

# Mahindra Logistics

BSE SENSEX

57,012

S&amp;P CNX

16,985

**CMP: INR661**
**TP: INR725 (+10%)**
**Neutral**

## Slowdown in the Auto sector poses near term challenges

- We released our Logistics thematic report [recently](#), wherein we have stressed on the growth potential of the Indian logistics sector and the upcoming opportunities for value added services players like Mahindra Logistics (MLL). We had assigned a Neutral rating to MLL, due to: a) near to medium term growth challenges in the Auto sector, b) owing to its rich valuation.
- The Auto sector has been facing challenges due to semiconductor shortages, which is impacting Auto production and the requirement for Logistics activity. However, non-Auto verticals like Consumer and e-commerce are expected to do well with an improved demand outlook. The easing of fuel prices (on account of excise duty cuts) will comfort margin.
- Over the long term, we expect MLL to benefit from a pickup in industry growth, growing need for integrated solutions, and MLL's strong presence in the 3PL segment. We expect it to clock a revenue/EBITDA/PAT CAGR of ~18%/32%/58% over FY21-24E. The stock currently trades at 36x FY24E EPS. We retain our Neutral rating, with a TP of INR725/share (40x FY24E EPS).

## Volumes up in 2QFY22 with festive demand and new business wins

- MLL registered 22% YoY revenue growth in 2QFY22 driven by festive season demand and new business wins in Consumer, freight forwarding, and e-commerce.
- Its revenue share in Supply Chain Management (SCM)/Enterprise Mobility Services (EMS) segments stood at 96%/4% in 2QFY22.
- The global semiconductor shortage has been impacting the Auto segment. Cross border Logistics is being impacted by container shortages and volatility in freight prices (both ocean and air), which is putting pressure on the domestic business.

## Excise duty cuts in diesel in Nov'21 to aid MLL's margin

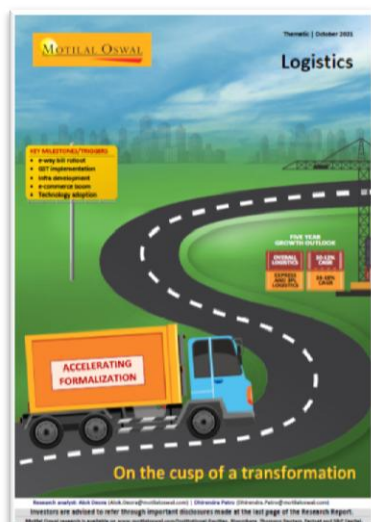
- The rise in fuel costs impacted MLL's profitability as the company found it difficult to pass on the increase to its customers due to the challenging demand environment, especially in the Auto sector.
- MLL would benefit from the ~10% plunge in diesel prices from the excise duty cuts announced in early Nov'21, which would aid margin.

## The addition of high yield Grade A Warehousing to continue

- It has been reducing the low yield stockyard space under management, which is resulting in an increase in blended revenue per sq. ft. It has already reduced 2.3m sq. ft. of low yield stockyard space in 2QFY22.
- MLL and LOGOS, a leading Asia Pacific Logistics specialist, have announced a long-term lease agreement for 1.4m sq. ft. of three Grade A warehouse facilities at the LOGOS Luhari Logistics Estate in Delhi NCR, of which 0.5m sq. ft. is already operational. The other two facilities are expected to be delivered by early CY22. It would be India's largest Warehousing facility in a single park.

**Mahindra**  
LOGISTICS

Recent thematic report on Logistics



### Stock Info

Bloomberg	MAHLOG IN
Equity Shares (m)	72
M.Cap.(INRb)/(USDb)	47.5 / 0.6
52-Week Range (INR)	819 / 370
1, 6, 12 Rel. Per (%)	-8/5/39
12M Avg Val (INR M)	136
Free float (%)	41.8

### Financials Snapshot (INR b)

Y/E March	2021	2022E	2023E
Net Sales	32.6	39.4	47.1
EBITDA	1.3	2.1	2.7
Adj. PAT	0.3	0.5	0.9
Adj. EPS (INR)	4.6	6.4	13.0
EPS Gr. (%)	-40.7	40.5	102.0
BV/Sh. (INR)	79.4	83.3	93.8

### Ratios

Net D/E (x)	-0.3	0.0	-0.1
RoE (%)	5.8	7.9	14.6
RoCE (%)	8.2	10.9	16.9
Payout (%)	59.8	38.9	19.3

### Valuations

P/E (x)	144.5	102.8	50.9
P/BV (x)	8.3	7.9	7.0
EV/EBITDA (x)	34.0	22.5	17.4
Div. Yield (%)	0.4	0.4	0.4
FCF Yield (%)	4.8	-0.7	-0.2

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- It plans to add 20m sq. ft. of Warehousing space over the next five years, of which 4m sq. ft. has already been contracted and its construction is expected to be completed by 2QFY23.

#### **Acquisition of Meru Cabs to boost its presence in Enterprise Mobility**

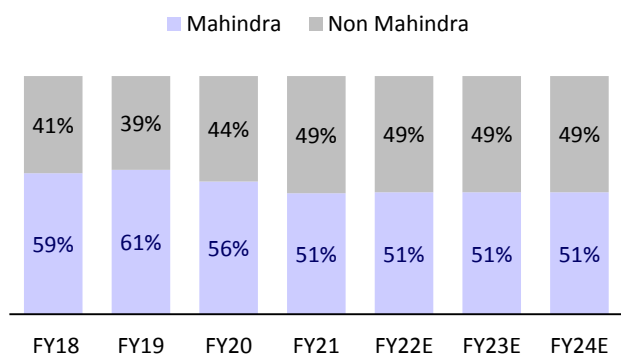
- MM had completely acquired Meru Travel Solutions Pvt (MTSPL) in May'21. In Nov'21, MLL entered into a share purchase agreement with parent MTSPL to acquire three of its wholly owned subsidiaries for INR505m. It also entered into an agreement with MM to acquire 100% stake in MTSPL for INR504m in Nov'21. Post-acquisition, all four Meru companies would become wholly owned subsidiaries of MLL and would continue to remain subsidiaries of MM. The acquisition is expected to be complete by the end of Dec'21.
- The company intends to invest in Meru companies with the aim to grow its presence in the shared Mobility space and to consolidate its ownership in the Mobility business.

#### **Valuation and view**

- Robust industry growth, its asset light business model, and strong parentage of the Mahindra group are key growth triggers for MLL.
- We expect volumes to pick up over the next couple of years, with the easing of semiconductor shortage in the Auto industry, although its margin is likely to improve only gradually due to higher fuel costs.
- We expect MLL to clock a revenue/EBITDA/PAT CAGR of ~18%/32%/58% over FY21-24E. The stock trades at 36x FY24 EPS. We retain our Neutral rating with a TP of INR725/share (40x FY24E EPS).

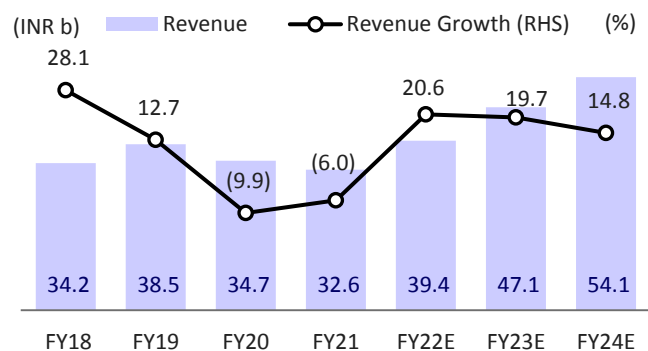
## Financial story in charts

**Exhibit 1: MM's share to stabilize at 50% in the SCM segment**



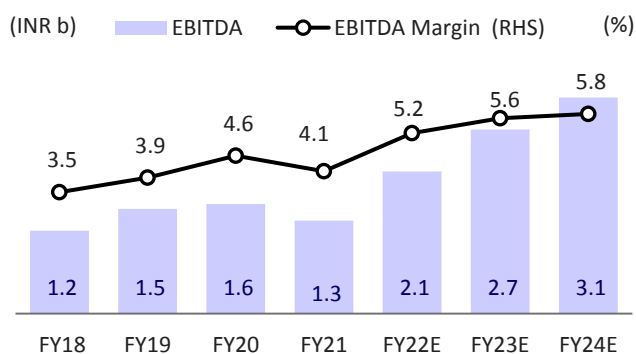
Source: Company, MOFSL

**Exhibit 2: Revenue growth to be driven by the SCM segment**



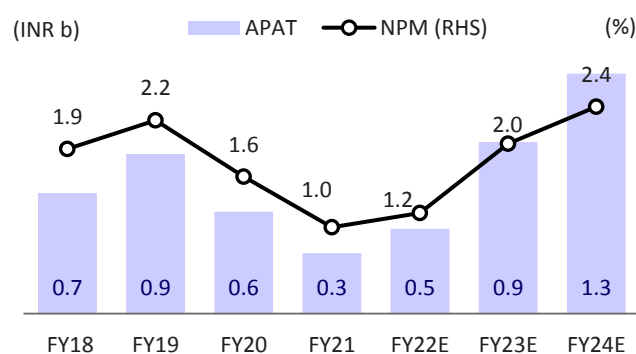
Source: Company, MOFSL

**Exhibit 3: Margin to remain strong**



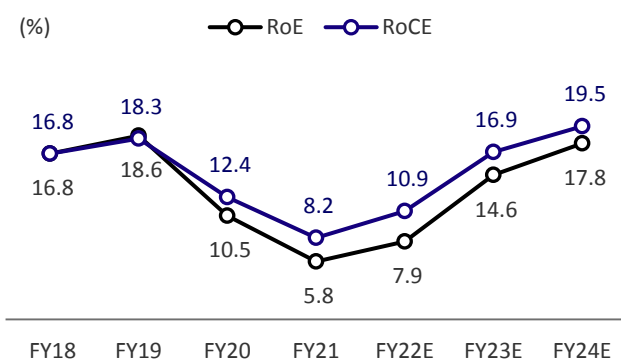
Source: Company, MOFSL

**Exhibit 4: Strong operating performance to drive PAT growth**



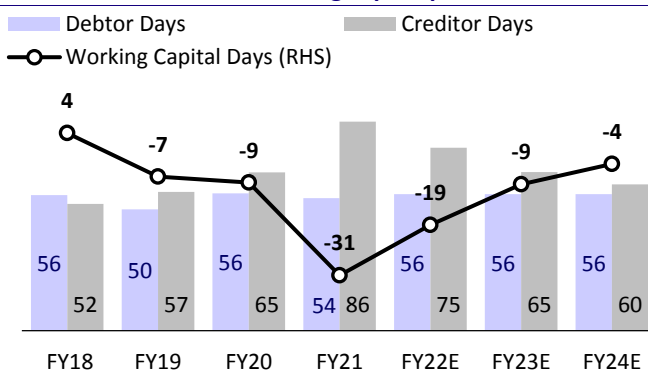
Source: Company, MOFSL

**Exhibit 5: Return ratios to improve with strong earnings**

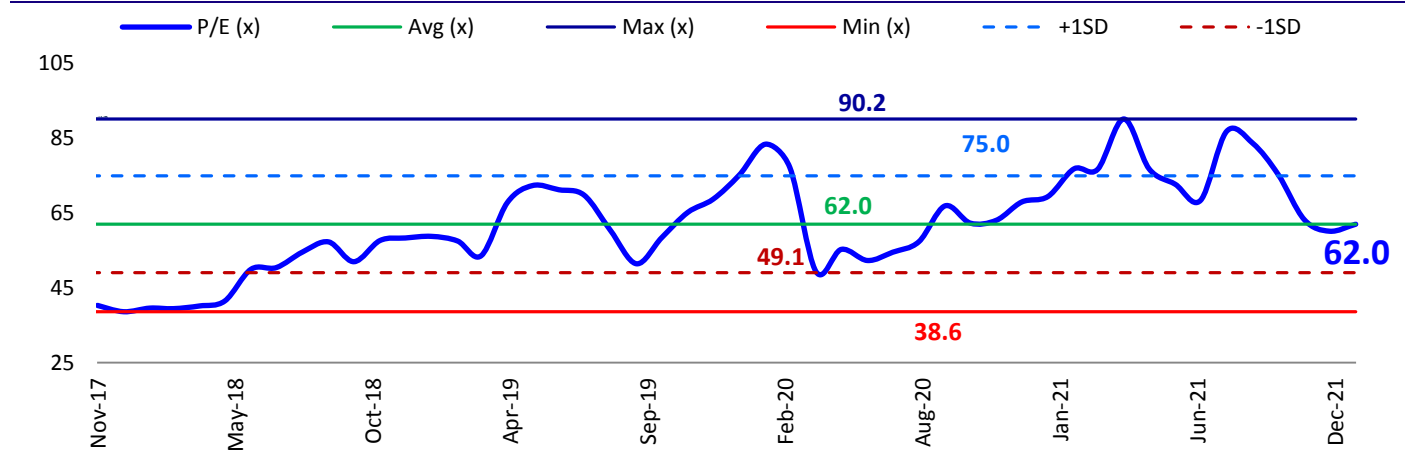


Source: Company, MOFSL

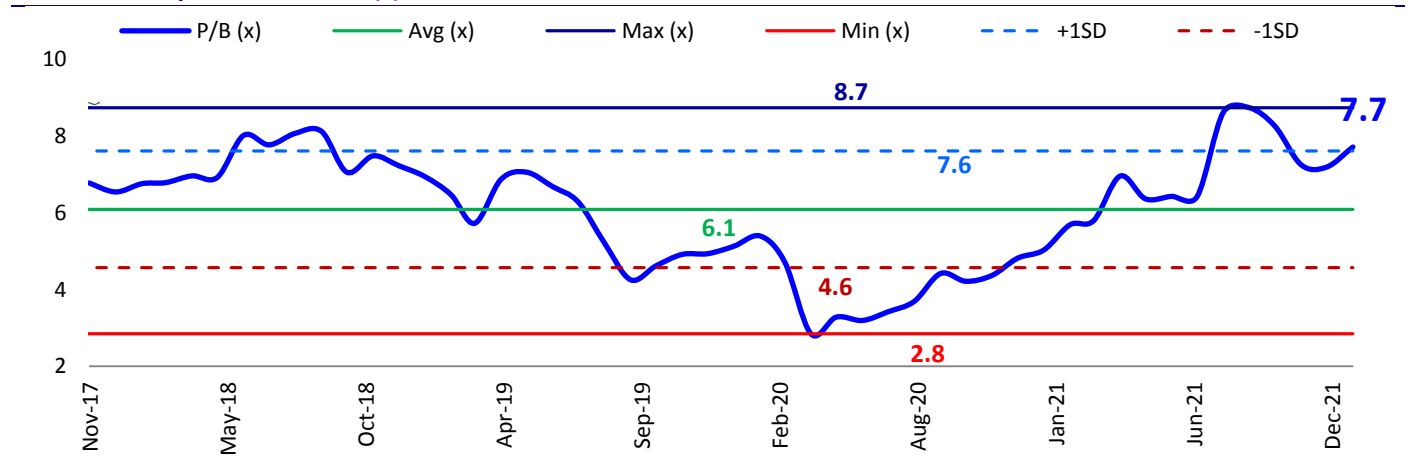
**Exhibit 6: Comfortable working capital position**



Source: Company, MOFSL

**Exhibit 7: One-year forward P/E (x)**

Source: Company, MOFSL

**Exhibit 8: One-year forward P/B (x)**

Source: Company, MOFSL

## Financials and valuations

### Consolidated Income Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Sales</b>	<b>34,161</b>	<b>38,513</b>	<b>34,711</b>	<b>32,637</b>	<b>39,366</b>	<b>47,108</b>	<b>54,102</b>
Change (%)	28.1	12.7	-9.9	-6.0	20.6	19.7	14.8
Gross Margin (%)	12.2	12.4	15.5	15.3	15.3	15.0	14.8
<b>EBITDA</b>	<b>1,197</b>	<b>1,512</b>	<b>1,583</b>	<b>1,342</b>	<b>2,052</b>	<b>2,657</b>	<b>3,119</b>
Margin (%)	3.5	3.9	4.6	4.1	5.2	5.6	5.8
Depreciation	197	220	734	897	1,253	1,279	1,319
<b>EBIT</b>	<b>1,000</b>	<b>1,293</b>	<b>848</b>	<b>446</b>	<b>799</b>	<b>1,378</b>	<b>1,800</b>
Int. and Finance Charges	38	35	176	201	282	259	235
Other Income	59	76	140	175	87	122	171
<b>PBT</b>	<b>1,021</b>	<b>1,334</b>	<b>812</b>	<b>420</b>	<b>604</b>	<b>1,242</b>	<b>1,736</b>
Tax	368	468	257	100	152	313	437
Effective Tax Rate (%)	36.1	35.1	31.7	23.9	25.2	25.2	25.2
<b>PAT before MI, Associates, and EO Items</b>	<b>653</b>	<b>867</b>	<b>555</b>	<b>319</b>	<b>452</b>	<b>929</b>	<b>1,299</b>
Share of profit/(loss) of Associates and JVs	0	-3	-3	8	8	0	0
Extraordinary Items	0	0	0	28	0	0	0
<b>Reported PAT</b>	<b>653</b>	<b>864</b>	<b>552</b>	<b>300</b>	<b>460</b>	<b>929</b>	<b>1,299</b>
<b>Adjusted PAT</b>	<b>653</b>	<b>864</b>	<b>552</b>	<b>328</b>	<b>460</b>	<b>929</b>	<b>1,299</b>
Change (%)	41.5	32.4	-36.1	-40.7	40.5	102.0	39.8
Margin (%)	1.9	2.2	1.6	1.0	1.2	2.0	2.4

### Consolidated Balance Sheet

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	711	715	715	717	717	717	717
Total Reserves	3,485	4,268	4,731	4,964	5,245	5,995	7,115
<b>Net Worth</b>	<b>4,196</b>	<b>4,982</b>	<b>5,447</b>	<b>5,681</b>	<b>5,962</b>	<b>6,712</b>	<b>7,832</b>
Minority Interest	70	57	54	28	28	28	28
Deferred Tax Liabilities	-141	-187	-200	0	0	0	0
Total Loans	346	377	359	292	278	264	250
<b>Capital Employed</b>	<b>4,471</b>	<b>5,229</b>	<b>5,660</b>	<b>6,000</b>	<b>6,267</b>	<b>7,004</b>	<b>8,110</b>
Gross Block	1,126	1,361	3,594	5,520	6,320	6,920	7,420
Less: Accum. Deprn.	467	648	1,285	1,903	3,155	4,434	5,754
<b>Net Fixed Assets</b>	<b>659</b>	<b>713</b>	<b>2,310</b>	<b>3,617</b>	<b>3,164</b>	<b>2,485</b>	<b>1,666</b>
Capital WIP	6	26	150	21	21	21	21
<b>Total Investments</b>	<b>501</b>	<b>813</b>	<b>31</b>	<b>0</b>	<b>75</b>	<b>150</b>	<b>225</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>8,554</b>	<b>10,312</b>	<b>11,527</b>	<b>13,149</b>	<b>15,025</b>	<b>17,416</b>	<b>20,453</b>
Inventory	0	0	0	0	0	0	0
Account Receivables	5,200	5,251	5,356	4,856	6,040	7,228	8,301
Cash and Bank Balances	660	700	995	1,978	1,407	1,120	1,738
Cash	660	550	995	1,978	1,407	1,120	1,738
Bank Balance	0	150	0	0	0	0	0
Loans and Advances	0	150	150	0	0	0	0
Others	2,693	4,212	5,026	6,315	7,577	9,068	10,414
<b>Current Liab. and Prov.</b>	<b>5,248</b>	<b>6,635</b>	<b>8,359</b>	<b>10,787</b>	<b>12,018</b>	<b>13,068</b>	<b>14,255</b>
Account Payables	4,863	6,001	6,172	7,661	8,089	8,389	8,893
Other Current Liabilities	205	419	1,974	3,065	3,697	4,424	5,081
Provisions	180	215	213	61	232	255	280
<b>Net Current Assets</b>	<b>3,306</b>	<b>3,677</b>	<b>3,169</b>	<b>2,362</b>	<b>3,007</b>	<b>4,348</b>	<b>6,198</b>
<b>Application of Funds</b>	<b>4,471</b>	<b>5,229</b>	<b>5,660</b>	<b>6,000</b>	<b>6,267</b>	<b>7,004</b>	<b>8,110</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>							
EPS	9.1	12.1	7.7	4.6	6.4	13.0	18.2
EPS growth (%)	41.5	32.4	-36.1	-40.7	40.5	102.0	39.8
Cash EPS	11.9	15.1	18.0	17.1	23.9	30.9	36.6
BV/Share	58.6	69.6	76.1	79.4	83.3	93.8	109.4
DPS	1.5	1.8	1.5	2.5	2.5	2.5	2.5
Payout (incl. Div. Tax, %)	19.7	17.9	19.5	59.8	38.9	19.3	13.8
<b>Valuation (x)</b>							
P/E	72.5	54.8	85.7	144.5	102.8	50.9	36.4
Cash P/E	55.7	43.7	36.8	38.7	27.6	21.4	18.1
EV/EBITDA	38.8	30.5	29.5	34.0	22.5	17.4	14.6
EV/Sales	1.4	1.2	1.3	1.4	1.2	1.0	0.8
P/BV	11.3	9.5	8.7	8.3	7.9	7.0	6.0
Dividend Yield (%)	0.2	0.3	0.2	0.4	0.4	0.4	0.4
<b>Return Ratios (%)</b>							
RoE	16.8	18.6	10.5	5.8	7.9	14.6	17.8
RoCE	16.8	18.3	12.4	8.2	10.9	16.9	19.5
RoIC	21.5	24.0	14.2	7.8	13.6	19.7	22.8
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	33.6	31.0	14.0	7.2	6.7	7.1	7.5
Asset Turnover (x)	7.6	7.4	6.1	5.4	6.3	6.7	6.7
Inventory (Days)	0	0	0	0	0	0	0
Debtors (Days)	56	50	56	54	56	56	56
Creditors (Days)	52	57	65	86	75	65	60
<b>Leverage Ratio (x)</b>							
Net Debt/Equity	-0.1	-0.1	-0.1	-0.3	0.0	-0.1	-0.2

### Consolidated Cash Flow Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,021	1,334	812	392	604	1,242	1,736
Depreciation	197	220	734	897	1,253	1,279	1,319
Direct Taxes Paid	-701	-419	-325	515	-152	-313	-437
(Inc.)/Dec. in WC	-483	-265	-653	838	-1,429	-1,837	-1,421
Other Items	85	80	285	295	195	136	64
<b>CF from Operations</b>	<b>119</b>	<b>950</b>	<b>854</b>	<b>2,937</b>	<b>470</b>	<b>508</b>	<b>1,261</b>
(Inc.)/Dec. in FA	-372	-342	-617	-690	-800	-600	-500
<b>Free Cash Flow</b>	<b>-253</b>	<b>608</b>	<b>237</b>	<b>2,247</b>	<b>-330</b>	<b>-92</b>	<b>761</b>
Change in Investments	86	-258	786	-588	-75	-75	-75
Others	287	-347	186	198	-101	-132	-59
<b>CF from Investments</b>	<b>1</b>	<b>-947</b>	<b>355</b>	<b>-1,080</b>	<b>-976</b>	<b>-807</b>	<b>-634</b>
Change in Equity	72	27	4	2	0	0	0
Inc./(Dec.) in Debt	3	23	-18	-67	-14	-13	-14
Dividends Paid	0	-129	-155	-107	-179	-179	-179
Others	-37	-35	-594	-702	128	205	184
<b>CF from Fin. Activity</b>	<b>39</b>	<b>-113</b>	<b>-763</b>	<b>-875</b>	<b>-65</b>	<b>13</b>	<b>-9</b>
<b>Inc./(Dec.) in Cash</b>	<b>159</b>	<b>-111</b>	<b>446</b>	<b>982</b>	<b>-570</b>	<b>-287</b>	<b>618</b>
Opening Balance	502	660	550	995	1,978	1,407	1,120
<b>Closing Balance</b>	<b>660</b>	<b>550</b>	<b>995</b>	<b>1,978</b>	<b>1,407</b>	<b>1,120</b>	<b>1,738</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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