



## “Mahindra Logistics Limited Q4 FY20 Earnings Conference Call”

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LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Mahindra Logistics Limited Q4 & FY20 Earnings Conference Call. I now hand the conference over to Mr. Shogun Jain from SGA for his opening comments. Thank you and over to you sir.

**Shogun Jain:** Thank you. Good evening everyone and thank you for joining us on the Mahindra Logistics Q4 FY20 earnings conference call. We have with us Mr. Rampraveen Swaminathan – Managing Director and CEO and Mr. Yogesh Patel – CFO of the company. I hope everyone got an opportunity to go through our financial results and investor presentation which has been uploaded on company’s website and stock exchanges. We will begin the call with opening remarks from the management following which we will open the forum for question 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 effect has been included in the earnings presentation shared with you earlier. I would now like to invite Mr. Ram – Managing Director & CEO of Mahindra Logistics Limited to give his opening remarks. Over to you sir.

**R. Swaminathan:** Thank you, Shogun. Good evening everyone. I trust all of you and your colleagues are all well and keeping safe in these challenging times and I hope you all have had a chance to review our results and the presentation thereof by now. I will begin the remarks by giving a quick update on the COVID-19 impact on our industry and our initiatives and strategies to tackle the same, following which I will talk a little bit about how the end markets are performing since this quarter and also a short update on how our strategy execution is moving.

I am sure all of you are already aware of the growing impact of the COVID-19 pandemic, with the total number of cases in India now exceeding 1 lakh. The spread is pretty unprecedented, and the government had been taking all necessary steps to face the challenges presented by the pandemic. The national lockdown from 25th of March has had a large impact on the economy as you all can guess, and I think it will be sometime before we can fully measure its impact. The pandemic has severely disrupted the demand side and supply side. The effects of the lockdown which was seen across the economy with sectors like tourism, hospitality and aviation being the most affected sectors followed by others such as retail and auto as well.

On the supply side, with the lockdown in place, the manufacturing sector as well as the service sector were both shut down as per government directives to prevent further spread the COVID-19 virus. As you can imagine, this has led to disruption in production schedule of the companies and impacted the overall business environment. International trade has also been affected by the COVID-19 pandemic and we have seen a fairly significant impact on cross-border movement and especially on ports from the points. The lockdown has also resulted in significant challenges from migrant labors and workers across industries and as all of you would have noted there has been a wide migration of people. In the last few days with the easing of the lockdown, many of the sectors are resuming operations based on various directives issued by the central and state government. The government has designated green, orange and red zones across the country and with lockdown restriction will ease in some parts of the country, economic activity is free, but it

is still not normalized because different parts of India are in different levels of lockdown. Based on the current situation with regards to number of cases of virus across the country, obviously there are still many critical regions where the lockdown has been extended and that has a continuing impact.

At Mahindra Logistics, we have been adhering with the guidelines stipulated by the central, state and local government authorities and ensured safety measures and wellbeing of all our employees and families well before the lockdown was announced. We have initiated work and actions in early March in a couple of weeks before the official lockdown was announced, we reduced staffs across the offices and launched actions across all our sites. We have been very mindful of the safety and security of all our employees and that has been of utmost priority to us. We have implemented various measures and have been able to ensure that our facilities are safe and secured. Even we started ensuring proper usage of hygiene factors, more sanitizers, have a standard operating process and procedure in February this year. We have also initiated actions to implement social distancing in re-engineering processes in our warehouses and our transport operations. We implemented both from all of our office facilities and before the lockdown, established infrastructures for all our employees working from home. Through the lockdown, we have continued to maintain sanitization procedures in all our facilities. We have been fumigating and sanitizing operation sites, especially the one which are supporting essential services. We have been using this lockdown period to do a variety of things to our employees and keep them engaged. We have invested in creating work spaces where employees could be continued to work effectively and have been able to provide robust support for them.

Beyond work, from an overall perspective, we also launched a helpline to support our employees, drivers in our network and other business partner resources. We have been working on various systems and programs in our broader ecosystem. We have launched free emergency cab services, driver relief programs and assistance programs under our HOPE initiative. As we start ramping up, there will be a huge focus on return to work, we have defined very specific and sharp protocols for both our supply chain enterprise mobility sites, operations and employees. As we start ramping up facilities and there is a huge amount on the leadership engagement to ensure that we are doing the right thing the right way in the right time for all our employees. There was a broader impact, in the initial phase of the lockdown though the movement of goods for essential services was announced, there was a lack of clarity and clarity came down to field level in phases. Due to this, lakhs of vehicles are stranded on the road and drivers are finding it difficult to move themselves and the goods to safe and secured location, we launched a national program for all our vehicles which are standard to move to safe locations.

Within week of the lockdown, we are able to move more than 95% of trucks which were using from our partners to safe and secure locations in our network. Even today, probably 40 to 45% of vehicles do not have drivers. Obviously due to the progression of the lockdown, many drivers have handed over access to us and have moved on and trying to travel back to their home locations and that has been challenge for us. The other challenge is the movement of migrant laborers, you can imagine a lot of laborers tried to move back to home locations. At Mahindra

Logistics, we have been taking safety precautions. We have ensured full strategy for contract resources during the lockdown period and we have stayed in the active communication engagement with our business partners and through their resources as well to the lockdown and we hope that will have a positive bearing on us as we start ramping up operations.

There was huge impact on scale of operations, obviously smaller transporters continued to see further distress, and this could probably accelerate some consolidation in the industry in the coming months. The lockdown has frozen supply chains across multiple sectors both in production and stock pile. Through the initiation of lockdown, we continued our operation at low capacities, primarily focused on essential commodities. These restrictions had also limited transaction in the growth oriented E-comm sector. For us, a lot of work which we are doing in E-comm was around electronics, heavy and bulky products and obviously all of those were stopped because they were not essential products. However, once the lockdown starts to ease, we expect that E-comm will actually be significant beneficiary as there will be more nuclear digitized market places and we expect that will actually see long term growth. We also expect that FMCG, pharmaceutical and related sectors in product lines will start seeing growth and there will also be an increase demand for additional warehouses.

Let me now just talk quickly about our end sectors which obviously has bearing on our performance in the last quarter.

Moving on the Automotive industry, obviously there has been a significant impact in the auto industry. The auto industry has already under significant pressure for most of the last financial year and COVID-19 has accelerated that challenge. In many ways, the impact on the auto sector started actually in February when China had the first outbreaks of COVID-19 and significantly shut down operations in China and since a lot of components and supply chains traced back to China that had a significant impact on the sector. SIAM amidst the lockdown estimated the plants closure of OEMs and component makers lead to a loss of comprising to 1,300 crores of turnover for each lost day of operation. So it is a fairly significant challenge. It has also been an impact in March because of the transition from BS4 to BS6 and obviously there is a March cutoff which also I think it was an additional challenge the sector has to face.

Now, after a month and a half, obviously sectors are receiving permissions from the state and center and we are seeing a slow and gradual speedup in operations in all our Indian customers. There is some distance from normalcy, but we are actually seeing that coming back, keeping in line SOPs and guidelines given by center and state governments. There is consistent effort which we are partnering with many of our customers on ensuring that they are working and implementing safety norms in terms of social distancing, sanitizing and various other measures as our customers start ramping up operations. Before COVID-19, I think we are expecting some meaningful recovery by the end of H1 of 2021 but we now believe that this will be pushed to later towards the calendar year right and that is assuming the COVID-19 situation starts normalizing and there are no further significant outbreaks in the coming couple of months.

On the farm side, I think there has been a lot more, there is a reason for lot more optimism. Obviously, there is a stronger monsoon outlook and many of the initiatives introduced by the government right in terms of giving early permissions during lockdown, adequate economic measures and recent announcement by the Finance Minister auguring well for the farm sector and we hope that we will actually see a stronger and faster recovery in the agri and farm sector.

Moving onto E-com, I think broadly as I stated earlier, I think this is the challenging period as essential products were allowed and lot of supply chains are towards nonessential products which were shutdown. It is a particularly challenging period because to some extent supply chains are common and there is a lot of confusion on the ground. Many local administration on down the line is essential and nonessential products are sold through market place just managed through common supply chains. So while there has been a challenging period right through the lockdown and as I said earlier, at least as we come out of the lockdown we believe that there will be a fundamental acceleration of the shift towards e-commerce platforms and there is an opportunity for 3PL to partner more with E-com companies to guide better efficiency and greater spread of their operations across the country. During the short-term, there will be some impact on discretionary purchases but we expect this to recover probably in a quarter's time and we also see strong growth obviously in essential products and food items as malls and shopping complexes remain close in the short-term but we do expect broad recovery happening within first quarter and on time for the main festive season of the year.

Moving onto Consumer and Pharma, obviously again there will be some level of impact, COVID-19 spread did impact business from mid-March, of course there is slow creep down and shutdown of the operations because of lockdown but many sites have remained open because they were in essential services and as the clarity emerged between essential and nonessential, operations started picking up in a standard way. We have had several sites opened in this vertical. Through the lockdown, we have been providing support on essential product categories, though they have been operating at much lower levels of utilization. Through the year, we have made slow headroom in the consumer and pharma vertical. We have been deepening our capabilities and growing our business here at a pretty robust rate and going forward we expect that this would continue to be there and there will be some transition impact we believe in this through the early part of next quarter, but we expect that actual reset itself the only segment we think there will be a larger challenge is around retail, which we expect may be see a deeper impact especially as shopping complexes, mall, all shut down for a probably a longer period of time. For us, it is in key markets we have been growing as I mentioned earlier we think to expand our customer base and also increase our share of wallet with existing customers. With that, it is a broad outlook on our end market.

Let me talk about the financial performance for the quarter ended and the year ended March 31<sup>st</sup> 2020. Revenues for the quarter decreased to Rs. 812 crores from Rs. 1015 crores in the same period last year down by 20%. For the quarter, revenue was impacted by decline in auto sector revenues, a year-on-year reduction in the revenues from the bulk segment and some impact of COVID. The reduction in bulk has been a continuing impact of the loss of share we have in the

large account towards the end of 2018-19. We have referred to that in couple of earlier earnings call as well and obviously last year's Q4 was particularly a strong quarter in volumes on that customer, so we had a larger impact of that. For the full year ended 31<sup>st</sup> March 2020, revenue stood at Rs. 3,471 crores. Revenues from SCM contributed 89.4% and enterprise mobility contributed 10.6% of the revenues for the full year. Our gross margins adjusted for IndAS 116 for Q4 FY20 stood at 10.4% as compared to 8.8% in Q4 19, an increase of 160 basis points. Gross margins for the full year stood at 10.1%. EBITDA on a pre IndAS basis was 2.8% for the quarter. EBITDA was of course impacted as I said earlier by loss of volume for M&M and the COVID-19 impact.

COVID-19 had an impact on Q4 both in terms of revenues and profits. We did see an impact on our enterprise mobility business and our consumer business before the national lockdown, especially the mobility business as many customers implemented work from home. We also saw an impact on the supply chain business in the last week of the month after the national lockdown was implemented. For the quarter, overall COVID-19 has turned into 8% impact on our overall revenues for the quarter. EBITDA for the quarter stood at Rs. 41 crores and for full year ended March 2020 stood at Rs. 172 crores with an EBITDA margin of 5% adjusted for IndAS 116. EBITDA margin's pre IndAS 116 are at 3.3% for FY20. Adjusted EBITDA for the ESOP and RSU charge stood at Rs. 42 crores in the Q4 FY20 and Rs. 184 crores for the full year FY20. PBT was down 39.2% from Rs. 133 crores in FY19 to Rs. 81 crores in FY20. On an annual basis, the decline in PBT was driven by drop in volume dominantly from the auto sector, impact of Ind AS 116 has changed in ESOP and RSU charge. For the full year, we had negative impact of Rs. 5.5 crores in PBT on account of IndAS 116 transition.

If you negate the impact of the Ind AS 116 charge of Rs. 5.5 crores and ESOP and RSU charge of Rs. 12 crores, our operating PBT as a comparable basis for FY20 stood at 98.6 crores as compared to Rs. 139.1 crores in FY19, down 29.1%. PAT was down by 36.5% to Rs. 55 crores in FY20 and PAT margin for the full year stood at 1.6%. PAT adjusted for the RSU charge is down by 30% from Rs. 90 crores in FY19 to Rs. 63 crores in FY20. Impact of the accounting standard change increased in gross margin EBITDA by Rs. 15.3 crores and Rs. 18.6 crores and decrease in PBIT by Rs. 0.5 crores in Q4 FY20. For FY20, impact of the accounting standards was an increase in gross margin and EBITDA by 49 and Rs. 56.4 crores respectively. PBT declined by Rs. 5.5 crores on account of the impact of IndAS for FY20. For the full year, proportion of Mahindra Group revenues comprised were at 51% compared to 56.1% in FY19.

In terms of segmental revenues, revenues from supply chain reduced from Rs. 3466 crores in FY19 to Rs. 3104 crores and enterprise mobility declined by 5% to Rs. 368 crores in FY20. SCM revenues was impacted due to the continued slowdown business in the auto industry and the auto vertical both M&M and non-M&M are dominant verticals for us in supply chain management. That was partially negated by the growth in our consumer, pharma, e-commerce verticals. Our revenue from the Mahindra Group supply chain business decreased from Rs. 2102 crores in FY19 to Rs. 1729 crores in FY20, largely because of slowdown which has already referred to.

Our non M&M and SCM business grew marginally to Rs. 1364 crores in FY19 to Rs. 1374 crores in FY20. Underlying this movement was shrinkage of bulk business which I have said earlier dip significantly due to the loss of share of volume in large customer but that was offset by strong growth in an E-com consumer, pharma, telecom, and freight forward in businesses which grew despite the slowdown in the auto industry right through the year. These verticals have also grown 20 to 30%. Our e-commerce, consumer and pharma verticals grew upwards of 25%. The growth in e-commerce and consumer was driven due to deeper penetration of existing customers, providing them more solutions and integrated services right for Mahindra Logistics.

Our warehousing and value-added services for the non-M&M and SCM business which is a part of our focus area has grown from Rs. 351 crores in FY19 to Rs. 436 crores in FY20, registering a growth of 24% for the full year. Share of warehousing and value-added services in the non-M&M and SCM period grew significantly and has reached 31.7% in FY20 compared to 25.8% in FY19.

As all of you have noticed that our cash and cash equivalents in the end of March 2020 stood at 99.5 crores. Despite the challenges of the COVID-19 impact towards the end of the quarter, we were able to control cost and managing our cash flows for the period. We have also taken our board approvals for raising additional fund up to the tune of Rs. 250 crores which has not yet been activated and utilized. This has been taken as a precaution measure to ensure a safety net to our operations in the event of prolonged and unforeseen effect of COVID-19 and uncertainty of operations and delays in returning to full normalcy. At this stage, as I said we do have a strong balance of cash and cash equivalents and we have sanctioned limits which we have not utilized without considering the additional approval of Rs. 250 crores.

Before I open up for comments, let me briefly talk also about our progress of strategy execution and the immediate environment we are in. During the year, we have remained focused on our key strategic platform despite the headwinds we have had in the auto industry. Our focus on solutions has helped us grow our warehousing and value-added services. We have deepened our focus by launching new solutions, return processing, pop-up sort centers and integrated distribution services. These are evident in our continued growth in value-added services and in e-commerce and consumer segments. We also started a deep focus on operation excellence with structured programs to reduce cost, to increase operational productivity and streamline our warehousing footprint. The focus of these initiatives has helped us mitigate the impact of the volume drop in auto and engineering verticals and it kind of manage our cost more efficiently.

We have also invested in expanding our offerings in freight forwarding and express that during the year we expanded our freight forwarding business, strengthening both our air and sea forwarding locations both towards East Asia and Europe and North America. We have also expanded our express capability. We now provide surface and air coverage to over 12,000 pin codes across India.

In the mobility business, we have been developing our on-call business with experienced enterprise customers and deepened our offering there. Strategically, we continue to expand our

IT systems and enhance the automation capabilities. We now integrated various solutions such as AGVs space and IoT systems include our offerings to our customers. We are currently upgrading our SAP, ERP system which we will go live in Q1 2021 and enhancing our transport management systems as well. Our continuing asset light strategy has helped us manage volatility and variability across the business and we remained committed to that direction across all our verticals.

In the fourth quarter, we have added several new customers and while COVID-19 remains a large part of everyone's mind share, we did add some COMs expand our presence with new offerings in e-commerce. We are also building deeper solution in area such as grocery and pharma offerings in the e-com space. So we have expanded business during that period.

Lastly, as I look at the year, I think I also wanted to comment about Mahindra Logistics and our contribution beyond businesses, we have a proud heritage on focus on ESG and communities. During the year, our employees continued to invest in our community with a 63% growth in ESOP on employee social actions and launch of several new programs like Zero Accident Zone. We also expanded our training programs under the PMKVY umbrella from drivers to warehouse operators and last year we have covered more than 10,000 drivers, this year we will cover more than 7,500 drivers and warehouse operators. This remains a core thought of our purpose and it is a focus of me and my colleagues in the leadership team and other team members.

Before I close off, I think we live in challenging times and obviously the national lockdown has had a significant impact in our business. As we have looked beyond COVID-19, towards managing, we have been focused on four key priorities; ensuring safety, continue to provide essential services, conserving cash and liquidity, and driving improvement and engagement. Through this period, I am very proud of all our employees and resilience the way we have responded in this uncertain times and we are working very closely with our customers in ramping up our operations. Strong monsoon, improving rural demand and funds announced by the government augurs well for the farm sector. As mentioned earlier, I am also confident that we will see a recovery in other verticals such as e-com, in consumer and pharma where we are invested, strongly focusing growing our business. In the short term, there will be supply challenges as well due to lack of drivers, stranded fleet and labor availability and we are working on overcoming these. So while we will have short-term challenges, we remain confident on our continued focus on executing our strategy and building up customers and partners over the medium to long term.

So with this, I will open the floor for questions and answers.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

**Mukesh Saraf:**

First thing is, just trying to understand fixed cost for the business, could you give some sense on the freight side of it on the trucks, how are our contracts with the vendors, is it just based on usage or you have a minimum guarantee, how are those structured sir?

**R. Swaminathan:** So Mukesh, I think dominantly all our contracts are pay per use. Based on the various contracts of the customers, we have SLAs around placements, people safety, new mobilization and so on but our liabilities are all essentially capped based on usage only. That is the dominant structure we have across our business.

**Mukesh Saraf:** And with respect to retaining these truckers, is there say in the next couple of quarters, if the volumes go up, would there be any issue for us to get back these truckers or the vendors for us or they would always be available for us?

**R. Swaminathan:** No, I think Mukesh, I would say that there are broad challenges which the industry is facing as a whole, and the challenge is here we have 2-3 things. The first one is as I mentioned in my comments earlier, lakhs of vehicles are actually stranded on roads and we don't have cargo on run. So the first thing which has to happen in these vehicles is to march back to the home location, to the destination places. The second challenge is a driver challenge. This is as much as social challenge and economic one because many drivers are also worried about COVID-19, their families are worried, many of them have already left to go back home and even the one who will come they actually want to go back home, once movement is easily available. So that is the second challenge. The third challenge is that since the lockdown is relaxed in different ways in different patterns across India, in many cases there is no return load. We could ship a vehicle, the products from point X to point Y, but there is no return load from point Y back to point X and so either vehicles get stranded or customers actually end up or the price for the customers ends up going up quite significantly. So these are therefore fundamental challenge of capacity available in the market and so there are probably enough trucks available in the market and even before COVID-19, demand was challenged and except for some seasonal peak, there has been softness in the entire transportation sector. So this is the underlying capacity problem, this is a very specific situation of challenge we have and it would take some period of time before any industry can work through this.

**Mukesh Saraf:** Understood. Sir, my second question is on the warehousing bit again, how are these contract structured there, are there some minimum guarantees for say built to suit warehouses or do you kind of continue to pay the lease rentals or that if I put it this way, out of your 16.3 million square feet that you have, how much could be where we are having a fixed lease rental payment and how much could be where we have a minimum guarantee that the customer has given us?

**R. Swaminathan:** As you might have seen earlier Mukesh almost all our warehouses space, a large number of these are custom and bespoke to individual customers and all these contracts are typically back to back. If we have leased it to our customers as a solution for a number of years or months, we typically would have a back-to-back clause to the large part. There might be some minor deltas around it, but that is kind of a broad construct and therefore there is nothing which is white space in our network which is unsold or unutilized space, but in the context of COVID-19, I think obviously there have been no situation thus far the customers have pulled off on contracts and left us standard liabilities on leases with our supply.

**Mukesh Saraf:** It is not like a fixed cost for us that way?

- R. Swaminathan:** No, I think Yogesh will have some better quantification on monthly lease cost. Yogesh, you want to add?
- Yogesh Patel:** No, just that you have covered rightfully, Mukesh so wherever only in the BTS which is under a million square feet right now of 16.3 million where we have a lease term which would be disproportionate to underlying customer lease or our service's agreement term, but rest of it all facility has a back to back arrangement with the customer tenure itself. So whatever fixed cost we will have, we will have a recovery of them as well.
- Moderator:** Thank you. We take the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** I had two questions. The first question was more on FY20 as regards to the way I see through it and your investments for the company, so there obviously the investments made either in human resources or technology. It would be useful if you could kind of point to us as to which sectors were the ones which would have benefited and the related question would be that now that if we go inside FY21, are we actually better prepared to gain more in terms of customers in wallet share given the investments in FY20?
- R. Swaminathan:** I can try to answer both of them together because there is a correlation between them. We have made investments this year right in our technology and IT architecture, that has been long with 3 years we have made investments in and those investments really have been on 2-3 dimensions. The first dimension really has been strengthening our core systems and objective there has been to drive productivity and continued to focus on high levels of controls and governance and those systems really relate to our financial & material management that is ERP code which is the one which has been launched, we already are live on, in this quarter as we speak and the second one is an upgrade on our HR and our system which is also what we use for time manage our contract resources and therefore has a significant impact in productivity and cost. So that has been one lever of where the investment has happened. The second lever is what investment across our transport management, warehouse management, freight forwarding and contract resource management system and upgrade to our telematics infrastructure. So these are 5-6 areas the investments have been ongoing, and we have tried to move a lot of those to our web services architecture which allows us to platform the service and systems and allows us to add features and manage customer life cycle more efficiently. The focus there has also been to integrate across the system and different projects are in different levels of completion there and it will be, I would say 18 to 24 months before the journey is complete. The third lever has essentially been around automation, integrating automation into our IT backbone, so that is where we have invested in things like these automated guided vehicles, we have invested in IOT devices on shop floors, we have invested on things like automating our MHEs, experimenting with usage of drone, we do some work to automate our core integration, so there is a lot of that kind of work which is happening on automating processes and integrating them into our IT backbone, so we can actually get more controlled edge of our physical processes. So those are three areas, Aditya where we have actually been making tech investments. I think each of them as I said they are all integrated towards having done in 18 to 24 months, we should then provide, I think is a very

strong competitive value proposition because we would actually as an architectural level be able to not only provide great services and individual offerings, but also integrate them into and bring a solutions capability across these offerings. So through this year, we have these enhancements in different ones and as I said earlier, the SAP system did go live this quarter. On the finance side, we have made several upgrades to our transport management system and we have several new launches which are still planned during the first half of this year. So that is where the money has been spent to answer your question.

In terms of bang for the bucks, yes I do believe that we are in better shape than we were earlier, not exactly where all we want to be Aditya, but obviously in a much better shape on ending FY2021 than we were ending FY19-20. As you have consistently said, one of our focus areas, we are a wide provider of multiple services. We have a transportation, warehouse or the value-added services side and a key strategic direction for us is to integrate these services into custom bespoke solutions which add a lot of value to our customers. Technology is a very key part in enabling that especially in the distribution side, so this is really important and pitch us in a good position to win the consumer and e-com space. There are lot of solutions we give on distributing products, further logistics solutions, it helps us create solutions of cross border logistics. So I think we are in a better position against we were as compared to a year ago and I think this is a better position because it is aligned to where we want to go, especially in the environment we are in now.

**Aditya Mongia:**

You also mentioned another thing, apologies I entered the call late. The first thing I could hear was on consolidation and you are thinking that could actually happen in the sector in the near term, just wanted to kind of get a sense on that as to how are you thinking about it from the perspective of MLL?

**R. Swaminathan:**

As a Mahindra Logistics level, as I said later on in my comments, we are very committed to be an asset light company Aditya. So in that sense I think our focus is building strong partnerships. We are continuing to work closely with our supply base in our partners to ensure that we are doing the best for them to wither through these challenges and easing consolidation, we are obviously providing opportunity for us given our skill in operations to build probably newer and deeper relationships on the supply side. On the demand side, obviously I think the consolidation might help bringing up, tighten pricing up a little bit because obviously markets demand being very soft, there has been very challenging pricing environment in some segments in market. So hopefully it might actually play out, but it is hard to see that right now. I think there is probably more things will be on the supply side.

**Moderator:**

Thank you. The next question is from Ankur Pariwal from Axis Capital. Please go ahead.

**Ankur Pariwal:**

Continuing with the discussion that you were just having, on the consolidation bit, now as I understand the players who were largely focusing on in-house logistics, I am talking of slightly bigger players here, medium and larger players, they were the most impacted because of this supply chain disruption overall. So incrementally have we seen any, may be new queries or some ramp up across the FMCG or the essential customers that you were dealing with?

**R. Swaminathan:** Yes, Ankur I think it is a good question and obviously in the current environment with disruptive supply chain, obviously we have a fair number of enquiries which are coming from a wide customer base, rather extended I would say customer activity remains strong but both in terms of situation and demand because of the COVID-19 impact as well as even more broadly. We are seeing enquiries in that sense. And yes, I think some of it is coming because of the challenges people have in terms of vendors, or they are comparing in-house operations with capabilities in managing the supply situation. We are obviously trying to take a balanced view, we would invest in a current relationships and expand on those, we continue to tactically look at like expanding new partnership. We will also do that in a very cash and financial efficient way. We are looking at those opportunities from all those three lenses, Ankur.

**Ankur Pariwal:** And on the digital side, the initiative which you did mention, my understanding is that will help us further penetrate into the client there in terms of the services offered as well as the distribution logistics part but also from a working capital perspective because if I remember it right earlier, we did plan to improve our working capital as well and to restrict the number of days, the loss of days in between. So on that side also, have we seen improvement because interestingly our balance sheet has improved from a working capital perspective despite these difficult times in this quarter, so just your thoughts there?

**R. Swaminathan:** I would ask Yogesh to add some thoughts on this as well. I would say our working capital this quarter has been, from IT perspective yes, obviously one of our big focus is on improving especially on the transportations and improving the speed at which we can do, move towards digital PODs (Proof of deliveries) and actually integrate a supply system also on the same basis. It would obviously provide benefits across the entire value chain from customers all way to our supplies and ourselves included and there have been initiatives this year around that, though adoption from customers and partners is still work in progress. Our improvement for teams just to some extent and there are lot of good work on the Yogesh's team and all our business team really in recognizing early on that it as a COVID-19 situation that creates challenges for us from a working capital perspective, so these are working very closely both on the receivables and the payable side especially from a working capital perspective and we saw improvements in the third quarter which is going to continue and consolidate itself in the fourth quarter. So the first half of the year, we did see an extension with the auto sector but these are really in the third quarter and we saw that currently showing stronger benefits in the fourth quarter onward so lot of this necessarily fixed to initiatives much more operations focus on the value-addition items. Yogesh, would you like to add anything to what I said?

**Yoogesh Patel:** Ankur, while what Ram explained is absolutely right from what we have been doing and we have made significant progress there. From a working capital cycle for receivables, I mean it also requires that our customers also accept that digital submission from our end, so that is what we were working in parallel as well while we make our systems ready and interesting thing to note is during this COVID disruption is when we are seeing quite a bit of customers also are ready to now accept or working with us saying that okay, how do we integrate our systems to make sure that the document flow is digital going forward and not physical. So yes, keeping our

systems ready helped to get into the next conversation and our progress will get aided by the acceptance levels from customers increasing also now.

**R. Swaminathan:** Ankur, as Yogesh said hopefully we will see more traction this year than last year.

**Moderator:** Thank you. The next question is from the line of Ankita Shah from Elara Capital. Please go ahead.

**Ankita Shah:** Sir, I heard you saying that there will be increasing demand for warehousing going forward, so how much is the plan for space addition for next year and in that light if you could throw some light on the CAPEX plan in terms of investment and technology warehouses and acquisitions if any? That would be my first question?

**R. Swaminathan:** So obviously on acquisitions, I don't have any specific guidance to give right now, which is not something which we do. I think in terms of warehousing as you said during the last couple of years, we had been in that 1.5 million square feet during the year add and we remained focused on growing the warehousing space. The drivers for it I think have always been the same. It has been in the last couple of years post GST consolidation, driving towards more larger and better warehouses, more integrated operations and trying to provide solutions in bonded warehouses and distribution together and doing more unique solutions like return of processing and so on. So what we see in the near term from an industry perspective obviously is with larger group at e-com market places and probably restructuring of supply chain, greater demand for warehousing across many end sector supply chains and it is not just the warehousing, also in the logistics solution. So to that extent we are saying there will be a positive hangover on our business and we are working in line with our broader growth strategy and obviously we are not short of warehousing space from our own business perspective. We don't build or buy any of it, the land and facilities but we have very deep partnerships with lessors r put us in a strong position there. In terms of capital spend, I think and I didn't fully understand that question, could you just elaborate on what exactly...?

**Ankita Shah:** Capital spend, CAPEX spend basically on technology and warehousing?

**R. Swaminathan:** So I think I will give some broad comment and Yogesh will then add more specifics. So obviously on both those categories, on the software side, a new technology architecture as I mentioned earlier on then I think Aditya was asking the question. We are going to a web services architecture, so lot of our software is actually software as a service we don't really spend a lot of money upfront in buying on-prem kind of solution infrastructure. It is something which I think had mentioned a couple of times earlier as well but that is kind of the broad direction, so lot of our expense is actually a development side, it is not really buying large suite of software and stack basically what we buy and we essentially buy them as a service in most cases. We obviously buy so much space right and so on from partners as well. On the warehouses side as well, a lot of our investment is really only inside the warehouse, so it is on automation systems, softwares like racks, NHEs, so that kind of investment which actually goes up and obviously actually more of warehousing is value-added services and our capital spend will actually

increase, but anyway it is fairly productive level. We have cleared hurdles of the term for those projects and all our investments are in line with that. In terms of specific amounts which we spent in FY19-20, Yogesh can you clarify that?

**Yogesh Patel:** Yes, so the CAPEX spend in FY20 was around 66 crores and that obviously has correlation with predominantly investment has been on the warehousing infrastructure and the insides, so the type of warehousing and the space which we lease would be the correlation, so that becomes a link to what our spends next year will be.

**Ankita Shah:** And how has the April and May months so far in terms of business in non-Mahindra side of the business and what has been the reason for growth in the subsidiary revenues in strong double digit, probably I think if the growth in the freight forwarding business that has come for the full year FY20?

**R. Swaminathan:** Let me talk about freight forwarding first, something which we have excited about obviously we took a position on invest, majority position just completed sometime ago. Last year was challenging year for the business in FY 18-19 but 19-20 we have been able to come back to a strong growth trajectory and that has been driven by 2-3 things. First one as I said earlier on in my comments we have expanded our offerings to cover more geographies, so we are doing more import and export now, especially to the western hemisphere like Europe and US and that has been expanding our offerings there in the right partnership has been the strong lever of growth. The second lever of growth has been expanding our presence in the pharma segment, I am saying the consumer and pharma segment, both of them I think we are doing more today in FMCG durables as well as we have a very strategic inroad into the pharma side, so that I think we have a second big driver for us from a growth perspective and the third one has been integrating the rest of our supply chain business with freight forwarding. So there has been specific operating goal which we took on this year to drive much more integration of the front end and the solution level. So as I have said in the earlier earnings call this year we have done more work on providing end-to-end cross border solution for customer. So there is some import side picking up from a location in China and using a combination of our freight forwarding and our domestic supply chain business to deliver it in customer location in India similarly originating from India and using integrated capabilities to deliver it somewhere in the Midwest US. Those solutions are feasible to architect by using freight forwarding and the other parts of 3PL capabilities together and that helped us increase share of wallet in many of our existing customers, in many of our existing SCM customers who and what really using freight forwarding from us, we have been able to gain penetration there and those are factors which had driven our freight forwarding growth. So does that answer your question?

**Ankita Shah:** The other part of how has been April and May month so far in terms of the non-Mahindra business?

**R. Swaminathan:** Yes, April-May has been, as you can imagine, has been really tough and at this stage it is hard there will be lot of moving parts through this quarter. The lockdown as I mentioned in my comment has been quite severe and for us, a large part of our business is also in non-essential

category. Anyway, outside the M&M business, we got lot of work in auto, e-commerce and consumer and spared number are essentially on non-essential in nature, so to that extent there has been an impact on our business. Given the sites which have been open obviously we have seen much lower utilization levels. So April-May have been challenging for us on the non-M&M side. Our enterprise mobility also has been deeply impacted by the lockdown. Things have started relaxing, I think they are obviously going through a period where supply chains are still disrupted, they are opening up but they are still disrupted, so there is a lot of volatility still in volumes, so we have to see how the opening up stabilizes but we are hopeful that things will start stabilizing in the coming period.

**Moderator:** Thank you. The next question is from the line of Manoj Bahety from Carnelian Capital. Please go ahead.

**Manoj Bahety:** I have couple of questions. First one is on the balance sheet side, like if I see though yes, overall working capital we can see the improvement but in current situation if I see like 522 crores kind of trade receivables and we have around 617 crores of trade payables, so what kind of risk assessment you have done on this 522 crores of trade receivable because trade payable is ultimately be required to be paid or is there anything out of this which is like first collect and then pay?

**R. Swaminathan:** I may ask Yogesh to answer to the specifics and add or supplement to his comment. Yogesh, you want to talk about trade receivables?

**Yogesh Patel:** Yes, absolutely Ram. So Manoj, as you know we have our entire business model itself of being choice of asset light etc., and the way we have conducted. We have traditionally managed to have our DSO and DPO very much in line too based on the economics, environmental as well as customer dynamics which we serve. So from that perspective, this risk which you refer to would be only if our receivables which are outstanding were of any diluted quality as such. This particular thing, obviously otherwise too this gets reviewed, is audited externally as well but because of onset of COVID and everybody was more serious about what it would be from a asset quality perspective. So this has been retested and reassured by couple of additional analysis and data points as well. We definitely do not see any disproportionate issue there, so it is just the way our business model is structured, we have good balances carried. Of amount what you see there I mean there would be last few weeks of business which we would have done plus the last week of March since offices got closed down etc., you would have revenue which would have remained unbilled as such. So this would also be a reason why you would suddenly see that this amount has been there in a larger way, but from a quality of an asset perspective or a receivable perspective, this has been tested in a couple of different ways as well in addition and we do not see there is any risk from that perspective.

**Manoj Bahety:** Yogesh, how has been the experience in terms of collection in April and May because this 522 crores is a large amount, so just wanted to understand like yes, you might have tested it in terms of the past experience of the customer but in terms of actual collection or getting some force

majeure notice or some weak customer, so some kind of analysis on this 522 crores will be helpful?

**Yogesh Patel:**

No, absolutely which is what I was explaining that couple of reason when our external auditors did analyze and certified it as well and from a April month perspective if I were to let you know, the way we drove enough rigor internally in the system all hands on the deck kind of thing, and we did reach our targeted collection for the month what we would do, so every month we kind of based on our opening debt, what is falling due etc., we draw up a plan. There is target by business segment, by geography arrived at and that target which we had lined up for April, we actually did a little bit better than that itself in it. Hence that kind of reassures us a little bit more.

**R. Swaminathan:**

As Yogesh said, we have maintained, I think I said earlier on my comments as well that we had good balances at the end of March. We had open credit lines and we were able to manage very comfortably within that. Our quality receivables is very good obviously, I think the reasonable part of them is the Mahindra Group companies themselves but also in terms of great other brands, which are all very robust solid business practices, so we have gone and tested it and the proof of the pudding is eating so obviously April was in line with what we expect on receivables. So we think that is good about that part of the balance sheet for sure. So we do have PDD very much covered in that.

**Moderator:**

Thank you. The next question is from the line of Manish Goyal from Enam Asset Management. Please go ahead.

**Manish Goyal:**

Just to get more clarification, you mentioned about the three broad challenges like in terms of you still have some vehicles loaded and stranded on the highways and also on the driver availability, so would it be possible to give some sense as to how has it evolved since the lockdown in the last week of March and till now in terms of like if you can quantify the numbers that how much of your vehicles are still stranded and what is the level of availability of drivers you probably have now and then the third big challenge in terms of not having the enough return load, so being quite a complex situation for you but if you can just dwell more on it?

**R. Swaminathan:**

So once we starting, obviously we do this post a week after lockdown, our focus was to get access in the same place, so we continue to march vehicles into what we call safety zones which are designated stockyards of ours or our partners across India and we are able to successfully do that and less than 8 or 9% of all our vehicles are still are primary at dhabas or petrol pumps in those kind of places, so we were able to secure all of that. Obviously as I said earlier in my comments, probably half of our drivers or more than that has that lockdown progressed especially after the first two weeks saw that they are trying to find their way back home. Some of them who are in their home state basically they found it easier to go back home of course and some of them across states also shift rides and so on and tried to get back home but we are still in touch with many of those drivers. Our partners are still in touch with many of those drivers through this period. I think the middle and second half of April was particularly a tough one because it was very unfair exactly how lockdowns and all mopping up, especially when lockdown 2 happened when 2.0 happened but since then obviously things have started relaxing.

There were also a lot more clarity on interstate vehicle movement has been allowed. It has not been easy. There are still a lot of cases where vehicles get stopped, right despite the repeated government clarification on this, so as things stand today we are marching towards the end points. So that is well underway and I think in the coming weeks we will be able to ensure that all those vehicles are reaching the destination points. We are of course calling back drivers from the home locations or where they have gone. That is in work in progress and that is actually is what causing the delay. Fortunately, now interstate movement of buses has been allowed, so it becomes a lot easier for drivers who went home to take buses and come back to these places. So that has been our focus and hopefully in the next few weeks that will get sorted out. The next wave of challenge will be entering the drivers who are with the vehicles, today stayed with the vehicles on the way back. So there is a risk obviously at drivers who have been stranded then reach their end points and leave either we are working closely with our partners and the drivers on that in a through period they have done several things to support the drivers both in terms of relief programs, temporary shelters, even testing them and medical programs for them so we have done some work with them and also some other assistance programs. So we are hoping that this translate into a stronger callback of our driver community, but that is still work in progress. Manish and then as far as return mode is concerned, I think if you see lot of people basically passed on COVID surcharges to customers, so I think through this period we are obviously going to see some level of price inflation and it is always higher than the market base trucks or suppose to contracted relationships. We are hoping that we will be able to mitigate the impact of that, obviously we have all our partnerships are pay per use, they are also large partnerships and our company have deep and long partnerships history with our suppliers, so there will be deeper relationship than just a contract and so we are hoping that we can mobilize those vehicles and also manage to mitigate the cost impact. Right now, there is inflation and cost increases and obviously a lot of that has been passed onto customers.

- Manish Goyal:** So you are able to pass it on, is it fair to assess that you are able to pass on?
- R. Swaminathan:** Yes, absolutely, large vehicles are being passed on we have seen this in the general trucks as well, it is different by different segments for the asset category, different kind of trucks, different kind of groups have different demand supply issues but yes, where you see inflation we are passing down to the customers.
- Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Just couple of questions, how was the road freight rate now given the entire issue of driver availability and trucks being stuck in transit and if you can help us with the spot rates and the typical way in which you work in terms of having contracted, so how are the freight rate movement there?
- R. Swaminathan:** I think Abhishek as I mentioned earlier, freight rates have been increasing and there has been an underlying impact and that has been because of two reasons I have largely pointed, one is the scarcity of drivers and the second one is the absence of return load because sometimes we are

stripping from green zone to a yellow zone or a red zone and there is no return load from the red zone back to the location, so essentially therefore the customers have been charged for both way, so to that extent there is inflation and obviously inflation on the spot rate is higher. It is hard to use a single number to quantify this Abhishek because it depends a lot on two things, one is what is the route you have been going on because every route has different hub and different demand supply patterns and the second thing is what is the asset category you are looking at, so it depends a lot, right. So if you have two examples, on a car carrier probably you might see lesser price pressure than you might see on the 25 ton vehicle because the demand supply equation is different or some higher traffic routes were obviously seen more pressure. So I will resist the temptation to give you one number which I can give across the board but there is clearly inflation. For us, there are lot of our partnerships while the structural have cost we obviously when we are negotiating these with our vendors, we look at the overall size of the business we are looking at. That is the specific to the customers and those contracts obviously are a clean sheet cost. If you look at cost from a bottom top perspective, so we have to extent this inflation, we are discussing that with our partners. Actually in many cases, we are able to mitigate part of the impact of it and ensure that rest whatever impact we see has been passed on to customers.

**Abhishek Ghosh:** And sir, your depreciation on a sequential basis seems to have moved up sharply, anything to read that?

**R. Swaminathan:** I think largely driven by the accounting standard sales; I will let Yogesh answer to that.

**Yogesh Patel:** Your question primarily should be versus last quarter Abhishek?

**Abhishek Ghosh:** Yes.

**Yogesh Patel:** So there is obviously no additional CAPEX which we have invested and that come through depreciation cycle as well; however, there was also certain leases which we had signed for short term got extended in the sense we got those contracts with our customers and hence with our facility providers also extended for a longer period which then means that we would now have to account for them as per the new accounting standard. So there was this catchup or a one-time impact as well there. So the delta which you see in Q3 to Q4, almost 50% came because of one-time impact, the balance is because of increase in investments which has gone through depreciation cycle.

**Abhishek Ghosh:** And in your cash flow statement the line item referring to the repayment of financial lease obligation that is largely debt repayment or it is some other nature?

**Yogesh Patel:** No, that should be repayment of finance lease obligation, it is leased charges only, it is not a loan.

**R. Swaminathan:** Abhishek, can you probably, if you can send us a note separately, probably Yogesh can dial you to more detail on this.

**Abhishek Ghosh:** I will do that.

**Moderator:** Thank you. Due to time constraints, we will be able to take one last question. We take the last question from the line of Alok Deshpande from Edelweiss. Please go ahead.

**Alok Deshpande:** I had a much more fundamental question in these difficult times. See, at a very fundamental level, we are sort of going to clients to sort of convince them to outsource some of their noncore logistics activities, if given this year is going to be a very challenging year for many sectors, do you think that most of the clients would sort of, at least the new clients would sort of postpone their decision of outsourcing logistics or am I just sort of reading it wrong they would rather aggressively outsource logistics, how do we see this?

**R. Swaminathan:** Yes, its a good question and don't think I had a perfect answer, but let me take a shot at giving up this view on this. I think the way we look at this is obviously customers are really go through challenging times and they probably look at saying when we want to outsource different areas of work. We just understand I think a large part, most of our customers do already outsource transportation quite significantly and that is already outsourced today and also on the distribution side when they are distributing products, a large part of the supply chain is also outsourced, so they are not really looking at, to some extent therefore they are not looking their new outsourcing. Most of the existing customers probably are outsourcing a bunch of that and we would see that they could ask themselves a make vs buy question, but really they are not just always outsourcing for cost alone, they are also outsourcing for capability. So obviously your then then the incumbent drive on us to provide more productivity, more efficiency to them but I don't see it has fundamentally changed the decision of outsourcing in many of our customer's cases. What I think to happen more will be that if their growth plan gets truncated, obviously they might not expand as much as they might have other than expanded, so there might be some difference in those plans but intrinsically I think what they are already doing right now, I think there will be obviously some increase in competition where the higher expectations to partner with them to provide them cost and productivity improve, but I don't feel that will change the fundamental outsourcing choices. Where we think there will be some impact or there could be a broader tangible extent viewer and then the lines of the viewer pointing could probably sometimes in plant operations where all in plant operations where customers might see that we already have excessive manpower of their own and they might decide that it can be a sharp drop in volume, they may decide to insource the work and work with partners like us. So that is possibly a trend which we are watching out closely and working with our customers in that area, but on transportation, on distribution logistics, I don't think the inherent characteristic of outsourcing will change. That might become definitely in terms of processes.

**Alok Deshpande:** And just one question on people transportation segment, now what we are hearing with other IT companies etc., that even after the lockdown opens that even later on, there are plans to have a lot of people working from home later on. So does this kind of decision coming out, structurally affect that segment because you are not going to have that people going to work then?

**R. Swaminathan:**

It is a good question and I think obviously there is something which on the mobility side, let me say this way that again the enterprise mobility side, we have headwinds and tailwinds. The headwinds clearly are the fact that there is a likelihood that obviously return to work will be slow. That is fundamentally return to work, so everybody is there work from home and there will be staggered return to work across locations and sites and therefore some companies fill their offices, we may do it slowly. The second thing is, there might be a larger fundamental trend towards the employees working from home and obviously there is a fair amount of risk coverage which indicates to that headwinds as well, so both of them were more final articulations of what we have already stated, but tailwinds on a couple of space, the first tailwind is obviously that we think depending on segments, our research shows that some level of employees were bound to come back to work. In some segments, work is broader than just coming to work into an office and cubical and therefore they had a broader level that might be over a period of time people may come back to work. The second thing that we are seeing is a big tailwind is a vehicle density will come down, so what is to happen earlier is if you have enterprise mobility we have had a sedan, sedan has three customer employees. Today what is going to happen, what we are seeing now is because of social distancing even if we are returning to work, a lot of our customers won't have three employees, we will only have two employees or even many cases one employee. Its SUV which is to be a seven seater with 5 passengers or 5 employees, today it has become 3. So essentially therefore what happened is the number of employees, passengers might compress but the number of trips are not compressing commensurately, so number of trips we may run may actually still be the same. Even let us say for companies who contracting us to move 10,000 employees before COVID-19, even if it becomes 5000 because they reduce the vehicle, they will get the half, the number of trips probably do might be the same. So those are the tailwinds. I think we are seeing a mix of both happening right now and early sign or at best conclusive because I don't think there is one case secular trend coming from it. Every customer kind of responding differently at times. What we think, we will have to wait for this to settle down, we see the headwinds and tailwinds play themselves out. One thing which I think COVID-19 will do for the enterprise mobility business is I think we will increase the service standard delivery right, so over the last few years one of the challenges has been, just the vehicle quality is and there is a very wide pricing corridor, so obviously I think what will happen now is customers are going to expect much better service standards, they are going to expect vehicles to be clean, they are going to expect proper chauffeurs and more drivers, they are going to expect good sanitization of vehicles, good air quality and what that actually lends well is it does meant much better for organized players like ourselves who are very focused on the value proposition already. So I would say it is the combination of factors and I wish I could tell you clearly the business of one direction when you see but I must confess that we do clearly see one direction emerging, I think we will see a period of softness for sure because I think return to work will be slow, but thereafter it is hard to clearly call out what is the end of being, so we are working on multiple scenarios right now and we are expanding offerings right better and tried more innovative solutions right and expand our on-call business I talked about earlier and few other things to kind of expand the addressable market for us.

**Moderator:** Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Rampraveen Swaminathan for closing comments.

**R. Swaminathan:** Thank you all. I hope we were able to do respond to all your queries and obviously as we gear up for revival of demand and the gradual uptick in manufacturing, then obviously there will be a greater need for logistics and covering at the shortage of driver and managing short-term increase in capacities and managing the surge in freight price which were mentioned earlier would pose challenge through sector revival. Obviously, across end market, entire value chains have been impacted from raw materials and packaging material supply, demand at manufacturing plants to logistics and to transport and retail, so we expect that all this will probably take 2 to 3 months to get stabilized and we need roughly in that window of time because the logistics industry is able to recover post complete lifting of the lockdown. Taking all these into account, I think we are expecting that window for return to normalcy as well. Obviously for us the maturity of our business model being asset-light and having a strong partner ecosystem, we believe we will be able to offer catalyst right through a faster recovery, ensuring safety of our employees and continued support of our employees with these partners and customers will be very important for us and we believe that as an integrated system we will be able to pass through this difficult times and emerge as a much stronger company than ever before. And as I said earlier, we continue to track our execution of our strategy, we continue to make strong progress on those elements. We will continue to focus on share of minds with customers, the employees and partners. So we feel good about the medium and long term clearly while remaining very focused in addressing the challenges of the short term. So with that, we just thank you all for joining us today. I hope we have been able to answer all your questions satisfactorily. However, should you need any further clarification, or you like to know more about the company, please feel free to contact our team or SGA, our investor relationship advisors. Thank you once again for taking the time to join us on the call and I hope you all will stay safe and wish you all the very best. Thank you.

**Moderator:** Thank you very much. On behalf of Mahindra Logistics Limited that concludes this conference. Thank you for joining us. Ladies and gentlemen, we will now disconnect the lines.