Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Mahindra Logistics Ltd

Strong Q1; auto sector to fan growth tailwinds

Logistics	Sharekhan code: MAHLOG
Reco/View: Buy ↔	CMP: **Rs. 473**
	Price Target: **Rs. 600** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

Company details

Market cap:	Rs. 3,406 cr
52-week high/low:	Rs. 819/396
NSE volume: (No of shares)	1.4 lakh
BSE code:	540768
NSE code:	MAHLOG
Free float: (No of shares)	3.0 cr

Shareholding (%)

Promoters	58.1
FII	20.1
DII	13.5
Others	8.3

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	3.2	-7.0	-17.9	-40.9
Relative to Sensex	-6.0	-9.0	-15.5	-50.7

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Mahindra Logistics Limited (MLL) with a revised PT of Rs. 600, on account of downward revision in net earnings led by higher interest outgo.
- MLL reported strong operational performance for Q1FY2023 led by robust growth in both M&M and non-M&M businesses. Gross margins came in lower, while OPM surprised positively led by operating leverage.
- Company won new accounts totaling Rs. 200 crore, which is expected to reflect in numbers in the next four quarters. Gross margins may remain under pressure due to high growth envisaged in transportation segment.
- It continues to focus on warehousing capacity additions, deriving operational efficiencies through technology and scale-up its new business verticals like B2B and last-mile deliveries.

Mahindra Logistics Limited (MLL) reported strong outperformance across consolidated revenues, OPM and net earnings for Q1FY2023. Consolidated revenues rose by 36% y-o-y at Rs. 1200 crore driven by supply chain management (SCM) revenue growing by 36% y-o-y led by strong revenue growth in both M&M (up 40% y-o-y) and non-M&M (up 31% y-o-y) segments. SCM division's revenues from auto sector grew by 34% y-o-y led by robust growth in the automobile sector especially farm segment and easing of semi-conductor supply issues. The SCM business' non-auto revenues grew by 39% y-o-y. Consolidated OPM at 5.5% (up 88 bps y-o-y) was higher than our expectation led by higher volume growth and operating leverage kicking due to higher revenues. Gross margins remained under pressure owing to higher share of transportation revenues vis-à-vis warehousing. Strong operational performance led to consolidated net profit growth of 311% y-o-y at Rs. 13.5 crore. It continues to focus on warehouse capacity additions with 2 million square feet (msf) expected to be added during FY2023 along with 2 msf to be under construction. Demand momentum is expected to continue for the balance fiscal although gross margins may remain under pressure owing to higher growth expected in its transportation division. It added new contracts worth Rs. 200 crore, the impact of which would be seen over the next four quarters.

Key positives

- SCM transportation and SCM warehousing revenues rose by 31% y-o-y and 57% y-o-y at Rs. 877 crore and Rs. 266 crore.
- Consolidated OPM at 5.5% was above estimate led by higher gross margins in Enterprise mobility division along with lower unallocated expenses.
- Addition of new contracts worth Rs. 200 crore.

Key negatives

- Gross margins declined by 94 bps y-o-y at 14.3% owing to higher share of transportation revenues.
- SCM gross margins at 10.3% was lower 27 bps y-o-y on account of lower margins in B2B and last mile delivery services which are currently under investment phase.
- Interest expense rose 43% y-o-y at Rs. 8.9 crore.

Management Commentary

- The company won new contracts totaling Rs. 200 crore, the effect of which is likely to seen over the next four quarters.
- FY2023 is likely to see higher transportation segment growth which would have impact on margins.
- The company's long-term vision for other services like B2B, freight forwarding and last mile delivery to comprise 30% of the revenues as against 20% in FY2022.
- It expects to achieve 20 msf space under management by mid of next financial year.

Revision in estimates – We have lowered our net earnings estimates for FY2023-FY2024, factoring in higher interest expense.

Our Call

Valuation –Retain Buy with a revised PT of Rs. 600: The company continued to revive its operational performance-optimizing capacities and rationalising costs which are expected to sustain going ahead. The new order wins are expected to contribute gradually on its earnings. Company continues to focus on the addition of warehousing capacities, scaling up network services business, and eyeing capabilities-based acquisitions in the logistics space. We remain optimistic about MLL's long-term growth potential. Hence, we retain a Buy rating on the stock while lower our price target to Rs. 600, factoring the effect of higher interest expense on net earnings for FY2024E.

Key Risks

Weakness in the automobile industry's outlook is a key downside risk to our call.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	3,263.7	4,083.0	4,885.3	5,729.9
OPM (%)	4.1	4.8	5.3	5.6
Adjusted PAT	32.7	37.1	52.8	88.2
% YoY growth	(40.6)	13.2	42.5	67.0
Adjusted EPS (Rs.)	4.6	5.2	7.4	12.3
P/E (x)	103.6	91.8	64.4	38.6
P/B (x)	5.3	5.1	4.8	4.2
EV/EBITDA (x)	23.7	16.1	12.2	9.8
RoNW (%)	5.9	6.4	8.6	12.8
RoCE (%)	8.0	9.2	12.2	16.1

Source: Company; Sharekhan estimates

An in-line operational performance

Mahindra Logistics reported a 35.9% y-o-y rise (+10.2% q-o-q) in consolidated revenues at Rs. 1199.9 crore which was 16% higher than our estimate. The supply chain management division's revenues (95% revenue share) rose by 36% y-o-y (up 9.3% q-o-q) at Rs. 1143 crore. The Enterprise Mobility Services (5% revenue share) grew by 32.5% y-o-y (up 108% q-o-q) to Rs. 57 crore. The company's OPM at 5.5% (+88 bps y-o-y, +75 bps q-o-q) was above our estimate of 4.9%. Higher gross margins in EMS business (up 402 bps y-o-y, +570 bps q-o-q) at 11.9% led to overall improvement in operational performance. The consolidated operating profit grew by 62% y-o-y (+28% q-o-q) to Rs. 66 crore, which was 29% higher than our expectation. Strong operational performance led to consolidated net profit growth of 311% y-o-y (up 83% q-o-q) at Rs. 13.5 crore, which was much higher than our estimates.

Key Conference call takeaways

- **New business won:** The company won new contracts totalling Rs. 200 crores during Q1FY2023, the impact of which is likely to seen over the next four quarters.
- **Gross margins:** The transportation business increased by 30% y-o-y, which included network services like B2B and last mile delivery, which are under expansion phase resulted in 50 bps correction in SCM gross margins. Further, it has loss in 2x2 services due to rebuilding of assets. Excluding the above, SCM margins were a bit higher y-o-y. FY2023 is likely to see higher transportation segment growth which would have impact on margins.
- **Segment-wise performance:** The 3PL segment's volumes grew 40% y-o-y while network integrated solutions saw 20% y-o-y growth aided by strong growth in non-M&M and non-auto segments. Farm segment reported strong growth q-o-q. The non M&M 3PL segment grew by 33% y-o-y, while volume grew by 8-10% q-o-q. The share of Mahindra group revenue stood at 52%. Share of warehousing increased to 40% from 33% in Q1FY2022. E-commerce contributed 30%. Bajaj Electricals account is nearing full integration. Unallocated expenses would remain consistent and expect to be at similar levels going ahead.
- **Q1FY23 end-user sectors performance:** Auto segment remained very strong and has risen above pre-covid level. In EV, two and three wheelers shift showed acceleration. In Passenger vehicles, demand was driven by expansion in four wheelers EV. The semi-conductor supply improved. The tractor segment saw strong rebound in demand. It expects Auto to accelerate recovery in 2HFY2023. E-commerce witnessed lower growth in some categories which is expected to continue although it continues to see network expansion. In Consumer segment, high prices in home improvement segment moderated demand. Commercial AC demand remained strong. Consumer appliances saw strong demand in April and May. FMCG and personal care demand was moderate.
- **Warehousing:** Total space under management at the end of Q1FY2023 was 17.4msf out of which warehouse comprised 13.3 msf and stockyards 4.1msf. It added 2.2 msf warehousing capacity during FY2022. It has around 2 msf warehouse additions expected during FY2023 while it has over 2 msf warehouses under construction. It expects to achieve 20msf space under management by mid of the next financial year.
- **Outlook for other services:** The company's long-term vision for other services like B2B, freight forwarding and last mile delivery to comprise 30% of the revenues as against 20% in FY2022. The Lords freight reached margin levels better than SCM business. The B2B and last-mile deliveries are in investment phase.
- **Freight forwarding:** It saw mixed market demand with margin pressure across industry especially in Asian lanes continued.

- **Enterprise mobility:** It gained traction due to rising trend of Work from Office. Airport transfer and transportation increased. Revenues excluding Meru stood at Rs. 35 crores (40% of the peak pre-covid period). It would take another 3-4 quarters to reach historical levels.
- **eDel and 2x2:** eDel fleet now stands at 700 vehicles. The 2x2 services remained inoperative during Q1FY2023.
- **Whizard:** The company acquired a 36% stake in Whizard on April 8, 2022. Revenues during Q1FY2023 were up 30% y-o-y at Rs. 29 crores. Attributable losses stood at Rs. 30 lakh. Whizard's financials were not consolidated.
- **Meru:** The current fleet size is 430 vehicles of which EVs comprise 250 and ICEs at 180. The revenues increased 50% y-o-y to Rs. 22 crore. Net loss stood at Rs. 2 crore versus a net loss of Rs. 6 crore in Q1FY2022. Meru earnings have been consolidated with restated financials for last year.

Results (Consolidated) Rs cr

Particulars	Q1FY2023	Q1FY2022	y-o-y%	Q4FY2022	q-o-q%
Net sales	**1199.9**	**883.2**	**35.9%**	**1088.5**	**10.2%**
other income	3.1	2.1	48.6%	6.3	-51.0%
Total income	1203.0	885.3	35.9%	1094.8	9.9%
Total expenses	1134.2	842.6	34.6%	1037.1	9.4%
Operating profit	**65.7**	**40.6**	**61.8%**	**51.4**	**27.7%**
Depreciation	40.9	30.3	34.8%	39.3	4.2%
Interest	8.9	6.2	43.1%	9.1	-2.2%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	**19.0**	**6.1**	**210.5%**	**9.4**	**102.7%**
Taxes	5.3	3.1	73.6%	3.1	73.1%
PAT	13.6	3.0	348.7%	6.3	117.2%
Minority Interest	-0.3	-0.3	8.0%	-1.1	-75.7%
Adjusted PAT	**13.5**	**3.3**	**310.9%**	**7.4**	**82.7%**
EPS (Rs.)	1.9	0.5	310.9%	1.0	82.7%
OPM (%)	5.5%	4.6%	88 bps	4.7%	75 bps
NPM (%)	1.1%	0.4%	75 bps	0.7%	45 bps
Tax rate (%)	28.1%	50.2%	-2215 bps	32.9%	-481 bps

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 a 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 volumes, domestic port volumes, 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 preferences towards credible supply chain management in the wake of the impact of COVID-19 on supply chain operations. Further, 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.

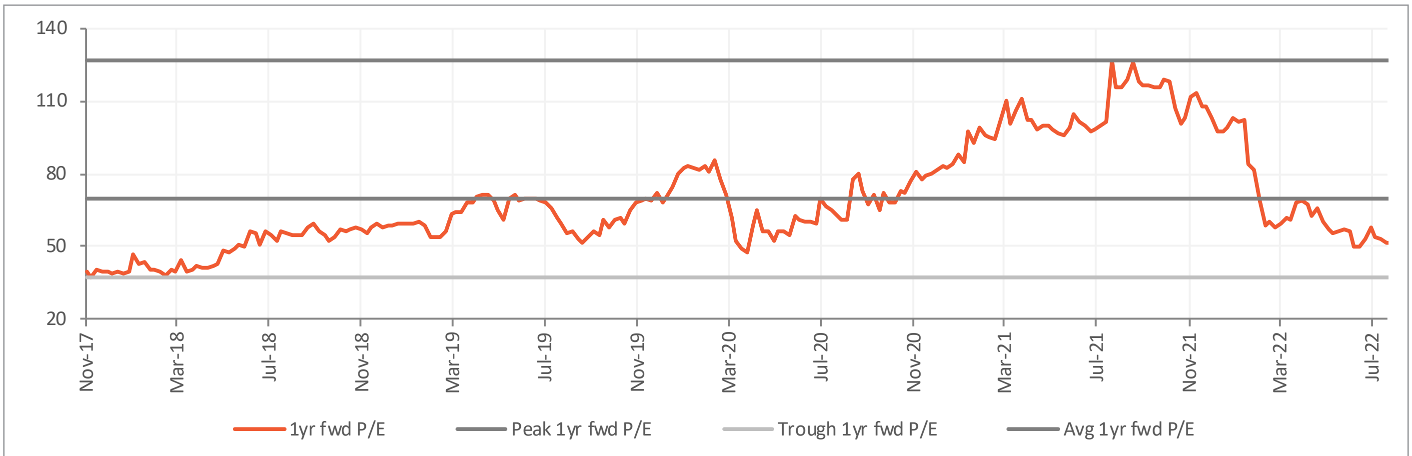
■ Company Outlook – On a growth path

MLL is on an improving growth trajectory, which is expected to gather pace with the unlocking of the economy as the impact of the COVID-led second wave recedes. Meanwhile, MLL has been able to add key clients and has gone live with a few clients. In the post COVID era, the company expects to benefit from increasing reliance of clients on smart supply chain management solution providers such as itself. A strong revival in the automobile sector and growth momentum in the consumer space are expected to lead to strong revenue growth for MLL going ahead. Company continues to focus on providing integrated logistics solutions, adding new warehousing capacities, and new clients.

■ Valuation – Retain Buy with a revised price target of Rs. 600

The company continued to revive its operational performance-optimizing capacities and rationalising costs which are expected to sustain going ahead. The new order wins are expected to contribute gradually on its earnings. Company continues to focus on the addition of warehousing capacities, scaling up network services business, and eyeing capabilities-based acquisitions in the logistics space. We remain optimistic about MLL's long-term growth potential. Hence, we retain a Buy rating on the stock while lower our price target to Rs. 600, factoring the effect of higher interest expense on net earnings for FY2024E.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBIDTA (x)		EV/EBIDTA (x)		RoCE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Mahindra Logistics	64.4	38.6	12.2	9.8	4.8	4.2	8.6	12.8
TCI Express	44.3	36.3	31.7	25.9	11.5	9.0	27.6	28.1

Source: Company, Sharekhan estimates

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, 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 the 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

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