

BUY

TP: Rs 345 | ▲ 16%

MAHINDRA LOGISTICS

Logistics

31 July 2020

Weak headline numbers mask encouraging underlying trends

Though Mahindra Logistics' (MLL) headline numbers were expectedly weak – consolidated revenue fell 54% YoY with EBITDA loss at Rs 22mn – a closer look at the Q1FY21 print reveals several positives. Resilience in warehousing (-14% YoY), SCM gross margin expansion (+60bps), client addition, and an improved cash position are encouraging. Green shoots are visible in some end-user verticals (e.g. tractors) which can help cushion the topline. We trim our FY21/FY22 EPS by 7%/4%, but raise our TP to Rs 345 (vs. Rs 315) on rollover to Sep'22 valuations.

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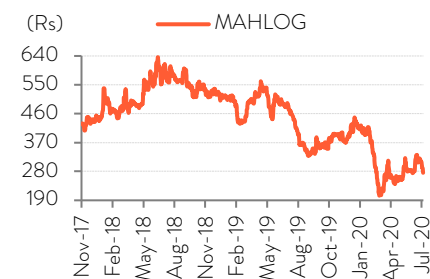
Non-auto, warehousing relatively resilient: SCM revenue declined by 51% YoY as client operations were severely disrupted in Q1. The auto vertical plunged 63% YoY, while non-auto fell by a lower 22% supported by ecommerce, pharma and FMCG. Transportation dropped 59% YoY, but warehousing was resilient (-14.5%; non-Mahindra warehousing fell by even lower 11.5%) as it continued to serve essential categories. Enterprise mobility slumped 80% YoY due to the higher incidence of work-from-home.

Ticker/Price	MAHLOG IN/Rs 298
Market cap	US\$ 284.5mn
Shares o/s	71mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 458/Rs 195
Promoter/FPI/DII	58%/19%/12%

Source: NSE

Gross margin flat: A larger share of high-margin warehousing together with cost-cutting measures negated the impact of lower volumes and Covid-related cost increases, yielding a flat YoY gross margin of 9.7%. Operating loss of Rs 22mn stemmed from lower absorption of fixed expenses.

STOCK PERFORMANCE



Positive trends: Notwithstanding tough macros, MLL acquired and started serving new client accounts in Q1, which should add to the topline in coming quarters. Plans for 1.5mn sq ft of warehouse space addition (0.3mn sq ft added in Q1) imply continued demand traction. Buoyancy in the tractor segment augurs well for the near term and will help cushion the topline till a broad-based recovery sets in from Q4FY21E. MLL's net cash position improved dramatically to Rs 1.9bn, representing ~Rs 1bn of cash accrual in Q1.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	38,513	34,711	31,173	37,589	43,285
EBITDA (Rs mn)	1,512	1,583	1,467	2,049	2,464
Adj. net profit (Rs mn)	856	551	449	833	1,059
Adj. EPS (Rs)	12.0	7.7	6.3	11.6	14.8
Adj. EPS growth (%)	33.2	(35.7)	(18.6)	85.6	27.2
Adj. ROAE (%)	18.7	10.6	7.9	13.4	15.3
Adj. P/E (x)	24.8	38.7	47.5	25.6	20.1
EV/EBITDA (x)	13.6	12.8	13.9	10.1	8.4

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)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Total revenues	4,105	8,990	(54.3)	8,118	(49.4)
Operating expenses	3,292	7,672	(57.1)	6,801	(51.6)
% of sales	80.2	85.3	(513bps)	83.8	(357bps)
Employee expenses	732	745	(1.8)	756	(3.2)
% of sales	17.8	8.3	953bps	9.3	852bps
Other expenses	103	172	(40.2)	181	(43.1)
% of sales	2.5	1.9	60bps	2.2	28bps
Total expenditure	4,127	8,590	(52.0)	7,738	(46.7)
EBITDA	(22)	401	NM	380	NM
EBITDA margin (%)	(0.5)	4.5	(500bps)	4.7	(522bps)
Depreciation	184	149	23.9	220	(16.4)
EBIT	(206)	252	NM	160	NM
Interest expenses	46	36	28.2	57	(19.6)
Other income	28	70	(59.9)	31	(9.6)
PBT	(224)	287	NM	134	NM
PBT margin (%)	(5.5)	3.2	(864bps)	1.7	(711bps)
Extraordinary income/(expense)	-	-	-	-	-
Income tax	(59)	100	NM	36	NM
Effective tax rate (%)	26.4	34.8	(844bps)	27.0	(67bps)
Reported PAT – before profit/(loss) from JVs/Minority/Associates	(165)	187	NM	98	NM
Profit/(loss) from JVs/Minority/Associates	(7)	0	NM	1	NM
Reported PAT – after profit/(loss) from JVs/Minority/Associates	(158)	186	NM	97	NM
Adjustments	-	-	-	-	-
Adjusted PAT	(158)	186	NM	97	NM
Adjusted PAT margin	(3.9)	2.1	(593bps)	1.2	(505bps)

Source: Company, BOBCAPS Research

FIG 2 – SEGMENT INFORMATION – CONSOLIDATED

Y/E Mar (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Supply chain management					
Revenue	3,926	8,010	(51.0)	7,304	(46.2)
Gross profit	405	778	(47.9)	787	(48.5)
Gross margin	10.3	9.7	60bps	10.8	(46bps)
EBIT	241	642	(62.5)	571	(57.9)
EBIT margin	6.1	8.0	(189bps)	7.8	(169bps)
Enterprise mobility solutions					
Revenue	178	981	(81.8)	813	(78.1)
Gross profit	(7)	95	NM	101	NM
Gross margin	(3.9)	9.7	(1,362bps)	12.4	(1,635bps)
EBIT	(7)	95	NM	73	NM
EBIT margin	(3.8)	9.7	(1,344bps)	8.9	(1,269bps)

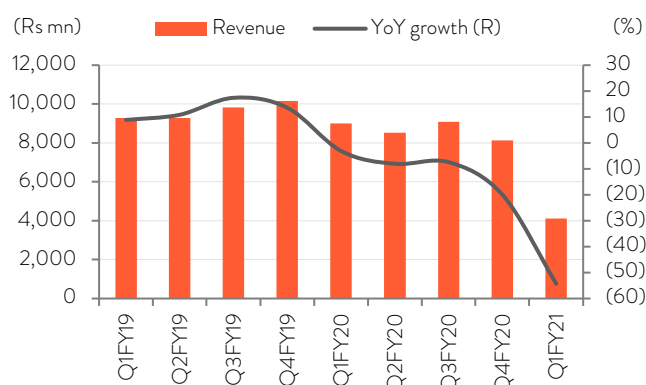
Source: Company, BOBCAPS Research

FIG 3 – SEGMENT-WISE REVENUE BREAKDOWN – CONSOLIDATED

Y/E Mar (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Supply Chain Management (SCM) segment (A)	3,926	8,010	(51.0)	7,304	(46.2)
Mahindra Group	1,721	4,912	(65.0)	3,925	(56.2)
Non-Mahindra clients	2,205	3,098	(28.8)	3,379	(34.7)
SCM - Service-wise					
Transportation	2,722	6,610	(58.8)	5,838	(53.4)
Warehousing	1,204	1,400	(14.0)	1,466	(17.9)
SCM - industry-wise					
Auto	2,075	5,650	(63.3)	4,563	(54.5)
Non-auto	1,851	2,360	(21.6)	2,741	(32.5)
Non-Mahindra SCM - service-wise					
Transportation	1,355	2,138	(36.6)	2,328	(41.8)
Warehousing	850	960	(11.5)	1,051	(19.1)
Non-Mahindra SCM - industry-wise					
Auto	355	812	(56.3)	694	(48.8)
Non-auto	1,850	2,286	(19.1)	2,685	(31.1)
Mahindra Group SCM - service-wise					
Transportation	1,367	4,472	(69.4)	3,510	(61.1)
Warehousing	354	440	(19.5)	415	(14.7)
Mahindra Group SCM - industry-wise					
Auto	1,720	4,838	(64.4)	3,869	(55.5)
Non-auto	1	74	(98.6)	56	(98.2)
Enterprise Mobility Solutions (EMS) segment (B)	178	981	(81.8)	813	(78.1)
Total consolidated revenue (A+B)	4,105	8,990	(54.3)	8,118	(49.4)

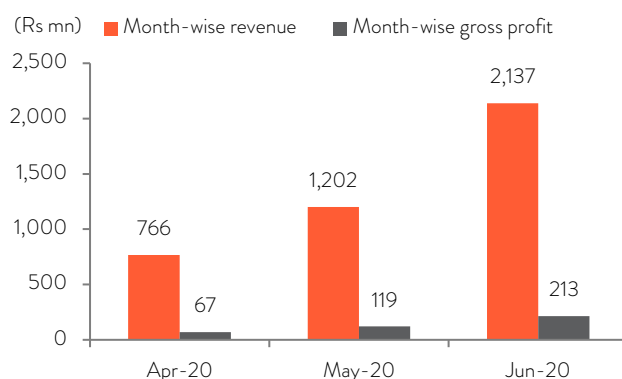
Source: Company, BOBCAPS Research

FIG 4 – CONSOLIDATED REVENUE DECLINED 54% YOY TO RS 4.1BN



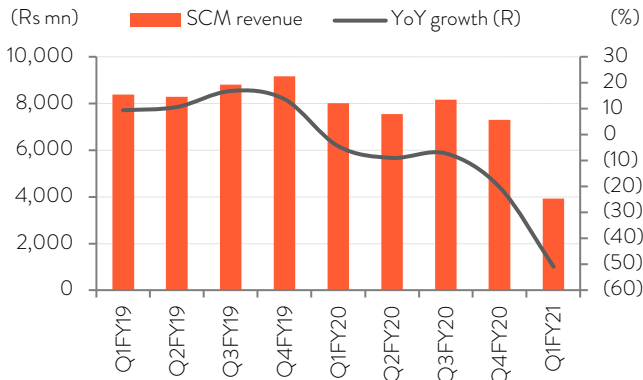
Source: Company, BOBCAPS Research

FIG 5 – REVENUE AND PROFITABILITY HAS IMPROVED SEQUENTIALLY IN MAY/JUNE



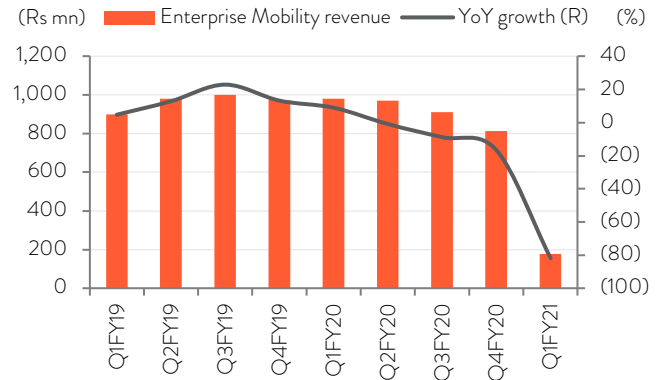
Source: Company, BOBCAPS Research

FIG 6 – SCM REVENUE FELL BY 51% YOY IN Q1, LED MAINLY BY A 63% YOY DECLINE IN AUTO VERTICAL



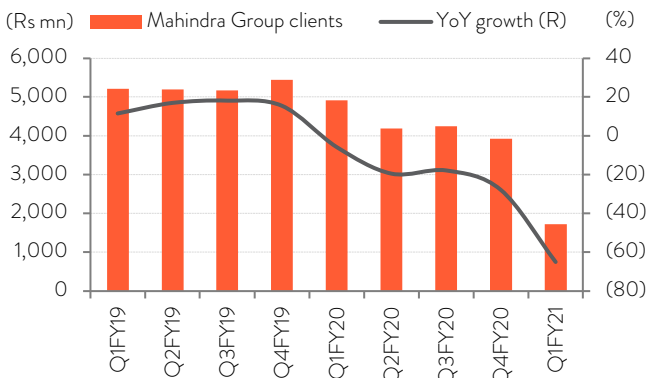
Source: Company, BOBCAPS Research

FIG 7 – ENTERPRISE MOBILITY REVENUE PLUNGED 80% AS WORK-FROM-HOME LEVELS INCREASED



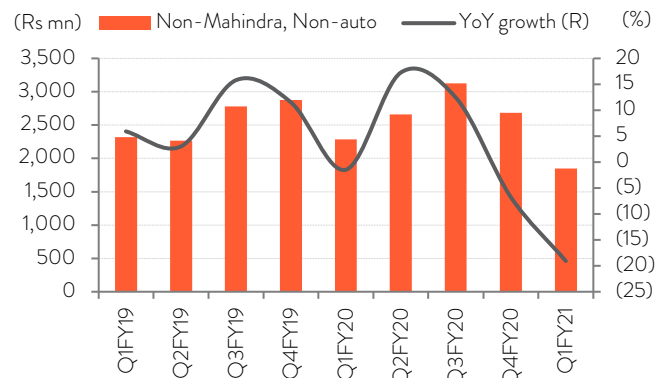
Source: Company, BOBCAPS Research

FIG 8 – ANCHOR CLIENT SEGMENT REVENUE NOSEDIVED 65% YOY



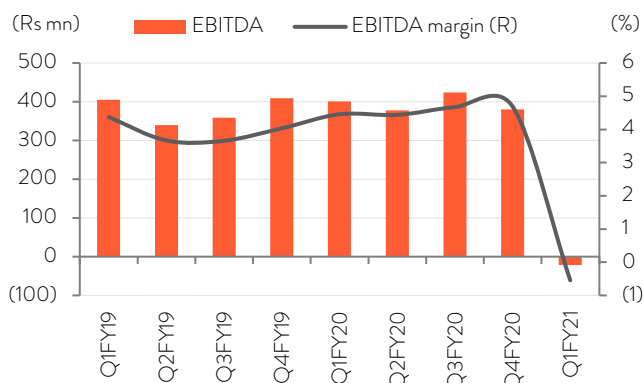
Source: Company, BOBCAPS Research

FIG 9 – NON-MAHINDRA, NON-AUTO WAS RELATIVELY RESILIENT, DIPPING 19% YOY



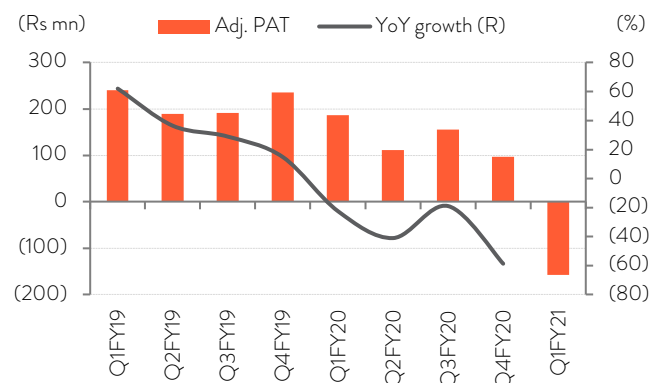
Source: Company, BOBCAPS Research

FIG 10 – REPORTED OPERATING LOSS OF RS 22MN, CUSHIONED BY GROSS MARGIN EXPANSION



Source: Company, BOBCAPS Research

FIG 11 – NET LOSS STOOD AT RS 158MN



Source: Company, BOBCAPS Research

Earnings call highlights

- MLL's clients witnessed significant disruption in operations in April, followed by a gradual uptick in May and June. Clients continue to experience some supply chain challenges due to local lockdowns.
- Revenue traction has improved steadily in May, June and July. Warehousing utilisation, line-haul transportation, freight forwarding and last-mile services have all ticked up.
- Warehouse utilisation has improved to ~80% in June. Planned addition of 1.5mn sq ft of space (0.3mn sq ft added in Q1) will ensure continued traction. After a lull in Q1, construction work has picked up and the space addition is expected in H2. The build-to-suit warehouses are backed by client contracts.
- Among end-user verticals, ecommerce witnessed tailwinds in Q1 as consumers transitioned to the digital mode of purchase. Management expects the shift to digital and contactless delivery to boost last-mile delivery, express logistics and fulfilment centre services.
- Essential categories of FMCG, personal care and food saw demand through the lockdown. A rise in personal protective equipment (PPE) shipments benefitted the freight forwarding segment. MLL believes some consumer companies will need to realign their supply chains to suit online channels, opening up opportunities for 3PL players
- Customer addition was healthy in the second half of Q1FY21. The company bagged contracts for distribution at a large steel company, inbound and outbound transportation for a glass manufacturer, and expanded fulfilment and other service offerings for e-commerce clients.
- MLL went live with several new customers during the quarter, namely an engine manufacturer, an international elevator manufacturer and a fuel systems manufacturer. While these clients are yet to add to revenue, the coming quarters would see greater traction.
- Net cash position improved to Rs 1.9bn in end-June, implying a net cash addition of Rs 1bn in Q1. Better collection efficiency led to this dramatic improvement in liquidity.

Valuation methodology

We trim our FY21/FY22 earnings estimates by 7%/4% considering the persisting near-term headwinds to key end-user verticals. We also introduce FY23 estimates and roll valuations forward to Sep'22. Consequently, our Sep'21 target price stands revised to Rs 345 from Rs 315 earlier, set at an unchanged 26x target P/E multiple.

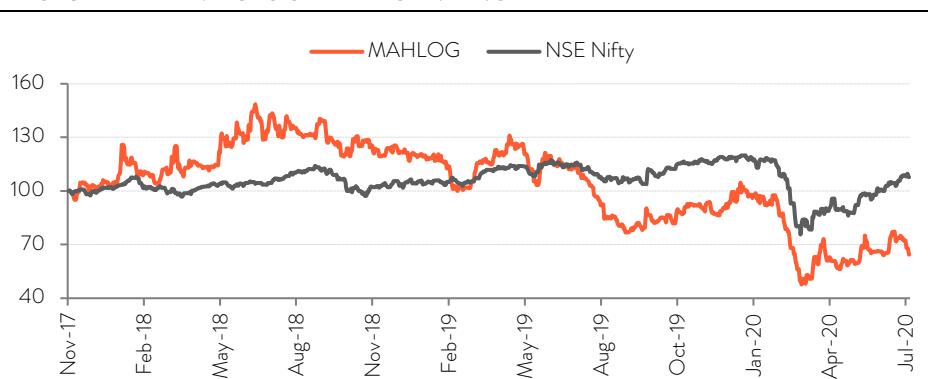
We remain positive on MLL's long-term prospects considering (1) its entrenched competitive positioning in India's burgeoning 3PL industry, (2) robust clientele coupled with increasing presence in the key 3PL verticals of auto, consumer and pharma, and (3) strong, net-cash balance sheet. Reiterate BUY.

FIG 12 – REVISED ESTIMATES – CONSOLIDATED

(Rs mn)	FY21E			FY22E			FY23E
	Old	New	Change (%)	Old	New	Change (%)	Introduced
Revenues	32,916	31,173	(5.3)	39,634	37,589	(5.2)	43,285
PBT	1,522	1,467	(3.6)	2,120	2,049	(3.4)	2,464
PBT margin (%)	4.6	4.7	8bps	5.3	5.5	10bps	5.7
PAT	482	449	(6.8)	867	833	(4.0)	1,059
PAT margin (%)	1.5	1.4	(2bps)	2.2	2.2	3bps	2.4

Source: Company, BOBCAPS Research

FIG 13 – 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)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	38,513	34,711	31,173	37,589	43,285
EBITDA	1,512	1,583	1,467	2,049	2,464
Depreciation	220	734	791	878	999
EBIT	1,293	848	676	1,171	1,465
Net interest income/(expenses)	(35)	(176)	(168)	(170)	(187)
Other income/(expenses)	76	140	100	114	138
Exceptional items	0	0	0	0	0
EBT	1,334	812	607	1,115	1,417
Income taxes	(468)	(257)	(155)	(279)	(354)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(10)	(3)	(3)	(3)	(3)
Reported net profit	856	551	449	833	1,059
Adjustments	0	0	0	0	0
Adjusted net profit	856	551	449	833	1,059

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	6,001	6,172	5,124	6,694	7,708
Other current liabilities	419	320	256	309	356
Provisions	215	213	191	231	266
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	5,234	5,859	6,653
Shareholders' fund	5,039	5,501	5,949	6,574	7,368
Total liabilities and equities	12,051	14,218	13,561	16,050	17,941
Cash and cash eq.	1,475	995	711	1,154	1,491
Accounts receivables	5,183	5,224	5,551	6,179	7,115
Inventories	0	0	0	0	0
Other current assets	3,180	3,645	3,273	3,947	4,545
Investments	38	31	31	31	31
Net fixed assets	660	918	1,232	1,318	1,341
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	2,509	3,168	3,163
Total assets	12,051	14,218	13,561	16,050	17,941

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	1,076	1,286	1,240	1,710	2,058
Interest expenses	35	36	36	36	36
Non-cash adjustments	(46)	(12)	0	0	0
Changes in working capital	(332)	(645)	(569)	(96)	(433)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	732	664	706	1,650	1,661
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)	(36)	(36)	(36)
Dividends paid	(155)	(155)	0	(208)	(265)
Other financing cash flows	72	1,718	27	203	0
Cash flow from financing	(84)	1,510	(9)	(41)	(301)
Changes in cash and cash eq.	316	(480)	(285)	443	337
Closing cash and cash eq.	1,475	995	711	1,154	1,491

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	12.0	7.7	6.3	11.6	14.8
Adjusted EPS	12.0	7.7	6.3	11.6	14.8
Dividend per share	1.8	1.5	0.0	2.9	3.7
Book value per share	69.7	76.1	82.4	91.2	102.4

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.5	0.6	0.7	0.6	0.5
EV/EBITDA	13.6	12.8	13.9	10.1	8.4
Adjusted P/E	24.8	38.7	47.5	25.6	20.1
P/BV	4.3	3.9	3.6	3.3	2.9

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	89.8	95.2	96.7
EBIT margin (EBIT/Revenue)	3.4	2.4	2.2	3.1	3.4
Asset turnover (Revenue/Avg TA)	7.4	5.4	4.1	4.4	4.6
Leverage (Avg TA/Avg Equity)	1.1	1.2	1.4	1.4	1.4
Adjusted ROAE	18.7	10.6	7.9	13.4	15.3

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)	(10.2)	20.6	15.2
EBITDA	26.3	4.6	(7.3)	39.7	20.3
Adjusted EPS	33.2	(35.7)	(18.6)	85.6	27.2
Profitability & Return ratios (%)					
EBITDA margin	3.9	4.6	4.7	5.5	5.7
EBIT margin	3.4	2.4	2.2	3.1	3.4
Adjusted profit margin	2.2	1.6	1.4	2.2	2.4
Adjusted ROAE	18.7	10.6	7.9	13.4	15.3
ROCE	25.8	13.6	9.0	13.9	15.9
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	14.8	14.1	13.6
Current ratio	1.5	1.4	1.8	1.6	1.6
Net interest coverage ratio	37.2	4.8	4.0	6.9	7.8
Adjusted debt/equity	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

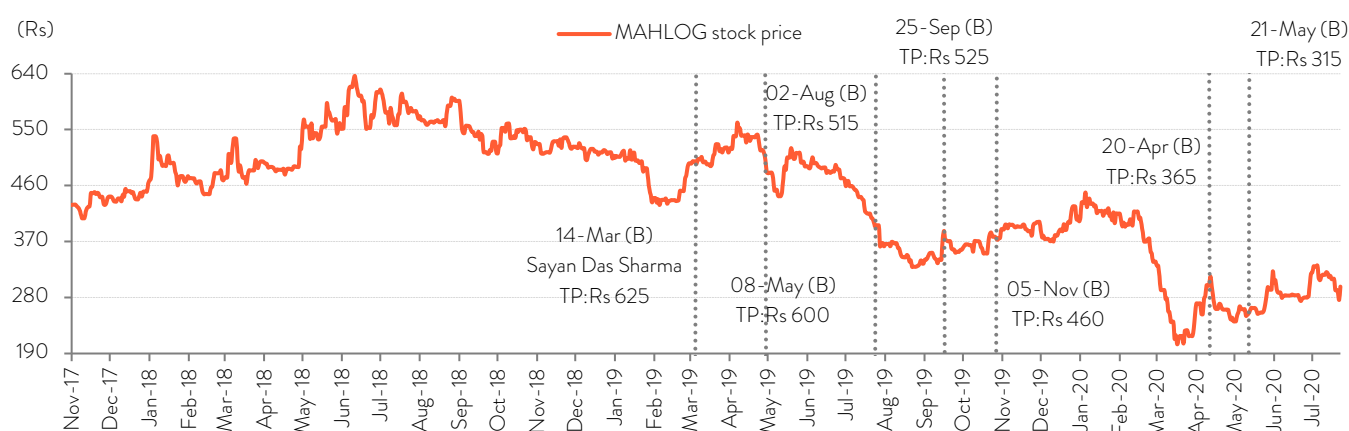
ADD – Expected return from >+5% to +15%

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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