



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

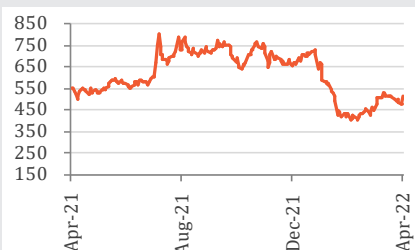
Company details

Market cap:	Rs. 3,715 cr
52-week high/low:	Rs. 819/396
NSE volume: (No of shares)	1.4 lakh
BSE code:	540768
NSE code:	MAHLOG
Free float: (No of shares)	3.0 cr

Shareholding (%)

Promoters	58.2
FII	20.4
DII	12.1
Others	9.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.3	-12.1	-21.4	-6.4
Relative to Sensex	12.7	-11.4	-16.2	-20.7

Sharekhan Research, Bloomberg

Mahindra Logistics Ltd

A comeback quarter; Outlook positive

Logistics	Sharekhan code: MAHLOG		
Reco/View: Buy	↔	CMP: Rs. 516	Price Target: Rs. 630
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain a Buy on the stock of Mahindra Logistics Limited (MLL) with a revised PT of Rs. 630, assigning a higher valuation multiple.
- MLL reported an in-line operational performance for Q4FY2022 with consolidated revenues rising by 10% y-o-y with an improvement in OPM by 86bps q-o-q.
- The company expects H2FY2023 to show strong growth led by a revival in growth in auto and other end-user industries. The OPM is expected to inch up gradually.
- Over the longer term, rise in volumes, change in revenue mix, and lower impact of IND AS are expected to drive net earnings.

Mahindra Logistics Limited (MLL) reported largely in-line operational performance for Q4FY2022. The consolidated revenues were up 10.1% y-o-y at Rs. 1073 crore driven by supply chain management (SCM) revenue growing by 11.4% y-o-y led by non-M&M revenue rising by 16.5% y-o-y. SCM auto revenues grew by 6.9% y-o-y as the sector continued to be affected by semi-conductor challenges. The consolidated OPM at 5.1% (up 38 bps y-o-y) was marginally higher than our expectation as it was able to optimize capacities and rationalize manpower costs which had an adverse impact during Q3FY2022. Further, higher depreciation (up 43% y-o-y) led by the addition of warehousing space led to a 20% y-o-y dip in consolidated net profit, although was better than our estimate. The management expects H2FY2023 to be strongly led by a revival in growth in auto and other end-user industries. Over the longer term, rise in volumes (higher overhead absorption), change in the mix (higher 3PL warehousing versus transportation), and lower impact of IND AS (matured capacities to lead to lower interest and depreciation charge) are expected to drive net earnings.

Key positives

- SCM non-auto revenues grew by 25.2% y-o-y at Rs. 433 crore.
- Warehousing and value-added services grew by 53% y-o-y at Rs. 207 crore.
- SCM gross margins improved 115 bps q-o-q to 10.1%.

Key negatives

- Enterprise mobility revenues declined by 23.2% y-o-y to Rs. 27 crores affected by Omicron-led restrictions during the first half of Q4FY2022.
- EM business gross margins declined 265 bps q-o-q to 6.2%.

Management Commentary

- The company expects H2FY2023 to show strong growth led by a strong revival in auto and end-user industries. H1FY2023 is expected to be muted due to uncertainties and higher oil prices.
- The net earnings were negatively impacted during Q4 by 2x2 Logistics and lower margins in Enterprise mobility.
- The company expects optimization of the distribution channel for Bajaj Electricals to be largely completed in Q1FY2023.
- The company now had 700 EV cargo vehicles. It is committed to scaling to 3000 vehicles going ahead.

Revision in estimates – We have lowered our net earnings estimates for FY2023-FY2024, factoring in higher depreciation charges.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 630: The company has revived its operational performance-optimizing capacities and rationalizing manpower costs which are expected to inch up going ahead. The company continues to focus on the addition of warehousing capacities, scaling up network services business, and eyeing capabilities-based acquisitions in the logistics space. The company's five-year revenue target of Rs. 10,000 crore remains intact along with net profit margin expansion. We remain optimistic about the long-term growth potential for MLL. Hence, we increase our valuation multiple, leading to a revised price target (PT) of Rs. 630. We retain our Buy recommendation on the stock.

Key Risks

Weakness in the auto industry's outlook is a key downside risk to our call.

Valuation (Consolidated)

	Rs cr			
Particulars	FY21	FY22	FY23E	FY24E
Revenue	3,263.7	4,083.0	4,885.3	5,729.9
OPM (%)	4.1	4.8	5.3	5.6
Adjusted PAT	32.7	37.1	57.2	93.1
% YoY growth	(40.6)	13.2	54.3	62.7
Adjusted EPS (Rs.)	4.6	5.2	8.0	13.0
P/E (x)	113.0	100.1	64.9	39.9
P/B (x)	5.8	5.6	5.2	4.6
EV/EBITDA (x)	26.8	18.2	14.0	11.3
RoNW (%)	5.9	6.4	9.2	13.4
RoCE (%)	8.0	9.2	12.0	15.6

Source: Company; Sharekhan estimates

An in-line operational performance

Mahindra Logistics reported 10.1% y-o-y rise (-4% q-o-q) in consolidated revenues at Rs. 1073 crore which was in line with our estimate. The Supply chain management revenues (97% revenue share) rose by 11.4% y-o-y (-2.8% q-o-q) at Rs. 1045 crore. The Enterprise Mobility Services (3% revenue share) de-grew by 23% y-o-y (-36.1% q-o-q) to Rs. 27 crore. The company's OPM at 5.1% (+38bps y-o-y, +86bps q-o-q) was a tad above our estimate of 4.9%. Higher gross margins in SCM business (+30bps y-o-y, +115bps q-o-q) at 10.1% led to the overall improvement in operational performance. The consolidated operating profit grew by 19% y-o-y (+15.3% q-o-q) to Rs. 55 crore which was marginally better than our expectation. Consolidated adjusted net profit at Rs. 12.2 crore (better than our estimate) declined by 20% y-o-y (up 115% q-o-q) led by higher depreciation (up 43% y-o-y).

Expect strong growth in H2FY2023

MLL's outlook remains strong, as demand is expected to rebound given a revival in the automobiles sector and sustained growth in the consumer space going ahead. The company expects H2FY2023 to show strong growth led by a strong revival in the auto end-user industries. H1FY2023 is expected to be muted due to uncertainties and higher oil prices. Growth would also be driven by expansion in business from existing clients and revenue flowing from new client addition. Over a longer-term, a rise in volumes (higher overhead absorption), changes in the mix (higher 3PL warehousing versus transportation), and lower impact of IND AS (matured capacities to lead to lower interest and depreciation charge) are expected to drive net earnings.

Key conference call takeaways -

- ♦ **Guidance:** The company expects H2FY2023 to show strong growth led by a strong revival in auto and end-user industries. H1FY2023 is expected to be muted due to uncertainties and higher oil prices.
- ♦ **Impact on net earnings:** The net earnings were negatively impacted during Q4 by 2x2 Logistics and lower margins in Enterprise mobility. 2x2 Logistics is an outbound service provider for auto having owned car trailers. Volatility in demand leading to downtime and rise in fuel prices led to Rs. 6 crore net loss for FY2022.
- ♦ **End User Sector performance and outlook:** Auto continued to face headwinds. Two-wheelers underperformed due to weakness in rural segment. Three-wheeler witnessed a decline. Commercial demand saw an uptick with strong growth for its major customers. Farm and Agro witnessed a slowdown over a larger part of the year. E-commerce demand was steady but lower than expected. There was a lower level of network expansion from existing large customers. Mid and the first mile were slow. In the Consumer sector, consumer durables underperformed during the first half of Q4. However, it saw an increase in dealer stockings. Demand for ACs recovered with other categories seeing steady demand.
- ♦ **Enterprise mobility:** Omicron restrictions from January mid-February affected the segment. The company expects recovery from H2FY2023 as per its interaction with clients.
- ♦ **Bajaj account:** The company expects optimization of the distribution channel to be largely completed in Q1FY2023.
- ♦ **ZipZap logistics:** The acquisition under Whizzard would benefit the company in the last mile business.
- ♦ **Meru:** Meru's loss stood at ~Rs. 20 crore in FY2022 although it achieved EBITDA breakeven in March 2022.
- ♦ **Freight Forwarding:** The segment's revenue stood at Rs. 450 crore out of Rs. 850 crore revenue contribution from non-3PL businesses for FY2022. The margins increased to 5.5% in FY2022 from 3.9% in FY2021. Net profit stood at Rs. 16 crore versus Rs. 6.5 crore. The strong growth was led by mix change (higher Ocean compared to air), price increase due to global challenges, and volume growth double-digit y-o-y growth in terms of TEUs). The company would focus on expanding service offering, offering charter services in the air, and expanding international operations in Ocean.
- ♦ **Warehousing & solutions:** The business contributed Rs. 1000 crore in FY2022. Warehousing has early to mid-teen margins while transportation is 7%. The company added 2.3msf in FY2022 locking rental for the next 5-7 years.

- ♦ **EDEL:** The company now had 700 EV cargo vehicles. It is committed to scaling to 3000 vehicles going ahead.
- ♦ **Yield improvement in Warehousing:** The company saw improvement in yields in the warehousing business in FY2022 which was led by 1) Mix change from stockyards to non-stock yards warehousing (capacity increased by 22% y-o-y) 2) Growth driven majorly from 2.3msf addition of managed facilities and 3) carrying out more of processing work than plain vanilla storage service.
- ♦ **Margin improvement levers:** The company was able to improve upon margins on account of 1) improvement in ongoing projects 2) increasing utilization of existing facilities by optimizing capacities and 3) optimizing manpower & inflation challenges.

Results (Consolidated)

Particulars	Q4FY2022	Q4FY2021	y-o-y %	Q3FY2022	q-o-q %
Net sales	1072.7	974.0	10.1%	1117.9	-4.0%
other income	5.7	4.7	22.4%	2.6	117.2%
Total income	1078.4	978.7	10.2%	1120.5	-3.8%
Total expenses	1023.4	927.8	10.3%	1070.2	-4.4%
Operating profit	55.0	46.2	19.1%	47.7	15.3%
Depreciation	37.4	26.1	43.4%	35.7	4.7%
Interest	9.1	5.6	62.0%	7.5	21.7%
Exceptional items	0.0	-2.8		0.0	
Profit Before Tax	14.2	16.4	-13.4%	7.1	99.3%
Taxes	3.1	4.0	-22.4%	2.1	50.2%
PAT	11.1	12.4	-10.5%	5.1	119.1%
Minority Interest	-1.1	-0.2	552.9%	-0.6	79.0%
Adjusted PAT	12.2	15.3	-20.3%	5.7	114.8%
EPS (Rs.)	1.7	2.1	-20.3%	0.8	114.8%
			Bps		Bps
OPM (%)	5.1%	4.7%	38 bps	4.3%	86 bps
NPM (%)	1.1%	1.6%	-43 bps	0.5%	63 bps
Tax rate (%)	21.7%	24.2%	-253 bps	28.8%	-709 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Strong growth outlook led by changing consumer preferences and macro pick-up

The logistics industry had been one of the key sectors, which showed a strong revival post-COVID-19 pandemic that affected the overall trade environment both domestically and globally. Domestic indicators such as e-way bill generations, FASTag collections, Indian rail volumes, domestic port volumes, and foreign trade are showing clear signs of revival. Further, organised domestic logistics players have been able to improve their business, led by user industries preferences towards credible supply chain management in the wake of the impact of COVID-19 on supply chain operations. Further, the third-party logistics (3PL) industry has seen faster improvement in operations, led by segments such as e-commerce, pharma, and FMCG. Hence, we have a positive view of the sector.

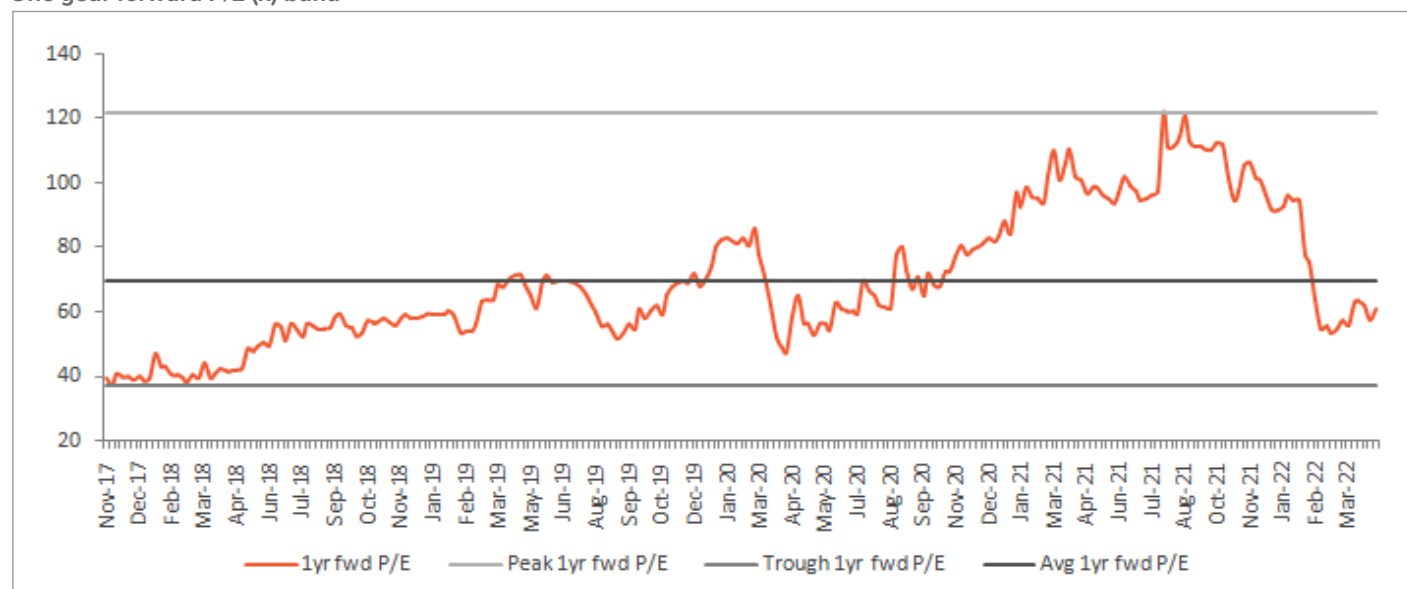
■ Company outlook - On a growth path

MLL is on an improving growth trajectory, which is expected to gather pace with the unlocking of the economy as the impact of the COVID-led second wave recedes. Meanwhile, MLL has been able to add key clients and has gone live with a few clients. In the post COVID era, the company expects to benefit from the increasing reliance of clients on smart supply chain management solution providers such as itself. A strong revival in the auto sector and growth momentum in the consumer space are expected to lead to strong revenue growth for MLL going ahead. The company continues to focus on providing integrated logistics solutions, adding new warehousing capacities, and new clients.

■ Valuation - Retain Buy with a revised price target of Rs. 630

The company has revived its operational performance-optimizing capacities and rationalizing manpower costs which are expected to inch up going ahead. The company continues to focus on the addition of warehousing capacities, scaling up network services business, and eyeing capabilities-based acquisitions in the logistics space. The company's five-year revenue target of Rs. 10,000 crore remains intact along with net profit margin expansion. We remain optimistic about the long-term growth potential for MLL. Hence, we increase our valuation multiple, leading to a revised price target (PT) of Rs. 630. We retain our Buy recommendation on the stock.

One year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBIDTA (x)		EV/EBIDTA (x)		RoCE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Mahindra Logistics	64.9	39.9	14.0	11.3	5.2	4.6	9.2	13.4
TCI Express	41.6	34.1	29.8	24.3	9.9	7.9	26.8	25.9

Source: Company, Sharekhan estimates

About company

MLL is a portfolio company of Mahindra Partners, the \$1 billion private equity division of the \$19-billion Mahindra Group. MLL is an integrated third-party logistics (3PL) service provider, specializing in supply chain management and people transport solutions. Founded more than a decade ago, MLL serves over 300 corporate customers across various industries such as automobiles, engineering, consumer goods, and e-commerce. The company pursues an asset-light business model under which assets necessary for its operations such as vehicles and warehouses are owned or provided by a large network of business partners on lease rentals, while MLL largely invests in logistics technology. The company provides customised and technology-enabled solutions that span across the supply chain and people transport operations.

Investment theme

MLL has gathered pace in both of its key verticals viz. M&M SCM and non-M&M SCM businesses, are expected to sustain going forward. The company continues to focus on providing integrated logistics solutions and has been able to add new clients and warehousing capacities each quarter. Further, MLL's venture into last-mile small package deliveries through EV would capture the strong growth in the express delivery segment. The company continues to generate strong cash flows following its asset-light model.

Key Risks

- ♦ Slowdown in the automotive industry can affect financials due to its high dependency.
- ♦ Changes in the supply chain strategy of Mahindra group can negatively affect its financials due to its high dependency.
- ♦ The industry is highly competitive and fragmented with low entry barriers.

Additional Data

Key management personnel

Zhooben Bhiwandiwal	Chairman, Non-Executive Director
Rampraveen Swaminathan	Chief Executive Officer
Yogesh Patel	Chief Financial Officer
Brijbala Batwal	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mahindra & Mahindra Ltd	58.40
2	Reliance Capital Trustee Co Ltd	4.66
3	First State Investments ICVC	3.86
4	Goldman Sachs Group Inc/The	2.48
5	Invesco Trustee Private	1.86
6	BHANSHALI AKASH	1.85
7	MOTILAL OSWAL FOC EMERG FD	1.26
8	Federated Hermes	0.97
9	Motilal Oswal Asset Management	0.88
10	Frostrow Capital LLP	0.86

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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