



## Mahindra Logistics Limited

### Earnings Conference Call Transcript

#### December 04, 2017

---

**Moderator** Ladies and gentlemen, good day and welcome to Mahindra Logistics Ltd. Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case if you require any assistance during the conference call, please signal an operator by pressing "\*" then '0' on your touch tone 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 morning, everyone and thank you for joining us on Mahindra Logistics Limited Earnings Conference Call. We have with us Mr. Pirojshaw Sarkari (Phil) – CEO of the Company 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 our 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 morning everyone. On behalf of the entire management team of Mahindra Logistics Ltd., I would like to extend a warm welcome to all of you on our maiden earnings conference call post our listing on November 10<sup>th</sup>, 2017.

We have successfully completed our initial public offering, which received a very good response. The timing of our IPO could not have been better as we believe that the logistics industry will benefit from the introduction of GST as well as the infrastructure status. I would like to take this opportunity to thank all the investors for their whole-hearted response to our IPO. Mahindra Logistics has started a new chapter in its journey and is excited about the business prospects going forward. It will be our endeavor to always have best practices in investor interactions at all time.

I trust all of you have been able to refer to the earnings presentation we shared on Friday. Given that this is our first earnings call, let me give you a brief overview of the company and our strategy going forward, post which I will run you through key financial highlights.

Mahindra Logistics Ltd. is one of the pioneering and largest 3PL solution provider having wide presence across the country. MLL is an integrated, end-to-end logistic service provider which offers logistic solutions, warehousing, freight forwarding and supply chain services to its customers across multiple industries. The company operates in two business segments, Supply Chain Management (SCM) contributing

90% of revenues; and People Transport Solutions (PTS) contributing 10% of the revenues. We enjoy a strong backing of the Mahindra brand and support from the Mahindra Group. Being part of the Mahindra Group, Mahindra Logistics adheres to highest level of professionalism, ethics and business practices.

MLL has a unique 'asset-light services led' business model, pursuant to which assets necessary for operations such as vehicles, warehouses and manpower are provided by our business partners. This enables us to offer a variety of flexible scalable solutions and services based on client's requirement and handle complexities that are unique to the Indian logistics industry. In addition to this, it allows us to manage any fluctuations in demand more efficiently and minimize any adverse effect resulting from cyclical movements. Basically, the organized 3PL business model of MLL gives it an edge over the traditional 2PL capital intensive logistics model. Providing logistics services to Mahindra Group which has multi-locational manufacturing facilities has allowed us to build a strong pan-India network. MLL has built a formidable ecosystem of over 1,500 business partners on the back of providing logistic services to Mahindra & Mahindra. High return on equity, low capital expenditure requirements and lower working capital requirements are some of the key benefits MLL will continue to enjoy due to its 'asset-light' 3PL model.

Let me further give a brief description of our two segments in which we operate. Supply Chain Management (SCM) entails - customized end-to-end logistic solutions and services, including freight forwarding, transportation and distribution, warehousing, in-factory logistics and value-added services. MLL operates its Supply Chain Management business through a pan-India network comprising 24 city offices and over 350 operating locations. A large network of over 1,000 business partners enables us to serve over 200 domestic and multinational companies operating in several industry verticals. We manage over 10 million square feet warehousing including built-to-suit warehouses, stock yards, network hubs and cross-docks on a pan-India basis.

Under MLL's PTS business segment, we provide technology enabled People Transportation solutions and services across India. This technology-enabled solution offers application based interactions that provide optimized routes and vehicle utilization, which results in cost-efficiencies for our clients. We primarily serve leading corporates spread across multiple sectors, as in IT, BPO and financial services. PTS is also an 'asset-light' model wherein a large network of over 500 business partners has been developed. MLL operates its PTS business in 12 cities and over 120 operating locations in India.

We also have two subsidiaries, 'Lords Freight Pvt. Ltd.', which is into freight forwarding and '2x2 Logistics Pvt. Ltd.' which is into transportation of automotive finished goods.

We have identified technology to be a major enabler for our business. This allows us to provide visibility and predictability to our customer for their supply chain needs. We will continue to invest in fulfilling this requirement.

Before getting into the key financial performance numbers, let me also give you few key observations on the broad macroeconomics and some relevant sectorial developments. The past few months have thrown up some positives for the Indian economy. Consumption, which had taken a beating post demonetization and GST, has shown a healthy recovery. The rollout of positive reforms like bank recapitalization, the mega road and highway development plan and GST rate-cuts augurs well for the economy. Initial implementation of GST did result in some challenges. Customers were not accepting bills for want of clarity. This resulted into

unbilled revenues. It also reduced our collections impacting our cash flows. However, these are now stabilizing.

Against this backdrop; we are happy to report that in H1FY18, Mahindra Logistics has achieved a strong all-round performance. Revenues grew 37% on a year-to-year basis to Rs. 1,688 crore. This growth was achieved both by adding new customers as well as penetrating and enhancing services with existing customers. Revenue from Non-Mahindra Supply Chain segment continues to show robust growth. In H1FY18, it grew from Rs. 407 crore to Rs. 604 crore, which is 49% growth on year-on-year basis. So our non-Mahindra business has grown 49% on year-on-year basis. In our PTS business we continue to show 25% growth. In H1FY18, it grew from Rs. 138 crore to Rs. 173 crore.

Although our gross margin has grown in absolute term from Rs. 97 crore to Rs. 128 crore, the percentage to revenues have reduced by 31 basis points mainly on account of three factors. One, being a new business line in our PTS business for shuttle bus services. We are now discontinuing the pilot project which will remove the drain on the margins. However, the learnings from the project will be used as we chart out the future strategy. Second, we had unutilized space in the new multi-user warehouse leased for the post GST strategy. Moving forward as this gets utilized; it will enhance our margins. The third factor being our freight forwarding business. The business grew from Rs. 31 crore to Rs. 70 crore, which is a growth of 129%. Some of this was due to special projects on relatively low margins. If one were to adjust for the above three, we would be at a higher gross margin percentage year-on-year.

EBITDA has enhanced by 35% year-on-year to Rs. 56 crore. As compared to H1FY17, EBITDA margins percentage has remained the same. Profit after tax has grown from Rs. 22 crore to Rs. 29 crore, which is 30% year-on-year growth.

During H1 FY18, Mahindra Logistics also received few awards. '3PL Achiever of The Year' award at the 'Global Logistics Excellence Award' is the one I wanted to tell you all about.

To conclude, we believe that we are well positioned to capitalize on the enormous growth potential the logistics industry offers. We expect to continue delivering ahead of the sector growth in our non-Mahindra business while the Mahindra business will continue to follow the growth achieved by the Mahindra Group. We look forward to your continuing support in our journey which we believe will create long-term sustainable value for all our shareholders.

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.

- Moderator** Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Vikram Suryavanshi from Phillip Capital.
- Vikram Suryavanshi** Good morning, sir. Congratulations on a good set of numbers and strong outperformance compared to the industry. The kind of growth we have seen from Non-Mahindra Group i.e a 49% y-o-y growth is quite commendable compared to other logistics companies' growth. So, could you share more about how are we able to achieve this outperformance? Also what kind of outlook we have for growth, going ahead?
- Pirojshaw Sarkari** Thank you for that. As we have been saying earlier, the Non-Mahindra business will be the focus of our growth moving forward also. We play in four industry verticals in our Non-Mahindra business; these being Auto and Engineering, Consumer and

Pharma, E-Commerce and Bulk. We have grown each of these verticals between 30% to 60% over the last year. Our concentration will be on these verticals and we will keep growing these beyond the industry growth rates which are expected to be 20%.

- Vikram Suryavanshi** My next question is with regards to our working capital. How is our current working capital looking like and what kind of improvement we could see in our working capital or in our receivable days, going ahead?
- Nikhil Nayak** Our working capital was impacted during the six months because of GST which led to delay in invoicing. Things are settling down now and as we go along we will be able to improve on our working capital days.
- Vikram Suryavanshi** Okay, got it. Thank-you sir.
- Moderator** We have the next question from the line of Ankur Periwal from Axis Capital.
- Ankur Periwal** Congrats for the strong set of numbers. To start with, on the Supply Chain business, could you share the breakup between the auto and non-auto business in H1FY18? Also could you throw some light with regards to how has been the growth across both?
- Pirojshaw Sarkari** So, like I said, on our Non-Mahindra side of the business, we have been growing all the four verticals year-on-year and both the auto and non-auto verticals have grown between 30% to 60% for each of these verticals. Having said that, if you ask me about the auto and non-auto specifically, Nihil has the numbers, Nikhil could you just give the numbers please?
- Nikhil Nayak** Yes, so Ankur, we are at 63% and 37% between auto and non-auto for the first half of the year.
- Ankur Periwal** Okay, great. And how was this proportion...
- Pirojshaw Sarkari** Please remember this Ankur, this includes the Mahindra business which is basically fully auto. So, we should look at only the Non-Mahindra Group.
- Ankur Periwal** That is right. And Nikhil, how was this number last year?
- Nikhil Nayak** We were at 61% for auto and 39% for non-auto for last year. This is because Mahindra business has grown very fast in the current first half of the year and a slightly shift towards auto being more.
- Ankur Periwal** Sure. Also, is there any seasonality in the Supply Chain business? I mean is H2 slightly heavier than H1, which is again derivative of the industry or the sector that we address to?
- Pirojshaw Sarkari** So, while industry will have its cycles, right now from Mahindra Logistics perspective, we are still relatively small to the whole Rs. 6 trillion that it does not affect our business and we do not really look at cyclical effects on our numbers.
- Ankur Periwal** Okay, fair enough. In terms of growth for the PTS business, you have recorded pretty healthy growth in this first half at 25% odd. This to my mind is largely driven by new client addition or we have mined the existing ones as well?

- Pirojshaw Sarkari** So, it is a combination of both. New clients also have been added but we have also penetrated most of our large customers in the PTS business.
- Ankur Periwal** Okay great. Thanks a lot and all the best going ahead.
- Moderator** We have the next question from the line of Aditya Mongia from Kotak Securities.
- Aditya Mongia** Congratulations on a very good set of numbers. Could we get some more granularity on the Non-M&M SCM part of our business which is growing great at this point of time i.e at about 50%. Is there a manner in which we can kind of dissect this growth into new customers or into any specific quantum of new business which has come in this quarter? And the second part is being the penetration gains as you are suggesting.
- Pirojshaw Sarkari** Yes. So, we have added quite a few new customers. We have added more than 40 new customers over last year in our Non-Mahindra SCM business. Majority of our growth still comes from penetrating our existing customers. This is because as you add these customers, they start off with small business with you and then you have got to penetrate them and grow them large. So, while we have added 40 plus new customers; this growth will be seen in due course of time from these new customers. But our main focus is giving new and more services to our existing customers. Also, if you look at the growth that we have got in the Non-M&M SCM business in spite of 40 plus customers, majority of our growth still comes from penetrating our existing customers.
- Aditya Mongia** Sure. So, would it be then fair to say that these penetration led revenue growth gains which have come in, are coming in at better margins from the same accounts also? Essentially new revenue comes with better margins as you are also saying that gross margins are also improving on a YoY basis.
- Pirojshaw Sarkari** So, definitely as you do more services with the same customer your margin expansion is always what you look for.
- Aditya Mongia** Second question from my side. There is obviously a positive impact on the sector being given infrastructure status now. Do you believe that there would be good benefits being seen from this development and what kind of timeline are you looking for on this thing?
- Pirojshaw Sarkari** So, I am looking at two distinct benefits coming to the sector. The first benefit is coming to the cold chain sector. There is a specific mention of cold chain, while the document which states the in-depth study of what benefits have come out is still on; the cold chain will get benefitted because the overall limit for funding for cold chain is lesser than the overall limit for funding for the normal warehousing. And therefore, the cold chain will get a kind of a boost from a long-term funding at lower rates. The second benefit will of-course be on the whole warehousing side. As I have always maintained, post-GST India will see a revolution on the whole warehousing side of the business. The small state local warehouses will now move to large regional warehouses and when you need large regional warehouses you need long-term funding at lower cost. And that is exactly what is going to happen with the infrastructure status.
- Aditya Mongia** Sure. I have one more question on which I wanted to get a sense from Nikhil as well. Now we all understand that GST is playing its part, in my sense resulting in negative cash flow from operations for the company in the first half. Do you think on a full year basis this will still be leading to a negative number or do you think that the recovery will be quite swift on this account?

- Nikhil Nayak** So there will definitely be a recovery because first six months were impacted due to GST. And also the TDS amount that gets blocked, that also we believe over a period of some time we should be able to get relief on that count also. So, both these put together should see us improve the working capital days.
- Aditya Mongia** Thank you.
- Moderator** We have the next question from the line of Prateek Kumar from Antique Stock Broking.
- Prateek Kumar** Congratulations to the management for the great performance in the first half. Sir, my first question is with regards to this SCM non-M&M business. So, out of Rs. 604 crore, what would be the 2Q number specifically?
- Pirojshaw Sarkari** Since we have put out the first half numbers statutorily, we would not like to discuss the quarter numbers specifically. But we assure you that moving ahead we will share the results on a quarterly basis. So from third quarter onwards we will do that.
- Prateek Kumar** Okay. Sir my next question is with regards to the number you have said on this 63-37 split for Auto and Non-Auto. So this break-up would be applicable for the whole business or just for the SCM segment?
- Nikhil Nayak** That will be applicable for the whole business, MLL as a whole.
- Prateek Kumar** Okay, so that clarifies. My next question is with regards to the consultancy fees. So what would be that quantum in the current quarter and for first half and what is the pending which we should expect for the full year?
- Pirojshaw Sarkari** So, for the first half of this year the consultancy fees is Rs. 5 crore and we would have a balance of another Rs. 5 crore till the end of the year.
- Prateek Kumar** And that would be in terms of total expenditure in relation to this?
- Pirojshaw Sarkari** Yes, that is the end of it.
- Prateek Kumar** Okay. Also with regards to this infrastructure status, you highlighted there will be ease in terms of finance cost. We have grown tremendously and we are a growing company in this business out of the lower base, I mean certainly our growth is higher than the industry. But do you think at this point of time in organized space we have over-supply kind of situation in organized warehouse versus the cargo availability in general? Or is it generally warehouses from organized sector keep coming, the utilization will remain high?
- Pirojshaw Sarkari** In fact, if you look at the industry as such, we do not have enough supply of what I call A grade warehouses which will be required as we move forward in the post GST scenario. When you require these large regional warehouses with certain specifications, these are under supply today and therefore we look forward to asset-heavy players who come in and invest and build out these large warehouses so that companies like us who are asset-light can take anchor positions in those warehouses.
- Prateek Kumar** Okay. And that would be sort of industry wide phenomena as well?
- Pirojshaw Sarkari** Yes, absolutely, industry wide phenomena.

- Prateek Kumar** My next question is on the gross margins. So you mentioned about this new venture in the PTS segment in terms of shuttle service and some unutilized space in the multi-hub user warehouse. So what would be this quantum and could you just explain a bit more on this?
- Pirojshaw Sarkari** So in a growth industry like this we have to continuously do pilot projects, innovate for the future. So, in our PTS business we took on a pilot project to do shuttle bus services in one of the cities. It was the first time we ventured in to technology-driven shuttle bus services, and we had a good learning on that which we will now consolidate together. So the pilot is over which actually had a little drain on our gross margin, that is over now. We will be using these learnings to put in a new line of business for our PTS business. Coming to the warehousing side, of course, like I said post GST we have taken possession in a large warehouse in Gurgaon and by the time it will fill up and we will be seeing good margins from there.
- Prateek Kumar** Thanks so much sir for the all answers and all the best.
- Moderator** We have the next question from the line of Ankit Panchmatia from ICICI Securities.
- Ankit Panchmatia** First of all, congratulations on a very good set of numbers and outperforming the industry. I just want to understand that this freight forwarding special project income that has been accrued in this current quarter or it is in the Q1?
- Pirojshaw Sarkari** So, it is mainly in the current quarter and it will continue to be there in the next quarter as well. This is because we are seeing large business that is coming into freight forwarding imports into the country, in the telecom sector specifically and we want to capitalize on this opportunity that has come up.
- Ankit Panchmatia** Okay. Sir, could you provide just a rough estimate of this opportunity size for the current year, because if I see the run rate it has been adding Rs. 40 crore to our top-line in the current quarter. So, I just want to understand what sort of quantum are we building up because they put pressure on our margins as well, you had mentioned that it is a low margin business. So, could you provide a rough estimate with regards to up to what this could be scaled up to as then slowly we would then move into a high margin business. But your rough estimate what this can be potential for us?
- Pirojshaw Sarkari** So, actually if you look at this growth in our freight forwarding business, this is actually growth over and above our budgeted growth. And therefore, what we are doing is we are creating incremental margins for the organization. So having said that, the normal growth along with the normal margins continues to be there with that business.
- Ankit Panchmatia** Okay. With regards to your explanation where you mentioned that overall funding in cold chain is less than that of the warehousing. I want to gain more sense of this line, how are we kind of arrived at this thing?
- Pirojshaw Sarkari** So, if you look at the circular, there are minimum limits of funding that have been set out in the circular. I do not have it in front of me, but if you look at the circular my recollection is that on cold chain the limit is lower than for warehousing from a size and funding quantum.
- Ankit Panchmatia** Okay. How are we progressing towards the cold chain, what proportion of what percentage we are doing at this point of time or what are we planning to do?

- Pirojshaw Sarkari** So, at this point of time, in the four verticals that we operate in we do not do any cold chain business. However, we are seriously looking at how to move into the pharma cold chain which we believe is a good opportunity for the logistics sector moving forward. And that is one area in which we are in the stage of assessing.
- Ankit Panchmatia** Sir, I also wanted to get a sense of this stickiness of revenue. How do we kind of proceed with the contracts; is it on an annual basis, is it on a project basis, what proportion would be more sticky as compared to our current revenues? Any sense on that would be very helpful.
- Pirojshaw Sarkari** So, our warehousing in-factory logistics value added services contracts are generally three to five years. Our transportation contracts are annual but these are renewed annually. We do not do any spot business, so we are not in the spot market, which means do something today, don't do it tomorrow; we only do business which is contractual.
- Ankit Panchmatia** My next question is with regards to the debt side of our balance sheet. There has been a certain increase in the borrowing side of the balance sheet in the non-current liability as well as in the current liability. So, is it due to the GST transition impact wherein we have seen our working capital stretched or is it regarding to do something long-term in nature?
- Nikhil Nayak** So the borrowing part which you are seeing on the liability side is basically for our two subsidiaries, '2x2' and 'Lords'. MLL continues to be debt free. So, '2x2' is basically for investment which we are making in the car carriers, and 'Lords' and '2x2' have working capital facility also. So, it is restricted only to these two subsidiaries, not in parent MLL. On the receivable side, yes there is a stretch because of GST which caused us delayed billing as well as pressure on the receivables. As we go along, we expect this to improve.
- Ankit Panchmatia** Okay. Also if you could give a rough CAPEX figure, although it would be minimal but from your end any CAPEX for H1 what we have done and for annual which we are planning?
- Nikhil Nayak** I think we will be on a similar line as in the past going forward.
- Ankit Panchmatia** Thank you sir. That was very helpful.
- Moderator** We have the next question from the line of Trupti Agarwal from White Oak Capital.
- Trupti Agarwal** While I appreciate you said that going forward you would give us quarterly numbers, I just want to again check if it is possible to get the breakup of SCM and PTS business for the two quarters Q1 and Q2, would it be possible for you to share those numbers?
- Pirojshaw Sarkari** Can we come back on that to you, ma'am?
- Trupti Agarwal** No worries. In the SCM business we said that the mix between the auto and non-auto has changed from 61% to 63% in the auto side, and this is because of the growth in the Mahindra numbers. I just wanted to know what would be the trend like for the full year. Is this growth sustainable, would it be higher sales of Mahindra which would again increase the auto share in the SCM business?
- Pirojshaw Sarkari** So, our main focus is growing the non-Mahindra business. And as you know, our non-Mahindra business has four verticals in them. We are also growing very aggressively our consumer and pharma and our ecommerce businesses. Having

said that, the Mahindra business growth comes as Mahindra & Mahindra grows, so the combination of the two will give us the auto and non-automotive. But the way we would like to see this is how is the non-Mahindra business growing.

- Trupti Agarwal** Okay. Sir, any outlook on that, I mean what would be the mix for the full year?
- Pirojshaw Sarkari** So, between the four verticals the way we are growing, we would not be very different, we would be in the range of 20% to 30% between each of the four verticals that we are growing in the non-Mahindra business.
- Trupti Agarwal** Sure, sir. So, I will come back then in the queue for the Q1 and Q2 slip for revenue.
- Pirojshaw Sarkari** And sorry, just to clarify what I said, I mean that the mix of each vertical in the Non-Mahindra business will be 20% to 30%.
- Trupti Agarwal** Okay, I thought that was the growth that we were talking about. So, the Non-Mahindra business will be 20% to 30% is what you are saying?
- Pirojshaw Sarkari** Yes, correct.
- Kamlesh Ratadia** Phil, this is Kamlesh here. I just wanted to clarify a couple of things. Our PTS business has grown at 25%, how sustainable is this growth going forward for us?
- Pirojshaw Sarkari** Like I said earlier also, we have brought in more focused with a changed management in our PTS business around 18 months back. We saw growth last year, we are seeing growth this year and we believe that this growth will sustain over a period of time. We have now revamped our processes, we have brought in new technologies into the business and we are very buoyant on this business to be able to give 20% - 25% growth.
- Kamlesh Ratadia** Fantastic. Also on the margins, you mentioned that there were three impacts due to which the gross margin improved by only 38 basis points. If you were to adjust for this, what kind of gross margins would we have seen in terms of improvement?
- Pirojshaw Sarkari** We would definitely be higher than the same period last year.
- Kamlesh Ratadia** Understood. My next question is on the working capital. While obviously there has been some kind of deterioration in the first half for the reasons explained, for the full year could we expect the same working capital in terms of number of days and in terms of percentage of sales, whatever you like?
- Nikhil Nayak** So, our endeavor would be to improve on that definitely. And as we go along with the measures that we are undertaking we should be able to improve it.
- Kamlesh Ratadia** Okay. So, we expect some kind of an improvement on working capital even if suppose the TDS issues were not to get resolved?
- Nikhil Nayak** Correct.
- Kamlesh Ratadia** Okay fantastic. Thank you so much.
- Moderator** We have the next question from the line of Neelesh Dhamnaskar from Invesco.

- Neelesh Dhamnaskar** I had two questions on your working capital. In our other financial assets and other assets line items, there has been a sharp increase. So, could you just elaborate on these two items?
- Nikhil Nayak** So, other financial assets has increased mainly because of the unbilled revenues, which is the accrued sales as because of GST there was a lot of confusion in the system, consumers were not ready with where to bill, how to bill and all. Due to this we had to accrue the sales because the services had already taken place. But we were yet to bill invoice to customers at that time of the balance sheet.
- Neelesh Dhamnaskar** Okay. So, this should reduce as we probably go ahead, right?
- Pirojshaw Sarkari** Yes, as we go ahead this will move out. The unbilled revenue which was there at September end has reduced significantly, almost all of it we are able to bill as of today.
- Neelesh Dhamnaskar** Also the 'Other Assets' have gone from Rs. 66 crore to Rs. 220 crore?
- Nikhil Nayak** So, if you see on the supply side also we had to give advance to our vendors because they were also not able to invoice us, similar like we have been not able to invoice our customers. And because of that on the payable side if you see, the quantity is high and the same is represented by way of advance which we give to our vendors in the sense of their ability to invoice us.
- Neelesh Dhamnaskar** Also has there been any increase due to the advance which you give for new warehouses?
- Nikhil Nayak** So, there will be security deposit which we need to give which ranges from three to six months and that continues as we grow our warehousing space.
- Neelesh Dhamnaskar** Okay. Also is there any seasonality in this business; meaning that during H1 the working capital may go up at the end of the year it goes up or there is no such seasonality in this business?
- Nikhil Nayak** No, there is no such seasonality as far as working capital is concerned.
- Neelesh Dhamnaskar** Okay. Great. Thanks a lot and all the best.
- Moderator** We have the next question from the line of Abhijith Vara from Sundaram Mutual Funds.
- Abhijith Vara** I wanted to check how was the ecommerce division doing in H1 FY18 versus last year?
- Pirojshaw Sarkari** So, ecommerce continues to show good growth even in this half and is one of our fastest growing verticals in our non-Mahindra business. And we have focused on even expanding our service lines on ecommerce, beyond what we used to already do in the first half of the year.
- Abhijith Vara** Okay. So, the non-auto SCM which is growing at 33%; ecommerce is also representative of this growth, it will also be growing at around this rate?
- Pirojshaw Sarkari** No. So, our ecommerce revenue is growing far above 45%.

- Abhijith Vara** My second question, I know you clarified this but once more, Mahindra SCM growth has been quite strong, in fact it is positive surprise. Could this growth sustain in the H2 as well?
- Pirojshaw Sarkari** My point is always that the Mahindra Logistics depends on the Mahindra & Mahindra growth. So as they sell more vehicles, they will grow and we will grow as they grow. So, for me to give you a line on that business is extremely difficult. I am sure you all are following Mahindra, they have their calls and I think that is a good question you should ask them.
- Abhijith Vara** No, what I also meant was that are you increasing your share of logistics with M&M as well?
- Pirojshaw Sarkari** So, as you know, on the two major businesses of Mahindra which is auto and farm, we do more than 95% of their business and therefore there is no real business share that we need to increase. As they grow their volumes we grow our business with them.
- Abhijith Vara** Sure, sir. Sir, my next question is with regards to this Gurgaon facility which you mentioned had led to some suppression in margins. How big this facility is and what do you think in terms of timeline the ramp-up of utilization?
- Pirojshaw Sarkari** So, this facility is 200,000 square feet and as we sit here, bringing in new customers and we will make sure that in the near future it will get filled up.
- Abhijith Vara** So, most probably by the year end you should be comfortable in terms of margins coming back, right?
- Pirojshaw Sarkari** Yes.
- Abhijith Vara** Okay great. Thanks and all the best to you.
- Moderator** We have the next question from the line of Abhishek Ghosh from Motilal Oswal Securities.
- Abhishek Ghosh** Sir, in your presentation you have mentioned that 70% of non-Mahindra business comes from top 20 customers which is closer to 68% for the first half of FY18. So, that will mean that about Rs. 400 crore kind of revenue in the first half are coming out of that. You also made a mention that you have seen about 40 new customers getting added. So, I wanted to understand your strategy going ahead. Will the concentration of customers remain with 70% coming from 20 customers or will it spread to more than 20 customers and that is why how can the margins look and also what are the growth prospects for the non-SCM business?
- Pirojshaw Sarkari** So, from a strategy point of view, we want to do a combination of both. While we will keep growing our existing customers we will bring in new customers and then we will keep growing them. So, to say that 20 will remain, 20 will not be correct. 20 customers today giving 70% may become 30 customers tomorrow giving 70%. This is because as we grow our other customers they will also grow big along with the existing customers. Some of the 20 customers we would have penetrated already more than 70% and therefore the growth has to come from other customers too. And this would be something we will continuously keep doing. We keep growing our large customers larger and then we keep looking at adding the tail so that we use the tail to become larger as we move forward.

- Abhishek Ghosh** That is helpful, sir. Also I just wanted to understand, like the large facility which we have taken in Gurgaon. Is there any other facility that we are likely to take in pipeline over next six months to one year?
- Pirojshaw Sarkari** Yes, definitely. We see a very big opportunity with GST coming in and we have identified certain consumption areas. One of them, for us, very large is Chakan which is an automotive belt and we would be taking up another large warehouse in Chakan. Having said that, in Chakan we already have a large spread of warehousing which we want to consolidate into this warehouse. So, the same situation that happened in Gurgaon will not happen at 'Chakan' because from day one we will be able to fill up that large warehouse with the current smaller warehouse consolidations that we already have.
- Abhishek Ghosh** Okay. So, to put things in perspective, Gurgaon was more of a Greenfield kind of for you and here you already have some existing relationship and volumes which you will kind-of consolidate. So, 'Chakan' will be...
- Pirojshaw Sarkari** Correct, absolutely right.
- Abhishek Ghosh** That's very helpful and all the best. Thank you sir.
- Moderator** We have the next question from the line of Shrinidhi Karlekar from HSBC.
- Shrinidhi Karlekar** Congratulations on great set of results. Sir, I just wanted to understand this 49% growth better. Sir will it be possible for you to split this growth in terms of market share gain and or per se offering new services? The point I am trying to come on is, are we replacing some else to build this growth or is this the new services that are getting offered to the customer?
- Pirojshaw Sarkari** So, again, it is a combination of both. Even in our existing customers there are other players who we replace. So when we say gain, the gain could be always replacing somebody. So, whether it is replacing a 2PL or a 3PL, gain always comes out of replacement. So, definitely while we grow our existing customers also we are replacing somebody when we get new customers also we are replacing somebody, in both case we will always be replacing somebody who is doing existing business.
- Shrinidhi Karlekar** Okay, understood sir. Also, have we done some kind of exercise where for existing clients which we have in Non-Mahindra portfolio, the services that you can offer could be maxed out? I mean how much potential incremental revenue you can do? Like currently you may be doing some x revenue, if you penetrate to say 90% of services that we do for Mahindra, how much more revenue you could do from the existing clients?
- Pirojshaw Sarkari** So, in our sales force we have divided it into two, one is what we call key account managers and one is what we call hunters. Once we get a customer which is large, we assign it to a key account manager who then maps the entire opportunity with the account. And we have a sales funnel in which the opportunity is put in. And then we decide on which services we start looking at for that particular customer. So, the sales process on large accounts is the key account management process that we have in place and each customer is then mapped and the key account managers, 'KRA' is set as to how much penetration he is going to be able to achieve in a defined period of time. And that is the way we look at penetrating our customers.
- Shrinidhi Karlekar** Okay. But it would not be possible to quantify, again, overall opportunity that comes from the existing client?

- Pirojshaw Sarkari** We could do that, and it is a good point. As I am on this first call and as I am taking your questions, we will look at how moving forward in our presentation that we give you all, we will put these points up.
- Shrinidhi Karlekar** Fair enough, sir. My last question is on supply side of warehouses. You touched up on the scarcity kind of situation on Grade A warehouses. I just wanted to hear your thoughts on the suppliers' power in this business, particularly you being asset-light business and particularly where warehousing is trending from state warehouses to more organized regional warehouses.
- Pirojshaw Sarkari** The good signs that we are seeing in the logistics industry is that the warehouse ownership is shifting from individual landlords to large REIT funds that are coming into the country. It is becoming more professionalized and dealing with these large REIT funds makes it easier for a company like Mahindra Logistics. And therefore, both the possessions that I spoke about, especially in Chakan, we are looking at becoming an anchor customer with a very large set that they are putting up in Chakan under one of the REIT funds established over there.
- Shrinidhi Karlekar** Thanks for the answer and all the best.
- Moderator** We have the next question from the line of Gurpreet Arora from Quest Investments.
- Gurpreet Arora** I have two operating questions. In a typical SCM contract how many business partners or vendors do we have to deal with, as some-time back you were alluding that you want to increase your share for a particular customer by offering more and new services. So are these two statements one and the same from a business perspective? My second question is; how is the number of SCM and PTS contract for you growing over last three to four years?
- Pirojshaw Sarkari** So, I will answer the first question depending on the service that we offer to the customer. So, if we are offering a warehousing service to the customer our business partner number one is the warehouse owner because we do not own warehouses; we lease them. Our second business partner is the third-party contract employer through whom we get our third party contracted employees, we generally would look at, at least two partners over there so that we can kind of ensure that at any given point of time we can scale up as well as scale down, which is the beauty of being an asset-light player. On the transportation side of the business, again it depends on whether it is long haul or whether it is distribution. On the long-haul side our business partners are Pan-India so it is mainly from the origin long-haul that we decide the business partner for our transportation. Whereas in distribution these are local business partners and generally distribution partners are small time players and therefore we need more business partners to kind of fulfill our requirement in a single account.
- Moderator** We have the next question from the line of Keyur Pandya from Prabhudas Liladhar.
- Keyur Pandya** First of all, congratulations for good set of numbers. My question is more of a macro question. So whatever growth we have seen, do we take market share from some small unorganized player or some large organized player? Or is it that this growth is due to the moving of internal logistics service from inside the company to outside the company. I mean a situation where earlier the company was managing its logistics aspect itself and now it is going with some logistic player. So, it is a competition with the department of the company or with some other players in the same segment?
- Pirojshaw Sarkari** So, as you know, this first half we have really grown much higher than the industry growth. Our growth primarily comes from providing solutions to the customers. And

in that what we generally look at is how the customer is doing his logistics which means most of them are doing their own logistics in India today. Very few customers are using third party logistics player and that is where we can really add a lot of value to the customers who are doing in-house logistics. The main portion of our conversion comes from those which are doing in-house logistics. Having said that, it does not mean that we also do not replace the existing 3PL players. We do not deal with customers who deal with very small-time kind of local players, because those customers play on cost and we are more a solution driven organization. So, I hope I have answered your question.

- Keyur Pandya** Yes. So whenever you add a distribution center or a warehouse, you do not own that asset. But what kind of additional cost you are required to do? Is it a ready to use warehouse or you need to refurbish the warehouse? Basically, what are the initial costs which comes with addition or warehouse?
- Pirojshaw Sarkari** So, there are two kinds of warehouses that we actually setup. One is a build-to-suit warehouse, so if a customer requires a certain warehouse we make our investor build out the warehouse that suits that particular customer and generally that contract would be for at least five years so that both we as well as warehouse builder gets a sufficient amount of comfort on the length of annuity that he will get from that. On the other side there are also warehouses available in the market which we will take up, but that is only the shell. So the entire interior which is required for a new warehouse, which means the racking system, the MHEs, the technology is all invested by Mahindra Logistics, because that is really where we can optimize the solution for the customer.
- Keyur Pandya** Also could you throw some number, I mean what can be the cost for such refurbishment? I mean from x number per square feet or per cubic meter or something of that kind, you could provide a range as well.
- Pirojshaw Sarkari** So, basically, like you said it is a wide range, because some customers do not want racking system, they want ground storage, other customers want tracking systems. But irrespective of what the customer wants, we will put in our technology in too, which is our WMS, and that is the investment that we have already made in the system, so it is only an implementation cost. But our CAPEX would include the MHEs that we put in into the warehouse.
- Keyur Pandya** Okay. There must be certain recurring cost which are recurring in nature and not capital expenditure which may hit our margins to some extent till the time utilization levels are low. So, it could be security cost, I mean how that works? Do we have back to back arrangement and only thereafter we go for additional warehouse? Or is it that such kind of situation may arise where costs are upfront and recurring but utilization is lower for some initial phase?
- Pirojshaw Sarkari** So, until GST came in we were always on back to back basis, there was never capacity created without demand being there. Post GST we believe that the demand for large warehouse is going to be more than the supply that is available, and therefore we are going to take possessions in these warehouses. But like I said, very well-informed possessions, like in Chakan we are today running a number of warehouses and we will make sure that we consolidate those and then the extra space that we have will be minimum.
- Keyur Pandya** Okay. Thank you, sir.
- Moderator** We will take our last question that is from the line of Aditya Mongia from Kotak Securities.

- Aditya Mongia** I just wanted to get some more clarity on the Non-M&M SCM revenues which have been booked in the second quarter and the first quarter. I am obviously basing my assumptions as per the RHP numbers given for the first quarter. It appears as if the number between second quarter and first quarter have not been very different from a revenue perspective, both would have been close to about Rs. 3 billion or so. So from that perspective, if there is some moderation happening from a growth perspective or we should not be reading too much into it?
- Pirojshaw Sarkari** So, absolutely not. This is the GST effect, as I have been telling you all. There has been two effects during this period, one of them being a lot of the customers in pursuance to GST coming in July did a lot of their transactions in the month of June itself. So there was a large transaction movement from second quarter to first quarter. Secondly, in the second quarter itself customers held back transactions because they were not sure how to bill those transactions. We have seen that that has moved away and that is not at all a trend that you should be looking at moving ahead in the third quarter and onwards.
- Aditya Mongia** Thanks for this clarification. My second question was more on, again, slightly harping on the working capital front. I understand that there is a GST impact even there and possibly a big one. But if I were to just compare numbers over here, in the first half our EBITDA was close to about Rs. 50 crore pre-tax and if I were to see the working capital that actually has increased by about Rs. 80 crore over this period is my sense. In the normal cycle of business how much should have been this increase in working capital is something which you could help me out over here.
- Nikhil Nayak** So, GST has definitely impacted growth in working capital. Now, the number of days has increased from 45 to 50 and this is largely due to the impact we had in the first half.
- Aditya Mongia** So, in any normal year we should be generating good cash flow from operations in both halves of the year, right?
- Nikhil Nayak** That is right.
- Aditya Mongia** Thank you.
- Moderator** Ladies and Gentlemen, that was our last question. I now hand the conference over to the management for their closing comments.
- Pirojshaw Sarkari** So, thank you. I think this call has been very useful for us, being our first call. It also kind of makes us understand what is required by the investor public in general and it will also help us shape the way we are moving ahead and also shape the logistics industry. So, I hope we have been able to answer all your questions satisfactorily. And should you need any further clarification or would like to know more about the company, please feel free to contact either Nikhil or me or CDR India. Thank you once again for taking the time to join us. Thank you very much.
- Moderator** Ladies and Gentlemen, on behalf of Mahindra Logistics Ltd., that concludes this conference. Thank you for joining us and you may now disconnect your lines.

---

*This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.*