Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Mahindra Logistics Ltd

Major headwinds seem behind; Retain Buy

Logistics	Sharekhan code: MAHLOG
Reco/View: Buy ↔	CMP: Rs. 377 / Price Target: Rs. 455 ↔

↑ 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		↔	

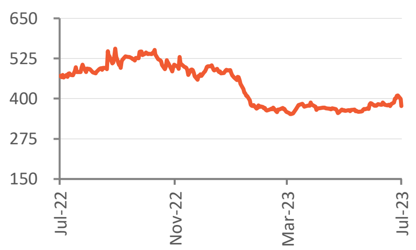
Company details

Market cap:	Rs. 2,715 cr
52-week high/low:	Rs. 567 / 350
NSE volume: (No of shares)	1.4 lakh
BSE code:	540768
NSE code:	MAHLOG
Free float: (No of shares)	3.0 cr

Shareholding (%)

Promoters	58.0
FII	11.5
DII	17.0
Others	13.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.2	3.2	-20.3	-19.9
Relative to Sensex	-5.6	-7.1	-30.6	-38.9

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Mahindra Logistics Limited (MLL) with an unchanged PT of Rs. 455, considering a favourable valuation which factors in near-term demand weakness.
- MLL reported marginally weak operational performance for Q1FY2024 while net loss widened due to higher tax outgo. OPMs stayed in-line despite sustained operating losses in express business.
- The company maintained its slower revenue growth guidance for FY2024 due to moderation of growth in auto, consumer durables, higher competitive intensity in E-com and pricing pressure in freight forwarding.
- The express business is targeted for EBITDA breakeven by mid-Q3FY2024 with encouraging volumes in July. Focus stays on improving margin profit in its network services businesses.

Mahindra Logistics Limited (MLL) reported a marginally weak operational performance for Q1FY2024 while net loss widened as it did not avail deferred tax benefits during the quarter. Consolidated revenues grew 7.8% y-o-y, led by the consolidation of Rivigo's express business (absent in the base quarter). Its contract logistics business (78% of revenues) grew 6% y-o-y (driven by volume growth). Consolidated OPM at 5.2% (-32 bps y-o-y) stayed in line with expected operating losses of the express business. Consolidated net loss stood at Rs. 8.6 crore (as it did not avail deferred tax benefit leading to Rs. 8.9 crore effective tax outgo). The company maintained its slower revenue growth expectation for FY2024 due to moderate growth in auto, consumer durables, higher competitive intensity in E-com and pricing pressure in freight forwarding. The express business is targeted for EBITDA breakeven by mid-Q3FY2024 as volumes have started returning in July. It would continue to focus on improving margin profile in its network services businesses while its 3PL business is slated to grow in the mid-teens p.a. over the next 2-3 years.

Key positives

- During Q1FY2024, the company added Rs. 130 crore annualised business in the contract logistics segment as against Rs. 100 crore added in Q4FY2024.
- Mobility business registered 39% y-o-y growth in revenues. The segment was close to breakeven, excluding Rs. 2.5 crore provisions made related to pending overdues from Go Air.

Key negatives

- Express business continued to report operating and net losses led by network transitions post Rivigo acquisition. However, it is expected to break even by mid-Q3FY2024.
- E-commerce business continued to remain under pressure leading to white space of 0.5msf.

Management Commentary

- The company would see a slower revenue growth in FY2024 as earlier highlighted. 3PL business is expected to grow in mid-teens p.a. over the next 2-3 years. It would be focusing on improving margin profile in its network services businesses. Mobility business is expected to be profitable on full-year basis in FY2024.
- With a dip in express business volumes in Q1 would require 30-35% volume growth to achieve breakeven. It expects to achieve breakeven with a quarter lag during mid-Q3FY2024 as volumes have starting coming back in July 2023.
- The contract logistics segment showed improvement in order intake q-o-q with an annualized annualised contract value addition of Rs. 130 crores in Q1FY2024 from Rs. 100 crores in Q4FY2023. However, it would take 3-6 months to deploy services for new accounts.

Revision in estimates – We have lowered marginally our revenue and operating profit estimates for FY2024-FY2025, factoring in slower growth in the M&M business. FY2023 net earnings is lowered materially to factor in the higher tax rate.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 455: MLL remains focused on the turnaround of B2B express business of Rivigo and consolidating its express business under MSEPL. Further, it targets to increase the share of solutions business in 3PL vertical, which would provide better margins. It remains upbeat on end-user demand in the medium-term barring e-commerce, with focus on expanding margins. It remains committed on adding 2-3 msf of warehousing capacities per annum. The stock has seen a correction of 20% over the trailing six months. We believe the current valuation at a P/E of 37x its FY2025E earnings aptly factors its transitioning-related uncertainties providing an opportunity to Buy. Hence, we retain Buy on the stock with an unchanged PT of Rs. 455.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	4,140.8	5,128.3	5,986.0	6,883.9
OPM (%)	4.5	5.1	5.5	6.1
Adjusted PAT	17.6	26.3	16.5	73.1
% YoY growth	(46.4)	49.6	(37.2)	342.6
Adjusted EPS (Rs.)	2.4	3.6	2.3	10.1
P/E (x)	154.2	103.3	164.3	37.1
P/B (x)	4.4	4.3	4.2	3.8
EV/EBITDA (x)	13.5	9.6	7.5	5.9
RoNW (%)	3.2	4.7	2.9	11.9
RoCE (%)	4.9	5.8	7.9	13.6

Source: Company; Sharekhan estimates

Muted operational performance

Mahindra Logistics reported a 7.8% y-o-y rise (up 1.6% q-o-q) in consolidated revenues at Rs. 1293.2 crore which was 4% lower than our estimate. Standalone revenues (Supply chain management business) remained muted (down 2% y-o-y, flat q-o-q) while other businesses, viz. freight forwarding (up 6% q-o-q), Mobility (up 5% q-o-q), Express (up 10% q-o-q) and 2x2 Logistics (up 52% q-o-q) improved sequential. The company's OPM at 5.2% (-32bps y-o-y, +14bps q-o-q) aligned with our estimate of 5.3%. OPM expansion in standalone and freight forwarding businesses was offset by operating losses in express business. The consolidated operating profit grew marginally by 1.4% y-o-y (up 4.6% q-o-q) to Rs. 66.6 crore, which was 7% lower than our expectation. Higher depreciation (up 33% y-o-y) and higher interest expense (up 99% y-o-y) led to just Rs. 0.6 crore consolidated net PBT (versus PBT of Rs. 19 crore in Q1FY2023). However, it reported a consolidated net loss of Rs. 8.6 crore on account of tax expense of Rs. 8.3 crore.

Key conference call takeaways

- **Outlook:** The company would see a slower revenue growth in FY2024, as earlier highlighted. 3PL business is expected to grow in mid-teens p.a. over the next 2-3 years. It would be focusing on improving margin profile in its network services businesses. Mobility business is expected to be profitable on full year basis in FY2024.
- **End user sector outlook:** Within Auto, high end PVs and commercial vehicles are showing some moderation in growth. Consumer Durables showed flattish growth with RACs dragging down demand with higher-than-normal channel inventory. The growth is expected to be moderate. In FMCG, semi-urban and rural markets seen bottoming out while urban markets are growing gradually. In E-commerce, the long-term view remain positive although competitive intensity remains high and capacity consolidations impacting warehousing businesses.
- **Express business:** The segment saw 25-30% q-o-q volume drop due to Network transitions, rebalanced lanes, warehouses consolidations, IT solutions alignment as it entered the fourth quarter of Rivigo integration. Earlier, express business combined volumes stood at 4.2 lakhs to 4.5 lakhs while it needed 10-15% volume growth to achieve breakeven. With a dip in volumes in Q1, it would require 30-35% volume growth to achieve breakeven. It expects to achieve breakeven with a quarter lag during mid-Q3FY2024 as volumes have started coming back in July 2023.
- **Warehousing:** The segment registered a decline in revenues due to churning in E-com business and the shift of Bajaj electricals account. It is expected to return to growth by mid of this quarter. The segment witnessed significant improvement in margins, although there was an increase in costs due to AS 116 accounting.
- **3PL:** The segment showed 6-7% volume growth driven by auto and manufacturing segments, while churn of e-com business and Bajaj Electricals account had a negative impact. The segment showed improvement in order intake q-o-q with annualised contract value addition increasing to Rs. 130 crores in Q1FY2024 from Rs. 100 crores in Q4FY2023. However, it would take 3-6 months to deploy services for new accounts. Non-auto growth is expected to come back from mid-Q2FY2024.
- **Freight forwarding:** It has added new clients, such as a telecom player rolling out 5G services, a leading global contract manufacturer providing 50% of cross-border business etc.
- **Mobility:** The company made Rs. 2.5 crore provision related to pending receivables from Go Air is under arbitration. Policy towards EV adoption continues to drive growth. Aviation traffic growth is expected to be strong this year. Return to office and addition of new clients driving growth in the segment.

Results (Consolidated) | **Rs cr**

Particulars	Q1FY2024	Q1FY2023	Y-o-Y %	Q4FY2023	Q-o-Q %
Net sales	**1293.2**	**1199.9**	**7.8%**	**1272.5**	**1.6%**
other income	6.2	3.1	100.0%	3.8	61.4%
Total income	1299.4	1203.0	8.0%	1276.3	1.8%
Total expenses	1226.6	1134.2	8.1%	1208.8	1.5%
Operating profit	**66.6**	**65.7**	**1.4%**	**63.7**	**4.6%**
Depreciation	54.5	40.9	33.2%	55.3	-1.4%
Interest	17.8	8.9	99.1%	16.9	5.0%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	**0.6**	**19.0**	**-97.0%**	**-4.6**	**-**
Taxes	8.9	5.3	66.4%	-4.8	-
PAT	-8.3	13.6	-	0.2	-
Minority Interest	0.1	-0.3	-	-0.2	-
Adjusted PAT	**-8.6**	**13.5**	**-**	**-0.8**	**-**
EPS (Rs.)	-1.2	1.9	-	-0.1	-
			BPS		**BPS**
OPM (%)	5.2%	5.5%	-32	5.0%	14
NPM (%)	-0.7%	1.1%	-179	-0.1%	-60
Tax rate (%)	-	28.1%	-	-	-

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 of the sector.

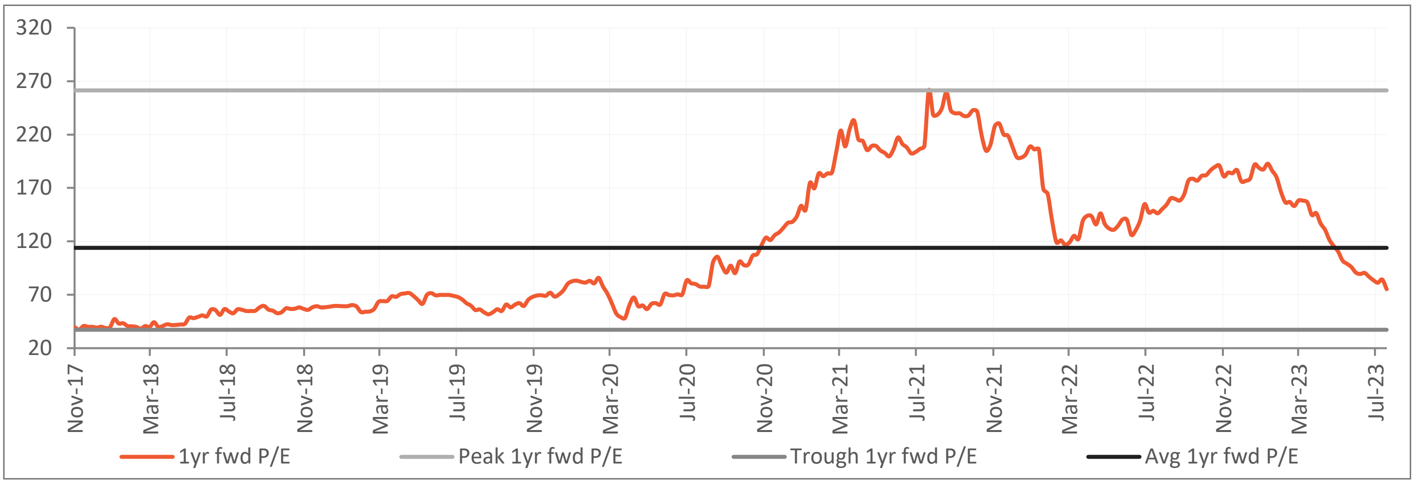
■ Company Outlook – On growth recovery path

MLL continues to focus on improving the margin profile of its network services businesses post the acquisitions in various sub-segments. However, its 3PL business remains on a healthy growth trajectory with mid-teen revenue CAGR expectations over the next 2-3 years. It has been able to bag new order intakes in the contract logistics businesses which is expected to start contributing post 3-6 months' time for deploying services. Further, its freight forwarding business is on a recovery path with healthy volume growth while the same gets partially offset by weaker pricing environment in the near term. Overall, we believe the company is on track to regain higher growth trajectory over the next 1-2 years.

■ Valuation – Retain Buy with an unchanged price target of Rs. 455

MLL remains focused on the turnaround of B2B express business of Rivigo and consolidating its express business under MSEPL. Further, it targets to increase the share of solutions business in 3PL vertical, which would provide better margins. It remains upbeat on end-user demand in the medium-term barring e-commerce, focusing on expanding margins. It remains committed to adding 2-3 msf of warehousing capacities per annum. The stock has seen a correction of 20% over the trailing six months. We believe the current valuation at a P/E of 37x its FY2025E earnings aptly factors its transitioning-related uncertainties providing an opportunity to Buy. Hence, we retain Buy on the stock with an unchanged PT of Rs. 455.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Mahindra Logistics	164.3	37.1	7.5	5.9	4.2	3.8	2.9	11.9
TCI Express	32.4	26.1	22.8	18.3	7.6	6.1	26.1	26.2

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 an extensive 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

Anish Shah	Chairman
Rampraveen Swaminathan	Chief Executive Officer & MD
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	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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