Mahindra Logistics Limited

Accelerating demand; A new venture through EVs

Logistics	Sharekhan code: MAHLOG	Company Update

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		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 470**	
Price Target: **Rs. 562**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

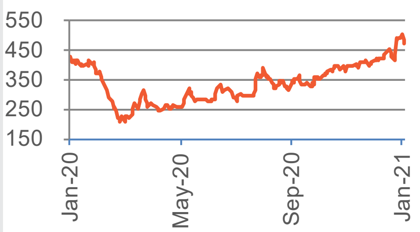
Company details

Market cap:	Rs. 3,369 cr
52-week high/low:	Rs. 544/199
NSE volume: (No of shares)	0.8 lakh
BSE code:	540768
NSE code:	MAHLOG
Free float: (No of shares)	3.0 cr

Shareholding (%)

Promoters	58.4
FII	20.4
DII	11.1
Others	10.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.4	33.5	69.9	12.6
Relative to Sensex	14.5	17.0	47.3	-0.5

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Mahindra Logistics Limited (MLL) with a revised PT of Rs. 562, considering strong net earnings growth outlook over FY2021E-FY2023E.
- MLL reported better-than-expected revenue for Q3FY2021, while net profit came in lower than estimate on account of higher depreciation and interest charge.
- The company saw accelerated demand in both auto and consumer space, which is expected to sustain going ahead. The company continued to add new clients and has added 0.9msf warehousing space during Q3.
- MLL's has ventured into last-mile small package delivery through EVs. The business is expected to scale up over 2-3 years and has revenue potential of Rs. 100 crore-150 crore.

Mahindra Logistics Limited (MLL) reported better-than-expected revenue for Q3FY2021, while net profit came in lower-than-estimated on account of higher depreciation and interest charge. The company's consolidated net revenue grew by 15.3% y-o-y to Rs. 1,047 crore as its SCM business (96% revenue share) grew by 23.6% y-o-y to Rs. 1,010 crore. Within SCM, both non-M&M revenue (up 27.7% y-o-y) and M&M revenue (up19.8% y-o-y) registered acceleration in demand from the recovery that was seen in Q2FY2021. Strong demand in auto (especially the farm segment) and consumer space (e-commerce, pharma, FMCG, and apparel) coincided with the festive season, leading to high growth in SCM. The enterprise mobility division (revenue down 59.5% y-o-y) remained affected by work-from-home policies, majorly in IT and financial services. Gross margin (lower by 124bps y-o-y) was affected by lower transport margins and initially weak margins in new projects launched during Q3. However, higher revenue led to better fixed cost absorption, resulted in 39bps y-o-y improvement in OPM at 5.1% (largely in-line). Net profit at Rs. 18.3 crore (up 17.4% y-o-y, lower than expectation) was affected by higher depreciation and interest expense on account of increased lease charges (addition of warehousing space). During the quarter, the company added 0.9msf warehousing space. The company also commenced operations for large companies in consumer durables, pharma, and defence equipment manufacturers. MLL launched EV-driven, last-mile cargo delivery service 'EDel' across six major cities for customers in E-commerce, FMCG, and other markets. This would expand its last-mile delivery of small packages, which at present is too small as its B2C last-mile delivery handles large and bulky packages. The company has plans to expand the fleet strength to 3,000 vehicles over the next two to three years majorly owned by partners. The company expects revenue potential of Rs. 100 crore-150 crore from the same. MLL's outlook remains strong, as demand environment is expected to remain strong in both auto and consumer space going ahead. Growth would also be driven by expansion in business from existing clients and revenue flowing from clients added since Q3FY2020. We have fine-tuned our estimates for FY2021-FY2023E. We continue to remain optimistic on the strong growth potential that lies ahead for MLL. Hence, we retain Buy on the stock with a revised PT of Rs. 562.

Key positives

- Strong beat on revenue led by growth in both M&M and non-M&M within SCM business.
- Cash and cash equivalents at Rs. 188 crore versus Rs. 113 crore at the start of the fiscal year.
- Venture into last-mile B2C in small packages with EVs.

Key negatives

- Enterprise mobility division to remain weak over the next three to four quarters.
- Weak gross margins and higher depreciation and interest expense charge.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 562: MLL has gathered pace in both its key verticals viz. M&M SCM and non-M&M SCM businesses, which 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. We expect strong 58% CAGR in net earnings over FY2021E-FY2023E. We continue to remain optimistic on the strong growth potential that lies ahead for MLL. Hence, we retain Buy on the stock with a revised PT of Rs. 562.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	3,471.1	3,249.6	3,914.2	4,501.4
OPM (%)	4.6	4.4	4.9	5.2
Adjusted PAT	55.1	35.8	67.2	89.3
% YoY growth	(35.6)	(35.1)	88.0	32.8
Adjusted EPS (Rs.)	7.7	5.0	9.4	12.5
P/E (x)	60.9	93.9	50.0	37.6
P/B (x)	5.5	5.2	4.7	4.2
EV/EBITDA (x)	20.7	22.8	17.0	14.1
RoNW (%)	10.6	6.4	11.0	12.9
RoCE (%)	12.2	8.7	13.0	14.7

Source: Company; Sharekhan estimates

Strong traction in auto and consumer business drive revenue

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Venturing in last mile small package delivery

MLL launched EV-driven, last-mile cargo delivery service 'EDel' across six major cities in India, including Bengaluru, New Delhi, Mumbai, Pune, Hyderabad, and Kolkata for customers in E-commerce, FMCG, and other markets. The company plans to expand to a total of 14 cities in the next 12 months. This would expand its last-mile delivery of small packages, which at present is too small as its B2C last mile delivery handles large and bulky packages. Initially, the company is buying EVs; but over time, there will be increasing contribution of partners in the fleet. The company has plans to expand the fleet strength to 3,000 vehicles over the next two to three years majorly owned by partners. The load capacity of the EVs will be less than one tone and will be used within 200 kms range. MLL expects revenue potential of Rs. 100 crore-150 crore from the same.

Key Conference Call Takeaways -

- **Demand environment:** In SCM, the broad recovery in Q2 accelerate in Q3. Consumption saw recovery to pre-COVID levels accompanied by the festive season. The company saw strong turnaround in the auto sector in Q3. Rural and semi-urban continued to remain robust. Strong growth was witnessed in the tractor segment. Auto volumes were somewhat affected by supply chain challenges in some OEMs. Strong demand was witnessed from the southern region due to preparation of Pongal. E-commerce continued to see growth in Q3 but had some impact of supply-chain issues faced by durables and electronics for the company. The company launched some fulfillment centres in groceries and essential items in Q3 and will continue in Q4. In the consumer segment, MLL saw healthy growth in FMCG, durables, pharma, and apparel (which was also driven by the festive season). We expect demand to grow from e-commerce, electronics, and heavy and bulky products. The telecom segment remained sluggish as customers have been working on 5G updates. Overall, Q3 has been strong, led by the end-user market and the same is expected to continue going forward. On the flip side, one of the larger OEM accounts in Maharashtra announced shutdown in operations due to sale of operations in that area effective December 31, 2020 which will have some affect in Q4.
- **Freight forwarding:** The segment sees some amount of tightening. Globally, freight forwarding rates have impacted east Asian and European rates, which are expected to continue in the near future. In the domestic market, line haul truck availability has been impacted by fuel price hikes, seasonal price hikes, tight liquidity, and some impact of farmer strike affecting northern operations.
- **Key wins during Q3:** For one of India's largest consumer durables company, the company will provide end-to-end supply chain management. The company has expanded distribution solutions in north India for the large pharma company. The company went live with leading defence manufacturer provider offering warehousing management services. The company commissioned a large grocery fulfillment centre in eastern India. The company won exclusive distribution for passenger and SUVs.
- **Enterprise mobility:** The business continues to be impacted by COVID-19 due to work-from-home policies. Several quarters before the company sees recovery in it. Management continuesto focus on cost optimisation and service expansion.
- **Gross margins y-o-y lower:** Gross margins were affected by volatility in transport availability affecting transport margins and secondly new projects launched during the quarter have lower margin initially.
- **COVID:** The company did not see material volume flow from vaccines in Q3. Management expects some volumes to flow from next financial year.

Results (Consolidated) Rs cr

Particulars	Q3FY2021	Q3FY2020	y-o-y%	Q2FY2021	q-o-q%
Net sales	**1046.8**	**907.9**	**15.3%**	**832.5**	**25.7%**
other income	1.8	2.0	-12.4%	8.3	-78.7%
Total income	1048.5	909.9	15.2%	840.8	24.7%
Total expenses	995.6	865.5	15.0%	795.2	25.2%
Operating profit	**53.0**	**42.4**	**24.8%**	**37.3**	**41.9%**
Depreciation	24.3	18.8	29.1%	20.9	16.5%
Interest	5.5	4.3	27.9%	4.5	21.9%
Exceptional items					
Profit Before Tax	25.0	21.3	17.0%	20.2	23.3%
Taxes	6.6	5.7	15.7%	5.4	21.7%
PAT	18.4	15.7	17.4%	14.8	23.9%
Minority Interest	0.2	0.1	25.0%	-0.1	-215.4%
Adjusted PAT	**18.3**	**15.6**	**17.4%**	**15.0**	**21.8%**
EPS (Rs.)	2.6	2.2	17.4%	2.1	21.8%
OPM (%)	5.1%	4.7%	39 bps	4.5%	58 bps
NPM (%)	1.7%	1.7%	3 bps	1.8%	-6 bps
Tax rate (%)	26.3%	26.6%	-29 bps	26.6%	-35 bps

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Pace of recovery to be gradual; Although 3PL companies are better placed

The logistics industry had been severely hit by the pandemic impacting the overall trade environment both domestically as well as globally. Though, domestic indicators such as e-way bill generations, FASTag collections among others highlight m-o-mimprovement, the international EXIM environment is yet to show clear signs of revival. EXIM volumes continue to remain weak with frequent imbalance in trade. The competitive intensity remains high as many companies are going after weak volumes in the industry, putting pressure on profitability. Hence, we expect the pace of recovery in the logistics industry especially in the EXIM business to be gradual. However, the 3PL industry has seen faster improvement in operations, led by segments such as E-commerce, pharma,and FMCG. Hence, within the logistics industry, 3PL companies are better placed.

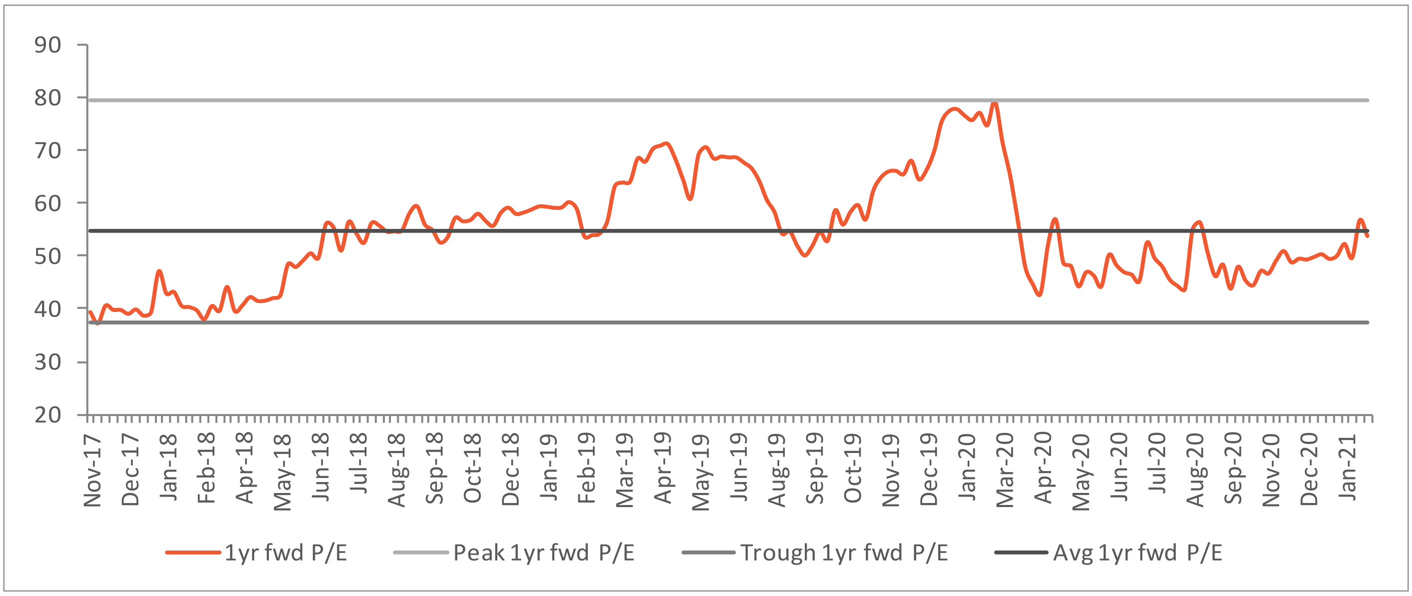
■ Company outlook - On a growth path

MLL witnessed strong m-o-m improvement in revenue run-rate from May 2020 with gradual unlocking of the economy. Meanwhile, it has been able to add key clients and have gone live with few clients. In the post COVID era, the company expects to benefit from increasing reliance of clients on providers of smart supply chain management solutions such as itself. The strong revival of the auto sector and growth momentum picking up in consumer space are expected to lead to strong revenue growth for MLL going ahead. The company continues to focus on providing integrated logistics solution, adding new warehousing capacities, and new clients.

■ Valuation - Retain Buy with a revised price target of Rs. 562

MLL has gathered pace in both its key verticals viz. M&M SCM and non-M&M SCM businesses, which 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, the company'sventure into last-mile small package deliveries through EV would capture the strong growth in the express delivery segment. We expect a strong 58% CAGR in net earnings over FY2021E-FY2023E. We continue to remain optimistic on the strong growth potential that lies ahead for MLL. Hence, we retain Buy on the stock with a revised PT of Rs. 562.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBIDTA (x)		P/BV (x)		RoCE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Mahindra Logistics	50.0	37.6	17.0	14.1	4.7	4.2	11.0	12.9
TCI Express	32.9	27.6	23.7	19.7	7.0	5.8	23.7	23.4
Gateway Distriparks	23.2	17.7	8.3	7.2	1.4	1.3	5.8	7.5

Source: Company, Sharekhan estimates

About company

MLL is a portfolio companyof Mahindra Partners, the $1 billion private equitydivision of the $19-billion Mahindra Group. MLL isan integrated third-party logistics (3PL) service provider, specialising in supply chain managementand people transport solutions. Founded morethan a decade ago, MLL serves over 300 corporatecustomers across various industries such as automobiles, engineering, consumer goods, and e-commerce. Thecompany pursues an asset-light business modelunder which assets necessary for its operationssuch as vehicles and warehouses are owned orprovided by a large network of business partners onlease rentals, while MLL largely invests in logisticstechnology. The company provides customised and technology-enabled solutions that span across thesupply 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, which 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 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 Bhiwandiwala	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

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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