



## 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	✓	↓	✗

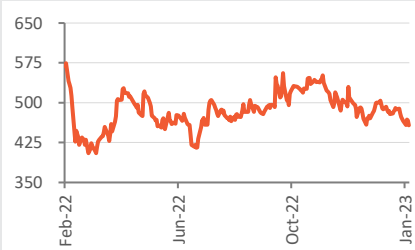
## Company details

Market cap:	Rs. 3,294 cr
52-week high/low:	Rs. 588 / 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	15.6
DII	15.5
Others	10.9

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-9.1	-17.0	-4.1	-19.6
Relative to Sensex	-6.9	-15.5	-6.8	-21.6

Sharekhan Research, Bloomberg

## Mahindra Logistics Ltd

## Rivigo to delay growth acceleration; Downgrade to Hold

Logistics	Sharekhan code: MAHLOG			
Reco/View: Hold	↓	CMP: Rs. 458	Price Target: Rs. 502	↓
↑ Upgrade   ↔ Maintain   ↓ Downgrade				

## Summary

- We downgrade Mahindra Logistics Limited (MLL) to Hold with a revised PT of Rs. 502, owing to a downward revision in estimates led by Rivigo consolidation and increased leverage.
- MLL reported lower-than-expected performance for Q3FY2023 owing to weak performance in the freight forwarding business and the consolidation of B2B express business of Rivigo.
- MLL is expected to focus on the turnaround and consolidation of Rivigo during FY2024, while overall earnings acceleration is expected from FY2025 onwards.
- The company's freight forwarding business is expected to recover from weak global pricing and demand environment over the next six months.

Mahindra Logistics Limited (MLL) reported lower-than-expected performance for Q3FY2023 owing to a weak performance in the freight forwarding business along with the consolidation of the B2B express business of Rivigo. Consequently, consolidated net profit stood at just Rs. 1.4 crores (Rs. 11 crore loss in Rivigo) with operating profit at Rs. 62.7 crores (Rs. 9 crores operating loss of Rivigo). At the same time, consolidated revenues were up 17% y-o-y at Rs. 1330 crore (3PL revenues rose by 17% y-o-y at Rs. 1140 crore driven by 24% y-o-y rise in transportation revenues at Rs. 997 crores). Adjusted for Rivigo, consolidated PAT was Rs. 12.1 crore. The company is expected to focus on the turnaround and consolidation of Rivigo during FY2024 while overall earnings acceleration is expected from FY2025 onwards. The funding of the Rivigo acquisition entirely through debt would lead to higher interest expenses going ahead while consolidation of the same would lead to higher depreciation.

## Key positives

- SCM division's revenues were up 18% y-o-y to Rs. 1265 crore, aided by a 41% y-o-y rise in revenues from M&M at Rs. 684 crores.
- Excluding Rivigo, consolidated revenues/operating profits grew 13%/60% y-o-y to Rs. 1285 crore/Rs. 77.2 crore. Consolidated PAT stood at Rs. 12.1 crores.
- Within SCM, transportation recorded a 24% y-o-y growth in revenues to Rs. 997 crore.

## Key negatives

- Consolidation of Rivigo led to just Rs. 1.1 crores consolidated net profit as Rivigo reported Rs. 9 crore/11 crore operating loss/net loss.
- Depreciation and interest expenses were up 33% y-o-y, and 99% y-o-y owing to Rivigo consolidation and rise in leverage to fund the Rivigo acquisition.
- Within SCM, warehousing and solutions reported a 2% y-o-y decline at Rs. 268 crores.

## Management Commentary

- FY2024 will be an year of turnaround and consolidation, while earnings acceleration will happen from FY2025 onwards.
- Over the next 3-4 years, it would aspire to reach 2% PAT margins which were achieved in FY2019. It would target to improve GMs by 25-50bps every year.
- The pricing environment in freight forwarding remain flat to marginally downwards during January versus December. In freight forwarding, volumes are growing in air and Ocean imports while exports are slow due to the US slowdown.

**Revision in estimates** – We have increased our revenue estimates for FY2023-FY2025, factoring consolidation of Rivigo while materially lowering our net earnings estimates for the same period factoring lower margin profile in Rivigo, higher depreciation and higher interest expense.

## Our Call

**Valuation – Downgrade to Hold with a revised PT of Rs. 502:** MLL would be focusing on the turnaround of B2B express business of Rivigo during FY2024 while earnings acceleration is expected from FY2025 onwards. Consolidation of Rivigo and increased leverage, has led to a material downward revision in our net earnings estimates for FY2023-FY2025. The company's freight forwarding business is expected to recover from weak global pricing and demand environment over the next six months. Its non-M&M SCM business having a higher share of warehousing revenues, is witnessing lower growth than envisaged. However, strong growth in 3PL with gradual improvement in OPMs are expected to lead to strong net earnings CAGR over FY2023-FY2025. The stock is currently trading at a P/E of 70x and 41x its FY2024E and FY2025E EPS which we believe provides an unfavourable risk-reward ratio to investors. Hence, we downgrade the stock to Hold with revised PT of Rs. 502 led by downward revision in estimates. We prefer TCI Express in the logistics space considering its strong growth potential, healthy balance sheet, high return ratios and relatively better placed to wither the near term macroeconomic sluggishness.

## Key Risks

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

## Valuation (Consolidated)

	Rs cr			
Particulars	FY22	FY23E	FY24E	FY25E
Revenue	4,140.8	5,260.2	6,521.8	7,500.1
OPM (%)	4.5	5.0	5.2	5.4
Adjusted PAT	17.6	30.8	46.7	80.2
% YoY growth	(46.4)	75.1	51.8	71.9
Adjusted EPS (Rs.)	2.4	4.3	6.5	11.2
P/E (x)	187.3	107.0	70.4	41.0
P/B (x)	5.0	4.7	4.4	4.0
EV/EBITDA (x)	16.6	11.6	9.1	7.5
RoNW (%)	3.0	5.1	7.2	11.3
RoCE (%)	4.8	8.8	10.6	13.8

Source: Company; Sharekhan estimates

## Rivigo consolidation dents net earnings

Mahindra Logistics reported 17% y-o-y rise (flat q-o-q) in consolidated revenues at Rs. 1330 crore, which was in-line with our estimate. The Supply chain management revenues (95% revenue share) rose by 17.5% y-o-y (flat q-o-q) at Rs. 1265 crore. Within SCM, transportation revenues grew by 24% y-o-y to Rs. 997 crore while Warehousing & Solutions declined 2% y-o-y to Rs. 268 crores. The company's OPM at 4.7% (+73bps y-o-y, -38bps q-o-q) was lower than our estimate of 5.2%. During the quarter it concluded the acquisition of B2B express business of Rivigo into MLL Express Services. The consolidated operating profit grew by 38.4% y-o-y (-7.2% q-o-q) to Rs. 62.7 crore which was 11% lower than our expectation. Consolidation of Rivigo (net loss of Rs. 11 crore), higher depreciation (up 33% y-o-y) and higher interest expense (up 99% y-o-y) led to just Rs. 1.4 crore consolidated net profit (down 21.5% y-o-y, down 88.6% q-o-q) which was much lower than our expectation. However, net profit without the impact of Rivigo acquisition was Rs. 12 crore.

## Key conference call takeaways

- ♦ **Q3FY2023 performance:** Revenues were up 17% y-o-y to Rs. 1333 crore, GM stood at 9.9% versus 9% in Q3FY2022, EBITDA was Rs. 68.3 crores versus Rs. 48 crores, PBT grew by 11% y-o-y to Rs. 3.6 crore, net profit was Rs. 1.1 crores versus Rs. 1.2 crores. Excluding Rivigo, Revenues were up 13% y-o-y at Rs. 1285 crore, GM stood at 10.5%, EBITDA at Rs. 77.2 crores, PBT at Rs. 17.9 crores and PAT at Rs. 12.1 crores. During Q3, other income was higher due to the conclusion of an assessment order leading to a refund with an interest of Rs. 2.6 crore. Other expenses did not have any significant one-off item. The interest expense was higher due to Rivigo's acquisition getting completely financed by additional borrowings.
- ♦ **Guidance:** It would target to improve GMs by 25-50bps every year. Over the next 3-4 years, it would aspire to reach 2% PAT margins which was achieved in FY2019. FY2024 would be an year of turnaround and consolidation, while earnings will accelerate will from FY2025 onwards. Depreciation will be at a similar run-rate while interest expense would be higher (as Rivigo related borrowings happened late in Q3). The pricing environment in freight forwarding remains flat to marginally downwards during January versus December. In freight forwarding, volumes are growing in air and Ocean imports while exports may be sluggish due to the US slowdown.
- ♦ **Union budget takeaways:** Creation of Urban Infrastructure fund for Tier 2 and Tier 3 cities, identification of 100 transport infrastructure projects, 50 additional airports, heliports, water aerodromes and advance landing grounds revival for improving regional air connectivity and highest ever allocation towards railways are key positive outcomes for the logistics sector from the budget.
- ♦ **Rivigo:** Rivigo's annualised revenues are Rs. 350 crore, while company's express business has Rs. 150-160 crore revenues. It would focus on 1) consolidation of the network 2) consolidation in transportation 3) productivity improvement, and 4) Optimisation of overheads. Network and transport comprise 90-95% of total variable cost per kg.
- ♦ **Auto:** The segment faced far lesser supply chain issues. However, CV and two wheelers are lower compared to pre-COVID levels. The sector is undergoing a shift towards EVs over 1-3 years in two-wheelers, three wheelers and Passenger vehicles. Overall, volume from auto showed strong traction during Q3. Demand for tractors and farm equipment remained strong, which is expected to sustain.
- ♦ **E-commerce:** The festive season demand was not as per expectations. There was capacity overhang, especially in the mid-mile segment. The company had a few temporary flex warehouses in Q3.
- ♦ **FMCG, Durables & pharma:** Durables demand slowed post-festive season due to higher prices, although wires and cables remained strong. FMCG saw muted growth while pharma remained strong.
- ♦ **3PL:** The growth in Auto and manufacturing offset the weakness in E-commerce and other segments. It focuses on enhancing services, which is currently 30% of 3PL. The total warehouses excluding stockyards were up 10% q-o-q to 15.3msf, of which 20% are carbon neutral. Warehousing revenues declined y-o-y because of capacity additions coming up at fag end of Q3 and seasonal pop-up in volumes being absent this time. Warehousing has not seen yields coming down.

- ♦ **Freight Forwarding:** The segment's revenues and profits were affected by a 70-75% correction in global freight prices along with the global slowdown. However, margins improved y-o-y despite pricing pressure. The recovery is expected over the next six months. It would focus on volumes to come back. It has 11% gross margins. Non-M&M SCM has higher share in warehousing.
- ♦ **B2B express:** It completed acquisition of Rivigo during Q3. About 90% of customers were transitioned successfully. It is now working towards network optimization. The business would be positive by H1FY2024 end.
- ♦ **Last mile delivery:** The segment saw 12% y-o-y growth. It is focusing on margin improvement. EDel has 1200 vehicles. Whizzard gross margins are similar with its last mile operations. The last mile gross margins can be scaled to 6-8% over medium to long term with right scale.

Results (Consolidated)

Particulars	Q3FY2023	Q3FY2022	Y-o-Y %	Q2FY2023	Q-o-Q %
<b>Net sales</b>	<b>1329.6</b>	<b>1136.0</b>	<b>17.0%</b>	<b>1326.3</b>	<b>0.2%</b>
other income	5.6	2.9	93.8%	3.4	66.6%
Total income	1335.1	1138.9	17.2%	1329.7	0.4%
Total expenses	1266.8	1090.7	16.2%	1258.7	0.6%
<b>Operating profit</b>	<b>62.7</b>	<b>45.3</b>	<b>38.4%</b>	<b>67.6</b>	<b>-7.2%</b>
Depreciation	49.8	37.5	32.8%	43.6	14.4%
Interest	15.0	7.5	99.1%	10.7	39.4%
Exceptional items	0.0	0.0		0.0	
<b>Profit Before Tax</b>	<b>3.5</b>	<b>3.2</b>	<b>10.9%</b>	<b>16.6</b>	<b>-78.7%</b>
Taxes	1.9	2.1	-8.3%	4.7	-60.3%
PAT	1.7	1.1	45.2%	11.9	-86.0%
Minority Interest	-0.3	-0.6	-54.8%	-0.9	-68.5%
<b>Adjusted PAT</b>	<b>1.4</b>	<b>1.8</b>	<b>-21.5%</b>	<b>12.2</b>	<b>-88.6%</b>
EPS (Rs.)	0.2	0.2	-21.5%	1.7	-88.6%
			<b>bps</b>		<b>bps</b>
OPM (%)	4.7%	4.0%	73	5.1%	-38
NPM (%)	0.1%	0.2%	-5	0.9%	-81
Tax rate (%)	53.0%	64.1%	-1110	28.5%	2449

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – 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 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 improved 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, the 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.

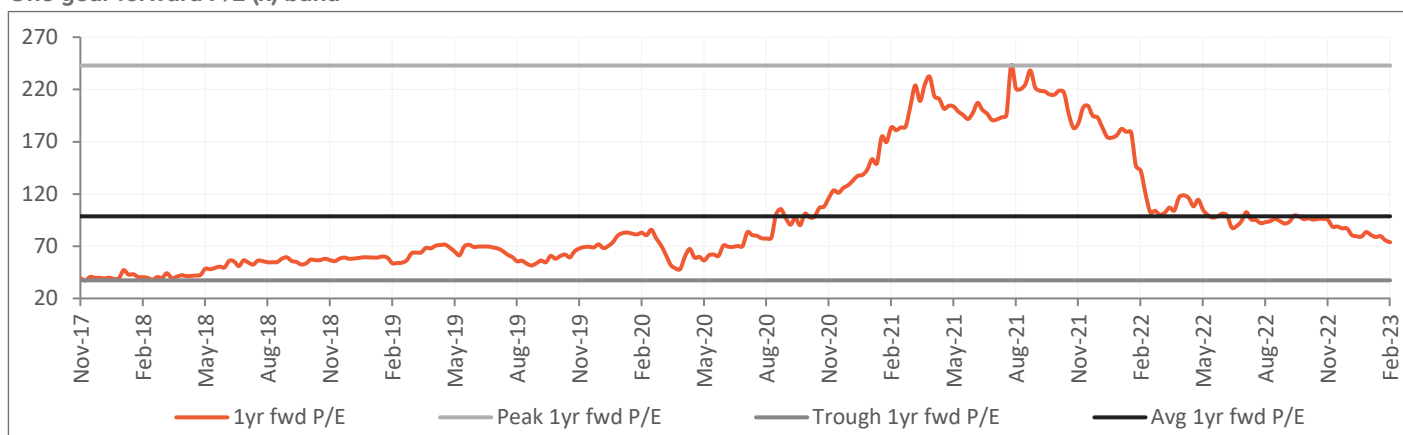
### ■ Company Outlook – Rivigo to delay growth acceleration

MLL had been on a strong earnings growth trajectory pre-acquisition of B2B express business of Rivigo. The low margin profile of Rivigo along with increased leverage to fund acquisition has led to a downward revision in net earnings CAGR over the next two years than earlier envisaged. Further, its freight forwarding business is expected to recover over the next six months due to weak demand supply dynamics in global economies. Its non-M&M SCM business is witnessing lower growth than earlier envisaged. Overall, we expect FY2024 to be a year of a turnaround for its newly acquired business, while growth acceleration is expected from FY2025 onwards.

### ■ Valuation – Downgrade to Hold with a revised price target of Rs. 502

MLL would be focusing on the turnaround of B2B express business of Rivigo during FY2024, while earnings acceleration is expected from FY2025 onwards. Consolidation of Rivigo and increased leverage has led to material downward revision in our net earnings estimates for FY2023-FY2025. The company's freight forwarding business is expected to recover from weak global pricing and demand over the next six months. Its non-M&M SCM business having higher share of warehousing revenues, is witnessing lower growth than envisaged. However, strong growth in 3PL with gradual improvement in OPMs are expected to lead to strong net earnings CAGR over FY2023-FY2025. The stock is currently trading at a P/E of 70x and 41x its FY2024E and FY2025E EPS, which we believe provides an unfavourable risk-reward ratio to investors. Hence, we downgrade the stock to Hold with a revised PT of Rs. 502 led by a downward revision in estimates. We prefer TCI Express in the logistics space considering its strong growth potential, healthy balance sheet, high return ratios and relatively better placed to wither the near term macroeconomic sluggishness.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Mahindra Logistics	107.0	70.4	11.6	9.1	4.7	4.4	5.1	7.2
TCI Express	38.7	30.9	27.4	21.8	9.4	7.4	25.4	27.0

Source: Sharekhan Research

## 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 specialising in supply chain management and people transport solutions. Founded over 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. At the same time, MLL largely invests in logistics technology. The company provides customised and technology-enabled solutions 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 Bhiwandiwalla	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

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## 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 deteriorating 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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