

Expect margin bounce-back in Q3...

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 (FY21) while the rest is contributed by non-Mahindra

Q2FY22 Results: Margins were lower than estimates, impacting profitability.

- Revenues grew 22% YoY to ₹ 1019 crore, led by better-than-expected SCM segment performance
- EBITDA grew 34% to ₹ 50 crore with margins at 4.9% (vs. expected 5.6%)
- However, PAT de-grew 37% YoY to ₹ 9 crore (vs. expected ₹ 16 crore), as operating performance was impacted by higher interest and depreciation

What should investors do? While the company has been facing challenges w.r.t. auto sector in the short run (non-passage of crude oil price, optimisation of SCM, etc), the company is adding customers on the 2-W and non-auto segment (more warehousing) and continuously improving its service mix.

- 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 ₹ 750 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 like e-com, 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 MLL, we remain positive on TCI Express

- TCI Express is a leading asset light B2B (95% of revenues) express logistics company with 28 sorting centres, 800+ owned pan-India centres covering 40000 pick-up and delivery points
- We have a Buy rating on the stock & value at ₹1950 (37x PE on FY23E EPS)

Key Financial Summary

₹ crore	FY19	FY20	FY21	5 Years CAGR (FY16-21)	FY22E	FY23E	2 Years CAGR
Net Sales	3,851.3	3,471.1	3,263.9	9.6%	3,919.1	4,757.7	5.4%
EBITDA	151.2	158.3	134.4	20.7%	207.7	285.5	17.2%
PAT	85.6	55.1	30.1	-3.5%	57.2	109.1	6.2%
P/E (x)	53.6	83.3	152.3		80.2	42.1	
M.Cap/Sales (x)	1.2	1.3	1.4		1.2	1.0	
RoCE (%)	25.8	24.6	18.8		26.4	34.9	
RoE (%)	17.2	10.1	5.8		9.5	15.7	

Source: Company, ICICI Direct Research

Mahindra
LOGISTICS

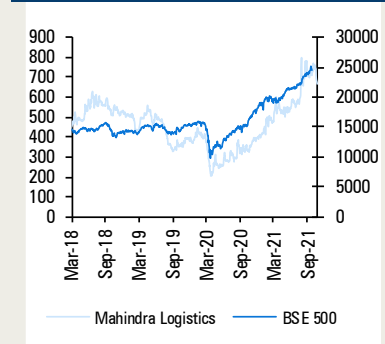
Particulars

Market Capitalisation (₹ cr)	4,446.1
Debt (FY21) (₹ cr)	26.4
Cash (FY21) (₹ cr)	197.8
EV (₹ cr)	4,274.8
52 Week High / Low (₹)	821/350
Equity Capital (₹ cr)	71.5
Face Value (₹ cr)	10.0

Shareholding pattern

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

Price Chart



Recent event & key risks

- Commercialisation of Bhiwandi, Chakan warehouses
- Key Risk:** (i) Further slowdown in auto sector (ii) further hardening in diesel prices

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Key takeaways

Q2FY22 Results: Margins expected to improve going forward

- Freight forwarding (FF) and express segment have grown in the tune of 75% and 30%, respectively. The strong FF growth was a result of higher ocean freight rates, increasing penetration and launch of newer services
- The share of revenues from Mahindra has de-grown from earlier 51% to current 48%
- Warehouse space under management was at 17.2 mn sq ft
- Warehousing revenues (~20% of SCM revenues) grew 25% YoY vs. transportation growth of 21% (80%)
- Mahindra SCM revenues grew 16% YoY while non-Mahindra SCM revenues grew 28%

Q2FY22 Earnings Conference Call highlights

- Auto sector continues to face headwinds from semiconductor availability issue and higher commodity prices. However, two wheeler segment is showing growth spurts
- Due to higher exposure to auto sector, which is currently facing turmoil, MLL was unable to pass-through the hike in crude oil prices which impacted margins
- Also, higher waiting periods and volatile auto movement presented further challenges for MLL (impacting margins)
- In the near to medium term, MLL aims to operationalise 4 million sq feet of warehousing space (partial commissioning has started)
- E-commerce is pushing companies into building flexible and resilient supply chain, increasing importance of 3PL players for the companies
- Consumer segment showed strong performance with both urban and rural performance showing higher discretionary spends by the end-user. FMCG company plan to increase their footprints in more tier 2/3 cities
- Electronics segment continued to face issue with respect to cross border logistics costs
- The pan-India contract (setting up newer warehousing facilities and newer trucking routes) with Bajaj Electricals continues to scale up and the full impact on topline is expected to be seen from Q3 onwards
- The capex for current year was at ₹ 80-90 crore

Exhibit 1: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	1,019.1	960.3	832.5	22.4	873.4	16.7	Revenue growth higher-than-expected mainly due to higher-than-expected growth in the SCM segment
Operating expenses	872.5	811.5	704.7	23.8	740.7	17.8	
Employee Expenses	75.7	72.0	72.6	4.3	71.1	6.5	
Other Expense	20.9	23.0	17.9	16.3	16.5	26.3	
Total Expense	969.1	906.5	795.2	21.9	828.4	17.0	
EBITDA	50.0	53.8	37.3	34.1	45.0	11.2	
EBITDA Margin (%)	4.9	5.6	4.5	43 bps	5.2	-24 bps	EBITDA margins contracted vs estimates mainly due to non-passage of crude oil price and variability in transportation of auto volumes
Depreciation	32.8	28.6	20.9	57.4	28.6	14.8	
Interest	6.8	5.9	4.5	52.5	6.2	10.7	
Other Income	2.0	2.1	8.3	-76.2	1.9	2.1	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	0.0	NA	
PBT	12.3	21.4	20.2	PL	12.2	1.4	
Total Tax	3.1	5.4	5.4	-43.4	3.1	-0.7	
PAT	9.3	16.0	14.8	-37.4	9.1	2.1	
Key Metrics	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	
Mahindra SCM revenues	483.6	479.0	416.5	16.1	439.7	10.0	
Non-Mahindra SCM revenue	494.8	445.5	387.4	27.7	400.4	23.6	Strong performance vs. estimates due to better performance in sectors such as e-commerce, pharma, FMCG, etc
SCM revenues	978.4	924.5	803.9	21.7	840.1	16.5	
PTS revenues	40.7	35.8	28.7	42.0	33.3	22.2	

Source: Company, ICICI Direct Research

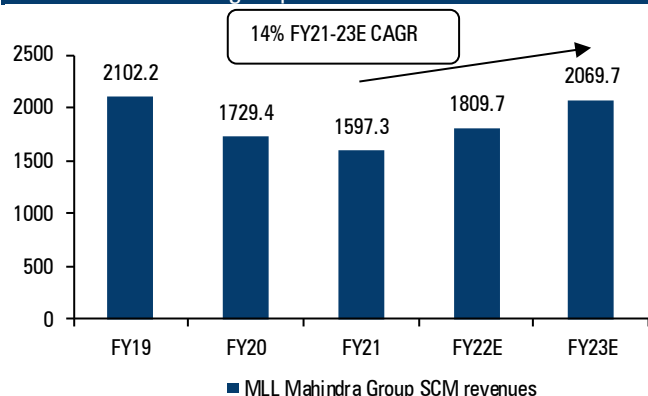
Exhibit 2: Change in estimates

	FY22E					FY23E			Comments
(₹ Crore)	FY20	FY21	Old	New	% Change	Old	New	% Change	
Gross Revenue	3,471.1	3,263.9	3,832.0	3,919.1	2.3	4,647.0	4,757.7	2.4	Revenue estimates kept largely unchanged
EBITDA	158.3	134.4	214.6	207.7	-3.2	278.8	285.5	2.4	
EBITDA Margin (%)	4.6	4.1	5.6	5.3	-30 bps	6.0	6.0	0 bps	Margins largely rangebound at 5.5-6%
PAT	55.1	30.1	67.9	57.2	-15.7	103.7	109.1	5.2	
EPS (₹)	7.7	4.2	9.5	8.0	-15.7	14.5	15.2	5.2	

Source: ICICI Direct Research

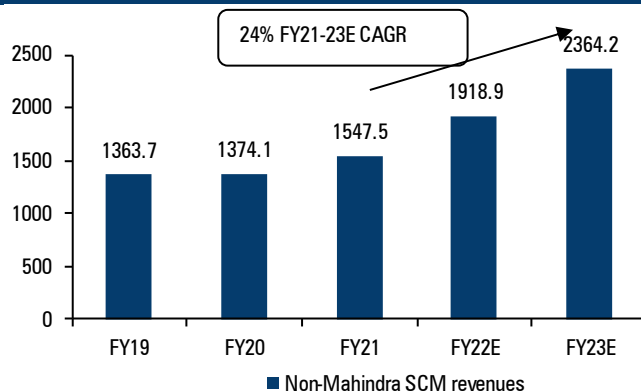
Key Metrics

Exhibit 3: Mahindra group SCM revenues



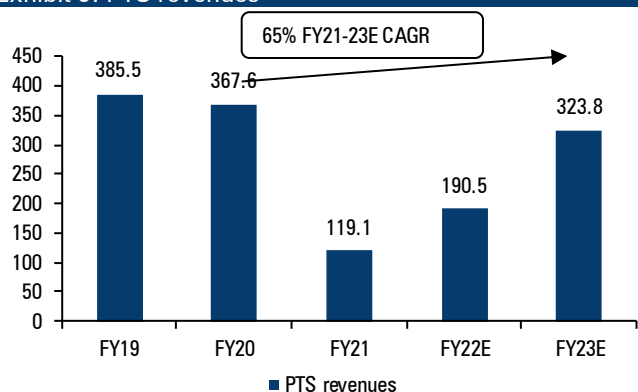
Source: ICICI Direct Research, Company

Exhibit 4: Non-Mahindra SCM revenues



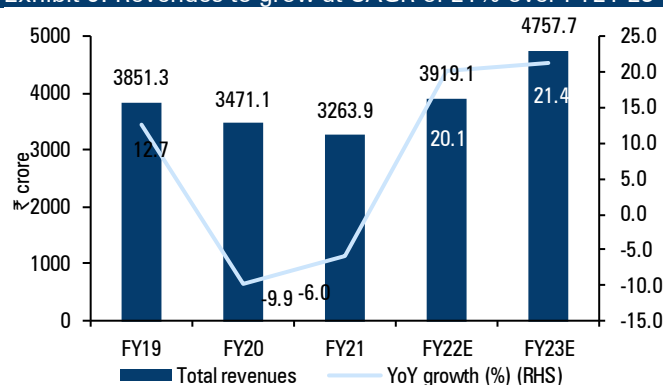
Source: ICICI Direct Research, Company

Exhibit 5: PTS revenues



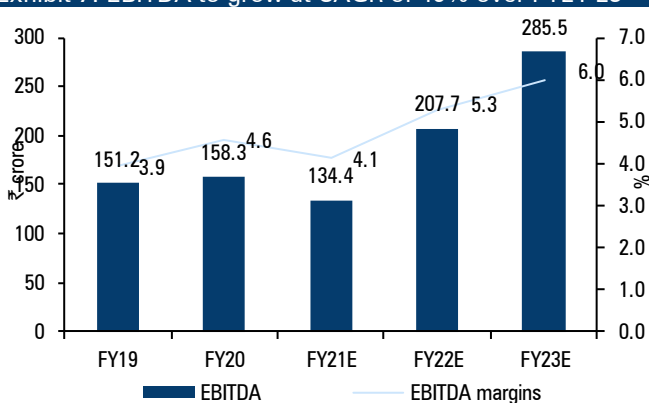
Source: ICICI Direct Research, Company

Exhibit 6: Revenues to grow at CAGR of 21% over FY21-23



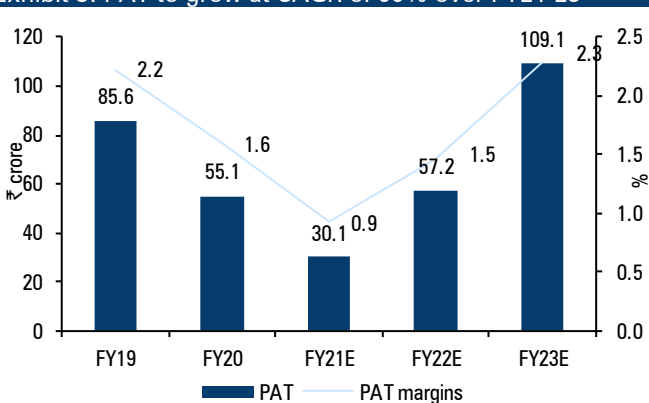
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA to grow at CAGR of 46% over FY21-23



Source: Company, ICICI Direct Research

Exhibit 8: PAT to grow at CAGR of 90% 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	53.6	30.1	17.2	25.8
FY20	3471.1	-9.9	7.7	-35.8	83.3	28.6	10.1	24.6
FY21	3263.9	-6.0	4.2	-45.4	152.3	32.5	5.8	18.8
FY22E	3919.1	20.1	8.0	90.0	80.2	20.9	9.5	26.4
FY23E	4757.7	21.4	15.2	90.6	42.1	15.5	15.7	34.9

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	3,919.1	4,757.7
Growth (%)	-9.9	-6.0	20.1	21.4
Freight Expense and Charges	2,934.2	2,764.3	3,315.5	4,010.7
Gross Profit	537.0	499.6	603.5	747.0
Gross Profit Margins (%)	15.5	15.3	15.4	15.7
Employee Expenses	306.7	296.5	321.4	371.1
Other Expenditure	72.1	68.7	74.5	90.4
Total Operating Expenditure	3,312.9	3,129.5	3,711.4	4,472.2
EBITDA	158.3	134.4	207.7	285.5
Growth (%)	4.6	-15.1	54.6	37.4
Interest	17.6	20.1	25.3	25.8
Depreciation	73.4	89.7	118.8	138.8
Other Income	14.0	17.5	11.8	23.8
PBT before Exceptional Items	81.2	42.1	75.4	144.6
Less: Exceptional Items	0.0	2.8	0.0	0.0
PBT after Exceptional Items	81.2	39.3	75.4	144.6
Total Tax	25.7	10.0	19.0	36.4
PAT before MI	55.5	29.3	56.4	108.2
Minority Interest	-0.3	-1.2	-1.2	-1.2
PAT	55.1	30.1	57.2	109.0

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	57.2	109.1
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	-102.1	-129.5
Net Increase in Current Liabilities	5.1	163.9	94.1	54.7
Others	-90.8	54.5	0.0	0.0
CF from Operating activities	85.4	293.7	193.2	198.9
(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	24.8	-94.5
Cash and Cash Equivalent at the beginnin	70.0	99.5	197.8	222.6
Cash and Cash Equivalent at the end	99.5	197.8	222.6	128.1

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	533.8	623.1
Total Shareholders funds	544.6	568.1	605.5	694.8
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	645.9	730.5
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	583.1	707.9
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	222.6	128.1
Total Current Assets	986.5	1,149.2	1,276.2	1,311.1
Creditors	617.2	766.1	859.0	912.4
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	1,171.6	1,238.9
Net Current Assets	159.7	83.7	104.6	72.2
Application of Funds	595.0	613.2	645.9	730.5

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	8.0	15.2
BV per share	75.9	79.2	84.4	96.9
Cash per Share	13.9	27.6	31.0	17.9
Dividend per share	1.5	2.5	2.8	2.8
Operating Ratios (%)				
Gross Profit Margins	15.5	15.3	15.4	15.7
EBITDA margins	4.6	4.1	5.3	6.0
PAT Margins	1.6	1.0	1.5	2.3
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	5.6	5.9
Return Ratios (%)				
RoE	10.1	5.8	9.5	15.7
RoCE	24.6	18.8	26.4	34.9
RoIC	27.7	28.0	44.5	42.8
Valuation Ratios (x)				
P/E	80.7	147.6	77.7	40.8
EV / EBITDA	27.6	31.4	20.2	15.0
EV / Net Sales	1.3	1.3	1.1	0.9
Market Cap / Sales	1.3	1.4	1.1	0.9
Price to Book Value	8.2	7.8	7.3	6.4
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	1.1	1.2
Quick Ratio	1.3	1.2	1.1	1.2

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Logistics)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
APSEZ	700	900	BUY	1,42,223	24.6	27.0	37.4	28.5	24.1	18.7	19.5	15.2	12.5	12.7	12.6	14.2	16.3	13.6	16.4
Container Corporation	657	810	BUY	39,483	8.3	22.5	31.2	79.2	29.3	21.0	9.9	5.4	3.7	4.5	10.8	12.9	5.4	11.7	14.2
Transport Corp. of India	630	700	Hold	4,596	18.9	28.2	35.3	33.3	22.3	17.9	18.3	14.1	11.4	13.3	16.0	17.4	12.9	16.3	17.1
TCI Express	1,820	1,950	BUY	6,967	26.2	40.1	52.7	69.6	45.4	34.5	51.9	33.7	25.8	31.9	38.2	37.7	26.1	30.6	30.4
Mahindra Logistics	620	750	BUY	4,446	4.6	8.0	15.2	147.6	77.7	40.8	31.4	20.2	15.0	18.8	26.4	34.9	5.8	9.5	15.7
BlueDart Express	6,660	6,300	BUY	15,682	43.1	91.6	123.2	153.2	72.1	53.6	22.4	18.4	15.6	50.2	63.4	63.5	13.1	29.4	29.4
Gateway Distriparks	280	350	BUY	3,495	7.6	9.9	15.3	37.1	28.2	18.3	12.3	10.6	8.4	12.2	14.4	18.3	6.4	8.1	11.6

Source: ICICI Direct Research

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Sell: <-15%



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