

May 21, 2020

Strong balance sheet to steer through current crisis

Mahindra Logistics' results reflected the general economic slowdown, further aggravated by continued slowdown in auto sector (~62% of SCM revenues). This time around, PTS segment (~10% of revenue) also dragged overall revenues (down 17% YoY) while SCM segment (~90% of revenues) fell 20%. However, the warehousing segment continued to remain in the positive growth trajectory (10%) thereby improving the transportation: warehousing mix in the non-Mahindra SCM segment to 70:30. EBITDA margins (without Ind-AS 116 effect) fell 139 bps to 2.6%. Subsequently, EBITDA, PAT de-grew 47%, 57%, respectively. As per the management commentary, non-auto prospects like e-com, freight forwarding, consumer, pharma verticals sustained growth in the crisis, driven by new business acquisitions in existing, new customers in these verticals.

New business landscape looks promising for 3PL companies

With introduction of newer norms (social distancing) and regulations shoved into the sector, it is becoming challenging to maintain turnaround times for customer for various companies, with increased labour costs. A 3PL company in such an environment can provide reduced logistics costs, better turnaround and also reverse logistics to each client company due to greater efficiency, lower capex and running the operations at better utilisation levels compared to each company internal logistics operations. MLL ended with ~400 clients in FY20 and expects 30-40 client additions each year.

Growth expected to return to sector in FY22

Prior to FY20, Indian 3PL industry [~US\$6 billion (bn) in FY17] has been growing at a CAGR of 18-20% over last few years. While economic growth is expected to normalise post H1FY21, we expect auto growth (62% of SCM revenues) to remain subdued in FY21 and normalise in FY22. However, non-Mahindra non-auto SCM revenues are expected to be buoyed by growth in both transportation and value added services provided to clients (warehousing and in-factory logistics).

Valuation & Outlook

With asset heavy players and startups in the logistics sector seeing greater stress in cashflow management, inflated labour cost and other expenses, MLL is well placed to steer the crisis, with strong financials to take advantage of expected consolidation in the sector. While auto continues to dominate MLL segment, MLL has been steadily building up its presence in the e-commerce, freight forwarding, pharma and consumer segments. Also, with changing client profile, MLL has been able to leverage the situation to provide increased warehousing and value-added services (grew 16% in FY20) component in its revenue mix (that provides higher gross margins and translates into higher profitability for the company). We maintain **BUY** with a target price of ₹ 300.

Particulars

Market Capitalisation (₹cr)	1,803.5
52 Week High / Low (₹)	535/195
Promoter Holding (%)	58.5
FII Holding (%)	17.8
DII Holding (%)	8.7
Dividend Yield (%)	0.7

Key Highlights

- Mahindra SCM de-grew 18% in FY20
- Non M&M warehousing & VAS segment grew 24% in FY20
- Maintain BUY with revised target price of ₹ 300.

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Key Financial Summary

₹ crore	FY18	FY19	FY20P	FY21E	FY22E	CAGR
Net Sales	3,416.1	3,851.3	3,473.5	3,387.6	3,745.7	2.3%
EBITDA	119.7	151.2	104.0	98.2	127.4	1.6%
PAT	64.0	85.6	60.6	51.2	70.1	2.3%
P/E (x)	27.9	20.8	29.4	34.9	25.4	
M.Cap/Sales (x)	0.5	0.5	0.5	0.5	0.5	
RoCE (%)	23.4	25.8	15.8	12.0	14.9	
RoE (%)	15.3	17.2	11.2	8.9	11.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	813.7	873.2	1,014.7	-19.8	908.1	-10.4	Subdued YoY growth mainly on the back of de-growth in auto and non-SCM revenues
Operating expenses	697.4	752.0	885.2	-21.2	779.5	-10.5	
Employee Expenses	75.6	79.8	71.4	5.8	80.2	-5.7	
Other Expense	19.3	19.5	17.2	11.9	19.8	-2.7	
Total Expense	792.2	851.3	973.8	-18.6	879.5	-9.9	
EBITDA	21.5	21.9	40.9	-47.4	28.6	-24.8	
EBITDA Margin (%)	2.6	2.5	4.0	-139 bps	3.1	-51 bps	EBITDA margins contraction due to lower operating leverage
Depreciation	7.9	6.5	6.1	30.4	6.5	21.6	
Interest	0.8	0.9	1.0	-25.2	1.1	-26.7	
Other Income	1.1	1.9	1.9	-44.5	2.0	-46.5	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	0.0	NA	
PBT	13.9	16.5	35.7	-61.1	23.0	-39.7	
Total Tax	3.6	4.2	11.8	-69.2	5.7	-36.0	
PAT	10.3	12.3	23.9	-57.1	17.3	-40.9	
Key Metrics	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	
Mahindra SCM revenues	392.5	390.9	544.2	-27.9	424.3	-7.5	YoY de-growth due to weak auto sales performance or M&M
Non-Mahindra SCM revenue	337.9	396.5	373.1	-9.4	392.6	-13.9	Downturn in auto volumes (20-25% of pie), led to weak performance
SCM revenues	730.4	787.4	917.3	-20.4	816.9	-10.6	
PTS revenues	81.3	85.8	97.4	-16.5	91.1	-10.7	

Source: Company, ICICI Direct Research

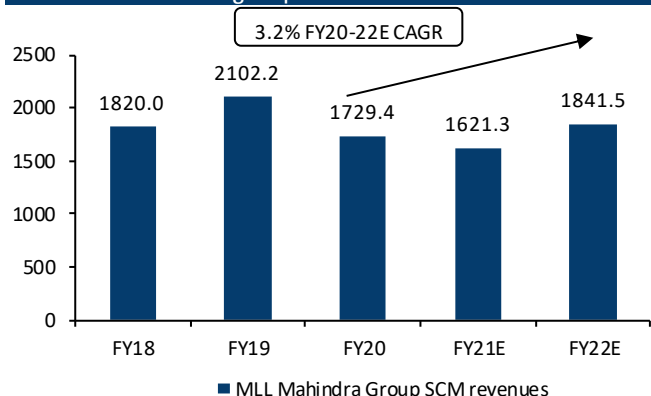
Exhibit 2: Change in estimates

(` Crore)	FY21E					FY22E			Comments
	FY19	FY20	Old	New	% Change	Old	New	% Change	
Gross Revenue	3,851.3	3,473.5	3,687.8	3,387.6	-8.1	4,074.3	3,745.7	-8.1	Revenue estimates impacted mainly due to continued downturn in the auto sector
EBITDA	151.2	104.0	114.3	98.2	-14.1	146.7	127.4	-13.2	
EBITDA Margin (%)	3.9	3.0	3.1	2.9	-20 bps	3.6	3.4	-20 bps	FY21E, FY22E impacted by slower-than-expected pickup in auto
PAT	85.6	60.6	67.7	51.2	-24.5	89.4	70.1	-21.5	
EPS (₹)	12.0	8.5	9.5	7.2	-24.5	12.5	9.8	-21.5	

Source: Company, ICICI Direct Research

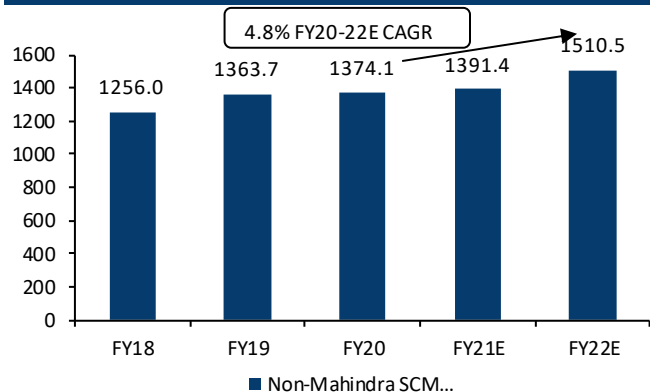
Key Metrics

Exhibit 3: Mahindra group SCM revenues



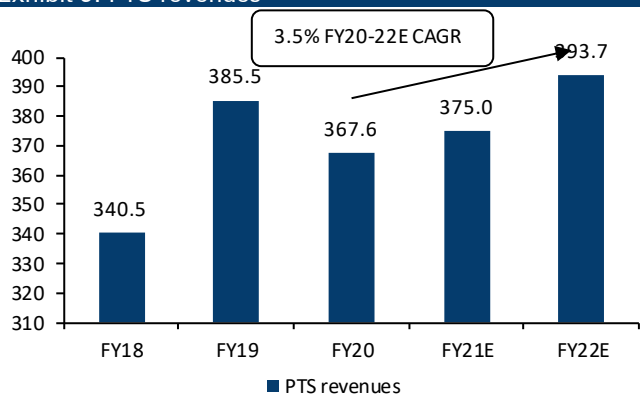
Source: ICICI Direct Research, Company

Exhibit 4: Non-Mahindra SCM revenues



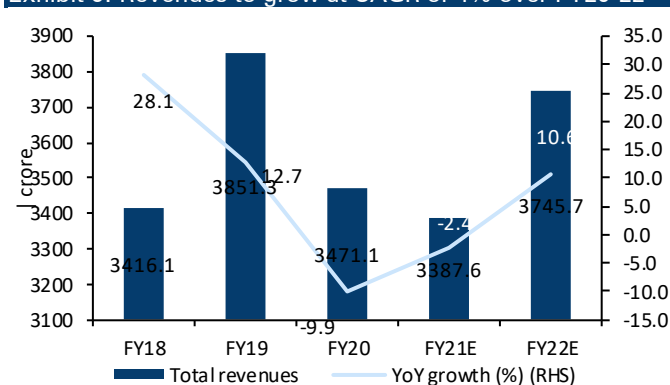
Source: ICICI Direct Research, Company

Exhibit 5: PTS revenues



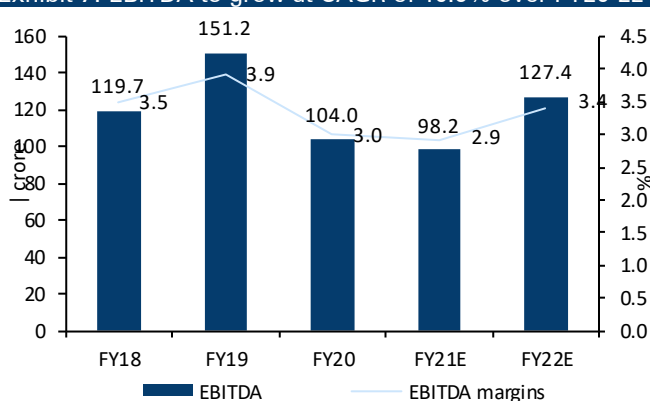
Source: ICICI Direct Research, Company

Exhibit 6: Revenues to grow at CAGR of 4% over FY20-22



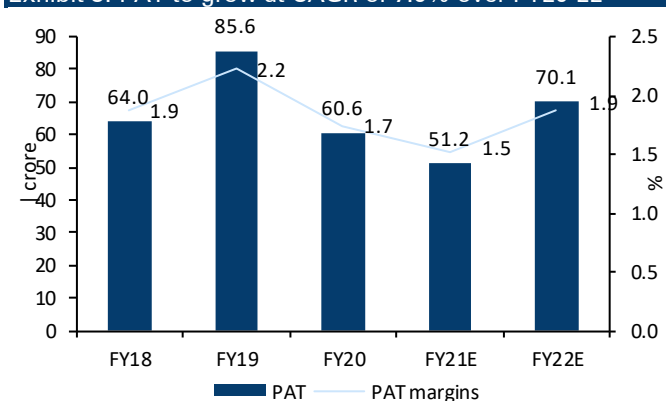
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA to grow at CAGR of 10.6% over FY20-22



Source: Company, ICICI Direct Research

Exhibit 8: PAT to grow at CAGR of 7.6% over FY20-22



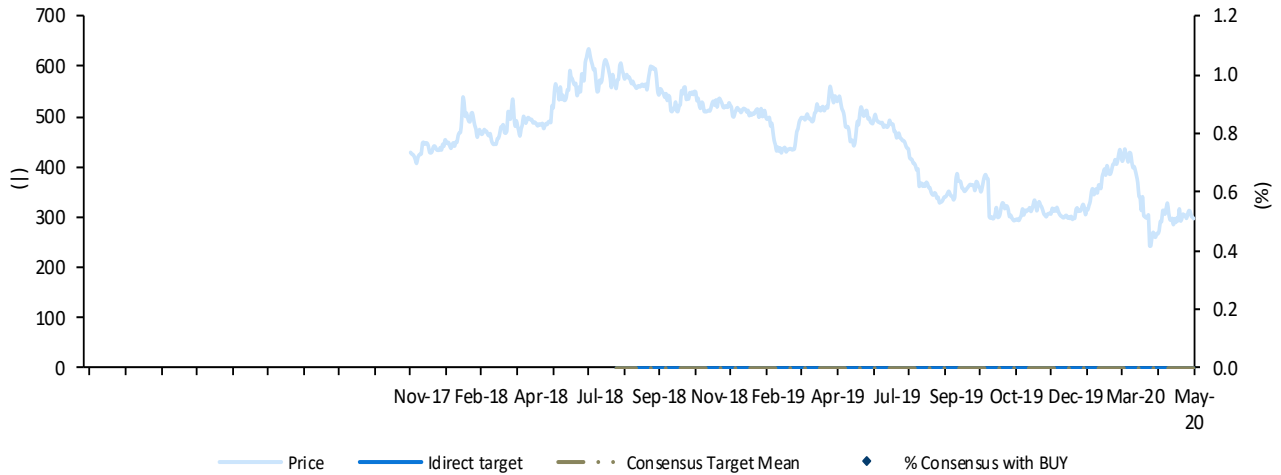
Source: Company, ICICI Direct Research

Exhibit 9: Valuation parameters

Year	Sales (₹cr)	Sales Gr. (%)	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY 18	3416.1	28.1	9.0	40.3	27.9	14.6	15.3	23.4
FY 19	3851.3	12.7	12.0	34.2	20.8	11.5	17.2	25.8
FY 20	3473.5	-9.8	8.5	-28.7	29.4	16.7	11.2	15.8
FY 21E	3387.6	-2.5	7.2	-16.4	34.9	17.8	8.9	12.0
FY 22E	3745.7	10.6	9.8	37.1	25.4	13.7	11.2	14.9

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation history vs. Consensus



Source: ICICI Direct Research; Reuters

Exhibit 11: Shareholders

Rank	Name	Latest Filing Date	% O/S Position (m)	Change (m)	
1	Mahindra Group	30-Sep-19	58.52	41.8	0.0
2	Reliance Nippon Life Asset Management	30-Sep-19	4.70	3.4	0.0
3	Kotak Mahindra (UK) Ltd	30-Sep-19	4.22	3.0	0.0
4	Stewart Investors	31-Jul-19	3.10	2.2	0.0
5	Goldman Sachs Asset Management Inte	30-Sep-19	2.96	2.1	0.0
6	Goldman Sachs Bank AG	30-Sep-19	2.96	2.1	2.1
7	First State Investments (U.K.) Ltd	30-Sep-19	2.83	2.0	0.1
8	DSP Investment Managers Pvt. Ltd.	30-Jun-19	2.04	1.5	-0.2
9	Bhanshali (Akash)	30-Sep-19	1.86	1.3	0.3
10	First State Investments (Singapore)	31-Jul-19	1.64	1.2	0.0

Source: ICICI Direct Research, Reuters, Company

Exhibit 12: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	58.5	58.5	58.5	58.5
Others	41.5	41.5	41.5	41.5

Source: ICICI Direct Research, Reuters, Company

Financial Summary

Exhibit 13: Profit & Loss Statement					₹ crore
(Year-end March)/ (₹cro)	FY19	FY20	FY21E	FY22E	
Total Operating Income	3,851.3	3,473.5	3,387.6	3,745.7	
Growth (%)	12.7	-9.8	-2.5	10.6	
Freight Expense and Charge	3,372.4	2,986.4	2,913.4	3,202.6	
Gross Profit	478.9	487.1	474.3	543.1	
Gross Profit Margins (%)	12.4	14.0	14.0	14.5	
Employee Expenses	263.8	306.7	304.9	337.1	
Other Expenditure	63.9	76.4	71.1	78.7	
Total Operating Expenditure	3,700.1	3,369.4	3,289.4	3,618.4	
EBITDA	151.2	104.0	98.2	127.4	
Growth (%)	26.3	-31.2	-5.6	29.6	
Interest	3.5	3.6	2.9	2.3	
Depreciation	22.0	25.6	38.4	44.0	
Other Income	7.6	11.8	11.9	13.1	
PBT before Exceptional Item	133.4	86.7	68.7	94.1	
Less: Exceptional Items	0.0	0.0	0.0	0.0	
PBT after Exceptional Items	133.4	86.7	68.7	94.1	
Total Tax	46.8	25.7	17.3	23.7	
PAT before MI	86.7	60.9	51.4	70.4	
Minority Interest	0.8	-0.3	0.3	0.3	
PAT	85.9	61.2	51.2	70.1	
EPS Growth (%)	34.2	-28.7	-16.4	37.1	
EPS (Adjusted)	12.0	8.5	7.2	9.8	

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow Statement					₹ crore
(Year-end March)/ (₹crore)	FY19	FY20	FY21E	FY22E	
Profit/(Loss) after taxation	85.6	60.6	51.2	70.1	
Add: Depreciation & Amortization	22.0	25.6	38.4	44.0	
Add: Interest Paid	3.5	3.6	2.9	2.3	
Net Increase in Current Assets	-168.2	-50.6	8.3	-57.6	
Net Increase in Current Liabilities	137.8	5.1	-59.4	59.8	
Others	14.3	0.0	0.0	0.0	
CF from Operating activities	95.0	44.2	41.4	118.6	
(Purchase)/Sale of Fixed Assets	-34.2	-72.5	-35.0	-35.0	
Long term Loans & Advances	0.0	0.0	0.0	0.0	
Investments	-25.3	71.6	-0.3	-50.0	
Others	-54.3	-87.0	-37.3	-37.4	
CF from Investing activities	-79.7	-15.4	-37.7	-87.4	
(inc)/Dec in Loan	2.3	0.8	-5.0	-5.0	
Dividend & Dividend tax	-12.9	-16.4	-19.8	-19.8	
Less: Interest Paid	-3.5	-3.6	-2.9	-2.3	
Other	2.7	0.0	0.0	0.0	
CF from Financing activities	-11.3	-19.2	-27.7	-27.1	
Net Cash Flow	3.9	9.6	-23.9	4.1	
Cash and Cash Equivalent at the start	66.0	70.0	79.5	55.6	
Cash	70.0	79.5	55.6	59.8	

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Equity Capital	71.5	71.5	71.5	71.5	
Reserve and Surplus	426.8	471.0	502.3	552.6	
Total Shareholders funds	498.2	542.4	573.8	624.1	
Minority Interest	5.7	5.4	5.4	5.4	
Total Debt	28.5	29.3	24.3	19.3	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Long-Term Provisions	0.0	0.0	0.0	0.0	
Other Non Current Liabilities	16.4	15.7	16.0	16.3	
Source of Funds	548.8	592.8	619.5	665.1	
Gross Block - Fixed Assets	145.3	205.3	240.3	275.3	
Accumulated Depreciation	78.3	103.9	142.4	186.4	
Net Block	67.0	101.4	97.9	88.9	
Capital WIP	2.6	15.0	15.0	15.0	
Fixed Assets	69.6	116.4	113.0	103.9	
Investments	87.9	16.3	16.7	66.7	
Goodwill on Consolidation	4.3	4.3	4.3	4.3	
Deferred Tax Assets	18.7	20.0	20.0	20.0	
Other non-Current Assets	120.3	132.6	135.3	138.0	
Inventory	0.0	0.0	0.0	0.0	
Debtors	631.7	522.4	510.5	564.4	
Loans and Advances	202.7	362.6	366.2	369.9	
Other Current Assets	0.0	0.0	0.0	0.0	
Cash	70.0	79.5	55.6	59.8	
Total Current Assets	904.3	964.6	932.3	994.1	
Creditors	600.1	617.2	556.9	615.7	
Provisions	5.2	5.6	5.7	5.9	
Other Current Liabilities	51.1	38.6	39.3	40.1	
Total Current Liabilities	656.3	661.4	602.0	661.7	
Net Current Assets	248.0	303.2	330.3	332.3	
Application of Funds	548.8	592.9	619.5	665.2	

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Reported EPS	12.0	8.5	7.2	9.8
BV per share	69.8	76.0	80.4	87.4
Cash per Share	9.8	11.1	7.8	8.4
Dividend per share	1.8	2.3	2.8	2.8
Operating Ratios (%)				
Gross Profit Margins	12.4	14.0	14.0	14.5
EBITDA margins	3.9	3.0	2.9	3.4
PAT Margins	2.2	1.7	1.5	1.9
Inventory days	0.0	0.0	0.0	0.0
Debtor days	59.9	54.9	55.0	55.0
Creditor days	56.9	64.9	60.0	60.0
Asset Turnover	26.5	16.9	14.1	13.6
Return Ratios (%)				
RoE	17.2	11.2	8.9	11.2
RoCE	25.8	15.8	12.0	14.9
RoIC	28.3	16.4	11.3	14.6
Valuation Ratios (x)				
P/E	20.8	29.4	34.9	25.4
EV / EBITDA	11.5	16.7	17.8	13.7
EV / Net Sales	0.5	0.5	0.5	0.5
Market Cap / Sales	0.5	0.5	0.5	0.5
Price to Book Value	3.6	3.3	3.1	2.9
Solvency Ratios				
Debt / EBITDA	0.2	0.3	0.2	0.2
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.3	1.3	1.5	1.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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