

**BUY**

TP: Rs 635 | ▲ 19%

**MAHINDRA LOGISTICS**

Logistics

30 April 2021

## Earnings call takeaways – Management upbeat on growth

In its Q4FY21 earnings call, Mahindra Logistics' (MLL) management spoke about its vision to triple revenue by FY26, driven by formalisation, auto recovery, service expansion and integrated solutions to customers. MLL is seeing strong growth from ecommerce and pharma. The Covid-19 impact should be limited unless lockdowns are announced by large states, though new customer additions might slow. The QoQ drop in non-Mahindra warehousing revenue in Q4 was due to seasonality and a weaker Jan'21. Retain BUY.

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**Aims to triple revenue by FY26:** Management expects to raise revenue to Rs 100bn or 3x the current level by FY26, to be achieved by formalisation of the sector, auto recovery, expansion of services and integrated solutions. Auto will benefit from PLI and the scrappage policy. Ecommerce is seeing a secular pick-up in growth while pharma firms are building a leaner supply chain.

**Covid-19 spurt:** The early impact from the second wave includes a drop in shipments of products such as apparel and mobiles. Supply chains are facing constraints due to labour migration and absent employees. The impact looks manageable unless lockdowns are announced by major states, though customer addition will be a challenge if the crisis persists.

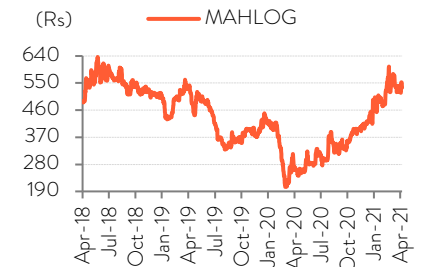
**Non-Mahindra warehousing revenue:** The 25% QoQ decline in revenue during Q4 was due to seasonal factors and a below-expected January performance. Expansion in warehousing of 1.5-2msf per year will continue.

**Our view:** We retain BUY on MLL with a Mar'22 TP of Rs 635 based on 35x FY23E P/E – close to its mean multiple since listing. New customer adds and demand normalisation after the current Covid wave subsides would be the key stock price drivers.

Ticker/Price	MAHLOG IN/Rs 534
Market cap	US\$ 515.2mn
Shares o/s	71mn
3M ADV	US\$ 1.0mn
52wk high/low	Rs 615/Rs 240
Promoter/FPI/DII	58%/20%/8%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	38,513	34,711	32,637	41,110	47,400
EBITDA (Rs mn)	1,512	1,583	1,342	2,406	2,927
Adj. net profit (Rs mn)	856	551	328	976	1,302
Adj. EPS (Rs)	12.0	7.7	4.6	13.6	18.2
Adj. EPS growth (%)	33.2	(35.7)	(40.7)	198.6	33.5
Adj. ROAE (%)	18.7	10.6	5.9	16.2	18.9
Adj. P/E (x)	44.6	69.3	116.9	39.1	29.3
EV/EBITDA (x)	24.7	23.5	27.8	15.4	12.7

Source: Company, BOBCAPS Research | Provisional

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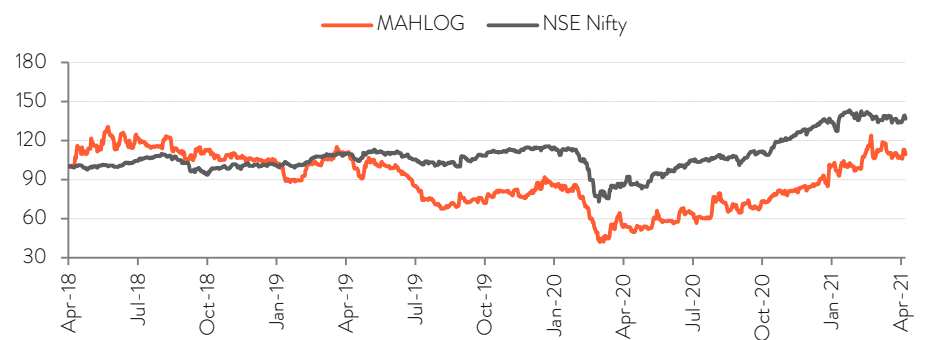
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## Valuation methodology

We retain BUY on MLL with a Mar'22 target price of Rs 635 based on an 35x FY23 P/E – our target multiple is close to the company’s mean one-year forward P/E of 33x since listing over three years ago. Announcements on new customer additions and demand normalisation after the ongoing Covid wave subsides would be the main stock price drivers, in our view. Retain BUY

**FIG 1 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Downside risk include:

- slowdown in key end-user industry verticals if the Covid-19 crisis is protracted,
- high churn in non-anchor client segment, and
- slower shift than expected from inhouse to outsourced logistics model.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>38,513</b>	<b>34,711</b>	<b>32,637</b>	<b>41,110</b>	<b>47,400</b>
EBITDA	1,512	1,583	1,342	2,406	2,927
Depreciation	220	734	897	1,036	1,174
EBIT	1,293	848	446	1,370	1,753
Net interest income/(expenses)	(35)	(176)	(201)	(190)	(188)
Other income/(expenses)	76	140	175	119	161
Exceptional items	0	0	0	0	0
EBT	1,334	812	420	1,299	1,726
Income taxes	(468)	(257)	(100)	(331)	(431)
Extraordinary items	0	0	(28)	0	0
Min. int./Inc. from associates	(10)	(3)	8	8	8
<b>Reported net profit</b>	<b>856</b>	<b>551</b>	<b>300</b>	<b>976</b>	<b>1,302</b>
Adjustments	0	0	28	0	0
<b>Adjusted net profit</b>	<b>856</b>	<b>551</b>	<b>328</b>	<b>976</b>	<b>1,302</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	6,001	6,172	7,661	7,321	8,441
Other current liabilities	419	320	531	338	390
Provisions	215	213	220	252	291
Debt funds	377	359	264	0	0
Other liabilities	0	1,654	2,403	1,880	1,880
Equity capital	715	715	717	715	715
Reserves & surplus	4,325	4,785	4,992	5,724	6,700
Shareholders' fund	5,039	5,501	5,708	6,439	7,416
<b>Total liabilities and equities</b>	<b>12,051</b>	<b>14,218</b>	<b>16,787</b>	<b>16,230</b>	<b>18,418</b>
Cash and cash eq.	1,475	995	1,978	268	1,438
Accounts receivables	5,183	5,224	4,856	6,758	7,792
Inventories	0	0	0	0	0
Other current assets	3,180	3,645	5,209	4,317	4,977
Investments	38	31	0	31	31
Net fixed assets	660	918	1,822	1,307	634
CWIP	26	150	21	0	0
Intangible assets	53	54	172	55	55
Deferred tax assets, net	187	200	221	200	200
Other assets	1,250	1,458	939	1,526	1,523
<b>Total assets</b>	<b>12,051</b>	<b>12,676</b>	<b>15,217</b>	<b>14,461</b>	<b>16,649</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	1,076	1,286	1,197	2,012	2,476
Interest expenses	35	176	201	190	188
Non-cash adjustments	(46)	(12)	(21)	21	0
Changes in working capital	(332)	(645)	2,573	(2,070)	(281)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>732</b>	<b>805</b>	<b>3,950</b>	<b>152</b>	<b>2,383</b>
Capital expenditures	(294)	(1,117)	(1,790)	(383)	(500)
Change in investments	(38)	6	31	(31)	0
Other investing cash flows	0	(2,021)	(923)	(806)	(683)
<b>Cash flow from investing</b>	<b>(332)</b>	<b>(3,132)</b>	<b>(2,682)</b>	<b>(1,220)</b>	<b>(1,183)</b>
Equities issued/Others	3	1	1	(1)	0
Debt raised/repaid	31	(18)	(95)	(264)	0
Interest expenses	(35)	(176)	(52)	(22)	0
Dividends paid	(155)	(155)	(64)	(244)	(326)
Other financing cash flows	59	61	(49)	8	8
<b>Cash flow from financing</b>	<b>(97)</b>	<b>(287)</b>	<b>(258)</b>	<b>(523)</b>	<b>(317)</b>
<b>Changes in cash and cash eq.</b>	<b>304</b>	<b>(2,615)</b>	<b>1,010</b>	<b>(1,591)</b>	<b>882</b>
<b>Closing cash and cash eq.</b>	<b>1,475</b>	<b>995</b>	<b>1,978</b>	<b>268</b>	<b>1,438</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	12.0	7.7	4.6	13.6	18.2
Adjusted EPS	12.0	7.7	4.6	13.6	18.2
Dividend per share	1.8	1.5	2.5	3.4	4.6
Book value per share	69.7	76.1	79.3	89.5	103.0

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	1.0	1.1	1.1	0.9	0.8
EV/EBITDA	24.7	23.5	27.8	15.4	12.7
Adjusted P/E	44.6	69.3	116.9	39.1	29.3
P/BV	7.7	7.0	6.7	6.0	5.2

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	64.2	67.9	78.1	75.1	75.5
Interest burden (PBT/EBIT)	103.2	95.7	94.1	94.8	98.4
EBIT margin (EBIT/Revenue)	3.4	2.4	1.4	3.3	3.7
Asset turnover (Revenue/Avg TA)	7.4	5.4	4.3	5.0	5.3
Leverage (Avg TA/Avg Equity)	1.1	1.2	1.4	1.4	1.3
Adjusted ROAE	18.7	10.6	5.9	16.2	18.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	12.7	(9.9)	(6.0)	26.0	15.3
EBITDA	26.3	4.6	(15.2)	79.2	21.7
Adjusted EPS	33.2	(35.7)	(40.7)	198.6	33.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	3.9	4.6	4.1	5.9	6.2
EBIT margin	3.4	2.4	1.4	3.3	3.7
Adjusted profit margin	2.2	1.6	1.0	2.4	2.7
Adjusted ROAE	18.7	10.6	5.9	16.2	18.9
ROCE	25.8	13.6	6.0	17.0	19.9
<b>Working capital days (days)</b>					
Receivables	49	55	54	60	60
Inventory	0	0	0	0	0
Payables	59	68	89	69	69
<b>Ratios (x)</b>					
Gross asset turnover	32.4	22.5	12.2	10.7	10.9
Current ratio	1.5	1.4	1.4	1.5	1.6
Net interest coverage ratio	37.2	4.8	2.2	7.2	9.3
Adjusted debt/equity	(0.2)	(0.1)	(0.3)	0.0	(0.2)

Source: Company, BOBCAPS Research

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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

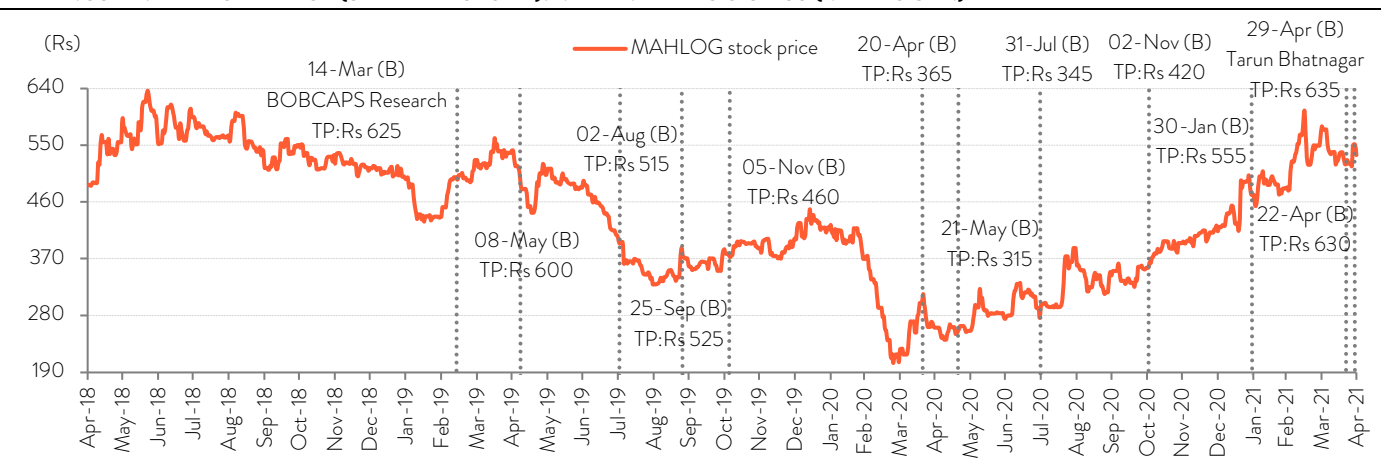
**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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B – Buy, A – Add, R – Reduce, S – Sell

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