as well and the second point you mentioned is our Capex, so Capex from an incurring perspective obviously you know we were cognizant both from the point of sustaining the disruption period and conservation of cash overall as businesses ramped up and whatever was required for that part of the business has been incurred. So from a spend perspective it has been pretty low in first quarter, but the deployment of Capex has picked up towards the end of the

quarter so our full year outlook what we had looked for in line with what we had done last year should hold good. From a quarter perspective, we would have almost probably less than 5% of our that would have been spent in first quarter.

Abhijit Mitra: Just to understand on the normalization of the business over the rest of the three quarters and what is your sort of thought on that because we keep on looking at Mahindra ratio of transportation to warehousing business, that has shrunk to almost 1.6x in Q1 so where do you see it ending the year with because most of your new customer wins in the distribution side, so will it sort of go back to 2x sort of number as the year comes to an end? Where do you see it ending?

R Swaminathan: What is the one can you just repeat the 1.6x what exactly is that reference?

Abhijit Mitra: It is ex Mahindra the ratio between transportation and warehousing where typically we understand that it will be closer to may be 2 to 2.5 or may be 3 even, but it has sort of shrunk to 1.6 mainly because of the resilience on the warehousing segment that is explained in this quarter. How do you see this pie changing or this sort of ratio changing over the course of the year?

R Swaminathan: I would say that the share of transportation obviously as you start and when you see a drop in activity you are the first and what normally gets knocked off is transportation because nobody pays for transportation services till you actually move it. On the warehousing and distribution, the nature is a fast procure set of operations and the solutions we give, the way the contrast is structured are obviously a little bit different. Now given that therefore every time there is a significant dip in overall activity, I think you will see that resilience will naturally start showing up. Now I look at our business in two ways. I believe there is one about the current base of our existing customers, our recovery is partially driven by those customers coming back to normalcy. As those customers come back to normalcy on the non-M&M side you will start seeing the share of transportation will recover or will rise. This has been a much a lower level of transportation than would normally be in Q1 right and I think you would see a bit of the balance obviously come through with a higher share of transportation. The profile of the transpiration now the last mode of integrated distribution where there have been warehousing and transport together. So that should be one element of recovery, which will come back, On the newer accounts obviously I think there will be probably a higher weightage of warehousing, or new business will be add, the balance will be more towards warehousing than towards transportation at least in the first few months as volumes start picking up. Most warehousing and value-added services do not start at 100% volume on day one so it normally does take time, but overall, the ratio will get reset more in favor of transportation over the next three quarters.

Abhijit Mitra: Great. That is all from my side. Thanks a lot.

- Moderator:** Thank you. Our next question is from the line of Ankita Shah from Elara Capital. Please go ahead.
- Ankita Shah:** Sir you mentioned during the presentation that there was a decline in our transport margin profile, but your warehousing margins have helped the overall gross margins so can you help me how has the transport margins and warehousing margins moved for us?
- R Swaminathan:** Without giving the specifics let me just talk about directions. Obviously as company we decided that we will maintain all our resources and all our operating sites through the lock down period and typically what happens is even in our transportation accounts there are managers or resources who work both are MLL employees and there are some third party employees as well who are contractors who work on supporting transportation operations and so typically what happens when your volume falls precipitously that is the cost that you still have to bore. Therefore the transportation margins come down to that extent right because all our sites we still have all these resources all our resources fully taken care off through the entire lock down period so if our volume comes down from 100 to 40 or 100 to 35/40 while the transaction margin the gross contribution might still be the same you are obviously are paying for all these resources your gross margin comes down and that is the sense is something, which happened this quarter in the transportation side that is purely of volume issue and as I said once the volume comes back like we saw in June as the transportation volume started coming back, we obviously saw that getting reset completely right, but that was an impact for us especially in the first half of the quarter and that was one challenge. The second challenge was as you know we were implementing safety norms across all our sites and those things would add there is COVID safety related cost, which increased this quarter starting from simple things like sanitization of different facilities, PPE material, self protocols, disinfecting tunnels so on and so forth, so all those things will add some cost, but those have balanced out obviously by the inherently better margin profile of the warehousing and that was the offset which allowed us to regain growth margins at a weighted average level on the overall mix.
- Ankita Shah:** I was just asking more from quantitative perspective actually
- R Swaminathan:** I would love to give you more detail. I think if you can reach out to us probably separately, I am not sure Yogesh will have the detail immediately right away, but do reach out to us and we will be happy to support you in the best way possible.
- Ankita Shah:** Sir the cash number and the debt number can you repeat that?
- R Swaminathan:** Yogesh you want to just give a quick overview on cash. Debt I do not think is relevant, but on the cash balance.

- Yogesh Patel:** So Ankita our net cash surplus balance as of June end was Rs.188 Crores.
- Ankita Shah:** And debt?
- Yogesh Patel:** This is net balance.
- Ankita Shah:** Oh yes you are not giving the gross debt number?
- Yogesh Patel:** You know we do not borrow as such at all, however for the purpose of this COVID-19 disruption period we were just making sure that we would have some lines active and drawn down. Mostly our short-term working capital WCDL lines itself which we had drawn down as of June, but this was in addition which there was a short term borrowing just kept as is.
- R Swaminathan:** Ankita I think as I mentioned in the last earnings call as well at the end of Q4 the board and the management team, we felt that from a safety perspective we should actually draw down certain funds and keep it for a wanted situation and so as Yogesh pointed out we drew those funds and basically parked them on the side and from a safety measure and those funds were never used. So, the Rs.188 Crores cash balance is excluding that draw down. That is comparable to Q4 of last year.
- Ankita Shah:** Sure, understand and how has been July month for you? Has it again on a month on month basis been better than what it was in June?
- R Swaminathan:** The improving trend continues Ankita I think July obviously there are being more local level lock downs in the first few days of July so things are a continuous vortex of change, but overall I think if I in fact step back and look at the overall picture I am seeing that trend continues to be an improving trend, which we saw in June sustaining itself, but we are seeing the impact obviously of more and more the smaller lock downs and disruptions and these will be the nature of the remaining part of this year at least.
- Ankita Shah:** Okay I will come back in the queue. Thank you.
- Moderator:** Thank you. We will take our next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** The question that I was asking was I just wanted to get a sense this is more in reference to let us say the cold chain business as to what kind of business potential do you see for yourself over there on an overall basis as well as let us say within the ecommerce vertical of cold chain becoming a integral part?

R Swaminathan: I guess the question that I heard was about what we see as prospects for cold chain business. So, we do a periodical review of all our markets. We started doing that and saying what is the value proposition, which we have and what is the attractiveness of the market given on multiple parameters and I think we have looked cold chain, ecommerce, at least once since the last 12 months pre COVID and we kind of concluded that it is an interesting and good to have it for some of our customers, but it is not one where we were looking at business to have a supply lead kind of expansion. Now with that said I think post COVID there should probably be something, which will merit our review at some stage. Earlier rather than later because post COVID I think the nature of supply chains will change. I also feel that the government's investments have impacted on establishing the warehouse and supply chain for rural India will also in some ways play into it. I think there might be emerging opportunities that are in multiple bases. It is a fair point I think thus far we have not looked at it beyond being a part of our bouquet unless if we have a pharma costumer. We have not taken asset-based play in that at all. It is the building capacity ahead of demand, but that is something which Aditya is an interesting question, something which we got to look back, look and helpfully have a chance to give you a more updated review of it whenever we speak next.

Aditya Mongia: Sure, Ram thanks for the response. I have another question. That question was more on gross margin. I wanted to check with you that there is a volume impact that limits your gross margin expansion. Why am I asking you this is I would assume that given the quarter gone by and you even look for revenues further away from M&M and further away from transportation there would have been bigger swing factor of 50 to 60 basis points. So just wanted to hear your thoughts about the decline of this volumes had a role to play in gross margins?

R Swaminathan: So I think it is a bit of fair point, I would say Aditya if you look at the overall mix I think last year on the supply chain side businesses which I think where your principle question is. Our warehousing value added services overall were roughly around 20% of our revenue and this quarter we have given the compression in transportation so they were a little bit North of 30% so we add roughly a 10% to 12% mid teens kind of shift in our mix, from intrinsically lower margin profile to a higher margin profile and therefore it is a very valid question that our blended average margin should have actually improved. I think there are three factors, which limited that. I think first one is what you already called out. Obviously, our margins are the best in warehousing when you are operating at peak capacities, which is what we typically tend to operate our facilities at. Through the quarter especially the first half of the quarter many of our facilities are not working at peak levels and of course we still have people whom we were and resources we are paying for, but those capacities especially are not at peak level, so there was volume that limitation to the margin profile in the quarter. The second thing was obviously we had COVID related costs, which were a factor across all parts of our business and I think we are now found more innovative and continuous ways to limit that but obviously we got a big splurge of fund as we are getting all kinds of expenses in place, sanitizing facilities, every time you

have an alert you currently take down facilities that we do, so there is kind of cost which came in so that was something which was there and the third thing because literally for example sanitize and disinfect every facility extensively before we reopen. We now do it on a daily basis for part of each warehouse or facility. It adds up to something. So that was the second factor and the third factor which was there was the warehousing margin profile was still very strong. It was positive despite these things. I think we did also have the impact of the lower than normal transportation margins because of the factor, which I said earlier to the earlier question where transportation are slightly lower than what normally because we have the people and the site costs for each of the accounts without any business especially or very, very low business in the first half of the quarter so collectively I think they added up to essentially being at flat profiles. I think if you play this forward Aditya and say that are we getting back to a peak level of operations your transport gets back a much healthier place and then you have a 10% to 12% shift in your mix of your basket then you would actually see that margin improvement. This is a little of what we demonstrated last year on a full year basis and hopefully it is something which we can play out as the strategy gets executed.

Moderator: Thank you. We will take the next question from the line of Anmol Grover from Albatross Capital. Please go ahead.

Anmol Grover: Good evening everyone. I hope everyone is healthy there. Sir my question is regarding the vision statement that you gave in your annual report, but I really like if you could give some sort of road map to that vision statement and my second question would be that how does the auto sector revenue mix of yours going forward given the uncertainty in the auto sector?

R Swaminathan: I hope you are well as well. Obviously, your question which we can discuss for a long time but obviously our vision statement I think it reflects two to three elements. The first one is an updated planning frame or window very concrete 20 to 21 to 25 to 26 and it is consistent to what we think the things we accomplished given a set of assumptions from the external environment and the way we hope our strategy will play out over this five to six years the window so clearly in gross level it is a 24% to 25% annual gross rate even if you look at it at an overall level mid 20% and therefore one could say that it is a number, which based on three to four assumptions. One I think is an overall level we expect the economy to be a lot more favorable towards 3PL will continue to be an important driver. In fact, the post COVID I think the need for resilience and smarter supply chain naturally has increased and it has now become much more of a conversation that it was earlier. There is a lift we will get. We expect that obviously there will be lift in warehousing and those kinds of solutions and demand for those and I think there will be increased formalization of logistics sector. Right so are the three structural factors which we think will contribute to a broader demand to demand growth. Overall obviously the economy should come back and we expect that like most economist are projecting probably not a big correction or improvement in the near term, but despite all the

significant short term headwinds I think the medium term like or beyond 2021 or 2022 still seems that market and demand will return. The second thing it reflects obviously is an optimism not just around structure, but around economy. I think you had a question about how auto fits into that, so I think we see the auto business there will be a correction right and we think demand will come back. We had the last 18 to 24 months we had several things BSVI, several factors that have driven it, the increasing registration prices and extensive inventory which premanufactured in some company so as those things level out we think the corrections will come in. Even now if you look at it rural demand is better than obviously urban demand. We expect that to correct itself whether it comes back to a steady and be a very significant growth or not there are multiple scenarios we have looked at so inbuilt in that is our view on how the economy will move, which I think is fairly consistent with what many external sources will play out in view of the formalization of the sector and that being very positive and obviously our own strategy so the first two obviously set as an entitlement of what we can aim for and then our strategy helps look at how we are going to focus and grow in that. A large part of that is I think continue to expand broadly on consumption-based industries and broadly on outbound and distribution-based logistics services and solutions as opposed to product which we will continue to invest in so those are three levers. Obviously we have articulated a little more about our strategy in the annual report but we feel confident that it will be in the strategy with these macroeconomic assumptions give us a shot to actually look at aggressive growth in our business and that is really I think some ways what our vision is right. It is about looking at something still trading a step change in what you can hope to be doing and the team can hopefully accomplish. Anmol your statement is really a reflection of that aspiration.

Anmol Grover: Thank you for that lovely answer Sir.

Moderator: Thank you. Our next question is from the line of Krupashankar NJ from Spark Capital. Please go ahead.

Krupashankar: Good evening Sir thanks for the opportunity. I have two questions first on the express logistics business so can you highlight as to what is our plan over there and how long do you think it will require Mahindra Logistics to scale up because as far as I am understand it can be quite beneficial to your transportation margins, is my understanding correct? Can you just highlight something on that?

R Swaminathan: Can you say the second question also Kirpa also then we can try and answer both and leave enough time for others.

Krupashankar: My second question was on the ecommerce side of things so how has ecommerce done over this period and is there any highlight on what would have been the contribution or overall, non-Mahindra operations during the first quarter?

- R Swaminathan:** We can answer both in obviously the best way possible Kipra, so I hope first you are well. I think our express business is something which is part, we run the business like a bouquet of offering of services, which then integrates to our markets, so you have heard this before and express is an important part of it. Today we do serve 14,000 to 15,000 pin codes. We do support air and road options and we operate in the north of 30 hubs across India with schedule line haul between them, so the business has been evolving at a reasonable clip. Over the last 12 months we have been investing on expanding it. Our approach in network is to take a value lead approach and not a capacity lead approach. Network businesses are like an airline industry. You have to put the infrastructure in and run the line and then work it, so we have instead of trying to take a V shaped approach and try to take a much more boarder approach which is more linear in nature and more deliberate in this build out but intent very clearly is over the same planning phase which I think answered in the earlier question to be able to build out our express capabilities because we remain very intrinsic to both our current offering and where we see demand in the future and not just with express as a plain pure play express offering but also as the ability to bring 3PL as an interesting part of option for our customers whom we serve across the board. As far as ecommerce piece is concerned obviously ecom in the first half of the quarter did have a lot of issues because as you know the definition of essential services was very unclear on the ground and lot of ecommerce really food, groceries and those kind of personal products those kinds of things being allowed but a lot of other things were considered to be non essential in many areas but by June we actually did see a significant uptick so if I had to do headline on that Krupa I would say June ecom of 2020 was better than June of 2019. We are very positive about the continued opportunities in that space.
- Krupashankar:** That is very encouraging and all the best.
- Moderator:** Thank you. Our next question is from the line of Kunal Shah from Carnelian Asset Management. Please go ahead.
- Kunal Shah:** Thank you for the opportunity. I have two questions. First we talked about customer addition, which was quite encouraging so what I was trying to understand more as to this customer addition is it like the services were provided by some other players and we have got these customers it is more to do with the written statement which you talked about right so economy is okay but increasing level of formulization is that got something to do with that or if you could help throw some light on that particular aspect, and the second question being are we looking at any inorganic opportunities or acquisitions to kind of achieve that the written statement and are we having any particular kind of opportunity in the foresight?
- R Swaminathan:** I will answer the second first and I hope you are well. I think we have always said that from an M&A perspective we do not want to chase this order for customer accounts, but actually look at building

capability in the context of our overall strategy and to that extent I think we communicated before that where we are interested in deepening our capability remains express, freight forwarding, multi modal solutions for customers and so on and we continue to look at things and if something interesting comes up obviously or something relevant comes up we will obviously share it. Now if anything comes to that level. The first part of your question Kunal can you just repeat it.

Kunal Shah: So basically what I was trying to understand was the customer addition that we have been doing or business addition that we keep doing, the nature of that addition is more in increasing level of formulization which was done by somebody else and that has come to our basket now or if that is like completely new services which we have not earlier provided which have been added, if could help throw some light on that aspect?

R Swaminathan: I think the bulk of our demand has been principally linear, of course we have had customer conversions and we have seen customers who were working with probably some other logistics service provider moved in to us and some of that happened around COVID, our ability to provide solutions, something which we probably liked and essentially moved, I have given an example of a company, who makes glass products and that was the company that had an existing service provider and has moved to us so various customers switch. The second piece of our order intake was around new solutions and those remain our focus areas, so obviously customers who are immediately planning for demand to grow around the festive season etc., or expanding distribution center, sort centers and so on, and some of those contracts will get closed out right during the quarter, that was the second piece and the third one was some use of the things which we launched. So we did for example, we won some orders around electric vehicles, last mile delivery using EV in the commercial space and we have also expanded some services in telecom side around managed services for telecom infrastructure so those are some new services which we announced and those obviously were also orders we booked in. So, I would say it is a multiple thing. Obviously somewhere customers accounts which we switched from competition, some of it was the existing growth in terms of adding existing or new customers to our solutions area that we are focusing on and some new services which we have launched.

Kunal Shah: Just one question if I can add, probably you can correct me if I am wrong, somewhere in the annual report I was reading that we envisaged when we were trying to provide end to end complete services there was some mention of services like fabrication and all as well if I am not wrong, so if you could again help understand that as well, I mean from transportation to fabrication and all those kind of services when it comes to the complete range of services?

R Swaminathan: First of all in the context of saying that I do know exactly whether it was seen in the annual report, but one of the initiatives we have is around expanding contract assembly services especially with the auto

engineering and light manufacturing spaces where we do a lot of kitting and parts delivery and using this opportunity to integrate and probably do component or product assembly on the inbound or postponement manufacturing the outbound and some of those projects may require fabricated parts which we have to source locally and so on and I think that is probably what it had reference to. So broadly in that nature of contract assembly which we have pilots which we are working on this year to bring equality in that space.

Kunal Shah: Basically, it is more to do with a bundling kind of services nothing more capital intensity kind of provide end to end services if I understand correctly?

R Swaminathan: Yes, you are right, you gave a good summary.

Kunal Shah: Thank you.

Moderator: Thank you. We will take our next question from the line of Saringa Sharma from BOB CAP. Please go ahead.

Saringa Sharma: Sir a couple of questions, first on the auto vertical, if I look at different subvertical or subsegments of the auto industry, almost all are going at different pace right now, so would it be possible for you to share some kind of sense on our exposure on individual segments within the auto industry more from an non-Mahindra auto client perspective and how do you see it, if the tractor continues to go the way it is going for the last few months or so, what kind of benefit can we see from that, that will help us determine the near term growth perspective which the overall industry might take a little longer? That is my first question.

R Swaminathan: Can you say your second question as well if you have a second one?

Saringa Sharma: Second question is on the vendor network, have you done any assessment to get a sense on if any of our vendors that we have, the vendor partners they are under any kind of financial stress and might see some operation disruption because the way I understand it is that because we do some driver training and impart so there has been some investments that we have been doing on our vendors and if there is some churn among those vendors because of the financial stress, they might be forced out of operations that might lead to some more vendors coming in and from our side some more investments and time and efforts towards them so if that is a possibility if you have done that kind of an assessment?

R Swaminathan: The second one is easy, obviously as part of COVID we have also done just as mentioned customer risk assessment, we have also done supplier risk assessment and I think we have established clear plan in the context of that for the supplier continuity. I think drivers are a specific challenge is there even

our vendors and suppliers, in the COVID situation the factors have been safety, life and wellness and so on, and there are programs that we have done with our partners for drivers but overall from a business continuity prospective we see no risk of supplier of partner base from an aggregate level. In terms of the first questions, in the non M&M auto and insurance businesses we have a presence in pretty much in all ends of it, so we have presence in farm, we have presence in two wheelers, we have presence obviously in commercial vehicles and in passenger cars and SUVs. Among the lot, I think are the level of weightage is more significantly around passenger vehicles. Passenger vehicles carries the largest weightage, we have some position in the commercial vehicle space, but to be honest the commercial vehicle downturn already happened in a large way in the previous fiscal. There is a fairly big reduction or impact already which we underwent last year. We have a reasonable position there, and of course we have some position in two wheelers and a very minor position in farm and that is why I think on the auto and engine space the plan for most of last year initially was to deepen the component manufacture level to broaden our position in auto which we did. We have added quite a few accounts in the last 12 months on tier 2 and tier 1 composite layers and then the last couple of quarters we have also got to expand now into broader other parts of manufactures from the light manufactures and so the couple of examples like the elevator company I shared with you the examples of that. We are going into other manufacturing segments, so we are reducing that the exposure to an auto OEM level, but that is kind of where we are placed right now.

Saringa Sharma: If I put both Mahindra anchor and non-anchor auto segment will it be safe to say that farm would be the largest segment, is it a fair assumption.

R Swaminathan: No, I think if we put both them together, I will say the four wheelers are the biggest, cars, passenger vehicles are the biggest segment.

Saringa Sharma: That is very helpful. Thank you and all the best Sir.

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

Zahid Bagwan: Thank you for the new client's addition this quarter. Just an extension to that on industrial level is adoption of 3PL has increased traction on the non-auto side because of COVID and are we seeing incremental new business coming up from existing Old customers due to supply chain disruption.

R Swaminathan: I think the need is we really did not want a 3PL as a strategy. What we are seeing and what has happened with COVID is whichever industry you are in there are two sets of challenges. So, there is a very sharp operating challenge. The customers have had to deal with vehicles, those who are doing their transport facility without being available, warehouses moving up and down and so there is I

believe the dependence of the supply chain has become far more critical issue for management of many organizations. And therefore, the level of attention which is getting has increased and the first response is to say okay, can we go to somebody else who can do it better. And if you have got somebody else then obviously I think you are well positioned to do that, you are likely to get business and I think I had mentioned earlier that we did see one part of our new accounts of businesses we are in this quarter was actually customers who were switching from others because they said we were able to probably give them a solution which gave them more confidence. So that is one thing which customers have been looking at. It is very operational thing saying can I outsource my warehouse, can I get transportation, can you combine both and do something which is more interesting which allows the more flexibility, more responsiveness, more agility in some ways. The second part I think what is happening probably in the post COVID situation the customers are looking at saying now how do I build supply chains allows me to respond to volatility at a very different level, so how do we bring in far more analytics, data sciences, and your technology and capabilities should design supply chains end to end, the way which is not just organized around purchase price, saying how do they make it all the cheapest but actually how do I make it the best in terms of a combination of cost, your responsiveness, your scalability, to manage across multiple channels, multiple inventory points in a network, so I think that is the second part of the question. I think very honestly, I would say that lot of companies are still spending more time dealing with the first part of the issue. I think there is a lot of white boarding and kinky happening on the second part, saying how do I build supply chains to the future, but a lot of practical pieces are really still around the first part, but both of them in some ways obviously are very favorable for companies which have capabilities in that area and as a 3PL company that is where you want to invest and develop your capabilities. At the end you cannot be a great solution provider if you do not have good services. This is just a foundational to be in great solution providers, so I think both of those are inherently positive for 3PL as an industry, because they move the conversation from costs to productivity from resource to results, and I think that is a very positive thing for us as an industry.

Zahid Bagwan:

Thank you Sir. This was helpful. Second question companies like FedEx and UPS have applied peak season types of surcharges from large customers to cope up with the demand and for the extra expenses. So, have you also taken price increase for big flies in this ongoing quarter apart from the flight expenses?

R Swaminathan:

To some extent. I think very honestly we work and I would say that lot of customers especially in the express space have taken price increases, but in general, both increases have really been around tracking the higher cost because either these are for a line haul where you deliver it to some place and then there is no return mode or if you are express company, you actually do not have enough volumes on your lines and therefore you had to increase the price or the driver prices went up and so on and so forth. I think obviously it is compensating for resource enhancement and there are companies who

have taken costs up and prices up. We see some of the impact as well, but overall, I think we have and our approach frankly has been to work with and for our customers to reduce inflation, inflationary impact. I think as a company we have been neither choice in the previous period while we will not obviously there will be that unavoidable cost increases and we pass it on to our customers for the large part of approach has been that this has been tough times for everyone. Therefore, in the spirit of partnership we worked many of our customers to reduce the impact of the inflation rather than to just pass on to them or charge it to them. We have of course charged it where I was impossible to do anything and so I think it is still in AGM, our Chairman would have also talked about earning trust and one of the things of remain trust by our customer during this period was actually helping them to reduce their total cost of ownership by reducing that inflationary element, but we are seeing some marginal, some minor impact of it in the last quarter.

Zahid Bagwan: Thank you Sir. That is all from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Swaminathan for closing comments. Over to you Sir!

R Swaminathan: Thank you. Thank you all for joining us today. I hope we have been able to answer all your questions with right amount of details specifically. Now obviously if any of you need any additional information you may reach out to SGA, our Investor Relations Team or to Yogesh Patel who is our CFO or of course to myself. Once again thank you for your continued interest in our company. Stay safe. Thank you.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf Mahindra Logistics Limited this concludes the conference. Thank you for joining us. You may now disconnect your lines.