

BUY

TP: Rs 420 | ▲ 15%

MAHINDRA LOGISTICS

Logistics

02 November 2020

Strong recovery in non-auto SCM drives operational beat

Buoyed by traction in key client segments – e-commerce, consumer, pharma, tractors – Mahindra Logistics' (MLL) topline decline eased to 2% YoY, ahead of our estimate of a 14% drop. Resilient margins (+5bps YoY) catalysed a beat on EBITDA too (-1% vs. -16% est.). Improving demand, robust client addition and growing customer wallet share augur well for MLL's growth prospects. Given that earnings are on the mend, we raise our target P/E multiple to 29x (vs. 26x). Rolling over, we have a revised Dec'21 TP of Rs 420 (vs. Rs 345).

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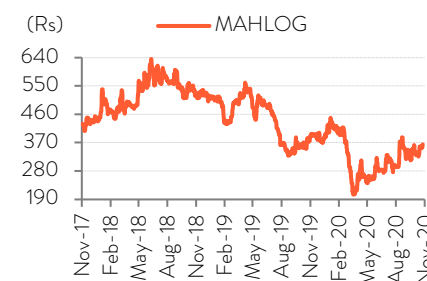
Non-auto SCM segment catalysed growth: Deeper penetration at existing clientele, wider service offerings and new client adds in the e-commerce, consumer and pharma verticals helped MLL deliver strong 20% YoY growth in non-Mahindra, non-auto revenue. Consequently, the non-Mahindra segment rose 16% YoY, the fastest since Q4FY18. The decline in Mahindra Group revenue also eased to 1.2% YoY (-65% in Q1), augmented by healthy tractor sales of the anchor customer, while the non-Mahindra auto segment posted a 1% uptick.

Ticker/Price	MAHLOG IN/Rs 364
Market cap	US\$ 349.9mn
Shares o/s	71mn
3M ADV	US\$ 0.5mn
52wk high/low	Rs 458/Rs 195
Promoter/FPI/DII	58%/21%/10%

Source: NSE

EBITDA margin flat: Gross margin (ex-other income) contracted ~110bps YoY due to one-time expenses incurred for new initiatives, lag in passing on freight rate increases, and margin dilution in the freight forwarding and enterprise mobility segments. However, tight control on fixed costs yielded a flat EBITDA margin of 4.5% (+5bps YoY). Higher other income and a lower tax rate drove a sturdy 34% YoY rise in PAT. Consequent to the earnings beat, we raise our FY21/FY22/FY23 earnings estimates by 6%/3%/3%.

STOCK PERFORMANCE



New initiatives: MLL's focus on expanding service offerings is aiding client addition and wallet share gains. It is launching >1mn sq ft of warehousing space (Flex) to meet clients' short-term, seasonal needs; developing Covid vaccine logistics solutions; and expanding offerings in the grocery & wholesale segments.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	38,513	34,711	31,928	38,476	44,311
EBITDA (Rs mn)	1,512	1,583	1,480	2,104	2,526
Adj. net profit (Rs mn)	856	551	475	854	1,089
Adj. EPS (Rs)	12.0	7.7	6.6	11.9	15.2
Adj. EPS growth (%)	33.2	(35.7)	(13.9)	80.1	27.5
Adj. ROAE (%)	18.7	10.6	8.3	13.7	15.6
Adj. P/E (x)	30.4	47.3	54.9	30.5	23.9
EV/EBITDA (x)	16.7	15.8	17.0	12.2	10.1

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Total revenues	8,325	8,524	(2.3)	4,105	102.8	12,430	17,515	(29.0)
Operating expenses	7,047	7,200	(2.1)	3,292	114.0	10,339	14,872	(30.5)
% of sales	84.6	84.5	18bps	80.2	444bps	83.2	84.9	(174bps)
Employee expenses	726	764	(5.0)	732	(0.8)	1,457	1,510	(3.5)
% of sales	8.7	9.0	(25bps)	17.8	(911bps)	11.7	8.6	311bps
Other expenses	179	182	(1.4)	103	74.0	283	354	(20.2)
% of sales	2.2	2.1	2bps	2.5	(36bps)	2.3	2.0	25bps
Total expenditure	7,952	8,146	(2.4)	4,127	92.7	12,079	16,736	(27.8)
EBITDA	373	378	(1.2)	(22)	NM	351	778	(54.9)
EBITDA margin (%)	4.5	4.4	5bps	(0.5)	502bps	2.8	4.4	(162bps)
Depreciation	209	177	17.7	184	13.2	393	326	20.5
EBIT	165	201	(17.9)	(206)	NM	(42)	453	NM
Interest expenses	45	42	8.0	46	(1.5)	90	77	17.3
Other income	83	19	345.9	28	193.6	111	89	24.8
PBT	202	178	13.9	(224)	NM	(21)	464	NM
PBT margin (%)	2.4	2.1	35bps	(5.5)	788bps	(0.2)	2.7	(282bps)
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Income tax	54	65	(16.7)	(59)	NM	(5)	164	NM
Effective tax rate (%)	26.6	36.4	(978bps)	26.4	27bps	23.8	35.4	(1158bps)
Reported PAT – before profit/(loss) from JVs/Minority/Associates	149	113	31.4	(165)	NM	(16)	300	NM
Profit/(loss) from JVs/Minority/Associates	(1)	1	NM	(7)	NM	(8)	1	NM
Reported PAT – after profit/(loss) from JVs/Minority/Associates	150	112	33.7	(158)	NM	(24)	301	NM
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	150	112	33.7	(158)	NM	(24)	301	NM
Adjusted PAT margin	1.8	1.3	49bps	(3.9)	565bps	(0.2)	1.7	(192bps)

Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Supply chain management								
Revenue	8,039	7,553	6.4	3,926	104.7	11,965	15,562	(23.1)
Gross profit	808	782	3.3	405	99.5	1,213	1,561	(22.3)
Gross margin	10.1	10.4	(30bps)	10.3	(26bps)	10.1	10.0	11bps
EBIT	631	629	0.3	241	162.3	872	1,271	(31.4)
EBIT margin	7.9	8.3	(48bps)	6.1	172bps	7.3	8.2	(88bps)
Enterprise mobility solutions								
Revenue	287	971	(70.5)	178	60.8	465	1,952	(76.2)
Gross profit	16	85	(81.2)	(7)	(328.6)	9	180	(95.0)
Gross margin	5.6	8.8	(317bps)	(3.9)	951bps	1.9	9.2	(728bps)
EBIT	6	85	(92.8)	(7)	(191.0)	(1)	180	(100.3)
EBIT margin	2.1	8.8	(663bps)	(3.8)	589bps	(0.1)	9.2	(935bps)

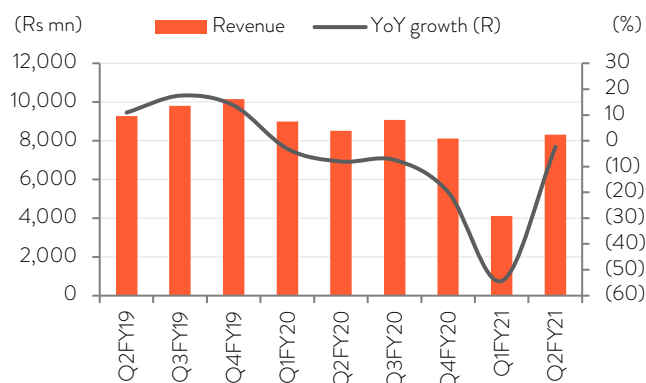
Source: Company, BOBCAPS Research

FIG 3 – SEGMENT-WISE REVENUE BREAKDOWN – CONSOLIDATED

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Supply Chain Management (SCM) segment (A)	8,039	7,553	6.4	3,926	104.8	11,965	15,563	(23.1)
Mahindra Group	4,165	4,215	(1.2)	1,721	142.0	5,886	9,127	(35.5)
Non-Mahindra clients	3,874	3,338	16.1	2,205	75.7	6,079	6,436	(5.5)
Total SCM - Service-wise breakup								
Transportation	6,344	5,972	6.2	2,722	133.1	9,066	12,582	(27.9)
Warehousing	1,695	1,581	7.2	1,204	40.8	2,899	2,981	(2.8)
Total SCM - Industry-wise breakup								
Auto	4,868	4,850	0.4	2,075	134.6	6,943	10,500	(33.9)
Non-auto	3,171	2,703	17.3	1,851	71.3	5,022	5,063	(0.8)
Non-Mahindra SCM - Service-wise breakup								
Transportation	2,530	2,196	15.2	1,355	86.7	3,885	4,334	(10.4)
Warehousing	1,344	1,142	17.7	850	58.1	2,194	2,102	4.4
Non-Mahindra SCM - Industry-wise breakup								
Auto	706	699	1.0	355	98.9	1,061	1,511	(29.8)
Non-auto	3,168	2,639	20.0	1,850	71.2	5,018	4,925	1.9
Mahindra Group SCM - Service-wise breakup								
Transportation	3,814	3,776	1.0	1,367	179.0	5,181	8,248	(37.2)
Warehousing	351	439	(20.0)	354	(0.8)	705	879	(19.8)
Mahindra Group SCM - Industry-wise breakup								
Auto	4,162	4,151	0.3	1,720	142.0	5,882	8,989	(34.6)
Non-auto	3	64	(95.3)	1	200.0	4	138	(97.1)
People Transport Solution (PTS) segment (B)	287	971	(70.5)	178	60.8	465	1,952	(76.2)
Total consolidated revenue (A+B)	8,325	8,524	(2.3)	4,105	102.9	12,430	17,515	(29.0)

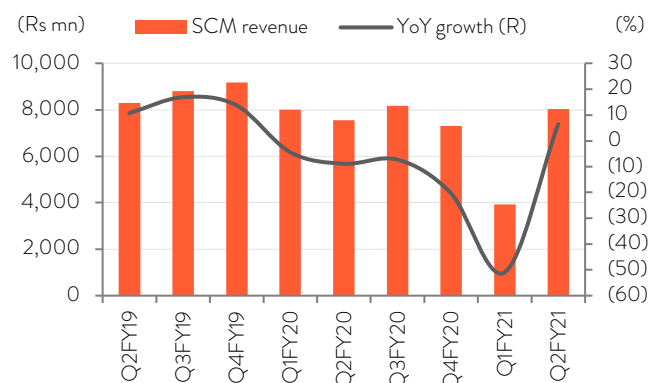
Source: Company, BOBCAPS Research

FIG 4 – DECLINE IN CONSOLIDATED REVENUE EASED TO 2% YOY



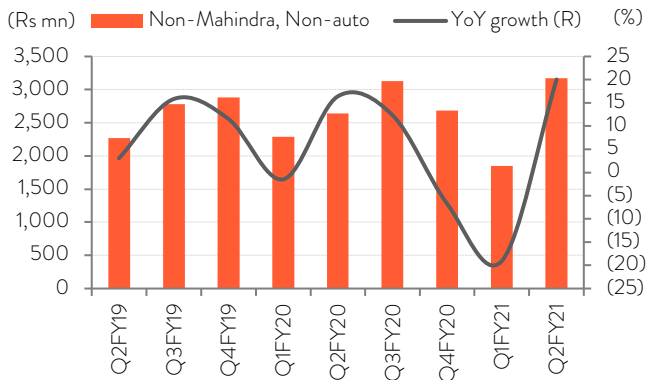
Source: Company, BOBCAPS Research

FIG 5 – SCM SEGMENT BOUNCED BACK TO GROWTH PATH WITH 6.4% YOY INCREASE...



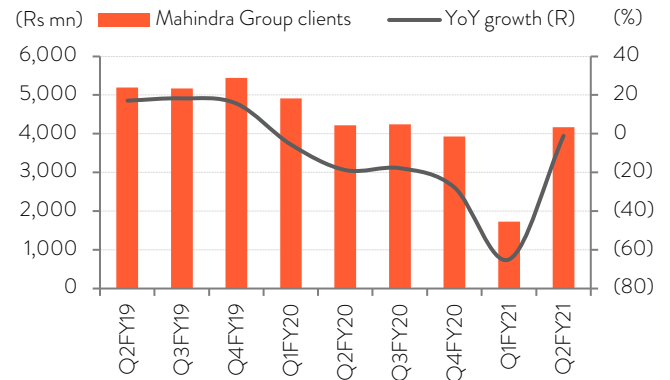
Source: Company, BOBCAPS Research

FIG 6 – ...DRIVEN BY A 20% YOY JUMP IN NON-MAHINDRA, NON-AUTO SEGMENT



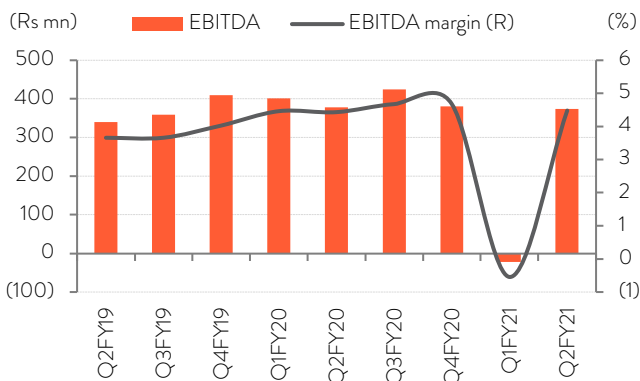
Source: Company, BOBCAPS Research

FIG 7 – MAHINDRA GROUP SEGMENT REVENUE FELL BY A SLOWER 1.2% YOY



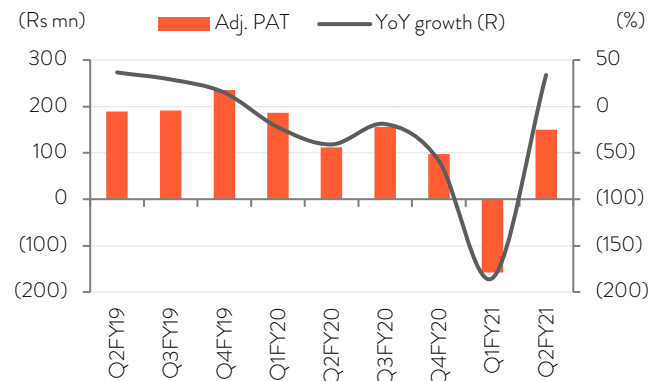
Source: Company, BOBCAPS Research

FIG 8 – EBITDA DECLINE ALSO SLOWED DOWN TO 1% YOY, EBITDA MARGIN FLAT



Source: Company, BOBCAPS Research

FIG 9 – HIGHER OTHER INCOME DROVE 34% YOY GROWTH IN ADJUSTED PAT



Source: Company, BOBCAPS Research

Valuation methodology

Factoring in the Q2FY21 outperformance, we raise our earnings estimates for FY21/FY22/FY23 by 6%/3%/3%. Given the strong traction from non-Mahindra, non-auto clients and improving sales momentum at key auto clients (anchor and non-anchor), we expect MLL’s topline to grow from Q3FY21 onwards. Its cash flow generation remains strong in Q2, further fortifying an already robust balance sheet. Given the improvement in earnings outlook, we raise our target P/E multiple to 29x (~10% increase over the existing 26x). We also roll over valuations and move to a revised Dec’21 target price of Rs 420.

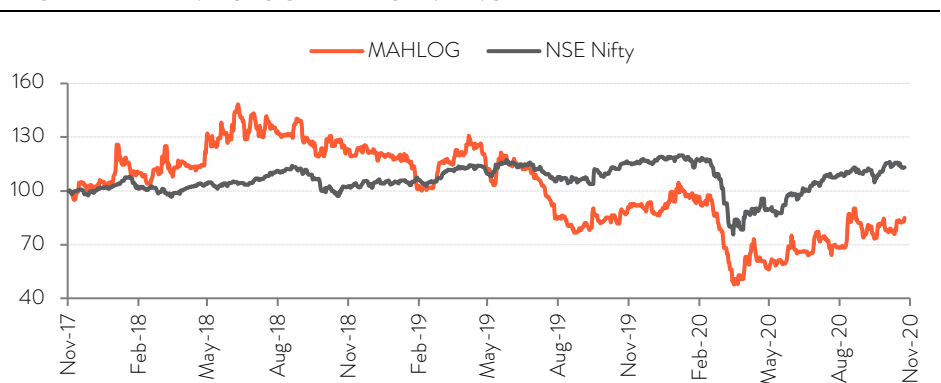
We remain positive on MLL’s long-term prospects considering (1) its entrenched competitive positioning in India’s burgeoning 3PL industry, (2) robust clientele and increasing presence in the key auto, consumer and pharma verticals within the 3PL industry, and (3) strong, net-cash balance sheet. Reiterate BUY.

FIG 10 – REVISED ESTIMATES – CONSOLIDATED

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	31,173	31,928	2.4	37,589	38,476	2.4	43,285	44,311	2.4
EBITDA	1,467	1,480	0.9	2,049	2,104	2.7	2,464	2,526	2.5
EBITDA margin (%)	4.7	4.6	(7bps)	5.5	5.5	2bps	5.7	5.7	1bps
PAT	449	475	5.8	833	854	2.6	1,059	1,089	2.8
PAT margin (%)	1.4	1.5	5bps	2.2	2.2	1bps	2.4	2.5	1bps

Source: Company, BOBCAPS Research

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- prolonged economic impact owing to the pandemic
- high churn in the non-anchor client segment, and
- delayed recovery in auto demand.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	38,513	34,711	31,928	38,476	44,311
EBITDA	1,512	1,583	1,480	2,104	2,526
Depreciation	220	734	812	891	1,015
EBIT	1,293	848	668	1,213	1,511
Net interest income/(expenses)	(35)	(176)	(175)	(174)	(190)
Other income/(expenses)	76	140	149	105	136
Exceptional items	0	0	0	0	0
EBT	1,334	812	642	1,144	1,457
Income taxes	(468)	(257)	(164)	(286)	(364)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(10)	(3)	(3)	(3)	(3)
Reported net profit	856	551	475	854	1,089
Adjustments	0	0	0	0	0
Adjusted net profit	856	551	475	854	1,089

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	6,001	6,172	5,248	6,852	7,891
Other current liabilities	419	320	262	316	364
Provisions	215	213	196	236	272
Debt funds	377	359	359	359	359
Other liabilities	0	1,654	1,681	1,884	1,884
Equity capital	715	715	715	715	715
Reserves & surplus	4,325	4,785	5,260	5,901	6,718
Shareholders' fund	5,039	5,501	5,975	6,616	7,433
Total liabilities and equities	12,051	14,218	13,722	16,263	18,203
Cash and cash eq.	1,475	995	656	1,129	1,494
Accounts receivables	5,183	5,224	5,686	6,325	7,284
Inventories	0	0	0	0	0
Other current assets	3,180	3,645	3,353	4,040	4,653
Investments	38	31	31	31	31
Net fixed assets	660	918	1,211	1,283	1,291
CWIP	26	150	0	0	0
Intangible assets	53	54	54	54	54
Deferred tax assets, net	187	200	200	200	200
Other assets	1,250	3,001	2,531	3,201	3,196
Total assets	12,051	14,218	13,722	16,263	18,203

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	1,076	1,286	1,287	1,745	2,104
Interest expenses	35	36	43	39	39
Non-cash adjustments	(46)	(12)	0	0	0
Changes in working capital	(332)	(645)	(671)	(96)	(444)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	732	664	659	1,689	1,700
Capital expenditures	(294)	(639)	(500)	(500)	(500)
Change in investments	(38)	6	0	0	0
Other investing cash flows	0	(2,021)	(482)	(666)	(523)
Cash flow from investing	(332)	(2,654)	(982)	(1,166)	(1,023)
Equities issued/Others	3	1	0	0	0
Debt raised/repaid	31	(18)	0	0	0
Interest expenses	(35)	(36)	(43)	(39)	(39)
Dividends paid	(155)	(155)	0	(214)	(272)
Other financing cash flows	72	1,718	27	203	0
Cash flow from financing	(84)	1,510	(16)	(50)	(312)
Changes in cash and cash eq.	316	(480)	(339)	473	365
Closing cash and cash eq.	1,475	995	656	1,129	1,494

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	12.0	7.7	6.6	11.9	15.2
Adjusted EPS	12.0	7.7	6.6	11.9	15.2
Dividend per share	1.8	1.5	0.0	3.0	3.8
Book value per share	69.7	76.1	82.8	91.8	103.3

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.7	0.7	0.8	0.7	0.6
EV/EBITDA	16.7	15.8	17.0	12.2	10.1
Adjusted P/E	30.4	47.3	54.9	30.5	23.9
P/BV	5.2	4.8	4.4	4.0	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	64.2	67.9	73.9	74.7	74.8
Interest burden (PBT/EBIT)	103.2	95.7	96.1	94.3	96.4
EBIT margin (EBIT/Revenue)	3.4	2.4	2.1	3.2	3.4
Asset turnover (Revenue/Avg TA)	7.4	5.4	4.2	4.5	4.7
Leverage (Avg TA/Avg Equity)	1.1	1.2	1.4	1.4	1.4
Adjusted ROAE	18.7	10.6	8.3	13.7	15.6

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	12.7	(9.9)	(8.0)	20.5	15.2
EBITDA	26.3	4.6	(6.5)	42.1	20.1
Adjusted EPS	33.2	(35.7)	(13.9)	80.1	27.5
Profitability & Return ratios (%)					
EBITDA margin	3.9	4.6	4.6	5.5	5.7
EBIT margin	3.4	2.4	2.1	3.2	3.4
Adjusted profit margin	2.2	1.6	1.5	2.2	2.5
Adjusted ROAE	18.7	10.6	8.3	13.7	15.6
ROCE	25.8	13.6	8.9	14.4	16.3
Working capital days (days)					
Receivables	49	55	65	60	60
Inventory	0	0	0	0	0
Payables	59	68	63	62	62
Ratios (x)					
Gross asset turnover	32.4	22.5	15.2	14.4	14.0
Current ratio	1.5	1.4	1.7	1.6	1.6
Net interest coverage ratio	37.2	4.8	3.8	7.0	7.9
Adjusted debt/equity	(0.2)	(0.1)	0.0	(0.1)	(0.2)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

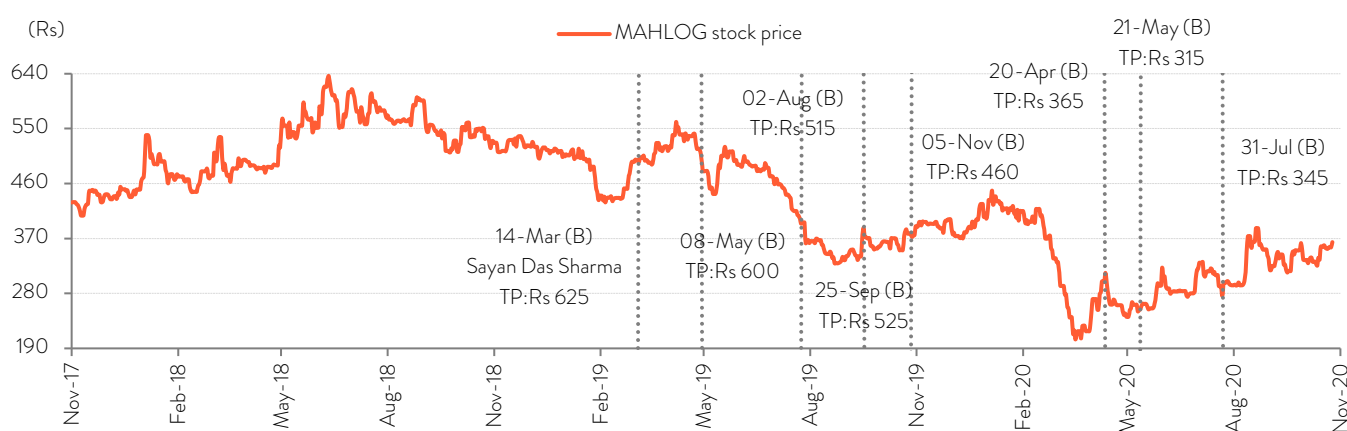
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): MAHINDRA LOGISTICS (MAHLOG IN)



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

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