Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Mahindra Logistics Ltd

Substantial growth potential

Logistics	Sharekhan code: MAHLOG	Result Update

Stock 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. 612**	
Price Target: **Rs. 727**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

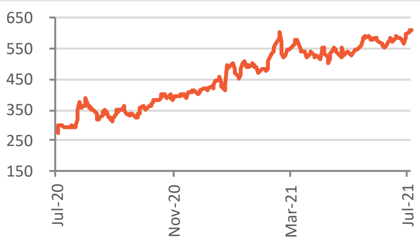
Company details

Market cap:	Rs. 4,389 cr
52-week high/low:	Rs. 630 / 272
NSE volume: (No of shares)	1.4 lakh
BSE code:	540768
NSE code:	MAHLOG
Free float: (No of shares)	3.0 cr

Shareholding (%)

Promoters	58.3
FII	21.0
DII	11.3
Others	9.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.6	10.9	30.2	112.2
Relative to Sensex	9.8	5.5	16.9	74.4

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Mahindra Logistics Limited (MLL) with a revised PT of Rs. 727, considering its strong net earnings growth outlook over FY2021-FY2024E.
- MLL reported strong beat on net earnings for Q1FY2022 led by higher than expected revenues along with better OPM.
- It is targeting to add 4msf built-to-suit warehousing space over fifteen months. Warehousing services is slated to comprise 30% of the targeted Rs. 10,000 crore overall revenues in FY2026.
- It has been able to largely preserve Rs. 253 cash as on FY2021 after funding for capex. MLL is favourably placed among parent group's entities in terms of its growth potential and capital allocation going ahead.

Mahindra Logistics Limited (MLL) reported 112.8% y-o-y rise in consolidated revenues for Q1FY2022 which was 6% higher than our expectation. Its SCM business (96% revenue share) grew by 114% y-o-y (-10.5% q-o-q) to Rs. 840 crore. Within SCM, M&M group revenue grew by 156% y-o-y (-10.5% q-o-q) which was in-line with our estimate. The auto-led demand had been affected by the shortage of semi-conductors and supply chain related challenges. Many OEMs took maintenance shutdown because of the second wave of COVID and resumed operations in June 2021. The non-M&M revenue grew by 82% y-o-y (-8.6% q-o-q) at Rs. 400 crore which came in better than our estimate. The dip in non-M&M revenues sequentially was led by non-movement of essential items which saw rebound from June 2021. The consumer segment (FMCG, Durables, etc) had a mixed Q1 led by higher impact of covid second wave compared to last year on rural segment. The enterprise mobility division (4% revenue share) continued to be impacted by the COVID led pandemic with revenues declining by 6.7% q-o-q (up 87% y-o-y on low base). Gross margin (lower by 461bps y-o-y, up 75bps q-o-q) and OPM (up 569bps y-o-y, up 41bps q-o-q) were better than expected due to higher share of warehousing & solution revenues (19% of SCM revenues as against 17% in Q4FY2021). Overall it reported operating profit of Rs. 45 crore versus operating loss of Rs. 2.2 crore in Q1FY2021. Higher than expected revenues along with better OPM led to strong beat on net profitability (the adjusted net profit stood at Rs. 9.4 crore versus net loss of Rs. 15.8 crore in Q1FY2021). The company is undertaking warehousing capacity addition of 4msf which is expected to be commissioned over the next 15 months. It would be looking to add 18-20msf warehousing capacity over the next few years. Revenues from warehousing services including last mile transportation is expected to comprise 30% of the targeted Rs. 10,000 crore revenues over the next five years. The company would be expanding its footprint along with increasing value added services. MLL's last mile delivery electric vehicles fleets (EDel) is witnessing strong demand with opportunities for continued fleet deployment. MLL's outlook remains strong, as the demand environment is expected to rebound and sustain in both auto and consumer space going ahead. Growth would also will be driven by expansion in business from existing clients and revenue flowing from clients added since Q3FY2020. 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. 727.

Key positives

- Better than expected revenue along with higher than expected OPM.
- Cash and cash equivalents at Rs. 253 at FY2021 largely preserved.
- Warehousing space of 4msf to be added over next fifteen months.

Key negatives

- Enterprise mobility division continued to remain weak and is expected to recover fully over two years.
- Non-M&M SCM revenues declined q-o-q affected by non-movement of essential items

Our Call

Valuation – Retain Buy with a revised PT of Rs. 727: MLL's operational performance is on improving trend which is expected to further improve with rising non-M&M revenues, increasing warehousing space under management, rising value added services and higher absorption of fixed costs with increase in revenues. The company's five year revenue target of Rs. 10,000 crore remain intact with warehousing services including value added services expected to comprise 30%. The company continues to generate strong cash flows at the same time maintaining its asset light model. 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 56% CAGR in net earnings over FY2021E-FY2024E. We continue to remain optimistic on the strong growth potential that lies ahead for MLL. Hence, we retain a Buy on the stock with a revised PT of Rs. 727.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	3,263.7	3,928.5	4,698.7	5,506.4
OPM (%)	4.1	5.2	5.8	6.3
Adjusted PAT	32.7	59.6	93.0	123.7
% YoY growth	*(40.6)*	*82.0*	*56.0*	*33.0*
Adjusted EPS (Rs.)	4.6	8.3	13.0	17.3
P/E (x)	134.0	73.6	47.2	35.5
P/B (x)	6.9	6.3	5.5	4.8
EV/EBITDA (x)	31.9	20.8	15.8	12.4
RoNW (%)	5.9	10.0	13.8	15.8
RoCE (%)	8.0	12.1	15.7	17.4

Source: Company; Sharekhan estimates

Strong beat on net earnings lead by higher than expected revenues along with better OPM

Mahindra Logistics Limited (MLL) reported 112.8% y-o-y rise in consolidated revenues for Q1FY2022 which was 6% higher than our expectation. Its SCM business (96% revenue share) grew by 114% y-o-y (-10.5% q-o-q) to Rs. 840 crore. Within SCM, M&M group revenue grew by 156% y-o-y (-10.5% q-o-q) which was in-line with our estimate. The auto led demand had been affected by shortage of semi-conductors and supply chain related challenges. Many OEMs took maintenance shutdown because of covid second wave and started operations in June 2021. The non-M&M revenue grew by 82% y-o-y (-8.6% q-o-q) at Rs. 400 crore came in better than our estimate. The dip in non-M&M revenues sequentially was led by non-movement of essential items which saw rebound from June 2021. The consumer segment (FMCG, Durables, etc) had a mixed Q1 led by the impact of the second wave of COVID on the rural segment. The enterprise mobility division (4% revenue share) continued to be impacted by covid led pandemic with revenues declining by 6.7% q-o-q (up 87% y-o-y on low base). Gross margin (lower by 461bps y-o-y, up 75bps q-o-q) and OPM (up 569bps y-o-y, up 41bps q-o-q) were better than expected due to higher share of warehousing & solution revenues (19% of SCM revenues as against 17% in Q4FY2021). Overall it reported operating profit of Rs. 45 crore versus operating loss of Rs. 2.2 crore in Q1FY2021. Higher than expected revenues along with better OPM led to strong beat on net profitability (the adjusted net profit stood at Rs. 9.4 crore versus net loss of Rs. 15.8 crore in Q1FY2021).

Long term targets remain intact with focus on increasing warehousing services

The company is undertaking warehousing capacity addition of 4msf which is expected to be commissioned over the next 15 months. It would be looking to add 18-20msf warehousing capacity over the next few years. Revenues from warehousing services including last mile transportation is expected to comprise 30% of the targeted Rs. 10,000 crore revenues over the next five years. The company would be expanding its footprint along with increasing value added services. MLL's last mile delivery electric vehicles fleets (EDel) is witnessing strong demand with opportunities for continued fleet deployment. MLL's outlook remains strong, as the demand environment is expected to rebound and sustain in both the 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.

Key Conference Call Takeaways

- **Q1 environment and future sectoral outlook:** The auto demand in Q1FY2022 was affected by semi-conductors shortage and supply chain constraints. The OEM started operations in June 2021. The sector is expected to see rise in pent up demand while longer term outlook is positive. The farm sector demand continued to be robust despite challenges. The consumer sectors viz. FMCG, Durables etc had a mixed quarter as demand from rural sector took a hit.
- **Q1 Performance:** The lower throughtput going to warehouses led to sequential reduction in warehousing revenues. The quarter had order intake from existing clients as slowdown in April and May led to new clients visiting drawing boards.
- **Five years target:** The company maintained its target of achieving Rs. 10,000 crore revenues over next five years. Warehousing including last mile transportation is expected to comprise 30% of the 25,000 revenue target. The company would focus on increasing footprint and increasing value added services.
- **Enterprise mobility:** The business continued to remain muted due to the second wave of COVID. Some greenshoots are visible while the management is optimistic on long term growth opportunities. The segment is expected to take couple of years to come back to traditional performance.
- **Segment performance:** The warehousing value added service revenues grew by 39% y-o-y to Rs. 170 crore. Freight forwarding is seeing good traction. Express business grew by 20% y-o-y. Non-M&M SCM witnessed dip in volumes sequentially led by non movement of essential things. Although the same has seen revival from June onwards.
- **Warehousing capacity expansion:** The company is undertaking warehousing capacity expansion at NCR (1.5msf), Hyderabad (phase I of 0.2msf), Heerabaug (0.1msf), Chaakan (0.26msf) and Bhiwandi (0.3msf). It would be developing 4msf warehousing space over next fifteen months. It has started commissioning of warehousing from Q1FY2022 which will complete by Q1FY2023.

- **Bajaj Electrical revenues:** The revenues from the client would start coming from Q2FY2022.
- **Unallocable expense:** The unallocable expense as a % of sales is expected to tread down to 4-4.5% gradually versus 5.7% in FY2021.
- **Cash & cash equivalent:** The company's cash reserves of Rs. 253 crore as on FY2021 end may have gone down by couple of crores after funding capex for Q1FY2022.

Results (Consolidated) **Rs cr**

Particulars	Q1FY2022	Q1FY2021	Y-o-Y %	Q4FY2021	Q-o-Q %
Net sales	**873.4**	**410.5**	**112.8%**	**974.0**	**-10.3%**
other income	1.9	2.8	-31.7%	4.7	-58.7%
Total income	875.3	413.3	111.8%	978.7	-10.6%
Total expenses	830.3	412.7	101.2%	927.8	-10.5%
Operating profit	**45.0**	**-2.2**	**-**	**46.2**	**-2.5%**
Depreciation	28.6	18.4	55.2%	26.1	9.6%
Interest	6.2	4.6	35.6%	5.6	10.2%
Exceptional items	0.0	0.0		-2.8	
Profit Before Tax	**12.2**	**-22.4**	**-**	**16.4**	**-25.7%**
Taxes	3.1	-5.9	-	4.0	-22.7%
PAT	9.1	-16.5	-	12.4	-26.7%
Minority Interest	-0.3	-0.7	-	-0.2	47.1%
Adjusted PAT	**9.4**	**-15.8**	**-**	**15.3**	**-39.0%**
EPS (Rs.)	1.3	-2.2	-	2.1	-39.0%
			BPS		**BPS**
OPM (%)	5.2%	-0.5%	569	4.7%	41
NPM (%)	1.1%	-3.9%	492	1.6%	-50
Tax rate (%)	25.2%	26.4%	-114	24.2%	99

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 that affected the overall trade environment both domestically and globally. Domestic indicators such as e-way bill generations, FASTag collections, Indian rail volume, domestic ports volume, 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' preference towards credible supply chain management in wake of impact of COVID 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 on the sector.

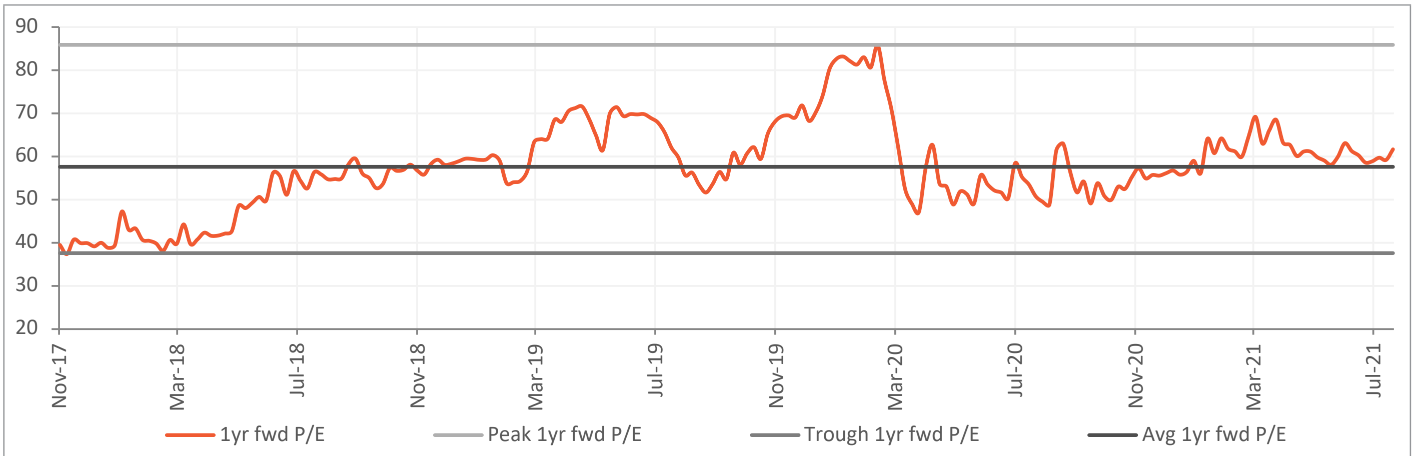
■ Company outlook – On a growth path

MLL is on improving growth trajectory which is expected to gather pace with the unlocking of the economy as the COVID led second wave impact recedes. Meanwhile, it has been able to add key clients and has 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. 727

MLL's operational performance is on improving trend which is expected to improve further with rising non-M&M revenues, increasing warehousing space under management, rising value added services and higher absorption of fixed costs with increase in revenues. The company's five year revenue target of Rs. 10,000 crore remain intact with warehousing services including value added services expected to comprise 30%. The company continues to generate strong cash flows at the same time maintaining its asset light model. 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 56% CAGR in net earnings over FY2021E-FY2024E. We continue to remain optimistic on the strong growth potential that lies ahead for MLL. Hence, we retain a Buy on the stock with a revised PT of Rs. 727.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Mahindra Logistics	73.6	47.2	20.8	15.8	6.3	5.5	10.0	13.8
TCI Express	44.4	36.0	31.9	25.7	11.1	8.8	28.4	27.6
Transport Corporation of India	17.5	15.8	10.7	9.4	2.4	2.1	14.6	14.3
Gateway Distriparks	34.9	22.3	13.4	10.7	2.5	2.3	7.0	10.4

Source: Sharekhan Research

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, 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 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/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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;