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Dear Sirs,

**Sub: Transcript of Earnings Conference Call - Regulations 30 & 46 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”)**  
**Ref: Intimation of earnings conference call dated 17 April 2022; and Outcome and audio recording of earnings conference call dated 27 April 2022**

We refer our intimation dated 17 April 2022, informing of the schedule of the earnings conference call with several Analysts/Institutional Investors/Funds on the Financial Results of the Company for the quarter and financial year ended 31 March 2022 on Wednesday, 27 April 2022 (“Q4FY2022 Earnings Call”).

Further to the outcome and audio recording of the Q4FY2022 Earnings Call submitted vide letter dated 27 April 2022, please find enclosed the text transcript of the Q4FY2022 Earnings Call held on 27 April 2022. The enclosed transcript is also uploaded on the website of the Company and can be accessed at the weblink: <https://mahindralogistics.com/investor-information/>

Kindly take the same on record and acknowledge receipt.

Thanking you,  
For **Mahindra Logistics Limited**



**Ruchie Khanna**  
**Company Secretary**

*Enclosures: As above*



# “Mahindra Logistics Limited Q4 FY2022 Earnings Conference Call”

April 27, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 27<sup>th</sup> April 2022 will prevail.



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

**Moderator:** Ladies and gentlemen good day and welcome to the Q4 and FY2022 Earnings Conference Call of Mahindra Logistics Limited. 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 “\*” then “0” 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 Steven. Good evening everyone and thank you for joining us on the Mahindra Logistics Limited Q4 and FY2022 earnings conference call. We have with us Mr. Rampraveen Swaminathan, MD and CEO and Mr. Yogesh Patel, CFO of the company. I hope everyone got an opportunity to go through our financial results and investor presentation uploaded on company's website and stock exchange. We will begin the call with opening remarks from the management following which we will have the forum open for a Q&A session.

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

**Rampraveen S:** Good afternoon, everyone. Thank you, Shogun. And I hope all of you and the loved ones and colleagues are keeping well and safe. And I hope you all had a chance to review our results and presentation, which are available on the stock exchanges and on our company's website.

I will start my remarks by providing a quick update on our end markets, our financial performance, some key margin improvement initiatives, and other matters of significance for the quarter.

Just broadly, in terms of markets, obviously, the supply chain and logistics sector have faced multiple challenges throughout the year. Therefore digital solutions and usage of technology has become essential. Making supply chains more robust, driving end-to-end visibility, ensuring data security and real-time product traceability, and improving government industry collaboration as we are preparing for the future. Companies like us have begun to emphasize technology to assist in determining the landed costs, enabling information sharing among all suppliers and supply chains and assisting organizations in preparing for optimum supply chain performance.

The Omicron variant was feared to be causing widespread economic damage at the start of the quarter. In the month of January, there was an increase in the number of cases and restrictions at the local and state levels across the country. However, the case counts began to decline in late February, allowing the economy to recover more quickly. More states have currently eliminated all COVID-led restrictions by the end of March, resulting in an increase in economic activity.

The increased focus in exports, rising wages, and consumer spending across all categories and the wedding season has supported the overall quarter's activity. Enterprise customers have started

implementing return-to-work programs. There have been deferral in some areas on account of wave 3, which had impacted demand. The Wave 3 has also resulted in a sharp drop in travel for an intermittent period in the quarter. However, we are seeing an improving situation post that as traffic is improving, and we have seen trip levels improving 4% to 5% week on week through the month of March and early April.

Let me now move on to the most sector-specific updates, in terms of sectors relevant to the company, and let me begin with the Auto. The Auto sector continues to witness headwinds. Passenger vehicles continue to see high demand and long waiting periods as the semiconductor availability remains a challenge, even though supply has improved marginally.

Geopolitical issues will further dent supplies and vehicle production making the waiting period even longer. The 2-wheeler segment is currently underperforming, largely due to rural distress, and it has been further dampened by an increase in vehicle ownership costs, coupled with the rising fuel costs.

Due to COVID issues, closed education institutions and the work from home trend, 3-wheeler market sizes have also declined. On the other hand, commercial vehicles have started seeing upswing due to the surge in demand and higher freight rates. The industry is witnessing headwinds due to higher fuel prices and commodity prices, demand for CVs and 2-wheelers, are seeing some volatility due to the recent movement in fuel prices. While the overall volumes have impacted, stronger growth in demand from our major customers resulted in positive growth for us during the quarter from auto markets.

Moving to Farm & Agro, Farm & Agro has been a growth driver for us in the last 2 years driven by better monsoon, increased mechanization in the background of government support programs, MSP changes and reverse migration. Recently, however, we all have witnessed a slowdown in the rural sector with inconsistency in monsoons and weaker sentiment has seen an extended slowdown beyond the usual seasonal effect. We forecast this to continue through the larger part of the year. Our business has been impacted on account of this, especially on outbound of tractors, which is a key segment for us.

E-commerce: E-commerce growth remains steady though lower than we estimated. Given the strong capacity increases, a lot of capacity increases were done post the Wave 1 of the COVID pandemic, and capacity was added in the first and mid-mile. And these capacities have still not been meaningfully utilized. Consequently, we have seen lower level of activity in terms of network expansion by the large established players. At the same time, newer participants and D2C brands are adding capacities to their network. The large interest in quick commerce is resulting in significant capacity additions as players in the segment are trying to expand reach and service levels with an expanding selection of products. While mid-mile and first-mile expansions are slow, the volume growth continues to drive growth in last-mile delivery.

Moving on to our consumer markets, durables, FMCG, pharma and so on. Obviously, due to the Omicron, led uncertainties the consumer durable sector has underperformed in the first half of

Q4 F2022. However, as the virus's impact faded over the period, the industry started gaining traction. In addition, with the anticipated above normal temperature levels and heat waves across the country during the upcoming season, we have seen increase in dealer stocking, especially on temperature control products.

The commodity prices remained high and companies have been unable to completely pass on the price increases, due to competition and inconsistent demand environments. However, the opening of commercial institutions and operations resulted in demand recovery, especially in the air conditioning space. Other categories such as dishwashers, laptops, mobile phones, microwaves continue to see steady growth. So the quarter has seen an unprecedented level of inflation, lower disposable income, which has impacted volumes, both rural and urban demand among our clients remains muted, rural impacting volume across all categories. Our major input commodities are hardly hit by inflation on a sequential basis given stress in geopolitical issues as well. We are seeing the impact of some of this across our customer base, but that has been offset by the larger amount of footfall and growth and shift from e-commerce or online channels to more physical channels during the quarter.

Moving on to Enterprise Mobility, due to the continuation of work from home policies and the additional restrictions placed by state and local government, the segment had a subdued or weak performance during the quarter. This was especially so in the month of January. However, since mid-February when restrictions started easing off, the demand scenario has been improving, and we have started seeing traction. However, as we continue to see volatility in the space, I think many companies are pushing back return to work. And most of our clients are actually on partial return to work and currently are forecasting a full recovery in H2 of the year.

Let me now comment on our consolidated financial performance for the quarter ended March 31, 2022. Revenue for Q4 FY2022 increased by 10% to Rs.1,073 Crores as compared to the corresponding quarter in the previous year. Revenue from the Supply Chain segment contributed 97% and the Enterprise Mobility segment contributed 3% with a year-on-year decline in the Mobility segment.

Gross margin for Q4 FY2022 stood at 10% compared to 9.7% in Q4FY2021, an increase of 22 base points. EBITDA for the quarter stood at Rs.61 Crores, up 20%, from Rs.51 Crores in the corresponding quarter last year.

PBT was down by 13% from Rs.16 Crores to Rs.14 Crores and correspondingly PAT was down 11% to Rs.11 Crores for the quarter. Proportion of revenues from the Mahindra Group comprised 50% for the quarter just gone by.

Let me talk a little bit more about segment performance. Revenue from Supply Chain increased from Rs.938 Crores to Rs.1,045 Crores, while the Enterprise Mobility segment revenues declined by 23% to Rs.27 Crores for the quarter. The SCM segment has seen an uptick in the growing demand in Auto, E-commerce and consumer verticals and a sectoral growth in our freight forwarding business given further cross-border logistics challenges.

Our revenue from Mahindra Group Supply Chain business increased from Rs.500.2 Crores in Q4 FY2021 to Rs.534.6 Crores in the same quarter in FY2022 of roughly 6%. Our non-M&M SCM businesses grew from Rs.438 Crores in Q4 FY2021 to Rs.511 Crores in Q4 FY2022, whereas we saw a significant recovery in Q4 FY2022 compared to Q3 FY2022. Our growth in non-auto businesses was stronger at close to 25% on a year-over-year basis.

Our warehousing and value-added services for the non-M&M SCM businesses has grown from Rs.135.2 Crores in Q4 FY2021 to Rs.206.8 Crores in Q4 FY2022 registering a growth of 53%. Our share of warehousing and value-added services in the non-M&M SCM business has reached 40% in Q4 FY2022 compared to 31% in the corresponding quarter for the prior year.

During the quarter, our focus has been on margin improvements, and I will talk about it a little bit more later. We saw positive traction on various initiatives. On the flip side, margins were impacted in the quarter by 3 factors: a slowdown in Farm volumes; decline in the gross margin in the Mobility business due to Wave 3 and lower earnings in our 2X2 joint venture, which owns and provides car carriers, services for the Auto segment. We expect that these things will kind of recover as we see volume growth in Farm and Mobility recovery in the coming quarters.

For FY2022, the Board of Directors have recommended dividend of 20% that is Rs. 2 per share, subject to the approval of shareholders at the ensuing AGM.

Let me also comment on a few specific areas before I open up for further comments, and I believe it is margin improvement. Last quarter, we had outlined some areas which have impacted margins. During the quarter, we implemented our recovery programs on manpower, cost inflation and productivity, capacity utilization, etc remain at normative levels.

The Bajaj project implementation is scheduled to be completed fully through Q1 of FY2023. It is largely on track. There is a margin delay on account of the pandemic. We have optimization programs, but we expect to be pretty much be on track on the program.

During the current quarter, we also announced the acquisition of ZipZap Logistics, a last-mile services provider under the brand, Whizzard. Whizzard has a strong presence in Tier 2 and Tier 3 cities, commerce and multi-fulfillment capabilities and a full technology stack, which will benefit our existing last-mile delivery business and the EDel, electric vehicle business.

Whizzard has access to over 10,000 pin codes, presence in more than 400-plus Tier 2, Tier 3, and Tier 4 towns, at 25-plus metros and cities, and it processes daily orders of close to 4 lakh packages and can have data worth of 200 micro distribution centers. We see this as a very strong synergistic fit as we try to build more capabilities to serve a growing last-mile delivery space. And the combination of our footprint and capabilities we think will drive better synergy, stronger client acquisition and increased growth.

Another acquisition we announced in FY2022 was the acquisition of Meru. The acquisition will be an important part of our vehicles business as services offering. We include the airport traffic

handling and on-call services. We believe that the combined expertise of both our businesses will allow us to provide B2C and B2B customers the better and wider range of services that is delivered on MLL's promise of safety, customer satisfaction, and long-term sustainability. Along with the acquisition, we will get access to more than 300 electric vehicles, which is an important complement to our fleet and our broader objective on electrifying the last mile. Meru ended FY2022 with annualized loss of approximately Rs.20 Crores. In the month of March, the company's performance has been improving through the year. And in March FY2022, the company achieved EBITDA breakeven. With opening of the economy and airport travel, we expect a significant increase in the business of Meru, and therefore, much lower levels of losses in the company financial fiscal year.

We also expect operational synergies and technology synergies between the Alyte and EDel businesses, which have set up for a stronger position in the Mobility sector overall. We also continue to make strong progress on sustainability and the year gone by, we met our improvement targets based on the SBTi metrics, which we follow. In the year gone by we grew 40,000 trees. Our EDel business has now completed to over 7 million clean kilometers. And in March FY2022, we launched a net-zero warehousing BTS in Pune, which is energy neutral.

As we move forward, I think we remain focused on the growth drivers, which we have talked about earlier. Our core 3PL business is really focused on creating integrated solutions for customers, especially to the wide degree of services. We are equally focused on growing our network services, transportation offerings, including freight forwarding, express business, B2B, last-mile delivery, EV cargo. Through the year, we expect to continue to drive technology investments and improve scalability in our business as we look at growing these segments in the year ahead of us.

With that, I will open the floor for questions and answers.

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from the line of Sumit Kishore from Axis Capital.

**Sumit Kishore:** Good to see the improvement in margins on a sequential basis in the fourth quarter. I have 3 questions. The first one is, could you please break up the SCM business topline into core 3PL and network services for FY2022 and also for FY2022, if you could break up network services into freight forwarding, B2B express and last-mile delivery? So what growth has each of these seen in FY2022? And what is the outlook?

**Rampraveen S:** Yes. So Sumit, I am sorry, I could not fully catch the question and will answer it directionally. So I think our collective network services business includes for everyone's benefit, let me just encapsulate that freight forwarding, B2B express, last-mile delivery and our electric vehicle cargo business. I guess, we closed the year at maybe Rs.860 Crores, which would approximately be close to 22% of our overall supply chain revenues, right? Obviously, the freight forwarding business has been the largest part of that, supplemented by the other segments. Assuming that

excludes any impact of the Whizzard because obviously with the logistic service acquisition will be financially accretive included in this financial year. Okay?

In terms of going forward outlook, I think it was the part of the question, if I got it, Sumit, I think we have said it earlier, we do expect strong growth, right, in these segments. We have obviously invested in building our own capability in these businesses, but also we are looking at inorganic opportunities to further accelerate growth, right? So if you look at the forwarding business, I think in the last 2, 3 years, we completed acquisition of partner shares, JV partner shares in the business, we have been able to drive strong growth at revenue and margin levels driving synergy. I think similarly with the acquisition of Whizzard, I think we are significantly adding to our capabilities in last-mile delivery and further positioning for strong growth.

In the electric vehicle cargo, we are close to 700 vehicles now. We continue to be committed to our long-term regime from 3,000 vehicles, a combination of both 3-wheeler and 4-wheeler over the next 2 to 3 years, right? And obviously, on B2B Express, we continue to see a 30%, 35% annualized growth. We did have slightly slower growth in Q4 FY2022, right, given some of the pandemic kind of trends which we saw, and there were some disruptions in operations, but we expect to sustain that kind of growth as we go forward as well.

**Sumit Kishore:** Got it. Out of the Rs.860 Crores, how much was freight forwarding in FY2022?

**Rampraveen S:** I think freight forwarding was around Rs.450 Crores, Yogesh has got the accurate numbers, so it is up to that Rs.450 Crores is the freight forwarding number. And the rest of it is kind of split halfway between last-mile delivery and SMB, and our express business.

**Sumit Kishore:** Got it. My second question is, could you quantify the drag of Bajaj Electrical start-up costs on Q4 margins? And directionally, is that impact going to be higher or lower in Q1 FY2023?

**Rampraveen S:** I mean, it is hard to put one number out, I would say, Sumit. But clearly, I think if you look I think if you see our warehousing margins, I think they have been lower, right? Warehousing solution margins have been lower because of the start-up costs. Some of it is continuing, gets offset by the volume growth which you are seeing, right? I come up with specifically the longer duration Bajaj program. But I still stand right now, as I said earlier, Sumit, we expect either the transition of the entire network already happened in Q3 of FY2022. As you may remember, Sumit, we had said that we require roughly 6 months to optimize the entire network, we are halfway there and we feel well positioned to close that by the end of Q1. There might be some minor delay because of the Wave 3 kind of issues, but we expect largely that we should be able to get it under control pretty well.

**Sumit Kishore:** Okay. So directionally, the impact of Bajaj Electrical is going to be lower in Q1 FY2023 as compared to Q4?

**Rampraveen S:** May be lower in Q2 FY2023 compared to Q4.



- Sumit Kishore:** Got it. All right. Finally, just a data question for Meru, if you could spill out the revenue, EBITDA, and profit for FY2022 and Q4? And what is the progress in closure of the deal?
- Rampraveen S:** Maybe I take the last one and hand it to Yogesh to answer the rest, but we expect closing -- we are targeting to close that transaction through the middle of this quarter, right? But Yogesh, do you have any specific number or would you like to respond offline?
- Yogesh Patel:** Yes. So for the numbers as Meru concludes its financials and publishes this, I mean, given the audit cycles in the way, I think we will put that out once reporting cycle is done. I think it will also time along with the closure cycles, which Ram just mentioned, closure of the transaction and kind of come together.
- Moderator:** Thank you. The next question is from the line of Pranay Roop Chatterjee from Burman Capital. Please go ahead.
- Pranay R Chatterjee:** I had 3 questions. Firstly, on warehousing yield, right, if I compare your FY 2022 warehousing yield versus FY 2021, it has increased by 40%, right? So what I want to understand is, again, it is logical to assume that it is primarily being driven by a change in mix because your total square feet is 17.5 million square feet for both the years. So my first question regarding this is the mix, the only thing that has caused this yield expansion? Number one and number two, how has the mix of your non-stockyard space changed? And when I say mix in that, I mean the part where you lease it versus the space where the customer leases it and you just manage it?
- Rampraveen S:** Sure. So firstly, I think as far as the warehousing yields are concerned, I think if you look at this one big change is in mix change between stockyards and operating facilities. While the total number has remained the same, I think you will see that warehousing capacity itself, non-stockyard capacity has actually gone up by close to 22% during the year. So that is the first big change, which is there because obviously, our yields are much higher than we actually do in non-stockyard operations.
- The second thing which is there is, I think as you pointed out, our stores and linefeed of customer-provided warehousing facilities have been coming down. During the year, we actually added 2.3 million square feet of managed facilities, adding facilities which we fully rented out so almost the entire growth which you have seen has actually come through that. And in fact, there has been a reduction in stores and linefeed space as well. So that is the second thing because typically, when we provide the entire solution as a whole, our yields are much better.
- The third thing, which I think is happening is that, on a year-on-year basis, is the kind of work which we are doing is becoming obviously sharper and higher in terms of lead and complexity, right? We are doing favor of pure storage-based solution we are actually doing more of processing work inside those facilities, right? And if you look at the investor deck and you will see some of the photographs which are there on Slide 14, I think you will see that the operations are also changing from plain vanilla storage-based kind of places to actually doing more internal piece, box-in piece-out, internal sortation floors, systems and so on. So it is 3 layers, it is a

stockyard versus warehousing mix change, it is the mix change the customer-provided and company-owned, company its own provided, and it is the quality and the nature of the solution we are providing from the warehouse. So it is a combination of all 3. I do not have the exact split on the second, and the third one. If it is more of interest to you, we can probably reach out to offline and provide you the detail.

**Pranay R Chatterjee:** Got it. Excellent answer. Just quickly moving on this is regarding the lease payments, right, in our reported financials, in your cash flow statement, there is this line item called financial lease obligations under cash flow from financing. And what I noticed was, there was a very quick ramp-up in the second half of this year. So if I compare the annual numbers, your FY2022 number is 57% higher than FY2021. And if I want to benchmark this, the relevant number would be your non-stockyard space, let us say, which as you pointed out, were grown by around 21%, 22%. So how can we bridge this delta? How can we expand this delta in your lease payments going up by around 57%, whereas your non-stockyard space has gone up by only 21%?

**Yogesh Patel:** Pranay, Yogesh here. So firstly, what number you are comparing for previous year would not be for a full year number. Since certain warehouses, we would have taken on board in FY2021 itself over the third quarter, fourth quarter. Only a quarter or 6 months, I mean, a proportionate charge would be there, the entire 12 months will be there in FY2022.

**Pranay R Chatterjee:** So if I understand you correctly, you are saying that comparable FY2021 number is actually not comparable because it is not an annual sort of figure?

**Yogesh Patel:** It is not an apple-to-apple from that perspective. Second data point was also just to explain why is it not again comparable is because, as you know, certain warehouses, what we had earlier was, we still continue to have some of the engagement as customer owned and leased warehouses which we operate, which is part of that space. So that piece also, it would not be I mean, those do not have rental costs at all, right, in a practical way. So you would not be again able to say that, this is the percentage increase so in basis if I would have a normal warehouses would be Mahindra Logistics leased and provided, we would have seen a disproportionate increase from that perspective.

**Rampraveen S:** Pranay, just coming on this, this is Ram here, right. So, in addition to the two points Yogesh pointed, I think if you compare, obviously, and in fact, we are obviously moving all the newer assets are Grade A facilities, which are of a much higher stake, right, and construction costs have also increased in the last 2 years because of all the commodity pressures. And therefore, some of these facilities are also at a higher point than some of the historical facilities. So your trailing average is not necessarily the same price at which you contract with the newer capacities.

**Pranay R Chatterjee:** Okay. And if I look at your EBITDA and gross margin numbers in this quarter, right, 10%, as you said and then 5.1% for EBITDA. Is there any one-offs in this 5.1% because from what I understand and from what your commentary, something on the other has been affecting your margins in the last, say, 7, 8 quarters. So is this 5.1% the closest to the normalized that we can see, according to you?

- Yogesh Patel:** There have not been any one-offs. I mean, these are all business operations related performance for the quarter.
- Pranay R Chatterjee:** Got it. In continuation with this, and this is my last question. You said that you have done a bunch of things, and you would be discussing that to expand your margins in this quarter. If you could just throw some light on what are those strategies?
- Rampraveen S:** Pranay, I think, it is what we explained at the end of last quarter, I think we had said we are going to pick something, right? Or we have explained why we thought margins would impact in the quarter. And we have specifically called out 3 big levers, the big levers. First one was ongoing projects, which continues to be something which we will not see a full benefit of. I think the Bajaj project Q2 of this year.
- The second thing I talked about was finally at the facility utilization in our existing facilities, like in lieu of the demand environment. And I think that's something which we have done. We've optimized our capacity.
- Okay. I will try again. The third thing we had talked about was the fact that we had either significant challenges on our manpower availability and inflation during the quarter, especially programs and productivity improving programs. I think what we really did during the quarter was at least 2 things, right? We focus on increasing our existing market programs faster and are getting better at it. We have optimized a lot of our productivity on our workforce, especially our contract workforce, and we obviously optimized our footprint better as well. So you will see in the quarter, we did not hire a lot of capacity on warehousing. We actually did adding volume largely for optimizing this. But those were the 3 things we are still focused on.
- Pranay R Chatterjee:** Thanks a lot. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Krupashankar NJ from Spark Capital. Please go ahead.
- Krupashankar NJ:** Thanks for the opportunity. I think you have answered most of the questions which I have wanted to post, but one thing which I wanted to understand better was on the warehousing side of things. So you did highlight the fact that the mix of stockyard business in that operating warehouse has changed significantly. And then also, your stores and linefeed has come up. And in addition to this, you are also seeing that higher competition in warehousing in arose. So all this directionally should have resulted in your overall SCM EBITDA margin at least moving substantially upwards from what you had seen in FY2020 or FY2021 level. So is it fair to say that the performance what you are seeing right now on the Supply Chain segment margins, it should look if or the scale improves quite substantially. You can look at compared to FY2020 SCM margin is about 8-odd percent. It should be far more higher than that in FY2023, FY2024. Is that a right way of looking at it?

**Rampraveen S:** So I would not give a guidance, Krupa. I think what you have consistently said, obviously, is that, as we increase complexity, we will actually see an entitlement to better margins, right? And that has been the underlying factor between the 25 to 30 bps kind of guidance we have given in the past on gross margin improvement. And therefore, I think that thesis is still something which we hold by it, Krupa, right?

Now, as you do more complex facilities, obviously, you have longer optimization windows to get to steady state earnings and then you see further improvement after that as the tailings of the contract. So, obviously, over a period of time, we expect most of our newer sites to actually be operating at much higher margin levels, right? And so, to that extent, I think, Krupa, your directional hypothesis is actually correct.

About time stamping exactly where 2023, FY2024, I think probably that has a good window when we expect to actually see most of our projects, right, hit a purple patch in terms of margins somewhere between your months 24 and month 36. Right? So some of those capacity adds we have done in the last 12 to 18 months should start hitting that zone by that time, Krupa.

**Krupashankar NJ:** My second question you did highlight that there was an impact from margins because of the JV, the car carriers business. I could not hear it properly. What was the challenge out there?

**Rampraveen S:** No. So, as you know, I think we do have a joint venture, a company called 2X2 Logistics, which actually provides outbound services for automobiles, right? And that actually is an assetized business where we actually own our own car carriers. These are outfitted trailers, which carry cars, right? And through these years, that business has had challenges because of the 2 reasons. One is volatility in demand patterns as remained substantial downtime, that something which has been challenged to the entire industry on car carriers. The second challenge, obviously, has been that there has been the volatility in fuel prices because the assetized businesses do not carry the same frequency of reset clauses, which we contract with, right? So they have actually had a higher impact of fuel. I think for the full year, the business actually, if I am not wrong, and Yogesh, please correct me, but I think had a PAT of negative Rs. 6 Crores in that range, right? And so, that was a challenge and that was another challenge in the fourth quarter as well, right?

Now, going forward, Krupa, obviously, as the market recovers, we expect to actually see a better flow through across that business. And obviously, some of the fuel price increases will come into the whole industry on car carriers, and that will be a benefit for the company as well.

**Krupashankar NJ:** Got it. And one more question which I wanted to ask is that, so this broadly explains, I suppose, the subsidiary EBITDA margin. So now clearly, in the fourth quarter, that number had declined sharply. And that has entirely because of 2X2, I'm assuming. So, I guess, margins in this freight forwarding?

**Rampraveen S:** Margins in freight forwarding actually are pretty robust. I think there are obviously some quarterly changes but overall, at a secular level for the year, EBITDA margins freight forwarding were actually 5.5%. They're up from 3.9% last year. And so, the forwarding business actually has

been a strong driver, strong revenue, and earnings improvement. On a full-year basis, PAT actually grew from Rs. 6.5 Crores to Rs. 16 Crores for Lords. So from a subsidiary perspective, Lords, 2X2 our subsidiary or joint venture perspective, Lords, 2X2 and Transtech actually did fairly okay in fourth quarter and the full year. 2X2 had an operating environment challenge, which, as you know, has been an overhang on the entire auto industry, and that has kind of loss.

**Krupashankar NJ:** And last question from my side on e-commerce set of things. I am sorry, Ram, your voice is not that clear, when you were explaining on the e-commerce set of things. Could you explain again what are the steps taken on e-commerce side with respect to facility utilization? I could not quite catch what you are trying to express out there?

**Rampraveen S:** Okay. I cannot give you specific steps because, obviously, there are a lot of our clients we have engaged. But what we have really done, as I said, is that we have optimized a lot of our footprint, so we can do multiple products or categories from the same footprint and avoid actually creating new capacity in the facilities. So it is actually a tactical direction. As far as specific things those are confidential and clients specific.

**Krupashankar NJ:** I understand. So what I was looking forward to hear from you was that, added to the fact in the last quarter that the flex warehousing business is not as profitable as one would have expected and the opportunity. So is it more likely that the extent of participation of Mahindra Logistics in the flex warehousing would come off over the longer-term or in FY2023 or perhaps FY FY2024?

**Rampraveen S:** So, Krupa, I think what I specifically mentioned last quarter was that because of the increases in manpower costs, the sharp increase in manpower costs, our flex operations in the festive season this year were impacted. So typically flex operations, Krupa, carry on or more manually intensive than perms. Perm sites actually carrying more mechanization and automation. Flexes do not. And therefore, they are more sensitive to manpower cost. So this year, what happened was that, given the volatility from a manpower perspective, Krupa, especially in our sites in the South, we did, obviously, see an aberration. But that has kind of what we feel confident we have got under control. So as a business model, I think flex will remain an active part of our solution portfolio. In fact, this year, given the slowdown, which has been there in the early half of the year in e-com, if volumes do come back more strongly, we may see even more flexes.

**Krupashankar NJ:** Thanks a lot for answering my question. I will get back in the queue.

**Moderator:** Thank you. The next question is from the line of Damodaran from Equitas Capital. Please go ahead.

**Damodaran:** Thanks for the opportunity. My question is actually very similar to Krupa's. So if you look at the last 4 years the mix has actually improved within the SCM business by almost around 10 percentage points in favor of warehousing. But when you look at margins, it is actually gone the other way. So while you did highlight a lot of it in the last Q3 call, but I was wondering why I mean, on a 4-year specification cap margins have come down. So, yes, I mean, that was one question. And related to that, I mean, how do you look at margins going forward? So should we

track mix as a component for margin change because the understanding is that, warehousing obviously, has a better margin profile since that has not played out in the last 4 years, will margins purely be driven by volumes or will it be pricing? So I just wanted to get thoughts on that.

**Rampraveen S:**

Sure. Good question. I think there are a couple of things, Damodaran. I will probably answer them directionally. I think one when you look at the overall SCM blend, I think the hypothesis is, obviously, if you take a 400 BPS difference, the 500 BPS difference between warehousing-based solutions and transportation, you are looking at roughly a 50 BPS blended average improvement, right, of a 10% swing. But assuming that there has been no impact on the transportation side of the business so what has really happened for us if you really look at there has been a couple of things, I think the fact that fundamentally has remained constant number, right? What has happened for us, obviously, is the transportation side of the business has seen some headwinds, right, over the 3- or 4-year period especially as auto volumes have come down, right? And that has been an impact.

The second thing, which has obviously happened, has been in the more recent past, especially the last couple of quarters has been the things we already talked about in the last 2, 3 quarters as we try to grow up the warehousing business sharply and the solutions business sharply, we have more projects which are going up to start up. To put this in context, I think today, our warehousing and solutions business is close to Rs.1,000 Crores, right, for FY2022 and is probably higher on a run rate basis, right? So, obviously, that sharp growth means we are opening more sites, we are opening more sites, we are starting up more locations. And that has had some period impact on our numbers in addition to the factors I already talked about in Q3.

So I think you like what we said earlier, Damodaran is that, as we see that blend, overall the warehousing business getting to a larger share, those benefits have become far more enduring. But the thesis or the direction towards, right? We can actually if you do reach out to us probably, especially both Yogesh and our Investor Relations team, we can actually map this out for you more specific on a year-on-year basis to show that play now.

**Damodaran:**

Sure. I will do that. So, I mean so the second part of the question. So what should be the key focus? I mean, what should we track for I mean, looking at margins improvement? So will it be volumes or pricing on the current juncture?

**Rampraveen S:**

No. See, Damodaran, yes, it is 3, 4 things. Yes, obviously, one is volumes, right? The second one is mix, right? Both of those should actually have positive EBITDA movements, right? Our network services business as they start maturing will actually carry slightly higher EBITDA in the 3PL business. So there is a mix in terms of mix change overall there is a mix between in terms of 3PL of warehousing to transportation-based services. So both those mix effects should actually increase in EBITDA growth. And then as volume also will show better leverage from an overhead perspective, right?

The last thing I would say, Damodaran, is that, in the last couple of years, with the change in accounting standard and the capacity we have been adding, we have had a period and front-loaded period impact of AS 116. As capacity matures, that impact should also start coming down, and that will actually be accretive to us.

**Moderator:** Thank you. The next question is from the line of Depesh from Equirus. Please go ahead.

**Depesh:** Thanks for taking my questions. Sir, the freight forwarding business has done very well this year. I think they have grown by 48% to 50%. So can you give a breakup of what is the volume growth and the pricing growth? And how do you think about the pricing and margins going ahead in this business?

**Rampraveen S:** Depesh, great question and thank you for the interest in the forwarding business. So I think overall, if you look at it, there are 3 parts which are driving growth. The first one, I think, has been the mix change in the product category. So, as you know, in our forwarding business, we provide air and ocean, both of those. And I think one thing which has happened has been the mix change to more ocean compared to air, right? And that has been a positive trend line in terms of pricing.

The second change, obviously, has been broad pricing increases because of the current global cross-border issues which are there, right? And that has the second part of the change. And the third part, obviously, has been volume growth. I think overall, if I just look at PEU growth, Depesh, if that has kind of the proxy you are looking for, it is roughly close to double digits on a year-on-year basis on ocean right? So that has kind of volume growth, which we are seeing, right? The realization growth, as I said, is a function of the mix change and the lane change we have. We are doing more volume towards the Western Hemisphere across the Atlantic to the U.S. and South America and so we are obviously seeing better lane rates because of that as well, right so those 3, 4 things, Depesh, which together are driving growth.

If you look at what we see an outlook in the business, maybe we talk about 2 things, Depesh, the first one is volume outlook. So the focus on expanding services, service coverage in the forwarding business, and the way we are doing that is by doing couple of things. First one, obviously, is we are expanding towards our charter services offerings, so we can actually get back more aggressive growth on the air side. On the Ocean side, we are also now investing a lot more in expanding names and connection. So not just doing India or it is not India domestic, Depesh, but also looking at more international names as well. And therefore, it will require investment by us in expanding our international operations, right, to cover that, but that has something which we are looking at doing, right? So that should be something which will drive our volume growth because that has something we should remain focused on.

From a pricing perspective, I think in the near term, we do not expect a huge amount of softening, right, in the price. Given the way the pandemic is going across the world, right, we are actually not seeing any short-term reduction, right, or significant reduction in pricing, right? And that has something which we think the outlook will remain reasonably stable. There might be

some downside pressure on pricing, but there is going to be pressure on margins in the short- to medium-term.

**Depesh:** Sir, can you also give a breakup that how much of this freight forwarding business is for your anchor customer and how much is for others?

**Rampraveen S:** So the forwarding business does not have an anchor customer. So the largest customer we have is probably around 5%.

**Depesh:** Okay. Got it. Sir, lastly, the non-Mahindra transportation revenue is flattish Y-o-Y and is lower if I look at for the last couple of quarters. So just wanted to check if there is any loss of contract or any existing contracts have just slowed down?

**Rampraveen S:** No. It is just a slowdown effect to be honest. I mean, Depesh, I mean, we do not see any churn in our account base, I mean, what has happened, as you know, is that I think I mentioned to you that we are slightly slower growth in express this quarter because of the pandemic and some disruption operations on account of that. But fundamentally, there has been no real change in the non-M&M SCM transportation revenue as such. I mean, our accounts are still the same. We obviously have seen lower volume movement because of the way the market have been.

**Depesh:** Sir, lastly, basically, the Bajaj electrical contract was till now one-off kind of a contract. So any similar contracts are you in talks? Or do you think the industry is actually moving towards that kind of outsourcing that this company has done with you?

**Rampraveen S:** Absolutely. Depesh, the fundamental interest, a lot of our clients are very interested in actually saying that they just want to focus on what they are good at and not necessarily try to manage a whole bunch of other parts of their business, right? So the interest in actually being integrated logistics, I think, is very, very high from our clients, right? And even higher, I think, for end-to-end kind of logistics operations.

That said, I think what is important, what we also feel is that, while we are expanding our solutions business, we also want to be sure that we are building strong playbooks. The value proposition on this, I think, providing clients with highly customized with the integrated supply chain, which combines people, technology, and process, right, across the 6 to 7 different forms of logistics services is incredibly powerful once we execute it really well, right? So from our perspective, I think we have actually taken a call that we are going to kind of slow down the pure end-to-end integrated logistics because of the environment of volatility which is there right now. I mean, one of the challenges you might strategize is that we have a very volatile environment right now in terms of fuel, in terms of manpower costs, right, and even in terms of hyperlocal demand patterns are highly variable. So given that we have actually kind of we are trying to break down and avoid doing end-to-end logistics, but actually want the clients do this in smaller chunks.

**Depesh:** Thank you. All the best.



**Moderator:** Thank you. The next question is from the line of Alok Deora from Motilal Oswal. Please go ahead.

**Alok Deora:** Good evening Sir. Congratulations on good numbers and improvement in margins. So, Sir, most of the questions, they have been answered. Just on the margin front, I just wanted to dwell a little bit deeper. So, even though margins have seen good improvement despite the start-up costs related to the Bajaj contract. So how do we see that shaping up? Like are we done with those kind of costs? Or so would this margin improvement sustain in first and second quarter also because in the past, we have seen a little volatility on the margin side. So I just wanted to have your view on that.

**Rampraveen S:** No, sure. So Alok, I think if you go back to the last 12 quarters, I think we clearly had 3 big wins from a margin volatility perspective. The first one to remind all of us was in Q3 of FY2019-2020, which was around the automotive slowdown, which are a substantial kind of headwind on our business. The second, obviously, was the COVID impact, which I think we actually bounced back from that fairly well till obviously, we had the impacts during Q3, which we had said the period impact, excluding the start-up costs, right? So as things stand today, I think the period impacts have been resolved, Alok, right? And therefore, we think we are back to normative earnings on the rest of the business with the exception of the start-up costs.

In fact, I think earnings have been unfavorably impacted during this quarter by 2X2 and the Enterprise Mobility business' margin decline. Sans those, I think we are seeing even probably even there will be a margin performance, right? So we expect that to secularly be visible to be operated going forward. The Bajaj account, which is a larger part of the start-up cost, which we talk about that, I think, as I said earlier, was always designed as a longer-term optimization, impacted obviously, and extended by COVID, but we expect to get that completed in terms by end of Q1 this year.

**Alok Deora:** Sure. And also, Sir, on the diesel price move, which we have seen. So have we taken any price hikes? Because what we understand is some of the other industry players that price hikes have not been really taken to focus on the volumes because April has been relatively soft as compared to the fourth quarter?

**Rampraveen S:** Yes. So I think, Alok, it depends on how contracting happens. Typically for us with a 3PL asset-light model, we essentially have fuel-linked resets, which are there in our contract. So the resets work upwards and downwards. If prices go up, then we actually reset it the upwards for our clients. If prices go down, we obviously, they get the benefit. So thus far, I think we have been pretty tight on ensuring the resets go through, right? Alok, we really been pretty disciplined about that, especially in the last couple of quarters in ensuring the go through. So our customers, I think, are struggling with fuel price, right? I think it is not just a volume issue. Even supply chain costs are going up for many of our clients, given I mean, transportation still is the larger part of people's logistics costs, right? And so, the sharp increase in fuel is putting significant earnings pressure on our clients and so, there is obviously a lot of pushback, obviously, from customers to

optimize the network faster, not to allow the pass-through. But thus far, we have ensured that we are doing the increases on our contracts as per the reset clauses.

**Alok Deora:** Sure. So we have kind of taken the increase wherever...

**Rampraveen S:** Yes, we have taken the price up to offset the cost increase.

**Alok Deora:** Sure. Just one last question from my side Sir, as you are mentioning that this 5% margin, which we have managed in the fourth quarter could have also been higher but due to some reasons, it was at these levels. So I know we do not really give guidance. But in FY2023, the margins could be marginally better than this for the full year? Yes. Sir, so this is the last question, which I had. So, sir, as you had mentioned that the margins this quarter could have been even better than what we have reported, but due to certain one-offs, that was at these levels. So in FY2023, we could see margins in the 5% to 5.5% sort of range for the full year?

**Rampraveen S:** So, Alok, as I said, we do not give guidance. But from an overall business perspective, we do expect to sustain first our volume growth coming both on the automotive side, we expect that the second half will show a strong correction, upwards. So that has something which we are gearing up to serve and on the non-auto businesses, we continue to be focused on adding increased growth, right?

I think this year is going to be kind of slightly different curve. I think the first half is going to be a bit more muted given all the uncertainty and some of the commodity pressures and oil pressures we talked about, but we are out looking for a strong second half, right? I think all our end markets will get into better places by then. And we are obviously hoping to sustain the margin performance and improvements we have done, if not, get better ahead.

**Alok Deora:** I think that is all from my side. Thank you and all the best Sir.

**Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

**Kunal Bhatia:** Thanks for the opportunity. Sir, I just had one question. You did mention that the difference between a warehousing and transportation business margin could be about 400 basis points. Is that correct?

**Rampraveen S:** Yes, in general, I think what we have said is, in the past, Kunal, is that transportation index across clients is probably around 7% essentially our FTL transportation business, full truckload transportation business and warehousing is normally in the early to mid-teens.

**Kunal Bhatia:** Okay. All right, Sir. I just had that clarification.

**Rampraveen S:** Kunal, please do reach out to our Investor Relations team and Yogesh, and happy to provide you more insight into that.

**Moderator:** Thank you. Ladies and gentlemen, we take the last question for the day from the line of Krupashankar NJ from Spark Capital. Please go ahead.

**Krupashankar NJ:** Thanks for the opportunity again. Just one long-term question, Ram what I wanted to understand is that we have been adding a lot of centers from FY 2017-2018 onwards. So back then, we had this decision saying that as the contract matures, you would gain a higher wallet share. Just wanted to check if you were able to quantify the extent of wallet share gains we have seen over this period?

**Rampraveen S:** Yes. I think if you really look at it, Krupa, just to give you a sense, I mean, let us just take a step back. I think if you look at it we closed the year at Rs.4,100 Crores, approximately, right, Rs.4,083 Crores. Our M&M businesses are still 15% lower than what they were at peak in 2018-2019, right? And the Mobility business has fell down 60% compared to the past, right? So really, our non-M&M SCM businesses have probably seen Rs. 700 Crores to Rs. 800 Crores swing in terms of revenue over basically 30 months.

Now, you index further the fact that we as you know, at the end of 2019 and early part of 2019, 2020 is kind of a conclusion of what actually happened at the end of 2019, we essentially saw a significant reduction in 1 large transportation customer, which we had high volumes of in 2018-2019, that number actually got even larger, right? So, obviously, a lot of that has come from our ability to extract more coverage from existing clients, right? Obviously, a fair amount of that come from new clients as well, right? I will probably say it is 60%, 40%. 60% from new clients, but 40% from existing clients as well, right? Now that growth has come in multiple ways. It has been cross-selling from newer services like freight forwarding, like last-mile delivery, whether it is express, it is cross-selling into our existing client base. It is also just picking up more share of sites, more transportation lanes, right, with existing clients. So that has probably been 40% of our growth, Krupa, 45%. 55% has been purely new client additions, right? But that has kind of just to give a sense of, I think, either that directionally cater of answers what you are trying to ask, but I would just say from that stress some data points to help you frame that.

**Krupashankar NJ:** Got it. This is really helpful. And one last question on the industry per se. You are seeing that a lot of these warehouse facilities are coming up. And still the rentals are increasing. I mean, are you saying that you will eventually see that the rental in these locations will plateau out and perhaps that can put a pressure on REs, is that a likelihood?

**Rampraveen S:** So, Krupa, I think it is a mixed bag. I think first, I think what is increasing rentals is a few things, at 60% of demand is still in top 8 cities and those cities, I think adds are roughly equal to demand. So I do not think seeing a big shift, right, in terms of supply exceeding demand there.

The second thing, which I think is increasing yields, of course, is just a sharp increase in cost of construction. I mean, if you just see what is happening in oil and commodities, all that also blends into construction cost right? And so, I think I do not see a medium-term change in prices really on warehousing. As I said, Grade A high-end large box capacity is still not excessive in

large cities, in the top 8 locations, Krupa. And I think given the construction costs being where they are, right, we do not really think it is going to be a significant change.

The third thing, obviously, is liquidity will probably tighten. That tightens I mean, is that impacts the amount of funds which flow into commercial or industrial kind of grade, the real estate versus the housing kind of real estate, right? So given those 3, 4 parameters, I do not see a substantial supply glut as we say, okay? That is one.

The second thing, which is there is, look, we have contracted a fair amount of capacity, as you know, in the last couple of years. We are adding in the last 2, 3 years, we have added 2 million, 2.5 million square feet a year. This year, we just added 2.3 million square feet and with the larger BTS formats, we are actually locking in pricing for 5 to 10 years, right? And so, we think that has actually one of the reasons why we are doing that. It is we are playing for the long ball here, right? We are not doing this play for the over. We are playing for the match, right? And so, we think that strategy also provides us protection from that long-term inflationary trend for us.

**Moderator:** Ladies and gentlemen, in the interest of time, that was the last question. I now hand the conference over to Ram, Sir, for closing comments. Over to you!

**Rampraveen S:** Thank you, everyone. I hope we have been able to answer all your questions satisfactorily. However, should you need any further clarifications or you may want to know more about the company, please free to contact our Investor Relations team, SGA, or our own team. Thank you, once again, for taking the time to join us on the call and for your interest in the company. Stay safe and take care. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Mahindra Logistics Limited that concludes this conference. We thank you all for joining us. You may now disconnect your lines.