

24 July 2024

India | Equity Research | Q1FY25 results review

Mahindra Logistics

Logistics

Better-than-expected performance

Mahindra Logistics' (MLL) Q1FY25 EBITDA was 19.7% and 1.7% above our and street's estimates. Key points: 1) Overall performance has improved QoQ (EBITDA margin of 4.7% in Q1FY25 vs 3.9% in Q4FY24); 2) In express business EBITDA-level loss narrowed to INR 137mn (INR 149mn in Q4FY24) and may turn breakeven positive (EBITDA positive) by Q3FY25 (slight delay from earlier expectation of Q2FY25); 3) Improvement in overall EBITDA is mainly on account of outperformance of contract logistic business; and 4) freight forwarding business has improved marginally on QoQ; while EBITDA of mobility business was impacted QoQ due to subdued demand. Based on Q1FY25 performance, we have increased our FY25/26E EPS by 49.4%/3.9%, though we have retained the multiple at 32x FY26E EPS; however, given the recent run up in the stock prices, we downgrade the stock to **REDUCE** from **HOLD** rating with a revised TP of INR 450 (earlier INR 432).

Better-than-expected numbers

MLL's performance, QoQ, has improved. Overall, EBITDA of INR 663mn (down 0.5% YoY) was 19.7%/1.7% above our/Street's estimates. Contract logistics business' outperformance was partially marred by the lingering softness in the B2B express business – booked EBITDA loss of INR 803mn/INR 137mn in FY24/Q1FY25. Key points: 1) Express business' profitability continued to be impacted by the integration and network transition, higher transportation cost and lower-than-expected volume growth (likely breakeven positive by Q3FY25). 2) SCM segment's revenue grew 10.4% YoY; gross margins were marginally better QoQ. 3) Freight-forwarding improved QoQ with an uptick in cross-border freight rates. 4) In 3PL, MLL launched a new 0.3mn sq.ft. facility in Guwahati (Assam). We believe operational performance may improve in FY25E/26E led by management's various ongoing initiatives. We will keep a close tab on Rivigo's turning around – likely by Q3FY25.

Rivigo breakeven positive likely by Q3FY25 (earlier Q2FY25)

During MLL's Q1FY25 earnings conference call, management mentioned a slight delay in Rivigo turning breakeven positive due to subdued industry demand. This business is now expected to turn EBITDA positive by Q3FY25 (earlier guidance of Q2FY25). MLL has incurred cumulative EBITDA loss of INR 1,209mn since acquiring Rivigo (INR 137mn in Q1FY25). Ahead, should things go to plan, we see Rivigo as a potentially strong revenue/EBITDA contributor. That said, we will keep a close tab on the turnaround of this segment, which has been protracted amid soft industry demand.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	51,283	55,060	62,781	72,098
EBITDA	2,598	2,290	2,806	3,733
EBITDA Margin (%)	5.1	4.2	4.5	5.2
Net Profit	291	(537)	227	1,011
EPS (INR)	4.0	(7.5)	3.2	14.0
EPS % Chg YoY	73.0	(287.2)	(144.5)	333.0
P/E (x)	65.5	(35.0)	78.7	18.2
EV/EBITDA (x)	14.7	17.0	13.3	9.3
RoCE (%)	7.8	4.7	6.0	14.4
RoE (%)	5.2	(10.0)	4.3	18.8

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Market Data

Market Cap (INR)	37bn
Market Cap (USD)	442mn
Bloomberg Code	MAHLOG IN
Reuters Code	MALO BO
52-week Range (INR)	555 /347
Free Float (%)	42.0
ADTV-3M (mn) (USD)	1.7

Price Performance (%)	3m	6m	12m
Absolute	14.0	23.4	25.7
Relative to Sensex	5.1	10.2	4.5

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.0	0.0
EBITDA	0.0	0.0
EPS	49.4	3.9

Previous Reports

24-04-2024: [Q4FY24 results review](#)

31-01-2024: [Q3FY24 results review](#)

Outlook: Industry-led slowdown impacted Rivigo turnaround

The underperformance of the express business has impacted MLL's earnings in Q1FY25. Though profitability has improved QoQ in Q1FY25, Rivigo's delayed turnaround has been a key disappointment; and it may breakeven (EBITDA positive) by Q3FY25 (slight delay from earlier expectation of Q2FY25). Based on MLL's Q1FY25 performance, we have increased our FY25E/26E EPS by 49.4%/3.9%, though we have retained the multiple at 32x FY26E EPS. However, given the recent run up in the stock's price, we downgrade MLL to **REDUCE** from *Hold* with a revised TP of INR 450 (earlier INR 432).

Exhibit 1: Earnings revision

(INR mn)	FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg
Sales	62,781	62,781	0.0	72,098	72,098	0.0
EBITDA	2,806	2,806	0.0	3,733	3,733	0.0
PAT	227	152	49.4	1,011	973	3.9

Source: I-Sec research

Key risks

Key downside risks

- Slowdown in grade A+/grade A++ warehousing adoption by the industry
- Slower-than-expected turnaround of express business
- Lower-than-expected auto sector revenue

Key upside risks

- Better-than-expected traction in warehousing revenue
- Continued improvement in product mix, leading to margin surprise
- Management's ability to execute its INR 100bn revenue guidance by FY26

Q1FY25 concall highlights

- India boasts of the second largest road network globally, backed by accelerated highway construction. NH construction has increased significantly from 12.1km/day in CY15 to 20km/day in FY24.
- Around 12.5mn trucks are navigating the Indian roads, as of FY24.
- **Automotive:**
 - In Q1FY25, volume growth was ~10% YoY on a broad base (all segments). The two-wheeler segment outperformed YoY growth, followed by passenger vehicles at 6% YoY growth. Tractors and commercial vehicles grew by 4% YoY.
 - Overall demand of automotive in Q1FY25 was subdued – impacted by heatwaves and elections ongoing in the country.
 - Retail demand lag in wholesale impacted overall demand including two-wheelers, passenger cars and tractors – leading to increase in dealers' stock in end-Q1FY25.
- **Consumer durables**
 - The sector has performed better – especially in electronic consumer durable segment due to the pent-up demand

- Heat during the summer season, there was stronger demand for the product portfolio of ACs and air-coolers. The fan industry also witnessed sequential improvement.
- **FMCG:** The industry has seen overall demand drive up, especially in the last two quarters of the previous financial year. Summer demand has remained healthy.
- **E-commerce:** The sector is contributing to growth since the last couple of quarters, even though growth has been moderate from its historical highs.
- There has been a mixed-demand environment during the quarter, with elections and slower consumption – some categories have affected MLLs volumes in B2B express. This also resulted in slower ramp-up and roll-out of new sites in the last-mile delivery and 3PL contract logistics business.
- Order intake of INR 2.1bn was done during the quarter, which comprises of long-term contacts.
- In Q1FY25, MLL won several contracts, including four new industries: 1) Large International cosmetics and 2) personal care. 3) Assortment center for large e-commerce marketplace. 4) New micro fulfillment center for food products.
- **Freight-forwarding:** There has been robust growth in ocean import movement.
- A new tow-trucking network has been established for a leading paint manufacturer.
- Longer construction periods are resulting in higher pre-operating costs.
- MLL launched a new 300k sq.ft. multiplying facility in Guwahati, Assam.
- Operating cost in the 3PL segment is impacted by unfavorable labour conditions. MLL has an overall increase of 4–5% in contract labour cost.
- Express segment is impacted by a sequential volume drop (~8% QoQ), which is affecting cost optimisation, and thus, profitability; EBITDA levels are being maintained by cost optimisation.
- All business, apart from the 3PL business, have stable operations.
- MLL announced a JV with a Japanese firm (leading auto-logistics company).
- **Rivigo business**
 - Revenue was down ~11% QoQ; and volumes were down ~8% QoQ.
 - Q1FY25 was a difficult period for the business and the industry as a whole.
 - EBITDA drop was due to a tonnage drop of ~8%.
 - Despite this, the business has shown improving operating performance, where contribution margins grew by 300bps due to the focused cost optimisation.
 - At a PBT level, loss has come down by ~3% QoQ.
 - The first two months of the quarter were challenging, but Jun'24 saw an uptick.
 - Management expects improvement in volume the coming months of Jul–Sep'24.
 - Management is planning to get an improvement of 10–15% in Q2FY25 volume and also not too far away from EBITDA breakeven target.
 - Contract volumes were at 4.5kte during the quarter.
 - The turnaround is going to be a function of improvements in: 1) efficiency; and 2) scaling-up volumes.

- Management is confident about the cost optimisation, but the risk lies in the pace of cost optimisation being implemented.
- **Warehousing business**
 - The optimal yield for the business is INR 7/sq.ft. per month, which is currently at INR 6.2/sq.ft.
 - The impact on the yield during the quarter were due to: 1) Pre-operating expenses have been higher – projects are getting delayed adding INR 0.35–0.4 to the costs; and 2) Higher labour cost adding INR 0.4–0.5 to the cost.
 - Management expects yields to be at INR 7/sq.ft. by Q3FY25.
 - In Q2FY25, the yield is expected to be ~INR 6.6/sq.ft.
 - Managements does not expect the yield going back to INR 7.2–7.5/sq.ft. levels.
- There has been significant price pressure, leading to a tradeoff between share of wallet and profitability. For MLL, there has been a drop in volumes but no significant price pressure; however, on new accounts and business – the price pressure is quite intense.

Exhibit 2: MLL Q1FY25 performance review

(INR mn)	Q1FY25	Q1FY24	Chg.YoY(%)	Q4FY24	Chg.QoQ(%)	FY24	FY23	Chg.YoY(%)
Total income	14,200	12,932	9.8	14,508	(2.1)	55,060	51,283	7.4
Operating expenses	12,140	10,894	11.4	12,395	(2.1)	46,880	43,865	6.9
Employee wages	1,020	992	2.8	938	8.7	4,047	3,546	14.1
Other expenses	378	381	(0.7)	608	(37.8)	1,842	1,275	44.5
Total expenses	13,537	12,266	10.4	13,942	(2.9)	52,769	48,685	8.4
EBITDA	663	666	(0.5)	566	17.1	2,290	2,598	(11.8)
EBITDA Margin (%)	4.7	5.2		3.9				
Depreciation	550	545	0.9	513	7.2	2,090	1,895	10.3
Other Income	57	62	(8.3)	29	96.9	179	136	31.8
Finance Cost	195	178	9.6	174	11.8	682	516	32.2
PBT	(25)	6	(538.6)	(92)	(72.9)	(302)	323	(193.6)
Tax	53	89		27		257	113	
PAT	(78)	(83)	(5.5)	(119)	(34.2)	(537)	291	(284.8)

Source: I-Sec research, Company data

Exhibit 3: MLL Q1FY25 segmental performance review

(INR mn)	Q1FY25	Q1FY24	Chg.YoY(%)	Q4FY24	Chg.QoQ(%)	FY24	FY23	Chg.YoY(%)
Revenue	14,200	12,930	9.8	14,510	(2.1)	55,060	51,280	7.4
SCM	13,400	12,140	10.4	13,720	(2.3)	51,760	48,680	6.3
3PL	10,930	10,040	8.9	11,190	(2.3)	43,100	40,070	7.6
Network Services	2,470	2,100	17.6	2,410	2.5	8,640	8,610	0.3
Mobility	800	790	1.3	790	1.3	3,300	2,600	26.9
Gross Margins	1,350	1,360	(0.7)	1,370	(1.5)	5,250	5,130	2.3
SCM	1,270	1,270	-	1,280	(0.8)	4,890	4,860	0.6
3PL	1,200	1,285	(6.6)	1,230	(2.4)	5,000	4,550	9.9
Network Services	70	(15)	(566.7)	50	40.0	(110)	310	(135.5)
Mobility	80	90	(11.1)	90	(11.1)	360	270	33.3
Gross Margins (%)	9.5	10.5		9.4		9.5	10.0	
SCM	9.5	10.5		9.3		9.4	10.0	
3PL	11.0	12.8		11.0		11.6	11.4	
Network Services	2.8	(0.7)		2.1		(1.3)	3.6	
Mobility	10.0	11.4		11.4		10.9	10.4	

Source: I-Sec research, Company data

Exhibit 4: MLL – network services performance review

(INR mn)	Q1FY25	Q1FY24	Chg.YoY(%)	Q4FY24	Chg.QoQ(%)	FY24	FY23	Chg.YoY(%)
Revenue	2,470	2,100	17.6	2,410	2.5	8,640	8,610	0.3
Frieght-forwarding	710	770	(7.8)	630	12.7	2,540	3,660	(30.6)
Express	870	850	2.4	970	(10.3)	3,650	2,940	24.1
Last mile	890	480	85.4	810	9.9	2,450	2,010	21.9
Gross Margin	80	(15)	(633.3)	50	60.0	(110)	310	(135.5)
Frieght-forwarding	70	80	(12.5)	60	16.7	250	370	(32.4)
Express	(60)	(125)	(52.0)	(60)	-	(480)	(120)	300.0
Last mile	70	30	133.3	50	40.0	120	60	100.0
Gross Margin (%)	3.2	(0.7)		2.1		(1.3)	3.6	
Frieght-forwarding (%)	9.9	10.4		9.5		9.8	10.1	
Express (%)	(6.9)	(14.7)		(6.2)		(13.2)	(4.1)	
Last mile (%)	7.9	6.3		6.2		4.9	3.0	

Source: I-Sec research, Company data

Exhibit 5: MLL – mobility services performance review

(INR mn)	Q1FY25	Q1FY24	Chg.YoY(%)	Q4FY24	Chg.QoQ(%)	FY24	FY23	Chg.YoY(%)
Revenue	800	790	1.3	790	1.3	3,300	2,600	26.9
Gross Margin	80	90	(11.1)	90	(11.1)	360	270	33.3
Gross Margin (%)	10.0	11.4		11.4		10.9	10.4	

Source: I-Sec research, Company data

Exhibit 6: MLL – entity-wise performance review

(INR mn)	Q1FY25	Q1FY24	Chg.YoY(%)	Q4FY24	Chg.QoQ(%)	FY24	FY23	Chg.YoY(%)
MLL Standalone								
Revenue	11,567	10,509	10.1	11,833	(2.2)	45,299	44,589	1.6
EBITDA	716	869	(17.6)	638	12.2	2,920	2,883	1.3
EBITDA (%)	6.2	8.3		5.4		6.4	6.5	
PAT	102	230	(55.7)	79	29.1	620	618	0.3
PAT (%)	0.88	2.19		0.67		1.37	1.39	
Lords Freight								
Revenue	711	768	(7.4)	634	12.1	2,478	3,658	(32.3)
EBITDA	22	23	(4.3)	11	100.0	27	151	(82.1)
EBITDA (%)	3.1	3.0		1.7		1.1	4.1	
PAT	18	16	12.5	12	50.0	34	100	(66.0)
PAT (%)	2.5	2.1		1.9		1.4	2.7	
MLL Mobility								
Revenue	813	795	2.3	807	0.7	3,333	1,851	80.1
EBITDA	21	16	31.3	32	(34.4)	71	15	373.3
EBITDA (%)	2.6	2.0		4.0		2.1	0.8	
PAT	17	(18)	(194.4)	23	(26.1)	18	(86)	(120.9)
PAT (%)	2.1	(2.3)		2.9		0.5	(4.6)	
MLL Express								
Revenue	892	843	5.8	972	(8.2)	3,642	1,216	199.5
EBITDA	(137)	(185)	(25.9)	(149)	(8.1)	(803)	(269)	198.5
EBITDA (%)	(15.4)	(21.9)		(15.3)		(22.0)	(22.1)	
PAT	(246)	(294)	(16.3)	(250)	(1.6)	(1,236)	(318)	288.7
PAT (%)	(27.6)	(34.9)		(25.7)		(33.9)	(26.2)	
2x2 Logistics								
Revenue	151	132	14.4	146	3.4	553	207	167.1
EBITDA	39	12	225.0	33	18.2	82	(17)	(582.4)
EBITDA (%)	25.8	9.1		22.6		14.8	(8.2)	
PAT	17	2	750.0	11	54.5	19	(39)	(148.7)
PAT (%)	11.3	1.5		7.5		3.4	(18.8)	
V-Link								
Revenue	-	-		-		-	-	
EBITDA	(2)	-		(4)	(50.0)			
EBITDA (%)								
PAT	(3)	-		(4)	(25.0)			
PAT (%)								
Whizzard								
Revenue	377	-		320	17.8	352	-	
EBITDA	4	-		3	33.3	3	-	
EBITDA (%)	1.1			0.9		0.9		
PAT	2	(2)	(200.0)	1	100.0	(10)	(280)	(96.4)
PAT (%)	0.5			0.3		(2.8)		

Source: Company data, I-Sec research

Exhibit 7: Shareholding pattern

(%)	Dec'23	Mar'24	Jun'24
Promoters	58.0	58.0	58.0
Institutional investors	21.7	23.2	22.8
MFs and other	11.2	13.0	13.1
FIs/Banks/Ins	0.0	0.0	0.0
FIIIs	4.2	4.4	4.2
Others	6.3	5.8	5.5

Source: Bloomberg, I-Sec research

Exhibit 8: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	51,283	55,060	62,781	72,098
Operating Expenses	4,820	5,889	6,842	7,773
EBITDA	2,598	2,290	2,806	3,733
EBITDA Margin (%)	5.1	4.2	4.5	5.2
Depreciation & Amortization	1,895	2,090	2,100	2,050
EBIT	703	201	706	1,683
Interest expenditure	516	682	630	610
Other Non-operating Income	159	179	250	300
Recurring PBT	345	(302)	326	1,373
Profit / (Loss) from Associates	291	(537)	227	1,011
Less: Taxes	71	257	82	346
PAT	274	(559)	244	1,027
Less: Minority Interest	(17)	17	17	17
Extraordinaries (Net)	-	38	-	-
Net Income (Reported)	565	(1,058)	471	2,038
Net Income (Adjusted)	291	(537)	227	1,011

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	13,383	13,345	16,513	20,503
of which cash & cash eqv.	1,262	711	2,338	5,058
Total Current Liabilities & Provisions	11,259	12,000	13,705	15,498
Net Current Assets	2,124	1,344	2,808	5,005
Investments	1,623	760	760	760
Net Fixed Assets	6,073	5,692	4,292	2,942
ROU Assets	-	-	-	-
Capital Work-in-Progress	33	161	161	161
Total Intangible Assets	2,466	2,843	2,843	2,843
Other assets	1,536	1,520	1,520	1,520
Deferred Tax Assets	416	453	453	453
Total Assets	14,271	12,772	12,835	13,682
Liabilities				
Borrowings	4,014	3,386	3,386	3,386
Deferred Tax Liability	-	-	-	-
provisions	327	336	336	336
other Liabilities	-	-	-	-
Equity Share Capital	720	721	721	721
Reserves & Surplus	4,896	4,204	4,251	5,082
Total Net Worth	5,617	4,925	4,972	5,802
Minority Interest	(14)	118	134	151
Total Liabilities	14,271	12,772	12,835	13,682

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	13,648	13,972	14,508	14,200
% growth (YOY)	5.5	2.4	3.8	(2.1)
EBITDA	536	522	566	663
Margin %	3.9	3.7	3.9	4.7
Other Income	66	23	29	57
Extraordinaries	-	38	-	-
Adjusted Net Profit	(155)	(164)	(119)	(78)

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,194	2,269	2,888	3,910
Working Capital Changes	(883)	(312)	164	523
Capital Commitments	(710)	(709)	(700)	(700)
Free Cashflow	484	1,559	2,188	3,210
Other investing cashflow	(2,390)	167	250	300
Cashflow from Investing Activities	(3,100)	(543)	(450)	(400)
Issue of Share Capital	1	0	-	-
Interest Cost	(174)	(318)	(630)	(610)
Inc (Dec) in Borrowings	2,146	(2,263)	-	-
Dividend paid	(144)	(180)	(180)	(180)
Others	-	-	-	-
Cash flow from Financing Activities	1,829	(2,761)	(810)	(790)
Chg. in Cash & Bank balance	(77)	(1,036)	1,628	2,720
Closing cash & balance	1,266	230	2,342	5,062

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	7.8	(14.7)	6.5	28.3
Adjusted EPS (Diluted)	4.0	(7.5)	3.2	14.0
Cash EPS	30.3	21.6	32.3	42.5
Dividend per share (DPS)	2.5	2.5	2.5	2.5
Book Value per share (BV)	78.0	68.4	69.0	80.5
Dividend Payout (%)	31.9	(17.0)	38.3	8.8
Growth (%)				
Net Sales	23.8	7.4	14.0	14.8
EBITDA	41.0	(11.8)	22.5	33.1
EPS (INR)	73.0	(287.2)	(144.5)	333.0
Valuation Ratios (x)				
P/E	65.5	(35.0)	78.7	18.2
P/CEPS	16.9	23.9	15.9	12.1
P/BV	6.6	7.5	7.4	6.4
EV / EBITDA	14.7	17.0	13.3	9.3
Dividend Yield (%)	0.5	0.5	0.5	0.5
Operating Ratios				
Gross Profit Margins (%)	14.5	14.9	15.4	16.0
EBITDA Margins (%)	5.1	4.2	4.5	5.2
Effective Tax Rate (%)	20.6	(85.0)	25.2	25.2
Net Profit Margins (%)	0.5	(1.0)	0.4	1.4
Net Debt / Equity (x)	0.2	0.4	0.1	(0.4)
Net Debt / EBITDA (x)	0.4	0.8	0.1	(0.7)
Total Asset Turnover (x)	4.7	4.5	4.7	5.5
Inventory Turnover Days	0	-	-	-
Receivables Days	57	52	55	57
Payables Days	92	82	83	84
Profitability Ratios				
RoE (%)	5.2	(10.0)	4.3	18.8
RoCE (%)	7.8	4.7	6.0	14.4
RoIC (%)	13.1	6.7	8.3	23.8

Source Company data, I-Sec research

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