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India | Equity Research | Q2FY25 results review

Mahindra Logistics

Logistics

Slower-than-expected recovery in express business

Mahindra Logistics Limited's (MLL) Q2FY25 EBITDA performance undershot our/consensus estimates by 6.2%/23.6%. Key points: 1) Network services, which is ~18% of overall business, grew 46.1% YoY while 3PL grew by 6.8%. 2) Gross margins improved for network services; however, it has declined to 10.4% in 3PL (11% in Q1FY25) due to unabsorbed white space (~1.1mn sq.ft.) and addition of contractual manpower for peak season. 3) MLL shall infuse INR 500mn to support the cash burn at Rivigo; it needs ~35–40% volumes growth to achieve EBITDA break even, and target to become EBITDA positive by Q4FY25, which seems daunting. Given the H1FY25 performance, we reduce our FY25E/FY26E EPS by 61.5%/6.8% and maintain **REDUCE** with a revised target price of INR 420 (earlier INR 450).

EBITDA below estimates

Reported EBITDA of INR 664mn came in 6.2%/23.6% short of our/consensus estimates. Key points: 1) Underperformance in contract logistics was mainly owing to – i) volumes dip from existing sites; ii) unabsorbed white space (1.1mn sq.ft.), which is ~INR 70–80mn/quarter (pre-tax); iii) ~6.5k headcount addition to the workforce in Sep'24 across 97 sites for the peak season – cost of INR 30–40mn booked in this quarter; however, volumes to flow in next quarter. 2) EBITDA grew 23.9% YoY; the improvement is mainly on account of Rivigo's better performance (still incurring cash losses), 2X2 logistics and freight forwarding business. 4) While warehousing realisation has improved, its yield was impacted by pre-operating costs of new launches; further, ~1mn sq.ft has been added. BTS warehouses are under development across various demand clusters. Ahead, the turning around of Rivigo is a key monitorable, along with the improvement in contract logistics business.

Conference call – key highlights

Key highlights: 1) In the express segment, volumes from existing customer fell 8% YoY, while new account addition was lower than management estimates; MLL is infusing INR 500mn equity in the business to tackle cash burn; business may turn EBITDA positive by Q4FY25. 2) Contract logistics was impacted by unabsorbed white spaces, higher contractual workforce etc.; order intake remains healthy at INR 2bn. 3) Freight forwarding business is recovering with higher ocean freight rates.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	51,283	55,060	61,759	70,923
EBITDA	2,598	2,290	2,759	3,672
EBITDA Margin (%)	5.1	4.2	4.5	5.2
Net Profit	291	(537)	87	942
EPS (INR)	4.0	(7.5)	1.2	13.1
EPS % Chg YoY	73.0	(287.2)	(118.1)	894.7
P/E (x)	59.3	(31.7)	175.2	17.6
EV/EBITDA (x)	13.3	15.5	12.3	8.5
RoCE (%)	7.8	4.7	4.8	13.6
RoE (%)	5.2	(10.0)	1.7	17.9

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Market Data

Market Cap (INR)	33bn
Market Cap (USD)	398mn
Bloomberg Code	MAHLOG IN
Reuters Code	MALO BO
52-week Range (INR)	555 /347
Free Float (%)	42.0
ADTV-3M (mn) (USD)	0.9

Price Performance (%)	3m	6m	12m
Absolute	(11.7)	4.9	21.9
Relative to Sensex	(11.4)	(4.1)	(0.7)

ESG Score	2022	2023	Change
ESG score	59.1	69.9	10.8
Environment	39.1	43.9	4.8
Social	44.6	76.5	31.9
Governance	79.6	81.8	2.2

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.6)	(1.6)
EBITDA	(1.7)	(1.6)
EPS	(61.5)	(6.8)

Previous Reports

24-07-2024: [Q1FY25 results review](#)

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

Outlook: Subdued demand likely to weigh on Rivigo's recovery

The underperformance of both the express business and contract logistic business has impacted Q2FY25's earnings. Further, the higher operating cost of unabsorbed white space and hiring of seasonal workforce have also added to the dent. Volumes from existing customers declined for both contract logistics and express business. The company shall infuse INR 500mn to support the cash burn at Rivigo; as per management, it will need at least ~35–40% volumes growth to achieve EBITDA breakeven, and targets to become EBITDA positive by Q4FY25, which seems daunting to us. Given the H1FY25 performance we have reduced the EBITDA by 1.7%/1.6% respectively for FY25/FY26 and maintain reduce rating with revised target price of INR 420 (earlier INR 450) with unchanged multiple of 32x FY26E.

Exhibit 1: Earnings revision

(INR mn)	FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg
Sales	61,759	62,781	(1.6)	70,923	72,098	(1.6)
EBITDA	2,759	2,806	(1.7)	3,672	3,733	(1.6)
PAT	87	227	(61.5)	942	1,011	(6.8)

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

Q2FY25 conference call highlights

- **Contract logistics**
 - 3PL business grew by 7% YoY; the bulk of volume growth came from new sites. Due to slowdown in auto and FMCG, existing customers showed some volume decline.
 - Three main factors impacted the bottom line: 1) decline in volumes from existing sites; 2) unabsorbed white space (1.1mn sq.ft.), which is ~70-80mn/quarter (pre-tax); 3) added ~6.5k workforce in Sep'24, across the 97 sites for the peak season, cost booked in this quarter, however, volumes will likely flow in next quarter; this caused INR 30-40mn of additional impact.
 - This impact will not be in Q3FY25 as half of the white space is booked and season volumes will flow in during the quarter.
 - Order intake was healthy; INR 2,000mn worth of orders were booked during the quarter.
 - MLL won several key programs for fulfillment from leading cosmetics players. MLL shall launch four new fulfillment centres in the next six months.

- MLL has also expanded into groceries and quick-commerce during the quarter and will be expanding fulfillment centres in upcoming months.
- Cumulative total warehousing space in 3PL is at 21.6mn sq.ft.
- Operations of warehouses in Guwahati and Kolkata have commenced.
- New warehouse in Agartala is under construction and is expected to go live in Q4FY25.
- White space has reduced during the quarter (currently at ~1.1mn sq.ft.).
- **Freight forwarding**
 - MLL is currently in its recovery phase.
 - Growth in tonnage is healthy; due to new accounts and penetration in existing accounts.
 - pricing environment during the quarter was more favourable, especially in ocean freight.
- **Express business**
 - The company shall add another INR 500mn of equity to fund the cash losses.
 - Quarter was challenging for the express business; as the entire quarter remained weak in terms of demand.
 - There was a lot of volatility and lower volumes.
 - Volume dip of ~8% from existing customers. New account additions of ~1,500-2,000te was also lower than management estimates.
 - Operational efficiency increased during the quarter, in terms of on-time deliveries and service quality to customers.
 - Volume of 66kte was booked during the quarter.
 - Rivigo needs volume addition of ~30-40% to turn EBITDA break even.
 - Business may turn EBITDA positive by Q4FY25, and the company may need additional funds infusion to fund the cash burn.
 - Line-haul network is currently running at ~85% utilisation levels.
- MLL has added 75 vehicles to its 2x2 business fleet; which has been fully deployed.
- The company launched a new service called 'pro-trucking', which is a high-volume network transportation solution.
- As a part of green logistics offering, MLL launched an industry-leading digital platform for visualisation and monitoring of emissions.

Exhibit 2: MLL Q2FY25 performance review

(INR mn)	Q2FY25	Q2FY24	Chg.YoY(%)	Q1FY25	Chg.QoQ(%)	FY24	FY23	Chg.YoY(%)
Total income	15,211	13,648	11.5	14,200	7.1	55,060	51,283	7.4
Operating expenses	13,069	11,653	12.1	12,140	7.7	46,880	43,865	6.9
Employee wages	1,047	1,031	1.6	1,020	2.7	4,047	3,546	14.1
Other expenses	431	428	0.7	378	14.0	1,842	1,275	44.5
Total expenses	14,547	13,112	10.9	13,537	7.5	52,769	48,685	8.4
EBITDA	664	536	23.9	663	0.2	2,290	2,598	(11.8)
EBITDA Margin (%)	4.4	3.9		4.7				
Depreciation	540	518	4.2	550	(1.8)	2,090	1,895	10.3
Other Income	17	66	(73.7)	57	(69.5)	179	136	31.8
Finance Cost	191	165	15.7	195	(1.9)	682	516	32.2
PBT	(50)	(82)	(39.2)	(25)	98.8	(302)	323	(193.6)
Tax	46	73		53		257	113	
PAT	(96)	(155)	(37.8)	(78)	22.6	(537)	291	(284.8)

Source: I-Sec research, Company data

Exhibit 3: MLL Q2FY25 segmental performance review

(INR mn)	Q2FY25	Q2FY24	Chg.YoY(%)	Q1FY25	Chg.QoQ(%)	FY24	FY23	Chg.YoY(%)
Revenue	15,210	13,650	11.4	14,200	7.1	55,060	51,280	7.4
SCM	14,410	12,800	12.6	13,400	7.5	51,760	48,680	6.3
3PL	11,630	10,890	6.8	10,930	6.4	43,100	40,070	7.6
Network Services	2,790	1,910	46.1	2,470	13.0	8,640	8,610	0.3
Mobility	800	850	(5.9)	800	-	3,300	2,600	26.9
Gross Margins	1,400	1,260	11.1	1,350	3.7	5,250	5,130	2.3
SCM	1,310	1,170	12.0	1,270	3.1	4,890	4,860	0.6
3PL	1,210	1,250	(3.2)	1,200	0.8	5,000	4,550	9.9
Network Services	100	(80)	(225.0)	80	25.0	(110)	310	(135.5)
Mobility	90	90	-	80	12.5	360	270	33.3
Gross Margins (%)	9.2	9.2		9.5		9.5	10.0	
SCM	9.1	9.1		9.5		9.4	10.0	
3PL	10.4	11.5		11.0		11.6	11.4	
Network Services	3.6	(4.2)		3.2		(1.3)	3.6	
Mobility	11.3	10.6		10.0		10.9	10.4	

Source: I-Sec research, Company data

Exhibit 4: MLL – network services performance review

(INR mn)	Q2FY25	Q2FY24	Chg.YoY(%)	Q1FY25	Chg.QoQ(%)	FY24	FY23	Chg.YoY(%)
Revenue	2,790	1,910	46.1	2,470	13.0	8,640	8,610	0.3
Frieght-forwarding	870	540	61.1	710	22.5	2,540	3,660	(30.6)
Express	920	880	4.5	870	5.7	3,650	2,940	24.1
Last mile	1,000	490	104.1	890	12.4	2,450	2,010	21.9
Gross Margin	100	(80)	(225.0)	80	25.0	(110)	310	(135.5)
Frieght-forwarding	80	60	33.3	70	14.3	250	370	(32.4)
Express	(50)	(160)	(68.8)	(60)	(16.7)	(480)	(120)	300.0
Last mile	70	20	250.0	70	-	120	60	100.0
Gross Margin (%)	3.6	(4.2)		3.2		(1.3)	3.6	
Frieght-forwarding (%)	9.2	11.1		9.9		9.8	10.1	
Express (%)	(5.4)	(18.2)		(6.9)		(13.2)	(4.1)	
Last mile (%)	7.0	4.1		7.9		4.9	3.0	

Source: I-Sec research, Company data

Exhibit 5: MLL – mobility services performance review

(INR mn)	Q2FY25	Q2FY24	Chg.YoY(%)	Q1FY25	Chg.QoQ(%)	FY24	FY23	Chg.YoY(%)
Revenue	800	850	(5.9)	800	-	3,300	2,600	26.9
Gross Margin	90	90	-	80	12.5	360	270	33.3
Gross Margin (%)	11.3	10.6		10.0		10.9	10.4	

Source: Company data, I-Sec research

Exhibit 6: MLL – entity-wise performance review

(INR mn)	Q2FY25	Q2FY24	Chg.YoY(%)	Q1FY25	Chg.QoQ(%)	FY24	FY23	Chg.YoY(%)
MLL Standalone								
Revenue	12,359	11,356	8.8	11,567	6.8	45,299	44,589	1.6
EBITDA	691	740	(6.6)	716	(3.5)	2,920	2,883	1.3
EBITDA (%)	5.6	6.5		6.2		6.4	6.5	
PAT	85	186	(54.3)	102	(16.7)	620	618	0.3
PAT (%)	0.69	1.64		0.88		1.37	1.39	
Lords Freight								
Revenue	868	525	65.3	711	22.1	2,478	3,658	(32.3)
EBITDA	2	(1)	(290.0)	2	(13.6)	27	151	(82.1)
EBITDA (%)	0.2	(0.2)		0.3		1.1	4.1	
PAT	2	1	60.0	2	(11.1)	34	100	(66.0)
PAT (%)	0.2	0.2		0.3		1.4	2.7	
MLL Mobility								
Revenue	811	863	(6.0)	813	(0.2)	3,333	1,851	80.1
EBITDA	19	26	(26.9)	21	(9.5)	71	15	373.3
EBITDA (%)	2.3	3.0		2.6		2.1	0.8	
PAT	16	9	77.8	17	(5.9)	18	(86)	(120.9)
PAT (%)	2.0	1.0		2.1		0.5	(4.6)	
MLL Express								
Revenue	917	872	5.2	892	2.8	3,642	1,216	199.5
EBITDA	(124)	(244)	(49.2)	(137)	(9.5)	(803)	(269)	198.5
EBITDA (%)	(13.5)	(28.0)		(15.4)		(22.0)	(22.1)	
PAT	(242)	(354)	(31.6)	(246)	(1.6)	(1,236)	(318)	288.7
PAT (%)	(26.4)	(40.6)		(27.6)		(33.9)	(26.2)	
2x2 Logistics								
Revenue	202	136	48.5	151	33.8	553	207	167.1
EBITDA	47	19	147.4	39	20.5	82	(17)	(582.4)
EBITDA (%)	23.3	14.0		25.8		14.8	(8.2)	
PAT	12	7	71.4	17	(29.4)	19	(39)	(148.7)
PAT (%)	5.9	5.1		11.3		3.4	(18.8)	

Source: Company data, I-Sec research

Exhibit 7: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	58.0	58.0	58.0
Institutional investors	23.2	22.8	22.8
MFs and other	13.0	13.1	13.9
Banks / FIs	0.0	0.0	0.2
Insurance Cos.	4.4	4.2	4.1
FIIIs	5.8	5.5	4.9
Others	18.8	19.2	18.8

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	61,759	70,923
Operating Expenses	4,820	5,889	6,784	7,707
EBITDA	2,598	2,290	2,759	3,672
EBITDA Margin (%)	5.1	4.2	4.5	5.2
Depreciation & Amortization	1,895	2,090	2,190	2,100
EBIT	703	201	569	1,572
Interest expenditure	516	682	630	590
Other Non-operating Income	159	179	200	300
Recurring PBT	345	(302)	139	1,282
Profit / (Loss) from Associates	291	(537)	87	942
Less: Taxes	71	257	35	323
PAT	274	(559)	104	959
Less: Minority Interest	(17)	17	17	17
Extraordinaries (Net)	-	38	-	-
Net Income (Reported)	565	(1,058)	191	1,901
Net Income (Adjusted)	291	(537)	87	942

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	16,255	20,196
of which cash & cash eqv.	1,262	711	2,219	4,912
Total Current Liabilities & Provisions	11,259	12,000	13,497	15,260
Net Current Assets	2,124	1,344	2,758	4,937
Investments	1,623	760	760	760
Net Fixed Assets	6,073	5,692	4,202	2,802
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	12,695	13,474
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	4,111	4,874
Total Net Worth	5,617	4,925	4,832	5,594
Minority Interest	(14)	118	134	151
Total Liabilities	14,271	12,772	12,695	13,474

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	13,972	14,508	14,200	15,211
% growth (YOY)	5.1	14.0	9.8	11.5
EBITDA	522	566	663	664
Margin %	3.7	3.9	4.7	4.4
Other Income	23	29	57	17
Extraordinaries	38	-	-	-
Adjusted Net Profit	(164)	(119)	(78)	(96)

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	2,819	3,863
Working Capital Changes	(883)	(312)	95	514
Capital Commitments	(710)	(709)	(700)	(700)
Free Cashflow	484	1,559	2,119	3,163
Other investing cashflow	(2,390)	167	200	300
Cashflow from Investing Activities	(3,100)	(543)	(500)	(400)
Issue of Share Capital	1	0	-	-
Interest Cost	(174)	(318)	(630)	(590)
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)	(770)
Chg. in Cash & Bank balance	(77)	(1,036)	1,509	2,693
Closing cash & balance	1,266	230	2,223	4,916

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)	2.7	26.4
Adjusted EPS (Diluted)	4.0	(7.5)	1.2	13.1
Cash EPS	30.3	21.6	31.6	42.2
Dividend per share (DPS)	2.5	2.5	2.5	2.5
Book Value per share (BV)	78.0	68.4	67.1	77.6
Dividend Payout (%)	31.9	(17.0)	94.2	9.5
Growth (%)				
Net Sales	23.8	7.4	12.2	14.8
EBITDA	41.0	(11.8)	20.5	33.1
EPS (INR)	73.0	(287.2)	(118.1)	894.7
Valuation Ratios (x)				
P/E	59.3	(31.7)	175.2	17.6
P/CEPS	15.3	21.6	14.7	11.0
P/BV	6.0	6.8	6.9	6.0
EV / EBITDA	13.3	15.5	12.3	8.5
Dividend Yield (%)	0.5	0.5	0.5	0.5
Operating Ratios				
Gross Profit Margins (%)	14.5	14.9	15.5	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)	0.2	1.4
Net Debt / Equity (x)	0.2	0.4	0.1	(0.4)
Net Debt / EBITDA (x)	0.4	0.8	0.1	(0.6)
Total Asset Turnover (x)	4.7	4.5	4.7	5.5
Inventory Turnover Days	0	-	-	-
Receivables Days	57	52	55	56
Payables Days	92	82	82	84
Profitability Ratios				
RoE (%)	5.2	(10.0)	1.7	17.9
RoCE (%)	7.8	4.7	4.8	13.6
RoIC (%)	13.1	6.7	6.7	22.3

Source Company data, I-Sec research

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