



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	✓	↔	✓

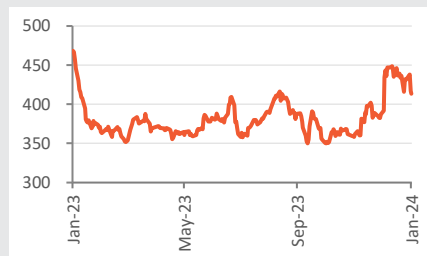
Company details

Market cap:	Rs. 2,979 cr
52-week high/low:	Rs. 499 / 347
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	5.9
DII	15.7
Others	20.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.6	18.2	15.4	-11.7
Relative to Sensex	6.3	5.9	7.5	-32.2

Sharekhan Research, Bloomberg

Mahindra Logistics Ltd

Vision FY2026 intact despite near-term challenges

Logistics	Sharekhan code: MAHLOG		
Reco/View: Buy	↔	CMP: Rs. 414	Price Target: Rs. 520
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain Buy on Mahindra Logistics Limited (MLL) with a revised PT of Rs. 520, rolling forward our valuation to FY2026E earnings and factoring in lowered estimates.
- Consolidated revenue marginally missed the mark in Q3, while continued operating losses in express business and one-off expenses led to overall consolidated net loss.
- Addition of new accounts continue in 3PL, while EBITDA breakeven in express business is delayed to H1FY2025 from Q4FY2024 while PAT breakeven stays at Q4FY2025.
- Despite near-term margin pressures in the express business and softer demand in mobility, management has retained its Rs. 10,000 crore revenue target by FY2026.

Mahindra Logistics Limited (MLL) reported marginally lower consolidated revenue at Rs. 1,397 crore (up 5% y-o-y), led by consolidation of Rivigo's express business (absent in the base quarter) and marginal recovery (up 2% both y-o-y and q-o-q) in its core standalone business (mainly 3PL). Consolidated OPM at 3.7% (-98 bps y-o-y) came in lower than our estimate of 4.5%, with sustained operating losses of the express business (Rs. 22 crore). Lower margins in the standalone business, operating loss in the express business along with one-off charges (Rs. 2 crore on Zip Zap's acquisition and Rs. 1 crore deferred tax reversal related to Transtech's stake divestment) led to a consolidated net loss of Rs. 13.6 crore. Despite near-term margin pressures in the express business (slated for EBITDA/PAT breakeven in H1FY2025/Q4FY2025), it retained its overall revenue target of Rs. 10,000 crore by FY2026 (Rs. 9,000 crore from supply chain management and Rs. 1,000 crore from the mobility business). We expect the burn rate in its express business to gradually taper off, while continued new account additions in the contract logistics business provide comfort on growth prospects.

Key positives

- MLL added Rs. 150 crore annualised business in Q3FY2024 (Rs. 260 crore additions in H1FY2024) maintaining momentum in the contract logistics segment.
- Despite near-term headwinds in the express business and softer mobility business, management has retained its FY2026 revenue target of Rs. 10,000 crore.

Key negatives

- The express business continued to report operating and net losses on higher transportation costs incurred to maintain service levels. EBITDA breakeven has been delayed to H1FY2025 from Q4FY2024 earlier.
- Operating losses in the express business along with one-off expenses led to net operating loss.

Management Commentary

- Management still believes Rs. 10,000 crore revenue is achievable by FY2026 with the supply chain and mobility business contributing Rs. 9,000 crore and Rs. 1,000 crore, respectively. However, there is a risk for the mobility business to achieve the Rs. 1,000 crore revenue target as it remains under stress.
- The operating level breakeven for the express business is delayed to H1FY2025 from Q4FY2024-end earlier, while PAT breakeven is expected by Q4FY2025. The company still remains 20-25% away in terms of volumes to breakeven.
- Its multi-client warehousing expansion remains on track with new expansion announcements of 1.1 msf.

Revision in estimates – We have lowered our net earnings estimates for FY2024-FY2026, factoring in operating losses in the express business.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 520: MLL is expected to benefit from healthy momentum in its core 3PL business although near-term challenges persist in freight forwarding and express business. The company remains focused on improving volumes in its freight forwarding and express business, which would lead to an improvement in operational profitability. Further, the company targets to increase the share of the solutions business in the 3PL vertical, which would provide better margins. MLL remains committed to adding warehousing capacities. We believe the current valuation at a P/E of 32x its FY2026E earnings provides room for an upside, considering its transitioning-related growth opportunity. Hence, we retain Buy on the stock with a revised PT of Rs. 520, rolling forward our valuation multiple to FY2026E earnings and factoring down with revised estimates.

Key Risks

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

Valuation (Consolidated)

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	5,128.3	5,524.0	6,193.0	6,946.4
OPM (%)	5.1	4.3	5.3	6.2
Adjusted PAT	26.3	(55.5)	33.5	93.3
YoY growth (%)	49.6	-	-	178.5
Adjusted EPS (Rs.)	3.6	(7.7)	4.7	13.0
P/E (x)	113.3	-	88.8	31.9
P/B (x)	4.7	5.1	4.9	4.2
EV/EBITDA (x)	10.6	11.7	8.3	6.4
RoNW (%)	4.7	(10.4)	6.4	15.9
RoCE (%)	5.8	(0.5)	9.4	16.2

Source: Company; Sharekhan estimates

Express business continues to lead to net loss

MLL reported a 5.1% y-o-y rise (up 2.4% q-o-q) in consolidated revenue to Rs. 1,397 crore, which was 6% lower than our estimate. Standalone revenue (supply chain management business) remained soft (up 2% both y-o-y and q-o-q), while freight (up 5% q-o-q), express (up 10% q-o-q), and 2x2 Logistics (up 3% q-o-q) reported sequential improvement. Mobility (down 3% q-o-q) remained weak sequentially. The company's OPM at 3.7% (-98bps y-o-y, -19bps q-o-q) was below our estimate of 4.5%. Continued operating losses in the express business affected overall OPMs. Consequently, the consolidated operating profit declined by 16.8% y-o-y (down 2.5% q-o-q) to Rs. 52.2 crore, which was 21% lower than our expectation. Weak operational performance continued to lead to a consolidated adjusted net loss of Rs. 13.6 crore as against net profit of Rs. 1.4 crore in Q3FY2023 and a net loss of Rs. 15.9 crore in Q2FY2024. The company's multi-client warehousing expansion remains on track with new expansion announcements of 1.1 msf.

Key conference call takeaways

- ♦ **Q3FY2024 performance:** MLL's standalone business revenue increased 2% y-o-y to Rs. 1,160 crore, while PAT stood at Rs. 13 crore in Q3FY2024 versus Rs. 14 crore in Q3FY23. Start-up costs impact was Rs. 3 crore. Labour and last-mile costs surged, which had an impact of Rs. 1.2 crore, while deferred tax reversal pertaining to the Transtech divestment impacted by Rs. 1 crore. Overall, consolidated revenue increased 5% y-o-y to Rs. 1,397 crore and operating profit declined 17% y-o-y to Rs. 52 crore.
- ♦ **One-off costs:** It completed the second tranche of the share purchase in Whizzard/Zip Zap Logistics (a last-mile delivery company) in December 2023. MLL now owns a 60% stake in the company. The same had Rs. 2 crore impact during Q3. The company reversed deferred tax related to divestment of stake in Transtech Logistics, which had an impact of Rs. 1 crore.
- ♦ **Guidance:** Management still believes Rs. 10,000 crore revenue is achievable by FY2026 with supply chain and mobility business contributing Rs. 9,000 crore and Rs. 1,000 crore, respectively. However, there is a risk for the mobility business to achieve the Rs. 1,000 crore revenue target, as it remains under stress. Operating level breakeven for the express business is delayed to H1FY2025 from Q4FY2024-end earlier, while PAT breakeven is expected by Q4FY2025. The company remains 20-25% away in terms of volumes to breakeven. The company would continue to focus on increasing the order intake, improving line haul operations, pick-up, and delivery costs along with overall operational efficiencies at distribution centres.
- ♦ **End-user sector outlook:** The auto industry is undergoing a technological change. CV demand remained moderate during Q3. The farm sector saw positive demand. The consumer durables and FMCG industry has had an inflationary environment with increasing costs getting passed. The fan segment is picking up. There is competition across the consumer durable industry. Demand for electronics, refrigeration, and washing machines remained good. E-commerce saw increasing in-sourcing this fiscal year. The festive season saw peaking out. Groceries demand remained robust. Flipkart business saw peak utilisation.
- ♦ **3PL:** Order intake remained strong with annualised orders of Rs. 150 crore, up 50% y-o-y. Volumes were lower due to contract offsets and a y-o-y impact of Bajaj account. Cost surge impacted margins. It utilized 18.7 msf warehousing capacity. However, higher white space continued to impact the business. Its EV fleet comprises 1,700 vehicles. The geographic reach for last-mile delivery is over 4,000 pin codes.
- ♦ **Warehousing:** A large part of 6.5 lakh square feet Phaltan Maharashtra facility is contracted. It has also almost contracted the upcoming 3 lakh square feet at Nashik.
- ♦ **Freight forwarding:** It grew volumes especially on the air side. The business grew by 11% q-o-q.
- ♦ **B2B:** The integration of B2B is complete. Order intake grew 18% with delivered volume growth of 10%. It added 23 accounts. However, sub-optimal fleet utilisation impacted operational profitability.
- ♦ **Mobility:** The holiday season impacted the business. Its elective vehicle upgrade programme has been delayed.

Results (Consolidated)

				Rs cr	
Particulars	Q3FY2024	Q3FY2023	Y-o-Y (%)	Q2FY2024	Q-o-Q (%)
Net sales	1,397.2	1,329.6	5.1%	1,364.8	2.4%
other income	2.3	5.6	-59.5%	6.6	-65.7%
Total income	1,399.5	1,335.1	4.8%	1,371.3	2.1%
Total expenses	1,345.0	1,266.8	6.2%	1,311.2	2.6%
Operating profit	52.2	62.7	-16.8%	53.6	-2.5%
Depreciation	51.5	49.8	3.3%	51.8	-0.6%
Interest	16.4	15.0	9.7%	16.5	-0.7%
Exceptional items	3.8	0.0		0.0	
Profit Before Tax	-9.6	3.5	-	-8.2	-
Taxes	6.8	1.9	-	7.3	-6.3%
PAT	-16.4	1.7	-	-15.5	-
Minority Interest	0.3	-0.3	-	0.3	-
Adjusted PAT	-13.6	1.4	-	-15.9	-
EPS (Rs.)	-1.9	0.2	-	-2.2	-
			BPS		BPS
OPM (%)	3.7%	4.7%	-98	3.9%	-19
NPM (%)	-1.0%	0.1%	-	-1.2%	-
Tax rate (%)	-	53.0%	-	-	-

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 that showed a strong revival post-COVID-19 pandemic, which 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 the 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. The company has been able to bag new order intakes in the contract logistics businesses, which is expected to start contributing post 3-6 months for deploying services. Further, its freight forwarding business is on a recovery path, with healthy volume growth, while the same gets partially offset by a weaker pricing environment in the near term. Overall, we believe the company is on track to regain a higher growth trajectory over the next 2-3 years.

■ Valuation – Retain Buy with a revised PT of Rs. 520

MLL is expected to benefit from healthy momentum in its core 3PL business although near-term challenges persist in freight forwarding and express business. The company remains focused on improving volumes in its freight forwarding and express business, which would lead to an improvement in operational profitability. Further, the company targets to increase the share of the solutions business in the 3PL vertical, which would provide better margins. MLL remains committed to adding warehousing capacities. We believe the current valuation at a P/E of 32x its FY2026E earnings provides room for an upside, considering its transitioning-related growth opportunity. Hence, we retain Buy on the stock with a revised PT of Rs. 520, rolling forward our valuation multiple to FY2026E earnings and factoring downwardly revised estimates.

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Mahindra Logistics	88.8	31.9	8.3	6.4	4.9	4.2	6.4	15.9
TCI Express	26.0	21.9	18.1	15.2	5.9	4.8	25.3	24.4

Source: Sharekhan Research

About company

MLL is a portfolio company of Mahindra Partners, the USD1 billion private equity division of the USD19 billion Mahindra Group. MLL is an integrated 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

- ♦ A 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 and MD
Ruchie Khanna	Company Secretary and 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

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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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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