

Expect near term rebound in auto volumes

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

Q1FY23 Results: Results were better than I-direct estimates on all fronts.

- Revenues grew 36% YoY to ₹ 1200 crore, led by better-than-expected SCM segment performance
- EBITDA grew 62% to ₹ 66 crore with margins at 5.5% (vs. expected 5.3%)
- Subsequently, PAT grew 3.2x to ₹14 crore

What should investors do? Although near term margins are expected to remain subdued due to strong growth in transportation revenues, MLL continues to win newer clients in non-Mahindra non-auto segment. Also, warehousing space addition is expected to gather pace from H2FY23 onwards, which along with MLL multiple lines of services, provide range of logistics offerings to potential clients.

- We maintain **BUY** due to long-term growth drivers in MLL

Target Price and Valuation: We value the stock at ₹ 550 i.e. 37x P/E on FY24E EPS.

Key triggers for future price performance: Although product mix is expected to turn adverse in the near term, continued business addition in non-auto business and higher warehousing utilisation, along with cost-control measures are expected to keep MLL long term ambitions intact

- The above enables it to shift buying behaviour (more online shopping), leading to higher warehousing space requirement and 3PL relevance
- Asset light business model, with projected 35%+ RoCE in FY24E

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 ₹ 2000 (38x PE on FY24E EPS)



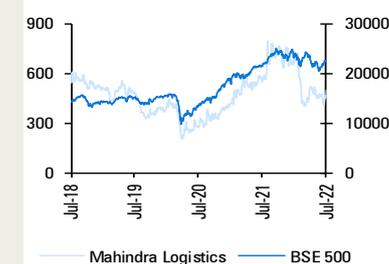
Particulars

Market Capitalisation (₹ cr)	3,406.3
Debt (FY22) (₹ cr)	37.6
Cash (FY22) (₹ cr)	132.2
EV (₹ cr)	3,311.7
52 Week High / Low (₹)	821/391
Equity Capital (₹ cr)	71.5
Face Value (₹ cr)	10.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	58.3	58.2	58.2	58.1
Others	41.7	41.8	41.8	41.9

Price Chart



Recent event & key risks

- Optimisation of Bajaj Electricals account in Q1FY23
- Key Risk:** (i) Further slowdown in auto sector, (ii) Further hardening in diesel prices

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Harshal Mehta
harshal.mehta@icicisecurities.com

Key Financial Summary

₹ crore	FY20	FY21	FY22	5 Years CAGR (FY17-22)	FY23E	FY24E	2 Years CAGR
Net Sales	3,471.1	3,263.9	4,083.0	8.9%	5,126.7	6,150.4	22.7%
EBITDA	158.3	134.4	197.7	21.0%	266.6	338.3	30.8%
PAT	55.1	30.1	37.1	-4.0%	64.2	106.6	69.5%
P/E (x)	61.8	113.1	91.9		53.1	32.0	
M.Cap/Sales (x)	1.0	1.0	0.8		0.7	0.6	
RoCE (%)	24.6	18.8	12.2		33.1	38.4	
RoE (%)	10.1	5.8	6.3		10.1	14.6	

Key takeaways

Source: Company, ICICI Direct Research

Q1FY23 Results: Semi-conductor (Auto) overhang lowers down

- Share of revenues from Mahindra was at 54% and non-Mahindra at 46%
- Warehouse space under management was at 17.4 mn sq ft, of which Stockyard comprised 4.1 mn sq ft and warehousing 13.3 mn sq ft
- Warehousing revenues (~23% of SCM revenues) grew 57% YoY vs. 31% growth in transportation
- Mahindra SCM revenues grew 40% YoY while non-Mahindra SCM revenues grew 31% (as non-Mahindra auto was flattish)

Q1FY23 Earnings Conference Call highlights

- Auto sector has been strong in Q1. The volumes have risen over pre-Covid levels. However, high cost of borrowing and ownership (in rural areas) have kept 2-W volumes in check
- On EV front, 2-W, 3-W have started seeing increased customer preference across the board. Increased acceptance of 4-W EVs has also been seen
- Semiconductor scenario is getting better, with increased volumes across players. However, waiting times in case of compact SUVs and large SUV remains lengthy. Strong booking for newer launches, indicates a better H2 season
- Tractor market saw a strong rebound owing to higher vegetables prices
- In e-commerce market, the growth has been lower in certain segments (vs expectations) and will likely continue in near term
- Due to heatwave and higher commercial space utilisation, residential and commercial AC sector performed strongly during the quarter (within consumer durable segment)
- Demand growth in FMCG and personal care category remained moderate. Like e-commerce, the companies have shifted focus on productivity and network efficiency, unlike only focus on network expansion
- Freight forwarding segment saw mixed growth while overall volumes remained strong, supply situation remained variable. Saw margin pressure
- Incorporated two subsidiaries: one in India and another one in UK, to manage supply chain opportunities (business to be launched by end of year)
- Auto growth in FY23, will weigh in on margins (unfavourable product mix), due to higher transportation growth

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	1,199.9	1,068.1	883.2	35.9	1,088.5	10.2	Revenue growth higher-than-expected mainly due to higher-than-expected growth in the SCM segment
Operating expenses	1,028.4	913.2	748.7	37.4	930.8	10.5	
Employee Expenses	79.0	76.2	75.4	4.7	79.5	-0.7	
Other Expense	26.8	22.5	18.5	45.1	26.8	0.3	
Total Expense	1,134.2	1,012.0	842.6	34.6	1,037.1	9.4	
EBITDA	65.7	56.1	40.6	61.8	51.4	27.7	
EBITDA Margin (%)	5.5	5.3	4.6	88 bps	4.7	75 bps	EBITDA margins higher than estimated mainly due to implementation of cost control measures
Depreciation	40.9	37.1	30.3	34.8	39.3	4.2	
Interest	8.9	8.1	6.2	43.1	9.1	-2.2	
Other Income	3.1	5.3	2.1	48.6	6.3	-51.0	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	0.0	NA	
PBT	19.0	16.2	6.1	PL	9.4	102.7	
Total Tax	5.3	4.1	3.1	73.6	3.1	73.1	
PAT	13.6	12.1	3.0	348.7	6.3	117.2	
Minority Interest	-0.3	0.0	-0.3	8.0	-1.1	-75.7	
Adjusted PAT	13.9	12.1	3.3	322.8	7.4	88.2	
Key Metrics	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	
Mahindra SCM revenues	616.4	527.6	439.7	40.2	534.6	15.3	Farm and Auto both grew significantly
Non-Mahindra SCM revenues	526.3	500.5	400.4	31.4	510.6	3.1	Solutions and warehousing grew upward of 60% YoY
SCM revenues	1,142.8	1,028.1	840.1	36.0	1,045.2	9.3	
PTS revenues	57.1	39.9	43.1	32.4	43.3	31.9	

Source: Company, ICICI Direct Research

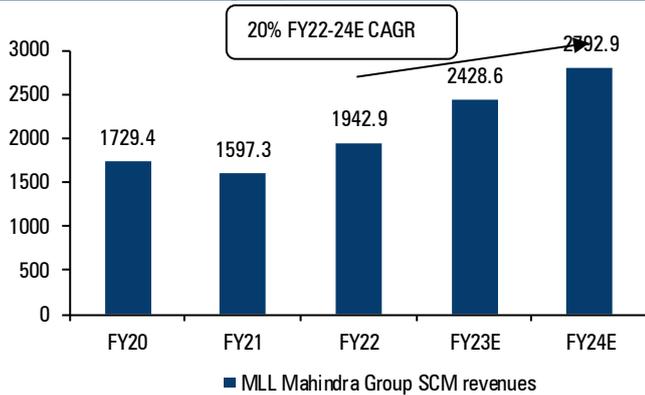
Exhibit 2: Change in estimates

(₹ Crore)	FY23E				FY24E				Comments
	FY22	Old	New	% Change	Old	New	% Change		
Gross Revenue	4,083.0	4,896.2	5,126.7	4.7	5,895.3	6,150.4	4.3	Revenues improved due to higher than expected reversion in Auto sales	
EBITDA	197.7	269.3	266.6	-1.0	353.7	338.3	-4.4		
EBITDA Margin (%)	4.8	5.5	5.2	-30 bps	6.0	5.5	-50 bps	Margins lowered due to higher expected growth in transportation revenues	
PAT	37.1	76.7	64.2	-16.3	131.1	106.6	-18.8		
EPS (₹)	5.2	10.7	9.0	-16.3	18.3	14.9	-18.8		

Source: ICICI Direct Research

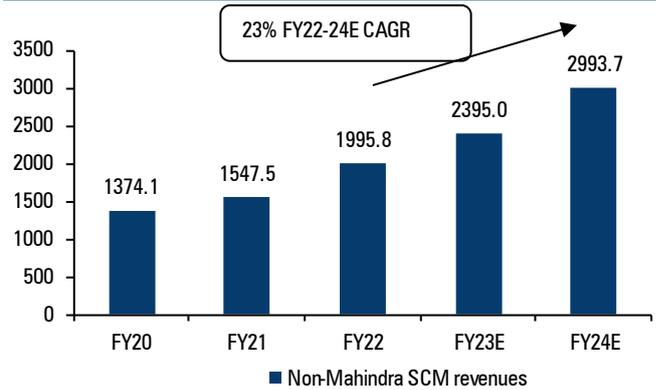
Key Metrics

Exhibit 3: Mahindra group SCM revenues



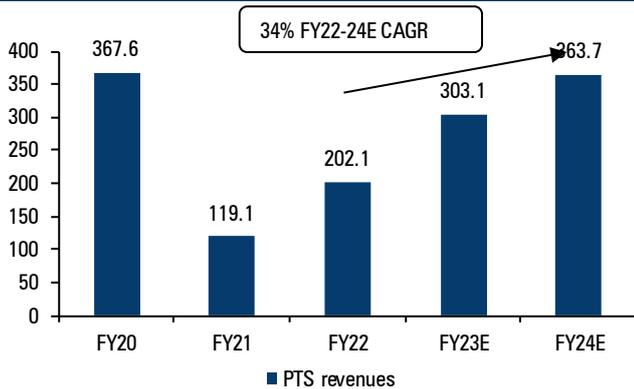
Source: ICICI Direct Research, Company

Exhibit 4: Non-Mahindra SCM revenues



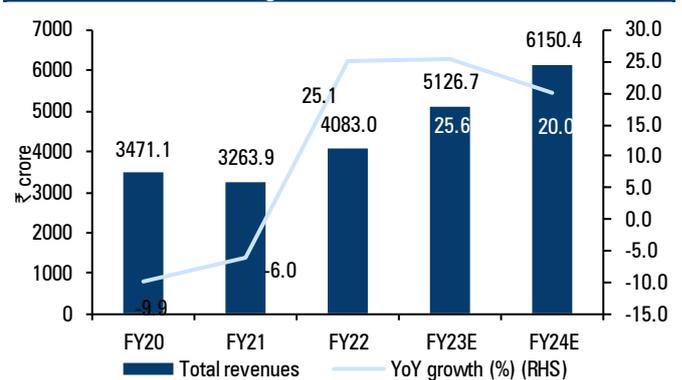
Source: ICICI Direct Research, Company

Exhibit 5: PTS revenues



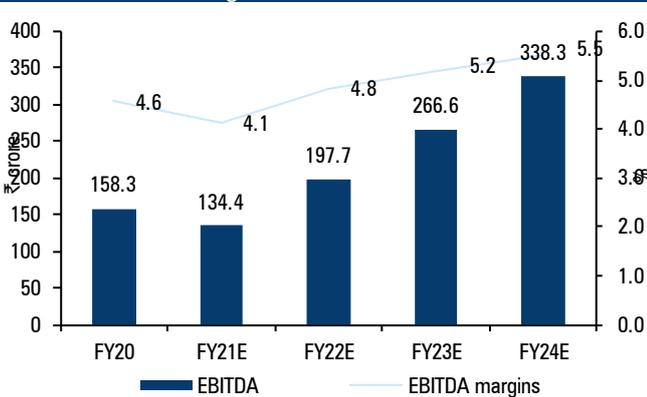
Source: ICICI Direct Research, Company

Exhibit 6: Revenues to grow at CAGR of 23% over FY22-24



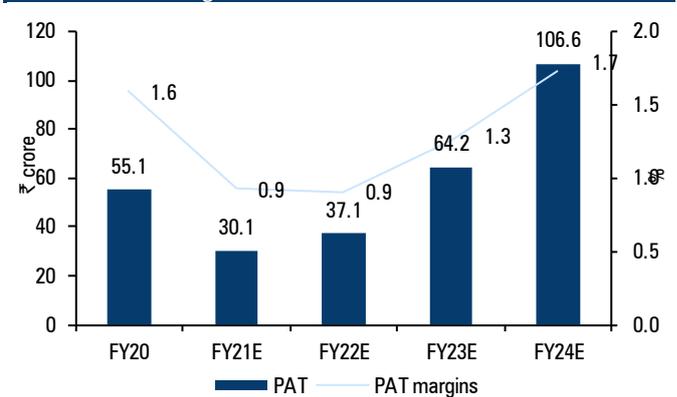
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA to grow at CAGR of 31% over FY22-24



Source: Company, ICICI Direct Research

Exhibit 8: PAT to grow at CAGR of 70% over FY22-24



Source: Company, ICICI Direct Research

Exhibit 9: Valuation parameters

Year	Sales (₹ cr)	Sales Gr. (%)	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	3471.1	-9.9	7.7	-35.8	61.8	21.1	10.1	24.6
FY21	3263.9	-6.0	4.2	-45.4	113.1	23.7	5.8	18.8
FY22	4083.0	25.1	5.2	23.0	91.9	16.2	6.3	12.2
FY23E	5126.7	25.6	9.0	72.1	53.1	12.2	10.1	33.1
FY24E	6150.4	20.0	89.0	66.4	32.0	9.2	14.6	38.4

Source: ICICI Direct Research; Reuters

Financial Summary

Exhibit 10: Profit and loss statement				
₹ crore				
(Year-end March)/ (₹ crore)	FY21	FY22	FY23E	FY24E
Total Operating Income	3,263.9	4,083.0	5,126.7	6,150.4
Growth (%)	-6.0	25.1	25.6	20.0
Freight Expense and Charges	2,764.3	3,503.9	4,409.0	5,258.6
Gross Profit	499.6	579.1	717.7	891.8
Gross Profit Margins (%)	15.3	14.2	14.0	14.5
Employee Expenses	296.5	300.0	338.4	430.5
Other Expenditure	68.7	81.5	112.8	123.0
Total Operating Expenditure	3,129.5	3,885.4	4,860.1	5,812.1
EBITDA	134.4	197.7	266.6	338.3
Growth (%)	-15.1	47.1	34.9	26.9
Interest	20.1	29.5	38.1	39.2
Depreciation	89.7	134.5	161.4	178.5
Other Income	17.5	12.2	15.4	18.5
PBT before Exceptional Items	42.1	45.8	82.4	139.1
Less: Exceptional Items	2.8	0.0	0.0	0.0
PBT after Exceptional Items	39.3	45.8	82.4	139.1
Total Tax	10.0	11.3	20.8	35.0
PAT before MI	29.3	34.6	61.7	104.1
Minority Interest	-1.2	-2.5	-2.5	-2.5
PAT	30.1	37.1	63.8	106.1
EPS Growth (%)	-45.4	23.0	72.1	66.4
EPS (Adjusted)	4.2	5.2	9.0	14.9

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
₹ crore				
(Year-end March)/ (₹ crore)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	30.1	37.1	64.2	106.6
Add: Depreciation & Amortization	89.7	134.5	161.4	178.5
Add: Interest Paid	20.1	29.5	38.1	39.2
Net Increase in Current Assets	-64.5	-32.4	-286.9	-157.4
Net Increase in Current Liabilities	163.9	99.2	125.7	197.7
Others	54.5	-68.2	0.0	0.0
CF from Operating activities	293.7	199.7	102.5	364.5
(Purchase)/Sale of Fixed Assets	-69.0	-91.3	-45.0	-45.0
Long term Loans & Advances	0.0	0.0	0.0	0.0
Investments	-54.8	-91.4	-10.0	-100.0
Others	-46.1	-147.1	-46.5	-46.5
CF from Investing activities	-100.8	-238.5	-56.5	-146.5
(inc)/Dec in Loan	-6.7	11.1	-5.0	-5.0
Dividend & Dividend tax	-17.9	-16.7	-16.7	0.0
Less: Interest Paid	-4.2	0.0	-3.9	-0.3
Other	-65.8	-21.3	-76.1	-96.5
CF from Financing activities	-94.6	-26.9	-101.7	-101.8
Net Cash Flow	98.2	-65.7	-55.6	116.2
Cash and Cash Equivalent at the beginnin	99.5	197.8	132.2	76.5
Cash and Cash Equivalent at the end	197.8	132.1	76.5	192.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	71.7	71.9	71.9	71.9
Reserve and Surplus	496.4	518.5	566.0	655.9
Total Shareholders funds	568.1	590.4	637.9	727.8
Minority Interest	2.8	0.3	0.3	0.3
Total Debt	26.4	37.6	32.6	27.6
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	15.9	16.5	16.8	17.1
Source of Funds	613.2	644.7	687.5	772.7
Gross Block - Fixed Assets	566.7	820.2	925.2	1,030.2
Accumulated Depreciation	210.3	339.2	500.6	679.0
Net Block	356.4	481.1	424.6	351.2
Capital WIP	3.1	13.8	13.8	13.8
Fixed Assets	359.5	494.9	438.5	365.0
Investments	108.3	199.7	209.7	309.7
Goodwill on Consolidation	4.3	4.3	4.3	4.3
Deferred Tax Assets	22.1	26.9	26.9	26.9
Other non-Current Assets	35.3	89.2	91.0	92.8
Inventory	0.0	1.4	0.0	0.0
Debtors	485.6	479.4	762.8	915.1
Loans and Advances	465.9	503.0	508.1	513.2
Other Current Assets	0.0	0.0	0.0	0.0
Cash	197.8	132.2	76.5	192.7
Total Current Assets	1,149.2	1,116.0	1,347.4	1,620.9
Creditors	766.1	858.8	983.2	1,179.5
Provisions	6.1	6.3	6.5	6.6
Other Current Liabilities	293.4	421.2	440.5	460.7
Total Current Liabilities	1,065.5	1,286.3	1,430.2	1,646.8
Net Current Assets	83.7	-170.3	-82.8	-25.9
Application of Funds	613.2	644.7	687.5	772.8

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	4.2	5.2	9.0	14.9
BV per share	79.2	82.3	89.0	101.5
Cash per Share	27.6	18.4	10.7	26.9
Dividend per share	2.5	2.3	2.3	2.3
Operating Ratios (%)				
Gross Profit Margins	15.3	14.2	14.0	14.5
EBITDA margins	4.1	4.8	5.2	5.5
PAT Margins	1.0	0.9	1.3	1.7
Inventory days	0.0	0.1	0.0	0.0
Debtor days	54.3	42.9	54.3	54.3
Creditor days	85.7	76.8	70.0	70.0
Asset Turnover	5.8	5.0	5.5	6.0
Return Ratios (%)				
RoE	5.8	6.3	10.1	14.6
RoCE	18.8	12.2	33.1	38.4
RoIC	28.0	17.8	44.8	63.3
Valuation Ratios (x)				
P/E	113.1	91.9	53.1	32.0
EV / EBITDA	23.7	16.2	12.2	9.2
EV / Net Sales	1.0	0.8	0.6	0.5
Market Cap / Sales	1.0	0.8	0.7	0.6
Price to Book Value	6.0	5.8	5.3	4.7
Solvency Ratios				
Debt / EBITDA	0.2	0.2	0.1	0.1
Debt / Equity	0.0	0.1	0.1	0.0
Current Ratio	1.2	1.1	1.2	1.1

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Logistics)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
APSEZ	800	900	BUY	1,62,540	21.2	35.9	44.3	32.5	34.5	22.3	21.8	22.2	15.3	12.7	9.6	13.7	16.3	11.3	16.5
Container Corporation	710	750	BUY	36,558	17.3	30.4	36.8	85.6	41.0	23.4	10.9	6.3	4.9	4.5	10.2	12.2	5.4	9.6	14.8
Transport Corp. of India	720	860	BUY	5,252	37.3	42.4	50.8	38.0	19.3	17.0	20.9	12.8	11.4	13.3	20.3	20.2	12.9	20.5	19.1
TCI Express	1,830	2,000	BUY	7,005	26.2	33.5	41.4	78.6	69.9	54.7	57.7	52.2	40.2	36.3	31.9	33.4	29.5	26.1	26.6
Mahindra Logistics	475	550	BUY	3,406	5.2	9.0	14.9	91.9	53.1	32.0	16.2	12.2	9.2	12.2	33.1	38.4	6.3	10.1	14.6
Gateway Distriparks	74	100	BUY	3,697	4.5	3.7	4.7	39.2	16.5	19.9	13.3	10.9	9.1	11.7	15.4	16.9	6.4	13.7	10.7

Source: ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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