“Mahindra Logistics Limited Q2 and H1 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY2021 earnings conference call of Mahindra Logistics Limited. 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 now hand the conference over to Mr. Shogun Jain from SGA. Thank you and over to you Sir!

Shogun Jain: Thank you. Good evening everyone and thank you for joining us on the Mahindra Logistics Q2 FY2021 earnings conference call. We have with us Mr. Rampraveen Swaminathan, MD and CEO and Mr. Yogesh Patel, CFO of the company.

I hope everyone got an opportunity to go through our financial results and investor presentation uploaded on company's website and stock exchanges. We will begin the call with opening remarks from the management team 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 and shared with you earlier.

I would now like to invite Ram, CEO of Mahindra Logistics Limited to give his opening remarks. Over to you Sir!

R. Swaminathan: Thank you very much. Good evening everyone. I trust that you all and your colleagues and dear ones are well and keeping safe.

I will begin with a quick overview of our external environment and trends we have seen in our end markets followed by commentary around financial and business performance and our strategy going forward.

On our financial results, I will keep my comments largely to the Q2 only as Q1, given the pandemic, was a unique situation.

In the quarter gone by, we continue to see a recovery of activity across all segments. While the pandemic is far from over and yet a long way to go, there is clear and increasing activity across our end segments and markets. As things are starting to come back to normal, we are seeing more consistent month on month movements though it varies a bit by end market. As we look at our end markets, we see the following trends. Let me first move to auto, farm and engineering.

We are continuing to see strength in the farm sector. The positive trends, we saw in the Q1 continued through Q2 and we expect to see the same in the short term. Given the strong demand across the country, we are looking at supply chains both inbound and outbound with a strong focus on reducing shortages and improving delivery while we continue to focus on cost. We continue to expect a favorable environment in the near term.

An interesting change in the industry is that an increasing shift is visible towards rail based shipments on longer routes combined with last mile delivery solutions using surface road transport. We have also been developing and leveraging this solution. In fact, we have not only started rail movements for farm in India, but also has started cross borders service for Bangladesh.

On the auto side, we saw positive month on month movement though the Q 2 was lower than last year. This continues for passenger vehicles and for smaller commercial vehicles & SUVs. Demand from rural and smaller cities remains strong and two-wheeler volumes have been also very positive. However, the medium and heavy commercial vehicles market is still very weak and we continue to believe it will be several quarters before it can come back to normalized levels.

Some OEMs have got diesel based product lines which continues to see supply chain challenges. Really as a hangover extension of the BSIV and BSVI transition. As we have said earlier, we expect things to improve with the festive season and especially with stronger demand and believing OEMs debottlenecking some of their supply chain constraints. We expect that the second half will be far better demand environment for the automotive segment at least two wheelers and passenger vehicles.

The manufacturing and engineering sector are also seeing a strong improvement though we see lower traction in capital goods, in general we see improvement. Our customers again are strongly focusing on improving delivery performance. They are working with very lean supply chains and reducing transportation costs. Through the quarter, we have been able to ramp up some of the accounts, which we won last quarter and also win some new network transportation and consolidation contracts both from engineering products, some capital goods and related items.

Moving on to ecommerce, there is a story, which I think has been well covered. The pandemic has continued to accelerate the adoption of digital channels and that has translated an upsurge in ecommerce. There is a sharp growth in overall volume of ecommerce market places with leading market places growing by over 40% year-on-year. The segments growth has accelerated the demand for transportation and fulfilment logistics including sortation, fulfillment centers, return processing and last mile delivery.

Post outbreak of the pandemic there has been a perceptible growth in demand for essential products through the ecommerce channel and we have continued to see that trend in Q2 as well. We also see strong demand from tier2 and tier3 cities and towns accelerating in the last six months and again same patterns we should expect to continue. While there are some part of the demand has been a blip because of pent up volumes, I think we are now consistently seeing a strong growth trajectory right post that one time growth as well. For us, we have seen growth in volume in our sort centers and fulfillment centers combined with new launches of sites in areas like grocery and a continued growth in our transportation and milk run business.

During the quarter, we also commenced what we call as flex fulfillment solution, which are short term warehousing base sort center and fulfillment center solutions. So, we have launched that in 12 locations across India with over a million square feet of warehousing space, which are largely short-term contracts in nature.

Moving on to the consumer side, Overall our consumer customers in FMCG, Consumer Durables, Pharma and Telecom have seen a constant recovery in volumes. The slowest probably has been on the telecom side. Volumes have really shown a strong return and as we continue growth as brands also go online and try to design omni-channel solutions. The slowdown in imports from China is also creating more of an impetus for more local manufacturing. The outbreak for COVID-19 continues to be a wake-up call for pharma companies to diversify their supply chains geographically and develop local sourcing units and also adopt alternative strategies for reducing dependency in a single source.

We see positive impacts of that both to our domestic supply chain with this as well as to our cross border and freight forwarding business. As we look into the festive season, I believe this recovery will continue to accelerate. Many of our customers are evaluating their supply chain design as they focus on increasing in country manufacturing and the shift to digital and they are looking at evolving logistics and supply chain options for the same. We are also working with some customers in the pharma industry to evolve options for logistics solutions for the future COVID-19 vaccine.

Moving on to commodities, again on the commodities sides, which for us are largely metals and minerals we continue to see some positive month on month improvement and a broader improving trend and we expect that this will continue to be an improving trend in the coming quarters and will accelerate once a broader recovery takes place.

Our last bit market of course is mobility, and that is the part of our business which remains under a fair amount of stress, obviously since it is a business which largely serves the IT and IT enabled services and financial services industries. As most companies in IT and ITES continued to follow work from home policies, we have not seen a large recovery in this segment.

Overall trip levels are back to around 25% but are far from our targeted levels. Sequentially we have seen an improvement, but obviously we have some distance to go and part of our response we have been reworking our supply contracts, reducing costs and rightsizing the business in the short term. We have also tried to expand our focus on manufacturing ecommerce and expand our bus based mobility services business and also launched new services, which are on call and B2B and B2B2C.

These initiatives are helping us reduce the impact of the sharp decline in volume, but as I said a full recovery will be closely linked to the development of a vaccine and the return of confidence and shared mobility and we think it may be three to four quarters before we can see a consistent recovery.

Moving from markets to our service line, let me begin first with our transportation based service lines, which includes line haul, mid mile transportation, distribution and express .We continue to see improving stability in our line haul and long distance transportation, lockdown driven disruptions, this we talked about in last quarter have come down significantly though there are isolated issues in some areas.

With that said, there continue to be challenges around fuel price increases and as volumes increase in a market of tight liquidity many of our transporters are having significant working capital challenges. These are creating volatility in line haul movement and have had some impact from a cost perspective and a network optimization perspective.

On the express distribution last mile site, there continues to be a strong growth in volume and we have been able to meet customer requirements with adequate levels of supply. Our freight forwarding business, which is our next service line, which is through our subsidiary called Lords, is continuing to grow. As you have noted, we had a strong growth in Q1 and we continue to have good growth in Q2 as well. While demand is consistent and we have been able to execute our segment strategy both in terms of geographical segment, end market focus as well as a balance of import and export, we have seen a large amount of volatility as carrier ability has been very tight.

As a result of that we have actually seen a fair amount of volatility on the cost side and though we have done a fair work to mitigate it, it has had some impact in our gross margins for Q2 and lastly our warehousing and integrated solutions or value added services business that is pretty much back to pre COVID-19 levels and actually growing beyond that. While we have seen some negative impact in our auto customers, demand for fulfilment solutions and ecommerce and consumer is growing much faster and we see a very strong uptick both in terms of operations as well as in terms of order intake.

During the quarter, we added 0.8 million or 800,000 square feet of BTS multiuser capacity, which will be used for new accounts as well as consolidation of some of our existing smaller businesses. We have also, as I said earlier, commenced our Flex Solutions for ecommerce customers and for those solutions, we have commissioned nearly one million square feet of short term warehousing space. As you would have probably noticed from some of our press releases in preparation for the upcoming festive peak, we have added nearly 10,000 third party employees to support an acceleration in demand.

Now with that let me move on to our financial performance for the quarter. Revenue for the Q2 FY2021 stood at Rs.833 Crores compared to Rs.852 Crores for the same quarter last year down by 2%. Revenue from the supply chain business contributed 97% and enterprise mobility business was only around 3%. Our gross margins for Q2 FY2021 stood at 9.9% as compared to 10.2% for the same quarter in the previous year, a decrease of 28 basis points. The drop in gross margin was primarily due to some onetime cost to streamline operations and we also had a spike in cost because of the large number of projects, which we started off.

We also had some impact because of higher freight costs and the lower gross margin in mobility and impact of our freight forwarding and Lords businesses. We expect most of these to get normalized in the coming quarter that especially in terms of our time cost as we expect that to be able to come back.

Service mix, which is something, which I know we all monitor. What actually was a positive for the quarter as we have seen continuing growth in warehousing and value added services though its impact offset by this one time cost and increase in transportation cost.

EBITDA for the quarter stood at Rs.46 Crores compared to Rs.40 Crores for Q2 of FY2020. As all of you would have noticed we continue to do strong control of our overhead expenses and those showed a positive trend compared to last year, but consistent with previous quarters and we hope to be able to maintain that run rate.

PBT was up 14% from Rs.18 Crores last year to Rs.20 Crores in Q2 FY2021 and PAT was up by 32% right to Rs.15 Crores for the quarter. As some of you may have noticed, we did benefit from higher other income during the quarter due to interest earned on tax refunds. This obviously was a positive element for us. However, at the PAT level net of that impact, our profits would have been roughly in line with the same level as last year despite some of the other factors I have already covered.

Proportion of revenue from the Mahindra Group was precisely 50% for the quarter compared to 51% in the preceding year.

Let me also share a little bit more detail around our segmental revenues. As I have already said revenue from supply chain segment grew from Rs.755 Crores to Rs.804 Crores up 6% compared to last year while the mobility business was down 71% from the same quarter in the prior year.

The supply chain revenue was positively impacted as we saw the acceleration from the non-M&M SCM side though there was some impact of the auto industry, which is a strong and large vertical for us. Our revenue from the Mahindra Group supply chain business decreased marginally from Rs.421 Crores to Rs.416 Crores. Within this, there were two parts, obviously the farm sector showed very strong trends. The auto volume was down and that is something which I said earlier we expect to see correction going forward.

Our non-M&M SCM business grew from Rs.334 Crores for the same period last year to Rs.387 Crores in Q2 FY2021, which was really driven by the factors that we have already mentioned strong growth in ecommerce, consumer and freight forwarding, despite a slowdown in telecom and auto. These vertical grew combined at 33% during the period and was able to offset some of the headwinds, which we have seen in auto and telecom.

Growth in e-commerce and consumer was due to increase in demand and deeper penetration expansion of our services base. Our warehousing and value added services from non-M&M SCM business has grown from Rs.114 Crores in Q2 FY2020 to Rs.134 Crores in Q2 FY2021 registering a growth of 18%.

Share of warehousing and value added services in non-M&M business reached 35%. Of the non-M&M SCM business the e-commerce and consumer business collectively comprised 50% of our revenue.

Our cash and cash equivalents at the end of September 2020 stood at Rs.190 Crores and we continue to drive and control on our overall operating cash environment and manage our cash flows for the period.

Overall it is a period of recovery as we have seen a stronger growth environment and we continue to execute our strategy. As we move forward, we see five key trends in the supply chain business. The growth in fulfillment logistics and warehousing services, increase adoption of multimodal transportation systems, increase in omnichannel distribution models especially in e-commerce and consumer, a higher level of service integration and demands for integrated solutions and a greater adoption of technology in creating the customer value proposition.

Our strategy, which we have shared with you earlier is still focused on leveraging the strength and we believe it augers well for us. As the quarter has just passed, we continue to expand our services especially on express and freight forwarding. Our focus on integrated solutions continues and we believe the industry trends would have accelerated this.

Operational excellence with a higher productive focus in expanding our warehousing remains in key area of activity. In addition to the new BTS warehouses we have launched, we have upcoming programmes at upcoming locations in Mumbai and Pune, which are under construction, which will go live in the remaining part of this financial year and other sites which are actively planning.

Digitization and technology is the fourth big lever we continue to execute on. During the quarter, we made good process in launching our new system for a procurement and materials management. We upgraded our transport management system and drove an integrated architecture and integrated several of our systems together. We upgraded some of our labor management systems and launched some other feature upgrades across our architecture.

We are set to launch a new HRMS and warehousing management system on the balance of this financial year. Over 75% of our line haul fleets are now on our track and trace platforms and all these initiatives we think will continue to enhance our value proposition as we go forward.

Overall, I think as we entered the COVID period, we kind of defined our key horizons for the business, resilient, restart and reimagine and most of last quarter was refocused on restarting of business and kind of reimaging and getting back to a growth curve. We continue to be focusing on executing that strategy and expanding the share of customers while adding new accounts with an improving environment and a stronger predicted recovery in automotive. We believe we are well positioned to expend our right to win and growth. 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. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Rohil Gandhi from PPFAS Mutual Fund. Please go ahead.

Rohil Gandhi: Thanks for the opportunity. Sir my first question is with respect to the warehousing business so if you see in the last three years, the business has grown very well. but, queries relating to that, the area managed if you see from FY2018, it has grown at around 3% to 4% so could you just talk a little more on that aspect because you have always eluded to the fact that grade A warehouses are in high demand currently and now like there is a shortage so can you just talk on that aspect please?

R. Swaminathan: It is hard for me to commend on the exact 3%. That will not be in line with what we think we have been disclosing.

Rohil Gandhi: Actually based on your numbers so in FY2018 the warehousing space managed was around 14.3 million square feet, which has risen to 16.3 million square feet last year, I was talking based on those numbers. There was not a significant addition to the total warehousing space that you have been managing whereas the total business in terms of revenue it has grown at a very healthy rate. So my question was more relating to that.

R. Swaminathan: Good question, but last year we added 1. million square feet, which is roughly the range of what we have said we will kind of add every year. Now what is happening beneath that is there are actually three parts to our warehousing and managed value added services so there are stockyards which is the facilities we operate for automotive customers, we have in-plant services where very often the warehouse is actually owned by the customer and we provide services and then we have our external warehouses which includes our built to suite a multiuser facilities. One of the reasons what you are seeing is that as the automative slowdowns happen there has been some decline in our stockyards space under management there has been some decline obviously in the stores and line feed operations we have had and those have actually been offset by increase in external warehousing and this is the reason why what we are seeing is that even though your overall warehousing is growing let us say at 10% you will see our revenues is actually going faster than that because what is actually happening is that we are having some amount of delta within this space and in new capacity we are adding is far more value added than the capacity which has been dropped off and that is the reason why you will see the revenue per square feet is actually showing a positive trend and therefore revenue growth overall, it is faster than the area covered..

Rohil Gandhi: Right also can you just talk about the flex model with respect to the warehousing business that you just spoke off? How would that be different, and would that have any different economic and how that works?

R. Swaminathan: We do not actually add Flex in our warehousing space technically. These are short term warehousing capacities so it is not longer term capacity and what actually happens is a flex solutions is actually helping customers who are looking at expanding into a certain geography or who are seeing a spike in demand by creating a rapidly flexible model of capacity. So typically these are sites, which are for shortage you know, are fulfilment sites, which we bring on in several within let us say within three to four weeks and we will take down within three to four weeks as well. So these are very rapid models which escalate and and bring up and take down very quickly. Obviously you know because we are managing capacity on a short term basis, we are able to see an unique model which our customers are able to get and also slightly better margins on that business and better return on capital employed on that business. As we are coming out of this pandemic, we saw some demand because of pent up volume, but we have also seen a larger demand that as companies expects to expand their network or try to meet seasonal requirements because you do not need to put an entire facility for 12 months. So actually if you go to see demand only for four. We are able to create a solution where for our customers we do not get stuck with long term capacity and for us, we are actually able to create these solutions to give us better returns.

Rohil Gandhi: Also could you please talk about in the last six months since the pandemic has begun, how has been the new business win and enquires that have been happening and if you can in some context compare it to what that was last year that would be very helpful?

R. Swaminathan: Obviously we had a pretty sticky first quarter in terms of demand because lot of companies was obviously refigured what they want to do. Even our ecommerce customers were really just focused on figuring how to re-pivot towards more essential services because lot of the ecommerce, in fact mobile, electronics, apparel and so on. Q1 was obviously a challenging quarter in that sense, but we have seen a strong improvement in the demand that seen the second half of Q1 through the Q2 and if I compare this to the same time last year, I think order intake is up, not very significant, but it is up in line with our revenue and what has happened more importantly is the nature of the order intake is a bit different. So what we are seeing more now is actually demand for more of solutions which is either even on the transportation side it is consolidation and network optimization, on the fulfillment side it is warehousing, sortation centers and a lot of integrated distribution. So I think the nature of demand, I think post pandemic has changed, which is a reflection of some of the trends which I talked about earlier on. We will see how that plays out and our hypothesis is it will probably continue to be there because the pandemic has made people start designing their supply chain based on fulfillment and not manufacturing. So that has definitely accelerated and it had to put more inventory closer to customers, resilience of your supply chain is a much bigger factor. So those things are impacting the kind of business, which is coming, rather than the absolute business. So, the absolute order levels have also grown or the supply chain side and on the mobility side of course I will not repeat my earlier comments. I think they were fairly elaborated.

Rohil Gandhi: Thank you so much.

Moderator: Thank you. The next question is from the line of Amol Grover from Albatross Capital. Please go ahead.

Amol Grover: Good evening Sir. My question is what are we doing to accelerate the growth of our non auto segment?

R. Swaminathan: Obviously it is a long question. This is a golden question because there are many questions built into it, but really I think it begins with two fundamental things. I think we got four strategic platforms we are trying to execute. One is to expand the range of our services, so if you see what we are doing in terms of growing our freight forwarding business or express business or a part truck load business these are all driven by the non-auto kind of segment both in consumer and Ecommerce. The second thing, which are doing obviously we are investing more of integrated solutions. So lot of the business, which we are doing increase is integrated solutions. For example, we talked about even on the earlier calls we talked about a pharma customer in North. Last quarter we went live with a very big personal care products company in Hyderabad again integrated distribution. We have gone ahead with a company, which makes capital goods in Kolkata, which again is an integrated solutions business. I think once it is the time to invest on being a multi-start service provider integrating transportation and warehouse capabilities together and doing more of processing not just doing more of storage, but actually doing more of processing. So we will do sortation centers or Fulfillment Centers (FCs) because they are doing just more than just rerouting material they are picking, packing, breaking bulk, and doing more of processing in-house. Those are all things, which actually become more value added and returns processing. The second big piece is driving more of solutions and the third one obviously is driving more of operational capabilities. Being able to bring in more automation, innovation, to solve our customer problems, learning to execute and create new formats. So for example the flex solution I talked to you about is doing a significant number of projects taking volume up and down right very, very quickly. Now we are hiring thousands of people in a short window of time. So that is all about building and a lot of operation capabilities to support this growth. The fourth thing is leveraging technology to create this proposition. So those are four things, which we are doing to help create solutions, which helps in the markets we are focusing on, but clearly our focus market while we are very strong in auto, the real focus is to get into this consumer markets, ecommerce and general manufacturing because those are places where we think there is a large opportunity right both in terms of supply complexity where we can creat solutions and overall the size of wallet. So it is a combination of both. It is actually makes it attractive and that is kind of the big area to try and re-pivot the business. That has been going on now for sometime, so it is not just this quarter or next quarter. It is something that continues to make traction on, and we believe we will accelerate that going forward.

Amol Grover: In addition to that I want to ask how much broader question regarding is if you could shed some more light on the aspirational of Rs.10,000 Crores revenue that you have for the next four to five years?

R. Swaminathan: I said this last time as well a similar question which came up about our Rs.10,000 Crores vision. The market for logistics is a very large one. Even though the 3PL market itself is around Rs.60,000 Crores to Rs.70,000 Crores, what we address is 3PL plus a bit of transportation. If you see our annual report, I think we articulated that our addressable market is at Rs.120,000 Crores, so the headroom to grow is there. The challenge is to create strategically viable models, which are both profitable and accessible and we think that this four-prong strategy we have using the underlying strategic enablers will allow us to create that growth. As you look at the Rs.10,000 Crores vision you are really having to look at it, saying that there are basics broad assumptions there. The first one is the economy will come back to a recovery especially in the auto side. Now that is one assumption, which we think over the next five years will play out, we should be able to get and at least get back to the and 6% to 7% of growth level. The second big factor is that India with the national logistics policy coming out and with the increasing formalization, which will allow the share of 3PL to increase especially now with COVID-19, GST, etc. The policy environment will play favorable. The third one is that the firm will execute its strategy. Combine these three multipliers, we see the Rs.10,000 Crores is a very very reasonable aspiration for us to shoot at.

Amol Grover: I think that answers my question. That is all from my side. Thank you.

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

Ankur Periwal: In your earlier answer to one of the questions you did mention change in the overall strategy of the client wherein probably they are they trying to get closer to the customer and you know commensurately our flex solution offering there, so two questions you know related to that so one is if I take a step back on the one side we have the longer term arrangements wherein we are trying to work with the consumer facing companies and looking at the long term arrangement there and on the second side we have this flex solution. So now this flex is only to address the seasonal volatility that we are seeing for the customers or it is more structural wherein we are trying to scale up or let us say push the outsourcing factor at a much faster pace across the customer and which can be sort of feeding into the longer term revenue potential as well?

R. Swaminathan: The way we designed this when we started this off was to really serve three things. The first one is obviously seasonal need. Your demand comes up and down and says you know any commerce, any consumer and the festive season. You can see a 3X and 5X growth and we are trying to create solutions, which are more capital efficient for our customers and return efficient for us because we have a fundamental belief that you got to ultimately create customer value. The second reason was to do network expansion, which is really you cannot have a truck load of capacity overnight. So, you have got to create it and densify their networks, reach more pin codes, drive depth in the fulfillment locations, it is not really easy to do that in a short window of time especially we are trying to do it across India and the third one was to basically deal with demand uncertainty. This is to actually say that I do not know if my network design is optimized right now, I would like to put some short-term capacity and let my architecture become more stable. Once I see several seasons of demand and in what we are actually seeing play out Ankur is a little bit of all three. When post COVID happened and there was a little bit of pent up demand upsurge in several cases next to existing sort center of ours, we put a small flex because the volume was very high. As we start preparing for festive, we are actually putting flexes with customers in kind of new locations not locations that we have covered earlier. That is because we are probably already with some expansions. They do not have the capacity or the bandwidths to go put a new one and in some cases the customer is probably expanding and putting some new things, so they actually say that listen we would like to take a short-term facility and figure out how this actually turns up before we actually firm it into a longer-term arrangement. Flex provides a customer led solution you know for all three needs and I think it is hard and what we are assessing on the ground is a little bit of each one of them. It is not like it is all wedded to one thing. So, we are seeing a combination of all three of them playing out and probably in the next three to four months from now when the peak is over, we actually will be in a better position to see how much of that gets converted into long term requirements because some of our customers are already talking about saying that let us make the flex a long-term site. So, you will see I think a combination of this. I have always maintained as a company our goal in our holy grail is to take a slew of services and then stitch them into a solution, which makes best sense for our customer and so we are company led in the services, but we are customer led in our solutions and I think flex essentially provides us the flexibility to do that right. So I will stop there Ankur. If you have any followup I will take that.

Ankur Periwal: That is helpful and just secondly you typically do mention the logos or the new client additions that we have done over the quarter so how has been the last quarter on that aspect and on that client specific wrap up that would have seen for the client added over the last few quarters.

R. Swaminathan: I think we have seen on a demand pattern, which will be more interesting for all of you. I think the overall order intake has been positive. It has actually grown year-on-year. We are seeing a strong growth. Clearly if you in terms of logos and end markets obviously the ecom business continues to be a large part of our demand followed by consumer and by manufacturing. We have seen a fair amount of demand from manufacturing perspective. What is interesting I think is actually if you look at the service solution split there is obviously more solutions, which have come in, but on the services side, we have seen an uptick in transportation especially around network consolidation contracts where customers are trying to say listen how do I combine my inbound and outbound to become more efficient. Can it help us create new solutions? So we are actually seeing a bit of that uptick on the transportation and solution side as well, but those are three things if you are looking at more specific client details of course we have won a large contract with a glass company. We have won a large contract in the Western part of India with capital goods and electrical goods company. We have just commissioned a distribution solution out of Kolkata for again a capital goods manufacturer, a company which global multinational products for transportation and the metro rail market, so we kind of kicked that off. We are doing live with a power tools manufacturer, which is a fast moving segment actually and with a distribution solution for a power tools manufacture out of Chennai at our new BTS right. Just before Diwali, we will go live with them. So we have done a series of different kinds of contracts, which are coming. During the quarter also we won a fairly large contract for doing end to end solutions, logistics fulfillment for a fairly large consumer durables companies and that actually we will be in an end to end contract where we will do supply and actually do complete value chain delivery into distributors. That is a large project with several warehouses across India to be established and more than a million to a million and a half square feet of warehousing space when it is all done. It will take five to six months before it goes right because that is long gestation project given the scale so the positive movement in multiple ways. I think our freight forwarding business also continues to show lot of robustness. We do not talk about it again so much there, but again the exiting logos with higher penetration there. We have started doing for several of our pharma client's movements to multiple parts of the Americas now. So it is just generally more happening Ankur both in existing logos and some new logos, but the spread is widening, which I think is a positive trend overall and it is a reflection I think of a broader recovery.

Ankur Periwal: That is pretty encouraging. Thank you and I will get back in the queue.

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

Krupashankar NJ: Good evening. My first question was on the non-automotive business, so clearly you have generated revenues of close to about Rs.317 Crores for the quarter. Just wanted to understand what would be the composition of ecommerce?. The reason why we are asking this question is that we see in the future ecommerce business like Amazon would like to take most of their operations especially on the logistic side of things so just want to understand how you are placed in the overall ecommerce? The composition will help us analyzing it better

R. Swaminathan: I shared in my comments this time that ecommerce and consumers together are 50% of non-M&M supply chain business and part of the reason why I think that matrix is reasonable amount of sense is I think the lines between these segments are very low blurred .What you will see is as more consumer brands go online, I think there is just going to be a far more greater alignment in the way to delivery and fulfillment happens whether you are in online market place or whether you are going through general trade or modern trade, it is all going to get more omnichannel as you go forward, but collectively ecommerce and consumer are around 50% of our non-M&M

SCM business for the quarter which just went by. I have noted actually we have discussed even earlier how the com companies might play out in terms of their strategy and what I think we have shared a couple of times before as well, but I will repeat it again is that we are a large part of our business is kind of inside the fence so we operate in two ways in ecom. We are a white label fulfilment and transportation logistics service provider. In which case, what does means is a customer comes and operates on our network, our technology, our infrastructure and really they give inventory to us and we reach it to a place and everything in between is really MLL (Mahindra Logistics Limited). The second one, which is a larger part of our business is what we call the inside the fence or inside the box where we are actually part of the market places network and I think what people do always I think actually if you peel the onion on most of these ecom companies, what you will see that even though they manage this and supervise their network typically within their network there is a fair amount of outsourcing done and there is a fair amount of partnership, which exists and those include for transportation or sorts centers right or large FCs right. Again the individual companies have their own approach on things like small packet FC, but there is a wide variety of models which exist inside this and one of the things, which we have strategically been pivotal a lot on is that model because we think it is in our belief that model actually build deeper partnerships with our customers and it has been successful for us in terms of our product line expansions. So we started off obviously doing this small packet or you know expanded to heavy and bulky. We are now doing grocery, we have expanded into wholesale, we are doing some pilots in pharma, we are doing milk runs and integration of transportation and fulfillment in the centers together so I think what has allowed us to do is an offering expansion, working with our customers inside their cloud and in that sense therefore our network is part of their network when they define it. In fact, the strength of our flex solutions is their ability to be able to being a successful part of our customer's network because that allows rapid deployment. So that at least is just why one reason why obviously take your comments onboard and we obviously notice that differencing different parts of the world as well, but that is how we are trying to address right now.

Krupashankar NJ: If is possible can you share perhaps how many fulfillment centers you are managing for our ecommerce clientele?

R. Swaminathan: If you can reach out separately to our investor relations team we will provide you some more granularity.

Krupashankar NJ:' Thank you. My second question was on the express logistics business because we have been talking about it as providing as an allied service so again coming out we are seeing that the ground express logistics business has gained a lot of traction post GST. Is there any possibility you will be providing as that as a standalone service going forward or is there any such plans in place?

R. Swaminathan: I think Part Truck Load (PTL) is an offering for us overall as an individual offering. It is a service line offering for us as well and what we do there is you will see it because we really sell it as part of an overall portfolio of services. They are also market driven in structure, so we have a consumer business and ecom business and those businesses sell everything. They do not just sell line haul, they don't just sell warehousing, they don't just sell fulfilment solutions, they sell everything. They sell express. They are in the wholesale band and that is our strategic choice that is in our portal. So our businesses are portal to which all our services get blend it into integrated solutions so we do not call express separately, but we do obviously provide express both as part of an overall solution, but also as a standalone and in fact for many of our industrial clients our express business actually operates just as a standalone service. For some of our consumer businesses, which are like we work with a leading firm, which makes hobs, chimneys and stoves, and a lot of that all we work some of the several smaller brands on the consumer side, electrical, and the durable side. All of those of essentially are just pure PTL or express. There is no real order solution there. It is just that is not something we call out though very specifically as a line item.

Krupashankar NJ:' Thank you. Last question is there any one time surcharge on services or transportation anything provided over the last six months? Any COVID surcharge for example?

R. Swaminathan: We are just in the pre unlock 1.0 things were really tightened down. Obviously I think many people were able to pull out and push through and kind of a pricing action around the COVID surcharge and of course there are different numbers, which have floated around the industry, but with a contracted performance markets where we have been I think we are seeing premium price more because there has been emergencies and exigence situations, but not necessarily a secular kind of COVID surcharge. It is still there, you have parts of India where because of COVID vehicles does not run and then we have to price differently for those markets, but I think by and large it is kind of normalized now. The bigger issue is now Krupa just the increase in fuel prices the overall demand and supply patterns.

Krupashankar NJ: Thank you and all the best.

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

Ankita Shah: Thanks for taking my question. My question again was on the B2C side. Basically 50% of our business is from ecommerce and consumer as you have mentioned, but you know I wanted to understand how much will be our market share in the outsource B2C logistics function? How much we will outsource and how much will be our share roughly or it is in market share in this outsource business operation in ecommerce side?. The second question on this we have seen a lot of your companies within B2C are not very profitable because which are very highly competitive business segment and because of the high network costs, it is not very profitable so just wanted to understand how are the gross margins in this segment versus any other like auto or pharma or other segments that we will be catering to?

R. Swaminathan: Let me try and answer the first one. I will kind of get Yogesh to probably elaborate a little on our margins. We have reasonably positive margins to the story, but he will add more detail and color, but I think if you look at nature of our business the way you could divide the ecom supply chain into really three parts. You have the suppliers inbound, which is go into your FCs, fulfillment centers and we have to fulfillment all the way to sort centers, which is inter-unit movements and your sort centers and then you have last mile which is from there to a delivery station, the person comes in and delivers it to your home. As you pointed out clearly that the economics on the last mile delivery have been the largest challenge owing this given often with the individual transaction cost in the last mile with the network is fine and therefore different companies have different approaches obviously to do that. At Mahindra Logistics, we are in the last mile, we participate very selectively, and we largely participate there on large product delivery, so we do not do small packet delivering in a large way. It is really the traditional B2C associate the most. The person who carries the bag, sitting on a bike and comes driving in and comes and delivers the stuff, so that we do not really do a lot of that. What we do is TVs, washing machines, and refrigerators, which are largely more complex in some way determined delivery associate will come and deliver it and commission the product, unpack it, look at sustainability and recycling and so on and so forth. So that is a place where we do a lot of that. A lot of the rest of our business actually is on the rest of the fulfillment chain on sort and there we serve multiple product lines. We do smaller packets, we do large and bulky items, we do groceries. So we do a wide variety of product categories there and that is the bulk of our business along with the transportation, which is between these locations from milk runs and so on. Therefore the context of the contours of our business are probably a bit similar to what might be a general configuration which is there. In the segments we serve, it is hard to get a real market share estimate, but I think we are a very strong player in the segments we serve and our market share should be reasonably favorable and it depends on client to client and customer to customer so it is hard to actually say that is an overall market. It is also not per piece delivery. It is larger volumes with some amount of investment. I would say our market share is generally very comfortable position.

Ankita Shah: If I look it will be two major outsourcing companies Amazon and Flipkart and then comfortable market share would be close to double digit 10% or more than that or just some color on that? It may be large to outsourcing companies for discussion sake

R. Swaminathan: Definitely in the higher teens services and segment. Now coming to the gross margin let me kind of hand it over to Yogesh. Do you want to give a flavor for gross margins. I think Ankita question is also related to other segments.

Yogesh Patel: On ecommerce per se if you want to see our business I mean the way we look it is from a service line component perspective. So if you take transportation business the threshold or yardstick is that the margins what I would do business for is in line with what my expected margins for those service is. Whether you are doing a particular size of volume or environment definitely does mean somewhere you will make from a threshold a bit higher or a bit lower. Ultimately it will come down to our average expected transportation lead margins, which you are aware of.

Ankita Shah: Is it similar to what our average transportation and warehousing margins are, it will be a similar range?

R. Swaminathan: The simplest way to look at it is our margins for this segment in line with our overall margins.

Ankita Shah: The competition does not impact pricing in this segment for us?

R. Swaminathan: No as I said within ecom whether you are doing transportation, the transportation Yogesh said will be comparable to other transportation or we do other segments, warehousing and value added services will also be comparable to solutions and margins we make in other segments. So it is not a very big difference based on ecommerce and consumer.

Ankita Shah: The ecommerce business expected to grow further from here on? Will this share get increased more than 50%?

R. Swaminathan: So, your question it is 50% of our existing volume. So a percentage of our overall business is tricky thing because we expect other business to grow as well, but what I do know last year also we grew our ecommerce and consumer businesses at the north of 20% to 25% and this year also if you adjust for the COVID period, we expect similar growth. So we expect it to happen, but that does not mean we do not expect other businesses to grow.

Ankita Shah: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Depesh Kashyap from Equirus. Please go ahead.

Depesh Kashyap: Thank you for taking my questions. Sir out of this Rs.170 Crores revenue from the warehousing how much will be form the flexi asset solution in this quarter? Is it possible to highlight that?

R. Swaminathan: Well actually to be honest I do not have the immediate answer. You will probably have to give us some time to get back to you. A lot of that will actually get monetized frankly in Q3.

Depesh Kashyap: Okay and Sir how aggressively you have arrangements with the landlord and customers different vis-à-vis the normal fulfillment centers?

R. Swaminathan: By and large all of them are back to back in a line right. So if you look at our flex centers most of them would be essentially will be warehousing. The landlord arrangements would also probably be concurrent with our existing what a customer contract is. In some cases, it has actually been that you are able to fit into a multiuser site or existing facility we have. Let us say if you are doing a flex for 20,000 or 30,000 square feet and if you can do re-layout in our existing warehouse and save 20,000 or 30,000 square feet for a few months then you can use that for a flex as well. So, there are multiple models, but by and large, if you are asking from a risk perspective, there is no incremental warehousing real estate risks we are taking because of that.

Depesh Kashyap: Understood. How long are these contracts and what are is the typical capex that you require to do for these contracts?

R. Swaminathan: I would say so the capex is all contractually factored in. It is not a huge amount of capex. A lot of that is the things reuse and flex, but by and large wherever we make it meaningful, it is all factored in the way we do it. Typically, these contracts are all between three to six months, but as I said earlier, it depends on what the customers is putting a flex for. So we have seen also that some of the flexes get extended because demand goes up or the mode expansion happens, but by and large I would say it is a three to six month window.

Depesh Kashyap: Sir in the last call you talked about adding 1 million square feet by Q3 and you have already done I think 0.8 million square feet so any new targets on the warehouse addition for the second half?

R. Swaminathan: I think we mentioned earlier that we expect to go live at least with two new BTSs, both in Chakkan and Pune. They have a new BTS coming what we called BTS3 for there. Another new one is coming in Bhiwandi. Both of those will go live in the rest of this year. They have been a bit delayed because of COVID and weather. Both acts of God I guess, but we expect those to come live towards the rest of this financial year. The Bespoke warehousing addition will continue right, and we expect several facilities to keep coming up in line with customer contracts. I think I mentioned earlier on for example we are kicking off a large supply chain network design for Consumer Durables Company. That will add more capacity as well. So I would say overall what I think Yogesh and I have said in prior meetings is that at least you are 1.5 million square feet to 2 million square feet of value addition is what we think is required to kind of fuel the kind of growth aspirations we have and we expect to by and large be able to execute that. The related strategy obviously enrich our solutions. So not just do basic storage, but also do more processing based solutions so a rupee per square feet or realization per million square feet also increase and that actually is something, which we keep activate at a do through solutions.

Depesh Kashyap: Thank you Sir. Sir lastly in the opening remarks you remark you talked about you are in talks with the pharma companies for the COVID-19 vaccine distribution? Just a rough internal estimate how big do you think this opportunity can be for Mahindra Logistics?

R. Swaminathan: Good question. Frankly our work here is not economics led. What we think as the country has a fairly large challenge. It is one of the large challenges on COVID pharma distribution and especially in the last mile and upcountry market. It is not so much about as moving it from a location internationally into India or moving within large manufacturing facilities in India. It is actually about doing last mile delivery and vaccination distribution and the vaccines themselves are wide variety. The different temperature control requirements. To be honest at this stage, we have not seen it as an economic objective as much as the right thing to do right. So, we are working largely with customers to design what will be the best thing to do for the nation rather than seeing it as an economic target. With that said I mean if you look at I think, there are several estimates in India will look at vaccine in Rs.25 Crores people a year. If you look at it in the last mile delivery and distribution of its Rs.500 or Rs.600 per vaccine, you are looking at a Rs.15,000 to Rs.20,000 Crores annual market that in terms of spend in terms of distribution and delivery of high value temp control medication and vaccines. I guess it is a fairly level of spend as well. Hopefully in the coming quarters we will have better clarity around this.

Depesh Kashyap: Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Rajesh Ranganathan from Doric Capital Corporation. Please go ahead.

Rajesh Ranganathan: Thank you really appreciative. We have had a lot of discussions about your opportunity in ecommerce, but there is also a flip side of it there is a lot of new entrants that have gotten into the logistic space and try to make more formal, more professional because of the ecommerce opportunity and do you see any of these companies expanding their reach into traditional logistic opportunities that you have?

R. Swaminathan: I think everybody who is there we are all compete across the board. So I would not say there are anything traditional views, professional, but I think in the solution spaces and services space, you will find there is a fair amount of existing competition already which exists and obviously several of us exist in different layers. So I do not think there is a fair level of competition today. So I do not think competitive intensity is low today and I do not see it dramatically altering in the future. The space requires us to keep inventing and developing new solutions and formats, investing in highly productive and trusted partner of our customers and we continue to invest in doing that to build a right to win.

Rajesh Ranganathan: So, you do not believe that the scale advantage that a large ecommerce or logistics person would have would help in being more competitive in the general bid?

R. Swaminathan: Because we have scale that help us to bid on that. I think it will help, but I think a lot of that scale hypothesis is already playing out today. So what I meant really was it is not the scale is not valuable. It is just that scale is already playing out today. I think if you look at last mile delivery the incumbents who are there are also doing it at a very rapid pace. So obviously there is a lot of volume there. I think if you look at upstream either fulfillment services, which we do more of like obviously we see scale playing out there as well. The last mile delivery we do on large electronics products and so on again scale does play out. So I am not denying. Actually the scale aspect is only existing. I just feel that the scale affect is already playing out. I do not see a big future shift around scale. I think the scale is already playing out. I think it is the challenge that we used to see, but the scale actually will dramatically change economics from where it is today.

Rajesh Ranganathan: What we have seen in China is that it has dramatically changed economics? I am not talking about the last mile delivery. I am talking about the large logistics back home and the business essentially shifted to the newer players who built their business originally on ecommerce and then used that same sort of infrastructure to make it a much larger set of logistics offering and costs have dramatically fallen for them on per package basis? So certainly has made a difference?

R. Swaminathan: I find it hard to answer the question because there is no specific reference point around this, but I would just say that a week, what I said earlier that I think scale to the extent and the nature of curve applies is already playing now. So I do not think there is may be India as a country probably may not have evolved on a comparable basis to China in volume. I think on a relative basis to the extent where if the scale curve is there, we already see the curve playing out. I do not really know whether the new company or old company reference is hard to particularly relate with the others. If you ask for an example the ecommerce business for us is three year business, three year old business. So I do not know if I could, the company is 10 years old. So I do not know see that the three year business or a ten year business, but I do think the scale affect is real on all layers of the network and upstream definitely the margin is up, specifically the scale is definitely there because I feel that it is already playing out.

Rajesh Ranganathan: Thank you so much. I appreciate the answer. Thank you so much.

Moderator: Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: Thanks for the opportunity. Sir I have a question on your gross margins. You highlighted that in your opening remarks? Can you just elaborate a bit more on the onetime cost you mentioned at the cost related to freight forwarding? I think two to three points you mentioned can you elaborate that again please?

R. Swaminathan: Sure. As I told you last year our gross margin was 10.2% and this year it is 9.9% roughly so we are down 28 BPS.

Prateek Kumar: I am just specifically asking about and I understand the other segment the mobility so just on the supply chain segment?

R. Swaminathan: So the supply chain side, I think the big issue really was four things. The first one was obviously that we saw lower freight forwarding margins that we did last year. The overall freight forwarding remains actually profitable for us, but the challenge, which we did see is a lot of volatility in pricing of services and therefore the gross margin of that business did see a decline. There was a mixed in PAT, which was there Prateek. The second big thing, which was there was on our freight on our transportation line haul and other transportation contracts. Obviously with a lot of volatility on fuel prices, we had to lead and lack plays as we put those as those actions got done, but there are puts and takes into them. Sometimes a week and sometimes a month and that created some impact given the sharp increase in fuel through the quarter. The third thing, which did happen was with this volatility happening typically our freight on the freight cost side we do optimization continuously which is optimizing our network. So we were not able to accomplish the same this year right and that was a third factor, which was a challenge. The fourth one is we launched several new sites and then typically as you know Prateek everything we launch a new site you have a lower margin level and this starts graduating itself up right over a period of time. So you do not get pickiest margins in the first month or two.

Prateek Kumar: Sir my second question is on your non-Mahindra SCM business so if I recall FY2020 as you also mentioned ecom and consumer segment grew by 26% and 33% last year in FY2020?

R. Swaminathan: Yes you are right.

Prateek Kumar: Despite them growing at such a large steep pace and I am sure this would have grown at similar pace in this year also or may slightly lower, but certainly better than other segments, but you are still saying that these two constitute around 50% of the business? How does that tie up? Is the bulk segment grown more than auto segment because auto segment mix is only 18% now?

R. Swaminathan: Let me ask Yogesh to throw some more light on it. All the data is you said is accurate. If you back calculate it probably you will establish it. We did see year-on-year growth on that. Last year as you know we had a significant shrink in the bulk segment. So a non-M&M SCM business on a year-on-year basis in FY2020 just marginally grew over FY2019. What really happened during the year was our bulk business got replaced by growth in the ecommerce and consumer side. This year if you actually look at it year-on-year the Q2 has seen 17% growth. So this year you will actually see the bulk business is more normalized and that essentially what is playing out. In terms of overall business, Yogesh do you want can talk about this a little bit.

Yogesh Patel: On that you know the way we have maintained also the vertical wise cut, we have only to a limited extent where we have cut down auto and non auto, which you have 17%. Ram did mention you know of my balance of almost consumer end ecommerce comes to what? So balance is where your bulk and engineering industry would be and that is a small percentage, which both combine take up.

Prateek Kumar: Thank you on this particular thing. Thank you for all your answers.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to the management for closing comments.

R. Swaminathan: Thank you everyone. I hope we have been able to answer all your questions satisfactorily as you however should you have any further clarifications, I think we diluted couple of them during the call. Please feel free to reach out to us, our team at SGA our Investor Relation Advisors. Thank you once again for taking the time to join us on the call today and on behalf of Mahindra Logistics, our Board and employees, I would like to thank you and wish you all a very happy festive season and the very best for the upcoming Diwali. Thank you very much.

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