

Mahindra Logistics

BSE SENSEX 60,942
S&P CNX 18,119

CMP: INR489

TP: INR510 (+4%)

Neutral



Stock Info

| | |
|-----------------------|------------|
| Bloomberg | MAHLOG IN |
| Equity Shares (m) | 72 |
| M.Cap.(INRb)/(USDb) | 35.2 / 0.4 |
| 52-Week Range (INR) | 720 / 396 |
| 1, 6, 12 Rel. Per (%) | 2/-6/-34 |
| 12M Avg Val (INR M) | 98 |
| Free float (%) | 41.9 |

Financials Snapshot (INR b)

| Y/E March | 2023E | 2024E | 2025E |
|-------------------|-------|-------|-------|
| Net Sales | 51.3 | 63.3 | 77.0 |
| EBITDA | 2.7 | 3.3 | 4.2 |
| Adj. PAT | 0.6 | 1.0 | 1.7 |
| EBITDA Margin (%) | 5.2 | 5.2 | 5.4 |
| Adj. EPS (INR) | 8.0 | 14.4 | 23.3 |
| EPS Gr. (%) | 226.7 | 79.7 | 61.5 |
| BV/Sh. (INR) | 88.0 | 99.9 | 120.7 |

Ratios

| | | | |
|-------------|------|------|------|
| Net D/E (x) | -0.2 | 0.0 | -0.3 |
| RoE (%) | 9.4 | 15.3 | 21.1 |
| RoCE (%) | 12.0 | 16.2 | 21.5 |
| Payout (%) | 31.2 | 17.4 | 10.7 |

Valuations

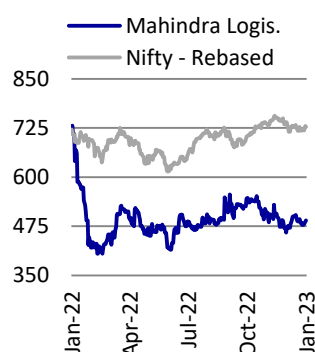
| | | | |
|----------------|------|------|------|
| P/E (x) | 60.4 | 33.6 | 20.8 |
| P/BV (x) | 5.5 | 4.8 | 4.0 |
| EV/EBITDA (x) | 12.4 | 9.8 | 7.2 |
| Div. Yield (%) | 0.5 | 0.5 | 0.5 |
| FCF Yield (%) | -0.3 | 2.6 | 6.2 |

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

Stock's performance (one-year)



Entry in new businesses to keep margins under check

- MLL is transitioning its business model from a pure 3PL player to a more integrated player with focus on network solutions— freight forward, B2B express, etc. While this would need MLL to invest aggressively, we feel this may hurt the margin trajectory in the near to medium term.
- Furthermore, the competitive landscape has intensified significantly in the 3PL space, making margin expansion more challenging. With ~75% of MLL's business being low-margin transportation, the overall margin expansion now may be gradual.
- Recent acquisition of Rivigo's B2B business could negatively impact margins as the business is currently loss making at EBITDA level. Though MLL is confident of turning it breakeven by 1Q FY24, we believe it could be challenging with the presence of established players in that segment.
- In the medium term, MLL intends to increase the scale of network services and achieve faster turnaround of recent acquisitions. It remains focused on improving the revenue mix by increased share of Non-M&M revenues, warehousing revenues, and value-added services. The company is looking to focus on cost optimization and improve the efficiency and integration of mobility business solutions.
- We expect MLL to clock a revenue/EBITDA CAGR of ~23%/31% over FY22–25E. We believe that despite the increasing scale of operations, margin improvement could be negligible over FY22-25 with the addition of some loss-making businesses and competition in the 3PL space. We reiterate our Neutral rating, with a TP of INR510 (35x FY24E EPS).

Expansion and scaling up of network services portfolio

- In the last few years, MLL has undertaken significant investment in network services (last mile, express logistics, and freight forwarding), leading to addition in capacity and now the company has moved into the consolidation phase.
- The network services portfolio has become ~16% of revenues and continues to be an overhang on profitability, with a gross margin of 5.5% in 1H FY23 vs the ~11% gross margin profile of the company's 3PL portfolio.
- Though the network services portfolio will be a key driver of the INR 100b medium-term revenue target, margin profile improvement of the vertical will be critical to boost MLL's earnings.

Auto demand remains stable post festive season

- M&M (contributes ~50% of revenues of MLL) has reported strong volume recovery in both autos (improving supply chain) and tractor volumes (healthy farm sentiments).
- After facing headwinds for the last three to four years, the auto sector is seeing more stability. Semiconductor supply scenario is getting better and Auto demand continues to remain strong despite inventory correction post the festive season.
- Overall auto sales have grown 4% YoY.

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Growth Strategy

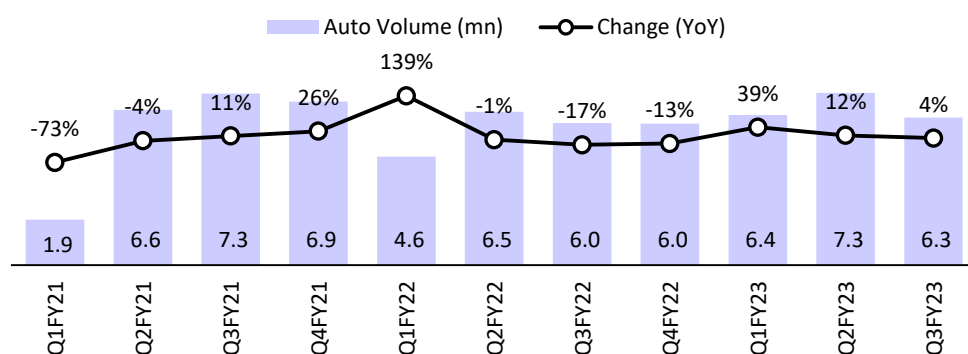
- MLL's focus on high growth verticals and its asset light approach are critical success enablers. Using its track record for M&M, MLL is ramping up fast on its non-Mahindra business.
- MLL aims to achieve logistics efficiency and attain INR 100b topline by FY26. The management targets to improve margins by 30-50bps every year.
- MLL aims to reach warehouse space up to 20m sq. ft. (currently 18 mn sq. ft) to further boost its warehousing and value-added services.

Valuation and view

- In the medium term, MLL would face margin weakness, primarily due to (a) the network services portfolio (last mile, express logistics, and freight forwarding), and (b) rising competition in 3PL business.
- With pickup in demand in end-user industries along with improvement in transportation and warehousing business, we expect MLL to clock a revenue/EBITDA CAGR of ~23%/31% over FY22–25. We reiterate our Neutral rating with a TP of INR510 (35x FY24E EPS).

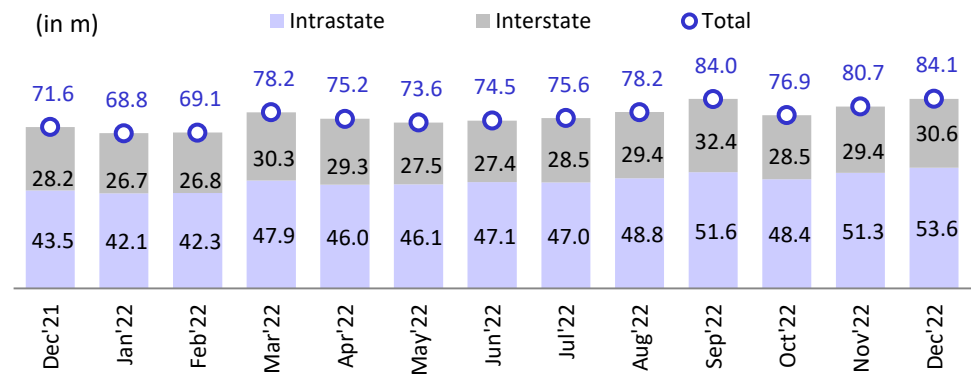
Auto sector volumes remain stable post festive demand

Exhibit 1: Auto volumes have been consistent despite inventory correction post festive season



Source: GSTN, MOFSL

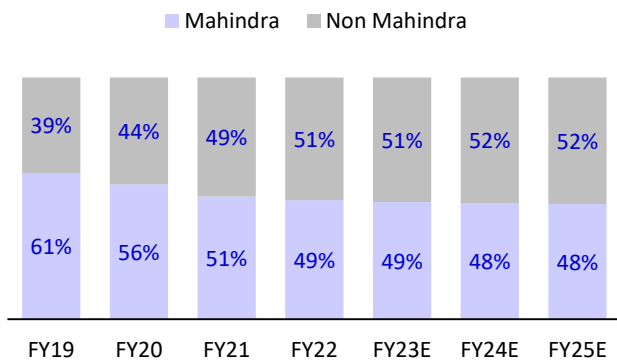
- 3QFY23 volumes were reasonably good, considering channel inventory filling for the festive season in 2Q. Demand largely remained intact across segments, except for the entry-level PV segment.
- Stable demand environment in the domestic market, along with limited impact of supply-side issues, boosted wholesale revenues.

Exhibit 2: Total e-way bill generation improves MoM

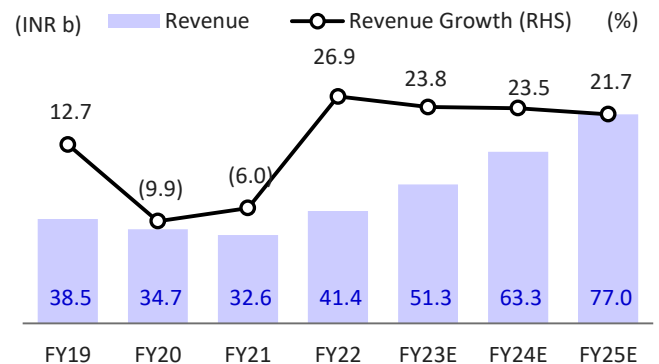
Source: GSTN, MOFSL

- Dec'22 recorded the highest e-way bill generation of 84mn, registering ~17% YoY growth.
- Improving demand sentiment amidst easing commodity prices and inflation in the last few months has led to broad-based improvement in economic activity.

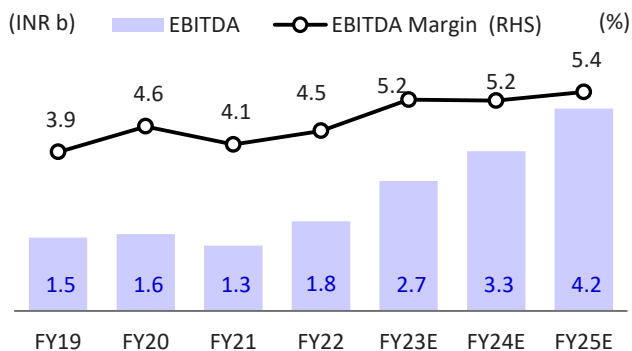
Financial story in charts

Exhibit 3: Non-MM's share to increase gradually

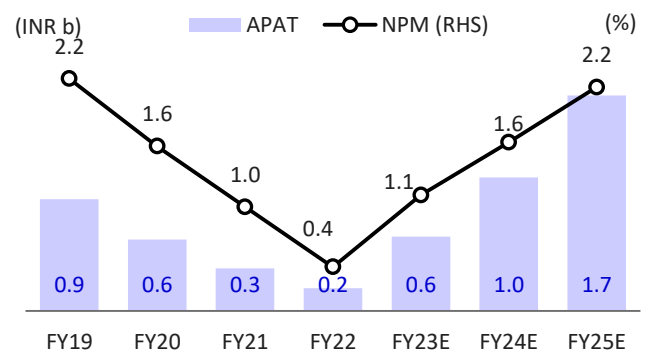
Source: Company, MOFSL

Exhibit 4: Revenue growth to be driven by SCM segment

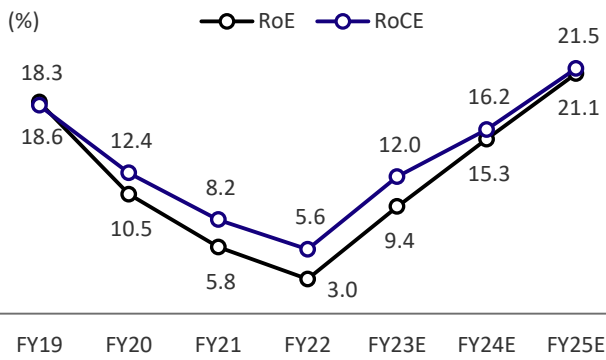
Source: Company, MOFSL

Exhibit 5: Higher share of Non-MM to drive margins

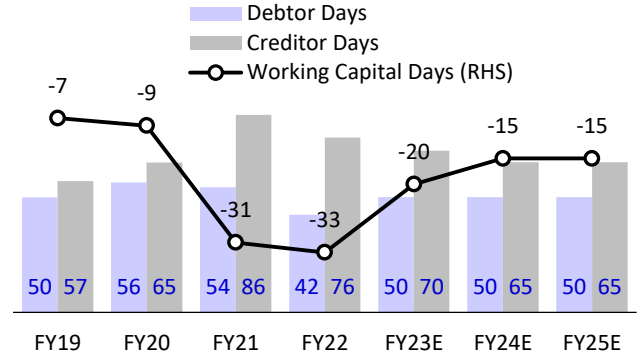
Source: Company, MOFSL

Exhibit 6: PAT to improve with increasing margins

Source: Company, MOFSL

Exhibit 7: Return ratios to improve as earnings pick up

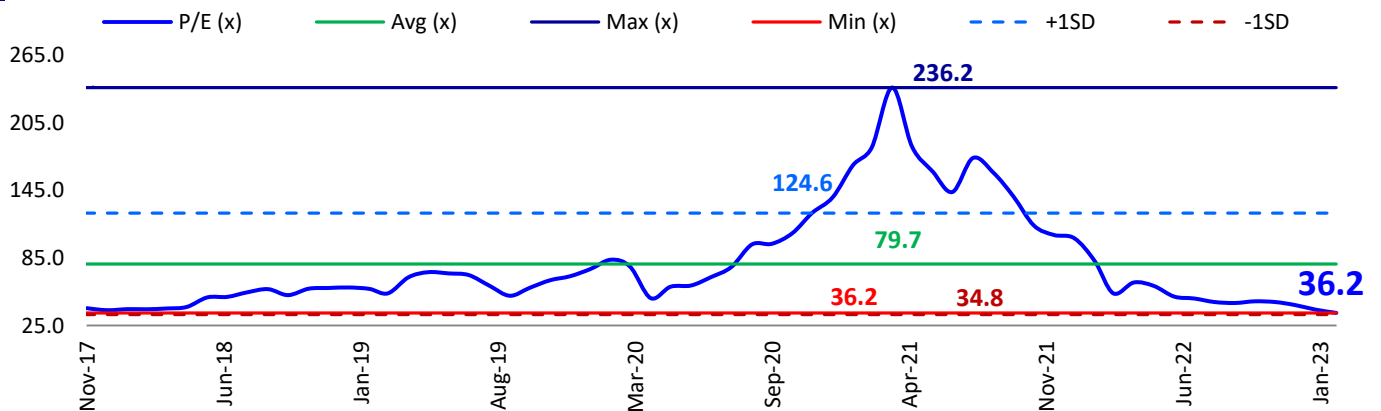
Source: Company, MOFSL

Exhibit 8: Comfortable working capital position

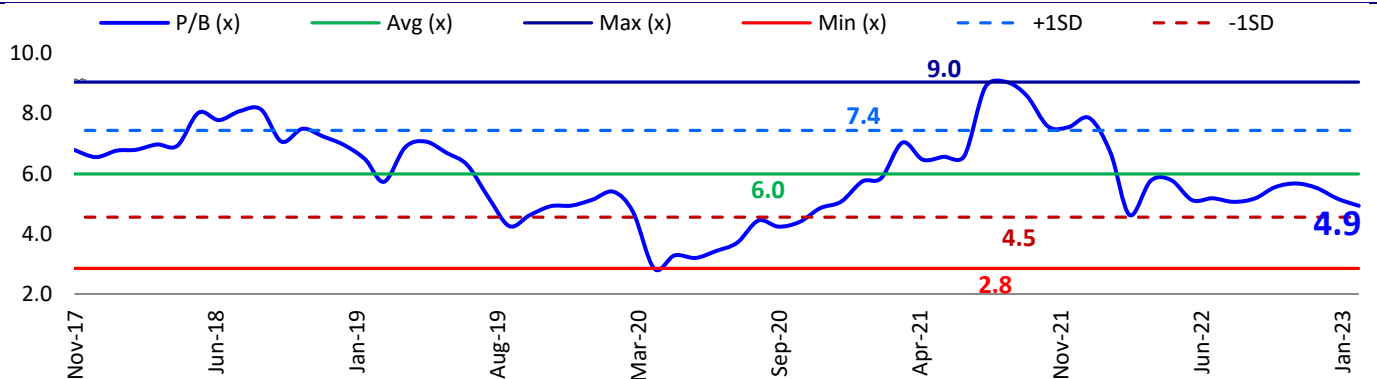
Source: Company, MOFSL

Valuation and view

- MLL's long standing customer relationships, experienced team and established infrastructure with continuous investment in technology and asset light operations enable the company to offer technology-driven diversified services across varied end-user industries.
- With pickup in demand in end-user industries along with improvement in transportation and warehousing business, we expect MLL to clock a revenue/EBITDA CAGR of ~23%/31% over FY22–25E. We reiterate our Neutral rating, with a TP of INR510 (35x FY24E EPS).

Exhibit 9: One-year forward P/E (x)

Source: Company, MOFSL

Exhibit 10: One-year forward P/B (x)

Source: Company, MOFSL

Financials and valuations

Consolidated – Income Statement

| Y/E March (INR m) | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 38,513 | 34,711 | 32,637 | 41,408 | 51,258 | 63,281 | 76,990 |
| Change (%) | 12.7 | -9.9 | -6.0 | 26.9 | 23.8 | 23.5 | 21.7 |
| Gross Margin (%) | 12.4 | 15.5 | 15.3 | 14.3 | 13.7 | 13.0 | 12.8 |
| EBITDA | 1,512 | 1,583 | 1,342 | 1,843 | 2,678 | 3,290 | 4,166 |
| Margin (%) | 3.9 | 4.6 | 4.1 | 4.5 | 5.2 | 5.2 | 5.4 |
| Depreciation | 220 | 734 | 897 | 1,417 | 1,654 | 1,671 | 1,769 |
| EBIT | 1,293 | 848 | 446 | 426 | 1,023 | 1,619 | 2,397 |
| Int. and Finance Charges | 35 | 176 | 201 | 298 | 396 | 411 | 349 |
| Other Income | 76 | 140 | 175 | 136 | 139 | 145 | 153 |
| PBT | 1,334 | 812 | 420 | 263 | 765 | 1,353 | 2,201 |
| Tax | 468 | 257 | 100 | 113 | 204 | 341 | 554 |
| Effective Tax Rate (%) | 35.1 | 31.7 | 25.6 | 42.8 | 26.6 | 25.2 | 25.2 |
| PAT before MI, Associates, and EO Items | 867 | 555 | 319 | 151 | 562 | 1,013 | 1,647 |
| Share of profit/(loss) of Associates and JVs | -3 | -3 | 8 | 25 | 12 | 18 | 18 |
| Extraordinary Items | 0 | 0 | 28 | 0 | 0 | 0 | 0 |
| Reported PAT | 864 | 552 | 300 | 176 | 574 | 1,031 | 1,665 |
| Adjusted PAT | 864 | 552 | 328 | 176 | 574 | 1,031 | 1,665 |
| Change (%) | 32.4 | -36.1 | -40.7 | -46.4 | 226.7 | 79.7 | 61.5 |
| Margin (%) | 2.2 | 1.6 | 1.0 | 0.4 | 1.1 | 1.6 | 2.2 |

Consolidated – Balance Sheet

| Y/E March (INR m) | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Equity Share Capital | 715 | 715 | 717 | 719 | 719 | 719 | 719 |
| Total Reserves | 4,268 | 4,731 | 4,964 | 5,185 | 5,580 | 6,432 | 7,917 |
| Net Worth | 4,982 | 5,447 | 5,681 | 5,904 | 6,298 | 7,150 | 8,636 |
| Minority Interest | 57 | 54 | 28 | 3 | 3 | 3 | 3 |
| Deferred Tax Liabilities | -187 | -200 | 0 | 0 | 0 | 0 | 0 |
| Total Loans | 377 | 359 | 292 | 376 | 1,800 | 1,300 | 800 |
| Capital Employed | 5,229 | 5,660 | 6,000 | 6,282 | 8,101 | 8,453 | 9,439 |
| Gross Block | 1,361 | 3,594 | 5,520 | 8,101 | 8,601 | 9,101 | 9,601 |
| Less: Accum. Deprn. | 648 | 1,285 | 1,903 | 3,113 | 4,767 | 6,438 | 8,207 |
| Net Fixed Assets | 713 | 2,310 | 3,617 | 4,988 | 3,833 | 2,662 | 1,394 |
| Capital WIP | 813 | 31 | 0 | 0 | 0 | 2,250 | 2,250 |
| Total Investments | 10,312 | 11,527 | 13,149 | 14,318 | 19,575 | 21,557 | 27,702 |
| Curr. Assets, Loans, and Adv. | 0 | 0 | 0 | 14 | 0 | 0 | 0 |
| Inventory | 5,251 | 5,356 | 4,856 | 4,794 | 7,022 | 8,669 | 10,547 |
| Account Receivables | 700 | 995 | 1,978 | 1,321 | 3,204 | 1,347 | 3,113 |
| Cash and Bank Balances | 550 | 995 | 1,978 | 1,321 | 3,204 | 1,347 | 3,113 |
| Cash | 150 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bank Balance | 150 | 150 | 0 | 0 | 0 | 0 | 0 |
| Loans and Advances | 4,212 | 5,026 | 6,315 | 8,188 | 9,349 | 11,542 | 14,043 |
| Others | 6,635 | 8,359 | 10,787 | 13,028 | 15,312 | 18,021 | 21,911 |
| Current Liab. and Prov. | 6,001 | 6,172 | 7,661 | 8,588 | 9,830 | 11,269 | 13,710 |
| Account Payables | 419 | 1,974 | 3,065 | 4,377 | 5,418 | 6,689 | 8,137 |
| Other Current Liabilities | 215 | 213 | 61 | 63 | 63 | 63 | 63 |
| Provisions | 3,677 | 3,169 | 2,362 | 1,290 | 4,263 | 3,536 | 5,791 |
| Net Current Assets | 5,229 | 5,660 | 6,000 | 6,282 | 8,101 | 8,453 | 9,439 |
| Application of Funds | 715 | 715 | 717 | 719 | 719 | 719 | 719 |

Financials and valuations

Ratios

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|-------------------------------|------|-------|-------|-------|-------|-------|-------|
| Basic (INR) | | | | | | | |
| EPS | 12.1 | 7.7 | 4.6 | 2.5 | 8.0 | 14.4 | 23.3 |
| EPS growth (%) | 32.4 | -36.1 | -40.7 | -46.4 | 226.7 | 79.7 | 61.5 |
| Cash EPS | 15.1 | 18.0 | 17.1 | 22.3 | 31.1 | 37.7 | 48.0 |
| BV/Share | 69.6 | 76.1 | 79.4 | 82.5 | 88.0 | 99.9 | 120.7 |
| DPS | 1.8 | 1.5 | 2.5 | 2.0 | 2.5 | 2.5 | 2.5 |
| Payout (incl. Div. Tax, %) | 17.9 | 19.5 | 59.8 | 81.5 | 31.2 | 17.4 | 10.7 |
| Valuation (x) | | | | | | | |
| P/E | 40.1 | 62.8 | 105.8 | 197.3 | 60.4 | 33.6 | 20.8 |
| Cash P/E | 32.0 | 26.9 | 28.3 | 21.7 | 15.5 | 12.8 | 10.1 |
| EV/EBITDA | 22.2 | 21.5 | 24.6 | 18.3 | 12.4 | 9.8 | 7.2 |
| EV/Sales | 0.9 | 1.0 | 1.0 | 0.8 | 0.6 | 0.5 | 0.4 |
| P/BV | 7.0 | 6.4 | 6.1 | 5.9 | 5.5 | 4.8 | 4.0 |
| Dividend Yield (%) | 0.4 | 0.3 | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 |
| Return Ratios (%) | | | | | | | |
| RoE | 18.6 | 10.5 | 5.8 | 3.0 | 9.4 | 15.3 | 21.1 |
| RoCE | 18.3 | 12.4 | 8.2 | 5.6 | 12.0 | 16.2 | 21.5 |
| RoIC | 24.0 | 14.2 | 7.8 | 5.4 | 15.2 | 24.9 | 40.2 |
| Working Capital Ratios | | | | | | | |
| Fixed Asset Turnover (x) | 31.0 | 14.0 | 7.2 | 6.1 | 6.1 | 7.1 | 8.2 |
| Asset Turnover (x) | 7.4 | 6.1 | 5.4 | 6.6 | 6.3 | 7.5 | 8.2 |
| Inventory (Days) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debtors (Days) | 50 | 56 | 54 | 42 | 50 | 50 | 50 |
| Creditors (Days) | 57 | 65 | 86 | 76 | 70 | 65 | 65 |
| Leverage Ratio (x) | | | | | | | |
| Net Debt/Equity | -0.1 | -0.1 | -0.3 | -0.2 | -0.2 | 0.0 | -0.3 |

Consolidated – Cash Flow Statement

| Y/E March (INR m) | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|------------------------------|-------------|-------------|---------------|---------------|--------------|---------------|--------------|
| OP/(Loss) before Tax | 1,334 | 812 | 392 | 458 | 765 | 1,353 | 2,201 |
| Depreciation | 220 | 734 | 897 | 1,345 | 1,654 | 1,671 | 1,769 |
| Direct Taxes Paid | -419 | -325 | 515 | -627 | -204 | -341 | -554 |
| (Inc.)/Dec. in WC | -265 | -653 | 838 | 480 | -2,077 | -1,559 | -977 |
| Other Items | 80 | 285 | 295 | 341 | 258 | 265 | 196 |
| CF from Operations | 950 | 854 | 2,937 | 1,997 | 396 | 1,390 | 2,635 |
| (Inc.)/Dec. in FA | -342 | -617 | -690 | -913 | -500 | -500 | -500 |
| Free Cash Flow | 608 | 237 | 2,247 | 1,084 | -104 | 890 | 2,135 |
| Change in Investments | -258 | 786 | -588 | -597 | 0 | -2,250 | 0 |
| Others | -347 | 186 | 198 | 13 | 450 | -250 | -298 |
| CF from Investments | -947 | 355 | -1,080 | -1,498 | -50 | -3,000 | -798 |
| Change in Equity | 27 | 4 | 2 | 5 | 0 | 0 | 0 |
| Inc./(Dec.) in Debt | 23 | -18 | -67 | 93 | 1,425 | -500 | -500 |
| Dividends Paid | -155 | -155 | -107 | -179 | -179 | -179 | -179 |
| Others | -8 | -594 | -702 | -1,074 | 291 | 431 | 608 |
| CF from Fin. Activity | -113 | -763 | -875 | -1,156 | 1,536 | -248 | -71 |
| Inc./(Dec.) in Cash | -111 | 446 | 982 | -656 | 1,883 | -1,857 | 1,766 |
| Opening Balance | 660 | 550 | 995 | 1,978 | 1,321 | 3,204 | 1,347 |
| Closing Balance | 550 | 995 | 1,978 | 1,321 | 3,204 | 1,347 | 3,113 |

| 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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