

Mahindra Logistics

Estimate change

TP change

Rating change



Bloomberg	MAHLOG IN
Equity Shares (m)	72
M.Cap.(INRb)/(USDb)	37.6 / 0.5
52-Week Range (INR)	814 / 396
1, 6, 12 Rel. Per (%)	-7/-2/-24
12M Avg Val (INR M)	110

Financial Snapshot (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	41.4	51.3	63.3
EBITDA	1.8	2.7	3.3
Adj. PAT	0.2	0.6	1.0
EBITDA Margin (%)	4.5	5.2	5.2
Adj. EPS (INR)	2.5	8.0	14.4
EPS Gr. (%)	-46.4	226.7	79.7
BV/Sh. (INR)	82.5	88.0	99.9

Ratios

Net D:E	-0.2	-0.2	0.0
RoE (%)	3.0	9.4	15.3
RoCE (%)	5.6	12.0	16.2
Payout (%)	81.5	31.2	17.4

Valuations

P/E (x)	213.2	65.3	36.3
P/BV (x)	6.3	5.9	5.2
EV/EBITDA(x)	19.8	13.5	10.7
Div. Yield (%)	0.4	0.5	0.5
FCF Yield (%)	2.9	-0.3	2.4

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	58.1	58.1	58.3
DII	15.6	13.5	10.9
FII	15.8	20.1	21.8
Others	10.5	8.3	9.0

FII Includes depository receipts

CMP: INR523

TP: INR510 (-2%)

Neutral

Inflationary cost pressures impact margin

The focus is on providing complete Logistics solutions to drive growth

- MAHLOG reported a revenue growth of ~28% YoY to INR13.3b in 2QFY23 (12% above our estimate). Revenue growth was driven by a recovery in the Auto industry and consumption-end markets, including Telecom.
- EBITDA margin stood at 5.1% in 2QFY23 (up 55bp YoY, but down 40bp QoQ). EBITDA grew by ~45% YoY to INR676m. APAT increased by ~130% YoY to INR122m (16% below our estimate). Margin was impacted by the inflationary environment, increase in frontline manpower costs, and supply shortages of trailers and car carriers in 2QFY23.
- The supply chain recorded a revenue of INR12.6b (up 29% YoY) and an EBIT margin of 5.4% (down 70bp YoY and 120bp QoQ). Enterprise Mobility reported a revenue of INR629m (up 15% YoY) and an EBIT margin of 5.9% (up 150bp YoY, but down 100bp QoQ).
- We expect the momentum in volumes to continue, led by a strong outlook for key end-use verticals. We have revised our FY23/FY24 EPS estimate lower by 13%/2% to factor in its weak margin performance in 2QFY23 and cost pressures. We expect MAHLOG to clock a revenue/EBITDA CAGR of ~24%/34% over FY22-24E. We maintain our Neutral rating, with a revised TP of INR510/share (35x FY24E EPS).

Growth driven by a recovery in the Auto and Farm segment; the share of the Mahindra group increases

- Strong demand recovery was seen in the Auto sector as channel stocking picked up prior to the festive season.
- Contribution from the Mahindra group to the Supply Chain segment rose to 56% in 2Q (from 54% in 1QFY23).

Highlights from the management commentary

- In the last few years, significant investments in network services (last-mile, Express Logistics and freight forwarding), led to additional capacity. MAHLOG has now moved into the consolidation phase.
- The growth momentum in the e-commerce sector continued, fueled by: a) better Logistics infrastructure, b) a higher level of awareness, c) greater technology driven platforms, d) increasing number of offers in online shopping, and e) a broader level of digital adoption after the lifting of COVID-related restrictions.
- MAHLOG witnessed the impact of inflation, increase in frontline manpower costs, and supply shortages of trailers and car carriers. It aims to achieve 20m sq. ft. of warehousing space by early FY24, with launches in Guwahati, Patna, Lucknow, etc.

Valuation and view

- While we remain positive on the volume momentum, margin remains volatile and can be under pressure, given the inflationary environment.
- We expect MAHLOG to clock a revenue/EBITDA CAGR of ~24%/34% over FY22-24E. We maintain our Neutral rating, with a revised TP of INR510/share (35x FY24E EPS).

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Quarterly snapshot

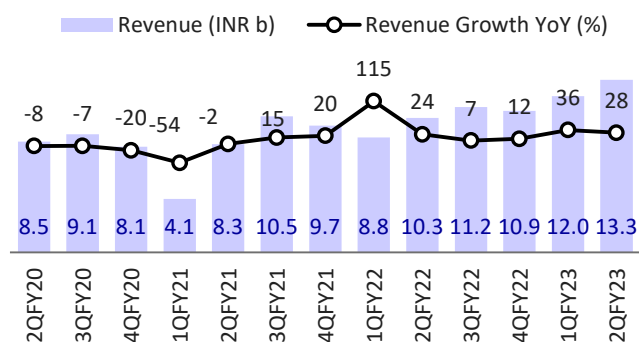
Y/E March(INR m)

	FY22				FY23				FY22*	FY23E	FY23 2QE	Var.
	1Q	2Q*	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	8,832	10,331	11,179	10,885	11,999	13,263	12,856	13,141	41,408	51,258	11,829	12
YoY Change (%)	115.2	24.1	6.8	11.8	35.9	28.4	15.0	20.7	26.9	23.8	16.1	
EBITDA	406	470	477	514	657	676	656	689	1,843	2,678	639	8
Margins (%)	4.6	4.6	4.3	4.7	5.5	5.1	5.1	5.2	4.5	5.2	5.4	
YoY Change (%)	NA	26.0	-10.0	11.5	61.8	43.8	37.6	33.9	37.3	45.3	27.7	
Depreciation	303	346	357	393	409	436	414	396	1,417	1,654	401	
Interest	62	69	75	91	89	107	93	107	298	396	93	
Other Income	21	23	26	63	31	34	35	39	136	139	45	
PBT	61	78	71	94	190	167	184	225	263	765	189	(12)
Tax	31	31	21	31	53	47	46	57	113	204	48	
Rate (%)	50.2	39.2	28.8	32.9	28.1	28.5	25.2	25.2	42.8	26.6	25.2	
PAT before MI, Associates	30	47	51	63	136	119	138	168	151	562	141.7	
Share of associates/ MI	3	5	6	11	-1	3	4	6	25	12	4	
Reported PAT	33	52	57	74	135	122	142	175	176	574	146	(16)
Adj PAT	33	52	57	74	135	122	142	175	176	574	146	(16)
YoY Change (%)	NA	-65.0	-68.9	-51.7	310.9	132.2	149.1	136.2	-46.4	226.7	48.7	
Margins (%)	0.4	0.5	0.5	0.7	1.1	0.9	1.1	1.3	0.4	1.1	1.2	

*Note: The financials have been restated by the Company

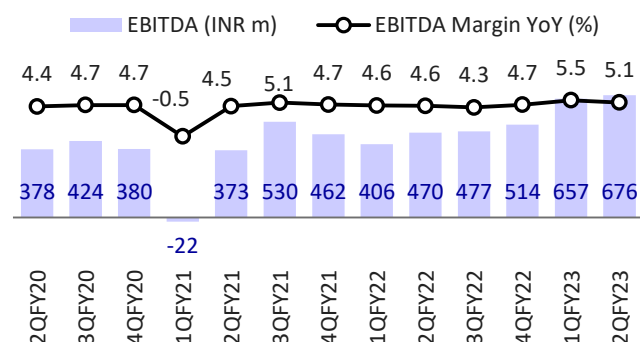
2QFY23 in charts

Exhibit 1: Revenue momentum continues to be strong



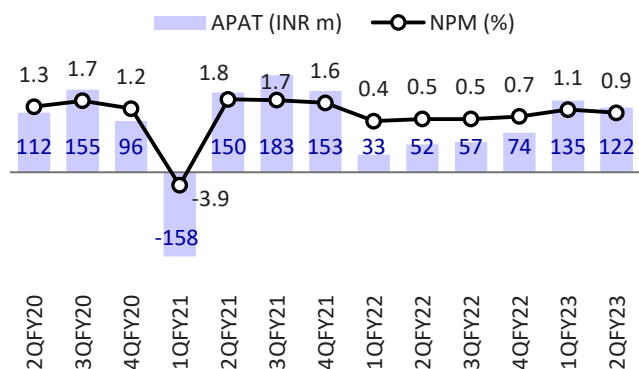
Source: Company, MOFSL

Exhibit 2: EBITDA margin under pressure



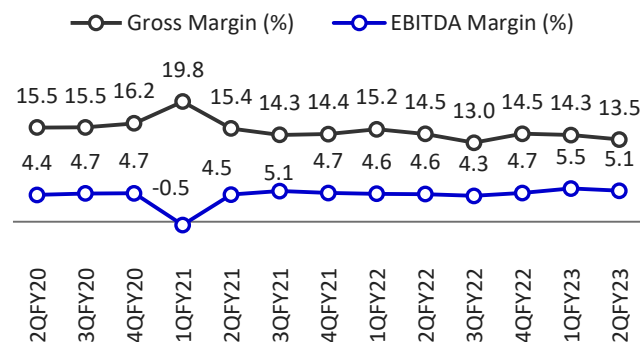
Source: Company, MOFSL

Exhibit 3: APAT grows 1.3x YoY

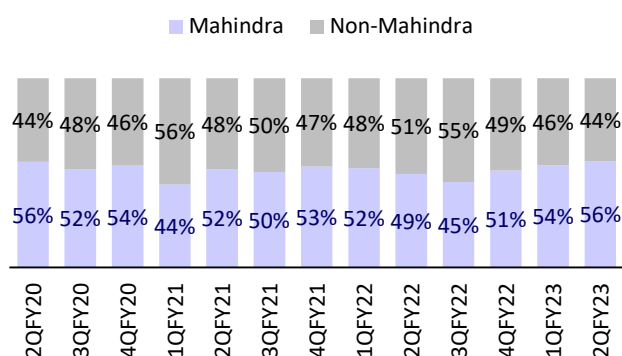


Source: Company, MOFSL

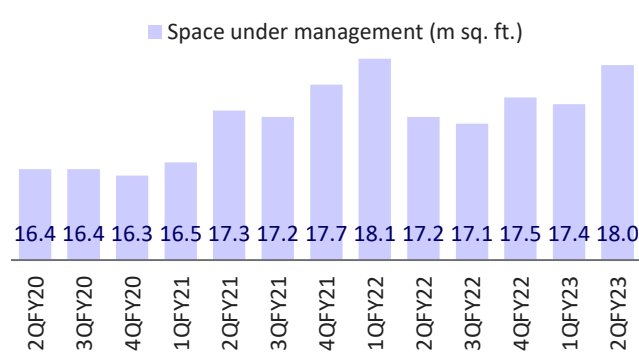
Exhibit 4: High costs impact margins



Source: Company, MOFSL

Exhibit 5: Non-Mahindra share decreases QoQ in SCM

Source: Company, MOFSL

Exhibit 6: Space under management

Source: Company, MOFSL



Highlights from management commentary

Operational highlights

Industry overview

- With the onset of the festive season, strong demand recovery was seen in the automotive sector as channel stocking picked up prior to festive season.
- E-commerce sector continued on its growth momentum fueled by a) better logistics infrastructure, b) higher level of awareness, c) greater technology driven platforms, d) increasing number of offers in online shopping, and e) broader level of digital adoption post COVID.
- The consumer durable industry saw moderation in demand after the summer season and due to elevated prices. The sector continues to face margin pressure due to higher input prices. During the quarter ended Sep'22, demand for entry level products was weak primarily because of inflationary impact.
- The recently announced National Logistics Policy and Gati-Shakti master plan will be key catalyst for sector reforms and will enhance digitization, multi-modal logistics and lead to lower logistics cost.

Business Update

- In last few years, MAHLOG has undertaken significant investment in network services (last mile, express logistics and freight forwarding) which has led to addition in capacity and now the company has moved into consolidation phase. During 1HFY23, the network services business witnessed strong volume growth which led to 22% YoY growth in revenue.
- During 2QFY23, freight forwarding reported revenues of 1b (+5% YoY); express logistics reported revenue of INR 500mn (+18% YoY), and last mile reported revenue of INR 547 mn (+55% YoY)
- Further, the 3PL business also witnessed volume growth. During 1HFY23 and 2QFY23, the 3PL business grew by 35% and 32% YoY respectively driven by strong demand from the automotive sector, consumption led end markets and continued growth in the existing accounts. Management is optimistic about the growth prospects.
- During the quarter, MAHLOG witnessed steady growth in B2B express and last mile delivery business.

- With the acquisition of Rivigo (transaction is expected to be completed in Nov'22), MAHLOG will try to gain higher markets share in the B2B express logistics business and increase the share of Non-MM in overall revenue.
- The proportion of revenue from the Mahindra group was 56% during the quarter.
- During the quarter, MAHLOG has unveiled more than 1mn sq. ft. of warehousing space across Nashik, Bhiwandi and Lohari. These warehouses will be important part of MAHLOG's pan India network of multi user facilities that supports customer inbound to manufacturing and fulfillment operations.

Non-MM segment

- During 2Q FY23, Non-MM business reported revenue of INR 5.3b (+12% YoY).
- Of the Non-MM business, non-Auto contributed ~83% of the business driven by e-commerce and consumer led markets including telecom.
- Further, transportation segment reported revenue of INR 3.15b, contributing ~60% of the non-MM business. Warehousing segment reported INR 2.1b revenue registering YoY growth of 26% in 2Q FY23.

Enterprise mobility

- Enterprise mobility segment is showing pickup in demand as work from offices resume post COVID, and the trip counts have started moving towards pre-Covid levels. During the quarter, uptick of ~20-30% was seen in trip counts.
- However, work from home remains a norm for night shift operations which has impacted the scale in recovery of enterprise mobility business. Management remains committed to expanding this segment.

Guidance

- MAHLOG aims to achieve INR 100b topline by FY26.
- Margins can improve as various segments see improved traction and start to exhibit more efficiency in operations.
- As more integration of network and various businesses take place, the overall efficiency would improve which could definitely see margin enhancement.

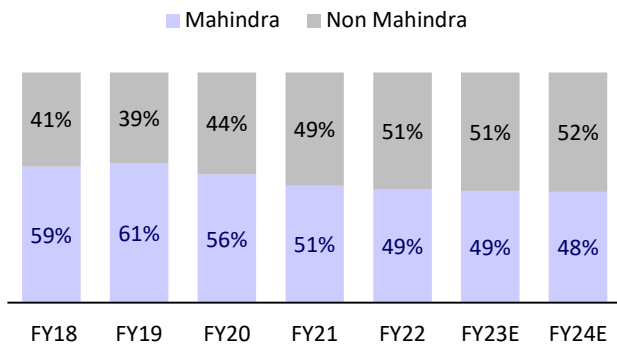
Exhibit 7: Revised forecast

(INR m)	FY23E			FY24E		
	Rev	Old	Chg(%)	Rev	Old	Chg(%)
Net Sales	51,258	49,686	3	63,281	57,551	10
EBITDA	2,678	2,679	0	3,290	3,170	4
EBITDA Margin (%)	5.2	5.4	-17	5.2	5.5	-31
PAT	574	662	-13	1,031	1,049	-2
EPS (INR)	8.0	9.2	-13	14.4	14.6	-2

Source: Company, MOFSL

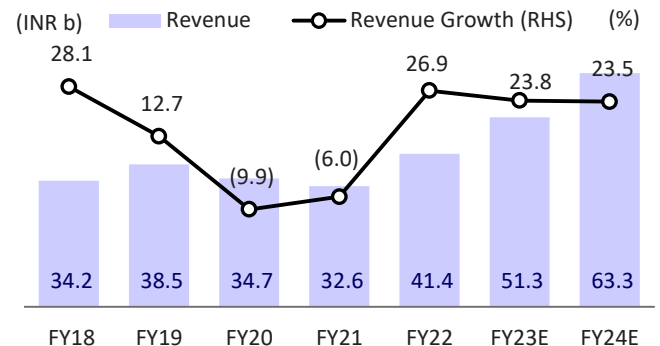
Financial story in charts

Exhibit 8: Non-MM's share to increase gradually



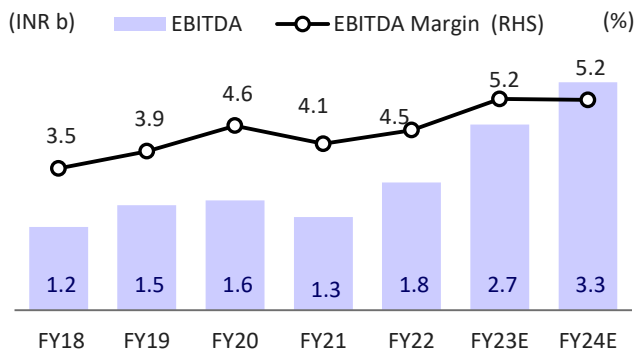
Source: Company, MOFSL

Exhibit 9: Revenue growth to be driven by SCM segment



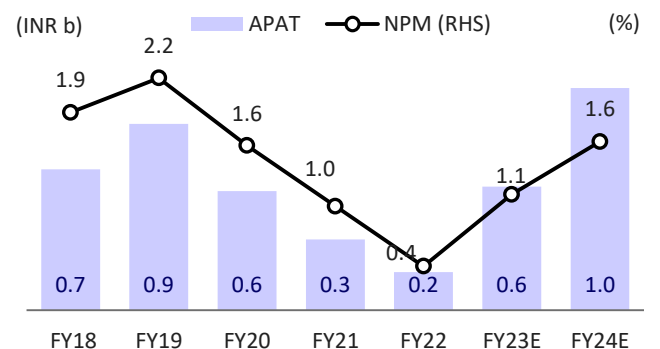
Source: Company, MOFSL

Exhibit 10: Higher share of Non-MM to drive margins



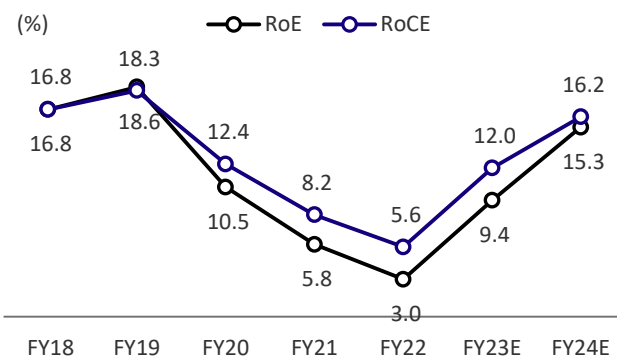
Source: Company, MOFSL

Exhibit 11: PAT to improve with increasing margins



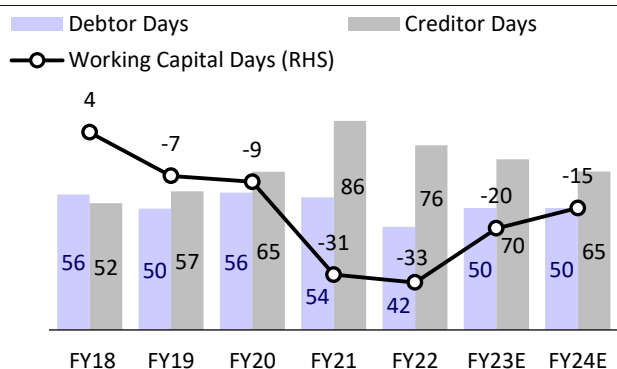
Source: Company, MOFSL

Exhibit 12: Return ratios to improve as earnings pick up



Source: Company, MOFSL

Exhibit 13: Comfortable working capital position



Source: Company, MOFSL

Financials and valuations

Consolidated – Income Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	34,161	38,513	34,711	32,637	41,408	51,258	63,281
Change (%)	28.1	12.7	-9.9	-6.0	26.9	23.8	23.5
Gross Margin (%)	12.2	12.4	15.5	15.3	14.3	13.7	13.0
EBITDA	1,197	1,512	1,583	1,342	1,843	2,678	3,290
Margin (%)	3.5	3.9	4.6	4.1	4.5	5.2	5.2
Depreciation	197	220	734	897	1,417	1,654	1,671
EBIT	1,000	1,293	848	446	426	1,023	1,619
Int. and Finance Charges	38	35	176	201	298	396	411
Other Income	59	76	140	175	136	139	145
PBT	1,021	1,334	812	420	263	765	1,353
Tax	368	468	257	100	113	204	341
Effective Tax Rate (%)	36.1	35.1	31.7	23.9	42.8	26.6	25.2
PAT before MI, Associates, and EO Items	653	867	555	319	151	562	1,013
Share of profit/(loss) of Associates and JVs	0	-3	-3	8	25	12	18
Extraordinary Items	0	0	0	28	0	0	0
Reported PAT	653	864	552	300	176	574	1,031
Adjusted PAT	653	864	552	328	176	574	1,031
Change (%)	41.5	32.4	-36.1	-40.7	-46.4	226.7	79.7
Margin (%)	1.9	2.2	1.6	1.0	0.4	1.1	1.6

Consolidated – Balance Sheet

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	711	715	715	717	719	719	719
Total Reserves	3,485	4,268	4,731	4,964	5,185	5,580	6,432
Net Worth	4,196	4,982	5,447	5,681	5,904	6,298	7,150
Minority Interest	70	57	54	28	3	3	3
Deferred Tax Liabilities	-141	-187	-200	0	0	0	0
Total Loans	346	377	359	292	411	1,800	1,300
Capital Employed	4,471	5,229	5,660	6,000	6,317	8,101	8,453
Gross Block	1,126	1,361	3,594	5,520	8,308	8,601	9,101
Less: Accum. Deprn.	467	648	1,285	1,903	3,320	4,767	6,438
Net Fixed Assets	659	713	2,310	3,617	4,988	3,833	2,662
Capital WIP	6	26	150	21	4	4	4
Total Investments	501	813	31	0	0	0	2,250
Curr. Assets, Loans, and Adv.	8,554	10,312	11,527	13,149	14,318	19,575	21,557
Inventory	0	0	0	0	14	0	0
Account Receivables	5,200	5,251	5,356	4,856	4,794	7,022	8,669
Cash and Bank Balances	660	700	995	1,978	1,321	3,204	1,347
Cash	660	550	995	1,978	1,321	3,204	1,347
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	8,188	9,349	11,542
Current Liab. and Prov.	5,248	6,635	8,359	10,787	12,993	15,312	18,021
Account Payables	4,863	6,001	6,172	7,661	8,588	9,830	11,269
Other Current Liabilities	205	419	1,974	3,065	4,342	5,418	6,689
Provisions	180	215	213	61	63	63	63
Net Current Assets	3,306	3,677	3,169	2,362	1,325	4,263	3,536
Application of Funds	4,471	5,229	5,660	6,000	6,317	8,101	8,453

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
EPS	9.1	12.1	7.7	4.6	2.5	8.0	14.4
EPS growth (%)	41.5	32.4	-36.1	-40.7	-46.4	226.7	79.7
Cash EPS	11.9	15.1	18.0	17.1	22.3	31.1	37.7
BV/Share	58.6	69.6	76.1	79.4	82.5	88.0	99.9
DPS	1.5	1.8	1.5	2.5	2.0	2.5	2.5
Payout (incl. Div. Tax, %)	19.7	17.9	19.5	59.8	81.5	31.2	17.4
Valuation (x)							
P/E	57.4	43.3	67.8	114.3	213.2	65.3	36.3
Cash P/E	44.0	34.5	29.1	30.6	23.5	16.8	13.9
EV/EBITDA	30.6	24.0	23.2	26.6	19.8	13.5	10.7
EV/Sales	1.1	0.9	1.1	1.1	0.9	0.7	0.6
P/BV	8.9	7.5	6.9	6.6	6.3	5.9	5.2
Dividend Yield (%)	0.3	0.3	0.3	0.5	0.4	0.5	0.5
Return Ratios (%)							
RoE	16.8	18.6	10.5	5.8	3.0	9.4	15.3
RoCE	16.8	18.3	12.4	8.2	5.6	12.0	16.2
RoIC	21.5	24.0	14.2	8.0	5.4	15.2	24.9
Working Capital Ratios							
Fixed Asset Turnover (x)	33.6	31.0	14.0	7.2	6.0	6.1	7.1
Asset Turnover (x)	7.6	7.4	6.1	5.4	6.6	6.3	7.5
Inventory (Days)	0	0	0	0	0	0	0
Debtors (Days)	56	50	56	54	42	50	50
Creditors (Days)	52	57	65	86	76	70	65
Leverage Ratio (x)							
Net Debt/Equity	-0.1	-0.1	-0.1	-0.3	-0.2	-0.2	0.0

Consolidated – Cash Flow Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E
OP/(Loss) before Tax	1,021	1,334	812	392	458	765	1,353
Depreciation	197	220	734	897	1,345	1,654	1,671
Direct Taxes Paid	-701	-419	-325	515	-627	-204	-341
(Inc.)/Dec. in WC	-483	-265	-653	838	480	-2,077	-1,559
Other Items	85	80	285	295	341	258	265
CF from Operations	119	950	854	2,937	1,997	396	1,390
(Inc.)/Dec. in FA	-372	-342	-617	-690	-913	-500	-500
Free Cash Flow	-253	608	237	2,247	1,084	-104	890
Change in Investments	86	-258	786	-588	-597	0	-2,250
Others	287	-347	186	198	13	450	-250
CF from Investments	1	-947	355	-1,080	-1,498	-50	-3,000
Change in Equity	72	27	4	2	5	0	0
Inc./(Dec.) in Debt	3	23	-18	-67	93	1,425	-500
Dividends Paid	0	-129	-155	-107	-179	-179	-179
Others	-37	-35	-594	-702	-1,074	291	431
CF from Fin. Activity	39	-113	-763	-875	-1,156	1,536	-248
Inc./(Dec.) in Cash	159	-111	446	982	-656	1,883	-1,857
Opening Balance	502	660	550	995	1,978	1,321	3,204
Closing Balance	660	550	995	1,978	1,321	3,204	1,347

NOTES

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

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