Maheshwari Logistics Limited

Moving Every Mile With A Smile

SYMBOL: MAHESHWARI **ISIN: INE263W01010**

Date: 15.10.2019

To
The Manager-Listing Department
The National Stock Exchange of India Limited
Exchange Plaza, NSE Building,
Bandra kurla Complex,
Bandra East,
Mumbai-400051.

Subject: Conference Call Transcript.

Dear Sir/Madam,

Please find attached Copy of the Conference Call transcripts in respect of Maheshwari Logistics Limited dated October 05, 2019.

This is for your information and records.

Yours truly,
For **Maheshwari Logistics Limited**

MAHESHWARI LOGISTICS LTD. VAPI

Paresh Raiyani
Company Secretary &
Compliance Officer

Maheshwari Logistic Limited

"Maheshwari Q1 FY20 Analyst Meet"

October, 5 2019

Management: Mr. Varun Krishnavtar Kabra - Managing Director

Analyst:

Good afternoon sir, I Manali Bhatia senior research analyst from Rudra shares welcomes you to the analyst discussion. Our team member Rashmi Jain will also be joining us. Sir first of all congratulation for good set of numbers & now kindly please brief upon the financial result of Q-1 F.Y-20 and business updates.

Varun Kabra:

Thank you very much. I'll just give you a brief about the company so our company has three lines of business which is logistics paper manufacturing and coal imports and trading. So just to brief you in each segment, under logistics we have our own fleet of hundred plus trucks and the third party association of more than 5000 trucks. And we are mainly focused on transporting fuel related cargo to major cement industry that is based in Rajasthan. And last year we have also started operations in Karnataka in the city of Mangalore where also we are catering to the cement industry.

Speaking about paper, we are engaged in manufacturing 100% recycled paper which is mainly used in packaging industry in order to lower the current cost, raw material cost and to establish a consistency in supply. We have also set up collection centres of waste paper which is basically a raw material for us and for any excess procurement that we do we sell it off to any other paper manufactures which is in the nearby areas.

About coal we are importing non coking coal which is majorly from Indonesia and supplying it to various industries which is required by them for power generation since coal is the cheapest source of energy I mean out of any other available options.
So the demand for which is definitely going to grow in the near future. Also we are the authorized dealers of Nayara Energy Limited which was previously known as the ESSAR oil Ltd for the petroleum coke which is again used as a fuel in various industries. Speaking about the Q1 results that you asked, our revenue was around 223 crores.
However our Profit before Tax (PBT) rose by 47 percent from 5.4 Crore to 7.9 Crore & our PAT margins were also good. I mean last year for the same quarter we had 1.63 percent and this year we had nearly 2.28 percent which is about 5.1 crores and EPS stands at Rs 3.43 per share roughly about that.
So that from my side about the brief of the company. Now you may please open up for questions.

Analyst:

Our first question is like there is an item which is stated in P&L which is as expense that is operational expense relating to provision of services. So kindly throw light on the same & what is that related to?

Varun Kabra:

Well, that expense is related to the logistics business of the company.

Analyst:

Ok Sir. In Q-1 like we saw decline in segmental revenue from logistics business & if comparing with F.Y-19, the revenue generated from logistics business jumped 68%, if you compare year on year. So why there is so much fluctuation in revenue on that side?

Varun Kabra:

This fluctuation is not something that has happened often. I mean Q-1 we had started a trail business which was a pilot project with one of the start-up logistics player blackbuck, so in that we generated revenue & witnessed the jump in logistics business. But eventually the business had

very low margin & say like no margin at the operational margin level. So, our net profit was impacting because of it therefore we exited the

business & the revenue from such segment decline. So, if we exclude the blackbuck part there is no decline in the revenue & still we have grown like 10% approximately. However, the bottom line of the logistics business remains unaffected as we are not generating profit from blackbuck business.

Analyst:

Ok, so can you tell us how many months business lasted with blackbuck?

Varun Kabra:

Three – three n half months this business had lasted in the company.

Analyst:

Ok, and the revenue that you generated from blackbuck?

Varun Kabra:

Ma'am, that won't be really material because that is not which is going to happen every year, it was just a pilot project & due to non viability of it we have exited from it.

Analyst:

Ok sir, what was the nature with blackbuck like you exited the business, so can you please elaborate the model so that we can better understand the reason for such exit?

Varun Kabra:

In logistics business, the current dealing that we do is we provide direct services to our clients like it's just us and the client in between all the business transaction that are held. But, case of blackbuck we were acting as a middleman or an intermediary for blackbucks clients. So basically blackbuck was getting the orders & we were fulfilling them. So that's

how they had outsourced the business to us & there was no margin at the operational level that's the reason we exited it.

Analyst:

Ok, so what is the next plan of action to increase your logistical revenue & the growth there on?

Varun Kabra:

Well, we are currently working to focused on current model where we have strength with our direct client instead of intermediary & definitely we are focusing on increasing the number of client and geographical location in this business.

Analyst:

Ok, like strength in which terms?

Varun Kabra:

Well, it's like B2B business so probably the reason we have grown so much is by providing excellence in logistics services to direct client through our well settled ground network.

Analyst:

Sir, I would like to ask what geographical presence as of now in logistics segment?

Varun Kabra:

Okay. Currently actually we are having around 21 operating offices out of which seven offices in Gujarat. We have six offices in Rajasthan, four in Maharashtra, Karnataka we have two offices. However, our clients are majorly based in all these reasons. So that is the geographical presence currently.

Analyst:

Okay, what we observe is that you have reduced your own trucks from150 to 105 currently. What is the reason behind it? And do you have any plans to increase in F.Y-20-21.

Varun Kabra:

No currently, we are trying to turn into an asset light model. We used to outsource 4000 trucks earlier that is third party trucks and now that has increased to nearly 5000 trucks and in future as & when we add new clients we would hire the truck instead of buying our own trucks. So, if you see on overall basis I would say that instead of reducing trucks I would increase the 1000 trucks in our network and we have kept these trucks just to you know help us in case of any adverse market scenario.

Analyst:

Okay. Is there any further reduction plan or you are thinking of exit plan for the same?

Varun Kabra:

No no, we will Keep the trucks at the current level about 105 trucks because the kind of volumes that we are catering to. So as I said in case the market conditions are unfavourable to us we can at least fulfil our committed quantity with the trucks that we own. You know so that we don't have to be dependent on the trucks from the third party.

Analyst:

Okay. Thank you.

All right sir, if we talk about the paper division. You said you were focusing on reduction in expenses doing ahead that is like two things you said that is raw material cost will be reduced and secondly the 4.5 MW power plant that you would be putting on that will decline the power cost. When are you are planning to set up the power plant. When that will be completed? How will be benefit from the same?

Varun Kabra:

Well, the power plant has already been set up and the work has been completed over there and definitely we'll see major cost reductions from that one.

Analyst:

Okay, so when was that completed?

Varun Kabra:

In mid-July 2019.

Analyst:

So, is it running in the full capacity right now?

Varun Kabra:

No, it is not running at full capacity. I mean there are initial hiccups so we are planning to reach there.

Analyst:

Okay, but sir how can we can see the benefit of that in the book?

Varun Kabra:

Well, surely we can see the cost reduction in the current year itself. However, the full benefit of that will be seen in the next financial year.

Analyst:

Okay, So much of benefit this year can you please provide numbers if you can?

Varun Kabra:

Yeah sure, if it runs in full swing we are seeing a benefit of say Rs 10 to 12 cr. annually.

Analyst:

So, like you said Rs 10 to 12 cr. Is it like for this year i.e. F.Y-20 we will be seeing an operational profit increase by around Rs 10 to 12cr.

Varun Kabra:

Not 10 to 12cr. because it has been completed in July only and hence the whole year benefit will not be reflected in F.Y-20.

Analyst:

Okay, well considering the nine months should we expect additional Rs 8 to 9 cr increase in the current year only?

Varun Kabra:

Ma'am, I think.. I mean it's not just the date has been set up but we have commenced full operations from September. So I think from September you will have to calculate the actual benefit.

Analyst:

Okay, so like you said six months can we see Rs 5 to 6 cr. Profit?

Varun Kabra:

Yeah definitely that would be good.

Analyst:

And like Rs 10to 12 cr. from F.Y-21.

Varun Kabra:

Yeah, correct.

Analyst:

And ahead also know?

Varun Kabra:

Yeah, sure.

Analyst:

In Kraft paper plant we see a capacity expansion from 72 to 90,000 MTPA from F.Y-19. Is there any further capacity expansion on this side for the current year or future?

Varun Kabra:

Well, not in the current year. But we are surely planning to raise our current capacity to roughly 1.15 lakh tonnes per year in the next two years or so.

Analyst:

How much would be for this year?

Varun Kabra:

This year there will not be any capacity increase because this year we already have sufficient room to achieve the production capacity.

Analyst:

Okay, so you mean to say that in F.Y-21 you would increase the capacity by around 25000MTPA?

Varun Kabra:

Yeah. We can increase installed capacity by 20 to 30 percent in the current line anytime hence the demand and production is not a concern for us now and in the next two years we can increase it to 1.15 lakh metric tons per annum and even we are planning to install a new line in future.

Analyst:

Okay, So how many production lines you have currently?

Varun Kabra:

We just have one production line currently.

Analyst:

Okay, it means in future you are planning for another production line?

Varun Kabra:

Yeah, that's correct.

Analyst:

So can you please let me know when it will be done? Do you have any land or planning to buy the same? How it will be possible?

Varun Kabra:

Well, we already have enough land at our current plant in Vapi, to install an additional capacity line. So land is not an issue for us. Whenever we decide or whenever we see the market scenario to be favourable we can additionally set up a new line in the current land only.

Analyst:

Okay. Thank you. Sir, what is the product target in current year? Like in F.Y-19 your capacity utilization was around 85% that is around 76000 MTPA. So can we get numbers as of now?

Varun Kabra:

Well we believe we will be reaching around 90 percent capacity utilization which is approximately 83 to 85 thousand tons per year.

Analyst:

Okay, so like you will be increasing to 85 thousand tonnes after increasing the capacity. So the current capacity utilization will sustain further.

Varun Kabra:

Yeah it will because we have enough room to utilize the plant by 120 percent capacity utilization in our current production line also. So, therefore by any increase in demand we have sufficient space to increase the supply without any hurdle.

Analyst:

Sir, correct me if I am wrong, as I was going through revenue on the sequential basis your focus is shifting to Kraft sector division from logistics & coal division-which is now a major contributor.

Varun Kabra:

Well, it is not like that because each business is headed by individual teams so hence, there's no question of focus here. But due to the growth in e-commerce segment and talks of plastic band we have seen a great jump in the demand. Moreover we have taken timely decisions on increasing our production capacities which has also been beneficial to us.

Analyst:

Sir, what are the current margins you enjoy in Kraft sector?

Varun Kabra:

It is approximately 10 to 12 percent.

Analyst:

Okay, if we take a span of 2 to 3 year what is margin you expect from this business segment?

Varun Kabra:

Well, from this segment, definitely in a steady manner margins would be increased because of a fixed cost has already been incurred and hence will increase in the production & we will enjoy better margins and more stability. And the pricing power and market conditions definitely will hamper it or support it in any case and those current slowdown goes on demand is stagnant and margins are somewhere same as that of Q1. But when the ban on single plastic used plastic comes into force hopefully we'll get more pricing power and one more interesting thing is that after increasing capacity we are able to produce better quality paper. So that increases our efficiency and obviously in the same production capacities, the realization from your clients would be better & can provide them a good quality paper. So we will do better in this year in terms of margin.

Analyst:

Okay got it.

In Kraft paper how ban on single use plastic is rising forward to you as I know Kraft is used in packaging?

Varun Kabra:

Yeah, Kraft paper is used in packaging so as ban on plastic will definitely result into all surge of demand in alternative packaging methods. So Kraft paper we believe will be the biggest beneficiary of such ban because other people that are being produced they are mostly writing, printing or newspapers. So earlier like when our paper was majorly used in manufacturing of boxes but, now we see our customers have already started manufacturing of paper bags for retailers and wholesale consumption which is also, i mean which is already replacing the single use plastic bands without even the enforced ban. So The Kraft paper industry is expected to grow say around 8 to 10 percent without the

ban. So if the ban is enforced we can see a growth rate of 15 to 18 percent for the next five years.

Analyst:

Okay. Can you comment on the impressive reduction in your working captive cycle day which decreased from 57 days to current 29 days in F.Y-19?

Varun Kabra:

Yeah, we had adopted strict norms for payment cycles from our customers and even we got some advantage from our clients. Both of the factors have helped to get that down at 29 days.

Analyst:

Shall we assume it to be same as in years ahead?

Varun Kabra:

No. I would say that in the coming years it would be at the same level of 40 to 45days not at 29 days certainly.

Analyst:

Okay, why again 45 days any main reason for such increase because as you stated above that you are adopting a strict watch towards the payment cycle?

Varun Kabra:

Agreed, but we are also a growing company and adding new clients every time. So, we are not willing to forgo more margins in this process and the payment cycle would be somewhere around at an average of 45 days.

Analyst:

Okay, now coming back to the logistics segment again. What is the utilization ratio of truck outsourced? Any plans to future raise the fleet?

Varun Kabra:

Well, we majorly hire on demand basis. So I would say the utilization ratio is a hundred percent because when we need that to the time we hire the trucks we don't have them on our payroll or on a fixed system.

Analyst:

Okay.

How many clients you have in logistics business currently?

Varun Kabra:

Approximately 200 clients.

Analyst:

Okay, thank you.

Are you planning to increase your geographical segments in logistics business?

Varun Kabra:

Yeah. Last year as I said we added an office in Mangalore Karnataka where we commenced logistical operation with J.K cement works over there. Hence as we'll get opportunity will keep increasing the geographical presence in logistics. And currently, we are exploring our options to explore the North India.

I mean Delhi, U.P, and Punjab all these regions for the logistic segment.

Analyst:

In your coal trading sector are you importing the coal?

Varun Kabra:

Yeah we are importing coal and we also carry bulk quantities from other importers and sell it to the small buyers. And as we have logistical support in-house logistical support we are able to provide door to door facilities for mid size buyer which is kind of a win- win situation for all.

Analyst:

But sir on margin point the coal segment margin is low as compared to other business?

Varun Kabra:

Yeah, coal business is closely integrated with our logistics business hence seeing the margins of coal business alone may not give a justified answer due to logistics business we are able to get the coal business also and all customers as you know want an end to end service model. So that's the reason the margins in coal is not bulky. I mean in price value terms it is a high value commodity. So that's the reason the margins look a little slim in that.

Analyst:

So coming back to the paper segment in power plant are you procuring coal from in-house facility?

Varun Kabra:

Yes we do. I mean we are fully backward integrated in that term because we have set up a power plant for our power requirement. Coal is required for generating power basically coal is the fuel for generating power in the power plant which is obviously internally procured. Raw material collection centres are fulfilling our raw material needs and in-house transportation that is covering our logistical requirements. So for paper manufacturing facility about 80 to 90, ann.. 85 to 90 percent cost is covered in raw material power and logistics costs which are all under our control.

Analyst:

Okay so that's a good one. What is this waste paper store for raw material, as i saw you are having five waste paper stores?

Varun Kabra:

Yeah. These are not stores. I mean these are waste paper collection centres. So in there we collect waste paper from different areas directly from the sellers and use it as a raw material for our manufacturing process of Kraft paper. Hence it depends it nearly ends our dependence of Raw material from any other supplier you know!!

Analyst:

Okay, so how much waste paper do you procure from this collection centres?

Varun Kabra:

Well as far as my need is concerned it is 100 percent. In fact we collect even more than our requirement. But, any excess quantity that we collect is sold off to other plant which is converting as an additional line of business for us.

Analyst:

Are you generating any profit from sale of this waste paper?

Varun Kabra:

Yes we had actually started this collections and to fulfil our material requirements. But as we got more waste paper than our requirement eventually, we saw big demand coming from the other people units as well. Hence, we started to sell them and whatever the extra quantity that we were procuring and as I said seeing the demand we are planning to convert it into a new business model and will expand in the coming years.

Analyst:

Okay, so currently where is this centres located? And where do you want to expand it further?

Varun Kabra:

Well presently they are located in areas of Mumbai and in different areas in Gujarat also. And in future we are planning to expand in north and central regions.

Analyst:

So can you provide us with the numbers, how many stores you are planning?

Varun Kabra:

Well these are not stores this are collection centres and we are planning to have about 20 to 25 of these by F.Y-19.

Analyst:

Okay got it collection centres. You mean to add around 20-25 new waste paper collection centres?

Varun Kabra:

No it will be around 25 to 30 collection in all. So we have currently 5. So the balance we would be adding as we get a budget.

Analyst:

Okay, what is the margin over here?

Varun Kabra:

Well actually, currently the segment is too small so it is like a pilot project. The real picture will be cleared after one year. Hopefully I'll be able to provide you with better details by F.Y. 20

Analyst:

Okay, no issue sir, can you please share the revenue from this segment?

Varun Kabra:

In F.Y-19 the revenue from this business was approximately Rs 100 cr.

Analyst:

As conversion days may increase to 45 days. So from where would you manage the required fund?

Varun Kabra:

Well, before CapEx we are generating enough cash flow and this year there will be no more CapEx so we'll be managing most of the part from our internal cash flows only and if required, then we may raise some from debt.

Analyst:

Can you please share with us the numbers how much it would be?

Varun Kabra:

On the debt part it would be roughly around Rs 15 to 20 crores.

Analyst:

Okay is it on high side?

Varun Kabra:

Yeah, yeah that is on higher side.

Analyst:

Okay, got it. Sir your FCFF is negative and we are still seeing it negative in F.Y-20. Any comment on that?

Varun Kabra:

Well I agree. I said that we are on expansion mode so our cash flows were consumed in CapEx and this year that would be going in working capital as well.

Analyst:

Okay. Then when can we see FCFF positive?

Varun Kabra:

Well, I guess it should be majorly in F.Y-21.

Analyst:

Okay. But sir you are going to have a capacity expansion in kraft paper in F.Y-21 & also on waste paper collection centres. So how would that be possible?

Varun Kabra:

Well, your major Capex in Kraft paper had already being done by F.Y-19, so the amount required by F.Y-21 in Capex would be manageable from our internal cash flows. So what we do is out of the total generating cash flows what we have planned is that we'll use one part of it as a capacity expansions and the part maybe for debt reduction.

Analyst:

Sir, what is the Capex requirement in waste paper collection centres?

Varun Kabra:

Well, at this time it is not requiring a huge amount. It is just collection centres and the logistics centre. So, it does not require any big amount.

Analyst:

So are you planning to buy the property for the centre or leasing out?

Varun Kabra:

Now we have actually kept our options open. It really depends on the geographical locations and out of choice in case we find a place

appealing enough for this business we might buy it out, otherwise may keep leasing.

Analyst:

Sir as you said you have 5 centres & you will be going on for 25 to 30 more centres. So, out of them, how many are owned and how many of them are leased out?

Varun Kabra:

Well from the current 5 centres that we have all are leased out because at this stage we don't find, i mean it doesn't make any sense to buy the land and build everything from scratch because that will involve again a lot of CapEx. Hence, we want to keep the funds free by leasing such properties which already have a basic set up so that we have no issues relating to the working capital that requires from in this business.

Analyst:

Okay sir, this is the final question for you. How are you looking forward for the recent tax rate cuts announced by the government? Will it reflect in your bottom line or like are you planning to pass on the same?

Varun Kabra:

No no, this will definitely reflect on our bottom line because we are not planning to pass on any of the tax reduction to the clients.

Analyst:

So this will be reflected from the current year only i.e from F.Y-20 & ahead?

Varun Kabra:

Yeah.

Analyst:

Okay, Thank you sir that was from our side. Wish you good luck & all the very best.

Varun Kabra:

Thank you very much for your interest in the company.