



Mahindra Logistics Limited

Earnings Conference Call Transcript

May 03, 2018

Moderator Ladies and gentlemen, good day and welcome to Mahindra Logistics Ltd. earnings conference call. As a reminder, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank-you and over to you, Sir.

Anoop Poojari Thank you, Good evening everyone and thank you for joining us on Mahindra Logistics FY 2018 earning conference call. We have with us Mr. Pirojshaw Sarkari (Phil) – CEO and Mr. Nikhil Nayak – CFO of the Company. We will begin the call with opening remarks from the management, following which we will have the forum open for a question-and-answer session.

Before we start, I would like to point out that some statements made in today's call 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 Phil to make his opening remarks.

Pirojshaw Sarkari Thank you, Anoop. Good Evening, everyone and thank you for joining us to discuss the results for the quarter and year ended 31st March, 2018. I would like to begin by briefly sharing my views on the sector following which I will take you through the operational and financial highlights.

As I have been saying in the recent past, FY 2018 has been a year of revolution for the logistics industry. Overall, we are happy to see that the Government is putting tremendous emphasis on the sector which I believe will reduce logistics costs.

Major initiatives are as under:

- GST is a game changer for India's economy and the logistics sector. Despite initial implementation challenges this policy change will have a large impact on the supply chain. We have started seeing some signs of change as customers are engaging on post-GST supply chain design.
- Furthermore, we expect infrastructure status, appointment of the logistics secretary and mega projects like Bharatmala, Sagar Mala, Multi-Modal Logistics Parks, etc. to give impetus to the sector.

- There have been procedural changes, the implementation of E-Way Bill and the initiative to set-up a National Logistics Portal by the Department of Commerce is also a welcome proposal.

All these initiatives together would help in the objective of reducing the cost of logistics and improving India's rank in Logistics Performance Index that is LPI.

Logistics continues to be a largely unorganized sector. Share of 3PL in the overall industry is 5% but is expected to grow. Given the large size of the industry, it attracts different players. There are large MNC companies, local players, as well as new technology players. For the leading players like us, the challenge is to educate customers on the benefits of outsourcing and focusing on total cost instead of just cost of logistics.

Moving on to the operational and financial discussion, I am pleased to report that we have delivered strong all-round performance for the financial year 2018. The Company has achieved a major milestone in its journey as we surpass US\$ 0.5 billion in revenue. Our revenues grew 28.1% on a year-on-year basis to Rs. 3,416 crore. This was largely driven by expanding existing client relationships. We also had healthy client wins during the period under review and are in the process of enhancing our services with them.

Revenue from Non-Mahindra supply chain segment grew by 32% to Rs. 1,258 crore, which is well above the overall industry growth rate. Revenues from Mahindra Group Supply Chain business grew by 28.1% to Rs. 1,818 crore as all divisions of M&M registered healthy growth. Given this performance, the proportion of revenues from M&M stood steady at 54.6% compared to 54% last year. In our Non-M&M supply chain business, the revenue from Warehousing and Other value-added services have grown by 32% over the same period last year. In our PTS business, we grew from Rs. 295 crore to Rs. 340 crore registering a 15.4% growth.

Our overall gross margins improved by 9 basis points to 8%. Within the business segments the gross margin in our Supply Chain Business has improved to 7.9% from 7.7%. In the PTS business, our margins have contracted to 9.4% from 10.1%. However, this is largely due to the loss-making shuttle bus pilot project which is discontinued since January 2018.

EBITDA for financial year 2018 stood at Rs. 126 crore registering a growth of 46.2%. EBITDA margins for the period stood at 3.7% which is 46 basis points higher compared to last year. This was led by improvement in our gross margins as also reduction in the fixed term strategic consulting fees. This year was the final charge towards the consulting fees. Our PBT which registered a year-on-year growth of 50.6% crossed the Rs. 100 crore milestone in FY 2018. The PAT for the period was Rs. 65 crore, registering a growth of 41.6%. Here we are pleased to share that the Board has recommended a dividend of Rs. 1.50 per share on the face value of Rs. 10. This will result in a cash outflow of Rs. 12.86 crore and amounts to a healthy payout of 20.68% on a standalone basis for MLL. Given our asset-light model, we do not have huge capital requirements to grow our business and expect to report healthy free cash flows every year. So we remain committed to all our shareholders and our Board will always look to strike the right balance between investing in the business to pursue growth opportunities and rewarding shareholders through dividends.

Coming to the financial performance for the quarter end; Revenues increased to Rs. 893 crore, up 23.5% year-on-year. Revenue from Non-Mahindra supply chain segment grew by 21.8% to Rs. 337 crore. Our revenue from Mahindra Group

Supply Chain Business grew by 27.9% to Rs. 470 crore. In our PTS business, the revenue for the period was Rs. 86 crore, an increase of 8.7% in that quarter.

Gross margin for the period grew to 8.7% from 8.3% year-on-year. Within the business segments, the gross margin in our Supply Chain Business improved to 8.5% from 8%. In the PTS business, it grew from 10% to 10.4%. EBITDA for Q4FY2018 improved by 75.2% to Rs. 39 crore. EBITDA margins for the period stood at 4.3% compared to 3% last year. The PBT and PAT for the period is Rs. 32 crore and Rs. 21 crore registering a growth of 95.5% and 69.6% respectively.

While the numbers for quarter four are looking good, I would like to reiterate as I had mentioned in our last conference call. We recommend that you review our performance on a year-to-date basis for the following reasons:

- 1) Impact of non-operating, non-recurring events. This quarter had a positive impact on profits due to less outgo towards consulting fees.
- 2) Ramp-up of business from new client takes place and takes some time. Post the client win, it involves implementation, integration of IT systems and then gradual increase in scope of work.
- 3) Impact of certain contractual term which pertain to prior period as well for example, fuel price adjustments rate hikes, etc.

Therefore, year-to-date performance would be better than quarterly comparisons either sequentially or year-on-year.

I am pleased to share that we recently launched a facility of 280,000 square feet for a multi-product, multi-user warehouse in Chakan, Pune. This is our second such facility as part of our post-GST readiness.

I would like to share the key priorities that we are working on. Going ahead, I will keep you updated on the progress made in these key areas:

- 1) Build strong customer relationships – We work with marque customers and there is a potential to widen our services offered to each one of them.
- 2) Improve business partner engagement – We are an asset-light organization, we work closely with our business partners who bring in the assets as required. Engaging with them in a mutually beneficial way is critical for our success.
- 3) Do good while doing well. This is the area of driver training and welfare, community work and other social initiatives that we at Mahindra Logistics carry on.
- 4) Invest in technology in our operations more aggressively. I believe that going further, logistics will be more and more a technology play.

And I would like to talk about technology a bit more over here. In all our operations, whether M&M SCM, Non-M&M SCM or PTS business we are taking steps to ingrain technology in our customer's journey to make the interaction simpler.

In our M&M supply chain business, we are the first Indian 3PL to have leveraged the OTM (Oracle Transport Management System) on the cloud i.e SAAS.

In our Non-M&M supply chain business, we are building an ecosystem driven platform on the cloud for transport planning and execution. This will help us cater to our diverse customers across sectors. This has been handled by our tech Company with whom we work closely.

And lastly, in our PTS business, we are working with start-ups to develop a cloud based platform for handling end-to-end transport desk outsourcing operation.

To conclude, logistics sector is undergoing a transformation. Given our leadership position in the 3PL space within the logistics industry, I believe we are well positioned to capitalize on the growth opportunity.

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

Moderator

Ladies and gentlemen, we will now begin with the question and answer session. The first question is from Rajesh Kothari from ALFAccurate Advisors.

Rajesh Kothari

Sir, is it possible for you to give some more color on how the overall industry is changing post-GST? Number two, in terms of major competitors if you can name a few large competitors and what is our USP compared to them? And number three, how do you plan to further improve your market share? And last but not least, whether there is a pricing power in the industry considering the rising fuel cost?

Pirojshaw Sarkari

Rajesh, if you ask me so many questions together I tend to forget. So, let us go one-by-one. The GST question, we definitely at Mahindra Logistics are seeing that most of the consumer facing companies are looking at re-designing their networks post-GST. We are already getting both current customers as well as new customers coming up to us either with already a strategy in place and asking us to execute upon that strategy or coming to us and saying let's re-design together. And a lot of these companies in the fourth quarter have kind of now decided to go ahead with consolidation. So, companies are looking at consolidating the small warehouses and from a number of 26, 28, bringing them down to something like 10, 12 and this 10, 12 is a very cautious step that they are taking because ultimately, I believe they should come down to approximately 6 or 7. But they want to do this in two steps and we appreciate where they are coming from. Having said that, they are already looking at distribution to more than one State sometimes even three States from one warehouse. And therefore, I would say what we had anticipated is already now on the ground.

Your second question regarding competitors, as I have always maintained, there are three sets of competitors that we face in the industry. One is the International players. In the International arena, we today specifically in contract logistics only see DHL in a very big way that has established itself in India. While there are other International players, they are still concentrating either on express logistics or freight forwarding. But I am sure, with GST coming down, we may see some more of those coming into contract logistics. The second-set of competitors are the Indian organized players. So as I have mentioned before in the automotive side, we see 'TCI' which is a competitor we see on the retail side 'Future Supply Chain' which is a competitor. And then we see some local regional players also who are strong in certain regions like in western India we see 'KD Logistics' there. And the third category is the start-ups that have come which are technology driven but these are mainly concentrating on the E-commerce logistics. We have not yet seen them in a bigger way in the rest of the industry vertical. So that is where the competitors are. Our competitive edge, of course, is as I have always maintained being asset-light. We definitely are a solution driven Company which provides flexibility and scalability to our customers. We are very clearly distinguishing

ourselves through investment in technology. We believe that the customer now demands visibility and predictability to what he has been ordering and therefore, we need to provide him that visibility and predictability and for that technology can only do that job. So that is the distinguishing factors that we have against competition.

Coming to the question of market share; the market is so big that there is no question right now of even looking at market share, it is more about how quickly we can enhance our top-line and bottom-line and that is what we need to concentrate on because if you look at the market at large it is a Rs. 6 trillion market and to measure market share at this stage where the market is so unorganized is difficult. So we rather look at how fast we can grow the organization.

And the last one which is the pricing power specifically with fuel being so volatile. I have said this before also that our contracts with our customers on transportation have a fuel pass-through clause which means that whenever fuel goes up, the rate goes up with a certain formula and similarly whenever fuel prices go down. So there is no gain or loss for Mahindra Logistics either way when fuel goes up or goes down. I hope, I have answered all your questions.

Rajesh Kothari Yes, just with regards to the fuel thing; is it with lag impact and with what fluctuation it will pass through, is it a plus/minus 5%, something like that?

Pirojshaw Sarkari So it is different with different customers. Some customers look at a percentage increase or decrease, some customers look at an absolute amount increase or decrease. And with some customers, it is a negotiation. So, all three are there and of course, it may sometimes have a lag effect also. But ultimately it passes through.

Moderator Next question is from the line of Ajinkya Bhat from Kotak Securities.

Ajinkya Bhat Congratulations on a good set of results. My first question is just a data point. Could you give us the fixed term strategy consultant fees for this quarter?

Nikhil Nayak For this quarter it is at Rs. 2,33,00,000.

Ajinkya Bhat Rs. 2,33,00,000.

Nikhil Nayak Yes.

Ajinkya Bhat The second question is that, while in FY 2018 you might have landed new accounts, have they contributed materially to the growth or should we consider that most of the growth in FY 2018 has come largely from deeper penetration and wallet share of the existing clients? And do you have an outlook for FY 2019 on this front, how the new relationships could ramp-up if any percentage of revenues that you expect from the new relationships or any targets internally?

Pirojshaw Sarkari Sure. Our growth in FY 2018 has come 70%, from the existing customers and 30% from the new customer. Having said that, I must tell you that it was difficult for customers to give new contracts during the GST period which was mainly the second-end part of the third quarter and we are seeing the new customers coming in the fourth quarter. And therefore, the full impact of the new customer's revenue accruing to us will come more in the coming year. We as an organization, as you know were at 70% of our Non-Mahindra business being done by 20 customers in FY 2017 which did move to 67%-66% of our business coming from those 20 which means we have widened the base and that is what we will endeavor as a mix while

we keep growing our customers because the deeper relationships we have with our existing customers, the better margins we can get because we provide more services to the customer and there is more stickiness with that customers. So, while is that is one area which is key account management that we will continue to focus on, we also now recognize the fact that post-GST there are a lot of slightly smaller customers who would require consolidation of warehouses and will not be able to do their own warehousing and therefore, it will be good for us to provide them space in our large format warehouses. So it will be a two pronged strategy for us.

- Ajinkya Bhat** Finally, is there any outlook for FY 2019 on growth margins? I mean, maybe growth could be very high, but from margin perspective you had earlier mentioned that probably 50 bps per year is a sort of soft target, would that be a right assumption on gross margin front?
- Pirojshaw Sarkari** Giving forward-looking guidance is difficult. But I would maintain that yes, we will like you said definitely grow the top-line higher than the industry growth which is slated to be 20% in the 3PL industry. With margins, the expansion effort will continue. But the way you should look at Mahindra Logistics being asset-light is the growth of our ROE and ROCE that is the important parameter that you should be looking at.
- Moderator** Next question is from the line of Ankur Periwal from Axis Capital.
- Ankur Periwal** Congrats for a good set of numbers. Continuing with the earlier question, you did mention widening of our customer base and largely focusing on warehousing as per their requirements. So this should be margin accretive not only because it is warehousing but also because it may be a smaller customer versus a bigger customer, is that understanding correct?
- Pirojshaw Sarkari** Yes, that understanding is correct. But we must also appreciate that the industry on the whole, has 90% transportation and we will not stop taking transportation business.
- Ankur Periwal** Sure, which is fair. And now, continuing on the same, now in this quarter also we have seen margin expansion, even if I adjusted with respect to our consultation fee, there is a margin accretion even on a q-o-q basis. Is it a q-o-q seasonality which is driving it or there is something more it?
- Pirojshaw Sarkari** Like I have kept maintaining, the way to look at our businesses on a y-o-y basis rather than a q-o-q or last year quarter against this year quarter because of the various factors that I put forward in my opening remarks today. Having said that yes, there has been like I said 30 plus percent growth in our warehousing in the Non-SCM side of the business which does tend to expand our margins.
- Ankur Periwal** And this aggregate warehousing/value-add as a percentage of revenue remains at 14% odd or is there a change in that number?
- Nikhil Nayak** It has remained around same level at 86:14 what it was last year.
- Ankur Periwal** Lastly, you did mention in your opening remarks on the tech-related investments where we will be focusing upon. Is there anything immediately on the radar because we have been there in terms of the miles or the Oracle software which you mentioned, you have been doing that? Are we looking to upgrade the systems further or is it more a gradual investment over the future course.

- Pirojshaw Sarkari** So both Ankur, of course just to let you know the Oracle migration also had happened in the past three-odd months where we have moved from a standalone to a SaaS platform of Oracle and that is the first implementation that Oracle has done in India onto their SaaS platform for Mahindra Logistics. So we have upgraded ourselves over there because it becomes easier when you are a multi-locational organization to be on a SaaS platform. Secondly, while Oracle as you know, is being used for our Mahindra side of the business because to implement Oracle it requires a large transport spend. For our non-Mahindra side of the business, we continuously have been investing in a platform which we are developing such that we can provide solutions to every different customer that we bring on board. So that investment continues to happen. And in our People Transport Business also it is very important that we make some large investment in the technology side where security of the employees is utmost for that particular business and again the employees look at visibility, they do not want to any longer depend on variability. So the technology is the only way that we can provide them predictability to their transportation also.
- Moderator** Next question is from the line of Gurpreet Arora from Quest Investments.
- Gurpreet Arora** My first question again is related to technology since we have been mentioning that we are quite early adapters in terms of latest and more useful technologies. Recently I also read that we have adopted latest technology, the blockchain technology as well. So, my question is how easy or difficult or how much time consuming it is for our entire ecosystem of vendors and customers to move along with us when we upgrade, change or do such sort of technology upgrades. And a related question is if you can quantify what sort of technology, CAPEX, and operating expenses are we looking on sustainable basis?
- Pirojshaw Sarkari** So for an asset-light Company like ours, horizontal deployment of whatever processes we bring into Mahindra Logistics whether it is manual or technology has to be done with our business partners to seamlessly run the operations for our customers and for that we have a separate business partner engagement cell that we run in this organization. Yes, it is not as easy as it sounds when we upgrade or when we change technology to again re-train the driver community and the business partners. But that is an ongoing process that we continuously have in the organization and our engagement with our business partners is not just at a transactional level but far more than that. Coming to the technology spends that we have, we are looking at continuously investing in technology and if you look at the CAPEX spend for this current year it is in excess of Rs. 10 crore to Rs. 12 crore that we have spent on technology in the current year and we intend to continue to spend on technology because we strongly believe that has to be the distinguishing factor from a good logistics Company like ours.
- Gurpreet Arora** Any update you wish to give us on adopting blockchain?
- Pirojshaw Sarkari** So blockchain as an initiative that has been taken at the Group level and it is basically where we are trying to integrate logistics between one of our sector companies and their vendors such that the vendor can get credit depending on the material that he provides to the Company and that material gets provided by Mahindra Logistics. So that is the blockchain that we are getting into and I think more details will come out as we progress on that.
- Gurpreet Arora** My second question is related to our PTS segment. Today, it comprises minor 10% of our business. What sort of aspirations we have for this segment? And what sort of management bandwidth is today getting used on this segment?

- Pirojshaw Sarkari** So while it is 10% of our business one must understand that the gross margins that we get from this business are equal if not more than from our Supply Chain Business, number one. Number two is, it is a separate vertical, we have a vertical head who is Vice President in the organization and they have their own sales and operations team. Of course, at the functional levels, there is definitely bandwidth that goes there but the focus is very clear from the vertical itself on growing this business. We definitely, like I said, in the last one year have recognized the fact that we need to invest in technology and people in that vertical which we are doing continuously and we will see better numbers, moving forward.
- Gurpreet Arora** So this segment has been growing at a slightly lower rate than our headline/top-line or the SCM business, 15% to 18%, range. Is this the range we are looking to continue with?
- Pirojshaw Sarkari** Yes, we would look at continuing the growth at around that range.
- Gurpreet Arora** Okay. And my last question is on working capital. If I look at the absolute working capital. The absolute working capital amount for last two years specifically is growing in tandem with our top-line growth at around 28% to 29%. So what sort of outlook, would you suggest for that?
- Nikhil Nayak** So working capital has come down during this quarter. If you compare December where we had quite an amount blocked in the working capital, the net working capital days as at the December end was at 28 days which has come down to 20 days when we close the year at March-end and this was primarily on account of better management of the working capital. We continue to monitor that and as the year goes by we will try and improve the working capital.
- Moderator** Next question is from the line of Krupashankar NJ from Spark Capital.
- Krupashankar NJ** On the working capital side, do Non-Mahindra customers have a higher receivable days in comparison to Mahindra, is that a strategy to acquire new clientele in the Non-Mahindra business?
- Nikhil Nayak** No. It all depends on the terms which are agreed with the customer whether it is being Mahindra or Non-Mahindra does not make any difference and it is based on the negotiated terms when we finalize the contract with each customer and it remains same between whether it is a Mahindra or Non-Mahindra business.
- Krupashankar NJ** All right. On the Gurugram multiuser warehouse, what would be the occupancy currently and have we managed to add newer clientele in that particular warehouse?
- Pirojshaw Sarkari** So I was waiting for somebody to ask me that question. I am pleased to announce that we have got 85% occupancy in our Gurugram warehouse now and we look forward to fill that up completely in this quarter itself.
- Krupashankar NJ** So predominantly our newer clientele has come in the Gurugram facility?
- Pirojshaw Sarkari** So it is all new business for sure. But the clientele are both new as well as existing clients who have given us new business.
- Krupashankar NJ** And if I can add in one more question which is regarding to the TDS receivable, what would be the quantum at the end of the year?

- Nikhil Nayak** So at the end of the year, the advance tax in excess of our liability is at about Rs. 82 crore.
- Krupashankar NJ** Okay. And we are expecting the refund to be coming through?
- Nikhil Nayak** We expect that it should start coming in from this quarter onwards.
- Krupashankar NJ** Alright sir. So this year we are positive cash flow from operations, is my understanding correct?
- Nikhil Nayak** That is correct. As at the end of March, we had a positive operating cash flow.
- Moderator** Next question is from the line of Rishabh J. from Emkay Fincap Ltd.
- Rishabh J** Congratulations on a great set of numbers. This TDS receivable is a part of other current assets, right?
- Nikhil Nayak** Yes. So if you see our balance sheet, it is lying under a specific item 'Income tax assets'.
- Rishabh J** On your segmental reporting, there is a fairly high unallocable expenses of about Rs. 150-160 odd crore, part of it is this consultancy fees which is declining, is the labor and other charges also a part of that unallocable expenses?
- Nikhil Nayak** So which are directly related to Supply Chain Business and which are directly related to People Transport Business is already a part of a segment result. And people which are not directly allocable to this particular segment are a part of unallocable expenses.
- Rishabh J** Sir, out of this Rs. 155 crore - Rs. 160 crore, if you exclude Rs. 8 crore consultancy charges, then what would be the biggest component of this unallocable?
- Nikhil Nayak** So unallocable expenses will be all sales cost and which are not specifically accounts or finance department. All support function cost will be a part of unallocable expenses.
- Rishabh J** Okay. But seemingly the number seems to be too high actually to be unallocable.
- Nikhil Nayak** Yes, so unless it is directly identifiable to a segment, it is all classified as unallocable expenses.
- Rishabh J** Okay. And this consultancy fee from next year should one consider that to be sort of zero number or is there some still milestone payments which are yet to come?
- Pirojshaw Sarkari** Yes, from next year consultancy for this particular one will be zero.
- Rishabh J** Okay. And in the Chakan warehouse whose expected start-up was April 2018, have we got the possession now?
- Pirojshaw Sarkari** No we have not yet got the possession because the permissions from MIDC are still to come in, the Embassy has not yet got the MIDC permission. So we expect that by the end of this month we should get possession.

- Rishabh J** And here let us say rental plus other revenues that we get from the client will be more or less similar to what we get on square foot basis or whichever way versus the Gurgaon facility?
- Pirojshaw Sarkari** No, so like I said billing to customer varies from customer-to-customer and from product-to-product. So one cannot say unless we sign-up the contracts with the customers what will be the billing. So in our Gurgaon warehouse also, we have a number of customers in that warehouse and each one the commercial terms are different. But mainly now we are entering more into variable commercial terms rather than cost plus margin.
- Rishabh J** Okay. And Gurgaon you mentioned Q4 utilization was 85%?
- Pirojshaw Sarkari** Yes.
- Rishabh J** And for the full year?
- Pirojshaw Sarkari** It is only Q4. If you remember in my previous quarters, we had very low utilization for the Gurgaon facility.
- Rishabh J** And just one last question. In case of supply chain management, the value-add services will obviously add to your margins. But on the peak level what are the EBITDA margins possible in that business or EBIT margins in that segment possible?
- Pirojshaw Sarkari** This is a question I think only God can answer. So it is very difficult to answer at the peak level what are the margins because it again depends from the service that you are providing, the kind of contract that you add, the intricacy of the contract. So let me give you an example; if you are doing service parts logistics there is critical service part logistics and there is service parts logistics. So if you are taking the critical service part logistics which is basically the spare parts of machinery that is used in an operation theater that margins are much-much higher than doing spare parts logistics for an automotive Company. So it is very-very difficult to say what is at the peak the EBITDA margin that one can get, it depends on what services and what mix you have.
- Rishabh J** Also, you said Rs. 82 crore TDS number will start getting probably refunded from Q1 onwards. Now this year we have declared about Rs. 1.5 of dividend which entails an outflow which is probably just about Rs. 12 odd crore. So once we start getting that what is the dividend payout, the policy if any, we probably have in mind.
- Pirojshaw Sarkari** So, we have a dividend policy in the Company and very clearly it states that the Board will decide every year the quantum of the dividend that will get paid-up.
- Moderator** Next question is from the line of Raunak Morjaria from Edelweiss Asset Management.
- Raunak Morjaria** Congratulations on good set of numbers. I just wanted to understand, if I were to just look at the Non-M&M SCM revenue growth in the current quarter, it was roughly around 19%-odd. And even in the previous quarter, we had delivered 17%-odd. So just wanted to understand why it has now slowed down compared to the first-half if we were to look, first-half our growth it was roughly +40% and now it has slowed down to roughly 18% - 19%. So what has changed in the second-half in particular?

- Pirojshaw Sarkari** So for the year we have grown 32% on our Non-M&M Supply Chain revenue. This quarter we have of course grown at 21% - 22% over last year's quarter. But quarter four is generally a higher number. So as a percentage the growth may look lesser but overall like I said it was quarter four that we started getting new contracts and we will be then seeing the revenue coming from them as we move on.
- Raunak Morjaria** Okay. So we expect that for years to come going ahead and then in the near-term two years - three years then it should continue to grow at an overall level of roughly +25%. Is it fair to assume?
- Pirojshaw Sarkari** No. so like I said the 3PL industry is slated to grow at 20% and we will definitely grow our Non-M&M business much higher than that.
- Raunak Morjaria** Okay. And also, I was just trying to understand on our working capital situation like since the post E-Way Bill which has now started in the interstate and earlier we had the problem of POD reaching to us and then there was a delay. So in the one month period have we seen an improving situation in the month of April?
- Pirojshaw Sarkari** So still early days. But what I can tell you for sure is that the E-Way Bill platform that the Government has put in place has worked remarkably in the very first month. And we ourselves at Mahindra Logistics have created 300,000 E-Way Bills in the first month itself. And we have not seen many issues. But still too early to answer your question because it takes a little time before we can give you a positive or negative answer to what you have asked.
- Moderator** Next question is from the line of Keyur Pandya from Prabhudas Lilladher.
- Keyur Pandya** Firstly, congratulations on a good set of numbers. What kind of investment are we required to do for next two years or three years to capture the opportunity created by GST? So that means what kind of investment quantum of CAPEX or investment that is required for similar investment?
- Pirojshaw Sarkari** So with regards to what kind of investments, there are two investments that we need to do – one is, as with GST we all know that we are going to move to large format warehouses and to run these large format warehouses, we definitely need good material handling equipment, tracking systems and technology and these are the three areas that we will need to invest in to make sure that we can run these large format warehouses efficiently as well as provide visibility to the end customer who places the order on the manufacturer. So investment in material handling equipment and technology will be the two areas of investment that we are looking at for the next couple of years.
- Keyur Pandya** If you can quantify such investment what could be that amount or range?
- Nikhil Nayak** So as we have seen in the past, it ranges between Rs. 20 crore - Rs. 25 crore. But as Phil was explaining, it will depend on what type of contract we get from the customer, where the investments are depending on the size of the warehouse, type of warehouse that we get, the type of contracting that we will do from the customer, etc. but the range as in the past would be about Rs. 20 crore - Rs. 25 crore.
- Keyur Pandya** Per annum or depends?
- Nikhil Nayak** Yes per annum.
- Keyur Pandya** Okay. Second question is, for example, the warehouse that we have just launched that is in Chakan, so what kind of model do you do there, so is it considered as

CAPEX or OPEX, I mean what kind of investment do you do in such kind of warehouses?

Pirojshaw Sarkari So as far as the warehouse is concerned per se, it is totally OPEX because we lease the warehouse on a long-term lease from Embassy who have built the warehouses. But the interiors of the warehouse which I just explained, which is the racking system, the material handling equipment and technology that we put into the warehouse that is the CAPEX investment that we do.

Keyur Pandya Could you quantify in terms of what kind of initial CAPEX or OPEX which happens? Is it on a per square feet basis or how do you measure that? For example, this 2.8 lakh square feet facility what would be the CAPEX that you would have done?

Pirojshaw Sarkari So for this particular one like I said we have not yet got possession. But what I can only tell you is that it again depends on what kind of customers we get for this warehouse. The different kind of material handling equipment that is required for different kind of customers, if it is a heavy engineering customer, the kind of material handling equipment required is different from a light E-commerce or a FMCG kind of customer, so it all depends on which customers we will get to use this warehouse.

Keyur Pandya And on OPEX or on the lease front so it should be on certain base I mean some amount on per square feet basis, so generally what is that range?

Pirojshaw Sarkari So rentals of a warehouse again depending on the location and the size can vary from as low as Rs. 8 to as high as Rs. 30 per square feet.

Keyur Pandya Okay. My second question is on the transport business versus our warehousing plus value-added services. So what kind of margin differential do we see between these two segments or if you could give a broad margin range for these two segments?

Pirojshaw Sarkari Okay. So pure vanilla transportation which is point-to-point transportation could get you a margin of anywhere between 6% to 8%. A distribution business could get you a margin between 8% to 12% and warehousing could get you margins ranging from 10% to 20%.

Keyur Pandya My last question is on more of a bookkeeping question. The effective tax rate which seems higher this year versus last year, so what would be the steady-state tax rate and any reason for this variation?

Nikhil Nayak So tax rate for the current year has gone up primarily because there are certain expenses which on a conservative side we are treating that as a non-tax deductible and because of that we are making a higher tax provision for the same. Otherwise, it will come back to the normal tax rate of 34.5%.

Moderator Next question is from the line of Abhishek Ghosh from Motilal Oswal Securities.

Abhishek Ghosh I just wanted to understand that your transportation to warehouse revenue in terms of percentage is close to 78:22, so in light of this Chakan warehouse that we have taken, do you see that improving in favor of warehouse going forward?

Pirojshaw Sarkari So again, with every large warehouse, we also get large distribution business and that is a choice that we have either we say no, we will not take the distribution, we will only do warehousing but that is not the line that we at Mahindra Logistics want to take, we really believe that we are still a very small fish in a very large ocean and

we need to grow our top-line equally fast. So it is not that one large warehouse will really change the percentage between warehousing and transportation.

- Abhishek Ghosh** But I am saying, even so, this 78 can go down to something like 75 for transportation or it is going to stable around these levels?
- Pirojshaw Sarkari** Well, like I said, our endeavor, of course, is to keep increasing our warehousing and value-added services revenue. We believe that parts of transportation which are critical, just in time transportation also is good to have, it is only the vanilla transportation which is point-to-point that really is at a low margin. So our endeavor always is to get either distribution, warehousing or value-added services. But saying no to an existing customer for an additional service is something that we will not do.
- Abhishek Ghosh** Okay, that is helpful. My second question is, our exit margins are far higher than what we have done for the average for the year, does that mean anything for our FY 2019 margins or should we still look at the early margins and some improvement around that?
- Pirojshaw Sarkari** Our entire business you should look at year-on-year basis and not on a quarter-on-quarter basis and therefore our year-end margins is what we should look at as the base for moving to the next step.
- Moderator** Next question is from the line of Nidhi Babaria from Dalal & Broacha.
- Nidhi Babaria** Sir, could you tell how do we exactly calculate the gross profit like what expense item do we take?
- Nikhil Nayak** All the direct cost which is directly related to the operations are accounted prior to determining the gross margin. So be it labor cost or a freight cost or warehouse cost, all are part of expenses before gross margin.
- Moderator** Next question is from the line of Ankit Panchmatia from ICICI Securities.
- Ankit Panchmatia** Sir, just to get a view, with this facility coming in at Chakan, if I want to see our margins y-o-y basis, do we still believe an improvement of 50 bps margins would be accrued for FY 2019?
- Pirojshaw Sarkari** Our endeavor is to keep expanding our margins and whether it is 50 basis points or little more than that. We as an organization are very focused this year and next year on improving our margins. But at the same time, we will also keep growing our top-line as I said before, we are still very small in the Rs. 6 trillion industry that is available for grabs.
- Ankit Panchmatia** So sir, is my assumption right that first our focus would be the top-line growth and then the margin would be the next point of focus?
- Pirojshaw Sarkari** No, that understanding is not right. We look at profitable top-line growth always. So it is not that we will look at only at top-line growth and then only look at margin.
- Ankit Panchmatia** Okay. And sir, please pardon if I am missing out on something. As you had mentioned that the transportation from point-to-point commands a margin of 6% to 8%; distribution is 8% to 12% and warehousing is 10% to 20%. So just to get a view that where are we missing out on reaching these goals or what are we planning to achieve these goals which are mentioned or this kind of margins which are mentioned in these specific businesses?

- Pirojshaw Sarkari** So clearly if you look at my mix today it is 86:14. 86 is transportation, 14 is warehousing. The industry mix is 90:10, So there is no question of missing out on anything.
- Ankit Panchmatia** Right. But sir these margins mentioned I believe are much higher than what margins we are clocking at this point of time.
- Pirojshaw Sarkari** No, if we take the mix into consideration it will come to the margins that we have clocked.
- Moderator** We will take our last question now, which is from the line of Chirag Shah from Edelweiss.
- Chirag Shah** Congrats for the good set of numbers. I have a basic question on warehousing plus value addition that we do. Could you indicate what kind of different value additions we look at? Just to give you a flavor, what I am trying to understand is, the value addition could be in-factory logistics or assembly line logistics or the entire in-factory logistics or basic warehousing or a complex warehousing. So where are we trying to focus in the immediate next two years given the opportunity sizes and just adding to that in terms of customer profiling what type of customer profiling we are looking at because there could be a FMCG Company, there could be a huge equipment Company, etc. So how are we looking at and obviously, we have a legacy of automobiles business.
- Pirojshaw Sarkari** So our unique positioning in the industry as you know is there already in the in-factory logistics, we today are at 35 manufacturing locations doing in-factory logistics in India. From the value-added services, again, when you look at warehousing, there are three kinds of warehousing. The first one is box in-box out, which means you get a box warehouse and you move that box out which is basic warehousing. The second one is a box in-piece out, where you actually get a box full of goods but the order comes in pieces, so you have to actually remove pieces from boxes and therefore manage the inventory properly. And the third one which is more intricate is you get a piece in, you have to pre-package that piece into the customer's packing, make boxes out of it and then again ship out pieces. So, this involves pre-packaging, put-away, pulling out per piece, bundling it with other pieces and then sending an order. As you migrate from the box in-box out to piece-in, piece-out, of course, these are value-added services and your margins go up in that case. The other value-added services that you give to a customer is when you do bundling of products for the customer. So you must have seen that in certain products that you purchase they say if you purchase this you get one free soap or one free razor and that is called bundling which happens during certain periods where at the warehouse you have to bundle these together and make sure you do the right thing because the OEM that is the manufacturer has asked you for every five soaps give one free, you make sure that it is not for four soaps that you are giving one free and that is value-added service that you provide.
- Chirag Shah** Where are we focusing on and our efforts on developing capabilities on the immediate side are focused on which part of this business?
- Pirojshaw Sarkari** Again for us today as we sit here we do both the in-factory logistics as well as the piece-in, piece-out in the value-added service chain. It again depends on what customers and what services we get to perform for the customers. We are ready to take on both the in-factory logistics and piece-in, piece-out as we are doing that for a number of customers already.

- Chirag Shah** And even the new Chakan warehouse that we are setting up which hopefully we get the possession sooner, is it similar to what we are doing right now piece-in, piece-out type of a business or it is slightly different?
- Pirojshaw Sarkari** We are still getting customers to come for our Chakan warehouse. Once we get the customers, we will know what kind of business we are going to perform from that warehouse.
- Moderator** Ladies and Gentlemen that was the last question. I now hand the conference over to the management for closing comments.
- Pirojshaw Sarkari** So thank-you, everyone. I hope we have been able to answer all your questions satisfactorily. However, should you need any further clarification or would like to know more about the Company, please feel free to contact our team or CDR India. Thank you once again for taking the time to join us on the call and see you all next quarter.
- Moderator** Thank you very much members of management. Ladies and Gentlemen, on behalf of Mahindra Logistics Ltd. that concludes today's conference call. Thank-you all for joining us and you may now disconnect your lines.

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