

BUY

TP: Rs 525 | ▲ 41%

MAHINDRA LOGISTICS

Logistics

26 September 2019

Meeting takeaways: Reiterates growth plan; technology to the fore

We interacted with Mahindra Logistics' (MLL) CEO designate Rampraveen Swaminathan who will assume the role of CEO from Oct 1. Key highlights: (1) growth strategy unchanged, (2) technology push underway, and (3) thrust on building sustainable revenue streams.

- Swaminathan has over two decades of experience in B2B businesses across auto, capital goods and paper, spanning large corporate names and both domestic and international operations.
- MLL's growth strategy will remain focused on growing non-Mahindra business, warehousing- and distribution logistics-led growth, and maintaining an asset-light business model.
- Management believes existing businesses – 3PL, shared mobility and freight forwarding – have healthy growth potential. Consolidating its position in these businesses remains a key short-term priority.
- Technology will play a key role in helping the company deliver more efficient and newer services to customers. Leveraging technology, MLL aims to (1) augment network optimisation in transportation; (2) integrate warehousing systems and secondary distribution; and (3) drive fleet, network and roster optimisation in the shared mobility/PTS segment.
- In the non-Mahindra auto segment, inbound and in-factory logistics offer vast potential. At present, MLL has only three clients that avail of in-factory logistics services, which indicates headroom for growth. Management expects to add auto component clients, a focus area, once demand improves.
- Consumer and pharma companies are gradually transitioning to 3PL, led by MNCs. Wallet share gain and client addition has led to 20%+ YoY growth in this vertical for the company in Q1FY20. In e-commerce vertical, MLL is striving to raise share in customer's logistics spend. It recently added Asian Paints to its client roster.
- Management is optimistic about festive season demand and a growth uptrend in H2FY20.
- Our view:** Near-term growth obstacles notwithstanding, we remain positive on MLL's long-term prospects. Reiterate BUY with a Jun'20 TP of Rs 525.

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Ticker/Price	MAHLOG IN/Rs 372
Market cap	US\$ 375.0mn
Shares o/s	71mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 578/Rs 324
Promoter/FPI/DII	59%/10%/13%

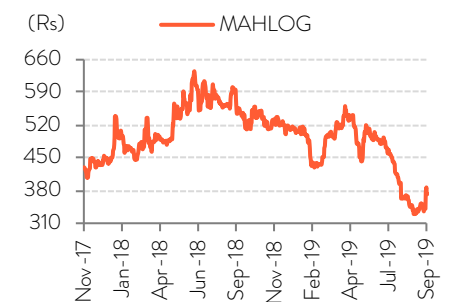
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Total revenue (Rs mn)	38,957	44,392	51,380
EBITDA (Rs mn)	1,436	1,928	2,404
Adj. net profit (Rs mn)	969	1,304	1,628
Adj. EPS (Rs)	13.6	18.2	22.8
Adj. EPS growth (%)	13.1	34.5	24.9
Adj. ROAE (%)	18.1	21.0	22.9
Adj. P/E (x)	27.5	20.4	16.3
EV/EBITDA (x)	17.8	12.8	10.2

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

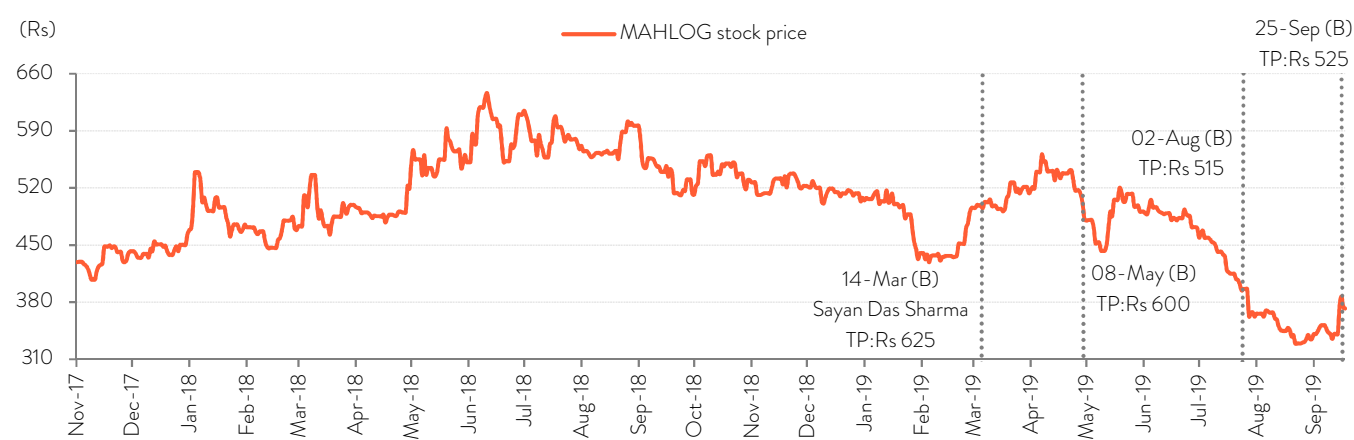
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: MAHINDRA LOGISTICS (MAHLOG IN)



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

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