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Stock Update

Company Update

Mahindra Logistics Ltd

Luhari warehouse highlights inherent capabilities

Logistics		Sharekhan code: MAHLOG		
Reco/View: Buy	↔	CMP: **Rs. 451**	Price Target: **Rs. 630**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We retain Buy on Mahindra Logistics Limited (MLL) with an unchanged PT of Rs. 630 based on its long-term growth potential, led by inherent capabilities.
- Our visit to MLL's leased Grade A warehousing facilities at LOGOS Luhari Logistics Estate underscores its capabilities of providing integrated, customised solutions for inbound, fulfillment, and warehousing services.
- Management reiterated its FY2026 revenue target of Rs. 10,000 crore along with 200 bps net margin expansion to 3%. However, existing site volumes remain firm but slowdown is visible on client's expansion plans.
- Over the long term, increased volumes, change in revenue mix, and lower impact of IND AS are expected to drive net earnings.

We visited Mahindra Logistics Limited's (MLL) LOGOS Luhari Logistics Estate Grade A warehouse facilities in Delhi-NCR followed by interaction with Mr. Rampraveen Swaminathan (Executive Director-CEO-MD) and Mr. Yogesh Patel (CFO). MLL is an anchor client with a leased area of 1.5msf (3 blocks) out of 2.1msf (5 blocks) facility developed by LOGOS. The company has two blocks operational and one block expected in July – having fully sold out and contracted space under the management among 4-5 clients. The site is designed as per MLL's sustainability standards and provides integrated, customised solutions for inbound, fulfillment, and warehousing services, well supported by tech-based automation. Management reiterated its FY2026 targets of achieving Rs. 10,000 crore revenue and 3% net profit margin. However, management is witnessing little slowdown currently in end-clients' expansion plans (although existing site volumes are intact), which is leading to slowdown in its own capacity expansion plans.

- **Luhari warehouse showcases its capabilities:** MLL has leased 1.5msf (3 blocks) out of 2.2msf (5 blocks) of LOGOS Luhari Logistics Estate for 10 years. Two blocks of 0.5msf each are operational, while the third one is expected to go live in July. It has been able to contract the entire space with 4-5 clients. One of the block houses Bajaj Electricals (70% of the block area), which has both distribution and fulfilment centres housed under one roof. The block contains 59 docks, motorised dock levellers and shutters, 25 fire exits including seven underground fire tunnels (first to be built in the industry). The site has been developed by MLL's sustainability standards and provides integrated, customised solutions for inbound, fulfilment, and warehousing services, well supported by tech-based automation.
- **Existing site volumes firm, but slowdown in client's expansions:** End-user demand has remained a mixed bag with commodities remaining strong, auto seeing secular uptick, durables and FMCG having steady state growth, while e-commerce growth driven by niche/smaller brands/markets rather than wider markets. It has not seen existing site volumes coming down, but slowdown in client expansion plans. Consequently, it has also slowed down on capacity addition plans.
- **FY2026 guidance remains intact:** Management remained confident of achieving its revenue target of Rs. 10,000 crore by FY2026, which comprises doubling of core third-party logistics (3PL) revenue over a five-year period, growing network services business by 3x, and revival in enterprise mobility business. Net profit margin is targeted at 3% in FY2026 from 1% in FY2022, which would be achieved through levers such as higher warehousing revenue mix in overall 3PL revenue, margin expansion in network services as it achieves scale, and better overhead absorption with rise in overall revenue.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 630: The company continues to focus on adding 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. Higher overhead absorption, increased integrated solutions revenue mix, and tapering of charges related to new warehouse additions as per new accounting standards are expected to drive faster growth in the company's net earnings. We remain optimistic about the long-term growth potential for MLL. Hence, we retain our Buy recommendation with an unchanged price target (PT) of Rs. 630.

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)	98.6	87.4	56.6	34.8
P/B (x)	5.0	4.9	4.5	4.0
EV/EBITDA (x)	22.4	15.2	11.7	9.4
RoNW (%)	5.9	6.4	9.2	13.4
RoCE (%)	8.0	9.2	12.0	15.6

Source: Company; Sharekhan estimates

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		↔	

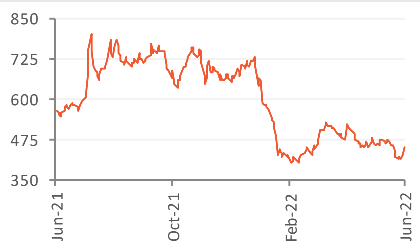
Company details

Market cap:	Rs. 3,243 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	-1.9	-2.2	-32.6	-19.5
Relative to Sensex	3.0	5.5	-24.4	-20.3

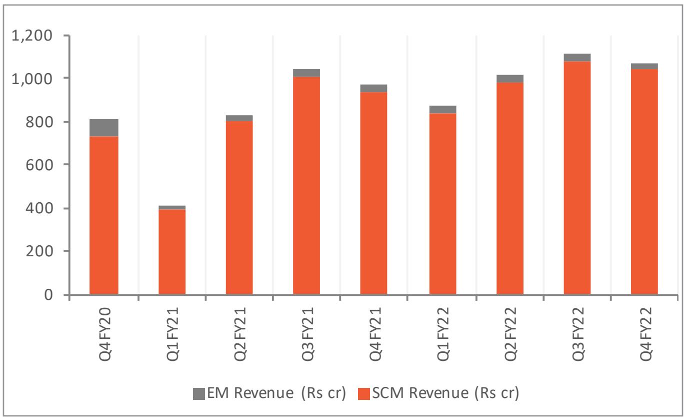
Sharekhan Research, Bloomberg

Management interaction highlights

- **Area details:** MLL is the anchor client with 1.5msf (three blocks) leased area in the 2.1msf (five blocks) LOGOS Luhari Logistics Estate in Delhi-NCR. The company has made a 10-year lease agreement. The company has fully sold out and contracted the three blocks. Blocks A and B are operational, while C is under construction and would go live in July. The site would have 1,200 employees, including contracted workers. The company has 4-5 clients among the three blocks.
- **Warehousing services:** The company offers warehousing services such as inbound planning, physical receipts, put away, inventory planning, outbound planning, picking, loading and dispatch, GPS tracking, and delivery follow-ups.
- **Technology:** The warehouse has the following technologies 1) SAP integration with Warehouse Management System (WMS); 2) Transport Management Systems (TMS) integrated with SAP; 3) order inflow; 4) 100% inbound and outbound product scanning; 5) invoice integrations; 6) vehicle placements; 7) dispatches, GPS tracking, follow-up for deliveries by centralised 'Control Tower'; 8) Online and instant uploading of Proof of Delivery (PoD).
- **Catapult programme:** The company is checking artificial intelligence (AI)-based camera system to identify damages in both inbound and outbound goods. The Mahindra Group has adopted eight out of 108 companies shortlisted by its incubation programme, Catapult. Last year, the group had adopted three out of 12 companies shortlisted.
- **Warehouse management:** The company has 17.5msf space under management, of which 4.1msf space is stockyards and 13.4msf is warehouse. Out of 13.4msf, inbound to manufacturing comprises 3msf, in-plant is 1-1.5msf and balance space is for distribution and fulfillment centres divided in equal proportions. The company has built 2.6msf built-to-suit (BTS) warehouse and another 1.4msf BTS is under construction. It has contracted under 2msf.
- **Rentals:** Rentals have tightened in six to seven markets. The rental price for land in Luhari and nearby places is Rs. 23-24 per square feet per month.
- **Network built-up target:** The company is building a network from Luhari to Coimbatore with no consumption or origin point to be away by more than 200kms.
- **Warehousing contract:** In a general contract, the company signs for 85% minimum guaranteed volume (MGV).
- **Margin mix:** The FTL and general warehousing achieves peak margins in six months. Small operations' peak margins are achieved in a year. End-to-end services take 12-18 months to achieve peak margins because of optimisation timeline. Margins in warehousing and solutions business are in mid-teens, while in transportation it is less than 10%.
- **End sector outlook:** The company is not seeing existing site volumes coming down, but it is witnessing slowdown in expansion from clients. Commodities are still strong; auto has seen secular uptick, farm segment had pleasant recovery but is not sure of sustained recovery. Durables and FMCG are showing steady state growth. E-commerce has been a mixed bag with smaller or niche brands going at higher pace than wider markets. The company has also slowed down on capacity expansion.
- **Margin improvement:** Margin improvement would be driven by overhead absorption (to settle down to one-fourth of revenue), additions of integrated solutions, and tapering of charges related to new warehouses added as per new accounting standards. As the company's contracts are 2-3 years old and would come up for renewal, it gives an operating leverage leading to higher margins. The company has 5-7% efficiency targets for margin improvement.
- **Guidance:** The company's guidance for FY2026 remained unchanged at Rs. 10,000 crore topline and 200 bps improvement in net profit margin to 3%. The revenue mix for FY2026 is expected to be 60% 3PL, 30% network services, and 10% mobility.

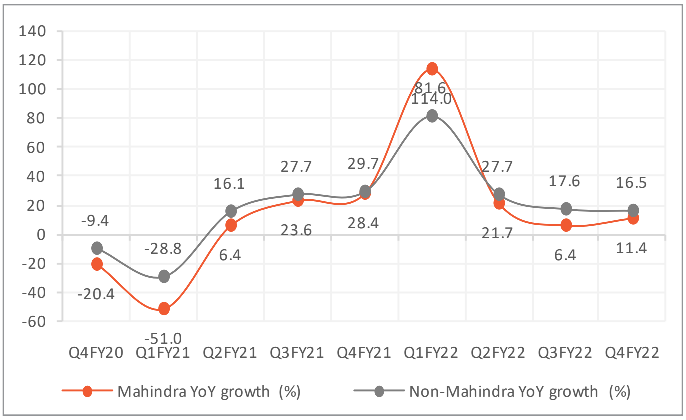
Financials in charts

Revenue Mix trend



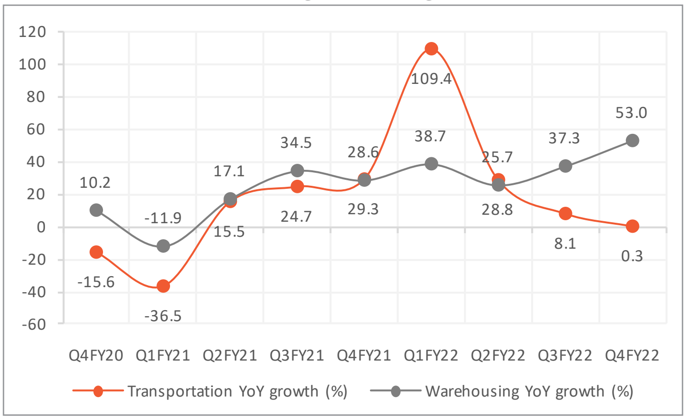
Source: Company, Sharekhan Research

M&M/Non-M&M Revenue growth trend



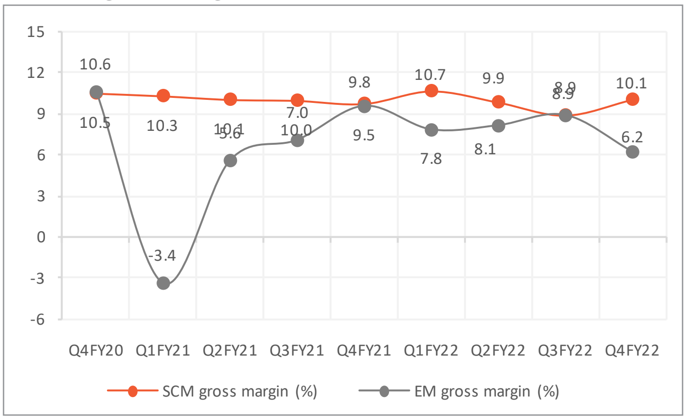
Source: Company, Sharekhan Research

Transportation/Warehousing Revenue growth trend



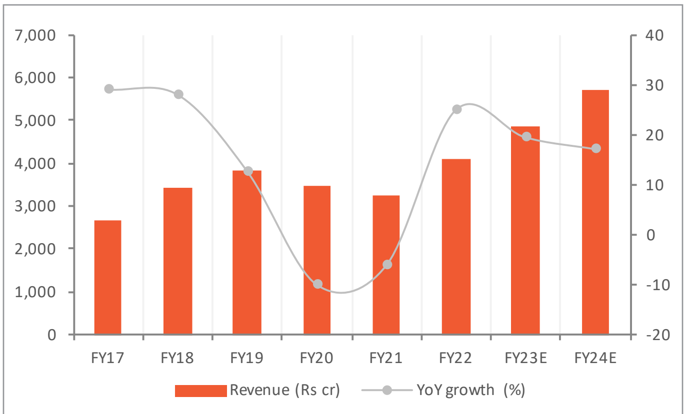
Source: Company, Sharekhan Research

SCM/EM gross margin trend



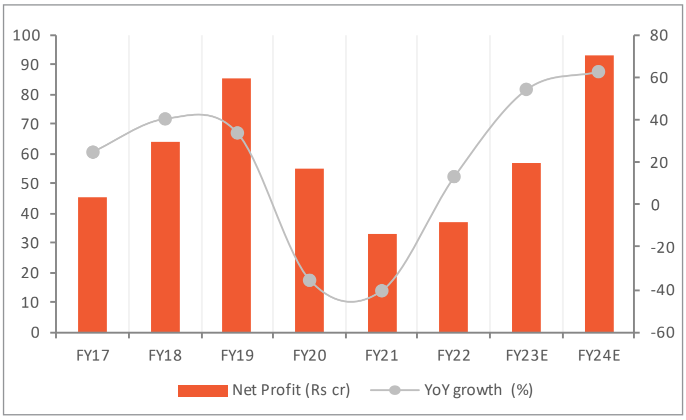
Source: Company, Sharekhan Research

Revenue trend



Source: Company, Sharekhan Research

Net Profit trend



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 strong revival post-COVID-19 pandemic, which 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 wake of the impact of COVID-19 on supply chain operations. Further, the 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.

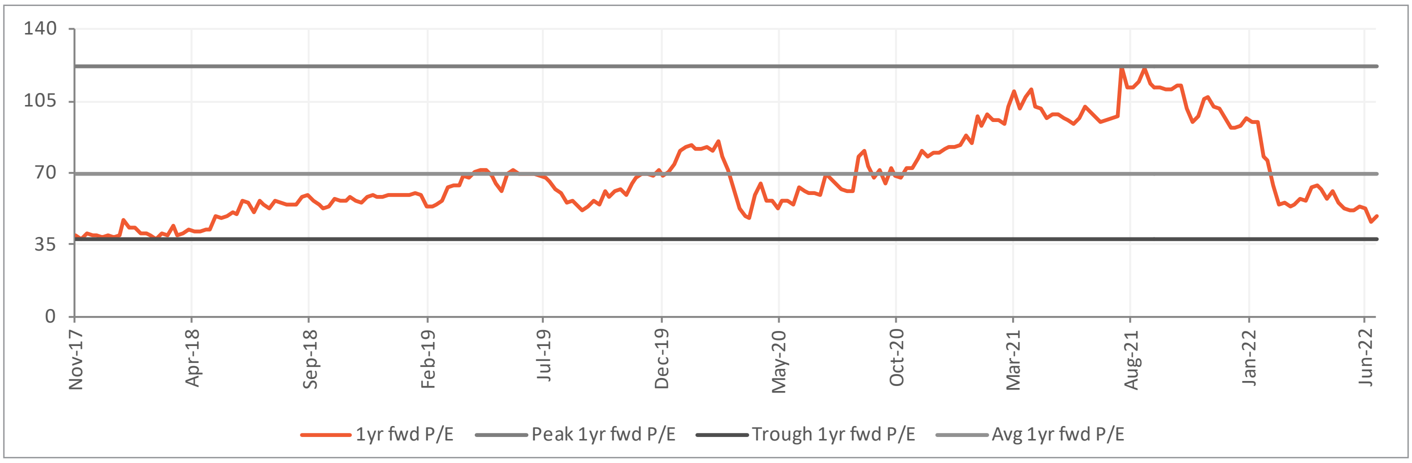
Company Outlook – On a growth path

MLL is on an improving growth trajectory, which is expected to gather pace with the unlocking of the economy as 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 increasing reliance of clients on smart supply chain management solutions providers such as itself. Strong revival in the auto sector and growth momentum in the consumer space are expected to lead to robust 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 an unchanged price target of Rs. 630

The company continues to focus on adding 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. Higher overhead absorption, increased integrated solutions revenue mix, and tapering of charges related to new warehouse additions as per new accounting standards are expected to drive faster growth in the company's net earnings. We remain optimistic about the long-term growth potential for MLL. Hence, we retain our Buy recommendation with an unchanged PT of Rs. 630.

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	56.6	34.8	11.7	9.4	4.5	4.0	9.2	13.4
TCI Express	39.4	32.2	28.1	22.9	10.2	8.0	27.6	28.1

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 3PL service provider, specialising 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 its key verticals, viz. M&M SCM and non-M&M SCM businesses, which is 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 electric vehicles (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

Anish Shah	Chairman, Non-Executive Director
Rampraveen Swaminathan	Chief Executive Officer
Yogesh Patel	Chief Financial Officer
Ruchie Khanna	Company Secretary & Compliance Officer

Source: Company Website

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.	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

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 detoriating 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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