

BUY

TP: Rs 315 | ▲ 22%

MAHINDRA LOGISTICS

Logistics

21 May 2020

Inspid quarter all around

Mahindra Logistics' (MLL) Q4FY20 print was weak on account of the national lockdown and auto industry slowdown. Consolidated revenue declined 20% YoY, with SCM/PTS revenue dropping 20%/17%. EBITDA/PBT (Ind-AS 116 adjusted) plunged 47%/61% YoY. Though some verticals may bounce back earlier, a broad-based recovery is likely to begin only in Q4FY21. Considering near-term headwinds, we reduce our FY21/FY22 EPS estimates by 31%/13% and move to a revised Mar'21 TP of Rs 315 (Rs 365 earlier). Retain BUY.

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Confluence of headwinds: Multiple headwinds battered growth across most segments in Q4. Auto sales already reeling under a consumption slowdown further worsened amid the national lockdown and BS-VI transition, catalysing a 28%/19% YoY decline in anchor/non-anchor auto revenue. Non-auto, non-Mahindra revenue fell 7% YoY as non-essential goods transport was disrupted. The PTS (people transport) segment plunged 17% YoY as corporate offices closed. Management estimates that Covid-19 had a 7-8% topline impact in Q4.

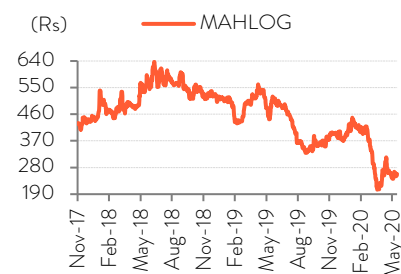
Recovery delayed: MLL expects auto recovery to begin in Q4FY21 (vs. Q2 earlier), though the farm equipment segment may recover sooner. The ecommerce, consumer and pharma verticals should improve from the festive season onwards, but retail revival may be stalled till discretionary spends revive.

Key positives: In a tumultuous quarter, healthy non-Mahindra warehousing vertical growth (+10% YoY), improved receivables (56 vs. 60 days YoY), and a strong balance sheet (net cash of Rs 0.7bn) were key positives. Growth momentum in the ecommerce, consumer and pharma verticals for FY20 (+25%) is also encouraging; we expect these verticals to rebound as consumption spends recover gradually.

Ticker/Price	MAHLOG IN/Rs 259
Market cap	US\$ 244.8mn
Shares o/s	71mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 535/Rs 195
Promoter/FPI/DII	58%/18%/11%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	34,161	38,513	34,711	32,916	39,634
EBITDA (Rs mn)	1,197	1,512	1,583	1,522	2,120
Adj. net profit (Rs mn)	640	856	551	482	867
Adj. EPS (Rs)	9.0	12.0	7.7	6.7	12.1
Adj. EPS growth (%)	34.1	33.2	(35.7)	(12.6)	80.0
Adj. ROAE (%)	16.7	18.7	10.6	8.6	14.1
Adj. P/E (x)	28.7	21.6	33.6	38.4	21.3
EV/EBITDA (x)	14.6	11.7	11.1	11.5	8.5

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 – AS REPORTED

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	8,118	10,147	(20.0)	9,079	(10.6)	34,711	38,513	(9.9)
Operating expenses	6,801	8,852	(23.2)	7,668	(11.3)	29,342	33,724	(13.0)
% of sales	83.8	87.2	(346bps)	84.5	(68bps)	84.5	87.6	(303bps)
Employee expenses	756	714	5.8	802	(5.7)	3,067	2,638	16.3
% of sales	9.3	7.0	227bps	8.8	48bps	8.8	6.8	199bps
Other expenses	181	172	5.1	185	(2.2)	721	639	12.7
% of sales	2.2	1.7	53bps	2.0	19bps	2.1	1.7	42bps
Total expenditure	7,738	9,738	(20.5)	8,655	(10.6)	33,129	37,001	(10.5)
EBITDA	380	409	(7.0)	424	(10.4)	1,583	1,512	4.6
EBITDA margin (%)	4.7	4.0	65bps	4.7	1bps	4.6	3.9	63bps
Depreciation	220	61	264.1	188	17.1	734	220	234.5
EBIT	160	348	(54.1)	236	(32.3)	848	1,293	(34.4)
Interest expenses	57	10	449.5	43	32.6	176	35	406.6
Other income	31	19	62.8	20	54.7	140	76	83.2
PBT	134	357	(62.4)	213	(37.1)	812	1,334	(39.2)
PBT margin (%)	1.7	3.5	(186bps)	2.4	(70bps)	2.3	3.5	(113bps)
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Income tax	36	118	(69.2)	57	(36.0)	257	468	(45.0)
Effective tax rate (%)	27.0	33.0	(600bps)	26.6	46bps	31.7	35.1	(336bps)
Reported PAT – before profit/(loss) from JVs/Minority/Associates	98	239	(59.0)	157	(37.5)	555	867	(36.0)
Profit/(loss) from JVs/Minority/Associates	1	4	NM	1	NM	(3)	(10)	NM
Reported PAT – after profit/(loss) from JVs/Minority/Associates	97	235	(58.6)	155	(37.4)	551	856	(35.6)
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	97	235	(58.6)	155	(37.4)	551	856	(35.6)
Adjusted PAT margin	1.2	2.3	(112bps)	1.7	(51bps)	1.6	2.2	(64bps)

Source: Company, BOBCAPS Research

FIG 2 – QUARTERLY PERFORMANCE – CONSOLIDATED – COMPARABLE (ADJUSTED FOR IND-AS 116 IMPACT)

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	8,137	10,147	(19.8)	9,081	(10.4)	34,735	38,513	(9.8)
Operating expenses	6,974	8,852	(21.2)	7,795	(10.5)	29,864	33,725	(11.4)
% of sales	85.7	87.2	(153bps)	85.8	(14bps)	86.0	87.6	(159bps)
Employee expenses	756	714	5.8	802	(5.7)	3,067	2,638	16.3
% of sales	9.3	7.0	225bps	8.8	46bps	8.8	6.8	198bps
Other expenses	193	172	11.9	198	(2.7)	763	638	19.6
% of sales	2.4	1.7	67bps	2.2	19bps	2.2	1.7	54bps
Total expenditure	7,922	9,738	(18.6)	8,795	(9.9)	33,694	37,001	(8.9)
EBITDA	215	409	(47.4)	286	(24.8)	1,041	1,512	(31.2)
EBITDA margin (%)	2.6	4.0	(139bps)	3.1	(51bps)	3.0	3.9	(93bps)
Depreciation	79	61	30.4	65	21.6	256	220	16.6
EBIT	136	348	(60.9)	221	(38.4)	784	1,293	(39.3)
Interest expenses	8	10	(25.2)	11	(26.7)	36	35	3.4
Other income	11	19	(44.5)	20	(46.5)	118	76	55.0
PBT	139	357	(61.1)	230	(39.7)	867	1,334	(35.0)
PBT margin (%)	1.7	3.5	(181bps)	2.5	(83bps)	2.5	3.5	(97bps)

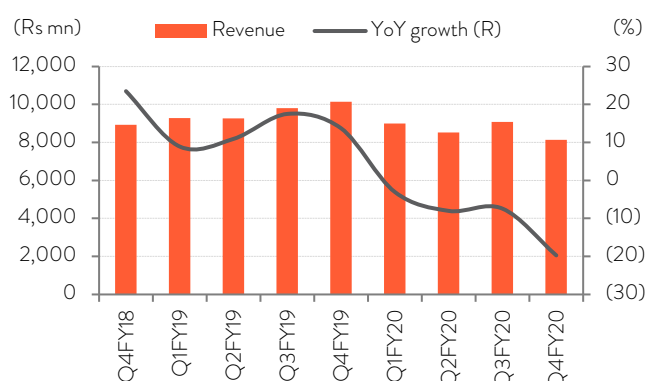
Source: Company, BOBCAPS Research

FIG 3 – SEGMENT-WISE REVENUE BREAKDOWN – CONSOLIDATED

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Supply Chain Management (SCM) segment (A)	7,304	9,170	(20.3)	8,169	(10.6)	31,035	34,659	(10.5)
Mahindra Group	3,925	5,442	(27.9)	4,243	(7.5)	17,294	21,022	(17.7)
Non-Mahindra clients	3,379	3,731	(9.4)	3,926	(13.9)	13,741	13,637	0.8
Total SCM - Service-wise break-up								
Transportation	5,838	7,741	(24.6)	6,537	(10.7)	24,965	29,423	(15.2)
Warehousing	1,466	1,432	2.4	1,632	(10.2)	6,070	5,236	15.9
Total SCM - Industry-wise break-up								
Auto	4,563	6,201	(26.4)	4,993	(8.6)	20,049	24,083	(16.8)
Non-auto	2,741	2,972	(7.8)	3,176	(13.7)	10,987	10,576	3.9
Non-Mahindra SCM - Service-wise break-up								
Transportation	2,328	2,777	(16.2)	2,707	(14.0)	9,385	10,123	(7.3)
Warehousing	1,051	954	10.2	1,219	(13.8)	4,356	3,514	24.
Non-Mahindra SCM - Industry-wise break-up								
Auto	694	853	(18.6)	801	(13.4)	3,001	3,399	(11.7)
Non-auto	2,685	2,878	(6.7)	3,125	(14.1)	10,740	10,238	4.9
Mahindra Group SCM - Service-wise break-up								
Transportation	3,510	4,964	(29.3)	3,830	(8.4)	15,549	19,292	(19.4)
Warehousing	415	478	(13.2)	413	0.5	1,693	1,723	(1.7)
Mahindra Group SCM - Industry-wise break-up								
Auto	3,869	5,348	(27.7)	4,192	(7.7)	17,034	20,684	(17.6)
Non-auto	56	94	(40.4)	51	9.8	208	331	(37.2)
People Transport Solution (PTS) segment (B)	813	974	(16.5)	911	(10.7)	3,676	3,855	(4.6)
Total consolidated revenue (A+B)	8,117	10,144	(20.0)	9,080	(10.6)	34,712	38,509	(9.9)

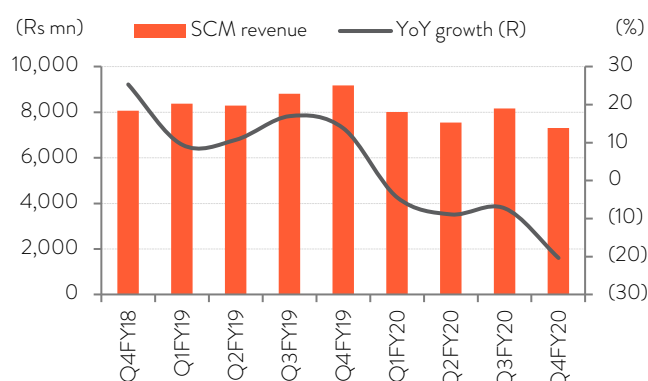
Source: Company, BOBCAPS Research

FIG 4 – CONSOLIDATED REVENUE DECLINED 20% YOY TO RS 8.1BN



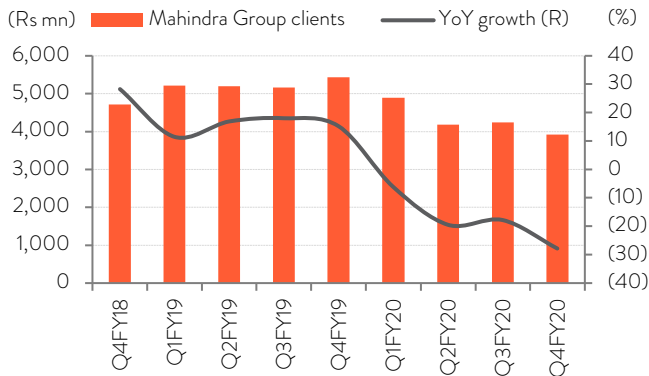
Source: Company, BOBCAPS Research

FIG 5 – SCM REVENUE DECLINED 20% YOY...



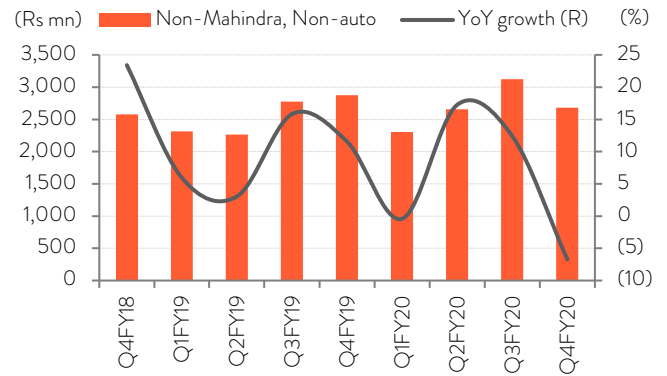
Source: Company, BOBCAPS Research

FIG 6 – ...DUE TO A SHARP 28% YOY DROP IN REVENUE FROM ANCHOR CLIENT SEGMENT



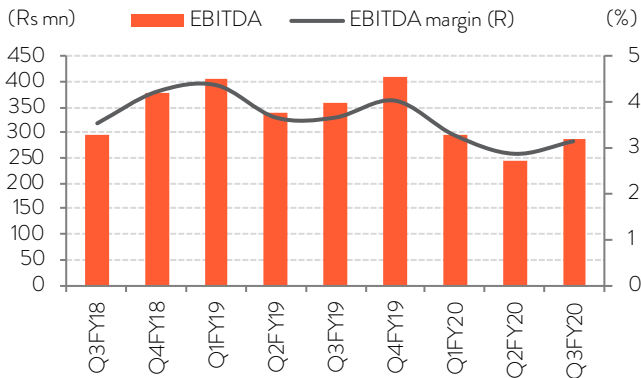
Source: Company, BOBCAPS Research

FIG 7 – NON-MAHINDRA, NON-AUTO VERTICAL DECLINED 7% YOY



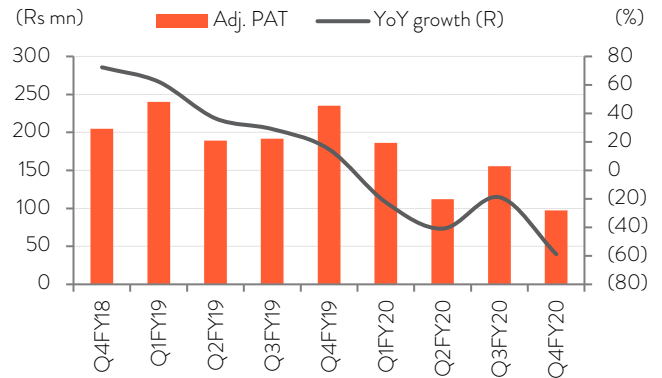
Source: Company, BOBCAPS Research

FIG 8 – LOWER REVENUE LED TO 47% YOY DROP IN COMPARABLE EBITDA (ADJ. FOR IND-AS 116)



Source: Company, BOBCAPS Research

FIG 9 – REPORTED PAT (AFTER MINORITY) FELL 59% YOY



Source: Company, BOBCAPS Research

Valuation methodology

We cut our FY21/FY22 earnings estimates by 31%/13% considering the near-term headwinds to consumption spending and persisting auto industry slowdown. Consequently, our Mar'21 target price reduces to Rs 315 from Rs 365 earlier, set at an unchanged P/E multiple of 26x FY22E EPS. We also transition our forecast to Ind-AS 116 lease accounting standards.

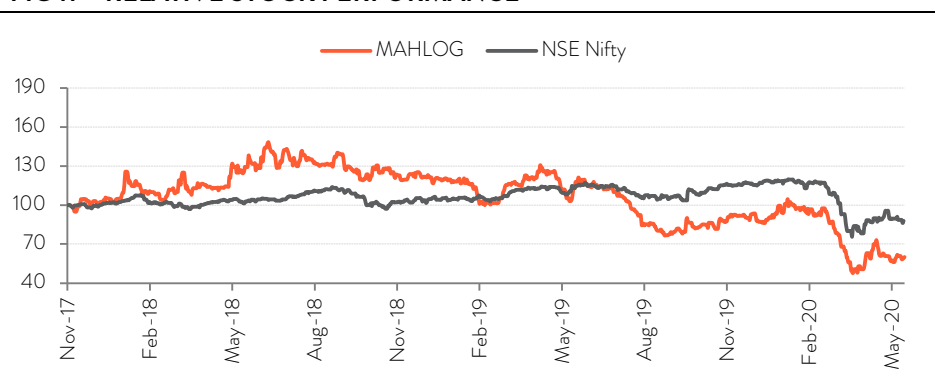
We remain positive on MLL's long-term prospects considering (1) its entrenched competitive positioning in India's burgeoning 3PL industry, (2) robust clientele coupled with increasing presence in the key auto, consumer and pharma verticals within the 3PL industry, and (3) strong, net-cash balance sheet.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

FIG 10 – REVISED ESTIMATES – CONSOLIDATED

(Rs mn)	FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues	36,464	32,916	(9.7)	43,089	39,634	(8.0)
PBT	954	652	(31.7)	1,354	1,160	(14.3)
PBT margin (%)	4.0	2.0	(201)	3.1	2.9	(22)
PAT	696	482	(30.9)	997	867	(13.1)
PAT margin (%)	1.9	1.5	(45bps)	2.3	2.2	(13bps)

Source: Company, BOBCAPS Research | EBITDA not comparable as we incorporate Ind-AS 116 accounting in our forecast

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

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

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	34,161	38,513	34,711	32,916	39,634
EBITDA	1,197	1,512	1,583	1,522	2,120
Depreciation	197	220	734	806	901
EBIT	1,000	1,293	848	716	1,219
Net interest income/(expenses)	(38)	(35)	(176)	(159)	(159)
Other income/(expenses)	59	76	140	95	100
Exceptional items	0	0	0	0	0
EBT	1,021	1,334	812	652	1,160
Income taxes	(368)	(468)	(257)	(167)	(290)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(13)	(10)	(3)	(3)	(3)
Reported net profit	640	856	551	482	867
Adjustments	0	0	0	0	0
Adjusted net profit	640	856	551	482	867

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	4,863	6,001	6,172	5,411	7,058
Other current liabilities	205	419	386	271	326
Provisions	180	215	213	202	243
Debt funds	346	377	293	293	293
Other liabilities	0	0	1,654	1,657	1,832
Equity capital	711	715	715	715	715
Reserves & surplus	3,554	4,325	4,785	5,147	5,797
Shareholders' fund	4,266	5,039	5,501	5,862	6,512
Total liabilities and equities	9,860	12,051	14,218	13,695	16,265
Cash and cash eq.	1,161	1,475	997	358	677
Accounts receivables	5,200	6,317	5,356	5,862	7,058
Inventories	0	0	0	0	0
Other current assets	1,480	2,046	3,626	3,438	4,140
Investments	0	38	31	31	31
Net fixed assets	605	660	917	1,216	1,271
CWIP	6	26	150	0	0
Intangible assets	54	53	54	54	54
Deferred tax assets, net	141	187	200	200	200
Other assets	1,213	1,250	2,887	2,536	2,835
Total assets	9,860	12,051	14,218	13,695	16,265

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	837	1,076	1,286	1,288	1,768
Interest expenses	38	35	36	26	26
Non-cash adjustments	(9)	(46)	(12)	0	0
Changes in working capital	(614)	(332)	(579)	(851)	(277)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	252	732	730	463	1,517
Capital expenditures	(240)	(294)	(638)	(500)	(500)
Change in investments	0	(38)	6	0	0
Other investing cash flows	0	0	(2,020)	(457)	(631)
Cash flow from investing	(240)	(332)	(2,652)	(957)	(1,131)
Equities issued/Others	31	3	1	0	0
Debt raised/repaid	3	31	(84)	0	0
Interest expenses	(38)	(35)	(36)	(26)	(26)
Dividends paid	(129)	(155)	(155)	(120)	(217)
Other financing cash flows	197	72	1,718	3	176
Cash flow from financing	66	(84)	1,444	(144)	(68)
Changes in cash and cash eq.	78	316	(478)	(639)	318
Closing cash and cash eq.	1,161	1,475	997	358	677

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	9.0	12.0	7.7	6.7	12.1
Adjusted EPS	9.0	12.0	7.7	6.7	12.1
Dividend per share	1.5	1.8	2.2	1.7	3.0
Book value per share	59.0	69.7	76.1	81.2	90.4

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	0.5	0.5	0.5	0.5	0.5
EV/EBITDA	14.6	11.7	11.1	11.5	8.5
Adjusted P/E	28.7	21.6	33.6	38.4	21.3
P/BV	4.4	3.7	3.4	3.2	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	62.7	64.2	67.9	73.9	74.7
Interest burden (PBT/EBIT)	102.1	103.2	95.7	91.0	95.2
EBIT margin (EBIT/Revenue)	2.9	3.4	2.4	2.2	3.1
Asset turnover (Revenue/Avg TA)	7.8	7.4	5.5	4.4	4.7
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.2	1.3	1.4
Adjusted ROAE	16.7	18.7	10.6	8.6	14.1

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	28.1	12.7	(9.9)	(5.2)	20.4
EBITDA	57.0	26.3	4.6	(3.8)	39.3
Adjusted EPS	34.1	33.2	(35.7)	(12.6)	80.0
Profitability & Return ratios (%)					
EBITDA margin	3.5	3.9	4.6	4.6	5.3
EBIT margin	2.9	3.4	2.4	2.2	3.1
Adjusted profit margin	1.9	2.2	1.6	1.5	2.2
Adjusted ROAE	16.7	18.7	10.6	8.6	14.1
ROCE	23.6	25.8	13.7	9.7	14.8
Working capital days (days)					
Receivables	56	60	56	65	65
Inventory	0	0	0	0	0
Payables	54	59	68	63	62
Ratios (x)					
Gross asset turnover	33.3	32.4	22.2	15.3	14.6
Current ratio	1.5	1.5	1.4	1.7	1.6
Net interest coverage ratio	26.5	37.2	4.8	4.5	7.7
Adjusted debt/equity	(0.2)	(0.2)	(0.1)	0.0	(0.1)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

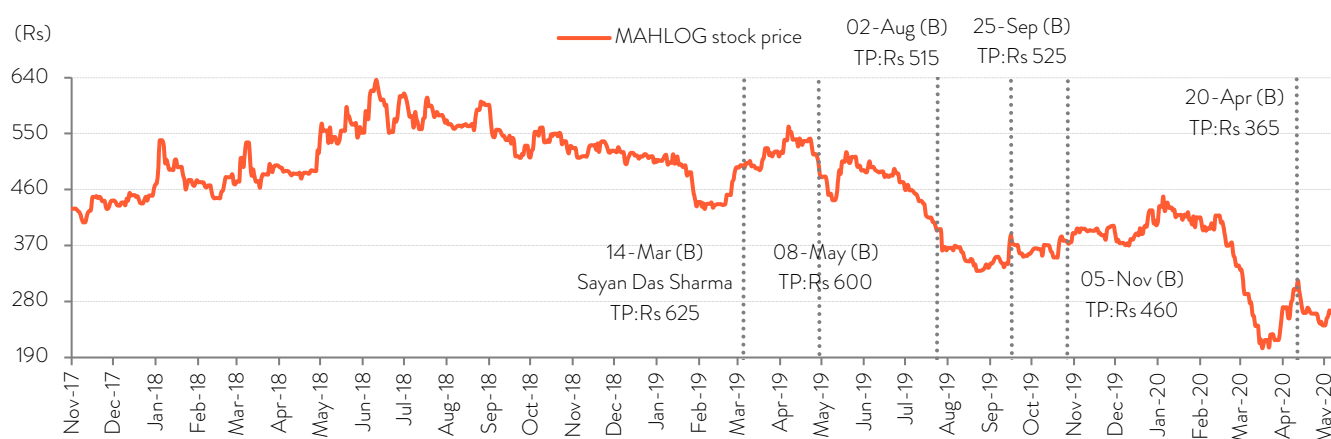
ADD – Expected return from >+5% to +15%

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)

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



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

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