



“Mahindra Logistics Limited
Q2 FY2020 Earnings Conference Call

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MANAGEMENT: **MR. RAMPRAVEEN SWAMINATHAN – CHIEF EXECUTIVE
OFFICER - MAHINDRA LOGISTICS LIMITED**
**MR. YOGESH PATEL – CHIEF FINANCIAL OFFICER -
MAHINDRA LOGISTICS LIMITED**
**MR. SHOGUN JAIN – INVESTOR RELATIONS,
STRATEGIC GROWTH ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the Mahindra Logistics Limited Q2 FY2020 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Shogun Jain from SGA. Thank you and over to you Sir!

Shogun Jain: Good evening everyone and thank you for joining us on the Mahindra Logistics Limited Q2 FY2020 earnings conference call. We have with us Mr. Rampraveen Swaminathan, CEO and Mr. Yogesh Patel, CFO of the company.

I hope everyone got an opportunity to go through our financial results and investor presentation uploaded on company’s website and stock exchanges. We will begin the call with opening remarks from the management, following which we will have the forum open for a Q&A session. Before we start, I would like to point out that some statements made in today’s call maybe forward looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now like to invite Ram, CEO of Mahindra Logistics to make his opening remarks.

R. Swaminathan: Good afternoon everyone and thank you for joining us. Thank you Shogun! I hope all of you had a safe and good Diwali. This is my first interaction with all of you in this forum and I look forward to interacting with you on these calls as well as other platforms.

During the course of my opening remarks, I will provide short update on the following:

- a. broad industry update
- b. end-use sector update
- c. financial, operational and business highlights of the second quarter and the first half and
- d. quick recap on our strategic direction.

The logistic sector obviously continues to be an important area for the government. The Commerce Ministry has sent the proposed national logistics policy to the cabinet, aimed at promoting seamless movement of goods across the country and reducing the cost of logistics. As you all are aware the cost of logistics in India is estimated to be as high as 14% of its GDP. It is well above other developed countries. The proposed policy will target reduce it to 10% or lower in the coming years. We have also seen the release of the LEADS report i.e. Logistics Ease Across Different States . which has now been prepared and ranks states on various parameters. This is to bring some amount of internal competition within the country so there is an overall improvement in the infrastructure.

In September 2019 income tax rates for corporates have been reduced from ~35% to ~25% and the base tax rates for new manufacturing units has now been proposed even lower at 15%. This move likely to give much needed boost to investments in the manufacturing sector, which will

definitely increase the logistics needs for these companies as their new supply chain design takes shape.

Let me now share a quick overview on our key end-user sectors. India's core sector output contracted 5.2% in September 2019 as compared to a growth of 4.3% in September 2018. This is its lowest performance in 14 years. Several experts have pointed out that the weak core sector output may impact second quarter GDP growth, the numbers for which we will be published on 29/11/2019. The RBI in its October bimonthly policy review slashed the GDP growth estimate for the current fiscal year to 6.1% from 6.8% estimated earlier.

While the overall macroeconomic condition impacts all sectors including all of us in logistics, specific end markets have much more direct impact on our business performance. Let me quickly summarize views on that.

Let us begin with automotive segment. As mentioned in earlier interactions as well, the auto industry is witnessing its worst slowdown ever in the past two decades and has continued to stay impacted in the quarter gone by too. Figures released by SIAM corroborate the sharp demand contraction in the auto sector. Automobile sales have declined by over 30% in certain categories year-on-year during the quarter. Consequently, major auto manufacturing companies are reducing the number of production days at their plants and also reducing the supply of components from the outsourced plants. The reasons to trigger the slowdown remain the same, slow economic growth, increase of price of vehicles due to high commodity prices, liquidity crunch in the banking and NBFC sector resulting in lower financing, regulatory uncertainty arising out of the BS VI transition and so on. Consequently, OEMs and tier 1 suppliers across the board are taking steps to reduce cost and increase exports.

Moving on to E-commerce. E-commerce companies plan for major sales peaks during days like Independence Day, Navratri, Diwali etc. During this quarter which just gone by there was increased activity with the players planning capacity for growth during Q3. Factors like adding more product categories, more sellers in the platform and increasing reach to tier 2 and tier 3 cities will continue to contribute to this growth. The main peak falls in Q3 of this fiscal and this sector we believe is likely to witness more activity with the entry of newer players.

The FMCG market which is also a key end use market for us has seen some volume slowdown. This is largely been due to slower growth in the rural markets. We have on the positive side seen players in the sector continue to optimize their supply chains to make it more efficient in the post GST environment. Domestic companies have now joined the multinational counterparts and exploring avenues to structure their supply chain in a more efficient manner.

Let me now move on and quickly recap the financial performance for the quarter and half year ended September 30, 2019.

- For the quarter ended September 30, 2019 revenues stood at Rs.852 Crores down 8% on year-on-year from Rs.927 Crores.

- Our gross margin for the quarter was 10.2% as compared to 8.1% in Q2 2019. Consolidated EBITDA was up 12% growing from Rs.35 Crores to Rs.40 Crores and EBITDA margin increase from 3.8% to 4.6%.
- PBT was down by 39% from Rs.29 Crores to Rs.18 Crores and
- PAT was down by 42% from Rs.19 Crores to Rs.11 Crores.
- Impact of RSU/ESOP for the quarter was Rs.3 Crores excluding this impact, EBITDA would have been 42.7 Crores and PAT would have been 13.1 Crores for the quarter.
- Impact of adopting the new accounting standard on leases (Ind AS 116) resulted in increase in gross margin and EBITDA by Rs.12 Crores and Rs.13 Crores respectively and a decrease in PBT and PAT by Rs.1.8 Crores and Rs.1.4 Crores respectively for Q2 FY2020.

Let me now share the segmental break up of revenues for Q2.

Revenues from the supply chain segment stood at Rs.755 Crores compared to Rs.829 Crores in Q2 FY2019.

PTS segment revenue for the quarter was marginally down at Rs. 97 Crores against Rs. 98 Crores in Q2 FY2019. During the quarter we did see the challenges in stabilization of some of the new accounts we won in the PTS business in Q1 and also slower deployment in new accounts in Q2 which resulted in a marginal decline in performance which we expect to get optimized in the coming quarters.

Our SCM revenue was impacted due to continued slowdown in the auto industry which remains dominant vertical for us. Our SCM revenue from Mahindra Group decreased from Rs.519 Crores in Q2 FY2019 to Rs.418 Crores Q2 FY2020 impacted by the slowdown in the overall auto industry. Our non-M&M SCM business has grown from Rs.310 Crores in Q2 FY2019 to Rs. 337 Crores in Q2 FY2020. The growth in non-M&M SCM business was led by Consumer and Pharma, and E-commerce verticals, which has sustained a growth trajectory upwards of 35%. This performance also factors in the shrinkage of our bulk customer and impact of the auto slowdown on non-M&M customers.

Our warehousing and value-added services, for non-M&M SCM business, which has been a key strategic direction for us has grown from Rs.85 Crores in Q2 FY2019 to Rs.115 Crores in Q2 FY2020 registering a growth of 35%. The share of warehousing and value added services in non-M&M SCM has reached 34% in Q2 FY2020 compared to 27% in Q2 FY2019.

During the quarter, we added 700,000 square feet of warehouse space under management. Proportion of revenue from the Mahindra Group comprises 50.4% in Q2 FY2020 compared to 57.7% in Q2 FY2019.

Moving on to H1, a quick summary for H1 is as under

- Revenue was down by 6% from Rs. 1856 Crores to Rs. 1751 Crores.
- EBITDA was up by 10% growing from Rs.79 Crores to Rs.87 Crores.

- PBT was down by 31% from Rs.67 Crores to Rs.46 Crores,
- PAT down by 32% from Rs.43 Crores to Rs.30 Crores.
- PAT with RSU was Rs.29.7 Crores and PAT without RSU was Rs.33.5 Crores.

During the first half of the year, we have added 1.1 million square feet of warehouse space under management.

While the company has adopted the lower income tax rate in the years, the benefit of the same is not visible as of September 2019 since we had a differed tax asset of Rs.17.7 Crores carried at the beginning of the year which had to be reset in line with the reduced tax rate as well. The benefit of the decreased rate of income tax will become prominent in the second half of the year.

The overall business environment continues to be challenging due to the factors mentioned earlier. Despite of that, we have made progress in winning several new customers and gaining share of business from existing customers. Some notable wins for the quarter include Asian Paints where we will be handling the regional distribution center measuring 100,000 square feet at Dankuni in West Bengal and the first leg of distribution from this RDC.

During the quarter, we have also expanded our business with Volkswagen India. We now manage first of its kind PDC of the Volkswagen group located in Gurgaon and Bengaluru. This project spans operating two best in class parts distribution centers which will feed spare parts to the Volkswagen Groups, India dealer partners in Northeast and southern regions of the country. As part of the solution, MLL will manage more than 2 lakhs square feet of warehousing space and PDC operations.

During the quarter, we have also increased our share of business with several auto component manufacturers including a large engine manufacturer and leading fuel injection system provider and a large filtration system major. The projects for these customers include distribution and warehousing. We have also expanded our presence in the FMCG and consumer business space. We have added several FMCG brands in health hygiene and home products and have also added prominent Indian apparel manufacturer as customer. We continue to expand our base with consumer electronics and added new accounts in mobile and consumer electronic spaces. We continue to make investments in our digitization programs during this quarter, this is in all parts our business, transport management, warehouse management and enterprise transport systems for the PTS business. Many of our IT system are now going through an introduction phase and we expect them to stabilize in the coming quarters.

Community engagement is an important part of our purpose. Our village adoption program is progressing well and during the quarter we handed over 5 more projects to the gram panchayat. We continue to increase our overall employee engagement which is a key part of our focus of the space.

Before I close out, let me quickly recap our strategic focus. The key pillars of our strategy which we have said earlier continue to be the same. The first one is to grow in profitable markets while

we remain focused on deepening relationships with anchor customer M&M. Our continuing priority is to grow the non-M&M business. Drivers for growth in the non-M&M business would include growing in SCM business through expanding end markets like auto components, consumer, pharma and e-commerce, accelerating our freight forwarding business, expanding our offerings to different key markets such as returns, processing or contract assembly and driving our shared mobility business in the employee mobility space. The second lever of our strategy continues to be to grow our value-added service like warehousing, in factory logistic, line feeding and other services. These businesses are more sticky and also have a better margin profile as compared to the transportation business. We continue to focus on an asset light model. We believe this provides scalability, flexibility and cost efficiency from a long-term perspective. And lastly we will continue to invest in our technological upgradation which we believe is a key differentiator for the services we provide and help us gain both new customers and bring operational efficiencies.

To conclude I believe that despite our recent challenges, the logistic sector is undergoing a broader transformation and we are rightly placed to capture this opportunity. I am personally excited to be part of this journey and to work with all my colleagues in MLL to take the company to greater heights with the support of all our stakeholders. With this, I will open the floor for questions and answers.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We will wait for a moment while the question queue assembles. The first question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.

Pratik Kumar: Good afternoon Sir. Sir my first question is on your margins so when we see like to like margins like pre-Ind-AS, and we generally exclude other income from EBITDA calculations, so that has actually contracted by about 40 BPS from 3.3% to 2.9% this quarter. I believe this is related to increase in fixed cost because our gross margins have expanded but our fixed cost which is employee and other costs have increased so my question was, is there any variable component also. I mean this employee and other expense because topline has fallen by 5% quarter-on-quarter but both these expense has grown 5% Q-on-Q. As a result, margins have actually fallen which is not a right reflection because our warehousing mix is improving but that is not reflecting in EBITDA margins per se?

Yogesh Patel: Pratik, on margins the way we should look at is, first at a gross margin level for us. Since you did look at it on a pre Ind-AS basis and if I look at gross margins pre Ind-AS basis on a year-on-year basis, we would be up by 62 basis points over last year on gross margin levels. Just to give a number 8.15% gross margin last year is now at 8.77%. The difference obviously comes in from two or three angles. One our business mix which is transportation and, warehousing and other value added service, has tilted more towards warehousing and value added services which has improved the gross margins and second is our operating levers which we have been driving over sometime, that is yielding itself. Now given the fact that our gross margin improvement has sustained or grown, our absolute gross margins have shrunk, because our total revenue is lower. With absolute gross margin being lower for a short-term our overheads trajectory continues with

investments in our digital / transformation, transition skill sets. For a short-term, we would not want to change any of our strategy on building skills because that has to sustain long-term play ., Thus our margin profiles below that, which is EBITDA to PBT has seen a decline.

- R. Swaminathan:** I think just to add to what Yogesh said obviously some of the cost increase comes from ESOP charge which is also included in that cost increase this year which partially impacts. I think Pratik you have also asked the question regarding whether there is a variable component and there is a variable component in the compensation of most of our employees at the operating floor level, so we do have a variable component which gets adjusted to the company performance.
- Pratik Kumar:** Understood. My second question is on this PTS segment specifically, it generally is our growth segment. This quarter there was a contraction there as well and the margins also were under pressure in that segment so any specific reasons there?
- R. Swaminathan:** I think Pratik as I covered in my opening comments, towards the end of the first quarter and through second quarter we have added several new accounts in the PTS business and volumes. We have had slow stabilization of the accounts which we added towards the end of Q1 and some delays in the ramp up of our new accounts which we added in Q2, which is the reason why revenue was lower marginally than what last quarter was. We expect that to get normalized in the coming quarters. That slowdown also impacts our margins because typically as we start new accounts, there are expenses and costs are incurred towards starting up that business and then over a period of time margins profiles mature on that, so we have seen a higher incidence of those new account start up related cost as well which has impacted our margin in the current quarter, now we expect that both of those to start maturing in the coming months.
- Pratik Kumar:** Understood and just last question on there is generally now are there any internal expectations now on growth in Mahindra and non-Mahindra supply chain businesses for full year?
- R. Swaminathan:** Pratik we normally do not give guidance specific to segments.
- Pratik Kumar:** Sure. I will get back on the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** Thanks for the opportunity. First question given the auto slowdown we are seeing many OEMs or the ancillary players who are shutting down their plant operation, so in case we are a part of such customer how does the dealing happen, so is there a minimum volume commitment sort of a contract with the customer within the cost whether the production is there or not, costs will still be borne by the client or it is a hit on our books?
- R. Swaminathan:** Ankur, there is two parts to our business. On the transportation side the volume growths are pretty linear to operating conditions if customers do not make or ship more we see immediate and direct drop in our transport volumes. On our warehousing and inplant logistics business, there is

a minimum guaranteed volume with most of our accounts and we basically have coverage on what we call no production days or nonproduction days in the industry, so we do not carry a financial charge on account of those.

Ankur Periwal: Sure that is helpful. Now if I look at the adjusted gross margin which you Yogesh did mention of around 8.8%-odd, now this is when the transportation business virtually did not grow and warehousing especially for the non-auto customers was pretty healthy for us as well. Now how should one look at the gross margin expansion. I am also sort of trying to pull the PTS business here along now while if I look at SCM, the stickiness of the customer is probably arguably much larger in SCM versus PTS, but the gross margin that you make in SCM is still lower than PTS, even on a higher contribution of warehousing, so maybe initial stages and hence the difference, but let us think from a 2-3 year perspective. What is your thought process in terms of stable margins in both these businesses?

R. Swaminathan: Yes I think the three different businesses you spoke about Ankur, so obviously on the warehousing business we have always said our margins, including in value added services our margins are in low teens, and we obviously have an impact because of a severe decline in the automobile industry which is kind of covering the broad contours of improvement but on specific segments, we do see the weightage in terms of margins, so as we grow the warehousing and value added services, you should start seeing that margin level peak to the early teens from a low double-digit kind of number, which is obviously higher than the PTS margins.

Ankur Periwal: Sure and any thoughts across any uptick that you are seeing on the ground whether with the festive season or how you will rate this festive season versus the last year and if at all any demand recovery across the sectors auto as well as the other consumer FMCG?

R. Swaminathan: Yes we have seen good growth in e-commerce. I think e-commerce continues to peak well during the festive season, obviously in automobile there is a sequential improvement. I think there are increased footfall increased sales and movement from dealerships but it is not on a year-on-year basis, it is not really growth in a significant way. The other part of the automotive industry challenge of course is how individual OEMs decide to manage the BS VI transition, so we do see different customers approaching it differently, but individual OEMs I mean choices around how of much inventory rationalization we want to continue to do and that will have an impact on our business. But I think coming in Q4 just to expand going into Q4, we do expect to see green shoots especially in the automotive space less in commercial vehicles, but more in automobiles as we see more BS VI shipments going out into the dealership network.

Ankur Periwal: That you will boost transportation although the warehousing in fact will not have as significant impact over there?

R. Swaminathan: Yes. From the automotive industry and market you are right.

Ankur Periwal: Thanks Ram. That was helpful. I will get back into the queue. Thank you.

- Moderator:** Thank you. The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.
- Mukesh Saraf:** Good evening. Thank you for the opportunity. Firstly, is obviously the warehousing side of the revenue has grown quite a bit and just looking at the new business wins that we had mentioned in last quarter in terms of you had Vedanta, you had Kalyani, , Alstrom and a few more names just wanted to get a sense how much of those have already materialized and hence we are seeing this kind of growth? Or are these yet to come and obviously we have also won further more orders this quarter, so is the pipeline that long or could you just give some sense on that?
- R. Swaminathan:** I think as I mentioned in my earlier comments, we have seen some of the additions across all our in market segments. Several of these accounts obviously are which even been reported earlier have been in the automotive and material space and in those sectors whether it is automobile, steel, aluminum and so on, while we have increased account and our share of business as well in several accounts, because of the broader economic downturn, we have not seen a ramp up to the extent of these business, so we remain hopeful that our share of business in these accounts remain strong and that as market recovers, we should be able to see higher level of impact from these accounts. Obviously, our account acquisitions in others segments, like FMCG, e-commerce etc., has seen strong growth both in terms of transport and warehousing which is what you are seeing leading in to the numbers just reported.
- Mukesh Saraf:** Right, so I was trying to kind of just correlate this with the 700000 square feet that we have added, but these would all be again on backed by orders that we account we have already have or it could be more an anticipation kind of?
- R. Swaminathan:** So there is no white space, we have 700000 square feet added. There is no white space. I think there is no unsold space.
- Mukesh Saraf:** Right and 400000 that we added last quarter also?
- R. Swaminathan:** Fully occupied.
- Mukesh Saraf:** Fully occupied and the second question is more on the numbers that if I just look at the lease liability that now we have reported in the balance sheet, it is actually come off versus the first quarter, it is about 111 Crores now versus 124 Crores reported the first quarter. I was just wondering given that we have added more space, the liability should have actually gone up so is it that the net addition has been lower rather we have kind of also given up some space or there is some accounting change?
- Yogesh Patel:** Mukesh, the latter is true here, so if you would seen, last time entire amount was appearing in noncurrent liability. We have a requirement that all the liabilities which are under 12 months, these are split and reported as current liabilities as well. So this right now is split into noncurrent liability where you see 112 Crores or 115 Crores number in that balance sheet what is reported. The rest are group under the other financial liabilities under current liabilities.

- Mukesh Saraf:** I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Manoj Baheti from Carnelian Capital. Please go ahead.
- Manoj Baheti:** Thanks for taking my question. I have couple of question. First one is just to take it forward from previous participant's question, was like despite of increase in warehousing and value added services revenue, we are not seeing the kind of translation into EBITDA margin expansion. I understand like maybe on the transportation side because of the operating leverage the margins maybe down there, but if you can elaborate that what has resulted in like EBITDA margin not improving despite this portion of revenue is going up?
- R. Swaminathan:** Manoj, the primary reason while our gross margin percentage in terms of profitability has improved, the growth in overheads which is comprised of one the charge on ESOPs which we are taking a noncash expense and that which we explained over last two quarters since we had made the grant which was not there in last year plus we have added cost towards increasing our digitization and technology effect as well as transition skill creating so these are the cost which are for a longer term benefit which have been incurred right now. This couple with the fact that our revenue has shrunk, if revenue would have stayed in its own trajectory it would have covered these cost and profitability would have seen the relevant trajectory as well, that has not happened, you are right now able to see only the gross margin profitability improvement, the other costs being as it would have got incurred, my profitability at EBITDA, at PBT, at PAT all takes a hit.
- Manoj Baheti:** The lease expenses which is right now like because of this accounting standard change, earlier it must be forming part of your rental expenditure right because the rental expenditure must be like now forming part of your depreciation and interest cost right?
- Yogesh Patel:** You are right Manoj. What I was saying was if I normalize the accounting standard change, so today you see 10% plus of gross margin of ours. I am saying I am not explaining that, I am normalizing for accounting change. My profitability is still improved. My gross margin percentage is improved other than that as well which means our mix and performance is playing out.. While my EBITDA and PBT is not showing an improvement is primarily because of higher growth or increase cost of overheads which is my upfront investment being made at the overhead or skill building level coupled with lower revenue leading to absolute gross margin being low.
- R. Swaminathan:** Manoj, I think what Yogesh is saying that if your refer to our Ind-AS 116 numbers reference base you will find that gross margin has increased on a comparable basis which is largely a reflection of the increase in our warehousing and value added margins offsetted by some minor movement in transportation and PTS, but that increase is almost reflective of that shift in our mix. That improvement on gross margin is not coming down to the bottomline largely because of the decline in volume and as reset for that and then you would have seen that benefit flowing.
- Manoj Baheti:** Got it. Thanks for this explanation. One more question specifically on our warehousing arrangement, generally when we take space on lease generally we have back-to-back

arrangement with the customers or like in downturn we might have to take some kind of underutilization in our warehousing space also?

Yogesh Patel: Manoj, when we contract for our warehousing space, there are two types of requirements, one where I already know my customer there and it is specifically sourced for the customers. I would even if my tenure with the lessor is different, I would still make sure that my contractual rights to keep it co-terminus with customers exist so that the risk does not appear on the company like for example I have a no-locking period or beyond lockin period I have ability to terminate with a notice period. Where I take space upfront without having customers what we call our built-to-suit warehouses, in those cases, my lease terms will be agnostic to what my customer contract terms would be and at that point of time. We have taken those spaces since GST got launched per se. We operate two such warehouses one in north and one in west and in both cases today the occupancy is full but that is our business calculation in terms of what space we would have based on what is demand we see in what geography.

R. Swaminathan: Just to add what Yogesh said. Dedicated warehouses normally carry the risk management structure which Yogesh spoke about. Our multiuser facilities are built a long-term kind of footprint strategy which is based on long-term demand supply we see in different markets and they are designed really to be multiuser so that is as you build them we actually sell them and we sell different parts of that often a different contractual spaces on different contractual terms to different end markets.

Manoj Baheti: Got it. Thanks in fact I have one small question if I can or I will come back in the queue.

Moderator: Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Good evening team. I have two questions. First thing I want to congratulate the team for fairly decent set of results at a business level. The question which I had was if I were to kind of strip away from a revenue perspective the cyclicalities of the auto slowdown and negative by customers going away, I could see accelerating transient growth, should one be attributing such trends to distribution transportation kind of support that is now being seen along with warehousing and is there is any seasonal reason in fact which may have made numbers look better than they were?

R. Swaminathan: Obviously there is a seasonal set of peak as you know we are seeing two strong growths in the consumer space and e-commerce space and the consumer space are FMCG and pharma kind of industries. Our focus is trying to provide integrated solutions which combined warehousing and distribution together at least the primary distribution if not the secondary. What we have you are seeing is more accounts wins in that space which is one seems to be driving this growth. In the e-commerce space obviously, there is a bit more of a seasonal impact which is there. There are multiple peaks in the year as you are well aware. In Q2 we saw growth as you said driven by increasing offerings and adding new capacity in terms of sort centers and delivery stations. The real peak will actually come in the third quarter, so we really see an increased share of business right with our customers which has been a primary driver of growth in the second quarter, so is

not been a very significant seasonal impact, we should see the season impact mostly in the third quarter. But the e-commerce business will always have that seasonal impact which is why we when we try to measure it on a trailing 12 month basis as opposed to just a month or month-on-month kind of a number.

Aditya Mongia: Got that. Sir the second question that I had was more on the expense side and I understand that gross margins have improved. The question was related more to the way you factor the expenses, there has been a sharp Q1 jump in unallocable expenses from about 41 Crores to about 49 Crores. Is this the place where you are kind of classifying the expenses for the cost incurred for the future and if so is this is a recurring number of about 49 Crores or more of a one of kind of investment cost built in?

Yogesh Patel: Aditya, what you are looking at the segmental view, the segment piece yes, because those investments do not have a specific identification from a segment perspective. From a value perspective, what we are looking is this is the base from that perspective, there could be a periodization impact in terms of there are certain expenses which we for example on IT license that we incur in one quarter so that is not going to repeat every quarter but that is for the year but it has been booked in a particular quarter so such impact of some such expense line items would be there which has a quarter periodization in that and hence it will not be at a 49/50 kind of a number, but it is higher compared to my previous period.

Aditya Mongia: Got that. Thank you. I will get back into the queue for further question.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from DSP MF. Please go ahead.

Abhishek Ghosh: Thanks for the opportunity Sir. If you could just help me with your which in the balance sheet I see a borrowing of about 115 odd Crores if you can just help with what is the interest bearing debt and what is related to the change because of the Ind-AS 116?

Yogesh Patel: I think this is a clarification here Abhishek. This is not a borrowing in the true sense of the term. These are my lease liabilities arising out of accounting for Ind-AS 116 so that 115 Cr number includes almost 111.5 Crores which is my lease liability, so there is no interest bearing borrowing in that.

Abhishek Ghosh: So there is no real debt in that sense?

Yogesh Patel: Yes, on a consolidated basis, the balance is 111.5 Cr of lease liability and about 4 Crores is vehicle loans, which comes from subsidiary.

Abhishek Ghosh: Yes sure, but there is no any debt that is come into our balance sheet because of this?

Yogesh Patel: No.

- Abhishek Ghosh:** The other thing is we see a slight deterioration in the working capital if I look at your cash flow statement also there is almost about a 50 Crores, 60 Crores kind of a number, which is one and two working capital likely receivables increase also some amount of reduction in payables, so how should one look at how the client is responding to it, how should we look at it in six months or we trying to pull the lever there if you can just help us understand that?
- Yogesh Patel:** Yes very much, so you are right. I mean there has been stretch from working capital perspective, on both ends I would say in a first my receivables days have got stretched a bit so yes there is little bit of efficiency improvement to be done on that base per day; however, if I look at it on a year-on-year basis like I mean probably it is part seasonal in the country like if I look at my last year September numbers and this year September numbers, my delta of working capital utilization is two days, so I have lessened my working capital by two days from last September to this year; however, if I look at my own performance of March and June, yes I should further improve on the working capital from receivables perspective; however, what has also happened is my payable days have also stretched to manage my working capital and I would obviously improve on that as well, so two, three days working capital improvement definitely will get normalized.
- Abhishek Ghosh:** Just one last question from my side. So whatever pricing that we saw from the customers, say about a year back now overall business would have shrunk for all the key players and so are we seeing kind of a pricing pressure or is it still service led for that at least a new client addition and the new business that you are getting incrementally?
- Yogesh Patel:** I would say Abhishek we are seeing pricing pressure in both on supply chain and PTS. Pricing pressure is more concentrated on transportation than on value added services. That said we have also been investing and improving our procurement efficiencies around the transportation space demand is lower and therefore we have been reworking our entire transportation contracts and we have been able to pass the substantial amount back to our business, so as we say always that why our strategy remains and we focus on asset light model because it provides us that leverage, so we have been seeing some price pressure but we have been able to pass the majority of it back relating into our report.
- Abhishek Ghosh:** Sure, okay Sir. Thank you so much for answering my question and all the best.
- Moderator:** Thank you. The next question is from the line of Bharat Seth from Quest Investment. Please go ahead.
- Bharat Seth:** Thanks for the opportunity. Sir in first half of the year, we have added almost 1.1 million square feet so how do we see for the full year and how much have in Q3 and Q4 we are expecting to do?
- Yogesh Patel:** So when we started this year we have said that last year we did about 1.3 million square feet in our warehousing under management and we would at least do so similar in this year as well. We have been ahead of that projection by just doing 1.1 million square feet in the first half itself.

- Since the timings of it not very certain, we would beat that 1.3 million square feet what we had said.
- Bharat Seth:** Okay and there is 16.4 million how much is we have back-to-back and how much is that for a multiple client?
- Yogesh Patel:** The multi-client warehouses today are just under a million square feet so rest of it is all back to back.
- Bharat Seth:** Okay and how do we see that the trajectory?
- Yogesh Patel:** Right now we have already laid out our plan on this multiuser warehouses, the next one that would be invested by us and that is going to come in towards end of this fiscal year, the fourth one will be in south, but then given it has been phased out and we have contracted in a such a way that we have a quite a bit of lead time our teams keep working on in terms of best solutions on warehouse addition.
- R. Swaminathan:** We will see continued growth in the multiuser space with this provides a lot of leverage with some end markets, but you also balance that with specific customer led warehousing solutions because each end market also has their different requirement, some may have high level of floor storage and some require special requirement like FM2 so it is a balanced between both.
- Bharat Seth:** One question you said that we have not seen the full impact of this new it so full year where do we expect the tax rate?
- Yogesh Patel:** So the second half would be in that 26% tax rate range.
- Bharat Seth:** Okay and the increase in this QOQ depreciation and interest is largely due to this addition of warehousing?
- Yogesh Patel:** That is correct.
- Bharat Seth:** Thanks.
- Moderator:** Thank you. The next question is from the line of Sayan Das Sharma from BOB Capital Markets Limited. Please go ahead.
- Sayan Das Sharma:** Thanks for the opportunity. My question is on the freight forwarding business. It would helpful if you can share some thoughts how you are seeing the business ramping up over the next few years, what are our strategies on that and as I understand do you also had an acquisition plan in case there has been progress on that?
- R. Swaminathan:** We did see some good growth this quarter in the freight forwarding business. We grew year-on-year by around 16% to 17%. There is a good growth and we saw good balanced growth both in

terms of air cargo and sea freight, so strategically obviously our focus on that business is to grow. Right now we have a large share of export volumes. I think shipments which origin in state in India so we are trying to increase our import volume in freight forwarding. The second big leap from a growth perspective we are focused on is increasing our balance between air and sea, so a big focus for us is to focus on market verticals like pharma for example where there is a significant leverage to get more of air shipments where we see that as a very attractive growth opportunity. The third big lever on freight forwarding actually to drive integration between freight forwarding business and the rest of our supply chain business, essentially, as more customers look at shipping through our freight forwarding business we still have a fair amount of domestic logistics requirements and lot of domestic logistics customers also have requirements freight forwarding requirements so a big program we actually have is to drive increased synergy, which has been one of the growth driver for our revenue growth in the quarter which just went by. So those 3 levers of growth are things we are continuing to focus on.. Your specific question around the acquisition - we are focused on accelerating the freight forwarding business and we are looking at growing that obviously at a faster level, we think while overall container traffic is growing slow at 4%-5% in some of these areas, we think on specific market segments we serve, there is a attractive opportunities and if the opportunistic alliances which are possible then we will obviously look at them as and when they occur, but as I said again and again acquisition is not a strategy for us. Acquisition is a method to address a broader strategy.

- Sayan Das Sharma:** That is helpful. Thanks I will go back to the queue. Best of luck.
- Moderator:** Thank you. The next question is from the line of Nidhi Babaria from Dalal & Broacha. Please go ahead.
- Nidhi Babaria:** Thank you for taking my question. I just missed out on a part why also borrowings have increased from 8.89 Crores to 115 Crores?
- R. Swaminathan:** Yogesh can you just repeat that, she is asking why borrowing has increased?
- Yogesh Patel:** Borrowing number has lease liabilities classified under that as well, so these are noncurrent liabilities under financial liability and hence that number has my adoption of Ind-AS 116 so the Lease liabilities which get booked are also part of that.
- Nidhi Babaria:** Okay and receivables also Sir. It is 6.82 to 15.28 so what would be the reason for that, trade receivables?
- Yogesh Patel:** 6.8 to 15. Reference could you just clarify this to be able to address?
- Nidhi Babaria:** Trade receivables, has grown from 6.82 to 15.28?
- Yogesh Patel:** So trade receivables is 631 Crores as of March which is 643 Crores in September.

- Nidhi Babaria:** Sir what would be our target for warehousing in FY2020 as we have achieved one million in H1 only?
- R. Swaminathan:** I think as Yogesh just clarified earlier, last year we had given guidance when we have done on 1.3 - 1.4 million and we had said that we will obviously look at doing at the same range or exceeding that in this year. Currently, obviously we have strong additions in the first half of the year and therefore we should definitely be ahead of 1.4 million.
- Nidhi Babaria:** Sir post, festive how is the business for FMCG consumer and e-commerce doing?
- R. Swaminathan:** Well, it is still extremely early to comment on that.
- Nidhi Babaria:** Sir one last question this 0.7 million addition in this quarter, this caters to mainly which clients, like there is any specific or it is diversified?
- R. Swaminathan:** It is spread obviously across the entire range of our end markets which is but it is obviously weighted towards consumer, pharma and e-commerce that is where we are seeing most of our growth as well and it is weighted towards that.
- Nidhi Babaria:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Govind Sabu from IndiaNivesh PMS. Please go ahead.
- Govind Sabu:** Can you just give details of the capex which we have undertaken in first six months and guidance for next six months?
- Yogesh Patel:** The capex what we have incurred in the first half is close to about 30 Crores and while we have said we would have our capex in the similar lines if my total warehouse space addition is similar as well, so going forward capex is obviously linked to it as that is the only investment which we do make. Now in transportation we are totally asset light, the only investment we do is in our warehousing and value added services business where we do sometimes invest in our material handling equipment and certain inside warehouse infrastructure and that is linked to what space we add under management., If I were to add similar amount of space my capex will be in the same range what I had incurred last year around 35 Crores to 45 Crores.
- Govind Sabu:** I mean is there benchmark of per square feet capex which we incur so that we can have an idea?
- R. Swaminathan:** Since we cater to our wide variety of end customer usage and some of them do not need any tracking, they are going to floor stored, some of them have more integrated in terms of shelf and bin, so I mean it varies on what type of customers you get and what type of a requirements we have. There is certain investment which we doing even in e-commerce segment where the facilities are more automated then they were earlier in the past.

- Yogesh Patel:** I think as we mentioned earlier on we do some multiuser warehouses where large amount of our space is still driven by individual customer and end user applications.
- R. Swaminathan:** Those have a wide diaspora between them. They have different levels of storage complexity, different levels of mechanization and in some cases even automation and therefore capital density in that actually moves in a pretty broad range and therefore normally we do not give a specific benchmark cost per square feet from a capital cost perspective.
- Govind Sabu:** The only reason where I was enquiring about it was that I think capex per square feet this quarter this first half was relatively higher than what we have seen in the past so that was only reason for it?
- R. Swaminathan:** I think it is because obviously during the quarter we have done more facilities, more automation, more mechanization, so as Yogesh said it is not floor but the lot more warehousing which have got advance tracking system, conveyor systems, telescopic conveyers, auto sorters as opposed to plain vanilla, floor pallet storage kind of warehouses.
- Govind Sabu:** Thank you Sir. I will come back in the queue.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to management for closing remarks.
- R. Swaminathan:** Thank you everyone. I hope we have been able to answer all your questions satisfactorily; however, should you need any further clarification or if you would like to know more about the company, please feel free to contact our team or SGA or Investor Relation Advisors. Thank you once again for taking the time to join us in the call. Good evening.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Mahindra Logistics Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.