Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

# Mahindra Logistics Ltd

## Operationally in-line Q1; Retain BUY

| Logistics | Sharekhan code: MAHLOG | | |
|---|---|---|---|
| Reco/View: Buy ↔ | CMP: Rs. 519 | Price Target: Rs. 632 ↑ | |

↑ 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 | | ↔ | |

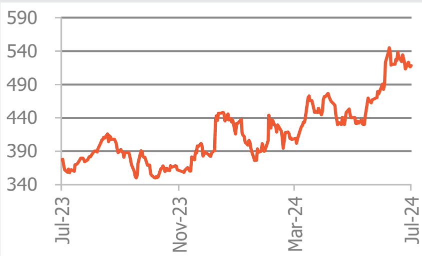
**Company details**

| | |
|---|---|
| Market cap: | Rs. 3,737 cr |
| 52-week high/low: | Rs. 554/347 |
| 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 | 5.5 |
| DII | 17.5 |
| Others | 19.0 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 5.7 | 9.9 | 20.3 | 37.6 |
| Relative to Sensex | 3.2 | 2.2 | 7.1 | 17.0 |

*Sharekhan Research, Bloomberg*


**Summary**

- We retain BUY on Mahindra Logistics Limited (MLL) with a revised PT of Rs. 632, rolling forward our valuation to H1FY2027E earnings, while it remains on a growth path across businesses.
- Consolidated operational performance stayed in-line with estimates, led by healthy performance from core standalone business. The express business continued to post operating and net losses similar to Q4FY2024.
- Weak demand and a high competitive intensity in express business is likely to delay EBITDA breakeven by Q4FY2025 from earlier Q2FY2025.
- Order intake remains healthy at Rs. 210 crore annualised with seven key order wins during Q1.


**Mahindra Logistics Limited (MLL) reported broadly in-line operational performance for Q1FY2025, although higher-than-expected depreciation, interest expense, and effective tax rate led to miss on the net earnings front. Consolidated revenue increased 9.8% y-o-y at Rs. 1,420 crore, led by healthy growth in its core standalone business (mainly 3PL, revenue up 10% y-o-y). Express business (up 6% y-o-y) and inclusion of Whizzard revenue aided overall revenue growth, while the freight business witnessed a 7% y-o-y dip in revenues. Consolidated OPM at 4.7% (-48 bps y-o-y) came in line with our estimate of 4.7%, as operating losses in the express business continued q-o-q at Rs. 14 crore versus Rs. 15 crore operating loss in Q4FY2024. Overall, operating profit (down 0.5% y-o-y at Rs. 66 crore) stayed in-line. However, higher-than-anticipated interest, depreciation, and effective tax rate led to net loss of Rs. 9.3 crore compared to net loss of Rs. 8.6 crore. Headwinds in the express business with respect to downtrading of existing clients and higher competitive intensity are likely to delay EBITDA breakeven to Q4FY2025 from Q2FY2025.**

**Key positives**

- MLL standalone revenue increased 10% y-o-y to Rs. 1,157 crore with EBITDA margin improvement of 79 bps q-o-q to 6.2%.
- 2x2 Logistics reported revenue growth of 14% y-o-y and 3% q-o-q along with improvement in net profitability (Rs. 0.2 crore as against net loss of Rs. 0.2 crore in Q1FY2024).

**Key negatives**

- Express business reported operating and net losses of Rs. 14 crore and Rs. 25 crore, respectively.
- Express business's EBITDA breakeven is likely to be delayed to Q4FY2025 from earlier Q2FY2025.

**Management Commentary**

- The segment witnessed a challenging environment with an 8% sequential drop in volumes, although it was able to maintain yield. The company targets 15% growth in business with 8% expected from the pull-back of downtrading and 7-8% from growth (half from FMCG and half from existing 3PL accounts).
- MLL announced a joint venture with Seino Holdings during the quarter aiming to offer integrated logistics solutions to Japanese auto and auto-ancillary customers. The operations are expected to start during the tail end of FY2025.
- The company received a Rs. 210 crore annualised order inflows in Q1FY2025 with seven key order wins.

**Revision in estimates** – We have lowered our net earnings estimates for FY2025, factoring in the delay in express business breakeven, while we broadly retain our FY2026E earnings.

**Our Call**

**Valuation – Retain BUY with a revised PT of Rs. 632:** 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 improved 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 introduce our FY2027E earnings in this note. The stock is currently trading at a P/E of 36.5x/23.7x its FY2026E/FY2027E earnings, which provides room for an upside, considering its transitioning-related growth opportunity. Hence, we retain BUY on the stock with a revised price target (PT) of Rs. 632, rolling forward our valuation to H1FY2027E earnings.

**Key Risks**

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

**Valuation (Consolidated)** Rs cr

| Particulars | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| Revenue | 5,506.0 | 6,270.5 | 7,060.1 | 7,949.1 |
| OPM (%) | 4.2 | 5.2 | 6.2 | 6.6 |
| Adjusted PAT | (58.6) | 16.6 | 102.3 | 157.8 |
| YoY growth (%) | - | - | - | 54.3 |
| Adjusted EPS (Rs.) | (8.1) | 2.3 | 14.2 | 21.9 |
| P/E (x) | - | 224.7 | 36.5 | 23.7 |
| P/B (x) | 6.6 | 6.4 | 5.5 | 4.4 |
| EV/EBITDA (x) | 16.9 | 11.9 | 8.8 | 7.4 |
| RoNW (%) | (11.1) | 3.3 | 18.3 | 22.9 |
| RoCE (%) | 9.5 | 8.7 | 18.8 | 22.9 |

*Source: Company; Sharekhan estimates*

## Key Conference call takeaways

- **End-user industries outlook:** The automotive sector reported 10% y-o-y volume growth in Q1FY2025 with two-wheelers (2W) growing by 11% y-o-y, while CV and tractors increased by 4% y-o-y. PV volumes underperformed due to the shift towards utility vehicles. Overall, auto demand was subdued due to heat wave conditions and election-led slowdown. Retail demand lagged wholesale, including 2W leading to high inventory. Consumer durables performed better, especially electrical consumer products owing to the demand for RAC and AC coolers due to the hot summer season. Fans improved sequentially. In lighting, prices are gradually stabilising from the trailing two quarters. Kitchen appliances continue to be impacted, registering a decline. Strong real estate demand and revival in rural demand are expected to drive consumer durable demand going ahead. FMCG witnessed an increase in demand towards the end of Q4FY2024, while it had favourable input prices but incurred higher ad spends due to rising competitive intensity. E-commerce end-market is witnessing continued growth over a couple of quarters. Grocery is seeing higher growth. Overall, a mixed demand environment affected B2B express business.

- **Q1FY2025 performance:** Consolidated revenue increased 10% y-o-y to Rs. 1,420 crore. Gross margins stood at 9.5% in Q1FY2025 versus 10.5% in Q1FY2024 with a decline in gross margins in the express business, from 11.1% in Q1FY2024 to 10.6% in Q1FY2025. EBITDA fell 0.5% y-o-y to Rs. 66.3 crore, while net loss stood at Rs. 9.3 crore versus a net loss of Rs. 8.5 crore in Q1FY2024.

- **Order intake:** It received Rs. 210 crore annualised order inflows in Q1FY2025 with seven key order wins.

- **3PL:** Unfavourable labour conditions impacted the 3PL segment. The company saw a 4-5% increase in contract labour costs.

- **Express business:** The segment witnessed a challenging environment with an 8% sequential drop in volumes, although it was able to maintain yield. The segment saw a sharp drop in demand during April, while the second half of Q1FY2025 saw improvement. Downtrading in existing accounts posed a challenge during Q1FY2025. The company targets 15% growth in business with 8% expected from pullback of downtrading and 7-8% from growth (half from FMCG and half from existing 3PL accounts).

- **E-commerce:** Contract logistics declined y-o-y as customer-insourced logistics services. Last-mile delivery grew 16-18% in revenue and volume. To revive growth, the company is undertaking measures such as 1) expansion in northeast regions, 2) complex offerings in grocery, and 3) expanding in newer accounts. The company expects revenue share of e-commerce to come back to 15-16% of overall revenue from 12-13% now.

- **eDeL:** Currently, it has 1,300 EV vehicles, largely three-wheelers (3Ws). The vehicle operates at Rs. 1,200-1,300 per day revenue run-rate with 18-20% gross margins. It is already utilising 75-80% of vehicles. It is not burning money in the segment. It plans to expand in four-wheelers (4Ws) and launch 2Ws in this year. The segment is PBT positive.

- **JV with Seino:** MLL announced a joint venture (JV) with Seino Holdings during the quarter aiming to offer integrated logistics solutions to Japanese auto and auto-ancillary customers. This partnership will leverage Seino's global relationships with Japanese automotive customers to meet their logistics needs in India. The operations are expected to start during the tail end of FY2025.

**Results (Consolidated)** **Rs cr**

| Particulars | Q1FY2025 | Q1FY2024 | y-o-y (%) | Q4FY2024 | q-o-q (%) |
|---|---|---|---|---|---|
| **Net sales** | **1420.0** | **1293.2** | **9.8%** | **1450.8** | **-2.1%** |
| Other income | 5.7 | 6.2 | -8.3% | 2.9 | 96.9% |
| Total income | 1425.7 | 1299.4 | 9.7% | 1453.6 | -1.9% |
| Total expenses | 1353.7 | 1226.6 | 10.4% | 1394.2 | -2.9% |
| **Operating profit** | **66.3** | **66.6** | **-0.5%** | **56.6** | **17.1%** |
| Depreciation | 55.0 | 54.5 | 0.9% | 51.3 | 7.2% |
| Interest | 19.5 | 17.8 | 9.6% | 17.4 | 11.8% |
| Exceptional items | 0.0 | 0.0 | | 0.0 | |
| **Profit Before Tax** | **-2.5** | **0.6** | **-** | **-9.2** | **-** |
| Taxes | 5.3 | 8.9 | -39.8 | 2.7 | 98.5% |
| PAT | -7.8 | -8.3 | - | -11.9 | - |
| Minority Interest | 1.5 | 0.1 | - | 0.9 | - |
| **Adjusted PAT** | **-9.3** | **-8.6** | **-** | **-12.9** | **-** |
| EPS (Rs.) | -1.3 | -1.2 | - | -1.8 | - |
| | | | **BPS** | | **BPS** |
| OPM (%) | 4.7% | 5.2% | -48 | 3.9% | 77 |
| NPM (%) | -0.7% | -0.7% | - | -0.9% | - |
| Tax rate (%) | - | - | - | - | - |

*Source: Company Data, 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. 632

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 improved 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 introduce our FY2027E earnings in this note. The stock is currently trading at a P/E of 36.5x/23.7x its FY2026E/FY2027E earnings, which provides room for an upside, considering its transitioning-related growth opportunity. Hence, we retain BUY on the stock with a revised PT of Rs. 632, rolling forward our valuation to H1FY2027E earnings.

**Peer Comparison**

| Particulars | P/E (x) | | EV/EBITDA (x) | | P/BV (x) | | RoE (%) | |
|---|---|---|---|---|---|---|---|---|
| | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Mahindra Logistics | - | 36.5 | 11.9 | 8.8 | 6.4 | 5.5 | 3.3 | 18.3 |
| TCI Express | 29.9 | 25.2 | 20.5 | 17.2 | 5.6 | 4.7 | 20.2 | 20.5 |

*Source: Sharekhan Research*

## About the 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: BSE*

**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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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669. BSE – 748, NSE – 10733, MCX – 56125, MSEI – 1043.

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