Initiating Coverage

Mahindra Logistics Ltd.

26-April-2021

RETAIL RESEARCH

Mahindra Logistics Ltd.

Industry	LTP	Base Case Fair Value	Bull Case Fair Value	Recommendation	Time Horizon
Logistics	Rs.521	Rs.540	Rs.577	Buy on dips at Rs.490 and add more at Rs.433	2 quarters

HDFC Scrip Code	MAHLOGEQNR
BSE Code	540768
NSE Code	MAHLOG
Bloomberg	MAHLOG:IN
CMP Apr 23, 2021	521.00
Equity Capital (Rs cr)	72
Face Value (Rs)	10
Equity Share O/S (cr)	7.17
Market Cap (Rs crs)	3861
Book Value (Rs)	76
Avg. 52 Wk Volumes	110894
52 Week High	613.95
52 Week Low	240.55

Share holding Pattern % (March, 2021)	
Promoters	58.34
Institutions	32.86
Non Institutions	8.80
Total	100.0

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Our Take:

Mahindra Logistics (MLL) is a subsidiary of Mahindra & Mahindra which holds 58.34% stake. The strong brand of M&M helps the company acquire clients through viable long-term partnerships. MLL is one of India's largest third-party logistics (3PL) player with 10,000+ vehicles deployed every month, 17,000 pin codes served, 350+ operating locations, and 20 network hubs; it has warehouses spread across 17mn sqft.

MLL has two divisions: (1) Supply Chain Management (SCM) which contributed ~89% to revenue in FY20 and Enterprise Mobility (EM), which contributed ~11%. The SCM business provides warehousing, transportation, in-factory logistics, fulfilment logistics, freight forwarding, etc. and the EM segment provides employee transportation services, enterprise OnCall services, and event transportation services. The company provides logistics to many industries such as auto & engineering, consumer, pharma, telecom, e-commerce, bulk commodities, etc.

M&M contributed towards ~56% of total SCM revenue of MLL in FY20 (down from ~70% in FY15). The subsidiary is focusing on diversifying its client base and industries it serves. The dependence of the auto sector in revenue contribution is likely to reduce from 69% in FY19 to 62% in FY23E. Recently, Flipkart had announced its partnership with MLL as one of its key logistics partners to help fast-track the deployment of electric vehicles across its logistics fleet in India. Flipkart plans to use 100% electric mobility in its logistics fleet and will deploy more than 25,000 electric vehicles (EVs) by 2030. MLL, through its electric vehicle delivery brand EDel, will play a significant role in working with various OEMs and help Flipkart’s sustainable transition to EVs. Also, MLL had inked a deal with Bajaj Electricals for the project Samruddhi, which is an innovative logistics optimization and outsourcing arrangement. The total contract value of this one-of-its-kind deal in the Indian logistics industry will be in excess of Rs.1000cr for a contract spanning over the next five years.
The company has a scalable asset-light business model, which helps it post strong return ratios and cash flows. It plans to be a Rs.10,000cr logistics service provider by FY26, delivering exceptional customer experience through differentiated, technology enabled solutions. Government initiatives with industry-wide growth potential will fuel further growth in the company.

We expect COVID-led slowdown in the economy to cause revenue degrowth in FY21E. Volume degrowth could lead to degrowth in revenue and EBITDA. The second wave of COVID-19 and imposed restrictions in many states would slow down the movement of goods, which could impact MLL adversely.

Valuations & Recommendation:

We expect the company to benefit from the leading market position, wide logistics service range, reducing client/industry concentration, strong balance sheet, and strong industry growth potential. We expect volume to drive 10% CAGR in top-line and 35% EPS CAGR over FY20-23E. We like its high-growth, margin and RoCE, non-M&M warehousing segment, which has potential to transform the overall margin and returns profiles. Given its capabilities and strong presence in e-commerce and consumer durables logistics, the non-M&M business should continue to haul strong growth. Its shift in business mix towards consumption can reduce cyclicality from its business model.

The stock is currently trading at 36.2x FY23E P/E, 14.8x FY23E EV/EBITDA. **We believe the base case fair value of the stock is Rs.540 (37.5x FY23E P/E, 15.4x FY23E EV/EBITDA) and the bull case the fair value of the stock is Rs.577 (40.1x FY23E P/E, 16.5x FY23E EV/EBITDA). Investors willing to take some risk can buy the stock on falls to Rs.490 (34.0x FY23E P/E, 13.9x FY23E EV/EBITDA) and add more on dips to Rs.433 (30.1x FY23E P/E, 12.2x FY23E EV/EBITDA).**

Financial Summary

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	1047	908	15%	833	26%	3,851.3	3,471.1	3,332.3	3,848.8	4,599.3
EBITDA	53	42	26%	37	43%	151.2	158.3	145.8	184.6	242.7
APAT	18	16	17%	15	22%	85.6	55.1	42.7	68.5	103.0
Diluted EPS (Rs)	2.5	2.2	17%	2.09	22%	12.0	7.7	6.0	9.6	14.4
RoE-%						18.7	10.6	7.6	11.4	15.5
P/E (x)						43.5	67.6	87.4	54.4	36.2
EV/EBITDA						23.8	22.7	24.7	19.5	14.8

(Source: Company, HDFC sec)

Q3FY21 Result Update

- The company's revenue stood at Rs.1047 cr, +15/26% YoY/QoQ. The net profit of the company stood at Rs.18 cr, +17%/22% YoY/QoQ.
- EBITDA stood at Rs.53 cr, +26%/43% YoY/QoQ. It was strong due to lower employee costs (-0.4% YoY) and lower other expenses (-8.6% YoY) but freight charges have increased (17% YoY).

- The company has seen continued momentum in value-added services and solutions with improving performance in e-commerce, consumer and freight forwarding verticals.
- During the quarter, the company has launched a last-mile delivery service EDel, which uses 100% electric powered vehicles. The service has been launched in six cities and would be expanded to 14 more over the next year.
- The warehouse space under management has grown to 17.2 mn. sq. ft in 9MFY21, compared to 16.3 mn. sq. ft. in FY20.
- Farm demand remains extremely strong in Q3FY21, with volume having grown by ~30% and strong growth seen in OEMs in that sector; this has led to strong offtake in south India in preparation for Pongal and the festive season.
- During Q3FY21, the company won two big clients - one is the largest consumer durables company and the other is a pharma company. Also, MML has commenced operations with a leading defense manufacturer for comprehensive warehouse management services.

Segment-wise

- Revenue of the SCM segment has grown 23.6% YoY to Rs.1009.8 cr while EBIT has grown by 17.1% YoY to Rs.80.5 cr. Revenue of the transportation of SCM segment has grown 24% YoY to Rs.808.4 cr, warehousing has grown by 24% YoY to Rs.201.5 cr, while that from auto industry has grown by 19% YoY to Rs.597.1 cr. Revenue from non-auto industries has grown by 30% YoY to Rs.412.7 cr. Revenue from Mahindra has grown by 20% YoY to Rs.508.4 cr, while non-Mahindra has grown by 28% YoY to Rs.501.5 cr; non-Mahindra transportation revenue has grown by 25% YoY to Rs.337.6 cr, while non-Mahindra warehousing revenue has grown by 34% YoY to Rs.163.9 cr. Non-Mahindra auto industry revenue has grown by 10% YoY to Rs.89.1 cr, while non-Mahindra non-auto industries revenue has grown by 32% YoY to Rs.412.4 cr.
- Revenue of the EM segment has degrown 59.5% YoY to Rs.36.9 cr while EBIT has degrown 86% YoY to Rs.1.2 cr.

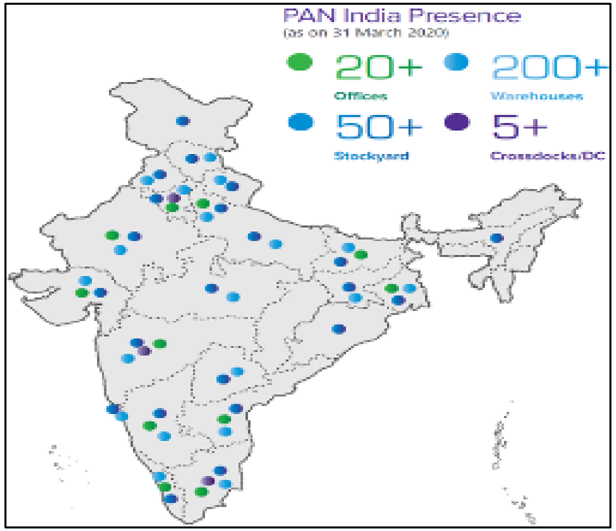
Long-term Triggers

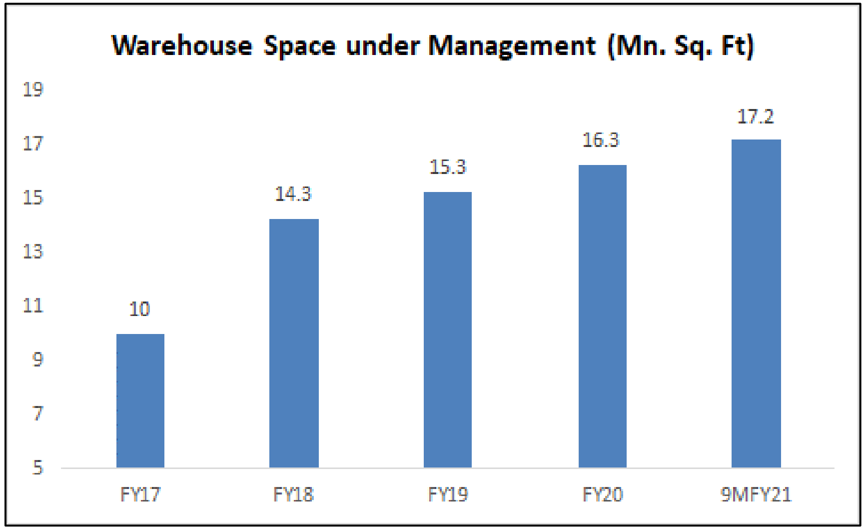
Part of strong M&M group

MLL is a part of the $20.7 billion Mahindra Group, which has a presence in 100+ countries. The Mahindra Group operates in 21 key industries. M&M owns 58.34% in MLL. MLL, being a subsidiary of M&M, derives flexibility in tapping the banking and financial markets in case of funding requirements. The strong brand of M&M enables the company to build a long-standing relationship with its several business partners and also help to acquire a large number of non-Mahindra clients.

One of the largest players in 3PL in India

MLL is one of India's largest 3PL players (fully integrated operations right from warehousing to transportation) with 15,000+ workforce; 10,000+ vehicles deployed every month, 17,000 PIN codes serve, 50+ In-factory and line feed operating locations, a network of 25 offices with 350+ operating locations and 20 Network Hub; Warehouse spread across 17mn sqft (with the ability to run a single warehouse as large as 0.4mn sqft), In-factory stores and line feed at 35+ manufacturing locations across India and 50+ stockyards.





Source – Company, HDFC sec Research

As part of its SCM business, MLL consults and designs supply chain for clients, ranging from transportation, warehousing, international freight forwarding and other value-added services. Gross margins in transportation are between 6% and 8% compared to 10-18% seen in the case of warehousing. In the case of transportation, gross margins are dependent on the scale of operations i.e. higher vehicle runs at optimal loads, as driver salary, insurance is fixed.

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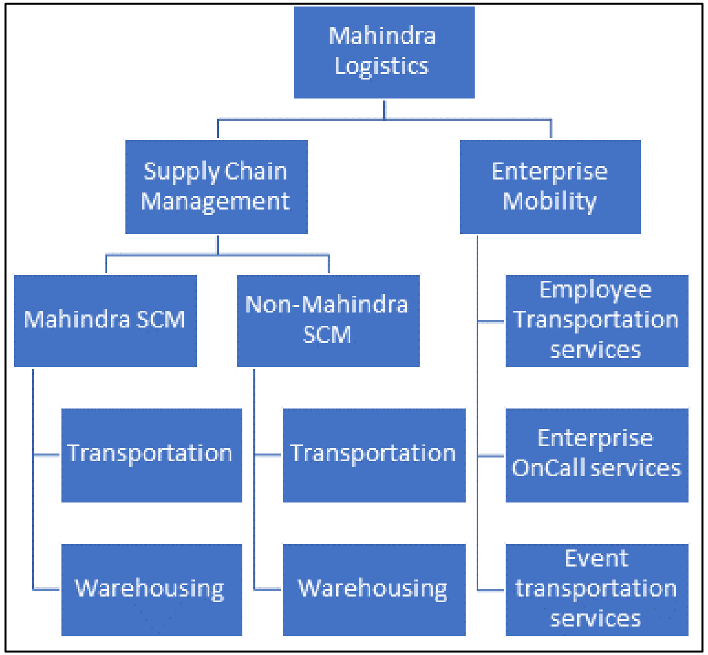
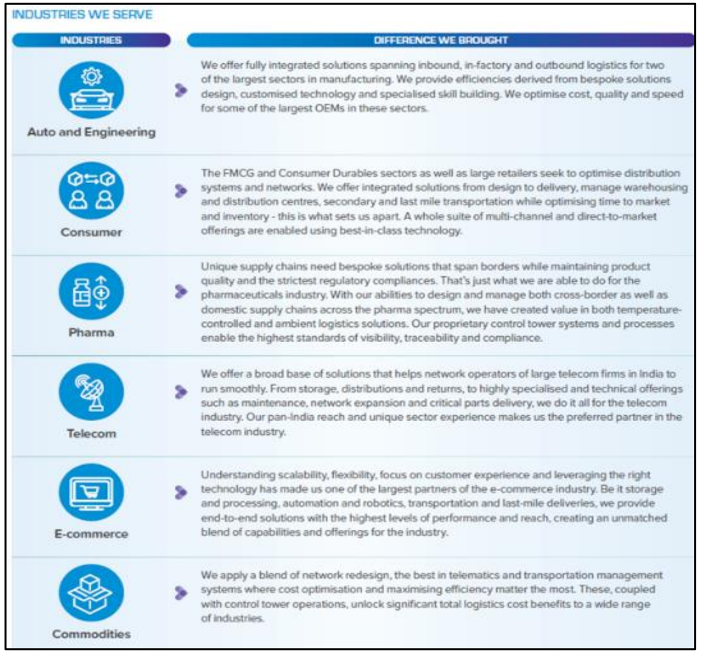
Presence among multiple industries, a wide range of service offering with an Increasing customer base

The company has a wide range of logistics service offering with multiple industries. This helps the company to diversify its revenue stream and also reduces its dependency on M&M.



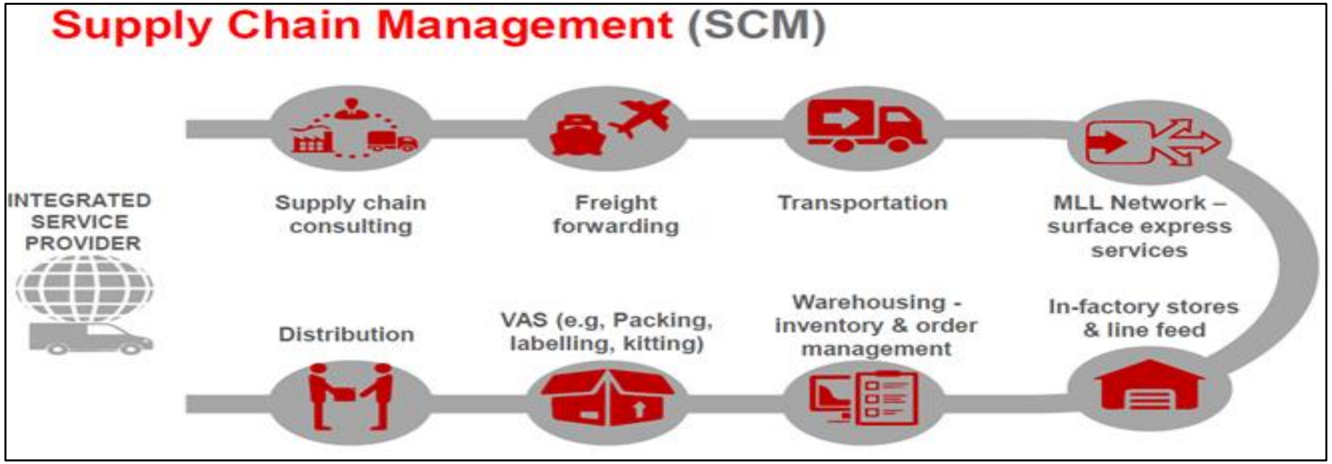


INDUSTRIES WE SERVE

INDUSTRIES	DIFFERENCE WE BROUGHT
Auto and Engineering	We offer fully integrated solutions spanning inbound, in-factory and outbound logistics for two of the largest sectors in manufacturing. We provide efficiencies derived from bespoke solutions design, customised technology and specialised skill building. We optimise cost, quality and speed for some of the largest OEMs in these sectors.
Consumer	The FMCG and Consumer Durables sectors as well as large retailers seek to optimise distribution systems and networks. We offer integrated solutions from design to delivery, manage warehousing and distribution centres, secondary and last mile transportation while optimising time to market and inventory - this is what sets us apart. A whole suite of multi-channel and direct-to-market offerings are enabled using best-in-class technology.
Pharma	Unique supply chains need bespoke solutions that span borders while maintaining product quality and the strictest regulatory compliances. That's just what we are able to do for the pharmaceuticals industry. With our abilities to design and manage both cross-border as well as domestic supply chains across the pharma spectrum, we have created value in both temperature-controlled and ambient logistics solutions. Our proprietary control tower systems and processes enable the highest standards of visibility, traceability and compliance.
Telecom	We offer a broad base of solutions that helps network operators of large telecom firms in India to run smoothly. From storage, distributions and returns, to highly specialised and technical offerings such as maintenance, network expansion and critical parts delivery, we do it all for the telecom industry. Our pan-India reach and unique sector experience makes us the preferred partner in the telecom industry.
E-commerce	Understanding scalability, flexibility, focus on customer experience and leveraging the right technology has made us one of the largest partners of the e-commerce industry. Be it storage and processing, automation and robotics, transportation and last-mile deliveries, we provide end-to-end solutions with the highest levels of performance and reach, creating an unmatched blend of capabilities and offerings for the industry.
Commodities	We apply a blend of network redesign, the best in telematics and transportation management systems where cost optimisation and maximising efficiency matter the most. These, coupled with control tower operations, unlock significant total logistics cost benefits to a wide range of industries.

Source – Company, HDFC sec Research

Supply Chain Management (SCM) - ~89% revenue contribution as on FY20



Source – Company, HDFC sec Research

Warehousing

Warehousing services of the company primarily include inventory control, storage management, and value-added services. MLL manages over 17.2 mn sq. ft. of warehousing space across India, including built-to-suit, dedicated and multi-user warehouses.

Transportation

Through a large fleet of dedicated vehicles, MLL is well-positioned to cater to any transportation requirement across India. MLL's transportation services primarily comprise inbound solutions, outbound solutions, primary and secondary distribution, network-based distribution and last-mile delivery.

In-factory logistics

in-factory logistics services are customized to align with the customers' production schedules. The company plays an important role in customers' overall supply chain. Through the Stores and Line Feeding (SLF) process, MLL provides services to customers, including sequencing, kit creation and building, trolley loading, high-value parts management, receipt and physical verification of materials, just-in-time (JIT) and just-in-sequence (JIS) operations.

Fulfilment logistics

From warehouse management to regional distribution center operations, secondary and last-mile delivery. The company also manages On Time In Full (OTIF) and does not allow a stock-out situation to affect sales, all at market-leading costs.

Freight forwarding

MLL offers freight forwarding services through its subsidiary Lords Freight (India) Private Limited (LORDS). On the back of capabilities in international freight forwarding, along with LORDS' strong global partnerships, and expertise in air and ocean forwarding for imports and exports, the company offer services like air freight and ocean freight operations, exports and imports, Full Container Load (FCL) and Less than Container Load (LCL), charter operations, Project Management Office (PMO) support in critical implementations, Project logistics and ODC cargo, and integrated cross-border solutions combining domestic and international operations.

Enterprise Mobility- ~11% revenue contribution in FY20

The EM business provides technology-enabled and customized solutions for the daily pick-up and drop requirements of enterprises – IT, ITeS, business process outsourcing, financial services, consulting and manufacturing industries. MLL offers services in the major cities of Delhi, Jaipur, Patna, Ahmedabad, Mumbai, Pune, Kolkata, Hyderabad, Bangalore, Chennai, Cochin and Coimbatore. The company has a fleet of small and mid-sized vehicles, sports utility vehicles, Electric Vehicles (EVs) and buses, all provided by business associates of the company. MLL's flexible and scalable asset-light model enables the integration of resources and provides a one-stop solution to the transport needs of enterprises. It provides services through 200+ operating sites across 12 cities in India, 6000+ drivers, 350+ business associates, 100+ customers, 5500+ vehicles deployed per day. The company has rolled out Alyte, a nationwide brand for its mobility service.

Employee transportation services

Employee transportation services ensure ease and comfort in the daily commute of employees. It includes end-to-end managed services, right from route allocation to automated MIS and billing, fleet for small and large group movement, shuttle services and nodal pick-up and drop, and real-time tracking for enhanced safety and compliance.

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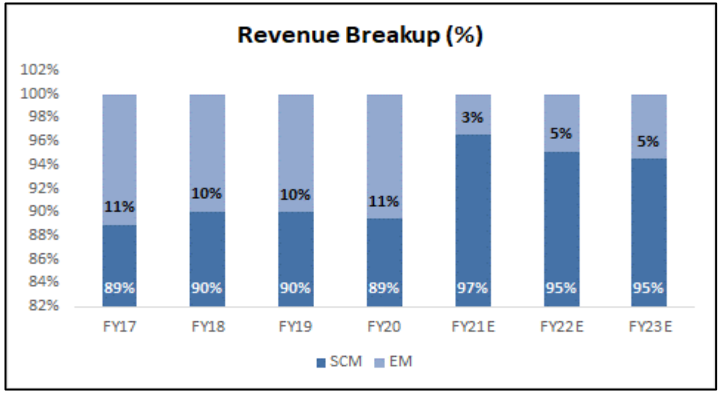
Enterprise OnCall services

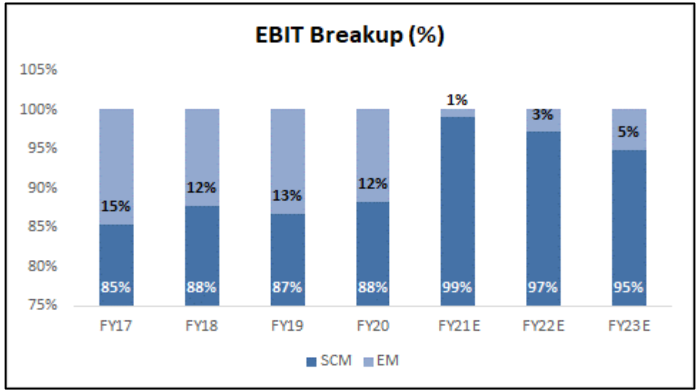
MLL's chauffeur-driven car rental services combine reliability and responsiveness with technology – right from booking to payment. Services include well-maintained vehicles, vehicles with trained and groomed chauffeurs, a mobile-based app for the entire process – from booking to billing – 24X7 customer care, flexible packages based on need, personal travel provision for employees of enterprises partnering with Mahindra Logistics.

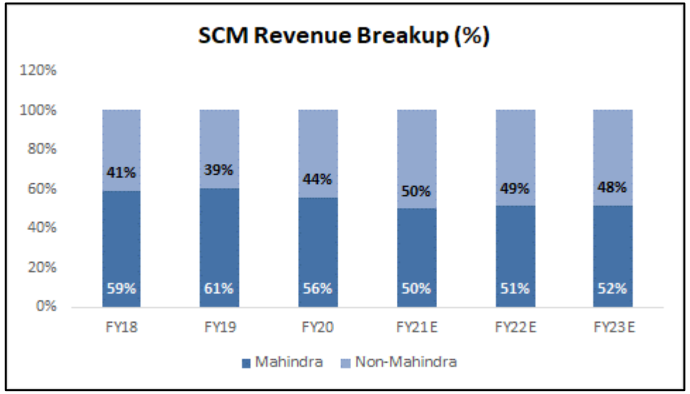
Event transportation services

The company ensures that people reach their event or occasion comfortably, without any hassle. They can travel across India in a charter bus, luxury coach, minibus, luxury and premium car, according to their requirement and preference. Services include transportation management, compliant and clean vehicles, sufficient legroom, and standard vehicles with luxury options.

M&M contributed ~56% of the total SCM revenue of MLL in FY20, which has reduced from ~70% in FY15. MLL has been focusing on strengthening its presence with other original equipment manufacturers (OEMs) in the automotive industry and diversifying into other industry verticals (like pharmaceuticals, FMCG, telecom and e-commerce industries). The company has added several new customers in the non-automotive segment in the past couple of years, which has led to its diversified customer profile.







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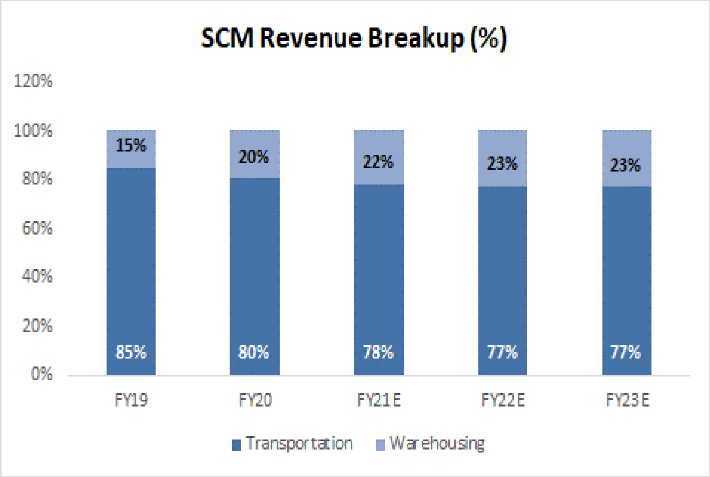

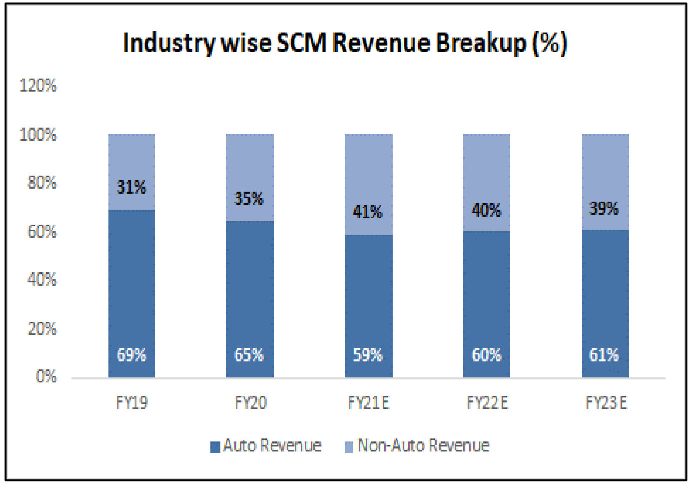

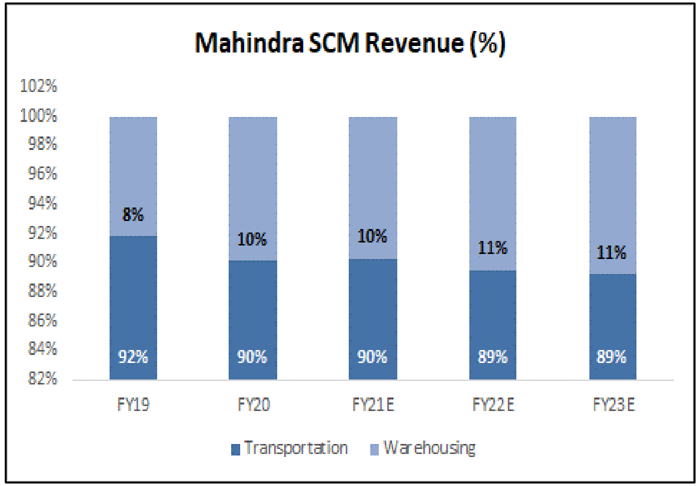

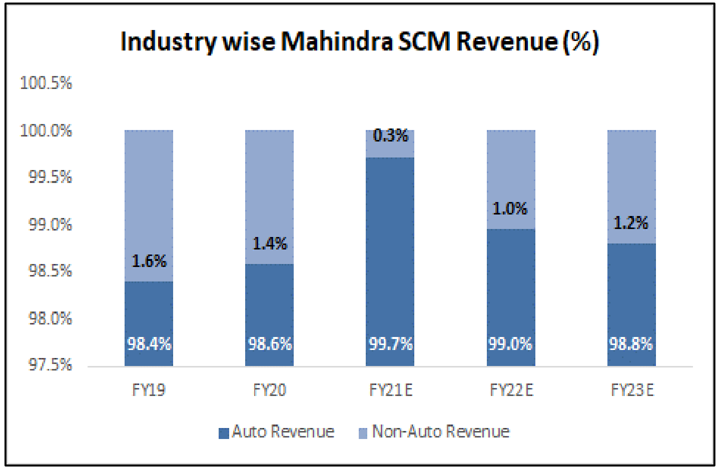

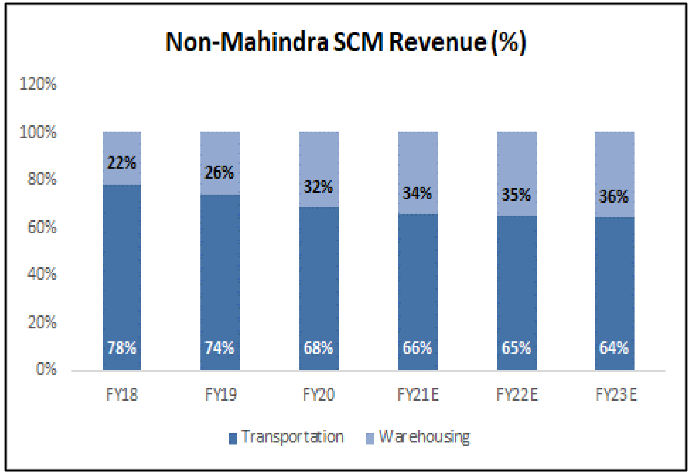

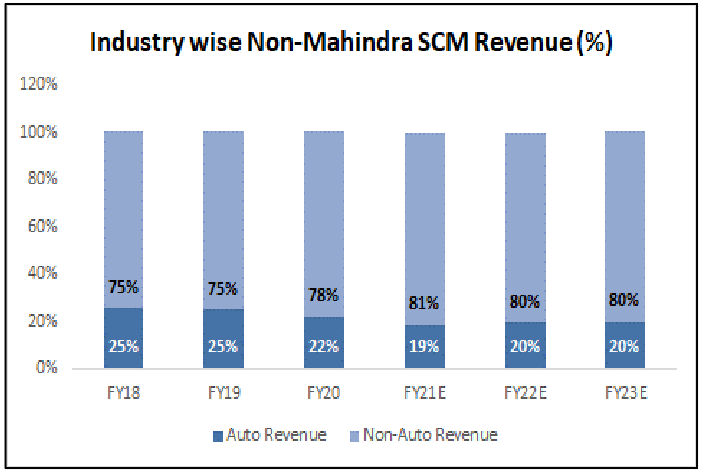

Source – Company, HDFC sec Research

MLL is positioned as a key intermediary in M&M's automotive and farm equipment business by providing end-to-end supply chain solutions. The strong business linkage with the Mahindra Group, particularly M&M, in the SCM segment, provides MLL's business the requisite experience, volume, and stability.

MLL has 500+ clients, including marquee names in its focus verticals – Mercedes-Benz India, BMW India, Volkswagen, Ashok Leyland, and Bosch in automotive (a noteworthy feat given that some of these are competitors of its parent); 3M, Thermax and Siemens in capital goods/engineering; HUL and L'Oréal in consumer goods; JSW Group in bulk transport; and Amazon and Flipkart in e-commerce. The company also has its employees present in various client manufacturing plants who are familiar with the respective manufacturing processes. This relationship makes switching costs high for customers. MLL, thus, enjoys repeat business from customers and has increased its revenue share in key client accounts - the top 20 customers accounted for 66% of the non-Mahindra SCM segment, up from 56.5% in FY15.

Strong financials with an asset-light business model

The company has grown revenue at 12% CAGR over FY15-20 with minimal investment in fixed assets. Instead of investing in a fleet of vehicles, it has leveraged its wide network of business associates to meet vehicle requirements. An asset-light business model helps it reduce its capital expenditure requirements, mitigate the effects of operational risks relating to direct fuel costs, and maintain costs and depreciation in addition to reducing the effect of any risks emanating from changes in laws and regulations.

It also hires warehouses on long-term leases rather than purchasing them outright. MLL selects its business partners who own vehicles, technologies and warehousing. Overall, the company has ~1500 business partners, who cater to its requirements in the SCM and EM division. A rising share of warehousing and value-added services along with cost optimization measures undertaken by the company is likely to improve margin expansion. Higher margins in the SCM segment are dependent on optimization of transportation as the MLL network grows and higher efficiency through skill-based handling of the newer warehouses (timebound). Thus, MLL's growing investments in technology are expected to help the company stay asset light and optimize its operations.

Margin expansion and asset-light model will help the company post a strong return ratio. Also, lower capex plan will result in strong FCF generation, which will strengthen the balance sheet with improvement in the working capital cycle.

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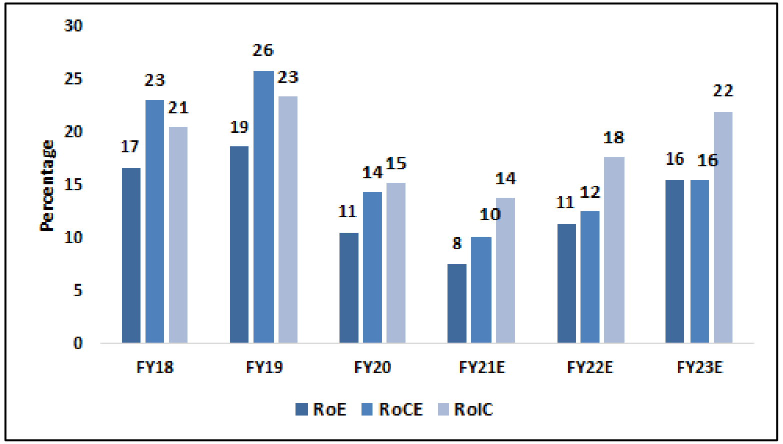

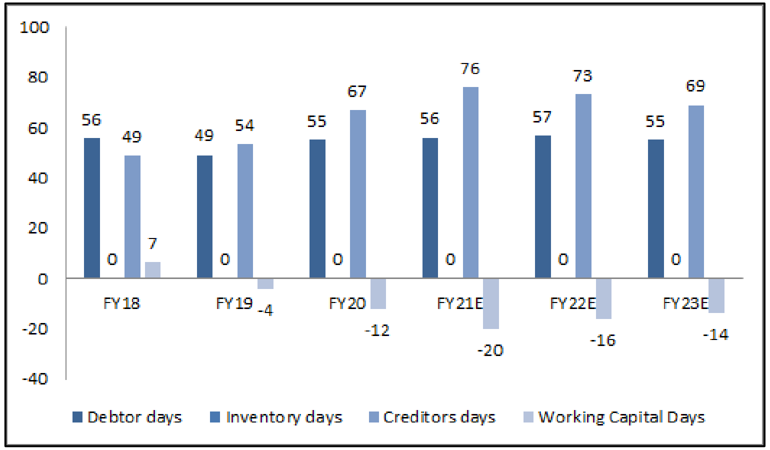

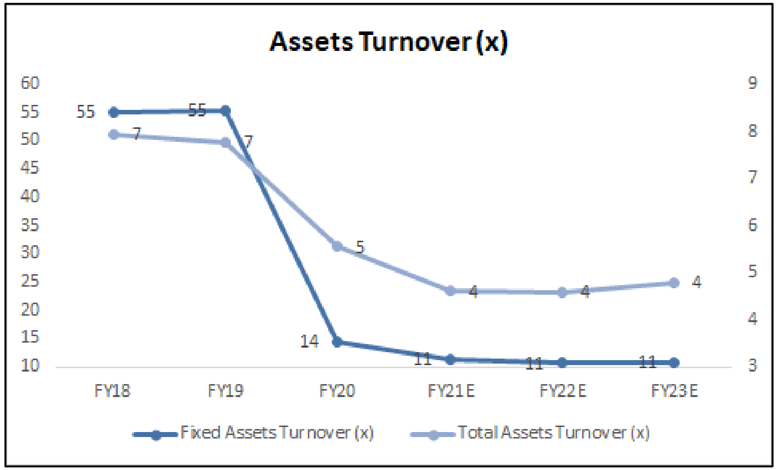

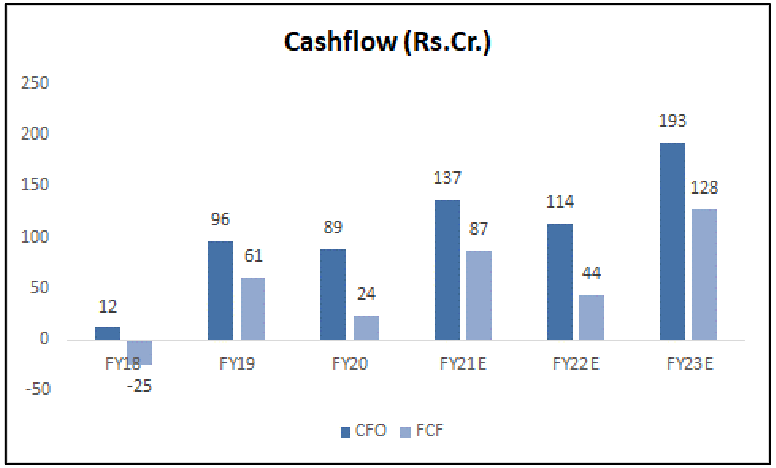

Source – Company, HDFC sec Research

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Good industry growth potential

The logistics sector plays an important role in facilitating economic activity and trade movement in the country. The Indian logistics sector was worth ~Rs.19,56,000 cr in the fiscal year 2019-20. It is expected to reach ~Rs.34,50,000 cr by 2025, growing at 12-13% CAGR during the forecast period of 2020 to 2025. Indian logistics industry contributes towards ~13-15% of the GDP.

Source – Company, HDFC sec Research

The total addressable market for the company, including 3PL and other services, is approximately ~Rs.1,30,000 cr. The 3PL market was estimated to be Rs.58,000 cr in the fiscal year 2020. It is expected to post 17-18% CAGR and potentially become an ~Rs.1,20,000 cr market by FY25. Globally, the organized 3PL market is ~10% of the overall logistics market. In India, it is ~3%, indicating significant room for 3PL adoption. The key sectors served by 3PL players are auto and auto ancillary, consumer goods, specialized transportation for certain metals and minerals products, e-commerce, engineering & capital goods, pharma, and telecom. Bulk, engineering and auto activities remain largely inbound focused, whereas e-commerce, telecom, pharma and consumer sectors have a high share of outbound and distribution logistics. Typically, outbound logistics is more complex and costlier than inbound logistics, considering there is last-mile delivery of final products to various stores and outlets and replenishment cycles are higher .

Sector	3PL market size in Fiscal 2017 (₹ crores)	3PL market size in Fiscal 2020 (₹ crores)	CAGR between Fiscals 2017 to 2020 (%)
Automotive components	10,800 – 11,200	16,500 – 17,000	14 – 16
Cars and UVs	6,600 – 6,800	11,900 – 12,100	20 – 22
Commercial vehicles and tractors	2,500 – 2,700	3,300 – 3,500	8 -10
Two and three wheelers	5,400 – 5,600	8,100 – 8,300	13 – 15
Engineering	300 – 500	600 – 800	20 – 22
E-commerce	5,900 – 6,200	13,500-14,000	30 – 32
Consumer durables and FMCG	2,000 – 2,200	3,900 – 4,300	24 – 26
Pharmaceuticals	2,200 – 2,400	2,900 – 3,100	8 – 10
Bulk	800 – 1,000	1,000 – 1,200	6 – 8
Organized retail	2,700 – 2,900	6,000 – 6,200	29 – 31
Telecom	20 – 40	20 – 40	–

Source – Company, HDFC sec Research

Post GST, companies are consolidating their supply chains for market/supply chain efficiency and leasing large format warehouses. Consumer, retail, and e-commerce companies are driving the demand for grade A modern warehouses. These sectors are also increasing their market reach and, hence, have a greater requirement for distribution services. Post-implementation of GST, warehousing has moved from being "tax-efficient" to "supply chain efficient". Thus, the number of warehouses has reduced while they have become bigger in size at strategic locations. The replacement of multiple taxes on manufacture, sale and consumption of goods and services to a single tax regime is expected to greatly benefit the organized logistics sector in terms of transportation and warehousing. Post the GST implementation, clients have been able to benefit from input tax credit over the tax charged on the transport of goods and services, when they deal with a tax compliant logistics player.

India has launched the world's largest COVID-19 vaccination program. COVID-19 vaccine distribution represents several opportunities for logistics companies.

The government has undertaken various measures to develop logistics infrastructure and bring efficiencies in the sector. Some key measures are:

- The logistics sector has been granted infrastructure status in 2017. This allows the sector access to funds at easier terms with enhanced limits.

- The government is pushing its 'Make in India' and 'Atamanirbhar Bharat' programs, which is a driver for demand of logistics services.
- A National Logistics Policy has been drafted to focus on the development of a fully integrated logistics network with modern technology and automation. A National Logistics Portal is also being created to serve as a single-window online marketplace for trade. It will be implemented in three stages: (1) development of an e-marketplace; (2) single-window clearance for approvals from 80 authorities; (3) integration of financial services.
- Five major industrial corridors, the Delhi-Mumbai Industrial Corridor (DMIC), Amritsar-Kolkata Industrial Corridor (AKIC), Chennai-Bengaluru Industrial Corridor (CBIC), Visakhapatnam-Chennai Industrial Corridor (VCIC), and Bengaluru-Mumbai Economic Corridor (BMEC) have been approved by the government for faster freight movement.
- The government has announced the development of 35 multi-modal logistics parks (MMLP) at strategic locations to enable efficient intermodal freight movement.

Entry into express logistics services and last-mile logistics services

The express logistics market has registered significant growth, driven by growth in distribution needs of key sectors like e-commerce, auto, FMCG, FMCD, pharmaceuticals, and others. These sectors are key focus markets for MLL, and expanding presence in express logistics would help MLL to expand the share of business in these sectors. The company plans to build strong express operational capabilities and is evaluating several options, like building an in-house express network, acquiring national or regional networks, and forming partnerships with global express firms. Express services have grown by over 40% YoY in Q3FY21.

The company has launched EV-driven, last-mile cargo delivery service EDel for customers in e-commerce, FMCG and other markets. EDel would initially operate across six major cities in India, including Bengaluru, New Delhi, Mumbai, Pune, Hyderabad and Kolkata, before expanding to a total of 14 cities in the next 12 months. EDel will provide multiple offerings including package & trip-based services. It will give customers in the e-commerce, FMCG, pharmaceutical, consumer durables and electronics industries a significant edge in efficient and responsible distribution and last-mile delivery solutions.

Source – Company, HDFC sec Research

What could go wrong

Intense competition could put pressure on performance

Several well-funded startups are utilizing their funds to acquire clients below cost, thereby causing margin pressure on the industry. Many of these startups utilize digital marketplace platforms and data analytics to serve customers directly by removing middlemen from logistics operations. By removing the additional layer, these companies can reduce the total costs of transportation and improve reliability and operational efficiencies.

~90% of the industry is dominated by unorganized players, which creates competitive pressure. The warehouse industry in India is still highly unorganized and fragmented. It is because most of the warehouses in India are less than 10,000 sq. ft., which results in high inventory holding costs, higher storage costs, and improper material handling (which could sometimes damage the products).

Impact of COVID-19 pandemic

On the supply side, the auto sector could witness disruption in the supply of raw materials and parts, especially the imported components. Freight forwarding has been severely impacted by COVID-19. Capacity reduction and manpower shortages have both led increase in air and ocean freight rates.

The mobility sector could face significant headwinds in the medium to long term as the movement of people remains restricted. The perception of risks associated with shared mobility and public transport could lead to a shift in preferences towards personal travel modes or long-term vehicle rentals.

High dependence on auto industry and M&M revenue

MLL's growth depends on the type of vehicle being produced (2-W, 4-W, CV, tractor, etc.), location of manufacture, and demand patterns. Since ~65% of SCM revenue is contributed by the auto segment, any slowdown or disruption in the auto sector could adversely impact MLL. Also, ~56% of SCM revenue is contributed by the parent M&M; so a slowdown in the parent company could adversely impact MLL's performance.

One of the larger auto OEMs in Maharashtra announced a shutdown of their operations due to the sale of their manufacturing operations right in that area. That shutdown was effective 31 December 2020. This could impact MLL's revenue, going forward, but the company believes it can offset the loss by adding new accounts.

Dependence on business partners

The assets necessary for operations such as vehicles and moving equipment, warehouses, and manpower are owned or arranged by business partners. Also, the availability of third-party vehicles may be uncertain during periods of high demand. Any non-availability or delays in obtaining hired vehicles or breakdowns may result in loss of orders or delays in delivery of goods, any of which could lead to client dissatisfaction and loss of business.

Other macro issues

The farmer strike has had some impact on operations in north India, especially with movement of vehicles through Punjab, Haryana, and Uttarakhand. These trends have put pressure on costs, but the company has managed to maintain contracted service levels with customers and has introduced cost reduction programs, which could largely mitigate the impact.

Passenger transport services segment could get impacted because of increasing work-from-home by IT/ITES employees.

Mahindra Logistics Ltd.

About the company

Mahindra Logistics Ltd. (MLL) is a 58.34% subsidiary of Mahindra & Mahindra. It is a leading 3PL solutions provider in India with a strong presence across diverse industries and geographies. It commenced operations from December 2000 as a division of M&M for handling the captive logistics and supply chain needs of the group. MLL was spun off as a 100% subsidiary of M&M, with effect from 1 April 2008. In FY15, the company acquired a 60% stake in Lords Freight (India) Pvt Ltd (LFI), which is primarily engaged in the business of freight forwarding and warehousing logistics services.

MLL also acquired a stake in Boston-based Transtech Logistics (ShipX), a software as a service (SAAS) based transport management solution (TMS) platform provider, which serves the SCM automation needs of 3PLs, shippers, and transporters.

Journey

FY00	Logistics business set up as a separate division of M&M Ltd
FY09	Logistics business of M&M Ltd transferred to MLL
FY14	Enters e-commerce segment
FY15	Lords acquisition and 2X2 logistics JV formation
FY16	Enters into a business contract with one of India's largest steel conglomerate
FY19	Acquires stake in Transtech Logistics (ShipX) and Increases stake in Lords from 60% to 82.9%

Financials

Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	**3416**	**3851**	**3471**	**3332**	**3849**	**4599**
Growth (%)	28.1	12.7	-9.9	-4.0	15.5	19.5
Operating Expenses	3296	3700	3313	3186	3664	4357
EBITDA	**120**	**151**	**158**	**146**	**185**	**243**
Growth (%)	**57.0**	**26.3**	**4.6**	**-7.9**	**26.6**	**31.5**
EBITDA Margin (%)	**3.5**	**3.9**	**4.6**	**4.4**	**4.8**	**5.3**
Other Income	5.9	7.6	14.0	16.0	25.0	30.0
Depreciation	19.7	22.0	73.4	80.0	91.5	106.4
EBIT	**106**	**137**	**99**	**82**	**118**	**166**
Interest	3.8	3.5	17.6	20.0	22.0	24.2
Shares of Profit in Joint Ventures (net of Tax)	0.0	-0.3	-0.6	-0.6	-0.6	-0.6
PBT	**102**	**133**	**81**	**61**	**95**	**141**
Tax	36.8	46.8	25.7	19.0	27.7	39.6
RPAT	**65**	**86**	**55**	**42**	**68**	**102**
Minority Int.	**-1**	**-1**	**0**	**0**	**1**	**1**
APAT	**64.0**	**85.6**	**55.1**	**42.7**	**68.5**	**103.0**
Growth (%)	**40.3**	**33.8**	**-35.6**	**-22.6**	**60.6**	**50.3**
EPS	8.9	12.0	7.7	6.0	9.6	14.4

Balance Sheet

As at March	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS						
Share Capital	**71.1**	**71.5**	**71.5**	**71.5**	**71.5**	**71.5**
Reserves	348	427	473	505	555	628
Minority Interest	7	6	5	5	5	6
Other Equity & Liabilities	0	0	0	0	0	0
Shareholders' Funds	**427**	**504**	**550**	**581**	**631**	**705**
Long Term Debt	18	9	2	2	2	2
Lease Liabilities	0	0	120	210	288	334
Long Term Provisions & Others	15	16	16	20	24	31
Total Source of Funds	**459**	**529**	**688**	**813**	**946**	**1072**
APPLICATION OF FUNDS						
Net Block	62	70	242	292	362	427
Non-Current Investments	0	4	3	3	3	3
Deferred Tax Assets (net)	14	19	20	20	20	20
Long Term Loans & Advances	121	125	166	202	238	285
Other Assets	0	0	0	0	0	0
Total Non Current Assets	**198**	**217**	**431**	**517**	**623**	**735**
Current Investments	50	78	0	0	0	0
Inventories	0	0	0	0	0	0
Trade Receivables	520	518	522	511	601	693
Short term Loans & Advances	61	74	109	120	129	144
Cash & Equivalents	66	70	100	158	142	146
Other Current Assets	87	244	256	276	298	319
Total Current Assets	**784**	**984**	**986**	**1065**	**1171**	**1302**
Short-Term Borrowings	8	20	27	30	21	15
Trade Payables	486	600	617	663	733	824
Other Current Liab & Provisions	29	51	84	69	86	117
Short-Term Provisions	3	5	6	6	7	10
Total Current Liabilities	**527**	**676**	**734**	**769**	**848**	**965**
Net Current Assets	262	312	257	296	323	337
Total Application of Funds	**459**	**529**	**688**	**813**	**946**	**1072**

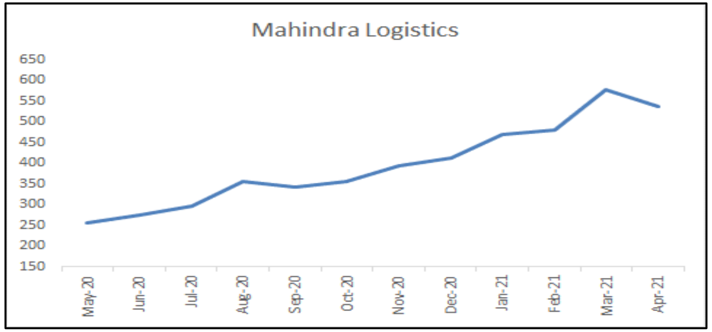
Source: Company, HDFC sec Research

Mahindra Logistics Ltd.

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	102	133	81	61	95	141
Non-operating & EO items	8	10	19	-16	-25	-30
Interest Expenses	1	0	14	20	22	24
Depreciation	20	22	73	80	91	106
Working Capital Change	-47	-21	-51	11	-42	-9
Tax Paid	-72	-48	-47	-19	-28	-40
OPERATING CASH FLOW (a)	**12**	**96**	**89**	**137**	**114**	**193**
Capex	-37	-34	-62	-50	-70	-65
Free Cash Flow	-25	61	24	87	44	128
Investments	9	-64	94	-31	-36	-47
Non-operating income	4	3	4	16	25	30
INVESTING CASH FLOW (b)	**-25**	**-95**	**36**	**-65**	**-81**	**-82**
Debt Issuance / (Repaid)	0	2	-58	4	5	6
Interest Expenses	-4	-3	-4	-20	-22	-24
FCFE	-29	60	-38	71	27	110
Share Capital Issuance	7	3	0	0	0	0
Dividend	0	-13	-16	-11	-18	-29
FINANCING CASH FLOW (c)	**4**	**-11**	**-76**	**-27**	**-35**	**-47**
NET CASH FLOW (a+b+c)	**-9**	**-10**	**48**	**45**	**-2**	**64**

One Year Price Chart



Key Ratios

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Profitability (%)						
EBITDA Margin	3.5	3.9	4.6	4.4	4.8	5.3
EBIT Margin	3.1	3.6	2.8	2.5	3.1	3.6
APAT Margin	1.9	2.2	1.6	1.3	1.8	2.2
RoE	16.7	18.7	10.6	7.6	11.4	15.5
RoCE	23.0	25.9	14.4	10.1	12.5	15.5
Solvency Ratio						
D/E	0.1	0.1	0.1	0.1	0.0	0.0
Interest Coverage	28.1	39.3	5.6	4.1	5.4	6.9
PER SHARE DATA						
EPS	8.9	12.0	7.7	6.0	9.6	14.4
CEPS	11.8	15.1	18.0	17.1	22.4	29.3
BV	59	70	76	81	88	98
Dividend	1.5	1.5	1.8	1.5	2.5	4.0
Turnover Ratios (days)						
Debtor days	56	49	55	56	57	55
Inventory days	0	0	0	0	0	0
Creditors days	49	54	67	76	73	69
Working Capital Days	7	-4	-12	-20	-16	-14
VALUATION						
P/E	58.2	43.5	67.6	87.4	54.4	36.2
P/BV	8.8	7.5	6.8	6.5	5.9	5.3
EV/EBITDA	30.1	23.8	22.7	24.7	19.5	14.8
Dividend Yield	0.3	0.3	0.3	0.3	0.5	0.8
Dividend Payout	3.4	12.5	23.4	25.2	26.1	27.8

Source: Company, HDFC sec Research

Disclosure:

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