



**Mahindra Logistics Limited**  
**FY 2019 Earnings Conference Call**  
**May 08, 2019**

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**Moderator:** Ladies & gentlemen, good day and welcome to Mahindra Logistics Limited earnings conference call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

**Anoop Poojari:** Thank you. Good evening everyone and thank you for joining us on Mahindra Logistics FY2019 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 be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

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

**Pirojshaw Sarkari:** Thank you, Anoop. Good evening everyone. I am pleased to announce that Mahindra Logistics has added more than Rs. 400 crore to its top-line, taking it to Rs. 3,851 crore, and Rs. 21 crore to its bottom-line, netting a profit after tax of Rs. 86 crore in the last financial year. We have announced an increased dividend of 18% i.e Rs. 1.80 per share.

Before I cover the financial details, let me give you an industry and sector update. The Government continues with its emphasis on the logistics sector. During the quarter, the Ministry of Commerce released the National Logistics Policy for public comments. The focus of the policy, among other things, is to reduce cost of logistics and improve logistics performance index. The draft policy also suggests setting up of a National Council for Logistics, which will be chaired by the Prime Minister. Most heartening thing is to see recognition by the Government for the 3PL sector as till now we had to struggle to comply with norms which were meant for transporters only. The Government also believes that India would lead the world in transportation sector with electric vehicles and energy storage devices set to play a leading role in the segment. The Ministry issued a notification that sets new standards of faster adoption and manufacturing of hybrid and electric vehicles, criteria under which electric vehicles will be eligible for incentives. Interestingly, these incentives are applicable for fleet vehicles and not for individual vehicles.

Let me now share a quick overview on the key end-use sectors for the logistics industry:

I shall start by Auto. Auto sector continued to report subdued numbers in Q4 FY19, owing to sluggish demand witnessed by OEMs. According to a CRISIL report, poor demand for key categories i.e passenger vehicles and commercial vehicles was one of core reasons for contraction in the revenue of the sector. While an increase in cost of ownership, hardening of interest rates and higher upfront insurance costs have hit demand for PVs, lower freight demand and higher freight capacity created have caused a slowdown for CV. Industry experts believe that things would turn better post the election results, as they get announced.

On the Consumer goods, slowdown in consumption is seen weighing in on the industry. One of the reasons for this moderation in demand growth expectations is the slowdown in the rural economy. In fact, the rural growth multiplier to urban multiplier has come down sequentially to about 1.1 times from 1.3 times in the December quarter. That apart, an extended winter also means that demand for products that pick up with rising heat took some beating. Additionally, some hit on the demand can also be explained by the tight liquidity condition.

We move to e-commerce. During the quarter, Reliance Industries announced their entry to the segment, with plans to use its 12 lakh retailer's network to launch an online-to-offline platform. It will eventually be rolled out pan-India using the Jio network too. Existing companies like Flipkart have announced investments in warehousing and SaaS FinTech including supply chain.

Now, let us move to operational and financial discussion:

First, I will cover the yearly performance and then quarter four. For the year ended 2019, our revenues grew 12.7% on a year-on-year basis to Rs. 3,851 crore. This growth is a result of combined contribution from existing and new accounts. Our revenue from the Mahindra Group's Supply Chain business grew by 15.4% to Rs. 2,100 crore, revenue from non-Mahindra Supply Chain segment grew by 8.8% to Rs. 1,366 crore. A notable point here is that our Non-Auto SCM business has crossed Rs. 1,000 crore during the year. In our PTS business, we grew from Rs. 340 crore to Rs. 385 crore, registering a 13.2% growth. Proportion of revenues from the Mahindra Group to total revenues is 56%, compared to 54.6% last year.

I had mentioned in my last call about the different segments we serve within the Mahindra Group, the 'Auto' and 'Farm' business, and the other companies. We continue to grow our business in both these areas. The gross margin expanded from 8.02% to 8.39%, contributed by both our Supply Chain business and our PTS segment. EBITDA for the financial year 2019 was Rs. 159 crore, registering a growth of 26.5% on a year on year basis. The EBITDA margins for the period stood at 4.13%, higher by 45 basis points. The PBT and PAT for the period were Rs. 133 crore and Rs. 86 crore, registering a growth of 30.7% and 32.4% respectively. I would also like to draw your attention that the PAT figure above is after the charge for RSU/ESOP, adjusted for this our PAT would have been rupees Rs. 90.05 crore, a growth of 35.7% over the previous year.

In our Non-Mahindra SCM business, the revenue from warehousing and other value-added services has grown at 29.5% over the same time last year. We have achieved free cash flow of Rs. 39.27 crore for the financial year. This is a remarkable improvement over negative Rs. 32.65 crore in the earlier year. The surplus cash as on March 31<sup>st</sup> 2019, is Rs. 162 crore, as compared to Rs. 116 crore as on 31<sup>st</sup> March, 2018.

Now, let me share with you the financial performance for the quarter ending March 31<sup>st</sup>, 2019:

Revenues increased from Rs. 893 crore to Rs. 1,015 crore, an increase of 13.7% year-on-year. Our revenue from Mahindra Group Supply Chain business grew by 15.4% to Rs. 543 crore. Revenue from Non-Mahindra Supply Chain segment grew by 11.4% to Rs. 374 crore. In our PTS business, the revenue for the period was Rs. 97 crore, an increase of 13.1% year-on-year.

Proportion of revenues from the Mahindra Group to total revenues is 54.6% compared to 54.4% last year in the same period. In our Non-M&M Supply Chain business, the revenue from warehousing and other value-added services have grown at 32.8% over the same period last year. EBITDA for Q4 FY19 is at Rs. 43 crore, registering a growth of 11.1% on a year-on-year basis. The PBT and PAT for the period is Rs. 36 crore and Rs. 24 crore, registering a growth of 10.2% and 14.1% respectively.

We continue our focus on margin expansion across business segments. I had mentioned in our last call about the new business, one from marquee customers. Those projects are at various stages of implementation and will add to the revenues as it moves to fully operational stage. We continue to win new accounts across our segments.

Some other details: During the year, we had added 1 million square feet in the warehousing space and our space under management is now at 15.28 million square feet. I would like to update on the key priorities.

- A) Build strong customer relationships: We have continued our work on this. We had conducted a survey with our customers by an independent agency; the findings have been encouraging and we are working on taking it to the next level.
- B) Investment in technology in our operations: Our digital and transformation team is progressing on the roadmap it has prepared across both, Supply Chain and PTS business segments. Some of the notable achievements have been providing visibility for our customers' customer through mobile apps and use of digital POD.
- C) Employee development and engagement: I am happy to report that as a Company we have continued to increase our engagement score with our employees. This also gets reflected in an increase in employee-as-promoter score year on year. We have embarked on a skill development journey for all our people, technical, as well as soft. The program is yielding good results.
- D) Marketing and PR: MLL is a leading voice in the industry and our views are sought after by media on various issues. This can be seen in the media presence across platforms, even on the digital media we have an active presence and our LinkedIn follower count has now surpassed 50,000.
- E) Businesses partner engagement. Our business partners play an important role. We have initiated an independently conducted business partner engagement survey to understand the health of our relationships. We will work on the findings to further strengthen this relationship.

And as I always end, empowering communities to rise. Do good while doing well.

- I. We take extreme pride to keep our promise to train more than 10,000 drivers under the PMKVY scheme in the last financial year. In March

2019, we have surpassed this number, we took this major task of up-skilling drivers in the country with a focus on sensitizing, training and empowering them about safety and security. While the primary focus of this program was to train drivers who are associated with MLL, it was extended to many other drivers who work for the industry at large.

- II. We continue to work with the people of our adopted village, Tembha, near Shahapur in Thane district. And we are proud to announce that we have received CSR Leadership Award from Economic Times, i.e. ET Now, during this quarter. During the quarter we continued our work in the Zero Accident Zone project on the Nasik-Bhivandi expressway, which is a major arterial road in general, and particularly for our business.

This quarter ended one complete financial year for MLL as a listed Company. I am happy that we have continued to generate value for all our stakeholders. We continue to have a positive outlook towards the sector as we help customers redesign their supply chain for effectiveness and efficiency.

On that note, I come to the end of my opening remarks. I would like to now ask the moderator to open the line for Q&A. Thank you very much.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session.

The first question is from the line of Alok Deshpande from Edelweiss. Please go ahead.

**Alok Deshpande:** I have two questions. Yes, my first question was on the M&M SCM business. Now, Phil, you did mention that you are working on other projects apart from the 'Auto' division and the 'Farm' division. Just wondering if you could give us some more details or color on what are these 'Other projects' within M&M? And my second question was on the warehousing. Warehousing business which has grown very well this year, at about 30% plus growth. So, is this something which is, you know, you are investing more on and is this a growth trajectory which can continue in FY20, FY21, given the base is very small?

**Pirojshaw Sarkari:** Sure. So, as I have said even the last time that M&M as a federation is made up of more than 120 companies. And the Supply Chain business that we are engaged with or rather we were born out of was the AFS business i.e the Automotive and Farm sector business of Mahindra & Mahindra. There are a lot of investments being made by Mahindra's in other sectors, for example, there is investment that is made in the solar sector, there is an investment that is made in the steel trading sector, there is investment made in child care, that's the erstwhile Mother & Me, which is now Firstcry. So various investments made by the Company and these are opportunities for us as Mahindra Logistics to bid for their logistics business. And the reason I say bid is because, as a federation, we are not rightfully going to get any of that business, we have to bid. And that's what we have been doing and we have been winning businesses from these companies which will now be growing larger as years go by. So basically, a lot of companies in the manufacturing sector, like Mahindra Defence, Mahindra Aerospace, which have started recently but should become larger organizations, and every time there is a logistics bid out there we will make sure that we participate and try and win those businesses also.

On the warehousing side, very clearly, the entire industry is focused on investment in warehousing. As we have seen that there is a lot of consolidation that is happening in the warehousing sector, large format distribution centers coming up, specifically in the consumer facing industry which pre-GST was more dealing with C&F agents and

directly with transport partners. So, that is the opportunity that has come up post-GST and which I believe will continue for a few years post-GST. We have ourselves already started engaging with both the customer as well as the companies that build out these warehouses or industrial parks, as they call them, because being asset light we also need to capture the supply side of the business. And therefore, what we are doing is we have changed our strategy post the GST to take forward positions on warehousing rather than just do back-to-back. Having said that, the back-to-back will continue as customers demand that from us.

**Alok Deshpande:** Okay. So will you be adding a similar 1.5 million kind of warehousing space this year? Are we looking at a similar number as last year?

**Pirojshaw Sarkari:** So we will at least add that much. But again, depending on the demand that comes from our customers, we could even be looking at more than that.

**Alok Deshpande:** And just one question on this new accounting change which has happened, Ind AS 116. So starting this Q1 are we going to change the way we do the accounting for the operating leases, any thoughts on that?

**Pirojshaw Sarkari:** So I'll let Yogesh take that question.

**Yogesh Patel:** Alok, you are right. So, since the new accounting standard Ind AS 116 has been notified by Ministry of Corporate Affairs, so that is invoked from 1<sup>st</sup> April 2019. So not only us, everybody would have to follow that accounting standard for recognizing all the leases. So with that, obviously, the accounting will happen as per the new standard, which basically brings all leases onto the balance sheet where we have to apply the right-of-use of asset as a category and bring that right of use asset on the balance sheet itself.

**Moderator:** Thank you. The next question is from the line of Gaurav Nigam from Catamaran. Please go ahead.

**Gaurav Nigam:** Thank you for taking my question. I have two questions on the market opportunity on Non M&M business. As I understand, the growth of the business comes from two ways, one is growth in wallet share in existing set of clients, and second is acquisition of new clients. So my first question is on the wallet share increase. In Auto and Consumer industries do our clients prefer having more than one courier partner which restricts our wallet share to a maximum 50% in a steady state? What is the current market behavior on this and how do you see it going forward? That's my first question. My second question is on the new client addition and new industry acquisition. In the existing Auto and Consumer industry that we are serving and consider from the entire 3PL industry, have all the clients been acquired by one or the other 3PL players? And based on the current capability that we have, what are the new set of industries that we immediately are targeting or trying to convert?

**Yogesh Patel:** Gaurav, last part of your question just faded away.

**Gaurav Nigam:** May I repeat it again?

**Yogesh Patel:** That will be very helpful.

**Gaurav Nigam:** Yes. So my second question is on a new client and new industry acquisition. So, in the existing Auto and Consumer industry that we are currently serving, have all the clients been acquired by one or the other 3PL players? And on the new industries, based on the current capability we have, what are the set of industries that we are immediately targeting or planning to convert?

**Pirojshaw Sarkari:** Okay. So let me take the first one first. In the automotive logistics, the automotive manufacturers divide their logistics into three parts. One is what we call inbound logistics, i.e. collection of auto components from their manufacturers and bringing it to the plant. The second is what we call in-plant logistics, i.e. doing logistics within the factory. And the third is distribution of the finished goods i.e. distribution of the automotive. Generally in the second one, i.e. in in-plant logistics if there is a 3PL player, he is a single 3PL player that manages the in-plant logistics which means, that player manages 100% of that activity. In the inbound, generally it is given region wise, which means that they look at who is strong in the North cluster or who is strong in the South cluster, and then they will appoint third party logistics providers to do milk runs in those clusters and bring the components to their factory. In the outbound, I would say, most of the service providers, except one or two, deal directly with transporters or even if they deal with third party logistics players, it is basically treating them equal to transporters and giving them business as per pricing. So there will generally be at least five to ten transport or stroke 3PL partners on the outbound. This is in the case of automotive logistics. In the case of consumer and FMCG, prior to GST most of the consumer and FMCG players used to deal either with C&F agents or directly with the transport community. Post GST what we find is they are breaking the country up into zones and then they are looking at two or three players and giving this business zone wise to third party logistics players. Basically, it's a phase of testing right now for them. So, post-GST scenario for the consumer FMCG industry of doing RDC's and distribution from there is a testing phase, and they are looking at which of the three partners can perform well, and then I am reasonably sure there will be consolidation over there. So that's my response to the first question of yours.

With regards to the second question, I believe the first answer has given you the answer to the second one. In the automotive logistics space for inbound, most of the automotive manufacturers have already got their third-party logistics players. For the in-factory logistics, a lot of them in India still continue to do their own, and therefore there is a opportunity for a player like Mahindra Logistics to go in and prove to them that we can be their logistics partner for doing that activity. And for the outbound, like I said, they all deal with multiple transport partners. On the FMCG side, it is, I would say, an absolute new area and there is large scope for players like Mahindra Logistics to take as much business as they can. I hope I have answered your question.

**Gaurav Nigam:** And Phil just to continue on the same; apart from Automotive and FMCG, are we immediately targeting any other industry or these are the current areas of focus?

**Pirojshaw Sarkari:** No, absolutely. So, we play in four major industry segments, that is automotive, engineering, consumer FMCG and e commerce. And we are definitely looking at the growth in all four of them. Ecommerce, we are engaged with the ecommerce players, specifically again in the areas where value-added services are required like warehousing, sort centers, distribution of heavy and bulky goods. So these we have taken up niche areas rather than the vanilla last mile delivery, which is of course a big spend, but its according to me a little bit commoditized.

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

**Ankur Periwal:** Yes. Sorry, my line got disconnected, so apologies if I am repeating the questions again. So, first question on the revenue growth, especially for the Non-Mahindra & Mahindra Group clients. Now, for the quarter or for the full year the growth was largely led by M&M Group, while by Non-Mahindra, including Auto and Non-Auto, the growth was still either a high single-digit a low double-digit number. Given the overall slowdown in Auto monthly volumes what you are seeing, or even probably some commentary by FMCG players, how do you see the growth panning out for you going ahead now?



- Pirojshaw Sarkari:** So, Ankur, I think one of the points that I read out in my note also was that we have now crossed Rs. 1,000 crore in our Non-Automotive Non-Mahindra business. And that is testament to the fact that now we are growing our Non-Auto business aggressively. We have been accepted as a player that is not just an automotive logistics player in the market. Our largest percentage growth in the last year has been in the Consumer and FMCG industry. And that is the industry which has really changed the way it's doing logistics post the GST. So while I agree with you that specifically passenger vehicle is seeing a little slowdown, I would say that post-elections maybe the commercial vehicle will not continue on the slowdown and will see an uptake over there.
- Ankur Periwal:** Okay, fair enough. Now, if I break it down into the Non-Mahindra business, the warehousing part is growing pretty handsomely, while transportation has been growing in a low single-digit number. Going ahead with distribution logistics picking up, there will be a relatively high growth in transportation vis-à-vis warehousing, while we are still adding more warehousing space, so that should still contribute. Will that be right assumption?
- Pirojshaw Sarkari:** Absolutely right. So most of the warehousing that we have started; the next step is distributing from that warehouse. For example, if you take what we had announced in the last quarter, the Gulf Oil warehousing that we started doing, the next step is to now distribute from Chennai to the rest of India, because right now Gulf Oil has only one CDC over there. So, similarly whenever we start warehousing, our next immediate step is to distribute from that warehouse and even from a customer perspective, they prefer now to give the warehouse and distribution to one service provider and because it gives visibility end-to-end to their customers who are receiving those goods.
- Ankur Periwal:** Sure. Now, we did mention additional few of clients, which we have been adding over a couple of quarters. There was certain delay in terms of revenue starting from these newer clients because of GST and the initial teething trouble. Have we seen some uptake coming from those clients and with this slowdown coming across probably overall on the consumption space, do you think there is a delay over there or probably things are still okay to go with?
- Pirojshaw Sarkari:** No, things are okay. Now specific to the customer implementation that we have seen and one of the things that I want to tell everyone on the call is that while, yes, I agree and we have all read reports that consumption has slowed down even in the FMCG sector it is like more dormant rather than growing, for 3PL logistics player the opportunity is, post-GST of growth. Because what is happening is converting the current from what it was prior to what it is post-GST. And therefore, for us as 3PL logistics players, we are looking at the same business being converted. And so this phenomenon that is happening in the economy should not affect a 3PL player specific to FMCG and consumer.
- Ankur Periwal:** Sure, that's helpful and Phil just lastly, if I may squeeze in. On the gross margin front, while we are still seeing 30, 40 basis point expansion on a year-on-year basis despite warehousing growing at a much faster clip vs. post transportation, although higher contribution of Mahindra is also there. What will be your guidance, if at all any changes in that area earlier 50 basis point expansion which you had highlighted earlier?
- Pirojshaw Sarkari:** So, in spite of that, we have grown our PBT by more than 50 basis points even this year, Ankur. So, it is a combination of bringing in efficiencies into your entire business. And you are right, because 90% or even more than 90% of my Mahindra businesses is transportation. So as Mahindra business grows my percentage of transportation business grows, and therefore in absolute terms I grow my gross margin, but in expansion terms it gets a little difficult, because my percentage of warehousing and

value-added services in my entire business is still relatively low. While in the Non-Mahindra business, we have brought it to 26%, but when you look at the entire business, it is still relatively low.

- Ankur Periwal:** So this 50 basis point margin expansion was on EBITDA, right, and that stays still?
- Pirojshaw Sarkari:** Yes.
- Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Yes, I thank you all for the opportunity. One, I had a question on the Non-Mahindra SCM business, what kind of growth does one expect going forward because there is an element wherein we were expecting a higher growth to come-in in the in the coming years. Secondly, also wanted some insight from you on the rise in the cash generation, which is about Rs. 32 crore positive. So I believe one of the bigger factors would be on account of the TDS issue. And finally, wanted to know in terms of your growth which you are expecting on the Mahindra Non-Auto business.
- Pirojshaw Sarkari:** So, on my Non-Mahindra business, as you have seen in the last year, the first two quarters we were down, but in the third and fourth quarter we have shown double-digit growth and we will continue to show double digit growth on our Non-Mahindra business. When it comes to Non-auto Mahindra business, the component of Non-Auto is a definition, whether you call automotive as auto or you call tractor also as auto, depends on the definition. I would say that the farm division which is the tractor business is not an automotive business in the true sense and it is dependent more on the rural economy as well as monsoons. And therefore, the sentiment of auto being down right now should not include tractors, which is a large part of my Mahindra business. Having said that, my Non-AFS business in my business is still very small, it is about 10% of my total Mahindra business. So, there is opportunity there, as these businesses become larger we should be able to get more of that business from the Group. Coming to the cash flow position, I will let Yogesh respond on that one.
- Yogesh Patel:** Kunal, on cash flows, obviously, being asset light our focus has been to improve on our working capital position itself. You mentioned income tax refund, so obviously one which is obviously accumulated from the past to be chased and collected. There is also an element of TDS on our receivables getting blocked on an ongoing basis. So, what we had achieved last year proactively was secured a lower TDS certificate which would mean that our receivables what is due to us, as much as allowed, we should be able to collect it rather than get it blocked in further advanced taxes so to say. So, with all these combination is what we have generated that Rs. 39 crore positive at the end of this year.
- Kunal Bhatia:** And sir also just wanted to know, earlier our combination in terms of the Non-Mahindra business, Auto, Engineering, FMCG and ecommerce were about 25% each. This time you mention that the FMCG has done good for us. So does that proportion changed or it remains the same?
- Yogesh Patel:** So, at the end of the year we have Auto with a Non-Mahindra SCM at 25% itself. Obviously, while our other businesses have grown, I mean, we have also made in-roads into other customers in the Auto segment as well. So that way, relatively that percentage is almost the same.
- Moderator:** Thank you. The next question is from the line of Ankita Shah from Elara Capital. Please go ahead.



- Ankita Shah:** Sir, firstly, what would be the share of Consumer and FMCG sector in the Non-M&M Group revenues?
- Pirojshaw Sarkari:** So as an organization we have only been putting out our Auto and Non-Auto business. We haven't put out sectoral shares that way. But the good part, as I said is, we have grown our Non-Auto business in non-Mahindra to more than Rs. 1,000 crore in the last financial year and we will continue to focus on growing that.
- Ankita Shah:** Okay. And how much would be the capex that was incurred in FY19 and what is the plan for 20?
- Yogesh Patel:** Our capex in FY19 was around Rs. 27 crore and we should have in that ballpark, I mean, that Rs. 27 crore to Rs. 35 crore kind of a range for FY20 as well. I mean, we explained that, given that we continue to pursue our business model of being asset light, we would not have significant capex's per se. And for this purpose, I am right now not counting any right-of-use asset capitalization which will have to be shown from an accounting restatement.
- Ankita Shah:** Okay. And sir, has the revenues from subsidiary accounts declined in FY19? I was seeing the difference between consol and standalone, so has it declined by around 5%, any reason for that?
- Pirojshaw Sarkari:** So our subsidiaries, now we classify two subsidiaries and one joint venture. The two subsidiaries, the revenue has remained stagnant over the last year, put together. And the joint venture of course being new, we have still to get the prior period data for us to say whether they are growing or not.
- Yogesh Patel:** But that one anyway gets accounted on an equity basis only, so there is no revenue impact for the third one.
- Ankita Shah:** But still, if I see the standalone and consol numbers, there is still a difference of 5%, so I was just checking on that.
- Yogesh Patel:** So, on a standalone basis that entity would not have degrown. What happens is, there is a business which it does for specifically the 2x2 logistics entity it would do additional transportation for customers of MLL that would get eliminated from that perspective.
- Ankita Shah:** And what would be now the total share of transportation in the total revenues, FY19?
- Yogesh Patel:** So all put together at MLL level, it will be 85%.
- Ankita Shah:** And Auto share in this would be 60%-62%?
- Yogesh Patel:** So when you say Auto, I mean, if I were to look at it as 'Auto' and 'Farm' which we kind of, you know, also it's part of M&M itself, it will be in the range of that 60% -61%.
- Moderator:** Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.
- Atul Mehra:** Sir, just within Non-M&M business in SCM, so what we observe is the warehousing growth this year has been as good as last year at 30%, whereas transportation piece has slowed down materially. So any particular reason why this has happened this year?

- Pirojshaw Sarkari:** So, first of all, the warehousing growth this year is more than last year, last year we grew about 26%, this year we have grown 30% on our warehousing. The concentration on warehousing has been more this year because post-GST we have looked at focusing on the large format warehouses. Like I said to one of the earlier participants on the call, every warehouse that you start, their next thing is distributing from that warehouse. And therefore, we will see distribution business coming-in in this current year for all these warehouses that we have started in the previous year.
- Atul Mehra:** So, likewise if you were to look at it last year, growth was equally strong in both the warehousing piece as well as transportation piece at 30% each. So, that context, apart from, say, by a focus for the warehousing piece this year, any other reason why transportation has not done well, as well?
- Pirojshaw Sarkari:** No sir, it is basically a combination of your margin and your ROCE on the business and some of the line-haul transportation which I have been saying is a very cost competitive business for us and therefore, it's a choice whether to take warehousing or to take transportation and we choose to take warehousing where the bandwidth of the organization then goes in. And once we get the warehousing going, we will look at distribution from there.
- Atul Mehra:** Got it. And sir as we look at next year for the Non-M&M piece, so how do you see growth in that context? So, obviously, warehousing is a primary focus area for us. So, in that sense, should we assume Non-M&M piece growth to come back to upwards of 20%?
- Pirojshaw Sarkari:** So, I cannot give you any future looking statements, but I can tell you this much that the industry is slated to grow at about 10% to 12%, and we definitely would look at growing higher than the industry.
- Atul Mehra:** Got it and one final equation on the M&M piece. So given that overall the Auto environment doesn't look quite good for next year, where are we at in terms of say penetration within the Group? Because I think that has been one of the reasons for us that we have been growing well, irrespective of how fast M&M itself has been growing. So, in that context, how would you look at growth for the M&M piece for next year and beyond?
- Pirojshaw Sarkari:** So, I have always stated even earlier that from M&M we look at the growth being around 10%, in exceptional years it goes above, it is not about whether M&M grows or not, it is about the demand and supply side of M&M's business. Last time also I had explained the same that if we are manufacturing a product in a factory which is in the North, and the demand for that product comes from South, the logistics spend goes up. That does not really mean that M&M is growing, because M&M may be producing the same number of vehicles and vice versa that if the demand for that product is in North itself, then the logistics spend goes down for them. So, it also depends on the demand and supply of the products and M&M having between its Auto and Farm division, having more than 10 plants in the Country, this variation will keep coming about.
- Atul Mehra:** But in the current environment of say muted growth for overall Auto industry next year, we will be confident of double-digit growth even for the M&M piece?
- Pirojshaw Sarkari:** Yes, we would.
- Moderator:** Thank you. The next question is from the line of Krupashankar NJ from Spark Capital. Please go ahead.

- Krupashankar NJ:** I have two questions, one on the forward contracts for the newer warehouses. Is it predominantly multi-user warehouse which you are bringing about? And just can you throw some light on what are the locations you are looking at in terms of newer warehouses?
- Pirojshaw Sarkari:** So the thought process is to put up multi-user warehouses, but it again depends on where and how the demand comes into us. So, when we take possessions for warehouses at the time when these industrial parks are being built out, the whole thought processes is to do it multi-user, but let's say a large customer comes and says, I want 100,000 square feet and our warehouse is let's say 200,000 square feet then half of it goes away to a single customer. So, we cannot really stop that from happening. But yes, the whole thought process is for multi user warehouse when we place the order. With regards to the places where we are looking at these warehouses, we are definitely looking at Bhiwandi, a large warehouse to be set up over there above 300,000 square feet, we are looking at a second large warehouse to be set up in the NCR region, because the one that we had set up year before last is completely occupied. We are looking at Bangalore, Chennai as two areas where we want to set up large warehouses, and of course Kolkata, there is a good demand coming from that region in the East and we see that the post-GST the demand for consumer and FMCG is increasing in the East. So, these are the areas where we are looking at setting up more warehousing in the current year.
- Krupashankar NJ:** Thank you. And one other question on the contracts which we had won over the period of second quarter and third quarter. Can there be some color on what is the total conversion which we have already seen in the current numbers of Q4? And what is yet to start gaining traction perhaps, as a percentage perhaps?
- Pirojshaw Sarkari:** Very difficult for me to do that right now, because I'd have to look at each contract and at what percentage we have already started booking the revenue. But I can tell you on an overall basis, whatever was contracted in quarter three, we are at least 90% for those, and quarter four we should be at about 50%-60% of those.
- Krupashankar NJ:** And one more question on the TDS. What is the total TDS outstanding as of FY19? So whatever is eligible, last year I assume it was about Rs. 86.8 crore, as of March 2019 what would be that number be?
- Yogesh Patel:** That was Rs. 77.3 crore.
- Moderator:** Thank you. The next question is on the line of Manish Goyal from Enam Holdings. Please go ahead.
- Manish Goyal:** Thank you very much, a couple of questions. First, as you mentioned that we continue to look at double-digit growth from Non-M&M customers, so like in terms of visibility as on today, like what kind of visibility you would have for double-digit growth? Is it that the new customers what you have already garnered in last year that itself will probably give you double-digit growth or you would probably will need more customer acquisitions and that will probably help you to get a double-digit growth?
- Pirojshaw Sarkari:** So it is a combination of three things. One is, we know which customers that we already operate with and what is the penetration that we can do during the year with those customers. That is the point number one. Point number two is, all the new wins that we have got in the last quarter will give us annualized revenue for the next year. And it is only the difference between these two and the rest is the new customers that we have to get on board.

- Manish Goyal:** Okay. But just to get a sense that last year as an entire year we grew 9% in Supply chain, and probably in Q4 we grew around 11%. So, can we probably look to a higher growth rate in FY20, say higher double-digit, can we?
- Pirojshaw Sarkari:** So like I said, if the industry is slated to grow 10% to 12%, we definitely look at growing faster than the industry.
- Manish Goyal:** Okay. And, I think you did mention about revenue share from Mahindra & Mahindra, overall can you please repeat in Q4 what was the revenue share from Mahindra & Mahindra overall, not only SCM, in the current quarter as compared to last quarter and for the full year sir?
- Yogesh Patel:** For full year we were at 56% revenue share from M&M business, 44% from Non-M&M.
- Manish Goyal:** And what was it comparative number last full year, sir?
- Yogesh Patel:** So this was, what I gave was full year, quarter four was 55% and 45%.
- Manish Goyal:** No, what I was looking for is last full year what was the, sorry for the full year last year what is the M&M number, was it 54.6%?
- Yogesh Patel:** Yes.
- 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. My first question is with respect to the opex restatement which has been done. If you can highlight, we changed the opex lines from two operating expenses from earlier to freight and other related expenses and there has been some interchange between this and other expenses. So that's my first question. Second question is, if you can highlight for the full year what is the revenue contribution from the top-20 clients? And last question is with respect to EBITDA margins, if I compare EBITDA margins on a like-to-like basis, which is excluding the consultant fee which we paid in FY18, which is absent in FY19, the margin improvement has been quite below the trajectory stated. So, if you can comment on these three please?
- Yogesh Patel:** The first one of your question in terms of restatement, I mean, we had this number where we were looking at direct costs and other expenses split up. So the direct costs which has moved, the cost which has moved into direct cost is the cost relating to people who are already deployed in direct delivery. So, people who work in our warehousing as well as other value-added services in factory logistics, etc., that is what has been regrouped to the direct costs.
- Gurpreet Arora:** So you are saying some part of people expenses maybe people on contracts, which were earlier in other expenses has been moved to direct expenses?
- Yogesh Patel:** Yes, that and also rentals.
- Gurpreet Arora:** Okay.
- Yogesh Patel:** Your second question was on...
- Gurpreet Arora:** Revenue contribution from top-20 clients for FY19?

- Yogesh Patel:** So, our top 25 (corrected for Top 20) customer contribution is 65% of our Non-Mahindra SCM revenue. And the third one you had was, sorry, just missed that.
- Gurpreet Arora:** With respect to the margins. I mean, if you want me to repeat that?
- Yogesh Patel:** Or you can just summarize.
- Gurpreet Arora:** So, my third question was that if I look at the EBITDA margins FY19 and versus FY18, excluding the consultant fee, the margin improvement has been below the trajectory earlier indicated. So if you can comment on that.
- Yogesh Patel:** Yes, so at EBITDA margin level, if I were to adjust that and adjust also my ESOP/RSU cost, there would still be an improvement in EBITDA margin.
- Gurpreet Arora:** Certainly, but it's below 50 basis points that trajectory which was highlighted earlier today.
- Yogesh Patel:** That's right. So my EBITDA margin improvement right now as reported is 45 basis points. And obviously, if you were to normalize it for a particular charge we had last year which was not there this year, then that number will drop below 45 also. So you are right, absolutely.
- Moderator:** Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking Ltd. Please go ahead.
- Prateek Kumar:** Sir, my first question is regarding the Supply Chain segment in Non-Mahindra business. So, what according to you would be estimated growth for industry during FY19?
- Pirojshaw Sarkari:** I have repeated this twice before that the industry growth is slated to be around 10% to 12%...
- Prateek Kumar:** No, so I am asking for FY19 what was the growth for FY19.
- Pirojshaw Sarkari:** FY19 also was around 10% to 11% growth.
- Prateek Kumar:** Okay. And sir for FY20 this 10% to 12% factors the recent slowdown, because earlier we used to have the outlook of 15% - 20% or maybe even higher for industry itself.
- Pirojshaw Sarkari:** You are right.
- Prateek Kumar:** Okay. And regarding Mahindra business, so when we say AFS is 90% of the mix, this includes 'Auto' and 'Farm' of M&M which is the M&M listed Company.
- Pirojshaw Sarkari:** Correct.
- Prateek Kumar:** So remaining 10% is the other opportunities which we have.
- Pirojshaw Sarkari:** Correct.
- Prateek Kumar:** So, when we have like 15% growth, so AFS in terms of volumes was like, for example, for auto business the growth was 5% and farm was a decline in terms of volume loss in Q4. So, I am sure we would have grown higher in AFS also, but the growth and Non-AFS business is significantly higher than the AFS business or they are roughly same?



- Pirojshaw Sarkari:** No, so when the ratio is 90:10, the growth has to be on the 90 for the overall growth to be 15.5% because even if I grow to 200% on 10, it cannot happen with 15% growth. So, basically what I am saying, there is growth in AFS for us for logistics, and I just explained that earlier that it is a situation of demand and supply. It depends on when you are manufacturing a product at one geography in our country and where the demand for that product is coming from, that determines the logistics spend for that product.
- Prateek Kumar:** And then when we say that this Auto business is 60% to 61% of our business, so how are we calculating it? So I am getting around 68% or 65%, so I am just adding up Rs. 85 crore of Q4 Non-Mahindra Auto business, and this Rs. 540 crore of SCM M&M business. So, which gives like around 68% even if we remove 10% of Non-Auto business from SCM, to a 65% kind of number. So just wanted to check on the 60%, 61% Auto mix of total revenue?
- Yogesh Patel:** So, on a full year basis if you look, if my Auto weight age on a Non-Mahindra SCM is 25%, which translates to about 11% of my total revenue. And then on M&M piece if I have 10%, which is non-AFS that comes to about 51%. So 51% plus 11%, or rounding of number will be around 61%. So, this we are talking of SCM business shares when I do the Auto component value, and the total business of MLL as a denominator.
- Prateek Kumar:** Okay, I will take this offline. And then just one question on this nature of this ESOP related expenses, which was around Rs. 5.5 crore, Rs. 6 crore for FY19 versus around Rs. 2 crore FY18. So in FY20, I mean, these are like really one-offs or there can be some attributable expense next year also?
- Yogesh Patel:** No, these aren't one-off, this starts off as the grants are given to employees, the cost of these gets booked across the period of that grant. We had grants which were awarded in month of November, so we have this cost which you see for the five months. So we will have an annualized cost in next year as well.
- Prateek Kumar:** So, which could be a similar number or...
- Yogesh Patel:** So pro-rata basis, I mean, we had like I said from November what cost incurred now, we will have an annual cost in a FY20.
- Prateek Kumar:** So it would be even higher than Rs. 6 crore, so maybe Rs. 12 crore would be there next year?
- Yogesh Patel:** Yes. I mean, it does not, I mean, it drops little bit as the aging increases the way it gets booked, because as your vesting period comes down, the cost will slide down year-on-year. But you are right, it will be, if not Rs.12 then around Rs.10 crore maybe.
- Prateek Kumar:** So when we talk about the margin improvement of 50 bps next year EBITDA margin, so this factors this particular line item as well, year-on-year?
- Yogesh Patel:** Answer to that is, yes. And why we have also shown this separately is because this expense while it gets booked into its financials because of again accounting requirements, this is not a cash expense which accompany incurs, per se.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Thank-you and over to you.
- 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 CDR India. Thank you once again for taking the time to join us on the call and see you all next quarter. Thank you.

**Moderator:**

Thank you very much. Ladies and gentlemen, on behalf of Mahindra Logistics Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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