



“Mahindra Logistics Limited Q2 FY2022 Earnings Conference Call”

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**MANAGEMENT: MR. RAMPRAVEEN SWAMINATHAN - MANAGING
DIRECTOR & CHIEF EXECUTIVE OFFICER - MAHINDRA
LOGISTICS LIMITED
MR. YOGESH PATEL – CHIEF FINANCIAL OFFICER -
MAHINDRA LOGISTICS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Mahindra Logistics Limited Q2 FY2022 Earnings Conference Call. I 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 from the Mahindra Logistics Limited Q2 FY2022 earnings conference call. We have with us Mr. Rampraveen Swaminathan, Managing Director & 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 exchange. We will begin the call with opening remarks from the management following which we will have the forum open for Q&A session.

Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now like to invite Ram, Managing Director and CEO of Mahindra Logistics Limited to give his opening remarks. Over to you, Sir

Rampraveen S: Thank you Shogun and good evening, everyone. I trust all of you and your dear ones and colleagues are well and keeping safe. I hope all of you had a chance to look at our results for Q2 FY2022 and the presentation, which has been uploaded on the stock exchanges and the company's website. I begin my remarks by providing an overview of the sector, how markets worked, the operating environment we had and our financial results for the quarter which has gone by.

As you look at where we are today there has been reduction in spread of wave 2 of the pandemic. We have seen positive trends in most markets with a notable exception in the automotive segment. These positive trends have accelerated through the second quarter. The strong growth in vaccination started and as a result we are opening up more areas and travel restrictions have come down resulting in higher economic recovery, business travel and discretionary spending.

These strengths have had a positive impact on the overall economic environment and has fuelled the need for logistics as evidenced in the growth of e-way bills and trends in petroleum product consumption in the country in the last quarter. The recent announcement of the Gati Shakti program by the Honorable Prime Minister marks a comprehensive multimodal logistic transformation in the country. The stronger focus on productivity and integrated planning combined with faster approvals and digitization can be a catalyst in the sector transformation. Recently 500 multimodal hubs are to be developed under this initiative and further they are looking at adding nearly Rs.50,000 Crores of extra investment in the sector over the next five years.

All of this promises significant potential to accelerate the reforms that have already been happening in the sector over the last five years. In addition to a supply chain that logistics, the mobility sectors have also started showing green shoots. There has been a marginal uptick in return to office in the BFSI and IT segment though it is early days yet are adopting different challenges. Air travel is now back to an estimated 60% of pre-COVID levels and is likely to further go up to the upcoming festive season. These trends should drive an increase in growth first and foremost broadly across B2B and B2C mobility services.

Globally cross-border logistics have significant challenges as there is a large scale shortage of containers and volatility in freight availability in cost both in terms of ocean and air movement. These are impacting domestic business significantly in terms of bare ability to respond right in the midst of and highly integrated with global supply chains and we did not see any short term relief as capacity is likely to be constrained over the next 12 to 18 months. As such there would be a change in trade patterns and geopolitical shift, which will further increase the volatility.

Let me talk about individual sectors now in greater detail and within the automotive and manufacturing segment which is our largest end market in our business. The automotive segment continued to see significant pressures in the quarter. The global semi-conductor shortages have impacted all the OEMs in India and resulted in a sharp drop in volumes especially in September 2021. This is probably more true for a company using diesel engines compared to gasoline engines.

As a result several OEMs took or extended production in September due to the supply scenario. This resulted in significant demand and operational challenges for logistic companies which operated in this market with high variability in volumes. The HCV segment continues to see low volumes driven by a dull environment and we see very limited improvement in Q2 with our OEM customers. On a positive note, the two-wheeler industry started showing growth spurts though the cost pressure to the commodities continues. For us this has been a challenging time with less volumes. Lower demand has also resulted in greater operational costs and resistance in absorbing fuel price movements during the quarter.

Moving on to the farm sector, the farm sector continues to maintain positive momentum with the overall scenario remaining feasible. We continue to see positive trends from our customers. During the quarter we did see more muted sales from tractor and farm equipment in perspective. Still, production remains positive with a strong future demand outlook in upcoming festive months and the new calendar year. E-commerce as all of you are aware there have been sharp increase in overall volumes of the e-commerce marketplaces. We continued to witness healthy demand traction in tier-2 and tier-3 cities

and towns. As in the previous year, an interesting part and a significant trend in market places, was the focus on adding more suppliers to their systems and platforms.

The pent up demand we saw previously however was not up to the same scale as last year and global supply chains have also impacted the availability in some categories such as electronic appliances. However, in the latter part of the quarter, we saw very strong traction and we hope that this will be maintained through the festive season which largely this year will come in Q3. We continue to see strong demand for electrification in the last mile and continue to see growth in which is EV based cargo.

Consumer sectors have done well during the pandemic period obviously essential products are stronger, but now with more discretionary spends coming in we are seeing upticks across FMCG, personal care and food categories. We did have some disruption in the first quarter, but post that customer sentiments have improved. Rural demand has remained resilient, overall contributing more and more customers in industry focussing a non essential product in the market and cost saving initiatives. The electronic appliance and durables, there is a significant impact of cross border logistics as manufacturers in these spaces depend on imports of components. As a result we see further intention by these companies towards optimizing the supply chain and improving end to end basis.

FMCG companies continued to expand their footprint in new cities and markets as well and as the pandemic has transformed customer buying behavior, there has been a clear shift towards omnichannel requirements during this period. The companies are piloting omnichannel distribution models. As all of you are aware, last year we won a significant program with Bajaj Electrical to provide them end-to-end supply chain logistics that program has been in implementation for most of this calendar year and we continued to scale up and remain on target for full ramp up from Q3 of this year as we have indicated before. We have completed commissioning most of the network of distribution fulfilment centres and have activated most delivery centers across the country.

In terms of enterprise mobility, mobility of course has been significantly impacted by the pandemic. Our traditional customers in PSSI, IT and IT enabled services continue to pursue work from home policies due to the impact of wave 2. However, we have started seeing uptake to that segment on a sequential basis and expect improvements by Q4 of 2021 as vaccination drive measures and mitigatory measures of future waves are implemented. Our business we continued to focus on and expand in market such as e-commerce and manufacturing, which has helped us during the quarter and registered a strong year on year growth.

Given the pandemic the market has moved significantly towards safety which has accelerated significantly especially for our enterprise customers. Our continued long term focus and expanding safety proposition helped us gain share with several of our existing customers even though the volumes have dropped significantly. We are constantly evaluating measures and strategies to expand our services portfolio in on-call outstation network, etc. We remain optimistic about the opportunities around consolidation growth in FY2024 and beyond in this market.

Let me now talk about financial performance for the quarter ended September 30, 2021. Revenue for Q2 FY2022 increased by 22% at a consolidation level to Rs.1019 Crores as compared to the same period last year. Revenue from the supply chain businesses contributed 96% and enterprise mobility contributed to 4% of our total revenue basket for the quarter. Gross margins for the quarter stood at 9.8% down by 10-basis points compared to the same period of last year. EBITDA for the quarter stood at Rs.52 Crores up approximately 14% from Rs.46 Crores for the corresponding quarter last year. PBT was down by 39% from Rs.20 Crores in Q2 FY2021 to Rs.12 Crores in Q2 FY2022 and PAT was down by 37% in the quarter which has gone by.

Compared to last year, we did see some headwinds during the quarter which included office fee, continued growth of fuel prices during the quarter between June and September while just scope of increase started maturing and the continuing increase and the demand environment especially in auto may be challenging for us to be able to pass through the increase in the quarter which has gone by. Additional trailing impact of several of programs launched during the year was delayed and we had to be with higher operating and launch cost on account of the same. Lower demand in automotive segments also affected our margins and capability during the quarter. Year-on-year we did not have the benefit of a significant level of other income we had in the same quarter last year, last year we had a significant level of tax refunds which have contributed to the other income line and obviously that is not there and it was down significantly during the second quarter of this year and impacted the quarterly earnings.

Mahindra group comprised of 48% revenue in the second quarter of FY2022 compared to 61% last year. Let me talk about the segment performance for the year, revenue from supply chain increased from Rs.804 Crores to increase Rs.978 Crores for the quarter corresponding the revenues from the enterprise mobility segment stood at Rs.41 Crores for the second quarter up by 42% year-on-year. The supply chain business continues to see an uptick due to the e-commerce and consumer markets and our growing services portfolio in terms of freight forwarding express and Edel. Our revenue from Mahindra group supply chain businesses increased from Rs.416 Crores in Q2 FY2021 to Rs.484 Crores which was subsequently driven by the growth in the agri business of Farm business sector of M&M.

On non-M&M businesses, grew from Rs.387 Crores to Rs.495 Crores in Q2 FY2022 a 28% year-on-year increase, good recovery compared to last year due to increase in demand in the market segments and e-commerce and consumer, appliances, durables and increased growth in services of warehousing, freight forwarding and last mile delivery.

Our warehousing and value added services from non-M&M businesses which is a key lever of our focus on integrated solutions had increased Rs.134 Crores to Rs.168 Crores in Q2 FY2022, a growth of 26%. Share of warehousing in value added services in non-M&M SCM has increased 34% in Q2 and is comparable to the same period last year. During the quarter, we added 1.3 million square feet of additional warehouses space which is in line with the targets which we had communicated to all of you in earlier call.

A key driver for the quarter was acquisition of new business and expansion of current accounts. During the quarter we continued to see traction winning new projects with e-commerce customers in both existing and new customers and we continued to increase penetration in the electric vehicle two wheeler segment at the automotive industry which we believe has very high prospects in the coming years. During the quarter we also continued to see strong traction with our solution pharma, so that is small pack fulfilment centers, soft centers on integrated warehousing and distribution for our consumer customers.

We went live with an expansion of temp control warehousing and distribution solution for a leading pharma company in North India. We also commenced warehousing based manufacturing solutions for leading two wheelers electric vehicle manufacturers in the southern region of India. Like last year, we secured orders for tech solutions and e-commerce going into the festive season and we added million square feet of temporary solutions for the same. The revenues for those will flow through in the coming quarter as the current quarter is where most of this was concentrated. In addition to that, our services level will continue to see growth. Freight forwarding is a notable growth area for us and throughout the quarter we saw strong traction in terms of continued penetration in manufacturing and pharma. We have also launched charter services which have seen some really positive traction through the quarter and given the continued penetration on the accounts we are confident about continued growth there.

We have also seen strong traction in our express business now that correlates very strongly to our integrated solution approach. As we integrate warehousing and distribution with our express business it will be a key lever especially now that we are serving more than 5000 pin codes in our network. The electric vehicle base last mile service business continues to grow. We expanded fleet there and have continued to improve utilization levels across the entire fleet. We have also now launched working with our customers tire for a few customers in OEM, so we are able to further drive cost optimization on last mile delivery.

There has been a strong momentum coming out of wave 2 in terms of revenue growth. Before I open our questions let me briefly also talk about Medicine from the Sky project.

Some of you would have noticed in the press that we have partnered with the medicine in Sky project by the Telangana government and World Economic Forum to deliver vaccines using unmanned aerial drones vehicles in the state of Telangana. The pilots were successfully conducted in one district of Telangana. We have conducted trials for the home delivery operations and partnerships with a technical associate Redwing labs and successfully delivered medicine as part of those pilots to multiple locations in the Vikarabad district of Telangana. We have also been working with our partners to deploy different types of drones and work will continue to go on. While the program is in the pilot stage we see some long term opportunity in logistics application both in terms of last mile and distributed delivery, and also in terms of optimization opportunity inside our operating environment in warehouses areas like inventory management and so on, so we are very excited about the opportunity.

As we look in to second half, we expect healthy demand on the back of the festive season. While things remain volatile the trends have been positive. In our discussion with various automotive OEMs, there is a semiconductor crisis that is receding and we hope to see improvement in both M&M and non-M&M auto businesses in the second half of the year. Some of the cost challenges which I mentioned earlier in my comments have already been addressed and we are targeting EBITDA positive on that front in the coming quarters. With this I will open up the floor for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Niranjana Gajanan Sakhalkar from Acuitas Capital Advisors. Please proceed.

N G Sakhalkar: Thank you for opportunity. I had a couple of questions. First one would be I understand Warehouse space have increased the overall warehouse space under management has come down, so I want to understand what is happening over there that is the first question. Secondly, I want to understand I was looking at this unallocable expenditure as a percentage of sales number if I see that number sequentially and half yearly basis that was comparing H2 FY2021 versus H1 FY2022 percentage number has increased from 4.9% to 5.2% I think the earlier call, we saw a number between 4% and 4.5%, so I wanted to understand how are we look at the number and any guidance on what to expect?

Rampraveen S: Yogesh do you want to take the second question first and add a commentary to that and I will answer for the first question.

- Yogesh Patel:** If I heard the question right, our share of unallocable expenses have been the same or that 15-basis points higher versus last year right?
- N G Sakhalkar:** That is correct.
- Yogesh Patel:** On that piece I mean the way that portion of expenses is whatever gets directly attributable to a segment comes and gets reported in the segment piece and central cost usually are what comes as unallocable piece as they are mostly the functional cost. What we have said in terms of full scale those percentage would be coming down is also absolutely right understanding and we standby it. Given in this quarter what has played out is if you look at the overall numbers it is in that fourth quarter range what you would have seen as well and in that cases, the percentage change as the revenue would increase, there would be a nonlinear change in this segment of cost and hence the percentage would come down. Given the scale at what we are you would see a percentage similar to that adjusting just for inflation changes.
- Rampraveen S:** Thanks Yogesh, just adding to that we are investing as you would know in areas like technology both in IT and automation, we are also investing in building out warehousing infrastructure in terms of the overall network, those investments are not linear, they are step up, so this is the step up, this is pre-empting the demand growth or volume growth, but as Yogesh mentioned after volume comes back we do expect to be in, the percentage terms, at levels indicated earlier, over the next 12 to 24 months from a planning perspective. In terms of warehousing space itself I think what we have done this time is to provide all of you a little more granularity, for most of our history we combined stockyards and the warehousing operations with stores manage warehouses in one bucket. Our strategic focus as you are all aware has been around growing our warehousing network and in line with low value warehousing services like stockyards, you would see that not only this quarter alone, but for the last couple of years we have been capping that as automotive volumes have come down which reduced the stockyards. However, our overall warehouses space which is both BTS as we spoke is to kind of grow and that is where revenue improvement will come from. So, from a long term perspective, we expect that at this mix level stockyards will continue to come down as a percentage of our mix and that will both drive revenue per square feet and the overall revenues which is something which we have hinted to before as well. I do not know it answers that your question.
- N G Sakhalkar:** When I compare the revenue growth, H1 FY2022 versus H2 FY2021 the SCM segment has degrown so do you attribute that entirely to the festive demand last year or is it something else?

- Rampraveen S:** I am not sure how to make it. I think on H1 basis Yogesh you have to help me here, but I feel H1 basis it has grown significant right.
- N G Sakhalkar:** Sequentially Half yearly basis.
- Rampraveen S:** We will just come back to that question right. Is it okay. Can we just come back to that question?
- N G Sakhalkar:** I meant as a company the revenue growth sequentially half yearly basis? Basically H2 FY2021 versus H1 FY2022 so the SCM segment revenues have degrown so I want to understand if that is attributed entirely to festive demand last year or there is more to it for degrowth?
- Rampraveen S:** We will just come back to you on that question because that is not the way I am seeing but just hang on we will come back to that.
- Yogesh Patel:** Sorry Ram if I just add here to clarify so H1 of last year was Rs.1196 Crores which is Rs.1818 Crores in H1 of this year which is growth of almost 52% however H2 of last financial year if you compare to H1 of this year there was the festive peak of Q3 what you would have seen in the second half of last year which has played a role however growth what you see is in this first half versus last year in addition to disruptions it got part compensated by additional businesses what we have signed up for.
- N G Sakhalkar:** Understood thank you.
- Moderator:** Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Kindly proceed.
- Vikram Suryavanshi:** Good evening, Sir. What was the growth in freight forwarding and express business in this quarter and is there any change in capex plan when looking at the slight headwinds will the execution of the capex will slow down? If you can highlight on capex plan and cash balance?
- Rampraveen S:** Yogesh you take the capex plan and I will come back to the segment growth numbers and plan for those.
- Yogesh Patel:** On capex for this year what we had kind of guided as we started the year itself given the additional warehouse space what we are adding is at an accelerated pace than what we have seen in the previous years. We would have a little bit higher capex so what we were looking for is between Rs.80 Crores to Rs.90 Crores for this financial year and right now in the middle of year we still stay on track for that.

- Rampraveen S:** Vikram your other question freight forwarding growth right year on year in Q2 of last year compared to Q2 of this year was approximately 75% right in terms of the year on year growth and express growth was around 30% odd year on year slightly above 30%.
- Vikram Suryavanshi:** This freight forwarding is very high growth may also be of this high freight rate or we have seen significant growth in volume also?
- Rampraveen S:** It is a combination of three things. It is obviously the overall increase in the freight rate which have gone up quite significantly and year on year as well. The second thing, which has happened for us to drive growth has really been penetration in some markets and that is particularly I would say around engineering products and pharma and the third piece has been the launch of newer services like charter which has helped us grow.
- Vikram Suryavanshi:** Understood and this execution of this 4 million square foot warehousing particularly in NCR, Hyderabad etc are on track and when you can see that execution to complete?
- Rampraveen S:** We are on track. All the capacity for Q2 of this year.
- Vikram Suryavanshi:** Got it Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Kindly proceed.
- Prateek Kumar:** Good evening Sir. Thanks for the opportunity. I have one question so I wanted to ask that what has been savings like companies margins if see PBT margins instead of focusing on EBITDA margins because of a major Ind-As in impact, which has been seen at the year end? Probably that also continues to have an impact on depreciation so just focus on PBT margins so that margins have come down from 4%? During IPO we had like 4% kind of margins. in 2019 continuously slipping every quarter and now except for that 1Q 2021 the margins this quarter are likewise all time low. We had a thought that because of better warehousing mix and better customer mix out of Mahindra our margins will directly improve but margins seem to slip every quarter on a PBT basis so can you highlight something on this?
- Rampraveen S:** Sure let me address that. I think if you look at it so I will say directionally some of the operations are accurate. They are lower in the peaks which we have had in the past. There are two to three factors in the quarter itself the things which have been impacted and I already mentioned those in my comments so one thing which has been there for us has been just the quarter on quarter increase in fuel while the slippage itself given this demand environment especially in some of our larger segments. We are not able to see the pass through benefit fully in the quarter which just went by. Now these increases have taken

continuous impact over nine months and therefore it has been hard work to pass through in the middle of pandemic wave and so on, but we are now at a point where the pass through needs to grow. The second one has been that as I said in my comments as well we had Q2 of each year is normally when we are preparing to launch new projects especially in line with the festive season and being able to capitalize on that demand from the Q3 onwards. This year because of the impact of wave 2 and the clear impact that many of the projects got delayed and we had to actually increase spends to get those capacities in line and alive in time for the season and that obviously impacted us in the quarter as well and a sudden dip in automotive especially in September both in M&M and non M&M segments especially in the M&M side it had a lot of challenges with terms of transportation losses and optimization. On the non M&M side also there was a big impact as we have a higher share of warehousing and warehousing services which had a large number of enquiries suddenly had a significant impact within the month. That aside actually underlying level continued to see the Q2 traction in terms of the many things that you said playing out pretty, which is the segment itself playing out right and being positive. FY2021 was slightly different whereas the drop in automotive was very, very sharp. Automotive was 70% to 72% of our business at that time. We had to all work to refocus resources, right size, organization direction and so on and there is a lot of transition cost into that, but right now I think except for the three things, which I said we are generally going in the right way and I am confident that in the coming quarters we will be able to see that recovery. There will be some obvious impact of Ind-As 116 because of the way the standard is. The cost charges are front loaded and those impact earnings compared to the pre IND As 116 model in the short term but through the lifecycle of the project in later years especially there is actually something which comes back so it has been time an issue so I will not be able to labor much on the impact of that though if it were in the current financial in terms of period under review but on the continued basis that will normalize itself right. The larger challenge has been one of the points which I just elaborated on Prateek, but in the coming quarters and I am very confident that we will basically get the profit recovery back in stream especially on the back of now sustained momentum of revenue.

Prateek Kumar:

Thank you Sir for the elaborate answer. My second question is on festive growth for 3Q? During the first peak of internet sales at Amazon and Flipkart, it seems the growth was slower than what I think industry was expecting at around 20% to 25% versus the base growth of 60%? How are you seeing in terms of traction for logistics industry in the first month of festive sale?

Rampraveen S:

Festive sales this year I would say there are two kinds of things to look. I think growth is there and growth is robust. Is it in line with expectations or what expectations or anticipation. I think growth has been in the early part of the season more muted compared to what anticipation was and I think both those statements are accurate. Now why is that

happening? I think that is largely driven by a couple of big factors there. One has been that in some categories like larger appliances, etc., there have also been supply chain issues as well as lot of the electronics is cross border in nature even today and there have been challenges in terms of supply across the industry which has taken time to get changed and that has been a challenge in terms of being able to capitalize on the full demand. The second thing is pent up demand this year in general has not been as strong as anticipated. People have probably anticipated the same kind of pent up demand which was there last year and that scale of action has not played itself out. From our perspective what we have seen consistently is that we are not focusing just on account expansion but we are also focusing on category expansion so we think focusing on category expansion is critical to be able to build a counter for some of these kinds of things that may happen. We are not going to hit the ball out of the park every quarter and every season so that is an important part of our strategic direction but it is still very early in the quarter right and a big part of the festival season is yet to come. I do not see how full our facilities are and what the programs are, so we are still upbeat that the latter part of the festive season will probably end up becoming much better than the first early part of the season, The first early part demand was more festival led. We had no table or plateau kind of volume trends other than short weeks, but that should come through. Hopefully they are all optimistic that it will reset itself in the second part of the season.

Prateek Kumar: Thank you Sir. I will get back in the queue.

Yogesh Patel: Prateek if I just add a point for you a little bit more about our IPO level performance at the start, we listed in November 2017 and from there till FY2020 if you look at each of the years we had grown. Our profitability was higher than at the time when we went for IPO so it is as Ram was explaining FY2020 and FY2021 disruptions which flew in our end market as well as environment at large impacted and kind of reflected in the results but for three consecutive years the numbers did improve on and have stayed at that.

Prateek Kumar: Sure Sir thanks for that answer.

Moderator: Thank you. We have the next question from the line of Mukesh Saraf from Spark Capital. Kindly proceed.

Mukesh Saraf: Good evening and thank you for the opportunity. Firstly, on the June price hikes that you wanted to do pass through, I am just trying to understand the general sense we had is that the pass through was largely happened automatically so is there just some change in the way the contracts have been structured or is it like a difference between how Mahindra & Non Mahindra contract was structured and could you just throw some sense on the inability of the pass through?

- Rampraveen S:** There is no material difference right now, As you know any index pricing contract typically has figures in the right so the way it will work is if the index base is 100, it will be x%. It would trigger. Now typically what happens and very often the pricing reset is prospectively and not retrospectively right so typically what happens Mukesh is that the period if you look at fuel prices in India if you look at historically, they end up having a few sharp increases over a period of time and not a continuous upmove. So historically what has happened we see the sharp bump ups we cannot reach the trigger and because they have breached the trigger we are able to put the price increases in fairly quickly and the increases happening in very short windows of time that we have a few spikes every year and they do a reset of those prices. What has been the bigger challenge in this year has been just the fact that the price increases itself going up so fast in the window between those triggers you end up having to manage that window. Historically also on the buy side actually cost of almost triggered back on the buy side as well and that is actually how we prove ourselves Mukesh, right. However, when we do that sometimes on the exclusion that continually the service levels tend to fall right and because we also have contractual commitments and that trade off in terms of optimizing the buy price versus ensuring that we maintain the service levels and there have been continuous operating challenge there given the volatility in demand as well so just being support factors together which have played in structurally however there is no change. In fact, there are more safeguards now that side on all our contracts do have almost all cases back to back parameters to ensure that the triggers are mirrored on the buy side and the sell side and we do actually track it very closely almost on a weekly basis given the environment we are in right now, but there is a lot of blocking in a package.
- Mukesh Saraf:** Got that so basically, we are only at the end of October and by the end of this quarter if obviously the fuel prices assuming they stay flat we should be able to pass through it entirely?
- Rampraveen S:** Yes you are right Mukesh as I mentioned in my opening comments that most of the time we compensate through time limits that are there so we have compensated most of those already.
- Mukesh Saraf:** Got that and secondly on the space on the management the stockyards have come down from 6.5 million to about 4 million square feet have we already seen the revenue impact of that in the Q2 or will this happen towards the end of the quarter and hence that impact is going to come from the Q3?
- Rampraveen S:** I will say that we have seen most of the revenue impact. Obviously, there is a lot of space, We are shutting down over a period of time Mukesh but I think most of that has been big. Stockyards generally tend also to be a very low revenue deal right. It is just a large park lot and it is always cheaper as well.

- Mukesh Saraf:** Sure understood and just one bit when I look at the non Mahindra SCM revenue, I see that the transportation within that has probably grown at a slightly faster pace than your warehousing revenue so about 30% versus 25%? Is it that this whole express business is included in this non Mahindra transportation one of the reasons?
- Rampraveen S:** What you see there of course is pure transportation kind of service lines, which end up being your freight forwarding express and within that last mile tend to actually be a fairly kind of lionshare of businesses. Those service lines accentuate the gap so that is one. Now the second one is what you have seen Mukesh is in general because we our warehousing based solutions and services. Typically what happens is that when things go down like you have a weak quarter because the wave is down, etc., we wave 1 or wave 2 happen, which is the warehousing revenue shrinks much lesser than transportation as well. The bounce back happens mirrors the way it shrinks.
- Mukesh Saraf:** Understood because you mentioned the freight forward a bit I noticed something called the revenue growth is very strong and the margins have come off so again is there just a pass through an element that should kind of normalize?
- Rampraveen S:** I think somebody has raised this question and obviously the market where we have seen some part of our revenue growth is just because of the secular inflation which is being very sharp. In dollar margin, in rupee margin, on the index revenue base turns out to be a smaller percentage. This is actually a highly inflationary environment and this needs to be optimized to see how to protect the percentage margins with clients because the customers is also under significant stress because of the inflation.
- Mukesh Saraf:** Understood that and thanks a lot for this Ram. I will get back.
- Moderator:** Thank you. The next question is from the line of Pranay Roop Chatterjee from Burman Capital. Please proceed.
- Pranay Roop Chatterjee:** Good evening to all. I hope you are well and safe. I have a few quick questions. In your annual report you have guided for a 20 million square feet warehousing addition over the next 36 months? I just wanted to check first of all if that guidance is still intact?
- Rampraveen S:** Pranay I think I have clarified this in the earnings call of Q4 FY2021 that is like that 20 million is a five year view and aspiration we have in line with that broader Rs.10,000 Crores aspiration. What is important is that the figure which we shared in that review that we have contracted 4+ million already, which is under construction and those as I said earlier in this call as well that we are on target.

Pranay Roop Chatterjee: Got it thanks. Secondly could you please help me with the split between depreciation on fixed assets and lease due to Ind AS 116 as it stands at end of the first half?

Rampraveen S: Yogesh can you take that please. If you could repeat that question I will request Yogesh to respond to it.

Yogesh Patel: So you are looking for a difference in depreciation for 116 and fixed assets.

Pranay Roop Chatterjee: No so basically you clubbed your assets and your write off assets you reported together that was at about Rs.409 Crores for the first half, I just wanted to understand the split between that like in the net block basis ROU versus the other items ?

Yogesh Patel: So our net block without ROU as of September 30, 2021 would be Rs.165 Crores.

Pranay Roop Chatterjee: Got it. Thanks for that. The last question from my side so I was trying to figure out in terms of the lease expense that you are seeing basically the item you book in your cash flow lease expense per square feet it has been actually going up over the last few years, it was Rs.3.5 Crores in 2020, it was Rs.4 Crores in 2021 and in the first half it has reached Rs.5 Crores so I understand that when your mix is changing towards a grade A from stockyard logically that should go up? What I wanted to understand is the entire increase in this first half attributable to the change in mix or are the rental rates going up or in the incremental capacities you are adding?

Rampraveen S: Yogesh you want to take that.

Yogesh Patel: Yes, the newer warehouses if you see the warehouses it is split itself for a total space. You did see that stockyards did come down which is a lower rental space and relatively the space which we have added almost 1.3 million in the quarter on a gross basis would be standard warehouse space itself. The rentals for them is differentiated and that would be a standard commercial grade usage rental cost and from that perspective the blended rental per square feet comes up. That increases from that perspective yes.

Yogesh Patel : The absolute amount which is increasing is just reflective of higher absolute space which we are signing up for.

Pranay Roop Chatterjee: Got it. I was most speaking in terms of per square feet lease cost also gone up like last year Rs.4 Crores versus above Rs.5 Crores in the first half annualized basis?

Yogesh Patel: Like a per square feet like I earlier explained the fact that stockyards has decreased also would give you an increase on per square feet becoming higher.

Pranay Roop Chatterjee: Got it. Thanks for that. That is it from my side.

Moderator: Thank you. The next question is from the line of Mayur from Wealth Manager. Kindly proceed.

Mayur: Good evening. Actually I do not know how much you will be able to add more because I understand you have given some explanation on that but honestly let me be a little candid here and the satisfaction on the margins front remain far from understanding because I will just little longish comment over here from my side so that you can add more if possible? Over the last two years you have been adding that integrated solutions, warehousing increasing mix of ecommerce, pharma, other sectors, further in terms of the non Mahindra part all of this when we look at all those bricks have been moving in the right direction for us as far as the narrative is also concerned as far as the numbers are concerned. If you look at the transportation growth in quarter and if we remove the 75% year on year growth of the freight forwarding within that the core transportation where the fuel hits you would be relatively lower and yet the warehousing has increased by 27% to 28%. Still when we look at the point was rightly mentioned the magnitude of margin erosion and not only for this one quarter but overall, the last two years which has been there. We are at the PAT margin of 1%. As an investor this gives us a very vulnerable situation and kind of makes us very scared about the situation that why is that narrative not playing out in numbers quarter after quarter despite the topline growth being in place and also the fact that is it that in reality the auto or the M&M business has been more profitable to us compared to the others is that the kind of situation because when we look at five years down the line let me be very honest what I am trying to ask is can we at a Rs.10,000 Crores, I understand it is an aspiration and not guidance but at a Rs.10,000 Crores revenue can we make a Rs.300 Crores PAT that is the simple question which we are looking for in terms of understanding because unless that happens a lot of things become difficult for long term investors?

Yogesh Patel: Mayur let me add a couple of more points. Mayur if you look at what has played out obviously quarter on quarter the scenario has been fast evolving and differences to be observed which are at different line items. Just to draw your attention to our P&L. in the first half of this financial year if you look at it on the other income line which we have not spoken at all in any of our communication till now, we are lower by Rs.7 Crores, which was one off which we had got last year has got offset with business profit generated. In addition to that if you also see the Ind-As method of accounting of leases just increases what we have signed up for in first half of FY2022 the impact on PBT because of Ind-As method of accounting. If I were to have accounted based on the AS17 my PBT would have been higher by Rs.4.5 Crores. From that perspective there are different reasons other than environmental which obviously Ram has detailed earlier and you absolutely are aware and the fix which we are doing is from an integrated logistics perspective which are more

sticker businesses and in line with our five year plan, Rs.10,000 Crores aspiration obviously that is where our activities are directed. Obviously from our end more towards our vision per se and those fixes which we have or the businesses multiyear integrated logistics businesses are to contribute towards that. What you have seen right now we obviously explained our quarter number and we have done that without evening mentioning that in the quarter there is a Rs.4 Crores reduction in other income itself which was a one time last year.

Mayur: Yogesh are saying that because of lease accounting and hyper fast growth we are witnessing the up fronting which happens because of the obviously accounting standard will continue to remain there and will also impact the margins? They may increase but it may increase at a slower pace or that impact will remain there? Is that the point also which needs to be understood?

Yogesh Patel: Just one point what you see here is up fronting right now is the growth from a lower base. Now these new facilities what we have added in last one year start becoming lower cost. If you are reducing amount basis right so on a linear basis if it a five year thing first two years I account higher costs. The last two years I account for lower cost so that gets offset with new facilities get added and the older facilities of that volume being there so you would not see ever impacting thing on P&L but as we start this particular thing at one time which is what is playing out right now.

Rampraveen S: First of all I am glad you asked the question and it is good to actually have a direct articulation. Let me respond in two to three ways as Yogesh has already spoken about it but just two to three points. First, I think till the Q4 of FY2020 we did actually show quarter on quarter comparable margin improvements in general terms of gross margins the trend line. So that is one thing which I will first call out. The second thing I think is that in the last two years there has been a lot of resizing of the business and as we are trying to resize the business and you are right but many of our building blocks which we are putting in the direction are the ones we think will take us to an end stay which we are optimistic about and confident about. I think there is in transition period transition element there and that transition element we see two things right. First of all we have obviously seen a lot of up and down in terms of extreme environment. Things came down quite dramatically which obviously had a significant impact on margins. We are now recovering right now and we are fully invested in technology but ahead of the curve and therefore we are probably a bit non linear to the long term and underlying earnings potential. A good example of that is putting capacity as demand in the warehousing which we are doing. We are putting significant addition right now because we are confident about the earnings potential it has not just in terms of long term but more importantly in terms of strategic value proposition to our customers. Now the third thing which I would call out right now more short term things

which was the question right around fuel so if you look at the quarter which just went by right below the transportation income which is excluding the freight forwarding business was around Rs.510 Crores right and in that which let us say purely directly fuel cost to your point right so we see roughly 5% to 6% increase in fuel cost between June and September in almost all our operating markets and of course on an average of 5% to 6% kind of growth number over four months which if you take it is almost Rs.30 Crores right. A substantial and large amount of that has been passed through but it is still very relevant and impactful. There is a timing issue that is related there but that impact will be coming down only when we balance this more and more with warehousing based services. That is a direction we are already on preciously for this reason right but in the short term given that we are still 70% warehouse transportation business on the Non Mahindra side along and Mahindra like even higher. There is a large Indian impact in terms of the transportation the fuel increases and the raw material. The other thing which is a period in fact is the accounting standard change. We do not see it. I do not like to explain that because I think beyond 20 mn we will be adding capacity and benefits perspective. Somebody asked this question earlier on saying that we will get 20 million square feet over five years so there has to be a substantial of that obviously up front 5 million square feet of capacity now and therefore going forward we think depreciation will be within the current curve but even may get more benefit at the basket level and obviously going forward that the depreciation line will start maturing. The revenue benefit will start coming. Today because of the last sudden spikes right it has actually impacted us because of the sudden one time spike. It will come down in the future, we will be adding 3 to 3.5 million square feet a year, it still is lesser than what we are adding right now. As AS 116 Yogesh said we expect that line be at a much flatter level compared to the revenue lines. From a going forward perspective, I will close my comments with both direct questions we need to get to Rs.10,000 Crores how will we get. Will we be able to get to Rs.300 Crores and I think that there are two ways to do that it is kind of a mathematical view and if you look at it saying that from Rs.3500 Crores to Rs.4000 Crores we are at Rs.6000 Crores more of revenue even at 9.5% to 9.8% let us say gross margin you are going to expect to get a substantial amount of gross margin increase and we do not expect it to expenses are go up in line with that and as I have said earlier on the depreciation curve should start flattening out so it will do mathematical works out I said yes I say Rs.300 Crores is definitely in the ballpark. We still have to do some margin increase in terms of gross margin probably 30 to 40 basis points but with the cost management efforts we have the volume has to play out. That is why I think the volume moment is so important business and this is something which all of you have pointed out to me over my last two years is that how we are going to get back the revenue momentum and that is what we are trying to concentrate on right now.

Mayur:

Thank you, that was quite detailed. as analysts and investors also we would continue to see PBT margins as a key part. I understand looking at gross margins and other leavers of

margins because we are unable to from outside we are unable to get the impact Ind-As separately, depreciation separately, and interest separately so we would appreciate if the focus remains on PBT because at the end of the day that is also important so because we do not understand what goes into gross margin clearly because if rent is categorized and categorized because there is a substantial increase there and yet the gross margins show increases so we will remain focused on PBT? I understand the explanation which you gave?

Rampraveen S: We are trying to focus on it, I do appreciate the question. I am glad that you asked.

Mayur: Just one thing Ram we are seeing a lot of competition increasing actually focus on multimodal in a real sense in terms of rail and other things where are we on that side in terms of multimodal and where are we in terms of composition today outside the road transport if you can have any color on that and how does that shape up for us? That will be my last?

Rampraveen S: I think the multimodal I addressed this in the meetings as well but multimodal is not a solution of all problems right. Multimodal is important at a national logistics mix level but it really starts breaking even above 1000 kilometers right so below 1000 kilometers multimodal is not actually a very viable option so if you look at parts of our businesses like last mile delivery, look at the distribution for example those are places where multimodal actually does not play out. Multimodal only plays out best in long distance lines which is at least in 800 kilometers ideal 1000 kilometers or more we have the right loading patterns. At that speed which is not ideal for car carriers movement actually car moving and outdoor car movements actually happen as well as we used to do some commodity there but today we have been exiting a lot and cutting down our commodity focus. If you look at large volumes of traffic which is above 1000 kilometers we today have around 13% of our volume in that part of our business which grows. A lot of that goes with LNG which is a government provided rate system as opposed to the privately owned carriers regular rates but 13% to 17% around every quarter based on how the automotive industry is moving and how their demand patterns are but between 13% to 17% let us say 15% on average is what we are in the 1000 plus kilometers market with consolidated loads so in the place where it works we are reasonable in terms of our multimodal gateway.

Mayur: Thank you so much and wish you all the best.

Moderator: Thank you. We would like to hand the conference over to the management for any closing comments now.

Rampraveen S: Thank you all. Very engaging discussion and I hope we have been able to answer all your questions satisfactorily however should you need any further clarifications or you like to



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know about the company, please feel free to contact our team or SGA our investor relation advisors. Thank you all once again for taking the time to join us in the call. On behalf of Mahindra Logistics and all our extended family I wish you and your family and colleagues a very happy festive season. I wish you all a very Happy Diwali and thank you all for joining us today. Thank you.

Moderator:

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