



## Mahindra Logistics Limited

### Earnings Conference Call Transcript

### January 30, 2018

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**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 and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and 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 evening, everyone and thank you for joining us on Mahindra Logistics Q3 and 9M FY 2018 Earnings 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 nine months ended 31<sup>st</sup> December, 2017. I will begin by taking you through the financial and operational highlights.

I am pleased to share that we have reported strong all-round performance for nine months financial year 2018.

Revenues grew 30% on a year-on-year basis to Rs. 2,523 crore. Our continued endeavour to penetrate and enhance relationships with existing customers has enabled us to achieve this growth. Revenue from Non-Mahindra Supply Chain Segment grew by 36% to Rs. 922 crore. Our revenue from Mahindra Group Supply Chain business also grew by 28% to Rs. 1,347 crore as farm equipment and automotive division of Mahindra & Mahindra reported healthy growth. In our PTS business, we grew from Rs. 216 crore to Rs. 254 crore registering an 18% growth and the proportion of revenues from the Mahindra Group to total revenue is standing at 54.6% compared to 54.8% last year.

Our gross margins remained stable at 7.8%. Within the business segments, the gross margin in our supply chain business has improved to 7.6%. In the PTS

business, it has reduced to 9.1%. The decline in PTS gross margin was largely due to the losses of our shuttle bus pilot service which we have now discontinued.

EBITDA for the 9MFY18 was Rs. 87 crore registering a growth of 36% on a year-on-year basis. The EBITDA margins for the period stood at 3.5% which is 16 basis points higher. The PBT and PAT for the period were Rs. 70 crore and Rs. 44 crore registering a growth of 36% on PBT and 31% on PAT, respectively.

In our Non-M&M supply chain business, the revenue from Warehousing and Other Value-Added services have also grown by 37% over the same period last year.

Now, let me share with you the financial performance for the quarter ending 31<sup>st</sup> December, 2017.

Revenues increased from Rs. 715 crore to Rs. 835 crore, an increase of 17% year-on-year. Revenue from Non-Mahindra Supply Chain segment grew by 17% to Rs. 317 crore. Our revenue from Mahindra Group Supply Chain business grew by 19% to Rs. 437 crore in line with growth of the farm equipment and automotive division of Mahindra & Mahindra. In our PTS business, the revenue for the period was Rs. 81 crore, an increase of 5% year-on-year and the proportion of revenues from the Mahindra Group to total revenue is 53.8% compared to 52.2% last year.

While our revenue grew 17%, our gross margin has grown at 24% year-on-year. Gross margin for the period improved from 7.7% to 8.2% year-on-year. Within the business segments, the gross margin in our supply chain business improved from 7.5% to 8.1%. In the PTS business, it reduced from 9.7% to 8.9%.

However, our EBITDA for the Q3FY18 is at Rs. 31 crore registering a growth of 39% on a year-on-year basis. The PBT and PAT for the period is Rs. 25 crore and Rs. 15 crore registering a growth of 40% and 35%, respectively. As you would notice, all profitability parameters for the quarter have grown over same time last year. This will continue to be our endeavour to keep expanding our margins.

Having explained year-to-date performance and quarterly performance, we would recommend you review our performance on a year-to-date basis as our business is impacted by festive season which may fall under different quarters as has happened this year for Dussehra and Diwali. In addition, even the new contract or penetration in existing businesses, take time to ramp up to their full potential.

Moving on to the company update, I am pleased to share that MLL received appreciation and rewards from its customers for supporting them in their business priority; specifically I would like to highlight that MLL received 'Best Service Provider' Award from 'Spicer India Pvt. Ltd'. MLL team won the 'Gold Award' at a convention on quality concepts held at Nagpur and MLL team also won the first prize in the 'Mahindra Innovations' Award for the business model innovation.

Drivers are the key members of the logistics ecosystem, their welfare, health, and safety is a key priority for the company. We have embarked on a special training program under the 'Pradhan Mantri Kaushal Vikas Yojana' to train and empower 10,000 drivers across India about safe and defensive driving. I am happy to report that first three training sessions have already been conducted during this quarter.

Under the larger priority on the triple bottom line, Profit, Planet, and People, MLL continues to undertake several initiatives. These initiatives also reinforce the

Mahindra Group's philosophy of rise. MLL has adopted a village Tembha near Shahapur in Thane district. We are working with an NGO, local people, and the village administration to help them RISE. The initiatives cover health, nutrition for children, sustainable livelihood, and water supply among other things.

Now, before the floor is open for question and answers, I would like to connect with some of the points discussed on the last call and update on the same. I had mentioned during our H1 call that there are three factors which had put pressure on the margin. These were shuttle bus project in PTS business, unutilized space in new multi-user warehouse leased for the post-GST strategy, and our freight forwarding business where the top-line is growing at a much faster rate than the margins. The shuttle bus business pilot is getting closed this month. The unutilized space in the warehouse continues in Q3, however, the utilization will improve in Q4 as we now have signed LOIs with some of the customers and the growth in the freight forwarding business is continuing. The other question asked on the last call was about impact of GST. I had mentioned that things would be better in Q3. While the transactional part is getting stabilized with unbilled revenues are reducing, we are witnessing delays in finalizing the new orders from customers. Customers are still grappling with their post-GST strategy and this has impacted the new business acquisition, both, in our Non-Mahindra Supply Chain as well as PTS business.

Moving now to the macroeconomic factors impacting the sector; Q3 saw major policy decisions in favor of the logistics sector. Logistics sector was accorded the infrastructure status, which is a positive for borrowing and rate of interest for the identified warehousing projects. Government has also made some structural change which will help in coordination between ministries and departments. Government has appointed Special Secretary Logistics, as well as a Department of Logistics has been formed under the Commerce Ministry. More importantly, focus by the Government is on reducing the cost of logistics and specific measurable parameters have been declared for the same.

To conclude, 2017 has been a transformational year for the logistics industry because of GST and other policy decisions. This has opened a huge window of opportunity for organized 3PL players like Mahindra Logistics. Our asset light business model has multiple growth levers and we expect to continue delivering ahead of sector growth in our Non-Mahindra business while the Mahindra business will map the growth achieved by the Mahindra Group.

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

- Moderator** Ladies and Gentlemen, we will now begin the question and answer session. We will take the first question from the line of Ronak Morjaria from Edelweiss Asset Management.
- Ronak Morjaria** Good afternoon, sir. Congratulations on a decent set of numbers. My first question is regarding our growth rate in the Non-M&M SCM segment. So, we have seen a strong growth in the first half, but in the third quarter we have seen growth of just 18%. So could you throw some light on why the growth has slowed down in this segment, in the Non-Mahindra side?
- Pirojshaw Sarkari** So our year-on-year nine-month growth in our Non-M&M business is at 36%, however, for the quarter as you know that because GST is still in its nascent stage and the customers are not very sure of how it is going to pan out. We have seen a slowdown from the customers with regard to the ability to give or move their

existing business to new service providers, so while we are engaged with them, we will see the new businesses coming up in this quarter, and moving on we will see the growth from those businesses also. The good part is, majority of the growth that you are seeing is from penetration of our existing customers which as a strategy we had laid out last time also and we will continue to do i.e. grow more services in existing customers.

**Ronak Morjaria** Okay, so you mean that the new client addition slowed down during the quarter because of the GST and whatever growth we have seen is primarily from the penetration from the existing customers itself?

**Pirojshaw Sarkari** Yes.

**Ronak Morjaria** Secondly on the PTS front, so once we see the shuttle thing going away after this month, what kind of growth do we see from this segment and what could be a steady state margin we can expect from this segment?

**Pirojshaw Sarkari** The margin expansion in this business will come back to the original margins that we had pre the pilot project over here. We are seeing that this business has comparative margins to our Non-M&M SCM business and that will continue to be seen.

**Ronak Morjaria** When did we start this pilot project of this shuttle?

**Pirojshaw Sarkari** This was started about 15 months back.

**Ronak Morjaria** Could you help us with the number; what is the current share of warehousing for the nine months in the SCM segment?

**Pirojshaw Sarkari** So like I have said in my speech; my warehousing business has grown 37% for this period.

**Ronak Morjaria** That is for the Non-M&M segment; but at overall level, what is the growth rate and what is the share of revenue?

**Nikhil Nayak** So at overall level, the growth in warehousing revenue is at 24% and for Non-Mahindra business, it has grown by 37%.

**Ronak Morjaria** And as a percentage of SCM revenue, how much would it be at?

**Nikhil Nayak** For Non-Mahindra business, the percentage share is 22% and for the overall business, it is about 14%.

**Ronak Morjaria** It is still at 14% only as compared to what it was?

**Nikhil Nayak** That is correct because M&M business has grown exponentially this year compared to the earlier years and M&M business largely is the transportation business, so that ratio remained at 14%, but the overall growth is at 24%.

**Ronak Morjaria** My final question is on the working capital side and the TDS refund. Are we seeing any kind of improvement on our working capital and have we started getting any TDS refunds?

- Nikhil Nayak** TDS refund as you know will come only after March when Government starts refunding that. It is very unlikely that in last three months of the year they start giving the refund. So we expect that refund which has accumulated to a sizeable amount should start getting reflected from the Q1 of the next year.
- Ronak Morjaria** Okay. And the other working capital advances where some part of money was held; how has it improved?
- Nikhil Nayak** There were two things as we said last year, there is an unbilled revenue which has come down by about 40% or so compared to the September numbers.. That got converted into receivable and then we will see the improvement in the net working capital as we go through this Q4 quarter of the current year.
- Moderator** We will take the next question from the line of Ankur Periwal from Axis Capital.
- Ankur Periwal** Congrats on a decent set of performance, overall. As now the E-Way Bill, the pilot is already on and from February 1<sup>st</sup> it is getting implemented whole hog. What is your feedback across your transportation partners? How ready is the system to sort of for a smoother pass through of E-Way Bill, implementation of E-Way Bill?
- Pirojshaw Sarkari** As with any other new system and with IT, there is still a lot of question marks that need to be ironed out and we are educating our business partners on a daily basis on what is expected from them, more so it is with the customers, where the customers are kind of trying to push that onto the logistics players that this is your issue whereas it is clearly the customer who has to kind of upload the E-Way Bill. It is going to have its own teething problems as I see it, but if you ask me whether E-Way Bill is the right move for the industry, I would say absolutely. There is nothing better because can you imagine we had to take permits from individual States and those permits were coming from the consignee to us, therefore, we had to hold the goods till we got the permit. Now, it will be online, one system, for the entire Country, so definitely a very good move, only thing is let us hope that the implementation happens smoothly and we can iron out all the ifs and buts that are coming up.
- Ankur Periwal** My understanding is that our transportation partners are relatively let us say bigger in size versus the unorganized guy who are still largely a single digit fleet operator per se. Where I was coming from was in case we as our transportation partners are facing issues in dealing with E-Way Bill or even the customers, the unorganized guys will be even worse off in terms of their overall positioning. So do you think further consolidation happening amongst the trucking business wherein probably single fleet truck owners may have to tie up with either a bigger fleets or probably they will be ultimately vanished?
- Pirojshaw Sarkari** Yes, definitely. So in addition to GST, this E-Way Bill will see more consolidation happening and the unorganized player will have to come into our platform as I call it and work with us through the whole process.
- Ankur Periwal** In your initial remarks you did highlight that because of GST, new business is not coming-in. In the last concall, we did mention of a few number of additions in the overall clients. So just trying to understand what is happening on the clients, they are just status quo because of the lack of clarity of GST plus E-Way Bill now or is it like whoever was the earlier partner does not want to try out to something new, let us say a new partner or new initiative?

- Pirojshaw Sarkari** It is a combination of both, whoever has not changed their old partner wants to continue because at least there is some certainty over there and they do not want to get into the new model from a transporter to a 3PL right now, they are not certain of that. There is also this whole ambiguity of how the tax will be charged, so there is a forward mechanism and a reverse mechanism and that ambiguity also needs to be looked at, so the act says that if you have a choice as a transporter to do either forward or reverse whereas a 3PL if he has 25 customers then some customers may want forward and some customers may want reverse, so we are seeking these clarifications now from the Government, that is also an issue. So most of the customers want more clarity before they move to this model which will happen I am sure very soon as other things have got clarified in the past few months.
- Moderator** We will take the next question from the line of Prateek Kumar from Antique Stock Broking.
- Prateek Kumar** My first question is with respect to the consulting fee which you mentioned at about Rs. 5 crore for the first half. So what would be that quantum for the current quarter?
- Nikhil Nayak** For the Q3 quarter it is at Rs. 85 lakhs and for the nine-month period, it is Rs. 5.85 crore.
- Prateek Kumar** So part of the margin improvement of the current quarter might be attributable to this fees which we have seen and we are expecting a higher number in Q4 because we said Rs. 5 crore we are expecting in second half of FY'18 as well?
- Nikhil Nayak** The last quarter will be relatively higher than the Q3, but on an overall basis it may not reach full Rs.10 crore which we were anticipating.
- Prateek Kumar** With regards to the unutilized warehousing space in Gurgaon, what are the new locations we are working on for such kind of warehouses and any comments on that?
- Pirojshaw Sarkari** We are looking at Chakan for a similar large warehouse. The good part about Chakan is that we already have warehousing customers onboard, and therefore, we will not have a similar situation that we faced in Gurgaon to fill up the warehouse. Just to go back to your previous question on the margin part also, while consultancy fee is one area, but you should also see that we have actually expanded our gross margins in our SCM business, which comes much before the consulting fee.
- Prateek Kumar** The consultancy fee is part of other expenses which you have mentioned now starting from this quarter, the line item which is there in the press release?
- Nikhil Nayak** Correct, it is a part of the other expenses.
- Prateek Kumar** My next question is on the subsidiaries' performance. We see there is a sharp growth in terms of the subsidiary as sir highlighted on the growth in the freight forwarding business. Since the profitability is also improving, is it the right assessment?
- PirojshawSarkari** Yes, so the profitability for our freight forwarding business compared to third quarter has expanded; so that is the right assessment.

- Prateek Kumar** What is the Auto and Non-Auto mix in our SCM business for this quarter and for nine-month period?
- Nikhil Nayak** Auto and Non-auto is at about 61% and 39%. On an overall basis, considering only the SCM revenue, the Auto business is at 68% and 32%.
- Prateek Kumar** Sir, could you repeat, it is 68% or 61%?
- Nikhil Nayak** If you consider the total revenue and then consider Auto and Non-auto, it is at 62% and 38%, and if you consider only the SCM revenue, it is 69% and 31%.
- Prateek Kumar** Same figure for year-on-year basis in last year Q3?
- Nikhil Nayak** For FY'17 also it was at 68% and 32% and for FY'17 on a total revenue basis, it was 61% and 39%.
- Moderator** We will take the next question from the line of Chirag Shah from Edelweiss.
- Chirag Shah** My question is on the industry side; you indicated hesitation on behalf of new customers, but we were of the understanding that GST issues are largely behind and we expect new indicative contract wins etc. for various logistics companies across. So is the momentum slowing down and what are specific issues that they are facing because some of the companies that we speak they are already looking at setting bigger warehouses than they had earlier on contractual basis?
- Pirojshaw Sarkari** Definitely, the post-GST strategy is in place; people want to set up new warehouses, the designs are ready, the issue is they are just waiting for certain clarifications before they award new contracts. So if there is a company that is closing down three State warehouses and setting up one regional large warehouse, they want to be sure that they know the impact of the current GST before they issue this new. So it is not about anybody stopping the process, but it is just about the timing. So they want to be clear on every aspect of the GST before they give out the new contracts.
- Chirag Shah** Is it possible to highlight one or two major issues that are coming across because it would be interesting to understand how much time it takes for them to get those issues sorted out?
- Pirojshaw Sarkari** First of all like I said in the earlier talk also there are two mechanisms of charging GST in transportation; there is a forward charge and there is a reverse charge. Now, one of them allows input tax, the other does not allow input tax, so one has to do the cost benefit analysis of do you want the reverse charge where you are charged a lesser GST, but your input tax is not allowed vis-a-vis charging forward mechanism where you are charged a higher GST but input tax is allowed, and there is IGST, when you move stock from one place to the other, you start looking at IGST. Now, the whole thought process was that when stock moves from one place to the other, there will be no GST, but now this is a new concept that has come up which also needs clarity from the Government, so these are major things where the decisions are being held just now to see how this will impact the business.

- Chirag Shah** Fair point, this is also affecting the warehousing part or the SCM part of the business or this is more on the transportation leg where you may have an integrated contract, is this an issue for even the warehousing part of the business?
- Pirojshaw Sarkari** The second part is an issue for the warehousing part, so if we are going to move from one State to the other and have IGST then when you make regional warehouse and how does that impact your GST.
- Moderator** We will take the next question from the line of Abhishek Ghosh from Motilal Oswal Securities.
- Abhishek Ghosh** I just wanted to understand one thing in terms of the recent diesel price increase that we have seen; how does your clause workout, is it like completely pass through or do we have to also retain some of it?
- Pirojshaw Sarkari** Our diesel is always a pass through. We do not retain any part of the diesel. We have clauses with the customer and a similar clause with our business partners and that is not an avenue to make margin for us.
- Abhishek Ghosh** Also, as earlier you have discussed that in Gurgaon you have started one warehouse where you are part selling it and that is why the utilization levels in the initial at least in the last quarter were not that great, so how has been the experience in terms of as you mentioned you are sending lot of LOIs, so how are the margins expected to be or the pricing expected to be in those?
- Pirojshaw Sarkari** In the coming quarter, we already have signed a couple of LOIs which will start business in the coming quarters and we will see the less of drainage on that cost that we are incurring.
- Abhishek Ghosh** You mentioned that because of the GST there has been some slowdown on the Non-Mahindra part of it, probably the growth rate would have been otherwise higher. Do you think that this E-Way Bill implementation from February also could have initial issues and maybe from March-end and April we could actually see that coming back? How should one look at that?
- Pirojshaw Sarkari** Yes, there will be implementation hiccups, any new large process change and that too through technology will have implementation hiccups, but at the end of the day goods have to move, so goods will move and then we will see how to iron out these implementation hiccups.
- Abhishek Ghosh** Sir, in terms of the margin expansion that we have seen; what is the reason for the same and how should one look at it going forward?
- Pirojshaw Sarkari** There are quite a few initiatives that we have taken in the organization, one of them is our e-commerce business we have expanded our margins in this quarter compared to last quarter through optimization that we have done over there. We are also looking at margin expansion by productivity enhancement in our stores and line feed activities. So couple of initiatives we have taken and we will continue to do that for margin expansion. Also, as you know once we shut down the shuttle bus pilot which we have done this month, automatically the PTS margins should come back to the original, that will also show a margin expansion, so various measures that we are consciously taking in the organization to move.



- Abhishek Ghosh** When does Chakan get commissioned?
- Pirojshaw Sarkari** Chakan will be handed over to us in April.
- Abhishek Ghosh** In April, so Q1 FY19 is when we start seeing the lease impact on that?
- Pirojshaw Sarkari** Yes.
- Moderator** We will take the next question from the line of Manish Goyal from Enam Holdings.
- Manish Goyal** Just to clarify sir, you mentioned about Auto and Non-auto, so you said 62% is auto of the total, so is it for the Quarter-3 or it is for nine months?
- Nikhil Nayak** This is for the nine months period.
- Manish Goyal** Okay, so even for SCM what you have given is for nine months period, right?
- Nikhil Nayak** That is correct.
- Manish Goyal** Would it be possible to share the Q3 numbers, and also the comparative figures as well?
- Nikhil Nayak** I do not have readily those for the quarter.
- Manish Goyal** Okay, so nine months do we have a comparative number, say Auto and Non-auto?
- Nikhil Nayak** I have the figures for the full year of FY'17. So in FY17, if you take total revenue, the ratio was 61% and 39% for Auto and Non-auto.
- Manish Goyal** This is total or SCM?
- Nikhil Nayak** Total revenue. For the nine months of the current year, it is 62% and 38%.
- Manish Goyal** And within SCM?
- Nikhil Nayak** Within SCM for the last year of full year it was 68% and 32%, and for the nine months period, it is 69% to 31%.
- Manish Goyal** Basically, you are trying to derive within Auto how much is the Non-Mahindra Auto business.
- Nikhil Nayak** This is also because the growth this year in M&M vertical is much higher than earlier period and because of that Auto component will be higher for the year.
- Moderator** We will take the next question from the line of Prashant Kothari from Pictet.
- Prashant Kothari** Could you please share the receivables and the payables number for the quarter?
- Nikhil Nayak** The difference still continues to be at three days, the difference between receivable and payable which was the same at the half year end also, so at purely receivable and payable days, the difference between the two remains at three days.

- Prashant Kothari** Why is there no improvement?
- Nikhil Nayak** As I said earlier, the unbilled revenue has come down which was one of the area of concern which gets now converted into receivables and I think we will see the improvement in Q4 on that. The unbilled revenue has come down by about 40% compared to the first half in these nine months, so as the things are getting clarified, we are in the process and at this point of time, it has further reduced, so that will see an improvement in the net working capital days.
- Prashant Kothari** We should expect the receivable and the payables kind of..?
- Nikhil Nayak** Working capital days should be much lower when we end the Q4.
- Prashant Kothari** What would make it reduce?
- Nikhil Nayak** One is, once this unbilled revenue starts getting billed that will definitely help, as also there are initiatives in line where we will be submitting the invoices earlier. It could have been little faster, but for this E-Way Bill which is taking some time and going forward also it will take two or three months before it starts stabilizing because large part of our business is transportation business and we are quite hopeful that E-Way Bill will play a big role in our submitting the invoices much faster and as things get clarified, I think that will help us in reducing the receivables.
- Prashant Kothari** To an earlier question, you mentioned about this issue about the reverse charge versus forward charge, but from my understanding reverse charge is applicable for the unregistered kind of customers and I would not think in your business you would have them, right?
- Nikhil Nayak** Transportation business, the GTA as it is called is possible both ways, if you want to opt for RCM one can opt for RCM and one can go for the FCM also. So for this particular business, both the things are possible under the regulations.
- Pirojshaw Sarkari** So when we were doing service tax, there was a GTA concept which the Government kind of continued for transportation, so what you are talking about the unorganized is not for transportation, it is both FCM and reverse charge.
- Prashant Kothari** So this uncertainty would continue, because reverse charges are yet to come into play?
- Nikhil Nayak** As the things get clarified, I think various clarifications are coming from the Government and I am sure Government will take cognizance of various representations that are being made and we should see clarity getting emerged as we go along.
- Moderator** We will take the next question from the line of Sahil Doshi from Aditya Birla.
- Sahil Doshi** I just wanted a few data points, one is can you share the cash flow in terms of cash generation during the first nine months and the cash balance also?
- Nikhil Nayak** The surplus fund is at about Rs. 70 crore or so at December end.
- Sahil Doshi** What will be the cash generation from operations for the first nine months?

- Nikhil Nayak** For the first nine months, there was no positive cash generation as such because we have continued to get impacted by the TDS which is taking time in realizing; as of December the excess advance tax which is paid is at about Rs. 77 crore now and we expect that it will start realizing only after April when Government starts refunding the same, so that continues to impact us for the quarter also.
- Sahil Doshi** When do you expect cash flows from operations to start turning positive and yielding?
- Nikhil Nayak** I think it will take one more quarter, going forward from Q1 of next year we should start seeing the results of less burden of TDS.
- Sahil Doshi** Second question was on another data point which was on the consulting fee, what would be the comparable nine months number for the consulting fees versus the Rs. 5 crore you mentioned for this year?
- Nikhil Nayak** Rs. 5.83 crore was for the first nine months, and you want similar period for the last year?
- Sahil Doshi** Yes, Sir.
- Nikhil Nayak** It was about 10.3 crore.
- Moderator** We will take the next question from the line of Shrinidhi Karlekar from HSBC.
- Shrinidhi Karlekar** Sir, I have few questions to better understand your business. The first one is; how different is really the scope of services that you offer to say a company in the Auto business and a Non-Auto business?
- Pirojshaw Sarkari** We basically provide a solution to our customer whether he is an auto customer or a non-auto customer, our whole ideology is to provide a solution for his logistics requirements. We go into a customer, study his operations and then give him a solution. The solution could be integrated from picking up the raw material from his suppliers, bringing them to his plant, doing his in-factory logistics and moving them out to store in a finished goods warehouse and then distribute from there to his end customers. So whether it is an auto customer or a consumer customer, we could provide any leg of this service to that customer after looking at what is their requirement.
- Shrinidhi Karlekar** Generally, I may be wrong but understanding is that typically auto companies are very well in terms of the way they manage supply chain both inbound and outbound, while the rest of the companies are predominantly taking logistics' services help on the outbound logistic front rather than inbound logistic, is that correct to start with? Also, how much is the market in the inbound logistic, out-bounding I can understand, I just wanted your thoughts on the inbound logistics?
- Pirojshaw Sarkari** Historically, automotive companies have the most intricate supply chains that are available in any manufacturing and that is where the 3PL concept actually started because automotive logistics were the first companies to start doing assembly-line rather than manufacturing every parts themselves, so the components required to be picked up from the component manufacturers by a third-party logistics brought just-in-time to the plant and then actually the OEM just assembles those goods and therefore right part at the right time and rightly sequenced is what automotive

logistics is all about and those concepts were then used in other parts of the industry. Today, if you look at in-factory logistics, we at Mahindra Logistics not only do automotive plant, but we also do FMCG customers, so when you look at percentage of revenue, yes, the outbound will always be higher because the finished goods is always having a higher cost than the raw material and it will always be higher, but intricacy in inbound is always more than intricacy in outbound.

**Shrinidhi Karlekar** Is the trend picking up for the inbound in non-auto segment companies are going for 3PL provider like you?

**Pirojshaw Sarkari** I will give you an example of what we do for e-commerce business. For one of the e-commerce customer, we do exactly what we call a milk run in the automotive logistics business. E-commerce has a lot of vendors from whom one has to pick up goods, bring them to the fulfillment centre of the e-commerce logistics. Now, that is actually nothing but inbound, because the vendor's either bring it to the warehouse or a logistics player picks them up and brings that to the warehouse. So we have introduced that concept with a major e-commerce player where we pick up from their vendors and bring them to the warehouse so that they can fulfill the promise to the end customer.

**Shrinidhi Karlekar** Sir, last one if I may, I wanted to understand the scalability of the business in acquiring customers. So a customer how big he needs to be that you can offer services in terms of say revenue or we are targeting only few large firms, I just want to know whether we can go to a level that even a medium scale enterprises can take services of Mahindra Logistics?

**Pirojshaw Sarkari** Absolutely, if you look at our customer profile, let us say in the automotive segment, we have the OEMs which is the manufacturers of the vehicles and then we have Tier-1 and Tier-2 suppliers also as our customers. So tier-2 suppliers would be what we call medium-sized SMEs who also avail of our services. So there is no such thing about whether a customer has to be only large to avail Mahindra Logistic service.

**Moderator** We will take the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management.

**Dheeresh Pathak** For the Gurgaon warehouse, what is the utilization now?

**PirojshawSarkari** Like I said as we sit here we have got LOIs from a couple of customers and we will be initiating the business in this quarter.

**Dheeresh Pathak** Can you share the utilization as of last quarter?

**PirojshawSarkari** We had a certain percentage of utilization for the last quarter which was low.

**Dheeresh Pathak** In the GST regime, your output services which is the warehousing services and the transportation services for inbound and outbound logistics, what tax is applicable to you to pay and on your cost structure side, what taxes are applicable to you?

**Nikhil Nayak** In terms of our transportation business, there are two options. One is reverse charge mechanism in which the ultimate recipient or the OEMs they pay the tax themselves. So our suppliers also do not charge the GST to us, we in turn also do not charge any GST to our customer. Our customer under reverse charge

mechanism pays the tax to the Government and that is the most prevalent thing which is currently happening. Few months back, Government has given an option of forward charge mechanism in which our supplier will also charge GST, we will also charge GST and each State there is an input tax credit which can be availed of, but as of today in 99% of the cases, the reverse charge mechanism is being followed.

- Dheeresh Pathak** Okay, on warehousing side?
- Nikhil Nayak** On warehousing side, there is a full input tax credit, so each participant in the service line charges the tax and each get the set of the same.
- Dheeresh Pathak** What is the tax rate?
- Nikhil Nayak** Tax rate for transportation is at 12% and for warehousing services it is 18%.
- Dheeresh Pathak** On your lease rentals you will pay 18% and to the customers you will charge 18%?
- Nikhil Nayak** Correct.
- Dheeresh Pathak** In your workings whatever you have done in the forward charge mechanism, would you be sort of indifferent in terms of how it impacts you, your working capital?
- Nikhil Nayak** As far as working capital is concerned, there will not be any issue because in the same month one can get the input tax credit when somebody is supposed to pay the tax in that particular month. So on working capital front we do not expect any impact because of going-in for forward charge mechanism.
- Dheeresh Pathak** So, you will be agnostic, if it remains RCM or SCM?
- Nikhil Nayak** Correct.
- Nikhil Nayak** Just wanted to clarify somebody asked as to what is the percentage of automotive business in non-Mahindra SCM business, so auto contributes about 25% of the total non-M&M SCM revenue.
- Moderator** We will take the next question from the line of Vikram Suryavanshi from Phillip Capital.
- Vikram Suryavanshi** I just missed some opening comments because of line issue, could you tell us what was the growth in warehousing and separate growth in transportation side of business in SCM?
- Pirojshaw Sarkari** Growth for the supply chain business, our overall growth has been 30% and our Non-M&M supply chain has grown by 36%. Both our warehousing and transportation growth has been equal in our Non-M&M supply chain which is around 36%.
- Vikram Suryavanshi** How was the growth in e-commerce business?
- PirojshawSarkari** We have been growing far ahead of industry in the e-commerce business for the nine-month period, it has been well above 30%.

- Moderator** We will take the next question from the line of Keyur Pandya from Prabhudas Lilladher.
- Keyur Pandya** If we see in our total scheme of things, share of transportation is much higher as you mentioned because of automobile portion. So is the assumption right that transportation portion has lower margin as compared to warehousing plus value-added services margin?
- Pirojshaw Sarkari** Yes, absolute right assumption. So from a margin percentage, transportation business is lower than warehousing and value-added services.
- Keyur Pandya** Any target in mind to reduce the share of automobile and thereby increasing the margin profile of our company? This is because as we increase the share of non-automobile sector then I think our share of value-added services in warehousing would be higher, right?
- Pirojshaw Sarkari** Yes, you are right, so if you really look at our strategy which is to grow the Non-Mahindra business, in our non-Mahindra business our automotive percentage is only 25%, which means we are growing the other verticals in the Non-Mahindra business pretty fast.
- Keyur Pandya** Any specific steps you have in mind for the same and ultimately M&M would be the largest chunk for us?
- Pirojshaw Sarkari** We are at about 54% of our business is still M&M, but one must also understand that we have grown our Non-M&M business in the last four years at a very high CAGR, and therefore, have been able to bring down what was almost 80 odd percent eight years back to now 54% also at the same time growing the M&M business. So we are on the right path and we believe that we will see Non-M&M business becoming larger than our M&M business in the near future.
- Keyur Pandya** Sir, second question is as you mentioned that diesel price is always a pass through for us, so generally who bears the cost of change in diesel prices?
- Pirojshaw Sarkari** The end-customer.
- Keyur Pandya** Not even our partners, right?
- Pirojshaw Sarkari** No, they cannot afford that.
- Moderator** We will take the last question from the line of Prateek Kumar from Antique Stock Broking.
- Prateek Kumar** I have follow up question on TDS receivable. So is the receipt of this TDS refund in line with your expectations like a quarter back, I mean the receipt at the end of FY '18 from Government clause, things which have changed versus the original expectations?
- Nikhil Nayak** It is very unlikely that Government refunds before in the last quarter of a particular year because of their compulsion of revenue generation etc. So we expect that we should start receiving the TDS refund which is quite huge in our case from the first quarter of next year onwards.

- Prateek Kumar** No sir, my question was is it in line with your original expectation a quarter back or four months back?
- Nikhil Nayak** No we were trying to get that earlier, but we are dependent here on the tax department and though we are pushing for the same, we expect that it will start coming from first quarter of the next year onwards.
- Prateek Kumar** Regarding the bus shuttle service shutting down now, has that service got shut down in Q3 or is it expected in Q4 January month?
- Pirojshaw Sarkari** Q4 January it has shutdown.
- Prateek Kumar** Sir, my last question, the 17% growth which we have seen which have different attributable reasons, but of your four verticals which we have in Non-SCM segment, is there specific segment which have grown higher and lower versus the reported 17% growth?
- Pirojshaw Sarkari** So except for our bulk segment, all the segments have grown much higher than the 17% growth, in fact they have grown much higher than the industry figures of 20% to 25%.
- Prateek Kumar** So only the bulk segment is the drag, you suggest?
- Pirojshaw Sarkari** Yes.
- Moderator** That was the last question in queue. I now hand the conference over to the management for closing comments.
- Pirojshaw Sarkari** Thank you everyone. I hope we have been able to answer all your questions satisfactorily. However, should you need any further clarifications 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. Ladies and Gentlemen, on behalf of Mahindra Logistics Ltd. that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

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