



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	✓	↔	✓

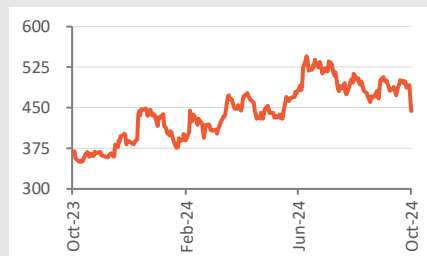
Company details

Market cap:	Rs. 3,200 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	4.9
DII	18.2
Others	18.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.3	-14.4	-1.5	20.5
Relative to Sensex	-6.6	-13.9	-10.1	-3.6

Sharekhan Research, Bloomberg

Mahindra Logistics Ltd

Mixed Q2; Retain BUY

Logistics

Sharekhan code: MAHLOG

Reco/View: Buy

CMP: Rs. 444

Price Target: Rs. 560



Upgrade



Maintain



Downgrade

Summary

- We retain BUY on Mahindra Logistics Limited (MLL) with a revised PT of Rs. 560, factoring in downwardly revised estimates, while it remains on a growth path.
- Consolidated revenue stayed in-line, led by healthy growth in the standalone business and sharp recovery in freight forwarding. Lower OPMs in standalone and express losses led to a miss on consolidated operating and net profit.
- Weak demand and high competitive intensity in the express business are likely to challenge EBITDA breakeven by Q4FY2025. However, it remains steadfast in turning around the express business.
- Order intake remained healthy at Rs. 200 crore annualised during Q2, sustaining momentum of new order intake of Rs. 210 crore annualised in Q1.

Mahindra Logistics Limited (MLL) reported in-line consolidated revenue of Rs. 1,521 crore (up 11.5% y-o-y), led by healthy growth in its core standalone business (mainly 3PL, revenue up 9% y-o-y) and recovery in freight forwarding (revenue up 65% y-o-y), while express business (up 5% y-o-y) stayed muted. Mobility business was weak (down 6% y-o-y, flat q-o-q). Consolidated OPM at 4.4% (+44 bps y-o-y) came in lower than our estimate of 4.9%, as operating losses in the express business continued q-o-q at Rs. 12 crore vs. Rs. 14 crore operating loss in Q1FY2025, while its contract logistics business witnessed costs associated with resource additions for early Diwali (Rs. 3-4 crore impact) and unabsorbed white space (1.1 msf). Overall, the company reported 10% lower-than-expected operating profit (up 23.9% y-o-y at Rs. 66 crore). Consolidated net loss at Rs. 10.8 crore was led by lower other income (down 74% y-o-y, due to one-offs in prior quarters) and higher interest and depreciation charges as per IND AS. Headwinds in the express business with respect to downtrading of existing clients and higher competitive intensity continue, while management has maintained its EBITDA breakeven guidance by Q4FY2025.

Key positives

- MLL's standalone revenue increased 9% y-o-y and 7% q-o-q to Rs. 1,236 crore.
- Freight forwarding registered strong recovery with revenue growth of 65% y-o-y and 22% q-o-q, aided by a favourable pricing environment.

Key negatives

- Express business reported operating and net losses of Rs. 12 crore and Rs. 24 crore, respectively.
- Standalone business's operating margin contracted by 93 bps y-o-y and 60 bps q-o-q due to resource additions for the early festive season during the period and unabsorbed white space.

Management Commentary

- The segment had a challenging quarter due to weak demand. Volumes from existing customers declined 7-8% y-o-y. Overall volumes stayed flat q-o-q. The company also reported lower sales to the retail segment. It would need incremental 35-40% volumes to breakeven. It is looking at breakeven by FY2025 end.
- As per its Go East strategy, it would be adding 1 msf at Kolkata, Guwahati, and Agartala. It launched pro-trucking for large multi-sector clients.
- The freight forwarding business saw recovery due to both new account additions and penetration in existing customers. The segment saw favourable pricing environment.

Revision in estimates – We have lowered our net earnings estimates for FY2025-FY2027E, factoring in the delay in express business breakeven.

Our Call

Valuation – Retain BUY with a revised PT of Rs. 560: MLL is expected to benefit from healthy momentum in its core 3PL business, although near-term challenges persist in the express business. The company remains focused on improving volumes in its 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. The stock is currently trading at a P/E of 36.1x/22.4x 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. 560, factoring in downwardly revised estimates.

Key Risks

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

Valuation (Consolidated)

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	5,506.0	6,270.5	7,060.1	7,949.1
OPM (%)	4.2	4.9	5.9	6.3
Adjusted PAT	(58.6)	5.7	88.6	142.5
YoY growth (%)	-	-	-	60.8
Adjusted EPS (Rs.)	(8.1)	0.8	12.3	19.8
P/E (x)	-	-	36.1	22.4
P/B (x)	5.7	5.6	4.9	4.0
EV/EBITDA (x)	14.7	10.9	8.0	6.7
RoNW (%)	(11.1)	1.2	16.3	21.7
RoCE (%)	9.5	8.2	18.2	22.7

Source: Company; Sharekhan estimates

Key conference call takeaways

- ♦ **End-user industries outlook:** Auto: Wholesale passenger vehicles saw a 2% y-o-y decline (up 2% q-o-q) and retail PV saw a 3% y-o-y dip in Q2FY2025. 2Ws reported 13% y-o-y growth (up 5% q-o-q). Wholesale CV reported a 10% y-o-y decline (down 3% q-o-q). The LCV segment reported an 11% y-o-y decline (flat q-o-q). Dealers are facing high inventory of 82-85 days. FMCG: Worst seems to be over, although growth is yet to pick up. Volumes remained soft in Q2FY2025. Telecom: The segment saw tariff hikes announced at the end of Q2. Management expects performance to improve q-o-q in Q3FY2025. E-commerce: Focus remains on adding capacities. Quick commerce and grocery are doing well.
- ♦ **Q2FY2025 performance:** Consolidated revenue increased 11.5% y-o-y to Rs. 1,521 crore. Warehousing and integrated solutions reported 19% y-o-y growth to Rs. 306 crore. Gross margin declined to 9.17% from 9.25%, while excluding the express business, gross margin stood at 11.4%. EBITDA stood at Rs. 66 crore as against Rs. 54 crore. MLL standalone revenue increased 7% y-o-y to Rs. 1,236 crore, with PAT at Rs. 8.5 crore as against Rs. 18.6 crore. Standalone operations were impacted by seasonal hiring and white space. Express revenue stood at Rs. 91.7 crore, while net loss stood at Rs. 24.2 crore.
- ♦ **Mobility:** Business travel remained strong, while B2B was slow in 'return to office'.
- ♦ **3PL:** The segment's revenue grew 7% y-o-y. Order intake was healthy at Rs. 200 crore annual value. It added leading cosmetics client. It is expanding in quick commerce. Volumes from current clients remain low. It added 6,900 seasonal workforce (Rs. 3-4 crore impact) during September for the peak festive season. In warehousing, it has cumulative capacity of 29.6 msf. Guwahati and Kolkata have commenced operations, while Agartala is expected in Q4FY2025. It had 1.1 msf of white space, which impacted earnings.
- ♦ **Freight forwarding:** The segment saw recovery due to new account additions and penetration in existing customers. The segment saw a favourable pricing environment.
- ♦ **Express:** The segment had a challenging quarter due to weak demand. Volumes from existing customers declined 7-8% y-o-y. Overall volumes stayed flat q-o-q. It also had lower sales to the retail segment. It would need incremental 35-40% volumes to breakeven. It is looking at breakeven by FY2025-end.
- ♦ **Go east strategy:** As per its strategy, it would be adding 1 msf at Kolkata, Guwahati, and Agartala. It launched pro-trucking for large multi-sector clients.
- ♦ **Capex:** During H1, it added 75 vehicles in 2x2 logistics and added a couple of sites in warehousing. It continues to operate a 1.2-1.3% capital investment model.

Results (Consolidated)

					Rs cr
Particulars	Q2FY2025	Q2FY2024	Y-o-Y (%)	Q1FY2025	Q-o-Q (%)
Net sales	1521.1	1364.8	11.5%	1420.0	7.1%
Other income	1.7	6.6	-73.7%	5.7	-69.5%
Total income	1522.8	1371.3	11.0%	1425.7	6.8%
Total expenses	1454.7	1311.2	10.9%	1353.7	7.5%
Operating profit	66.4	53.6	23.9%	66.3	0.2%
Depreciation	54.0	51.8	4.2%	55.0	-1.8%
Interest	19.1	16.5	15.7%	19.5	-1.9%
Exceptional items	0.0	0.0	-	0.0	-
Profit Before Tax	-5.0	-8.2	-39.2%	-2.5	98.8%
Taxes	4.6	7.3	-36.4%	5.3	-13.1%
PAT	-9.6	-15.5	-37.8%	-7.8	22.6%
Minority Interest	1.1	0.3	256.3%	1.5	-23.0%
Adjusted PAT	-10.8	-15.9	-32.5%	-9.3	15.3%
EPS (Rs.)	-1.5	-2.2	-32.5%	-1.3	15.3%
			BPS		BPS
OPM (%)	4.4%	3.9%	44	4.7%	-30
NPM (%)	-0.7%	-1.2%	-	-0.7%	-
Tax rate (%)	-	-	-	-	-

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. 560

MLL is expected to benefit from healthy momentum in its core 3PL business, although near-term challenges persist in the express business. The company remains focused on improving volumes in its 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. The stock is currently trading at a P/E of 36.1x/22.4x 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. 560, factoring in downwardly revised estimates.

Peer valuation

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Mahindra Logistics	-	36.1	10.9	8.0	5.6	4.9	1.2	16.3
TCI Express	29.9	23.8	20.1	16.0	4.8	4.1	17.1	18.8

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 more than 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

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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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