Sharekhan by BNP PARIBAS

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Stock Update

Company Update

Mahindra Logistics Ltd

A catch in the B2B express business

Logistics	Sharekhan code: MAHLOG
Reco/View: Buy ↔	CMP: Rs. 507
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. 3,651 cr
52-week high/low:	Rs. 814 / 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	5.3	8.8	9.4	-29.5
Relative to Sensex	6.8	1.4	10.3	-25.2

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Mahindra Logistics Limited (MLL) with an unchanged PT of Rs. 600.
- MLL acquires Rivigo's B2B express business at an attractive valuation of 0.6x its FY2022 sales for Rs. 225 crore. Benefits to accrue from leading technology, high realisations, pan-India network, 250+ processing centres, and branches.
- The acquisition is in-line with MLL's target of scaling up the B2B express business to 3x by FY2026. The loss-making acquired business is expected to turnaround by cost optimisation and scale up.
- MLL is also restructuring its enterprise mobility business by consolidating it under one entity (MLL Mobility), thereby enabling optimisation and scale up of operations.

We interacted with the management of Mahindra Logistics Limited (MLL) to gauge its strategies for scaling up its B2B express business post the acquisition of Rivigo's B2B express business. We believe MLL has been able to acquire Rivigo's B2B business at an attractive valuation (0.6x of Rivigo's B2B express revenue for FY2022) for Rs. 225 crore. MLL's B2B express business (~4% of FY2022 sales) would get tripled with the acquisition, while it chalks out plans for making it profitable through scale and cost optimisation. MLL is expected to benefit from Rivigo's industry-leading technology and high realisation in the B2B express business. The acquisition is in line with MLL's growth strategy for network services (freight forwarding, last mile delivery, and B2B express) to achieve Rs. 3,000 crore revenue by FY2026 from little over Rs. 800 crore in FY2022. MLL is also restructuring its enterprise mobility business by consolidating it under one entity (MLL Mobility), thereby enabling optimisation and scale up of operations.

- **Attractive valuation for the acquisition:** MLL entered into a business transfer agreement with Rivigo Services and its promoter to acquire its B2B express business for a lump sum consideration of Rs. 225 crore, which is just 0.6x of Rivigo's B2B express revenue for FY2022. We believe the fairly low valuation is on account of Rivigo's sustained losses over the past few years, aided by Covid-led impact along with its inability to turnaround despite offloading truck fleet (reduction of truck fleet size from 3,000 to 800-900). The company had been looking for prospective buyers as per media reports for quite some time.
- **Focus on turning B2B acquisition profitable:** MLL would be focusing on making the acquisition profitable through overhead reductions, operating cost optimisation, and margin improvements through scaling up. Rivigo's industry-leading technology and high realisation in the B2B express (Rs. 12-13/kg as against industry's average of Rs. 9-10/kg) would aid in achieving profitability. Other key benefits from the acquisition are Rivigo's Pan-India network of operations (over 19,000 pincodes) and 250+ processing centres and branches, spanning an area of more than 1.5 million sq. ft.
- **In tune to scale the network services business 3x by FY2026:** MLL's revenue target of Rs. 10,000 crore by FY2026, includes 3x growth in the network services business, revival in the enterprise mobility business apart from doubling of its core third-party logistics (3PL) revenue. The Rivigo's B2B express acquisition is in sync with its strategy to scale up the B2B express business (little over Rs. 800 crore in FY2022) to Rs. 1,000 crore by FY2026. Additionally, restructuring of the enterprise mobility business under one entity would allow it to improve upon operational profitability due to currently common operating expense structure.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 600: Prima facie, we believe MLL has been able to acquire the B2B express business at attractive valuations, although the operating structure and net profitability of the acquired business is yet not disclosed. Currently, we have not factored in the acquired business' earnings in our estimates, awaiting clarity on financials and growth outlook of the acquired business. However, the acquisition is in-line with the company's strategy of expanding its network services business over the next five years. Further, restructuring of the enterprise mobility business is likely to aid in improving operational profitability. We believe the company continues to remain focused 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 our Buy rating on the stock with an unchanged price target (PT) to Rs. 600.

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)	111.1	98.4	69.0	41.3
P/B (x)	5.7	5.5	5.1	4.5
EV/EBITDA (x)	25.5	17.3	13.2	10.6
RoNW (%)	5.9	6.4	8.6	12.8
RoCE (%)	8.0	9.2	12.2	16.1

Source: Company; Sharekhan estimates

Acquisition of B2B express biz at attractive valuation

The investment committee of the board of MLL entered into a Business Transfer Agreement with Rivigo Services Private Limited and its promoter for the acquisition/purchase of its B2B express business, as a going concern, on slump sale basis, for a lump sum consideration of Rs. 225 crore. Rivigo operates in two key business segments: Full Truck Load and B2B express business. Rivigo's B2B express business had a turnover of Rs. 371.3 crore/Rs. 295 crore/Rs. 528.5 crore during FY2022/FY2021/FY2020, respectively. We believe MLL has been able to acquire Rivigo's B2B business at an attractive valuation (0.6x of Rivigo's B2B express revenues for FY2022). In the B2B express business, Rivigo operates as an asset-light model and provides end-to-end services across the value chain. The company has a pan-India network of operations currently covering over 19,000 pincodes across the nation. Their 250+ processing centres and branches span an area of more than 1.5 million sq. ft.

Scaling up the network services business

As per the company, Rivigo's acquisition will augment the company's existing B2B express business, leveraging Rivigo's strong network of 250+ processing centres and branches, spanning an area of more than 1.5 million sq. ft., technology and process capabilities and will drive synergies in network, team and customer service. Rivigo's B2B express has been loss making over the past few years, which the company targets to turnaround through 1) overheads reduction, 2) optimisation of operating cost structure, and 3) scaling up the size. The acquisition is in line with its overall strategy of increasing contribution from network services viz. B2B, freight forwarding, and last-mile delivery to 30% in FY2026 from 20% in FY2022. Consequently, its B2B business is under investment phase as is last-mile delivery.

Housing the enterprise mobility business under one entity

The investment committee of the board of MLL entered into a Business Transfer Agreement with MLL Mobility Private Limited (formerly known as Meru Mobility Tech Private Limited, MMPL), the wholly owned subsidiary of the company for sale/transfer of the enterprise mobility business of the company as a going concern on slump exchange basis, effective October 1, 2022, for a lump sum consideration of Rs. 36.12 crore to be discharged by MMPL through issue of equity shares to the company. MMPL is in the business of providing B2C transportation services and corporate transportation service solutions to companies in various sectors such as BPOs, Banking, IT, and ITES in ride hail segment. MMPL's revenue stood at Rs. 56.9 crore in FY2022. As of Q1FY2023, Meru's fleet size is 430 vehicles, of which EVs comprise 250 and ICEs comprise 180. It reported 50% y-o-y rise in revenue at Rs. 22 crore, while net losses narrowed to Rs. 2 crore compared to net losses of Rs. 6 crore in Q1FY2022. The enterprise mobility business of the company is being sold/transferred to MMPL, which is expected to get completed on or before January 31, 2023. In FY2022, the enterprise mobility business contributed Rs. 144.4 crore revenue (3.97% of FY2022 standalone revenue) and gross margin of Rs. 11.5 crore (8% of enterprise mobility revenue). The rationale for the slump exchange is to consolidate the mobility services business under one entity, thereby enabling optimisation of operations and scale up opportunities and offerings to customers, in line with the growth strategy of the company.

Key Management Interaction Highlights

- **Acquisition of Rivigo's B2B biz:** The company is acquiring an asset-light piece of Rivigo, which is the B2B express business, which would have nil debt but net working capital. In its trucking business, Rivigo has over the years sold off its trucks, which were estimated at 3,000 to 800-900 trucks currently.

- **Turnaround of Rivigo's B2B express biz:** Rivigo's B2B express has been loss making over the past few years, which the company targets to turnaround through 1) overheads reduction, 2) optimisation of operating cost structure, and 3) scaling up the size.
- **Funding acquisition:** The funding of Rivigo's B2B express business's acquisition cost of Rs. 225 crore would be done majorly through internal accruals, while it may undertake debt to maintain its cash position.
- **Strengths of Rivigo's biz:** Rivigo has been known for its industry-leading technology. It commands high realisation in the B2B express business at Rs. 13-14 per kg compared to the average Rs. 9-10 per kg.
- **Scaling up the network services business:** The company's network services business comprise 1) freight forwarding (~12% of sales), 2) last-mile delivery (~4%), and 3) B2B express (~4%). The acquisition of Rivigo's B2B express business would lead to tripling of the overall B2B express revenue. The company has an overall target to achieve Rs. 10,000 crore revenue by FY2026, while network services contribute Rs. 3,000 crore in total.
- **Enterprise mobility business:** The company is restructuring its mobility business to consolidate it under one entity, which would aid in reduction in the operating cost structure.

Outlook and Valuation

■ **Sector View – Strong growth outlook led by changing consumer preferences and macro pick-up**

The logistics industry is one of the key sectors that showed strong revival post-COVID-19 pandemic, which 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.

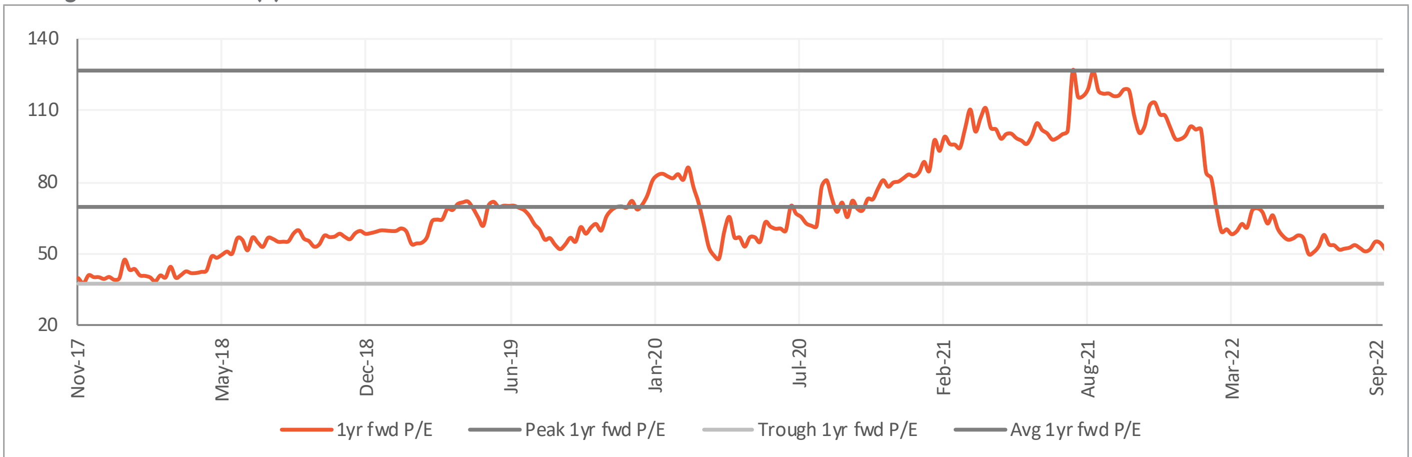
■ **Company Outlook – On a growth path**

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. The company continues to focus on providing integrated logistics solutions, adding new warehousing capacities and new clients.

■ **Valuation – Retain Buy with an unchanged price target of Rs. 600**

Prima facie, we believe MLL has been able to acquire the B2B express business at attractive valuations, although the operating structure and net profitability of the acquired business is yet not disclosed. Currently, we have not factored in the acquired business' earnings in our estimates, awaiting clarity on financials and growth outlook of the acquired business. However, the acquisition is in-line with the company's strategy of expanding its network services business over the next five years. Further, restructuring of the enterprise mobility business is likely to aid in improving operational profitability. We believe the company continues to remain focused 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 our Buy rating on the stock with an unchanged PT to Rs. 600.

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	69.0	41.3	13.2	10.6	5.1	4.5	8.6	12.8
TCI Express	45.8	37.9	33.1	27.2	11.9	9.3	27.7	27.9

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 3PL service provider, specialising 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, which 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

Mr. Anish Shah	Chairman, Non-Executive Director
Mr. Rampraveen Swaminathan	Managing Director and Chief Executive Officer
Mr. Yogesh Patel	Chief Financial Officer
Ms. Ruchie Khanna	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	The Goldman Sachs Group Inc.	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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Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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