

Ref: MLLSEC/107/2023

28 July 2023

To,

BSE Limited,
(Security Code: 540768)
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai - 400 001

National Stock Exchange of India Ltd.,
(Symbol: MAHLOG)
Exchange Plaza, 5th Floor, Plot No. C/1,
"G" Block, Bandra-Kurla Complex, Bandra (East),
Mumbai – 400 051

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 ("SEBI Listing Regulations")

Ref: Intimation of earnings conference call vide letter dated 13 July 2023; and Outcome and audio recording of earnings conference call dated 25 July 2023

Further to our letter dated 13 July 2023 giving advance intimation of the earnings conference call for quarter ended 30 June 2023 with several Analysts/Institutional Investors/Funds held on Tuesday, 25 July 2023 ("Q1FY24 earnings call").

The outcome and audio recording of the Q1FY24 earnings call was submitted by the Company vide letter dated 25 July 2023 and uploaded on the website of the Company at the weblink given below: <https://mahindralogistics.com/wp-content/uploads/2023/07/outcomeandaudioofearningscallsigned.pdf>

Further to the above referred letters and in compliance with Regulation 30(6) read with Para A(15)(b) of Part A of Schedule III and other applicable provisions of the SEBI Listing Regulations, please find enclosed the transcript of the Q1FY24 earnings call of the Company held on Tuesday, 25 July 2023 from 4:02 p.m. to 5:04 p.m. (IST).

The transcript includes list of management attendees and the dialogues including but not limited to the presentation, the Q&As', any assents /dissents and open points and is also uploaded on the website of the Company at the weblink given below.

Weblinks for Transcripts:

Audio Transcript	https://mahindralogistics.com/wp-content/uploads/2023/07/SGP7620230725147821.mp3
Transcript	https://mahindralogistics.com/wp-content/uploads/2023/07/TextTranscriptQ1FY24.pdf

No Unpublished Price Sensitive Information was shared/discussed by the Company during the earnings conference call.

This intimation will also be uploaded on the website of the Company and can be accessed at <https://mahindralogistics.com/disclosures-under-sebi-regulation-46/>

Kindly take the same on record.

Thanking you,
For **Mahindra Logistics Limited**

Ruchie Khanna
Company Secretary

Enclosure: As above

“Mahindra Logistics Limited
Q1 FY '24 Earnings Conference Call”
July 25, 2023



**MANAGEMENT: MR. RAMPRAVEEN SWAMINATHAN – MANAGING
DIRECTOR AND CHIEF EXECUTIVE OFFICER –
MAHINDRA LOGISTICS LIMITED**

MR. SHOGUN JAIN – SGA

**Moderator:**

Ladies and gentlemen, good day, and welcome to the Mahindra Logistics Limited Q1 FY '24 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. Thank you, and over to you, sir.

Shogun Jain:

Thank you, Aman. Good evening, everyone, and thank you for joining us on Mahindra Logistics Limited Q1 FY '24 earnings conference call. We have Mr. Rampraveen Swaminathan, MD and CEO, and the senior management team with us. I hope everyone has had a chance to view the financial results and investor presentation posted on the company's website and stock exchanges. We will begin the call with opening remarks from Ram followed by a Q&A session.

Before we begin, I'd like to point out that some of the statements made during today's call may be forward-looking. A disclaimer to that effect was included in the earnings presentation.

I'd now like to invite Ram, MD and CEO of Mahindra Logistics Limited to make preliminary remarks.

Rampraveen S.:

Thank you, Shagun, and good evening, everyone. I trust you all have had a chance to view our presentation and financial results, which are available on the stock exchange and on our company's website. In the interest of leaving more time for questions and answers, I'm going to kind of keep my update short. I will provide a short update on the external environment and our end market performance, a few key business elements and events of the quarter, status of the ongoing integration of the Rivigo PTL acquisition. And finally, I'll conclude by discussing highlights of our financial performance and our focus areas for the remainder of the year.

From a broad macro perspective, the economy of India has and continues to see a tremendous transformation in recent years. So, the momentum continues to remain positive. As evidenced in the recent visit of the Honourable Prime Minister to the U.S., the centrality of our nations and economic and geopolitical force continues to grow. This growth, of course, will continue to drive the need for increased logistics. The drive for global competitiveness will not just require infrastructure but favourable policy and more integration across the supply chain.

Over the last few years, our company has been motivated by a mission to offer integrated tailored logistics and mobility solutions, building a combination of technology, equipment process capabilities. We believe this customer-driven approach will help us achieve our objective of revenue of INR10,000 crores in revenue and class-leading financial returns. During F'22-'23, we took several steps to accelerate our pace of growth and drive scale and synergy in this pursuit. Our acquisitions we made last year were aligned in this direction and a

combination of scale and structural cost management augments our focus on growth and expansion of offerings.

Let me give a quick update on the end markets which we cater to, the automotive sector, as always. At a broad level, the segment, especially PVs, both ICE and EVs remain robust, though some segments are showing signs of moderation and volume growth. Demand has remained mainly stable across all the segments, except for entry level PV and 2-wheelers products, which are not showing any immediate signs of a significant rebound. Despite modest progress in just finished festive and marriage season, demand in the 2-wheeler segment still remains – or apparently remains quite subdued.

There are some early indicators of possible headwinds in the case of demand slowdown in specific categories such as LCVs and tractors as a result of increasing inflation and interest rates, slightly weaker global macro is prompting new demand concerns for businesses with global exposure. The passenger vehicle wholesale sales rose by 7% year-on-year, driven by new product launches and easing supply chain issues, but it sequentially dropped quarter-on-quarter owing to price hikes, both over due to regulations and some weakness in the entry-level segment. We continue to expect growth in this segment from our business' perspective, but do expect to see some moderation in the second half across both auto and farm businesses.

The consumer durable business, unseasonable rains across the country appear to have dragged on total RAC demand. However, some areas, such as south and east, have performed well. Our demand from north and west continues to be below forecast, the clients we work with. That has resulted in higher-than-normal channel inventories. Weaker consumer emotions due to inflation have continued to affect demand, particularly for entry-level products.

And it has been a challenging summer season for cooling products, especially. We've seen a strong April followed by some pretty strong weakness in may and some rebound in June. Now we do work with a series of clients in this segment, and we expect here that growth will be quite moderate for the rest of this year.

The FMCG industry, the quarter has been expected to be a better quarter. The stress in demand in semi-urban and rural sector appears to have bottomed out. There's some easing in inflationary pressures. Despite this, the skewness towards smaller pack sizes across the board. And the harbour season following the monsoon is an important indicator for consumption demand and determines the viability and expansion of current green shoots evident in semi-urban and rural markets.

Urban markets remain resilient and continue to grow gradually. With a good traction in urban markets, a bottoming of rural softness and the broader base between to improve overall volumes are likely to be increasing from here.

We have continued to see good traction in this segment, with an increased demand for integrated solutions, what we call integrated warehousing and distribution and several wins here. And so, we expect growth both in account and with new account volumes. The e-commerce sector, which is a reasonable part of our demand base, right, long-term prospects of

the e-com sector remain very positive, driven by an increased endows digital adoption and greater penetration across both categories and industries for digital platforms. However, the competitive intensity is likely to decrease in the short term with more players focusing across the board on B2C solutions, micro fulfilment and quick commerce across the board.

Given demand moderation in the short term, there is a marked increase in capacity consolidation, which has impacted warehousing and solutions done by different 3PLs, including us. As we had mentioned last quarter, we have seen trading impact of this with the closure of multiple sites in our business across several of our customer accounts. In great measure, our continued business acquisition has helped offset this drop in volume.

However, we have seen an increase in white space, where approximately 0.5 million square feet, during this quarter due to site closures and most of those were in the middle quarter -- middle of the quarter. Our electric vehicle business-based delivery services remain robust with continuing fleet additions across 19 cities we operate in. We have not expanded to 4-wheeler offering. And recently, we launched a 2-wheeler offering along with the recent peak of couple of marketplaces.

Lastly, the mobility sector. In the mobility sector, the policy drive towards electric vehicles continues to gain traction with major fleet Moderators focusing on expanding their EV fleets and targeting probably around 40% to 50% of vehicles to be electric by the end of 2026.

This is mirrored by an increased focus by policymakers and authorities such as airport authorities who are pushing towards a broader trend of electrification. And we do expect that this will continue over a period of time. The volume of aviation traffic in India has -- Indian airports has increased by 70% in F'22 and '23. I mean this year; the aviation traffic volume is expected to grow by another 17%. That has a strong impact on our airport services business, which has been seeing a rebound on account of that.

We have also seen a continued but marked improvement in return to office across the board. And this has helped our enterprise transformation businesses -- enterprise transport business as well, both through -account growth and the acquisition of new accounts. Collectively, during the quarter we just 39% year-on-year growth in the mobility sector business.

If I have to sum it all up in terms of broader demand environment, I think the overall environment still remains broadly positive. For the quarter, we saw an uptick in order intake across our third-party logistics contract logistics business, which improved sequentially in terms of order intake despite the challenges in e-com. For the quarter, 3PL contract logistics order intake was around INR130 crores on an annualized contract value basis. Some of that is offset by churn in the e-commerce segment and a couple of other areas.

The forwarding business is also gaining volume traction. Sequentially, within Q4 and Q1, we did see growth in volume despite the challenge of continued drop in prices. We have seen some key wins there across the board. We expanded our presence in integrated solutions for India's leading private telecom player combining both warehousing and value-added services. For a large personal care products company, during the quarter, we have won the integrated

warehousing and distribution solution contract for the western region, which supplements the business, which we already do with them in the south with a similar solution format. For a leading global contract manufacturing company in India, we have been chosen to provide 50% of the cross-border logistics solutions.

So overall, we do see demand is improving. We've had a challenge, obviously, in the first and the fourth quarter of last year with some slowdown in demand closures. But we do expect to see that picking over the rest of this year, and hopefully, the momentum will sustain.

I'll talk about a couple of important things before I move on to the financial performance. Firstly, the integration of the Express acquisition from Rivigo. As we have mentioned before, this is a key quarter for the Express integration. We spent the fourth quarter of last year doing planning around the acquisition and we entered an integration phase towards the end of that quarter. And this quarter, the focus was on integrating both the networks.

Through the quarter, I think we have seen our focus on transport cost reduction has been on plan and is moving ahead for our targets. And we have been able to demonstrate and drive synergy on the transportation side, both within the Express businesses as also with the rest of our other transportation businesses.

During the quarter, we also invested significant efforts in consolidating the warehouse infrastructure across both networks and aligning the loads on a single IT platform. As a result of the work around the transition, we did see some drop in the service levels across our network as we are doing this transition, and that drop in net service levels, this year reduction in volume across several of our customers. In addition, we also shut down some business accounts for strategic reasons of not assisting those accounts.

A combination of these factors resulted in a volume drop of approximately 25% to 30% on a quarter-on-quarter basis. What we have done is probably the transition is intimate some of the changes in networks to our clients ahead of time. And now, as the transition of operation issues are resolved, we are starting to see an uptick in that volume again. We expect that this will be recovered by the early part of H2 and we will be back on a growth track at that time.

Financial results obviously were impacted by the volume drop as well as the cost related to the integration of both the networks. We also saw a margin increase in transportation costs due to the network optimization, but these remain favourable to prior cost structures.

And that obviously had a lot of trading impact on our financials compared to the fourth quarter of last year. On a quarter-on-quarter basis, last quarter, we did actually see accruing the deferred tax benefit, which we did not do in the first quarter of F'24. And on a pretax basis, the results are fairly comparable and slightly better between Q4 and Q1, despite the drop in volume.

The other things that we want to briefly cover is our warehousing and solutions revenues. As some of you have seen in the presentation deck, we did report a drop in our warehousing and solution revenues on a year-on-year basis. And that drop is largely on account of 2 things. I

think first, we did see some churn in the e-comm business, as I mentioned. We won new accounts but the net impact of it was marginally down. We also did see an impact on a year-on-year basis of the shift in the business model we do with Bajaj Electric and that change now contributes for a substantial part of that drop in revenues. We have obviously -- we expect that to come back and track through the middle of this quarter because of the new businesses we have won.

On the positive side, I think you would probably see a significant improvement in margins in the warehousing business and solutions business, as we have invested a lot more in finding cost improvements, optimization, and productivity in the network. And those improvements are actually trailing down. And those have been a reasonably large part of the improvement in the financial performance of MLL on a standalone basis as well, right?

We have seen obviously some increase in AS 116 costs, which you may also have noticed year-on-year, AS 116 costs, both in terms of the return -- the RTU cost as well as the interest costs have gone up. Those are trading, of course, increases in margin, which we have demand which we have seen. And those improvements -- those are largely on account of a change in mix as we have had smaller or less expensive warehouses being replaced by more expensive facilities, which also allow us to get better yield and better gross margin. And of course, if there are any questions on this, I'll cover those in the Q&A.

So, moving on to the consolidated financial performance. Revenue for Q1 F'24 increased by 8% year-on-year. On an overall basis, supply chain, including our 3PL business is obviously contributed 94% of our revenue. The mobility business contributed to around 6%. Gross margin, on a fully consolidated basis, for Q1 of '24 was 10.5%, up 20 basis points on the same quarter last year.

This was despite the impact of the MESPL acquisition. Excluding the impact of the MESPL acquisition, our gross margins for the quarter were at 11.5%. And EBITDA for the quarter stood at INR72.8 crores, up from INR68.8 crores in Q1 F '23, in some part, impacted due to the consolidation benefits or effects of the Rivigo acquisition.

Excluding the EBITDA loss of INR18.5 crores, which is there on MESPL, EBITDA stood at INR91.7 crores, up from a comparable INR69 crores for the same quarter last year. PBT on a fully consolidated basis is down from INR19 crores to INR0.6 crores in Q1 F '24, and our PAT was down as we reported net loss -- consolidated loss of INR8.5 crores for the quarter. The impact of the businesses were very different. The consolidated results are impacted differently by different components of our portfolio, and therefore, let me spend a couple of minutes highlighting the component performance.

MLL revenue for Q1 F '24 was INR1,051 crores as compared to INR1,016 crores in Q1 F '23. That included -- in Q1 F '23, we did have the Express and the Mobility business consolidation inside MLL. Net of those eliminations, the business grew by around 7%. Our PAT for Q1 F '24 was INR23 crores compared to INR14 crores for corresponding quarter in Q1 F '23. It was impacted largely by operating results and, to some extent, by other income increases.

Our other income was up during the quarter for multiple sort of reasons, including these statements -- including some subleases, which are now accounted as financial income and a few other asset categories where we saw movements right there. Lords were up, revenue was -- for Q1 was at INR77 crores, down compared to Q1 of last year, it was INR109 crores. Our PAT for the quarter was INR1.6 crores compared to INR3.3 crores for the corresponding quarter last year. Most of the dip in profits was driven by volume. On a sequential basis, of course, we did show an improvement in revenue compared to the fourth quarter of last year.

The Express business had Q1 FY '24 revenue of INR84 crores. As a matter of detail, I would just highlight that this includes almost all the consolidation benefits of both businesses. In the first quarter of the year, there were some business which did not fully transition, but I would say the large measure of it was transitioned. And this is where the 25% to 30% drop in volume is kind of really affected. On EBITDA level losses for the quarter were INR18.5 crores and our PAT level losses at least INR29 crores in the Express business.

The mobility business saw in Q1 had a revenue of INR80 crores and our PAT loss for the quarter has narrowed quite substantially from -- compared to a loss of INR2.2 crores last year in Q1, it was at INR1.8 crores in Q1 F '24. Losses were impacted by quarter by onetime charges for write-offs on account of one customer, which is GoAir, we do both with GoAir. And as a result of recent proceedings with GoAir, we have, as a matter of prudence decided to take provisions for the entire receivables which are due from them, and that has impacted our earnings. Excluding that, we would have been close to breakeven for the quarter, which is in line or slightly ahead of what we had expected or kind of given indications on earlier.

Whizzard revenue for Q1 was at INR31 crores compared to INR29 crores in Q1 F '23, up by around 8%. The underlying volume growth was around 14%, and we did see a drop -- we did have price reductions given to clients, which obviously impacted our revenue as well. Our PAT loss for the quarter was at INR60 lakhs compared to a loss of INR1 crore for the same quarter last year, a 40% improvement compared to the previous quarter.

Despite our tough pricing environment, a huge focus on operational areas and the underlying kind of volume growth actually helped us narrow losses on a year-on-year basis. In the upcoming quarters, we have a second investment tranche, which is due to be made, which, when made, will make MLL the majority shareholder of Whizzard or ZipZap Logistics is which we call.

2x2 Logistics is a business, which obviously has had a consolidated its turnaround compared to last year when we had significant losses in the business. Our fleet is completely up and running. We have completed the modifications of the vehicles and upfitted them both -- retrofitted them also for additional features such as dome carrier capability and so on. And now as a fleet has come back to full operations, I think the business has made a profit of around INR20 lakhs in the quarter compared to a loss of INR2 crores for the corresponding quarter last year. We continue to see headroom in this business. There is still an upside in terms of vehicle utilization and in terms of miles or kilometres of vehicles running. And we expect to consolidate and continue to improve our performance through the rest of this year.

So overall, I think it's been a mix -- it's obviously been a mixed bag. In our core 3PL contract logistics business, our mobility business, the 2x2 investment and ZipZap, all heading in a consolidated -- in a structural -- in the right direction and all demonstrating good improvement, some of them over multiple quarters, trailing quarters. The lords business, the freight forwarding business is in a challenging environment as prices remain under pressure. But I think we've been able to offset that with volume growth and growth. And we continue to be able to stack margins and hold our margins through solution design, strong account focus, and segment diversification.

The MESPL business is in a transition phase. And as we think we have done in some of the other smaller and other acquisitions, we remain confident about the scale up, right, and drive the cost reductions in the business. Overall, I think we'll continue our strategic focus on development and scale and provide a compelling value proposition to our clients as we try to deliver integrated solutions.

We do deeply believe that productivity across the supply chain has a high correlation to how we integrate the supply chain using technology. And we remain focused on cost management and continuous improvement as you navigate through some of these changes. And we continue to invest in other areas, especially in diversity inclusion, expanding the talent base of the company. And those are areas which remain a key part of our focus. Broadly, I think those capture the highlights of the quarter, which just went by.

And with that, I'll open it up for questions-and-answers. We'll open the floor for Q&A.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Any one who wishes to ask the question may press (*) and 1 on 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 Gentleman we will wait for the moment till we receive the question, any one who wish to ask the question may press (*) and 1 at this time.

The first question is from the line of Sumit Kishore from Axis Capital.

Sumit Kishore:

Hi Ram, I have two questions. The first one is you mentioned in B2B Express, there has been a volume drop of 20% to 25% quarter-on-quarter. If you could give us some sense of how the volume growth trajectory in B2B expects -- needs to pan out in the remainder of fiscal and how does network utilization need to improve to secure your target of becoming EBITDA positive here in H2 of the financial year? That's the first question.

Secondly, on contract logistics, the revenue growth of 6% has decelerated. And could you give us a sense of how much potential is there to increase revenue and contract logistics by increasing the share of business from existing accounts? So, what is the addressable opportunity by increasing business from existing accounts? And how has business development really panned out a new client addition panned out in contract logistics, that's all?

Rampraveen S.:

I think as I said, and you may remember, I think what we had said from where from the baseline effect of the share of the volume growth the business has had and maybe at the time

of the acquisition, collectively, both the businesses have around 420,000 to 450,000 tons of volume. And we need another 10% volume growth to be able to get 10% to 15% volume to get an EBITDA positive level, assuming that all the cost reduction actually would -- and would fall through.

Obviously, the cost reduction is a function of 2 things. It's a function of operating leverage and the velocity of being able to get the volumes due to the cost optimization. Where we are right now, obviously, in the fourth quarter, we did see a 20%, 25% of -- actually 25% to 30% drop in volumes. As I mentioned earlier, we have not seen any customer really churn out of the system.

All our customers have been held are still working with us. And many of them are working with us on some lanes and not all the lanes because we -- as we made the network changes, we intimated to them and worked with them to clarify to them that there will be drops in NSL in specific areas. And so, customers did pull some -- drops us of those lanes, but that's something we are confident to start coming back because in July, we're already seeing that happening, right?

So, we should see that progression up. So, the first milestone, obviously, so much is -- so try to wrap it together, we need to -- we are probably around 35% to 40% off on volume, 30%, 35% off on volume to be close to the EBITDA level we would be at that assumes that we can also execute the cost reduction work along with that volume. And that's why I said we expect that in the early part of H2, we should be able to ship that volume.

Clients will obviously take the volume down in a certain way and add it back in a phased way as well. But we do expect that should really is back to that level by the early part of H2. So roughly a quarter is going to go take a bit of a quarter of an impact compared to where we thought we would be a bit earlier. And it could get better and could accelerate the volume faster, but it's something which we want to be sure the networks redesign properly the way we want it to be from a long-term perspective, right?

Sumit Kishore:

So, a quarter's impact would be basically Q3 now instead of -- so in H2, we should think about more like September to December quarter?

Rampraveen S.:

Yes, we should say it's still September-December quarter, somewhere in the middle of that. It's the festive season, so we expect volumes to be particularly beneficial for us during that period. But the network configuration has to get done. And obviously, we have to get all the cost base is aligned. And so, there's a bunch of work there, but we are pretty confident about we're reasonably sure because volume might start coming back in July. And that I think is actually -- the proof of the pudding is meeting it. So obviously, we are starting to see volume come back.

So as contract logistics demand is concerned, I think you're right. I mean, we've seen across the board, the automotive segment, overall, a 7% - kind of growth in contract logistics, 6% to 7%. And automotive and manufacturing have led that growth by around 13% to 14% year-on-year. That's all automotive, including non-M&M and M&M businesses. And that's been a positive -- that's been the positive trend. Obviously, we have seen the impact of churn on the e-

com side and a year-on-year basis, obviously, sooner because of the Bajaj account as well, right, the fall -- drop and fall in that.

As I mentioned earlier, I think last quarter, we had an order intake of approximately INR100 crores in the 3PL contract logistics business in the previous quarter just -- so that's the last quarter, Q4. In Q1, we've had an order intake of INR130 crores to INR140 crores. Now given construction windows are 3 months to 6 months, right, we should expect -- so that's the window within which it will start falling into our revenues, right?

And to put that in context, I think we have been targeting a INR400 crores to INR500 crores kind of annualized order intake growth given the longer-term aspirations we have in terms of revenue and results earnings. So, this quarter -- this year, I mean, we have started off well in terms of order intake, but it does take 3 to 6 months to actually deploy these solutions.

And that's been the trailing impact from a revenue acceleration perspective. Sowe should start seeing this again in the second half -- in the middle of this quarter, starting to get rebalanced in terms of the nonautomotive growth starting to come back strongly. As I said, we have won several accounts for the large telecom company. We are a key part of their 5G program in warehousing and are value-added services and distribution for that.

We've also won several other larger accounts for integrated warehousing and distribution. So, we expect those to start trailing between the second half of this quarter and the earlier half -- early part of next quarter because those buildouts are all in line towards the festive season. So that's I think where we stand and hopefully, that answered your question.

Sumit Kishore

: Thanks a lot, Ram.

Moderator:

Thank you, any participants who wish to ask the question may please (*) and 1 at this time. The next question is from the line of Alok Deora from Motilal Oswal please go ahead.

Alok Deora:

I've just had one question around Rivigo. So, we have seen that, again, the losses are quite significant there. I mean, if we want to look at it. So, we are operating at around 20% EBITDA margin or EBITDA loss, 22% EBITDA margin loss. So how confident are we in kind of being like a breakeven by third quarter, which you were just mentioning, considering that the feelers we are getting is that there is some slowdown in the Express Logistics in the first quarter and little bit in the second quarter. So just some colour on that if you could highlight this particular business.

Rampraveen S.:

I think, first of all, let me answer your question on the more direct part of what gives us confidence. And then I talk a little bit more about, I think, more strategic factors here. We did expect that synergies plus up 15% growth would get us to a positive EBITDA window. And from there on would be able to drive broader growth in the business. And that's how kind of -- that was the plan, right?

Now what we've seen is, obviously, in this quarter because we have been doing network transitions, which are there, we've seen the impact of those network transitions playing out.

And what that means, obviously, is we have to reconsider and rebalance many lanes as we put in shutdown facilities, consolidated facilities, and revisit tech platforms. And obviously, we have customers operating on 2 separate tech platforms with 2 different physical architectures. One which operated more -- the MLL network operated more as a hybrid mesh, whereas the Express, the MESPL network as a pure hub-and-spoke. And as you transition customers across those accounts, we were going to have things -- we have really of the entire network.

And that physical work obviously has been disruptive and therefore, has impacted volume. And so, the first step, I think, in terms of getting -- so our hypothesis still remains the same that with the synergies and with that volume base, we should be able to we are confirming breakeven. The synergies in turn have 3 parts. It has firstly the transportation cost reduction. As I mentioned in the opening comments, those are generally on track. And we feel those are generally on track even at a slightly lower volume base. The second one is the consolidation of facilities and infrastructure, that's also on track.

We have done the consolidation of most of the facilities. There have been some one-time costs related to that. There are some short-term facilities that we have to add as well, but those are directionally on play. The challenge we've had for the large part is just the sheer level of volume drop and the impact of the volume drop because volume dropped by another 30%, 35%. So that's a big one, which we do need to kind of claw back on. What gives us confidence on able to claw back on because we're not looking at a whole bunch of new business.

We are working with the large part in terms of business, which is already there And it's a business in which we already had accounts, and as I mentioned earlier, we had probably less than 5% full churn on any of the accounts. So, all accounts we are working with the lanes operate with them. So, it's not something which we believe is a big stretch. Many of them are also accounts of our existing 3PL contract logistics businesses. So that's, I think, the summary more direct answer to how we will get back.

The couple of other things that you want to highlight here and just I -- we share the way we see it, as management. And the first thing is that if you look at the business, the business had -- continues to have positive contribution margins. This is an operating leverage-based business, and it's volume driven, as you all know very well. And we don't have negative unit costs on the business.

Contribution margins are in the 15% to 17% range. We obviously think they have upside more, right, as we can optimize some of these costs and transportation but that clearly is the spread. So, as we gain volume and get productivity to the existing facilities, we should see the multiplier effect coming in. And that's one thing I do want to highlight and just reaffirm that.

The second thing I think is that when we did the transaction, I think we also highlighted that we got the transaction at fair price. And what I mean by that is that the transaction, obviously, we indexed in the continuing cost of transforming the network, right, in our acquisition price. And even though the multiple which we paid was probably lower than some multiples of some businesses and the industry trade up, we felt that, that is -- some part of it obviously was the

investment we had to make. So, the transaction price did factor in what we expected, and we did say that it'll take us roughly a year to make this business EBITDA positive, right?

So the trailing effect has been a bit longer in the first 2 quarters than we expected. Because now, we are seeing the actual impact of it, but as you have shown with the Meru business, or as we have shown in some of the other businesses that we do believe we have the ability to make scale profitable. And therefore, that's going to be the journey we'll be on the MESPL as well. But I didn't want to give this first. I wanted to first here to do about the numbers first and what we're doing there.

Alok Deora: Sure. No, the only point was that we are down 30%-35% in volume and to breakeven in the kind of growth on the initial volumes. So, to bounce back the entire volume in 1 or 2 quarters could be a big challenge in kind of a slowing Express market growth? I just wanted --

Rampraveen S.: It's a fair point, Alok. And I think -- I mean there's obviously this right in everything. But what I would say first, I mean, we are down 25% to 30% on the baseline volume. And I think that's not an end of quarter view. That's a full quarter view. So obviously, we'll improve into the quarter. As I said, in July, we have also been showing improving volumes on all our accounts. So, the trajectory is there. The trajectory has to hold clearly, we able to execute well.

And that's something I take on board completely as very valid feedback and obviously, and that's something we're working on. I can't say it's all done or it will completely happen. But obviously, as early signs are in this quarter, we seem to be on track. And as I mentioned, it will be early part of H2. It will not be in Q2. It will be the early -- somewhere in the middle of H2 as I just commented to Sumit, somewhere in the October to December window, when we'll be able to get to that point.

Alok Deora: Just last question. In MLL Express, there is a taxation impact, I think, around it's...

Rampraveen S.: INR10 crores.

Alok Deora: Yes, yes. What is that related to because...

Rampraveen S.: So last quarter, we took in the fourth quarter because of the first quarter of the acquisition -- post-acquisition, we need to get deferred tax benefit on the business. And we had taken up to the first quarter with the clear intention that as the business moves into an integration environment, we will no longer take the deferred tax benefit. And therefore, in this quarter, we did not take the deferred tax benefit. And if you look at it, at a PBT level, at a PBT level, we did show some margin improvement despite the lower volume compared to Q4.

Alok Deora: Thank you, that's all from my end.

Moderator: The next question is from the line of Amit Dixit from ICICI Securities.

Amit Dixit: Hi, Good Evening everyone and thanks for the opportunity, I have a couple of questions. The first one is a little bit confused with the industry outlook you gave in your opening remarks where certain automotive segments, you see a little bit of weakness. Demand in north and west

remains subdued. E-commerce also competitive intensity short term is expected to result in demand moderation. Now with all these headwinds, where do we expect really volumes coming from? Or what is the kind of industry growth are you looking for in your key segments, not in the immediate term, but for the better part of FY '24? That is the first question.

Rampraveen S.: Sure. A great question. I'll come back and reframe that my comment, just to help clarify that.

Amit Dixit: The second question is essentially, if you could just quantify this impact of GoAir, the onetime loss that we took, more of a bookkeeping question.

Rampraveen S.: Absolutely. Good question. I'll take a bookkeeping one first. Always in here. So, I think -- so we had, I think, pending receivables of around INR2.5 crores -- INR2 crores to INR2.5 crores. We can send you a more exact number. If we reach out to the Investor Relations team. But somewhere around INR2 crores, INR2.5 crores was the receivables due from GoAir.

These are for services which are providing largely for their crew and their staff. And obviously, it had us on DSO or receivables for several months. And therefore, what we have done is on a prudent basis is to take provisions against those. Because while we are working with the arbitration the process in terms of finding resolution towards it, we have taken prudent action on that. And that's why I mentioned earlier that we were pretty much close to breakeven at a PBT level in the business.

The second thing, So, for us, in the automotive industry, firstly, we are -- our larger exposure in the auto and farming businesses is to passenger vehicles and commercial vehicles. We don't have -- from a downside perspective, Amit, we don't have a large amount of volumes in the 2-wheeler business, we have specific accounts, which we work with, especially on the electric vehicle side and some accounts on the Bike side. But our larger exposures or larger relationships are in high-end passenger vehicles, both Mahindra and non-Mahindra and commercial vehicles.

And those segments are showing some moderation but continue to be robust. So, I just want to clarify that part of this volume growth we expect to happen to existing accounts is because the accounts we work with are in fairly robust shape. While there might be slightly puts and takes across other parts of the segment we work with, which is the Mahindra, Hyundai, BMW, Mercedes-Benz, right, all of those, Volvo, I think most of those accounts are actually still seeing a fair amount of robustness -- and Ashok Leyland, Eicher so we are still seeing robustness there, both passenger vehicles, trucks, HCVs and buses. So those are, I think, why we are optimistic about our volume growth despite some of the headwinds I mentioned in my earlier comments. E-commerce is seeing some softness, and that's a cyclical thing.

We had some strong growth in the market over the last 3 years. We obviously will have a correction in the markets. For us what is important, what's actually growing is that discrete manufacturing, which is general manufacturing, is seeing some strong growth and the consumer, the FMCG business, especially. So, as I mentioned, consumer durables is kind of flattish. Auto is still good for us, the places accounts, we have a seen volume. E-commerce is

kind of this kind of yellow to red. It is obviously under pressure. But the consumer FMCG and general manufacturing segments are up quite a bit. They're not all because of -- not because existing accounts alone, they're also because of the new accounts we have been winning. I hope that clarifies kind of our view.

But I think what -- if you go back to the fourth quarter where I gave comments on outlook for the full year, I would say that this year, overall, we expect to have slightly slower growth. And I think I still reaffirm that view that we will see, the comments we made back in April, we still believe largely hold true, it will be a year of slightly slower growth on a blended basis, from a revenue perspective.

Amit Dixit: Yes. Okay. Just one follow-up on that GoAir thing. So, this entire INR2.5 crores you have taken provisional or there is something...

Rampraveen S.: No, we have taken all of it. There will be no objection, no future impact -- no negative future impact.

Amit Dixit: Ok Great, Thanks

Moderator: Thank You, The next question is from the line of Krupashankar from Avendus Spark.

Krupashankar: Hi Ram, thank you for the opportunity, I had a question on the warehousing piece of business. So, while you've not provided the space entirely manages roughly about 19 million, you did highlight that there was about 500 lakh square feet reduction. I mean, how do you see the warehousing space addition going ahead or perhaps the warehousing piece of business this year? Because I do see that the overall margin profile of the supply chain business, the 3PL contract logistics business has been improving. And I just wanted to check if there is further avenue of improvement in that particular sector.

Rampraveen S.: Hi Kripa, I think the improvement in supply chain business has been a couple of things I think we have seen where we have -- just our warehousing businesses, we have made a lot of focus on this productivity improvement there, and there's been some yield coming from that. Some bad accounts or poor yield accounts have been shut down, that's helped as well.

And the third one is where we have the integrated solutions. We have been doing a lot more of cost extraction between the warehousing and the transportation basis. And so that's been the 3 big levers we have been working on. And I think that will -- that focus will remain, Krupa, I don't think that changes.

Now how to exactly quantify that, I think it's hard to put a specific number around it. But it has been a focus for us, and it's finally starting to bleed through our numbers. I think this quarter will probably be more stable. But you saw we did some improvement in Q4 of last year, and we've had the improvement now. And the contract logistics business actually has been improving roughly for the last 3 or 4 quarters, quarter-on-quarter. It's not just one quarter's result.

So now in terms of warehousing business itself, I think we are at around 19 million square feet of managed space, roughly 1 million square feet, which has not turned directly into our revenue line. That's roughly 1.3 million square feet is what our Express business is use -- and that's the business -- that's the volume which gets showed up in the express revenues. It doesn't show up against the 3PL revenues as such Krupa.

And as I mentioned in the press release, we have mentioned we are on track for expansion. We believe that there always will be some white space, a little bit of white space will be in the network because we are reconfiguring customers adding volume and actually it's good to have short-cycle capacity. India is a short cycle market for the large part, and therefore, it's a good team to have some of the short-cycle capacity. So perhaps the important is to get a yes right on the square feet, which we are selling, right, even with the level of white space.

And so, I'm not particularly worried about the 0.5 million square foot of white space, which is there. We are working on contracting down the right yields, and that focus will be there. And the addition of new facilities are all on track. I think we mentioned this in the press release. We have a 1 lakh square feet expansion in Nasik, which is on track for Q3 of this year. We have 2 large facilities coming up in Guwahati, the largest in Assam and the largest kind of facility in the Northeast.

If I'm not wrong, we have an expansion, a new multiclient coming up in Calcutta, one coming up in Lucknow. And all of those -- and then, of course, we announced a Chakan facility of 1 million square feet, of which half will come by the end of this fiscal year. And all of them are on track. There is no delay in any of them. We plan to take possession all of those on schedule, and we have a pipeline for all of them. Some of that is reconfiguring our existing customers into those accounts and some of its new clients and new operations.

Krupashankar:

Got it. So, my second question is that I did note that in the presentation, you have stated that the -- you are targeting 18% ROE by FY '26. Now looking at the growth trajectory, given that this year will be relatively slower, I think with respect to overall growth. So, what sort of a revenue CAGR are you targeting perhaps over the next 2 years? Because why -- and I highlighting this is because you've seen that the worst is more or less baked in. And from here on, you perhaps starting in from FY '25, you may see that the growth trajectory can be quite strong. So, what revenue growth target are you expecting over the next 2, 3 years?

Rampraveen S.:

I think we're looking at -- I think we're looking at, I mean, so that's, that's taking guidance. But I think as a said earlier, I think we expect to grow the 3PL business at mid-teens. As you know, there are two big plays in our portfolio. The first one is getting the 3PL business operating at that INR6,500 crore level and having the right earnings use. As I mentioned, We built the scale last year at the end of Q4. We built we feel we have built a point of scale to drive optimization.

And now we are looking at the mid-teen kind of growth every year, Krupa, we have fairly good confidence that we hold. There will be a year when this topic will be a bit slower like this year, but it will bounce back. I mean we've had -- when e-commerce growing, it's growing at

30%, 40%, it's not always going at 7%, 8%. So, I think it's an issue of how networks getting built out. But that's one part.

The second part is growing the network services businesses rapidly. And the first step is, obviously to get the cost structures and earnings to the right point of another point because they are scalable. So, if you look at our network businesses, I think we have -- I think the Lords -- the forwarding business is from a margin profile and returns profile, this has to be scaled up now.

The last -- delivery business, we put a lot of effort last year and this year to get the margins up, because if you remember Krupa, I said that we don't think this will be a 14%, 15% margin business for the medium term 8% or 9%. We had to manage our cost structures to get positive deals there, but we're getting close to that point now. And it's a differentiated mode a lot of focus on electrification.

The MESPL business is the one which we have to get the margin profile of it right. Once we get that right, we can scale it up. So that's why revenue is key. And then if we are able to get the right margin profile unless you have very unfavourable macros like we are seeing in forwarding now, where prices have gone to significant correction. I do believe that the growth is something which you can demonstrate, even the forwarding business, you go back 3 years, the CAGR is around 25% despite the price corrections, right?

So, it's something about our ability to sustain that growth and we remain committed to that. I think, obviously, will it happen exactly by the window, we can have set as an aspiration. It's not -- it may or may not happen. But then because the number is completely possible, it wouldn't be an aspiration. It's a chicken and egg thing rather go long on it. And as we stand even continue focusing on time will tie with that result to that point.

Krupashankar:

Got it Ram, thank you and all the best.

Moderator:

Thank You. The next question is from the line of Jainam Shah from Equirus Securities Private Limited, please go ahead.

Jainam Shah:

Sir my question is related to just a bookkeeping point. So, can you please bifurcate the SCM revenue between Mahindra and non-Mahindra businesses?

Rampraveen S.:

Yes, the Mahindra business is revenue 51% overall so we index it, so slightly higher obviously on SCM because mobility was 6%.

Jainam Shah:

Got it Sir, Thank You.

Moderator:

Thank You, The next question is from the line of Saras from Haitong, please go ahead.

Saras:

Hi Ram, so, my question is mainly on the mobility business. So, can you guide us on how it will pan out for the rest of the year? What kind of improvement are we seeing in the reversal of work-from-home trends? And like you had mentioned about the airport business doing well. So, can you give some numbers or directionally growth for FY '24?

Rampraveen S.:

Sure. I think from an immediate perspective where I think the airport business, the growth there is driven really by 2 factors: One, obviously, is our in-airport growth, right, and the second one is around expanding to newer cities. I think we are revising our electric vehicle fleet for growth in our airport operations right now because we have to augment it to drive substantial growth there. But broadly, I think the platform revenue level, as you know, the Meru business has platform accounting revenue, which is different because of the aggregator model we use an accounting treatment associated with that.

But broadly, as in the platform level, we expect revenue growth to be 15%, 17% in that range. That's a range it was in the first quarter as well. In the first quarter, we saw substantial growth in the enterprise transportation side. And that's come from 2 things; one is return to work increasing across some of our clients and the second one is the addition of declines.

I think even as we speak now, the incremental impact of the return to office is lesser than new trend addition we had. And one of the few things which I mentioned in the past is they're doing core a lot of people in this industry actually on the supplies side kind of exited the industry because the volumes fell off so much.

And so, as volumes are coming back now, we are seeing several other countries and at other mobility companies shut down operations, and that's giving us some headroom in terms of going and acquiring those accounts. So, in Q1, I think the bigger impact was probably split half year slightly in favour of new accounts coming in compared to the pure impact of return to office. And that should accelerate a little bit. So, from a full year perspective, I think what we had given as in directionally is that we expect that, the mobility business will become profitable again on a fully consolidated basis this year.

And as a turnaround, we kind of said we will would do, the Meru business we acquired, have lost INR22 crores -- around INR19.5 crores at a PAT level in F '21-'22. and we said that we will improve it within 2 years and make the consolidated business profitable. And we expect fully to be on track for that. I won't give specific guidance at us on how much of profitability but despite what we saw in Q1, we expect on a full year basis the mobility business will turn around and become profitable.

Saras:

Got it, Thank You.

Moderator:

Thank you, The next question is from the line of Ankita Shah from Elara Capital, please go ahead.

Ankita Shah:

Yes, thank you Sir, you mentioned on the B2B Express business there is a 25%-30% decline in volume and we're looking to turnaround by the second half of the year. So, any benchmark volume number where you think this is required to breakeven the segment at what level of volume?

Rampraveen S.:

So, Ankita, as I said earlier on in my earlier comments, we had around 4 lakh tons, right, on a consolidated basis, and we need it to be around 10% above that to be on a full EBITDA base -- breakeven basis, including synergy. So, we are down around 25% from where we were.

So, if we do the math we need around 30,000, 35,000 tons of volume, right, probably on 35,000 tons of volume and then the synergies to play out. So, there is a lot of work around that and somewhere in the middle of Q3, we expect to be able to get there. Early signs of volume growth are positive. I think Alok had asked a question about our confidence in those numbers, we said I think July numbers are ticking up in the right direction and therefore, we'll have to consolidate and execute better. That's the plan.

Ankita Shah: Got it. Got it. And on the 3PL contract logistics side, you mentioned about M&M, non-M&M mix but about the sector mix, given that there has been a lot of mixed bag in terms of the sector exposure and some sectors doing well and not doing well for us. So, what is the sector mix for contract logistics business right now?

Rampraveen S.: It's not changed much. I think broadly, I think automotive for us, the way we report our business, automotive farm, which is largely the M&M business is on 50%, 51%. The non -- consumer and manufacturing business, as we call it, which includes FMCG durables, discrete manufacturing and some of the auto components and non-M&M auto volumes, that's around 35% and the e-commerce business probably is on the 15% range.

And that moves quarter-on-quarter base like in the December -- in Q3 the share of e-commerce will increase because the festival will drive some of that. So, it's quarter-on-quarter and month-on-month changes, but that's kind of a bellwether number, given kind of just where the structure is being changed now.

Ankita Shah: Okay. Yes. And lastly, I don't know if you've already answered this, I got dropped off in between. The higher tax rate is on account of...

Rampraveen S.: Effective tax rate -- and I would request you just said that's a note to Investor Relations. But I think the effective tax rate for the quarter was 26%. That was pretty much in line with last year was 25.8%.

Ankita Shah: Okay. I'll take out -- because the number was very high, the tax incidence overall...

Rampraveen S.: I understand if you look at deck, I think, Ankita, you'll see that a standalone basis, if you compared last year, MLL profits were around INR19 crores, and the tax rate was around 25.8%. And this year, the MLL PBT is INR31 crores, and the tax rate is around 26%. That is the largest weightage in the overall tax profile. But please do send us a note on Ankita, we will send you ans...

Ankita Shah: Thank you and wish you all the best

Moderator: Thank You, Ladies and gentlemen, that would be our last question for today. I now hand the conference back to Mr. Rampraveen Swaminathan for closing comments. Thank you, and over to you, sir.

Rampraveen S.: Thank you, everyone. I hope we've been able to answer all your questions satisfactorily. However, if you need any further clarifications or want to know more, but the company need

any further clarifications or wants to know more, the company is pleased to contact our SGA our Investor Relations Advisors. Thank you once again for joining us on the call, and wish you a great week ahead. Thank you.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Mahindra Logistics Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines. Thank you.
