

BUY

TP: Rs 635 | ▲ 15%

MAHINDRA LOGISTICS

Logistics

29 April 2021

Strong quarter as SCM continues to deliver

Mahindra Logistics' (MLL) Q4FY21 net income increased 58% YoY on 28% revenue growth in the SCM segment, even as the enterprise mobility business remained weak. FY21 net income missed consensus by 10% due to below-estimated margins. Continued growth in SCM will be driven by new customer additions as the share of organised logistics players continues to rise. We make minor changes to our estimates and raise our Mar'22 TP by ~1% to Rs 635. Retain BUY.

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Net income up sharply YoY: MLL's Q4FY21 core net income increased 58% YoY fuelled by a 20% uptick in revenue. EBITDA margin was flat YoY. Revenue growth was backed by a 28% YoY increase in the supply chain management (SCM) segment, whereas enterprise mobility (mobility services mostly for the IT & ITES sector) fell 56% due to the continuing work-from-home trend.

On a QoQ basis, core net income fell 16% due to a 40bps contraction in EBITDA margin and 7% drop in revenue. FY21 core net income decreased 41% YoY, missing consensus by ~10% as EBITDA margin declined 50bps to 4.1% and revenue fell 6% in a Covid-hit year. Dividend increased 25% to Rs 2.5/sh.

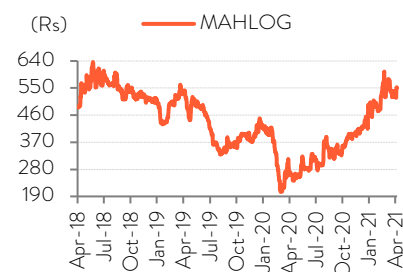
SCM growth is a positive: Sustained growth in the SCM business supports our view of the company's potential to provide full-scale 3PL services to customers in an industry that is becoming increasingly more organised.

Retain BUY: We adjust our FY22/FY23 earnings estimates by 1-2% and retain BUY on MLL with a Mar'22 TP of Rs 635 (Rs 630 earlier), based on an unchanged 35x FY23E P/E. Continued announcements on new customer additions and normalisation of demand after the current Covid wave subsides would be the main stock price drivers, in our view.

Ticker/Price	MAHLOG IN/Rs 550
Market cap	US\$ 531.2mn
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)	45.9	71.4	120.4	40.3	30.2
EV/EBITDA (x)	25.5	24.2	28.7	15.9	13.1

Source: Company, BOBCAPS Research | P – Provisional

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FIG 1 – QUARTERLY PERFORMANCE

Y/E Mar (Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenue (post indirect taxes)	9,740	8,118	20	10,468	(7)	32,637	34,711	(6)
Cost of Revenue	(8,334)	(6,801)	23	(8,970)	(7)	(27,643)	(29,342)	(6)
Gross Profit	1,406	1,317	7	1,497	(6)	4,994	5,370	(7)
Gross Margin (%)	14.4	16.2	-	14.3	-	15.3	15.5	-
EBIT	201	160	26	287	(30)	446	848	(47)
EBIT margin (%)	2.1	2.0	-	2.7	-	1.4	2.4	-
Interest Expense	(56)	(57)	(1)	(55)	3	(201)	(176)	14
Other Income	47	31	50	18	164	175	39	347
Total Financials	(10)	(26)	(63)	(37)	(74)	(26)	(37)	(28)
Income after financial items	191	134	42	250	(23)	420	812	(48)
margin (%)	2.0	1.7	-	2.4	-	1.3	2.3	-
Associate Income	1	(2)	(129)	(1)	(136)	(4)	(6)	(36)
Pre-tax income	192	133	45	248	(23)	416	806	(48)
Total Non-Recurring	(28)	-	-	-	-	(28)	-	-
Reported Pre-tax	164	133	24	248	(34)	388	806	(52)
Total Tax	(40)	(36)	9	(66)	(39)	(100)	(257)	(61)
% of pre-tax income before Associates	21.0	27.0	(23.0)	26.0	-	24.0	32.0	-
Net income before minorities	125	96	29	183	(32)	288	548	(48)
Minorities	1	1	20	-	(1,300)	12	3	332
Net income after minorities	126	97	29	183	(31)	300	551	(46)
Core net income	153	97	58	183	(16)	328	551	(41)
Net margin (%)	1.6	1.2	-	1.7	-	1.0	1.6	-
Depreciation & Amortization	(261)	(220)	18	(243)	7	(897)	(734)	22
EBITDA	462	380	21	530	(13)	1,342	1,583	(15)
EBITDA margin (%)	4.7	4.7	-	5.1	-	4.1	4.6	-

Source: Company, BOBCAPS Research

Valuation methodology

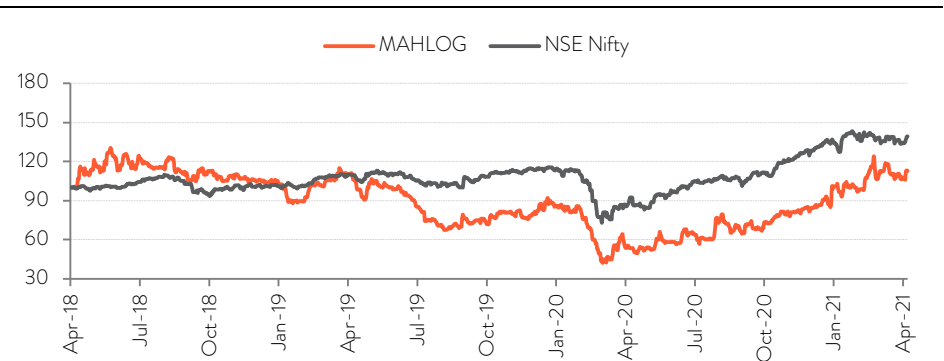
We adjust our FY22/FY23 earnings estimates by 1-2% and retain BUY on MLL with a Mar'22 target price of Rs 635 (Rs 630 earlier), based on an unchanged 35x FY23 P/E – our target multiple is close to the company’s mean one-year forward P/E of 33x since listing over three years ago. Announcements on new customer additions and demand normalisation after the ongoing Covid wave subsides would be the main stock price drivers, in our view. Retain BUY.

FIG 2 – REVISED ESTIMATES

(Rs mn)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	41,024	41,110	0.2	47,304	47,400	0.2
EBITDA	2,393	2,406	0.5	2,913	2,927	0.5
EBITDA Margin (%)	5.8	5.9	5bps	6.2	6.2	(3bps)
PAT	979	976	(0.3)	1,280	1,302	1.8
PAT Margin (%)	2.4	2.4	(3bps)	2.7	2.7	5bps
EPS (Rs)	13.7	13.6	(0.4)	17.9	18.2	1.7

Source: BOBCAPS Research

FIG 3 – 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
Total revenue	38,513	34,711	32,637	41,110	47,400
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
Reported net profit	856	551	300	976	1,302
Adjustments	0	0	28	0	0
Adjusted net profit	856	551	328	976	1,302

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
Total liabilities and equities	12,051	14,218	16,787	16,230	18,418
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
Total assets	12,051	12,676	15,217	14,461	16,649

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
Cash flow from operations	732	805	3,950	152	2,383
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)
Cash flow from investing	(332)	(3,132)	(2,682)	(1,220)	(1,183)
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
Cash flow from financing	(97)	(287)	(258)	(523)	(317)
Changes in cash and cash eq.	304	(2,615)	1,010	(1,591)	882
Closing cash and cash eq.	1,475	995	1,978	268	1,438

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	1.2	0.9	0.8
EV/EBITDA	25.5	24.2	28.7	15.9	13.1
Adjusted P/E	45.9	71.4	120.4	40.3	30.2
P/BV	7.9	7.2	6.9	6.1	5.3

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
YoY growth (%)					
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
Profitability & Return ratios (%)					
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
Working capital days (days)					
Receivables	49	55	54	60	60
Inventory	0	0	0	0	0
Payables	59	68	89	69	69
Ratios (x)					
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

Disclaimer

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

BUY – Expected return >+15%

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

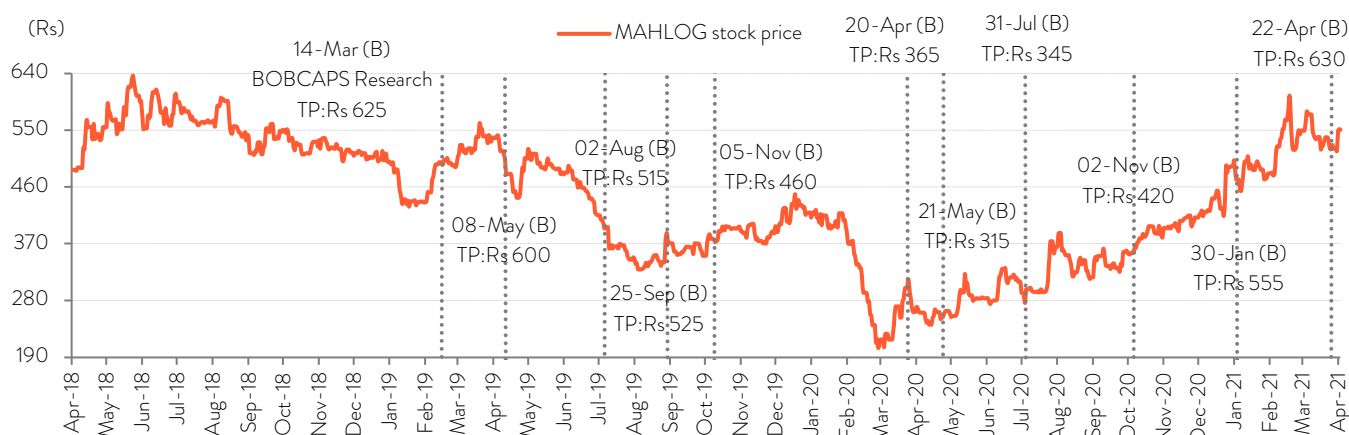
REDUCE – Expected return from -5% to +5%

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.

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



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

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