Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Mahindra Logistics Ltd

A mixed Q4; Stays on-course to achieve profitable growth

Logistics	Sharekhan code: MAHLOG
Reco/View: Buy ↔	CMP: **Rs. 451** / Price Target: **Rs. 520** ↔

↑ 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		↔	

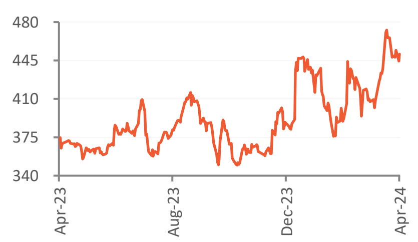
Company details

Market cap:	Rs. 3,248 cr
52-week high/low:	Rs. 493/347
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	5.8
DII	17.4
Others	18.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.1	8.4	22.3	20.3
Relative to Sensex	8.4	3.6	8.1	-2.5

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Mahindra Logistics Limited (MLL) with an unchanged PT of Rs. 520, as it remains on a growth path across businesses and achieve EBITDA breakeven in the express business.
- Consolidated revenue was marginally higher in Q4, led by healthy growth in the core standalone business and express business. One-off expenses led to a miss on operating and net level.
- Addition of new accounts continues while it remains steadfast on achieving EBITDA breakeven in the express business by Q2FY2025 end.
- Management targets Rs. 10,000 crore consolidated revenue over the next three years. For FY2025, it may see mid-teen revenue growth.

Mahindra Logistics Limited (MLL) reported marginally higher consolidated revenue at Rs. 1,451 crore (up 14% y-o-y), led by healthy growth in its core standalone business (mainly 3PL, revenue up 12% y-o-y) and express business (up 26% y-o-y), while the freight business witnessed a sequential improvement (up 15% q-o-q). Consolidated OPM at 3.9% (-111 bps y-o-y) came in lower than our estimate of 4.3%, owing to one-off expenses (ECL provisioning and IT transition costs) although operating losses of the express business narrowed down to Rs. 15 crore in Q4FY2024 versus Rs. 22 crore in Q3FY2024. Overall, operating profit (down 11% y-o-y at Rs. 57 crore) and net loss at Rs. 13 crore came in lower than our expectations. The company remains on course to achieve profitability in its express business (EBITDA/PAT breakeven in H1FY2025/Q4FY2025). On a consolidated basis, it expects to grow its revenue in mid-teens y-o-y for FY2024, while it targets Rs. 10,000 crore revenue over the next three years (~Rs. 6,000 crore from contract logistics, ~Rs. 2,400 crore from network services viz. Freight forwarding, B2B express, last mile and ~Rs. 1,000 crore from the mobility business).

Key positives

- MLL added Rs. 100 crore annualised business in Q4FY2024 maintaining momentum in the contract logistics segment.
- Express business operating losses narrowed down to Rs. 15 crore and management retained its earlier guidance on EBITDA breakeven by Q2FY2025 end.

Key negatives

- Operating profit and net loss missed our estimates, led by one-off expenses of ~Rs. 12 crore incurred on ECL provisioning (~Rs. 10 crore) and IT transitioning (~Rs. 2 crore).
- Although the express business saw 3.5% q-o-q volume growth, the same was offset by the drop in yields leading to flat q-o-q revenue growth.

Management Commentary

- On a consolidated basis, it is targeting early teen growth y-o-y for FY2025. Management has retained its earlier guidance of EBITDA breakeven for its express business by Q2FY2025 end.
- Management continues to target Rs. 10,000 crore revenue over the next three years. The contract logistics business is targeted to witness a 15-17% CAGR over the next three years to reach Rs. 6,000 crore revenue while each of the network services businesses is targeted to scale up to Rs. 750 crore-800 crore revenue each over the next three years.
- The company expects its mobility business to achieve revenue of Rs. 1,000 crore over the next three years from Rs. 328 crore in FY2024, although there is a risk to under-achieve it due to stress in the business.

Revision in estimates – We have fine-tuned our net earnings estimates for FY2025-FY2026.

Our Call

Valuation – Retain BUY with an unchanged 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 33x its FY2026E earnings provides room for an upside, considering its transitioning-related growth opportunity. Hence, we retain BUY on the stock with an unchanged price target (PT) of Rs. 520.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	5,128.3	5,506.0	6,235.7	6,993.4
OPM (%)	5.1	4.2	5.3	6.2
Adjusted PAT	26.3	(58.6)	32.0	98.6
YoY growth (%)	49.6	-	-	207.9
Adjusted EPS (Rs.)	3.6	(8.1)	4.4	13.7
P/E (x)	123.6	-	101.4	33.0
P/B (x)	5.1	5.8	5.4	4.7
EV/EBITDA (x)	11.6	13.2	9.0	7.0
RoNW (%)	4.7	(11.1)	6.3	17.2
RoCE (%)	5.8	9.5	10.1	17.8

Source: Company; Sharekhan estimates

A mixed bag performance

MLL reported a 14% y-o-y rise (up 3.8% q-o-q) in consolidated revenue at Rs. 1,451 crore, which was 4% higher than our estimate. Standalone revenue (supply chain management business) reported healthy growth of 12% y-o-y (up 2% q-o-q), while freight reported a decline of 13% y-o-y (up 15% q-o-q), express (up 26% y-o-y and 2% q-o-q), and 2x2 Logistics (up 68% y-o-y and 4% q-o-q). Mobility (up 11% y-o-y and flat q-o-q) remained steady. The company's OPM at 3.9% (-111bps y-o-y, +16bps q-o-q) was below our estimate of 4.3%. The standalone business reported weak OPMs at 5.4% (down 243 bps y-o-y and 73 bps q-o-q). Consequently, the consolidated operating profit declined by 11.2% y-o-y (up 8.4% q-o-q) to Rs. 56.6 crore, which was 6% lower than our expectation. Contraction in OPM and higher tax outgo led to a consolidated adjusted net loss of Rs. 12.9 crore as against net losses of Rs. 0.8 crore in Q4FY2023 and Rs. 13.6 crore in Q3FY2024.

Key Conference call takeaways

- **Guidance:** On a consolidated basis, it is targeting early teen growth y-o-y for FY2025. Management has retained its earlier guidance of EBITDA breakeven for its express business by Q2FY2025 end. Management continues to target Rs. 10,000 crore revenue over the next three years. The contract logistics business is targeted to witness a 15-17% CAGR over the next three years to reach Rs. 6,000 crore revenue, while each of the network services businesses viz. freight forwarding, B2B express, and last mile are targeted to scale up to Rs. 750-800 crore revenue each over the next three years. The company targets the mobility business to achieve revenue of Rs. 1,000 crore over the next three years from Rs. 328 crore in FY2024, although there is risk to under achieve it due to stress in the business.
- **Q4FY2024 performance:** MLL's standalone business revenue increased 12% y-o-y to Rs. 1,183 crore, while PAT stood at Rs. 8 crore in Q4FY2024 versus Rs. 22 crore in Q4FY2023. There was a one-time impact of Rs. 10 crore at the PAT level on account of ECL provisioning in non-Mahindra 3PL business and Rs. 2 crore IT transition impact. Collectively, other expenses included ~Rs. 12 crore one-time costs during Q4FY2024. Overall, consolidated revenue increased 14% y-o-y to Rs. 1,451 crore and operating profit declined 11% y-o-y to Rs. 57 crore.
- **End-user sector outlook:** The auto industry is witnessing strength although CV demand remained muted, while the farm segment was sluggish during Q4FY2024. The consumer-facing sectors viz. FMCG and pharma have been seeing muted demand and volumes over the trailing 3-4 quarters. The consumer durables market size is expected to register a 13.5-14% CAGR by FY2028, although it is witnessing short-term demand softness in the rural sector. E-commerce demand has been challenging over the trailing three quarters although it has seen good order inflow during Q4FY2024. In the mobility business, B2C demand remained strong while B2B has been slow.
- **3PL:** Order intake remained strong with annualised orders of Rs. 100 crore. However, higher labour costs and lower volumes in non-M&M impacted the segment.
- **Warehousing:** The business was affected by lower yields y-o-y on account of the starting up of new sites over the last four months. It should start settling down by H1FY2025.
- **Freight forwarding:** The business witnessed sequential growth with ocean volumes driving growth.
- **Express business:** Volumes during FY2024 stood at 75,000 tonne. The company added 12 logos. The company witnessed 3.5% q-o-q volume growth, which was offset by a drop in yields. The company continues to focus on improving lane utilisation. H1FY2025 may see muted volume growth, as it is an election period followed by the monsoon season. The company's focus would be on optimising costs such as 1) line-haul costs (80-85% utilisation has further potential improvement of 5-10%); 2) pick-up and delivery costs, which form 18-20% of total costs, and 3) site operations costs.
- **Whizzard (last mile):** The segment has a gross margin of 6.5% in Q4FY2024 while it plans to take it to 8% during FY2025.
- **Capex:** Capex for FY2025 would be similar to FY2024.

Results (Consolidated) **Rs cr**

Particulars	Q4FY2024	Q4FY2023	y-o-y (%)	Q3FY2024	q-o-q (%)
Net sales	**1450.8**	**1272.5**	**14.0%**	**1397.2**	**3.8%**
Other income	2.9	3.8	-24.8%	2.3	27.4%
Total income	1453.6	1276.3	13.9%	1399.5	3.9%
Total expenses	1394.2	1208.8	15.3%	1345.0	3.7%
Operating profit	**56.6**	**63.7**	**-11.2%**	**52.2**	**8.4%**
Depreciation	51.3	55.3	-7.2%	51.5	-0.3%
Interest	17.4	16.9	3.0%	16.4	6.2%
Exceptional items	0.0	0.0		3.8	
Profit Before Tax	**-9.2**	**-4.6**	**-**	**-9.6**	**-**
Taxes	2.7	-4.8	-	6.8	-60.6%
PAT	-11.9	0.2	-	-16.4	-
Minority Interest	0.9	-0.2	-	0.3	-
Adjusted PAT	**-12.9**	**-0.8**	**-**	**-13.6**	**-**
EPS (Rs.)	-1.8	-0.1	-	-1.9	-
			BPS		**BPS**
OPM (%)	3.9%	5.0%	-111	3.7%	16
NPM (%)	-0.9%	-0.1%	-	-1.0%	-
Tax rate (%)	-	-	-	-	-

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – 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 an unchanged 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 33x its FY2026E earnings provides room for an upside, considering its transitioning-related growth opportunity. Hence, we retain BUY on the stock with an unchanged price target (PT) of Rs. 520.

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Mahindra Logistics	101.4	33.0	9.0	7.0	5.4	4.7	6.3	17.2
TCI Express	23.5	19.7	16.4	13.7	4.8	4.0	22.6	22.5

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
Saurabh Taneja	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mahindra & Mahindra Ltd.	58.04
2	Nippon Life India Asset Management	5.33
3	FundRock Management Co SA	3.26
4	UTI Asset Management Co. Ltd.	3.03
5	Aditya Birla Sun Life Insurance Co.	2.96
6	Steinberg India Emerging Opportunity	2.92
7	Tata Asset Management Pvt. Ltd.	1.80
8	Kotak Mahindra Asset Management Co.	1.39
9	Edelweiss Asset Management Ltd.	0.78
10	Mahindra Manulife Investment Management	0.52

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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