

## Improved margins in spite of low operating leverage

**About the stock:** Mahindra Logistics is an end-to-end 3PL logistics solution provider, from performing milk run to in-factory logistics, warehousing to first mile and last mile logistics.

- Serves over 400 customers via its two business segment: Supply chain management [(SCM), 96% of revenues] and enterprise mobility
- Revenues from Mahindra comprise 52% of SCM revenues while the rest is contributed by non-Mahindra

**Q1FY22 Results:** QoQ performance dip was much lower than expected.

- Revenues de-grew 10% QoQ (vs. I-direct expectation of 22% de-growth) to ₹ 873 crore, led by better-than-expected SCM segment performance
- EBITDA was flat QoQ at ₹ 45 crore with margins at 5.2% (vs. expected 4.3%)
- PAT de-grew 27% QoQ to ₹ 9 crore (vs. expected ₹ 3 crore), as operating performance was impacted by higher interest and depreciation expense

**What should investors do?** Continued momentum in the non-auto segment of MLL will drive higher contribution from value added services (sorting, bill processing etc.) thereby improving its margins as well as opportunity to capture higher wallet share of existing customers.

- We remain positive on the long term growth prospects of the stock and maintain our BUY recommendation

**Target Price and Valuation:** We value the stock at ₹ 710 i.e. 49x P/E on FY23E EPS

**Key triggers for future price performance:** MLL has been steadily building up its presence in non-auto segments such as e-commerce, pharma, consumer segment enabling it to

- Shift buying behaviour (more online shopping), leading to higher warehousing space requirement and 3PL relevance
- Increased investment in technology and multi-modal transport offering to customers
- Asset light business model, with projected 30%+ RoIC in FY23

**Alternate Stock Idea:** Apart from Mahindra Logistics, we remain positive on TCI

- TCI with its 900 IT enabled owned offices, 9000 trucks & trailers, six coastal ships, multiple rakes and 12 mn ft warehousing space, brings in integrated solutions for its customers
- We have a BUY rating on the stock, with a target price of ₹ 490



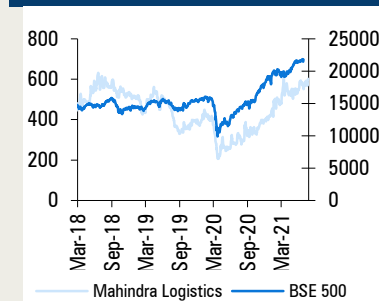
### Particulars

Market Capitalisation (₹ cr)	4,374.4
Debt (FY21) (₹ cr)	26.4
Cash (FY21) (₹ cr)	197.8
EV (₹ cr)	4,203.1
52 Week High / Low (₹)	631/273
Equity Capital (₹ cr)	71.5
Face Value (₹ cr)	10.0

### Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	58.4	58.4	58.3	58.3
Others	41.6	41.7	41.7	41.7

### Price Chart



### Recent event & key risks

- Commercialisation of Pune sorting centre in Q1
- Key Risk:** (i) slowdown in auto sector (ii) further hardening in diesel prices

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### Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22E	FY23E	CAGR
Net Sales	3,851.3	3,471.1	3,263.9	3,832.0	4,647.0	4.8%
EBITDA	151.2	158.3	134.4	214.6	278.8	16.5%
PAT	85.6	55.1	30.1	67.9	103.7	4.9%
P/E (x)	51.1	79.4	145.2	64.4	42.2	
M.Cap/Sales (x)	1.1	1.3	1.3	1.1	0.9	
RoCE (%)	25.8	24.6	18.8	28.2	33.6	
RoE (%)	17.2	10.1	5.8	11.0	14.8	

## Key takeaways

### Q1FY22 Results: Resilient performance on display

- Focus on customer retention, new account acquisition and cost reduction offset the impact of regional lockdown, high commodity and fuel cost
- Freight forwarding business saw higher volumes on Exim front
- Warehouse space under management was at 18.1 mn sq ft (17.7 mn sq ft in Q1FY21)
- Warehousing revenues (20% of SCM revenues) dipped mere 4% QoQ vs. transportation dip of 12% (80%)
- Mahindra SCM revenues (52% of SCM revenues) de-grew 12% QoQ while non-Mahindra SCM revenues de-grew 9%

### Q1FY22 Earnings Conference Call highlights

- The company aims to near ₹ 10000 crore revenue mark in four to five years, with warehousing contributing ₹ 3000 crore
- The company intends to double its existing warehousing space (current 18 million sq feet) in the longer term to support its growth ambitions
- In the near to medium term, MLL aims to operationalise 4 million sq feet of warehousing space (partial commissioning has started)
- Revenue impact from Bajaj Electricals' five-year agreement would be seen from Q3 onwards
- Auto sector continues to face headwinds from semiconductor availability issue and higher commodity prices. However, OEMs rebounded in June
- Farm sector is seeing good demand while all OEMs have registered strong growth
- E-commerce is pushing companies into building flexible and resilient supply chain, increasing importance of 3PL players for the companies
- Consumer segment showed a mixed performance while urban growth remained healthy, rural performance dipped

**Exhibit 1: Variance Analysis**

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	873.4	761.5	410.5	112.8	974.0	-10.3	Revenue growth higher-than-expected mainly due to higher-than-expected growth in the SCM segment
Operating expenses	740.7	639.6	329.2	125.0	833.4	-11.1	
Employee Expenses	71.1	72.3	73.2	-2.8	70.9	0.3	
Other Expense	16.5	16.8	10.3	60.2	23.6	-29.9	
Total Expense	828.4	728.7	412.7	100.7	927.8	-10.7	
EBITDA	45.0	32.7	-2.2	NA	46.2	-2.5	
EBITDA Margin (%)	5.2	4.3	-0.5	569 bps	4.7	41 bps	EBITDA margins expanded mainly due to higher operating leverage (vs. estimates)
Depreciation	28.6	27.8	18.4	55.2	26.1	9.6	
Interest	6.2	5.4	4.6	35.6	5.6	10.2	
Other Income	1.9	3.8	2.8	-31.7	4.7	-58.7	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	2.8	NA	
PBT	12.2	3.4	-22.4	PL	16.4	-25.7	
Total Tax	3.1	0.9	-5.9	-152.0	4.0	-22.7	
PAT	9.1	2.5	-16.5	-155.2	12.4	-26.7	
Key Metrics	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	
Mahindra SCM revenues	439.7	378.4	172.2	155.3	500.2	-12.1	Better than estimated revenues mainly due to strong volumes from the farm sector
Non-Mahindra SCM revenue	400.4	352.8	220.5	81.6	438.1	-8.6	Strong performance vs. estimates due to better performance in sectors such as e-commerce, pharma, FMCG, etc
SCM revenues	840.1	731.2	392.7	113.9	938.3	-10.5	
PTS revenues	33.3	30.3	17.8	87.0	35.7	-6.7	

Source: Company, ICICI Direct Research

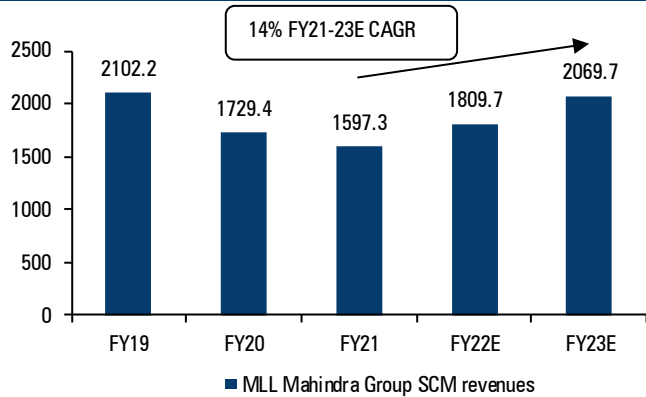
**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E					FY23E			Comments
	FY20	FY21	Old	New	% Change	Old	New	% Change	
Gross Revenue	3,471.1	3,263.9	3,775.1	3,832.0	1.5	4,687.7	4,647.0	-0.9	Revenue estimates kept largely unchanged
EBITDA	158.3	134.4	188.8	214.6	13.7	271.9	278.8	2.5	
EBITDA Margin (%)	4.6	4.1	5.0	5.6	60 bps	5.8	6.0	20 bps	Margins largely rangebound at 5.5-6%
PAT	55.1	30.1	49.2	67.9	38.1	102.6	103.7	1.0	
EPS (₹)	7.7	4.2	6.9	9.5	37.3	14.3	14.5	1.1	

Source: ICICI Direct Research

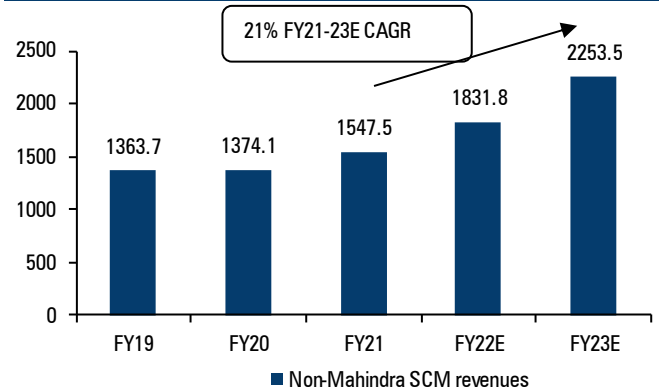
## Key Metrics

Exhibit 3: Mahindra group SCM revenues



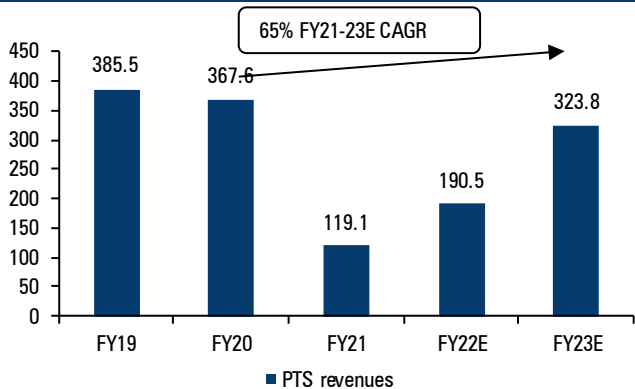
Source: ICICI Direct Research, Company

Exhibit 4: Non-Mahindra SCM revenues



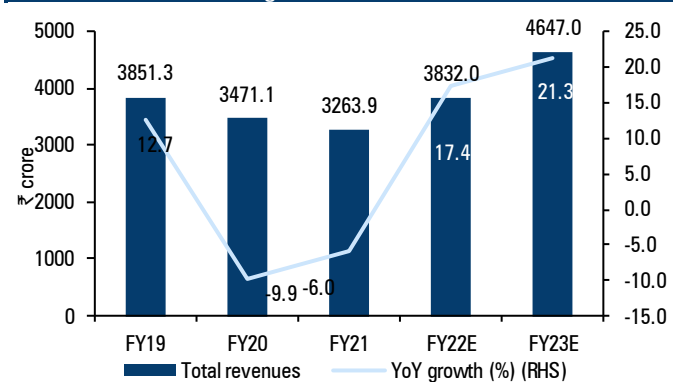
Source: ICICI Direct Research, Company

Exhibit 5: PTS revenues



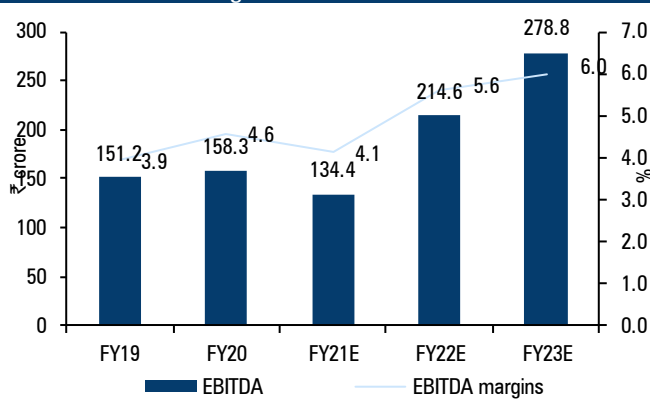
Source: ICICI Direct Research, Company

Exhibit 6: Revenues to grow at CAGR of 19% over FY21-23



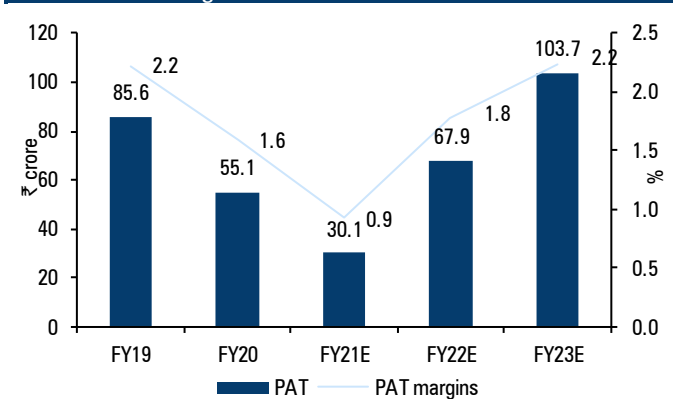
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA to grow at CAGR of 44% over FY21-23



Source: Company, ICICI Direct Research

Exhibit 8: PAT to grow at CAGR of 85% over FY21-23



Source: Company, ICICI Direct Research

Exhibit 9: Valuation parameters

Year	Sales (₹ cr)	Sales Gr. (%)	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	3851.3	12.7	11.9	34.2	51.1	28.6	17.2	25.8
FY20	3471.1	-9.9	7.7	-35.1	79.4	27.2	10.1	24.6
FY21	3263.9	-6.0	4.6	-45.2	145.2	30.9	5.8	18.8
FY22E	3832.0	17.4	9.5	123.8	64.4	19.2	11.0	28.2
FY23E	4647.0	21.3	14.5	52.3	42.2	15.1	14.8	33.6

Source: ICICI Direct Research; Reuters

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)/ (₹ crore)	FY20	FY21	FY22E	FY23E
Total Operating Income	3,471.1	3,263.9	3,832.0	4,647.0
Growth (%)	-9.9	-6.0	17.4	21.3
Freight Expense and Charges	2,934.2	2,764.3	3,230.4	3,917.4
Gross Profit	537.0	499.6	601.6	729.6
Gross Profit Margins (%)	15.5	15.3	15.7	15.7
Employee Expenses	306.7	296.5	314.2	362.5
Other Expenditure	72.1	68.7	72.8	88.3
Total Operating Expenditure	3,312.9	3,129.5	3,617.4	4,368.2
EBITDA	158.3	134.4	214.6	278.8
Growth (%)	4.6	-15.1	59.7	29.9
Interest	17.6	20.1	25.3	25.8
Depreciation	73.4	89.7	118.8	138.8
Other Income	14.0	17.5	19.2	23.2
PBT before Exceptional Items	81.2	42.1	89.7	137.5
Less: Exceptional Items	0.0	2.8	0.0	0.0
PBT after Exceptional Items	81.2	39.3	89.7	137.5
Total Tax	25.7	10.0	22.6	34.6
PAT before MI	55.5	29.3	67.1	102.9
Minority Interest	-0.3	-1.2	-1.2	-1.2
PAT	55.7	30.5	68.3	104.1
EPS Growth (%)	-35.1	-45.2	123.8	52.3
EPS (Adjusted)	7.7	4.6	9.5	14.5

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)/ (₹ crore)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	55.1	30.1	67.9	103.7
Add: Depreciation & Amortization	73.4	89.7	118.8	138.8
Add: Interest Paid	17.6	20.1	25.3	25.8
Net Increase in Current Assets	25.0	-64.5	-89.2	-126.0
Net Increase in Current Liabilities	5.1	163.9	75.0	52.5
Others	-90.8	54.5	0.0	0.0
CF from Operating activities	85.4	293.7	197.8	194.8
(Purchase)/Sale of Fixed Assets	-62.4	-69.0	-70.0	-45.0
Long term Loans & Advances	0.0	0.0	0.0	0.0
Investments	-26.3	-54.8	0.0	-150.0
Others	39.9	-46.1	-79.6	-116.6
CF from Investing activities	13.5	-100.8	-79.6	-266.6
(inc)/Dec in Loan	0.8	-6.7	-5.0	-5.0
Dividend & Dividend tax	-10.7	-17.9	-19.8	-19.8
Less: Interest Paid	-3.6	-4.2	-2.6	-2.0
Other	-55.8	-65.8	-61.5	0.0
CF from Financing activities	-69.3	-94.6	-88.9	-26.8
Net Cash Flow	29.6	98.2	29.4	-98.5
Cash and Cash Equivalent at the beginning	70.0	99.5	197.8	227.1
Cash and Cash Equivalent at the end	99.5	197.8	227.1	128.6

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	71.5	71.7	71.7	71.7
Reserve and Surplus	473.1	496.4	544.5	628.4
Total Shareholders funds	544.6	568.1	616.2	700.1
Minority Interest	5.4	2.8	2.8	2.8
Total Debt	29.3	26.4	21.4	16.4
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	15.7	15.9	16.2	16.5
Source of Funds	595.0	613.2	656.6	735.8
Gross Block - Fixed Assets	369.5	566.7	696.7	801.7
Accumulated Depreciation	142.9	210.3	329.1	467.8
Net Block	226.6	356.4	367.6	333.8
Capital WIP	15.0	3.1	3.1	3.1
Fixed Assets	241.7	359.5	370.7	336.9
Investments	36.7	108.3	108.3	258.3
Goodwill on Consolidation	4.3	4.3	4.3	4.3
Deferred Tax Assets	20.0	22.1	22.1	22.1
Other non-Current Assets	132.6	35.3	36.0	36.7
Inventory	0.0	0.0	0.0	0.0
Debtors	522.4	485.6	570.1	691.4
Loans and Advances	364.5	465.9	470.5	475.2
Other Current Assets	0.0	0.0	0.0	0.0
Cash	99.5	197.8	227.1	128.6
Total Current Assets	986.5	1,149.2	1,267.8	1,295.2
Creditors	617.2	766.1	839.9	891.2
Provisions	5.6	6.1	6.2	6.3
Other Current Liabilities	204.0	293.4	306.5	320.2
Total Current Liabilities	826.8	1,065.5	1,152.5	1,217.7
Net Current Assets	159.7	83.7	115.2	77.5
Application of Funds	595.0	613.2	656.6	735.8

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Reported EPS	7.7	4.2	9.5	14.5
BV per share	75.9	79.2	85.9	97.6
Cash per Share	13.9	27.6	31.7	17.9
Dividend per share	1.5	2.5	2.8	2.8
Operating Ratios (%)				
Gross Profit Margins	15.5	15.3	15.7	15.7
EBITDA margins	4.6	4.1	5.6	6.0
PAT Margins	1.6	1.0	1.8	2.2
Inventory days	0.0	0.0	0.0	0.0
Debtor days	54.9	54.3	54.3	54.3
Creditor days	64.9	85.7	80.0	70.0
Asset Turnover	9.4	5.8	5.5	5.8
Return Ratios (%)				
RoE	10.1	5.8	11.0	14.8
RoCE	24.6	18.8	28.2	33.6
RoIC	27.7	28.0	45.7	41.1
Valuation Ratios (x)				
P/E	79.4	145.2	64.4	42.2
EV / EBITDA	27.2	30.9	19.2	15.1
EV / Net Sales	1.2	1.3	1.1	0.9
Market Cap / Sales	1.3	1.3	1.1	0.9
Price to Book Value	8.0	7.7	7.1	6.2
Solvency Ratios				
Debt / EBITDA	0.2	0.2	0.1	0.1
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.3	1.2	1.2	1.2
Quick Ratio	1.3	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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