



“Mahindra Logistics Limited
Q4 & FY '23 Earnings Conference Call”
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**MANAGEMENT: MR. RAMPRAVEEN SWAMINATHAN – MANAGING
DIRECTOR AND CEO – MAHINDRA LOGISTICS LIMITED
MR. SHOGUN JAIN – SGA**

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Moderator:

Ladies and gentlemen, good day and welcome to the Mahindra Logistics Limited Q4-FY23 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. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shogun Jain from SGA, IR. Thank you and over to you, sir.

Shogun Jain:

Thank you. Good evening, everyone, and thank you for joining us on the Mahindra Logistics Limited Q4, FY23 earnings conference call. We have with us Mr. Rampraveen Swaminathan, MD and CEO, along with the senior management team.

I hope everyone has had a chance to view our financial results and investor presentations, which was posted on the company's website and stock exchanges. We will begin the call with opening remarks from the management, followed by an open forum for Q&A.

Before we begin, I'd like to point out that some of the statements made during today's call may be forward-looking in nature, and a disclaimer to that effect has been included in the earnings presentation that was shared with you earlier. I now invite Ram, MD and CEO of Mahindra Logistics Limited, to make some preliminary remarks.

Rampraveen Swaminathan:

Good afternoon, everyone. Thank you for joining us. Thank you, Shogun. I trust all of you have had a chance to view our presentation and financial results, which has been uploaded on the stock exchange and the company's website. Before sharing, commenting on our operations, order intake and key developments from the quarter, I should just put a quick update on the external environment, and our end markets and the business as a whole.

I will conclude my comments by briefly outlining our financial performance for the quarter just ended and the full year of FY23, and just talk a little about focus areas for the upcoming year. In the interest of time, I'm going to bridge my comments a little bit this time, so we have more time for questions and answers.

Just at a macro level, I think the global economy is experiencing kind of high level of volatility due to fresh headwinds caused by turmoil in the banking sector, and that's occurring across various economies, and concerns over economic stability have been brought to the forefront as a result of the collapse or near collapse of several banks, and the possibility of a spillover of that into emerging markets as well.

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In light of that fact, inflation continues to be resistant, and central banks are continuing their efforts to tighten monetary policy, albeit at a slower pace than in the past. The rate of inflation across major economies has shown signs of moderation over the past several months, but the process of returning inflation to the desired level or controlling inflation to the desired level is proving to be long and difficult. The Indian logistics industry has been valued at around INR14 trillion in FY2021, broadly active in the global economy. And broadly we anticipate that it will grow at a CAGR of around 14%, around INR29.7 trillion by 2026.

Now, the industry and the sector remain extremely critical for the overall growth of the economy. Much of our demand is derived from other economic activity, and therefore, as the economy propels itself to higher levels, we should see a strong spillover to our sector as well. That said, the sector remains highly fragmented with a large constitution of unorganized players and large organized players still constitute less than 20% of the overall market.

And the majority of it is layered and managed by unorganized operators who have challenges in terms of infrastructure and scale, and limited levels of automation and mechanization.

Now, coming specifically to the quarter itself and just talking about our specific end markets, and I'll begin with automotive, which has always been our bellwether sector. So, the year has gone by without any major impact of COVID, and that's been the first full year after a gap of two years. Throughout the year, I think overall retail sales have seen robust double-digit growth, especially led by the four-wheeler industry. The two-wheeler segments' annual retail sales are about 15.9 million, which were the lowest in seven years, and so that sector still remains distressed.

EV penetration in the sector has been at 4.5%, and it's well set to grow. The three-wheeler category maintained an outstanding year-on-year growth, and year-on-year trajectory with an annual growth of 84% and this segment has seen the most deepest level of electrification of 52% of volumes now being electrified, in large measure due to the e-rickshaw segment, and increasingly due to cargo movement as well.

The availability of finance, alternative fuels, and government subsidies have added to the growth of the segment. Passenger vehicle retail sales hit a new high of 3.6 million units, an increase of 23% year-on-year, positioning India as among the largest markets for four-wheeler passenger vehicles in the world. As the year progressed, the shortage of semiconductors have begun to ease, which has resulted in a higher number of new product launches and an improvement in product availability.

Demand for higher-end models continues to see disproportionate growth, which is an encouraging sign. So, the pressure on entry-level models remains, and lower-end segments are seeing higher inflation pressure. Due to high base inflationary pressures,

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regular price increases and regulatory changes, growth is likely to probably slowdown in FY24, as a period of rapid recovery and expansion is concluded.

In addition, unexpected rains and hailstorms in northern and central India have impacted the Rabi crop and delayed harvesting, which could affect the rural sector, which is important in general for the segment and for us at Mahindra Logistics specifically. In addition, I think this year, we continue to see, I expect to see a higher level of EV penetration, which will impact the overall share of ICE products in the market.

The e-commerce industry remains a very large demand market for us. The Indian e-commerce market was valued at INR6,210 billion in 2021, and is expected to grow at a CAGR of around 27% over the next five years. And in addition, I think we estimate to see strong growth in the online grocery market, which is expected to grow at a CAGR of around 34%, to over INR2,100 billion by FY27.

While the market has grown exponentially over the last four or five years, there has been a slow moderation in digital penetration, and we expect this to continue in the mid-term. As a result, network expansion across large e-comm marketplaces has seen moderation and consolidation affecting the level of outsourcing in these businesses, including top players such as ourselves, where we have seen consolidation driving some site shutdowns.

Moving on to the consumer durable industry, following the soft festive season, the consumer durable industry has seen improving demand due to the ongoing summer, especially given the forecast of high temperatures this year. As a result, both channel and leading brands continue to have a positive outlook on demand revival, and that is anticipated to accelerate during the summer season.

The quarter in the sequent is a strong one for air conditioning and air temperature control products, so businesses hope to see a high rise in demand. In addition, high inflation has impacted consumer enthusiasm for lower priced products, while premium products perform relatively better and continue to do so.

Demand for lighting products has significantly not been impacted through the pandemic, and that continues to be robust. Our business has seen the impact of many of these factors. While the auto and industrial businesses have been strong and have seen an uptick across logos, the slowdown in network expansion in e-comm and consumer markets has impacted our business.

We have seen some site closures in the 3PL businesses from e-comm. Obviously, we've also taken some of the impact of the last-mile delivery business to moderate the coverage on account of increasing price competition in that space. Overall, the annual contract volume from new order intake was a bit north of INR100 crores during this quarter, primarily driven by the non-Mahindra side of the SCM business, and we

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expect that to moderate itself in the next quarter or so and have an uptick as we come towards the festive season.

Let me talk also about some key business updates which are relevant to this quarter especially. I'll begin with the Express business. Consequent to the acquisition of the Rivigo business, PTL business last quarter, we recently also transferred our existing Express businesses to MLL Express Services Private Limited for a lumpsum payment of INR 20.8 crores.

MESPL revenues reported for the quarter were slightly lower than the preceding quarter, when the business was managed by Rivigo, largely on account of some transition impact and slowdown and seasonal adjustments based on specific demand patterns from customers in Northern India. The flow through of the MESPL business, of the MLL network business into the MESPL financials will happen post-completion of the consolidation which commenced this quarter.

Most of our customers have already been transferred seamlessly and we expect that to be a bit more consistent and we have managed to boost our service levels for most of our clients. We believe that our combined express operations are on the right track and will generate positive EBITDA towards the second half of the year, somewhere in Q3 of this financial year.

A longer-term direction to build an Express business that is among the top three or four companies in the industry with revenues of north of INR1,000 crores remains intact. The freight forwarding business which has been another business saw a lot of change through this year especially in the second half of the year. The forwarding business remains under significant pressure of downward pricing corrections. While the slope of the correction has moderated, the broad pressure continues to sustain.

During the quarter we saw the impact of that with a steep decline in year-on-year revenues. However, we have been able to mitigate that to some extent through volume growth which has shown positive movement across our air and sea products. We will launch charter operations from Dubai Hub later in Q1 of FY23-24 and that should help us strengthen recovery in this segment.

Our short-term focus remains strongly on volume penetration across end markets, lane expansion and expanding our service offerings. We should be able to demonstrate stronger run-through and volume through Q2 and Q3 of this financial year. The third business which had a material impact obviously was our last-mile delivery business. During the quarter we continue to invest in growing the last mile delivery business. At the same time, higher pricing intensity has resulted in our decision to cut back on several sites which are becoming unprofitable. Though that has been offset through other wins in other parts of the last mile delivery service line.

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We have taken a prudent accounting approach on various penalties and damage claims in the quarter, which some of our customers have raised which has resulted in an underlying favorable impact on earnings. While these items are still under discussion, we chose to be prudent about them.

Our continued focus remains on fulfillment as a service, grocery and sub-stream deliveries, all of which are showing strong progress in the quarter as it has done in the year which has gone by.

The performance of our eDel electric vehicle business, EV-based business is consistently improving. Today, we operate in more than 19 cities and have a fleet of nearly 1,300 vehicles. Earlier this month, we launched our four-wheeler offering right in eDel, and we hope to supplement that with a two-wheeler offering shortly.

The 2x2 business is a business in which we run company-owned car carriers for the autooutbound segment and that's a business which last year saw a significant impact on the back of shrinking automotive volumes. As I mentioned in the last earnings call, we have been starting the fleet back again, but along the way we have been investing in upgrading the fleet with modifications as per the new C&BR regulations, adding domes and also upgrading vehicles in terms of runnability.

And we've seen that progress through the fourth quarter. We ended the fourth quarter with our operating fleet almost completely on road, and we expect that in FY '23, '24, we should see the consolidation of that turnaround in that business.

Lastly, as a matter of significance. I think in the warehousing side, we continue to be committed to expanding our footprint in the quarter gone by. We have announced the development of a new 1 million square feet warehouse park in the Chakan-Talegaon region. This is a collaboration Ascendas-Firstspace and which will be spread over 3 phases, the first phase, which is roughly 0.5 million square feet will be operational by the end of this financial year.

That is something we will continue to expand. We're also at the same part going to launch our first automation and technology center, which will be where we'll do development and automation technologies, especially for warehousing.

The overall warehousing footprint in the quarter showed moderate green, and that was largely an impact of the restructuring of the Bajaj Electrical contract as a result of which we did drop warehousing space of many 0.6 million square feet largely in distributed branch warehouse locations. Those contracts were all largely back to back and therefore, do not have any residual impact on our earnings going forward.

I'll now move on to our consolidated financial performance. Revenue for Q4 FY '23 increased by 17% on a year-on-year basis to INR1,273 crores. That growth was on the back of adjustments, right, of lower growth, , in our consumer business because of the

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restructuring of the Bajaj account and a decline in the freight forwarding business. Adjusted for those segments, our underlying volume growth and revenue growth is approximately 24%.

The supply chain management, including 3PL and our network services businesses, combined to 94% of our overall revenue, and the Mobility business contributed 6%. Our gross margin on a fully consolidated basis, including MESPL impact stood at 10.2% in Q4 F '23 compared to 10.1% for the same quarter last year. EBITDA for the quarter was up 17% from INR58 crores in Q4 at 22%, up to INR68 crores adjusting for the consolidation of the Rivigo acquisition.

PBT on a fully consolidated basis was down, and we reported a negative PBT of negative INR5 crores for the quarter, down from INR9 crores for the same quarter last year, and we reported on a fully consolidated basis of negative INR1 crore. The earnings were impacted by the consolidation effect of the Rivigo acquisition. And therefore, just share some numbers without the impact of Rivigo acquisition as well.

With all the MESPL or the Rivigo acquisition, revenue for the quarter increased by 11% on a year-on-year basis to INR1,206 crores. The gross margin for the quarter without the acquisition stood at 11.4% compared to 10.1% in the same quarter last year. EBITDA for the quarter rose from INR58 crores for the same quarter last year to INR87 crores. And PBT for the quarter grew from INR9 crores to INR24 crores, right? And our PAT effect without the acquisition grew from around INR6 crores in the same quarter last year to INR 21 crores for Q4 F '23.

As we see the consolidation and the extraction of the value of Rivigo business, we expect that, that will be accretive to earnings, and that's covered in the investor deck on a section called Pathway to value creation. And we'll talk a little bit about that.

Before I close, I want to quickly recap subsidiary or component performance for your benefit. Our MLL standalone business for FY '23. And I talk about full year numbers. Revenue for FY '23 Mahindra Logistics is a holding company on a stand-alone basis of INR4,459 crores, up 27% compared to INR3,361 crores for F '22. PAT for the business was up from INR24 crores in FY22 to INR65 crores in FY '23.

Lords freight revenue for the year was down from INR450 crores in FY '22 to INR366 crores in FY '23. And consequently, PAT was down by around 40%, 36% exactly from -- specifically from INR16 crores in FY '20 to INR10 crores in FY '23.

The Express business showed revenue of INR122 crores. Most of that is essentially the revenue spillover from the Rivigo acquisition. MLL network revenues are not factored into this. As I mentioned earlier, revenues continue to be at adjusted run rate, r And overall reported revenue was INR122 crores for 4 months and 10 days, I think, roughly 4 months in a week. And PAT loss for the year on that revenue was INR32 crores.

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We did take a deferred tax adjustment in the business, and I will talk a little bit about that in a bit. MLL Mobility revenue was INR185 crores compared to INR58 crores in the preceding year. That included underlying growth of 127% in revenues of the transport services. The airport-based services segment and the consolidation effect of the enterprise transport mobility business from, which has transferred from MLL to MLL mobility.

Consequent to our continuing activities on cost reduction there, PAT has narrowed right from INR19. As a result, the losses have narrowed from INR19.5 crores in FY '22 to INR8.6 crores in FY '23. We expect the business to be in a strong growth momentum, and we are confident in breakeven in FY '23, '24.

Whizzard, which is the investment we have made in the last mile delivery business. For our fulfillment business, we made an investment in reported revenue of around INR130 crores, up 18% from a comparable time period last year, Losses for the year increased from INR4.4 crores last year to INR7.5 crores this year. 2X2, the division has made a loss of INR4 crores in FY '23, narrowing from the INR6 crores in the preceding year. As I mentioned earlier, in my 2X2 comments, we expect that to be a simply cut back to profitability in FY '23.

During the quarter, we also took a deferred tax adjustment in 2 of our entities, principally MESPL, which is express services business. That adjustment was on account of our line of sight to profitability and our certainty and other profitability, we'll be able to generate in the business over the next 6 to 8 quarters and has been reviewed with our auditors and the Board, and we are comfortable with that accounting adjustment.

Overall, we remain focused on investing for growth across all our segments. I think as I mentioned before, we think it is critical in our business to grow scale, and we remain committed to our vision of building an integrated logistics and mobility services business, which has deep capabilities in multiple service lines and combined to technology, people and process will create, and value of integration for our customers and emerge as a preferred choice for them as well.

So with that, I'll open the question -- the floor for questions and answers.

Moderator:

Thank You very Much, we will now begin Q & A Session, any one who wants to ask a question may press * and 1 from their telephone, if you wish to remove yourself from the question queue you may press * and 2, participants are requested to use handsets while asking the questions. Ladies and gentlemen we will wait for a moment while the question queue assembles.

We have a first question from the line of Alok Deora from Motilal Oswal. Please go ahead.

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A thick red diagonal line starting from the left margin and extending towards the top right.

Alok Deora:

Good evening, sir. Just first question on this -- the express business. So if you could just indicate what would be the revenue we generated from the Rivigo business in Q4?

Rampraveen Swaminathan:

Hi, Alok. I think we generated, I think we reported revenues of around INR77 crores for the quarter for MESPL. All of that essentially was business which was transferred from Rivigo because, as you know, we've not rolled in the revenues of the volume from the MLL network, for the large part. So almost all of that was that. I think when we did the acquisition, Alok, had projected, we had indicated that the run rate number is the INR350 crores range on a 12-month basis. There are, of course, seasonal adjustments in those numbers, and that did impact us Q4 because of climatic conditions in the north.

We did see some impact in load volume on the lanes in the north right there. It is not -- there's no customer account losses during the quarter largely because of that. We did have some transition impact because several of our customers as we transitioned ownership, because we had to get contracts in place and so on. They did stop orders on us for a period of time before they actually triggered it back on. So that did have some underlying impact. But from an underlying -- from an overall perspective, adjusting for those things, our revenues are pretty much in line with what we gave as an indication at the time of the acquisition.

Alok Deora:

Sure. And sir, if I see the EBITDA and the PAT for this segment. So we are currently at around 25% loss at the EBITDA level and around 28% loss, 20% sort of a loss at the PAT level which is worse than what we had done in quarter 3. So I just wanted to see us how confident are we to turn around this and breakeven in the first half of FY '24, considering that what signals we are getting from the industry that the express business as a sector is kind of you know struggling because of various factors, demand slowdown and competition and you know all those factors. I just wanted your thoughts on that, sir?

Rampraveen Swaminathan:

Sure, Alok. Let me give my perspective on it. First of all, there is obviously, Q3 versus Q4, comps are not very actually accurate because obviously, in Q3 what we reported as expert business was largely our own business with around one month and one month or six weeks of the MESPL business. We have seen a full quarter impact of the Rivigo business. So that's the first thing and therefore, if you reach out to our separate team, we'll give you a better reco direction of that, right.

From an earnings quality perspective, the levers which you have said earlier still remain the same, Alok. The first one is that a substantial amount of this is load driven. We have a network of around 17 hubs, 270 branches and the load we carry on the network actually drives the business's operating leverage. So the first thing which obviously will make a big impact is the transition of the MLL network volumes onto that. We expect that to be done with very margin increase in overall cost and that should substantially improve the operating leverage of the business. So that is actually

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underplay. We've just transferred effectively April 1, the network business for MLL into MESPL. And so through this quarter, a lot of that load will transition out and we'll see the benefit of that. This is quite significant given that facilities on operations costs are roughly 18% of our total cost mix. And so that's a big operating leverage number.

The second big element of course which will drive value creation there is just the transportation efficiency. Because we'll be able to run at higher load, consolidation of loads will be better. So vehicle efficiencies on line haul especially will increase. And we expect to see better density in feeder and pickup and last mile delivery volumes.

So combining both of those, I think even without considering any further volume growth, we expect a substantial amount of EBITDA loss to come down. As I said earlier in my comments, I think Alok, assuming based on our current forecast or transitions of accounts, we expect that by Q3 of this year, we will turn EBITDA positive on the business. There are some obviously, now coming to the other side of the question which is where will growth come from?

So I think there is some softening in demand. I think it also expresses a bit of a spike during COVID, given that. But I think we still believe underlying growth is still there. I think India's demand is getting densified. On the e-commerce side of the business, customers are moving to more supplier fulfilled volumes creating demand for supplier fixed solutions and offerings that are also part truckload in nature. So unlike probably what others feel, we do see that there is some robustness in specific parts of the segment.

You must also remember that the fourth, so I think, and the other growth lever for us, Alok, is the fact that a substantial amount of our 3PL and other clients do have express volumes. Our penetration or share of wallet in that has historically been low because we didn't have an offering. So as the offering gets rolled out, we expect that we will improve the share of wallet in those businesses and integrate FTL, warehousing, express, etcetera, in better ways for our clients to give them higher productivity.

So we've broadly looked at 12.5% to 13% annualized growth rate secularly over the next four or five years and believe that given the markets are right now, Alok, those are very defensible and pretty much achievable numbers given our broad customer portfolio. So I think, as I said, mix those three or four levers. We are also doing things in terms of productivity improvement, reducing productivity, improving density of the workforce, of the shop floor, to reduce operating costs.

So combining those three or four things, I think we believe that we should be able to get first in EBITDA break-even by the third quarter of this year and get probably a break-even at a PAT level on a running basis by the end of this year. And then we'll kind of kick into more aggressive growth rates. As I said earlier on, our view of the business is we have the opportunity for the next four to five years to build a INR1,000 crores business. We will be starting at roughly around INR450 crores, INR500 crores

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when the business is consolidated on a run rate basis and we expect that to probably double over the next four to five years and peak at around 3% to 4% PAT levels.

And as we stand today, I think we have pretty, we've not lost, there's nothing which has given us any reason to revisit those, that aspiration. Obviously any integration does not go, bangs up completely on time on everything. So there are things which go a bit sideways, but those are all controllable. So we feel we are in a good place. We have a carry on the numbers, something which we recognize. There's also a significant step up in MLLs penetration and our ability to be an integrated logistics provider for our clients.

Alok Deora:

Sure, thanks for the elaborative answer. And also, this depreciation has increased to nearly INR55 crores at the consolidated level. So what's the normalized run rate we can look forward to for depreciation?

Rampraveen Swaminathan:

So I think depreciation has gone up. I think there are multiple components to that, Alok. And obviously, a part of that has essentially been around INR10 crores of the increase in depreciation because of the Meru consolidated effect on a full year basis because of the mobility business which you acquired from Meru. So around INR8 crores of it have been the run rate impact of the MESPL business. So that's approximately been around 20%, if you may, of the increase in the overall depreciation, prior 22%.

The rest of it has been India's impact on it. In the remaining INR35 crores, INR36 crores, India's impact is around INR27 crores. And I can give a more specific number, but I think it is around INR27 crores. The remaining INR10 crores is split between electric vehicle, fleet addition, some other capital items, software depreciation and so on.

From a run rate basis, I think MESPL and the Meru depreciation should be capped roughly in this range. So we don't expect any significant addition there. And as far as the MLL, the core 3PL business is concerned, I think we will see some normative increase in terms of capital, which is in the same range as this year. This year we spent a capital of around INR75 crores.. We expect it to be in the INR80 crores, INR85 crores range, at least for 2023-2024.

So we expect that to roughly be in that range. The warehousing will have a 116 impact, but there's also a tail-off impact on 116 as some of the older leases come off. So net-net we expect that we will be a little bit up, marginally up on the MLL side of the business, probably 7% to 8% up on depreciation. The Meru and the MLL mobility and the MESPL number should roughly be capped.

Alok Deora:

Sure. I have more questions. I'll come back. Thank you.

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Moderator:

Thank you. Ladies and Gentlemen in order to ensure that the management is able to answer the queries from all participants, kindly restrict the questions to two at a time, you may join back the queue for follow up questions. We have the next question from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit:

Hi. Good evening, everyone. And thanks for taking my question. Just two questions from my side. Did you take any price hike in this quarter and how did the customers absorb it? If you can split it business-wise, that would be great?

Rampraveen Swaminathan:

Amit, just in the interest of the everyone's time, can you just ask both the questions, I will answer both of them together

Amit Dixit:

Yes sure, the second one is essentially on the industry. Given what you highlighted in your opening remarks that automotive is probably going strong, consumer durables are likely to pick-up and e-com is still on a sticky wicket. So what kind of growth can we expect for FY '24 in terms of revenue? these are the two questions.

Rampraveen Swaminathan:

Sure. Yes. So I think in terms of growth, we expect that what drives our growth is a couple of things. I mean, one is underlying volume in all our existing sites. And that's just how much flow-through we get because we do have some amount of per piece or unitized pricing. in our business, we do get some flow-through from that. And the second one is network expansion.

As customers want to put more sites as they densify their network. From a broad demand perspective, I think automotive largely tends to be transportation heavy. And we expect that volume to be reasonably robust in the first half, but we expect a lot of growth in the first quarter. We expect stronger growth in the automotive segment from the second quarter onwards.

I think from an e-commerce consumer perspective, I do believe that we will see an uptick in volume definitely through the seasonal course, through the season this year. Right now, how much network capacity addition will we see? So we think volume will go through and we will see, the mid-teens growth in volume, given what we are seeing across all our end markets and our logos. But we are still seeing some tentativeness in terms of site expansion and network expansion.

I think that's the one which, very honestly, Amit, is a bit hard to exactly figure out. But we are optimistic that in several segments, and given what we are doing, as I said, the annualized contract value in the fourth quarter was roughly INR100 crores. So that's a healthy sign. So hopefully we're confident we'll be able to sustain that, that run rate through the year. Q1 might be a little bit slower. Basically it's a little bit what I'd be expecting.

From a pricing action perspective, as I said, we operated multiple segments. The 3PL business, we have seen margin improvement there, I would say largely based on

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stronger cost management and operational performance. Most of our contracts have been continuing in nature. So really, a fair amount of the business is a continuing business and has not changed dramatically between Q3 and Q4. As I've already said, prices have come down on the forwarding business. The challenge has been to hold margin levels as prices have come down because I think people are often making forward bets on further reductions in prices. And putting those, making those, taking those projections and putting them into the deal. So we've not been able to do a lot of price movement on the forwarding business. I think clearly we're not able to do a lot of increase there.

As I mentioned, we have optimized for margins on the last mile delivery business. We've optimized not by doing a broad price increase, but actually specifically looking at accounts and offerings where we get better realizations. I don't think I would say across the board there's been an increase. But it's been really about how we've optimized our offerings and our customers.

And on the express business, we have seen some uptake on what we call a retail end, which is really small and mid-sized establishments, but not so much on the enterprise end. It has been more topical or tactical and not been, I wouldn't say been an across the board increase. So I hope that answers both your questions, Amit. And probably we should go to the -- and if you have any further questions, Amit, happy to take you back on the queue later.

Amit Dixit:

No, no, sure. I'll get back to the queue. Thank you, sir.

Moderator:

Thank you. We have our next question from the line of Saras Singh from Haitong Securities. Please go ahead.

Saras Singh:

Hi, Ram. So I've got two questions as well. So firstly, needed some clarity on the borrowing side. So we have around INR400 crores of debt on our books. So where exactly is this being utilized? And can you give the timeline of the debt repayment? And the second question is on the mobility side. So we have around INR185 crores of revenue from Meru. So I would assume that another INR75 crores is from Alyte. So what has impacted Alyte in FY '23 that the revenue is down 50% here? That's all. Thanks.

Rampraveen Swaminathan:

Okay, Saras. So let me take both those questions in some form. So I think on the debt side, we do have around INR400 crores of debt on the books. It's spread across multiple parts of the business. The largest part of it, of course, has been debt taken by MESPL for the acquisition of the Rivigo business, which is a little bit around, roughly around INR220 crores. That's long-term in nature and has a structured repayment plan around it. I won't get into a lot of details, but it's a structured repayment plan on a fairly, attractive coupon. But that is the largest part of it.

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Apart from that, we have around INR150 crores, which is spread across within the MLL side of the business, which has largely been investments we made, borrowings we made to support acquisition of the Meru business from M&M in FY '21-FY '22 and for the investment in Whizzard. Those are the two larger parts of that, along with some amount of working capital there. There are, of course, working capital lines in the 2x2 business. There are working capital lines in the forwarding business as well, and those are purely working capital lines.

So there are two large part I think 45% of it is working capital to support the operating side of the business. 55% of it is really to support the -- has been debt taken by MESPL to support the Rivigo acquisition. We are on structured plans. As you know, there's no -- our ratings are good. We have a window of cycling the long-term, of repaying the long-term debt. From a working capital perspective, that number moves up and down as we need it. We don't particularly see a significant change in the volume of that line.

I saw the other question was concerned, sorry, Saras, can you repeat the second question? The Meru numbers, yes, the mobility numbers. So the MLL mobility numbers, which you see declared here of INR185 crores is a consolidation of the revenues of the mobility business from Meru, which was inherited historically from Meru and the Alyte business. And there's a period impact of it because the transit acquisition or business transfer was done halfway during the year. And therefore, we don't report full year revenues of the Alyte business.

From a full year perspective, the businesses together, in the INR185 crores, the erstwhile Meru component is around INR50 crores, INR55 crores. And the remaining part of that -- that's accounting revenue, it's not platform revenue. It's accounting revenue. And the remaining part of that is the enterprise transportation business, principally Alyte. And you'll see that obviously, in the other part of our financials, unallocatable expenses have come down in our books. And that's largely because we are no longer reporting the mobility segment as a segment in standalone earnings. And therefore, to that extent, unallocable expenses have come down.

But that's with the transfer impact. But if you look at it, the lion's share from a revenue perspective is still the enterprise transportation business, the numbers.

Saras Singh:

Got it. Thank you very much for that. That's helpful.

Moderator:

Thank you. We have a next question from the line of Krupashankar NJ from Avendus Spark. Please go ahead.

Krupashankar NJ:

Hi. Good evening and thank you for the opportunity. My first question, Ram, is on the warehousing revenues. You did mention that there is a 0.6 million square feet reduction in warehousing space. But the decline has been for two quarters now. And I just wanted to get a sense as to are we expecting warehousing to moderate from the current levels because we had this discussion in the past and you were quite upbeat on

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adding close to about 2.5 million square feet per annum, is there any change in stance over there? That's the first question. Perhaps after answering, I'll ask the second question.

Rampraveen Swaminathan:

Hi, Krupa. How are you? I hope all is well. Yes, so I think from a warehousing perspective, you have seen we declined, we reported a 9% reduction in warehousing solutions revenues for the quarter, which is on the back of a 6% of 3% reduction, we reported in the preceding quarter of the year. so if you look at warehousing and solutions, Krupa, I think you mentioned earlier there are two parts to it. The largest part of it is the pure warehousing piece. And there is, when you do end-to-end solutions, there is an associated transportation piece as well, which is included in that numbers because we build to a client on an integrated basis.

The decline in the year-on-year numbers in the fourth quarter has largely been on account of the restructuring of the Bajaj account. What has happened with the Bajaj account is we reported year-on-year roughly, INR32 crores reduction in revenues, quarterly revenues, because of restructuring of the Bajaj account. And that is a combination of warehousing and transportation. As I said earlier, the warehousing space that went away was either given away or replaced by other customers.

The transportation revenue completely went away. So if you look at our numbers, just at Bajaj reduction, you will find that warehousing, the rest of it is largely pure play warehousing, actually went up year-on-year. The net impact was INR22 crores for the quarter. I will just pull out the numbers. But net, you will see that it has gone up, adjusting for the Bajaj impact.

From a long-term stance perspective, there is no change. As I mentioned earlier, we just announced the construction of another million square feet of warehousing in the Chakan, Talegaon area. That is at the back of construction, which is already going on in Calcutta, in Guwahati. So expansions are going on in other places. So tactically, we always have white space challenges in different parts of the business. But as of now, white space is only 4% of the overall volume. And therefore, that is something which is within our operating envelope.

Krupashankar NJ:

Thank you, Ram for that. The second was on the freight forwarding operations. Just wanted to grasp out here. So while I do understand there is significant pricing pressure, what is it that we are trying to do with respect to sustenance of profitability? And from there on, just wanted to get a ballpark number as to where the profit or the margins hover around in the freight forwarding business? Given that next year also, we are looking at a high base. We are starting at a decline of mid-teens, if I am not mistaken. So any light you can throw on this particular piece?

Rampraveen Swaminathan:

I think, Krupa, the freight forwarding rate adjustment has been secured across the industry. So I look at it, on many bellwether lanes for 20-foot cubes, prices are down up to 75%, 80%. We have been able to offset that through volume growth. What I

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have always said, Krupa, on this business, even earlier on, is that you have got to go back and look at three years. And adjust out this kind of one-time gorilla earnings we have had. And adjust it out, I think our CAGR back to 18%, 19%, is still around 26%, 27% on revenue and is north of that on earnings. So that growth trajectory remains. The focus, Krupa, continues to remain on growing volume and supplementing India origin, India destination volume with the hubs or the operations we are building in Dubai and the UK.

From a broad guidance perspective or a broad indication perspective, our aspiration there has been to grow the business at that 18% to 20% level, which would then in FY '26-FY '27 mean revenue probably of around INR900 crores to INR1,000 crores on an annualized run rate basis. And we believe the business will be at 2% to 3%, roughly at the 3% PAT level. We have been there before, not just in the good quarters. The great quarters, we have been above that. But normalized, we expect the 3% PAT will be very sustainable for us. Once we breach around INR450 crores to INR500 crores of annualized revenue, we should be in the envelope of around 3% PAT. And there on, it is a volume growth play.

And as I said earlier on, we clearly do understand and recognize that the pricing corrections have been huge. But as I said, underlying volume growth has offset a bunch of it. As you go forward, if we can sustain that volume growth, we should be able to see a recovery to peak levels. Our highest quarterly revenue was INR112 crores, if I am not wrong. INR112 crores or INR118 crores, and in that range. And we should be, I fully expect to be able to get back to that peak rate in the first half of FY '24-FY '25.

Krupashankar NJ:

That is really helpful. Thank you and all the best. I'll get back in the queue.

Rampraveen Swaminathan:

Thank you, Krupa.

Moderator:

Thank you. We have a next question from the line of Tarun Bhatnagar from Tribeca Investment Partners. Please go ahead.

Tarun Bhatnagar:

Yes, hi, thanks a lot for taking my question. My question is on Rivigo. So we have seen very heavy losses in this quarter, which has led to a disappointing loss. And despite your core business doing well. In this regard, I wanted to understand, firstly, what was the thinking behind you acquiring Rivigo? And in case we are planning further acquisition, what sort of returns you would be expecting from them? And finally, how do you get Rivigo back to profitability and generate the desired returns? Thank you.

Rampraveen Swaminathan:

Sure. Tarun, all the questions are interlinked in some form, but I will answer the most outlier there in terms of what, just from an acquisition philosophy perspective. So I think from our perspective, three years ago, we essentially said that our goal is to build a business that combines a surface FTL transportation business with more

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warehousing on the 3PL side and then build out new service lines around freight forwarding, cross-border movement, part truck load and last mile delivery, so we can provide customers and coverage across their entire supply chain.

And most of the acquisitions, if you note, have all aligned with that story or that goal. So we have not gone left-field away from that. So that is one thing that I want to say, that strategic intent, for us strategic intent drives acquisitions and not the opportunistic value around the transaction itself. So that philosophy I think will remain in the business. I mean, we run through returns profiles for all the acquisitions, as we have done for Rivigo as well, as a matter of governance with the board, and those return, long-term return profiles are essentially what the Rivigo acquisition will also deliver for us, on a fully consolidated express business profile.

Now what I won't go to segment targets in terms of returns, the longer-term target which we have set or the medium-term target we have set for the overall business is to get north of 18% return on equity or around 24% return on capital employed. And this, and our current business plan for the express business, also ties into that. So from a directional perspective, it's intent driving the acquisition. The metrics are all accretive. Our acquisitions are not designed to chase revenue. I've always said in logistics there are oceans of revenue and islands of profitability. We don't intend to be stuck in the ocean. So that's kind of there from a philosophical direction perspective.

Specific to the Rivigo acquisition, our strategic view of supply chains in India is that across the board in India we'll see greater densification of networks. Over the next five years, we have seen significant densification of networks over the last five to seven years. And densification has two dimensions, there is a dimension of coverage and a dimension of latency. How deep do you have to cover the geographies and what is the latency with which customers expect delivery to happen.

As latency shrinks and coverage expands, the need for moving smaller loads of volume will increase further-and-further. We've seen that play out, and we expect that to further play out in the industry. Everything happening from things like multimodal, etcetera, is all on arterial line haul movements. It's not a solution for densification in the country. As you see more Tier 2, Tier 3 penetration, this is something that we believe will continue.

And the intent of buying Rivigo was to build a digital first business with a strong technology stack, nationwide coverage in terms of direct, near to direct delivery coverage, and be able to straddle a network with existing volumes we already had with time-defined service levels. And that's what drove the acquisition rationale. What we've got with the business is very strong network coverage. We are in more than 270 locations across the country and have a strong retail or SME presence with a strong business partner network which adds yield to the business and its revenues. And

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obviously, a great fit into the rest of our business because it allows us to provide customers with this real depth in terms of coverage.

So that's been the strategic intent and everything we are right now on, we are pretty happy about it. I think it's delivered our 90-day goal on the transaction. You must remember it's only been 90-days really since we acquired the company. It seems like a much longer time and time, so you see the numbers, but it has only been 90-days. And we've hit that 90-day goal which has largely been integration. We are happy with the tech stack. Network coverage has been solid, so all that has been positive.

Now that said, obviously, the question of the big gorilla in the ring is the business's profitability, which I think is what you alluded to in larger measure in your question. And I think I've answered that earlier when it was, I don't know who asked the question, but earlier that there are four levers. If you look at it simplistically in your business cost structure, you have two big transportation costs: your line haul and feeder, and the second is your feeder and delivery. And then you have operating costs of running your hubs and your network, because you run your hubs and networks no matter whether there's a load or not. So it's a high operating leverage model.

And then there are overheads and other cost optimizations which are below the gross margin level but above the EBITDA line. So we have a compression strategy for all of them. Each of them is specific. The line haul and the transportation leverage, a lot of that will come as we transfer the MLL volume across and will further increase as we get additional volume growth, which we estimate to be the 12.5% to 15% range over the next few years on an annualized basis.

So that's something which will drive that optimization because we will be able to move to larger trucks, better loading of the trucks. For instance, on lanes that we've already done early optimization in April, we have seen a 6% to 7% improvement in vehicle utilization, which brings down, which is a fairly significant impact on cost.

The second part is facilities rationalization. Effectively, we were running two networks, an MLL network and an MESPL network. Those networks have been crushed together or combined. So therefore, we will get a significant amount of volume leverage by running the same facilities, doing things like running for three shifts, running at higher productivity levels, remanning the floor to drive better improvements there. And that is quite significant because facilities and what is fixed, period fixed costs in nature is around 18% to 20% of our cost mix. And so if we can run the same network with 30%, 40% more volume, we get operating leverage flowing in.

There is of course a bunch of things on other cost reductions in terms of our spend levels, overheads and so on, which are also being addressed. They have not flown into the numbers in the quarter because, as you do optimization on some of that, you have costs. Whether it's shutting down facilities and you have to take costs from shutting

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down facilities or adjusting productivity on manpower, you have associated costs of that. Those costs have shown up in Q4, but they will stop showing up from Q1 onwards. And therefore you will see this optimization flow through. Our first goal is to get to that positive EBITDA level and once we are able to -- so as you get to that level, then we actually are looking at optimizing the numbers.

So there is a clear game plan. I understand that obviously there is a sticker shocker in some ways on the numbers, but that's actually what we had given as an indication when we did the transaction as well, that we expect that there is a transaction which we closed everything on favorable economics from an acquisition price perspective because we have a five to six quarter window to optimize the business and get it to a creative level and probably a little bit more time to get it to peak earnings.

And as of now, as I said, we are notwithstanding the size of what you see on the quarter's results, We feel pretty good about where we are well positioned to deliver what we said we will. And that will be in line with our 18% return on equity target for the company.

Tarun Bhatnagar:

Thanks for the answer. Just one supplementary question on that. Firstly, maybe you can talk through on your acquisition strategy. Are there further acquisitions you are looking at? And secondly, I also wanted to understand, you mentioned that you will be getting back to profitability by end of this year. Can you confirm that?

And secondly, what are the things we should be watching out in terms of the actual operations in the business which you are currently doing and which we should hope to achieve maybe by the end of when we talk three months later and maybe when we talk maybe next year, sometime later in the second half?

Rampraveen Swaminathan:

So, Tarun, I am assuming your question is specific to the Rivigo business or the Express business, right?

Tarun Bhatnagar:

Yes. Rivigo and also on acquisition plans.

Rampraveen Swaminathan:

So, acquisition philosophy, as I said earlier on, our strategic intent, we identified a few areas and those are pretty much done now. So, there is no deliberate desire to pursue an acquisition on any specific area in the near term. We might find a tactical transaction if something happens because it is accretive of the earnings and is very favorable to fit. But let me just say, we are not looking right now. I think our focus, as I said, last quarter and this quarter as well, Tarun, is to optimize the acquisitions we have done and deliver the earnings which we committed on that. And as you have done on the 3PL business, to drive earnings improvement, we have done that turnaround in a large part on the mobility acquisition we did and now we focus on doing the same thing on the MESPL or the Rivigo acquisition as well. So, from a philosophy perspective, I hope that is clear.

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From an MESPL perspective, there are three big parts to this puzzle and as you look at markers along the way, Tarun, there are three things you should be looking for and I will be fairly transparent about that. The first one is volume growth. We are going through a process of integration right now, so big focus on service delivery and controls, putting our governance systems in place, putting some of our processes and policies in place, but as you go into the second quarter of this financial year, one thing you want to look at is that volume growth coming back. And as I said, the combination of that volume, which on a cubic feet basis is probably, we are on a pre-acquisition level, on a cubic feet basis, we are probably around 5 lakh tons. So, that is the first, that is the starting marker and then the question is how much do we grow from there. Our goal is to grow at 12.5% to 15% a year, so that is one marker to look for, Tarun.

The second one is to look at the gross margin line because that is where you have a lot of direct costs involved and that is where the operating leverage of the site utilization and line haul cost efficiencies get better. So, I think that is something we hope to progress on faster than probably even revenue because we are timing the optimization right now. And the third part of course is the EBITDA piece, which is between the gross margin and the EBITDA line, which is a lot around the optimization of various items. There is a carrying cost of the debt, which is there on the transaction, which is a separate process through which we look at saying what are the ways to reduce the impact of that.

But those are the four things largely, Tarun, which I would look at monthly or quarterly. Hopefully, it is only on a quarterly basis, but we catch up otherwise as well. Those are the four things which I think will move the needle on the path to profitability in the business.

Tarun Bhatnagar:

Thank you.

Moderator:

Thank you. We have a next question from the line of Sumit Kishore from Axis Capital. Please go ahead.

Sumit Kishore:

Good evening, Ram, two questions. The first is on your path to value creation and the 18% RoE target by FY '26. I mean, how does this look when you consider your business returns on a ROCE basis and what is the math you are using on net margin when arriving at the 18% RoE for a relatively asset-light business?

The second question is on intangible assets and the increase you see in the balance sheet there. So from INR10 crores to INR240 crores, what explains that and what is the intangible asset?

Rampraveen Swaminathan:

Yes, Sumit, I don't have the exact intangible number with me, but I would say that substantially part of the intangible growth has been the goodwill on the MESPL acquisition. That is the bulk share of that number and I can have somebody reach out

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to you, Sumit, with a more specific breakup of it. But I assure you it is probably 70%, 75% of the number is that element.

Sumit Kishore:

I would have also thought so, but goodwill on consolidation is mentioned in the presentation as flat at INR4.3 crores in your disclosures.

Rampraveen Swaminathan:

Okay. I will come back to this, Sumit. I am just looking at the file. But while we do that, in terms of your earlier question, your first part of your question in terms of the return on equity and how we measure it. As you know, we have said multiple sets of businesses, Sumit, so it is hard to say that I have one bellwether number across the board. But if I look at it simplistically, first of all, we do look at RoE rather than ROCE because we do have some leverage in the books. And therefore, if we had zero leverage, we would obviously look at ROCE as being a proxy for RoE. But ultimately, it is shareholder value and wealth which is most important. So bellwether metric is RoE, Sumit, not ROCE. That is more an operating metric for us internally.

Now in the constituents of that metric, two broad elements. One is what is profitability and the other one is what is going to be our cap table and continuing cap investments in the business. I am coming from cap table investments in the business. The largest part in terms of the density of our cap table, has always been the 3PL investment. And we spent around INR75 crores of capex last year. We have always said that we expect capital to be in the 1.7% to 2% range. That has been the bulk of it. And the only exception was last year when capital went up to INR120 crores on the back of some of the expansions we are doing. But in general, it has always been at that range. And I expect that very much to be at that range.

And as we model out our numbers or look at them, we can look at them being in that range. The other part of the equation of course is profitability. And while I won't give one number as a number for the entire company, I don't think that is practical. We have said earlier, Sumit, as you know, that we expect the 3PL business to get around 2% at a PAT level. And we expect the different parts of the network services business to be between 3% to 4% at a PAT level. We believe those businesses will remain at 90%-plus of the overall basket of MLL's earnings. So I think those are the primary constituents of that 18% return on equity.

The working capital, it moves a little bit. NWC was 14 days for the quarter, up three days compared to last year. But that is largely just with marginal movements on our DSO and not being any structural issues around it. So I think those three pieces largely, Sumit, could have blended into that, into our confidence in getting that 2% or past 18%. The biggest earnings element in that of course, as discussed at length today in multiple questions, has been the expert business. So getting that back clearly is a hang. And that is obviously, we have a fair measure of confidence in delivering that. But that is a short-term hang which we have to solve for. And then of course, you solve for that and as volume builds up, we believe that. And these numbers are probably

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lower than some of the comps in the industry. So we feel pretty good about getting that.

I don't know if Sumit will answer that question. As far as the intangibles is concerned, it is largely around goodwill. The intangibles and consolidation. I will come back to you on that Sumit. I have your number of contacts. In fairness, I don't want to give you a half-baked answer. So just give me some time and I will reach out to you separately Sumit and send you a note on that.

Sumit Kishore:

Sure. Thanks.

Moderator:

Thank you. We have a next question from the line of Teena Virmani from Kotak Securities. Please go ahead.

Teena Virmani:

Hi, sir. I have two questions. One is related to this other unallocable expense which you talked about the impact of mobility segment also. But there is a sharp decline between FY '23 and FY '24. So was the mobility segment contributing somewhere around INR79 crores, INR80 crores to the overall component? And how do you see it going forward? Like was it a one-time impact or is it going to be?

Rampraveen Swaminathan:

No, no. So Teena, the way to look at it is a bit of the other way around. So the mobility business, so unallocable expense is X rupees and that unallocated expense is shared between both businesses. So when two businesses become one, there is nothing to share. So two businesses became one in September. So we had two segments reported in September. So from September onwards, we reported only one segment. And because there is only one segment, there is nothing unallocable. Everything is allocable. So it is that simple. So do not associate with the mobility business as such because it is not a cost driven by the mobility business. It is just a fact that the common expense pool which would have been attributable to two segments is no longer attributable to two segments because there is only one segment. And therefore it has been fully attributed.

Teena Virmani:

And this will remain?

Rampraveen Swaminathan:

Yes, that will remain and therefore it has been fully attributed into the 3PL business' segment numbers and is reflected in the business's profitability.

Teena Virmani:

Okay. So this trend we will see going forward also?

Rampraveen Swaminathan:

Yes. I do not think we see it. I think unallocable expense is pretty flat in the second half of the year and that is what you should expect to see going forward because the MLL whole core right now is pretty much just, Mahindra Logistics is now almost completely just a 3PL Logistics company. All the individual network services business are individual entities as is the mobility business.

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Teena Virmani:

Okay. My second question is related to Bajaj Electrical contract. Like you mentioned that you have already scaling down the contract. So which components are actually getting scaled down in this particular contract and how much incremental positive benefit that it can yield on the EBITDA side because it would have some impact on the revenue side. So what is the negative impact on revenues and the positive impact on EBITDA that can happen from FY '24 onwards?

Rampraveen Swaminathan:

So Teena, the Bajaj Electrical business at the peak was in line with what we had said when kicking off the business. When we did the contract, we had said it is roughly a INR200 crores annual business. At a run rate basis it probably peaked around there because as you know we had COVID impact and so on through the year. In Q4 revenue was around INR14 crores. Down as I said earlier on, down on INR32 crores from the same period last year. On a going forward basis, we expect that should be at the same level through the most of this financial year.

From a margin perspective, the business we are doing now is all margin accretive and therefore there is no shutting down the business further does not necessarily add to margins. If that is the question you are asking, that does not add to margins. So we are right at a place where, volumes are around 25% of what the contract was initially expected to be at. That should continue for most of this financial year. As I said the margins are positive today at a pre and post Ind AS level and therefore there is no earnings optimization to further decline of volume.

Teena Virmani:

Okay, got it sir. Thank you.

Moderator:

Thank you. Ladies and gentlemen, in interest of time, that was the last question for today. I would now like to hand the conference over to management for closing comments. Over to you, sir.

Rampraveen Swaminathan:

Thank you very much. Thank you all for joining us today. I hope you have been able to answer all the questions and queries you had. If you do have any further questions, please feel free to reach out to SGA our Investor Relations Partners or the management of the company and we look forward to have the opportunity to respond to those. Thank you once again for your continued interest in the company and our results and a good evening to all of you.

Moderator:

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