

July 31, 2020

Asset light model benefit visible in uncertain environment

Mahindra Logistics reported 54% decline in revenue to ₹ 410 crore owing to 51%, 82% decline in SCM, PTS revenues to ₹ 392 crore, ₹ 18 crore, respectively. PTS segment (normally ~10% of revenue) has been severely impacted owing to work from home policy adopted by corporates. However, warehousing segment continued to remain resilient and fell 11%. The company owing to its asset light model was able to reduce other expenses by 40% YoY, enabling it to restrict loss at EBITDA level to ₹ 2.2 crore. Lower other income and higher depreciation & interest expense led the company to report a net loss of ₹ 16 crore (I-direct estimate: loss of ₹ 42 crore) vs. net profit of ₹ 18.6 crore in Q1FY20.

Opportunity in adversity for 3PL companies

Social distancing norms have made it challenging for companies to maintain turnaround times and also led to higher logistics costs. Specialised 3PL companies in such an environment can provide reduced logistics costs, better turnaround time to each client due to greater efficiency, lower capex, better utilisation levels vs. each company's internal logistics operations. MLL ended with ~400 clients in FY20 & expects 30-40 client additions each year. Even in a tough environment in Q1FY21, it onboarded several new clients.

Sequential MoM recovery; growth expected to rebound in FY22

Revenue, gross profit MoM have recovered sharply. Revenue for June increased to ₹ 213 crore from ₹ 76 crore in April, ₹ 120 crore in May. Similarly gross profit for June reached ₹ 21 crore (10% of monthly revenue) from ₹ 6.7 crore in April (8.7% of monthly revenue). MLL's warehousing, value added services revenue fall was moderate due to continuity of services to essential sectors. It saw positive traction from e-commerce, FMCG, pharma verticals. While economic growth is expected to normalise in H2FY21, we expect auto growth (normally ~ 60% of SCM revenues) to stay subdued in FY21 and normalise in FY22. However, non-Mahindra non-auto SCM revenues are expected to be buoyed by growth in both transportation, value-added services provided to clients (warehousing, in-factory logistics).

Valuation & Outlook

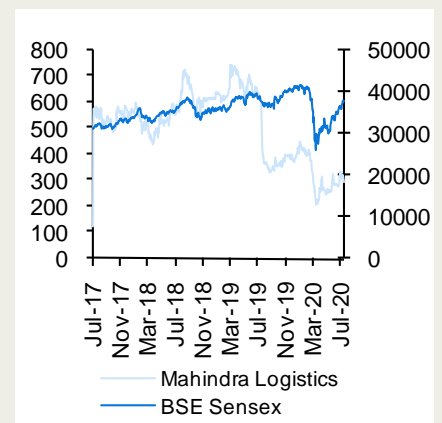
With asset heavy players, startups in the logistics sector seeing greater stress in cashflow management, inflated costs, MLL is well placed to face the crisis, with strong financials to take advantage of expected consolidation in the sector. While auto continues to dominate MLL's business segments, it has been steadily building up its presence in e-commerce, pharma, consumer segments. Also, with changing client profile, it has been able to leverage the situation by enhancing high margin warehousing, value-added services (up 16% in FY20) component in its revenue mix. We remain positive on MLL's future prospects but as the stock has rallied ~20% in last three months, we downgrade to **HOLD** with revised TP of ₹ 330 (~30x FY22 EPS).



Stock data

Market Capitalisation (₹cr)	2,069.6
Debt (FY 20) (₹cr)	29.3
Cash (FY 20) (₹cr)	99.5
EV (₹cr)	1,999.4
52 Week High / Low (₹)	458/195
Equity Capital (₹cr)	71.5
Face Value (₹cr)	10.0

Price chart



Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	58.5	58.5	58.4	58.4
Others	41.5	41.5	41.6	41.6

Key Highlights

- Mahindra SCM de-grew 65% in Q1FY21
- Non-M&M warehousing & VAS segment de-grew 11% in Q1FY21
- Downgrade from BUY to HOLD with revised target price of ₹ 330

Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR
Net Sales	3,416.1	3,851.3	3,471.1	3,267.8	3,825.1	2.9%
EBITDA	119.7	151.2	158.3	111.1	187.4	11.9%
PAT	64.0	85.6	55.1	21.1	78.3	5.2%
P/E (x)	36.8	27.5	42.7	111.8	30.1	
M.Cap/Sales (x)	0.7	0.6	0.7	0.7	0.6	
RoCE (%)	23.4	25.8	24.6	14.9	25.2	
RoE (%)	15.3	17.2	10.1	3.9	13.0	

Source: Company, ICICI Direct Research

Research Analyst

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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	410.5	300.9	899.0	-54.3	813.7	-49.6	Subdued YoY growth mainly on the back of de-growth in auto and non-SCM revenues
Operating expenses	329.2	258.7	767.2	-57.1	697.4	-52.8	
Employee Expenses	73.2	60.2	74.5	-1.8	75.6	-3.2	
Other Expense	10.3	12.0	17.2	-40.2	19.3	-46.5	
Total Expense	412.7	330.9	859.0	-52.0	792.2	-47.9	
EBITDA	-2.2	-30.1	40.0	PL	21.5	PL	
EBITDA Margin (%)	-0.5	-10.0	4.5	-499 bps	2.6	-318 bps	EBITDA margins contraction due to lower operating leverage
Depreciation	18.4	8.1	14.9	23.9	7.9	133.5	
Interest	4.6	0.7	3.6	28.2	0.8	490.9	
Other Income	2.8	1.1	7.0	-59.9	1.1	165.1	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	0.0	NA	
PBT	-22.4	-37.8	28.6	PL	13.9	PL	
Total Tax	-5.9	3.8	10.0	-159.2	3.6	-262.5	
PAT	-16.5	-41.6	18.7	PL	10.3	PL	
Key Metrics	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	
Mahindra SCM revenues	172.0	390.9	489.0	-64.8	392.5	-56.2	YoY de-growth due to weak auto sales performance of M&M
Non-Mahindra SCM reve	220.5	396.5	311.9	-29.3	337.9	-34.7	
SCM revenues	392.5	787.4	800.9	-51.0	730.4	-46.3	
PTS revenues	17.8	85.8	98.0	-81.8	81.3	-78.1	

Source: Company, ICICI Direct Research

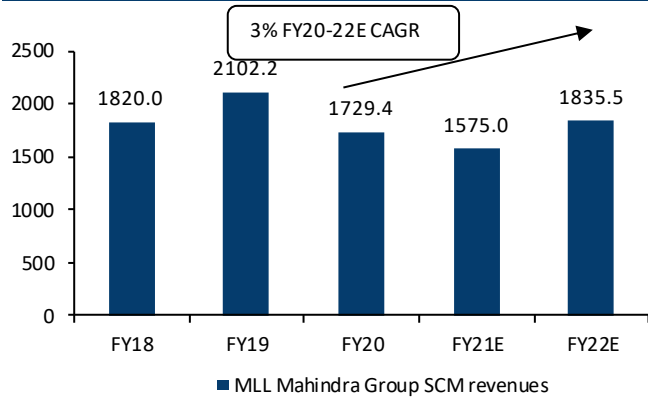
Exhibit 2: Change in estimates

(₹Crore)	FY21E					FY22E			Comments
	FY 19	FY 20	Old	New	% Change	Old	New	% Change	
Gross Revenue	3,851.3	3,471.1	3,387.6	3,267.8	-3.5	3,745.7	3,825.1	2.1	Revenue estimates for FY 21 impacted mainly due to continued downturn in the auto sector and covid19 impact
EBITDA	151.2	158.3	98.2	111.1	13.1	127.4	187.4	47.1	
EBITDA Margin (%)	3.9	4.6	2.9	3.4	50 bps	3.4	4.9	150 bps	
PAT	85.6	55.1	51.2	21.1	-58.8	70.1	78.3	11.6	
EPS (₹)	12.0	7.7	7.2	3.0	-59.0	9.8	11.0	11.9	

Source: Company, ICICI Direct Research

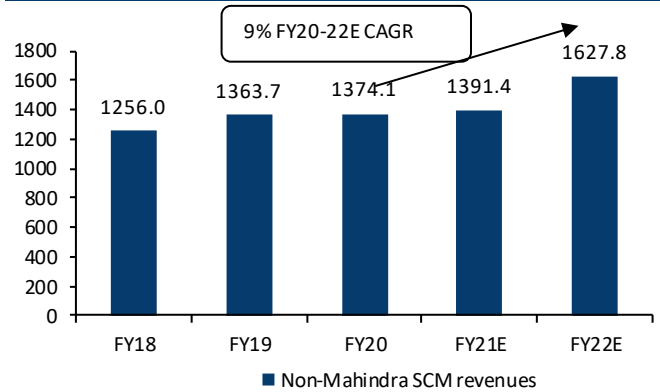
Key Metrics

Exhibit 3: Mahindra group SCM revenues



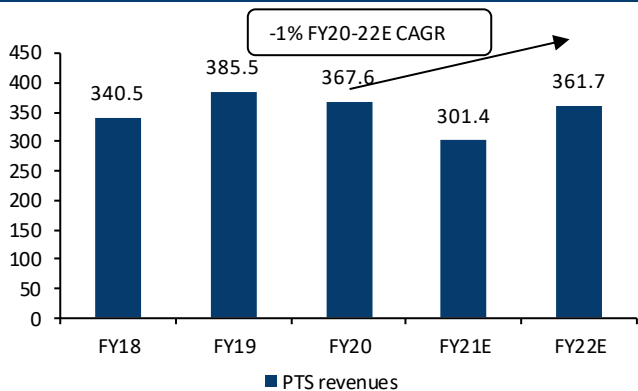
Source: ICICI Direct Research, Company

Exhibit 4: Non-Mahindra SCM revenues



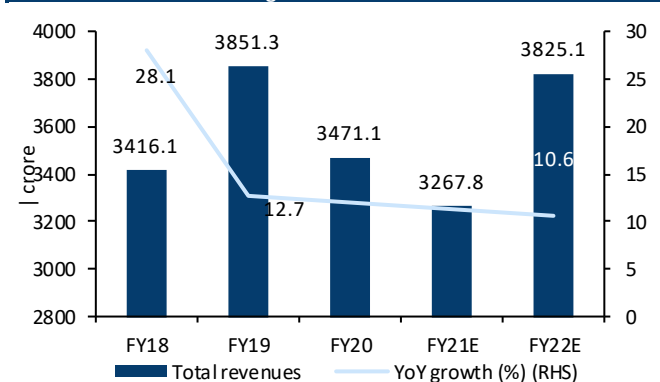
Source: ICICI Direct Research, Company

Exhibit 5: PTS revenues



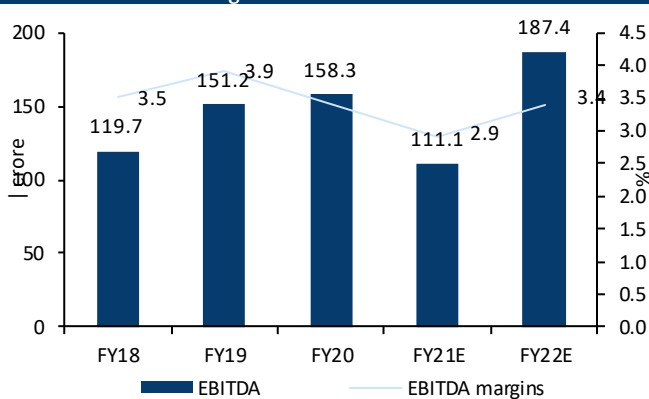
Source: ICICI Direct Research, Company

Exhibit 6: Revenues to grow at CAGR of 4% over FY20-22



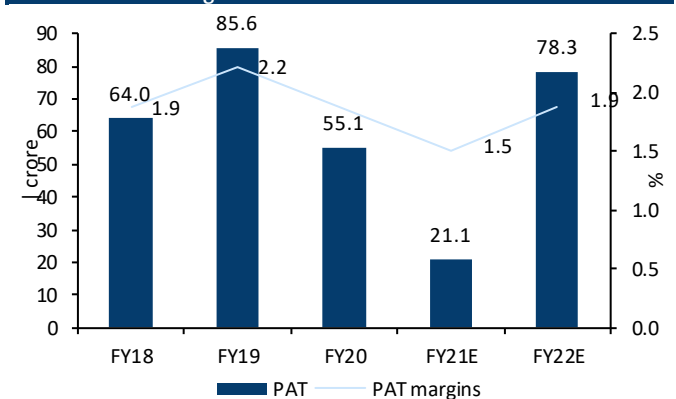
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA to grow at CAGR of 8.8% over FY20-22



Source: Company, ICICI Direct Research

Exhibit 8: PAT to grow at CAGR of 19.1% over FY20-22



Source: Company, ICICI Direct Research

Exhibit 9: Valuation parameters

Year	Sales (₹cr)	Sales Gr. (%)	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY 18	3416.1	28.1	9.0	40.3	32.3	17.0	15.3	23.4
FY 19	3851.3	12.7	12.0	34.2	24.2	13.4	17.2	25.8
FY 20	3471.1	-9.9	7.7	-35.1	37.5	12.6	10.1	24.6
FY 21E	3267.8	-5.9	3.0	-61.9	98.2	18.6	3.9	14.9
FY 22E	3825.1	17.1	11.0	268.6	26.4	11.0	13.0	25.2

Source: ICICI Direct Research; Reuters

Financial Summary

Exhibit 10: Profit & Loss Statement					₹ crore
(Year-end March)/ (₹crore)	FY19	FY20	FY21E	FY22E	
Total Operating Income	3,851.3	3,471.1	3,267.8	3,825.1	
Growth (%)	12.7	-9.9	-5.9	17.1	
Freight Expense and Charges	3,372.4	2,934.2	2,777.6	3,213.1	
Gross Profit	478.9	537.0	490.2	612.0	
Gross Profit Margins (%)	12.4	15.5	15.0	16.0	
Employee Expenses	263.8	306.7	310.4	344.3	
Other Expenditure	63.9	72.1	68.6	80.3	
Total Operating Expenditure	3,700.1	3,312.9	3,156.7	3,637.6	
EBITDA	151.2	158.3	111.1	187.4	
Growth (%)	26.3	4.6	-29.8	68.7	
Interest	3.5	17.6	17.7	17.8	
Depreciation	22.0	73.4	76.1	78.0	
Other Income	7.6	14.0	11.4	13.4	
PBT before Exceptional Items	133.4	81.2	28.7	105.0	
Less: Exceptional Items	0.0	0.0	0.0	0.0	
PBT after Exceptional Items	133.4	81.2	28.7	105.0	
Total Tax	46.8	25.7	7.2	26.4	
PAT before MI	86.7	55.5	21.5	78.5	
Minority Interest	0.8	-0.3	0.3	0.3	
PAT	85.9	55.7	21.2	78.3	
EPS Growth (%)	34.2	-35.1	-61.9	268.6	
EPS (Adjusted)	12.0	7.7	3.0	11.0	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow Statement					₹ crore
(Year-end March)/ (₹crore)	FY19	FY20	FY21E	FY22E	
Profit/(Loss) after taxation	85.6	55.1	21.1	78.3	
Add: Depreciation & Amortization	22.0	73.4	76.1	78.0	
Add: Interest Paid	3.5	17.6	17.7	17.8	
Net Increase in Current Assets	-245.7	25.0	26.4	-87.7	
Net Increase in Current Liabilities	137.8	5.1	-79.1	92.5	
Others	91.8	-90.8	-7.9	-5.4	
CF from Operating activities	95.0	85.4	54.2	173.6	
(Purchase)/Sale of Fixed Assets	-34.2	-62.4	-35.0	-35.0	
Long term Loans & Advances	0.0	0.0	0.0	0.0	
Investments	-25.3	-26.3	-0.7	-50.0	
Others	-52.0	45.5	-37.3	-37.4	
CF from Investing activities	-77.3	19.2	-38.1	-87.4	
(inc)/Dec in Loan	2.3	0.8	-5.0	-5.0	
Dividend & Dividend tax	-12.9	-16.4	-19.8	-19.8	
Less: Interest Paid	-3.5	-3.6	-2.9	-2.3	
Other	0.3	-55.8	-58.6	-61.5	
CF from Financing activities	-13.7	-75.0	-86.3	-88.6	
Net Cash Flow	3.9	29.6	-70.1	-2.4	
Cash and Cash Equivalent at the be	66.0	70.0	99.5	29.4	
Cash and Cash Equivalent at the en	70.0	99.5	29.4	27.0	

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Equity Capital	71.5	71.5	71.5	71.5	
Reserve and Surplus	426.8	473.1	474.4	532.8	
Total Shareholders funds	498.2	544.6	545.8	604.3	
Minority Interest	5.7	5.4	5.4	5.4	
Total Debt	28.5	29.3	24.3	19.3	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Long-Term Provisions	0.0	0.0	0.0	0.0	
Other Non Current Liabilities	16.4	15.7	16.0	16.3	
Source of Funds	548.8	595.0	591.6	645.3	
Gross Block - Fixed Assets	145.3	369.5	464.5	559.5	
Accumulated Depreciation	78.3	142.9	219.0	297.1	
Net Block	67.0	226.6	245.5	262.5	
Capital WIP	2.6	15.0	15.0	15.0	
Fixed Assets	69.6	241.7	260.6	277.5	
Investments	10.4	36.7	37.4	87.4	
Goodwill on Consolidation	4.3	4.3	4.3	4.3	
Deferred Tax Assets	18.7	20.0	20.0	20.0	
Other non-Current Assets	120.3	132.6	135.3	138.0	
Inventory	77.5	0.0	0.0	0.0	
Debtors	631.7	522.4	492.4	576.4	
Loans and Advances	202.7	364.5	368.1	371.8	
Other Current Assets	0.0	0.0	0.0	0.0	
Cash	70.0	99.5	29.4	27.0	
Total Current Assets	981.8	986.5	890.0	975.2	
Creditors	600.1	617.2	537.2	628.8	
Provisions	5.2	5.6	5.7	5.9	
Other Current Liabilities	51.1	204.0	213.0	222.5	
Total Current Liabilities	656.3	826.8	755.9	857.1	
Net Current Assets	325.5	159.7	134.0	118.1	
Application of Funds	548.8	595.0	591.6	645.3	

Source: Company, ICICI Direct Research

Exhibit 13: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Reported EPS	12.0	7.7	3.0	11.0
BV per share	69.8	76.3	76.5	84.7
Cash per Share	9.8	13.9	4.1	3.8
Dividend per share	1.8	2.3	2.8	2.8
Operating Ratios (%)				
Gross Profit Margins	12.4	15.5	15.0	16.0
EBITDA margins	3.9	4.6	3.4	4.9
PAT Margins	2.2	1.6	0.6	2.0
Inventory days	7.3	0.0	0.0	0.0
Debtor days	59.9	54.9	55.0	55.0
Creditor days	56.9	64.9	60.0	60.0
Asset Turnover	26.5	9.4	7.0	6.8
Return Ratios (%)				
RoE	17.2	10.1	3.9	13.0
RoCE	25.8	24.6	14.9	25.2
RoIC	28.3	27.7	13.9	24.7
Valuation Ratios (x)				
P/E	24.2	37.5	98.2	26.4
EV / EBITDA	13.4	12.6	18.6	11.0
EV / Net Sales	0.5	0.6	0.6	0.5
Market Cap / Sales	0.5	0.6	0.6	0.5
Price to Book Value	4.2	3.8	3.8	3.4
Solvency Ratios				
Debt / EBITDA	0.2	0.2	0.2	0.1
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.4	1.3	1.5	1.4

Source: Company, ICICI Direct Research

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