

BUY

TP: Rs 711 | ▲ 16%

MAHINDRA LOGISTICS

| Logistics

| 28 July 2021

Recovery in net income; focus on warehousing

- Strong Q1 operating income of Rs 164mn in a challenging quarter vs. a loss of Rs 206mn in Q1FY21
- Focus on warehousing to continue; people transport business will take more time to recover
- Retain BUY; we make minor changes to estimates and roll over to a Jun'22 TP of Rs 711 (vs. Rs 701)

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Core in line; net misses estimate: MAHLOG reported Rs 94mn in net income for Q1FY22 versus a loss of Rs 158mn in Q1FY21, driven by a 113% YoY increase in revenue and 570bps rise in EBITDA margin to 5.2%. Revenue growth was led by both supply chain (+114%) and people transport services (+87%). Segment margins for both businesses also increased YoY.

Sequentially, core net income fell 39% as revenue dropped by 10% and other income fell 59%. EBITDA margin increased 50bps QoQ. Supply chain/people transport revenues fell 10.5%/6.7%. Margins for the supply chain business grew 70bps QoQ to 8.1%. While revenue and EBITDA were in line with our estimates, higher depreciation and taxation led to a miss on net income.

Focus on warehousing; recovery in personal mobility will take time: MAHLOG intends to continue building up warehousing and to raise revenue contribution from the current 20%. The company has contracted 4msf and expects its new 1.2msf facility to be fully utilised. The Bajaj Electricals deal will start contributing later this fiscal year. The people transportation services segment remains a challenge amid the pandemic and recovery may take a few years, but green shoots are appearing as more employees start returning to work.

Retain BUY: We make minor changes to our FY22-FY24 EPS projections and have a new Jun'22 DCF-based TP of Rs 711 (Rs 701 earlier). Our target implies an FY23E P/E of ~35x and P/B of 6.6x, a premium of 3% and 20% to the three-year mean respectively. Maintain BUY. Key stock price drivers include strong recovery in M&M sale volumes, new customer adds in 3PL business and earnings recovery. Key downsides are a weaker-than-expected recovery and lower margins from new businesses.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MAHLOG IN/Rs 612
Market cap	US\$ 590.1mn
Free float	42%
3M ADV	US\$ 1.3mn
52wk high/low	Rs 631/Rs 273
Promoter/FPI/DII	58%/21%/12%

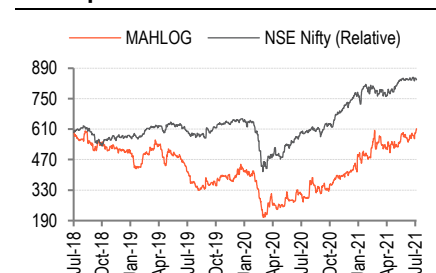
Source: NSE | Price as of 28 Jul 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	32,637	41,609	47,710
EBITDA (Rs mn)	1,342	2,506	3,136
Adj. net profit (Rs mn)	328	979	1,461
Adj. EPS (Rs)	4.6	13.7	20.4
Consensus EPS (Rs)	4.6	10.8	16.8
Adj. ROAE (%)	5.9	16.1	20.5
Adj. P/E (x)	134.0	44.8	30.0
EV/EBITDA (x)	32.6	17.7	13.8
Adj. EPS growth (%)	(40.4)	199.0	49.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue (post indirect taxes)	8,734	4,105	112.8	9,740	(10.3)
Cost of Revenue	(7,407)	(3,292)	125.0	(8,334)	(11.1)
Gross Profit	1,326	813	63.2	1,406	(5.7)
Gross Margin (%)	15.2	19.8	-	14.4	-
Employee Benefits Expense	(711)	(732)	(2.8)	(709)	0.3
Other Expense	(165)	(103)	60.2	(236)	(29.9)
EBITDA	450	(22)	(2,127.5)	462	(2.5)
EBITDA margin (%)	5.2	(0.5)	-	4.7	-
Depreciation & Amortization	(286)	(184)	55.2	(261)	9.6
EBIT	164	(206)	(179.6)	201	(18.2)
EBIT margin (%)	1.9	(5.0)	-	2.1	-
Interest Expense	(62)	(46)	35.6	(56)	10.2
Other Financial Items	19	28	(31.7)	47	(58.7)
Total Financials	(43)	(17)	144.3	(10)	347.4
Income after financial items	122	(224)	(154.4)	191	(36.4)
Income after financial items margin (%)	1.4	(5.5)	-	2.0	-
Associate Income	-	(2)	(100.0)	1	(100.0)
Pretax income	122	(225)	(154.0)	192	(36.5)
Non-Recurring	-	-	-	(28)	(100.0)
Reported Pretax	122	(225)	(154.0)	164	(25.9)
Taxation	(31)	59	(152.0)	(40)	(22.7)
% of pretax income before Associates	25.2	26.4	-	20.8	-
Net income before minorities	91	(166)	(154.7)	125	(27.0)
Minorities	3	8	(69.9)	1	108.3
Net income after minorities	94	(158)	(159.1)	126	(25.7)
Core net income	94	(158)	(159.1)	153	(39.0)
Net margin (%)	1.1	(3.9)	-	1.6	-

Source: Company, BOBCAPS Research

Fig 2 – Segment details

(Rs mn)	Q1FY22	Q1FY21	YoY%	Q4FY21	QoQ%
Revenue					
Supply chain management	8,401	3,926	114.0	9,383	(10.5)
People transportation services	333	178	86.8	357	(6.7)
Segment Profit					
Supply chain management	679	241	182.2	695	(2.3)
People transportation services	12	(7)	(274.6)	19	(39.4)
% Segment Margin					
Supply chain management	8.1	6.1	-	7.4	-
People transportation services	3.5	(3.8)	-	5.4	-
M&M Sales					
M&M PV/UV Sales	43,202	11,942	261.8	52,725	(18.1)
M&M Tractor Sales	99,929	65,657	52.2	93,894	6.4

(Rs mn)	Q1FY22	Q1FY21	YoY%	Q4FY21	QoQ%
Revenue Breakup					
Mahindra	4,397	1,722	155.3	5,000	(12.1)
Non-Mahindra	4,004	2,205	81.6	4,381	(8.6)
Transportation	6,835	2,722	151.1	7,748	(11.8)
Warehousing & solutions	1,566	1,203	30.2	1,635	(4.2)
Auto	5,230	2,076	151.9	5,920	(11.7)
Non-Auto	3,171	1,851	71.3	3,463	(8.4)
Auto					
Mahindra	4,397	1,722	155.3	5,000	(12.1)
Non-Mahindra	833	354	135.3	920	(9.4)
Non-Auto					
Mahindra	8	(1)	(753.3)	(86)	(109.2)
Non-Mahindra	3,163	1,852	70.8	3,549	(10.9)
Warehousing					
Mahindra	1,161	838	38.6	1,446	(19.7)
Non-Mahindra	405	365	10.9	189	113.9
Transportation					
Mahindra	3,236	884	266.0	3,554	(9.0)
Non-Mahindra	3,599	1,840	95.6	4,192	(14.1)

Source: Company, BOBCAPS Research

Valuation methodology

We make minor changes to our EPS projections for MAHLOG and are well above consensus. We estimate a +100% CAGR in net income over FY21-FY23 driven by revenue growth (+20% CAGR) and high operating leverage, aiding EBITDA margin expansion of 250bps to 6.6%.

Our new Jun'22 DCF-based TP of Rs 711 (Rs 701 earlier) implies an FY23E P/E of 34.9x and P/B of 6.6x, 3% and 20% premium to the three-year mean respectively. We retain BUY as we believe the company's strong growth outlook and low capital intensity merits a valuation premium.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	41.6	47.7	54.6	40.9	46.6	54.0	1.7	2.3	1.1
EBITDA	2.5	3.1	4.4	2.4	3.0	4.3	3.5	4.1	1.9
EBIT	1.4	2.0	3.1	1.4	1.9	3.1	(1.0)	1.2	(0.6)
Pretax Income	1.3	2.0	3.1	1.3	1.9	3.1	(0.6)	1.9	0.6
Net Income	1.0	1.5	2.3	1.0	1.4	2.3	(0.6)	1.9	0.6
EPS (Rs)	13.7	20.4	32.5	13.7	20.0	32.3	(0.6)	1.9	0.6

Source: BOBCAPS Research

Fig 4 – Estimates vs. Consensus

(Rs mn)	BOBCAPS			Bloomberg			BOBCAPS vs. Bloomberg (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	41.6	47.7	54.6	40.6	48.9	60.8	2.6	(2.3)	(10.2)
EBITDA	2.5	3.1	4.4	2.1	3.0	3.8	19.5	4.2	13.6
EBIT	1.4	2.0	3.1	1.2	1.9	2.3	17.8	4.4	34.9
Pretax Income	1.3	2.0	3.1	1.0	1.7	2.3	31.0	12.1	36.3
Net Income	1.0	1.5	2.3	0.8	1.3	1.7	26.8	16.3	36.6
EPS	13.7	20.4	32.5	10.8	16.8	23.9	27.0	21.0	36.4

Source: BOBCAPS Research

We have valued MAHLOG based on a three-stage DCF model comprising a three-year explicit forecast in Stage 1, a seven-year high-growth period in Stage 2 and a terminal period in Stage 3. Stage 2 assumptions are based on market growth, company strategy and historical performance. Our WACC estimate is based on the risk-free rate as on end Jun'21, gearing and estimated beta as on end Jun'21 (based on two-year weekly returns).

Fig 5 – DCF assumptions

Variable	Assumption	Basis	
Risk Free Rate (%) (A)	6.0	Indian 10-year TB yield as of end-Jun'21	
Equity Risk Premium (%) (B)	6.9	NYU Stern India equity risk premium	
Beta (C)	1.2	Weekly returns over 2 years as of end-Jun'21	
Cost of Equity (%) (D) = A + B x C	14.0		
Cost of Debt (E)	8.0		
Marginal Tax Rate (%) (F)	25.2		
Post-Tax Cost of Debt (%) (G) = E x (1-F)	5.99		
Current Debt to Equity (2022) (H)	0.10		
WACC (I) = (1 x D + H x G)/(1 + H)	13.3		
	Stage 1	Stage 2	Stage 3 (Terminal)
FCF CAGR (%)	26.8	15.0	5.0

Source: BOBCAPS Research

Fig 6 – Target price: Implied multiples

Multiples (x)	Target Price	Current Price	Consensus 12M forward 3Y mean	Consensus 3Y range	Variance vs. MAHLOG 3Y historical mean (%)
P/E FY23E	34.9	30.0	33.8	15.3 - 48.9	3.2
EV/EBITDA FY23E	15.4	13.2	16.0	7.5 - 24.1	-3.7
P/B FY23E	6.6	5.7	5.5	2.4 - 8.6	19.5

Source: Bloomberg, BOBCAPS Research

Fig 7 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
M&M PV/UV (YoY %)	(29.0)	19.8	8.0	8.0
M&M Tractor Units (YoY %)	17.4	5.0	5.0	8.0
All India PV Sales (YoY %)	(20.1)	27.0	7.0	8.0
Non-Auto Transportation - Freight Forwarding (YoY %)	20.7	10.0	10.0	10.0
Non-Auto Transportation - Others (YoY %)	45.2	10.0	15.0	10.0
Non-Auto Warehousing (YoY %)	14.4	20.0	30.0	25.0
SCM Adjusted EBITDA Margin (%)	9.5	10.0	10.0	11.0
People Transportation Services (YoY %)	(67.6)	30.0	30.0	30.0

Source: Company, BOBCAPS Research

Fig 8 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS CAGR FY21-23E (%)	ROIC (Rs)		ROE (%)		Target P/E FY23E (x)
					FY22E	FY23E	FY22E	FY23E	
Container Corp of India	CCRI IN	SELL	521	41	8.1	12.0	8.8	11.6	24.4
Mahindra Logistics	MAHLOG IN	BUY	711	111	20.9	28.5	16.1	20.5	34.9
TCI Express	TCIEXP IN	HOLD	1421	25	32.1	34.8	26.4	25.1	34.5
Transport Corp of India	TRPC IN	HOLD	431	14	10.3	11.3	13.5	14.6	16.0
VRL Logistics	VRLL IN	BUY	381	72	13.2	19.0	14.7	17.5	25.3

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates include:

- weaker-than-expected recovery,
- lower margins from new businesses, and
- slow sign-up of new customers.

Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Container Corp of India	CCRI IN	5	639	521	SELL
Mahindra Logistics	MAHLOG IN	1	612	711	BUY
TCI Express	TCIEXP IN	1	1,622	1,421	HOLD
Transport Corp of India	TRPC IN	0	415	431	HOLD
VRL Logistics	VRL IN	0	297	381	BUY

Source: BOBCAPS Research, NSE | Price as of 28 Jul 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	34,711	32,637	41,609	47,710	54,601
EBITDA	1,582	1,342	2,506	3,136	4,362
Depreciation	(734)	(897)	(1,096)	(1,172)	(1,251)
EBIT	848	446	1,410	1,964	3,110
Net interest inc./(exp.)	(76)	(54)	(129)	(40)	(23)
Other inc./(exp.)	39	28	28	28	28
Exceptional items	0	(28)	0	0	0
EBT	805	388	1,309	1,952	3,115
Income taxes	(257)	(100)	(329)	(491)	(784)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(3)	8	0	0	0
Reported net profit	551	300	979	1,461	2,331
Adjustments	0	28	0	0	0
Adjusted net profit	551	328	979	1,461	2,331

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	6,172	7,661	9,767	10,457	8,975
Other current liabilities	6,228	7,721	9,827	10,518	9,036
Provisions	157	159	159	159	159
Debt funds	1,947	2,667	553	0	0
Other liabilities	211	187	187	187	187
Equity capital	715	717	717	717	717
Reserves & surplus	4,731	4,964	5,764	7,029	9,069
Shareholders' fund	5,447	5,681	6,481	7,746	9,785
Total liab. and equities	14,218	16,787	17,579	18,981	19,539
Cash and cash eq.	995	2,528	2,080	2,597	2,730
Accounts receivables	5,224	4,856	6,191	7,189	8,228
Inventories	0	0	0	0	0
Other current assets	3,626	4,659	4,659	4,659	4,659
Investments	31	0	0	0	0
Net fixed assets	2,256	3,392	3,297	3,185	3,053
CWIP	0	0	0	0	0
Intangible assets	10	182	182	182	182
Deferred tax assets, net	200	221	221	221	221
Other assets	1,876	949	949	949	949
Total assets	14,218	16,787	17,579	18,981	20,021

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	0	0	2,948	2,336	1,058
Capital expenditures	(624)	(712)	(1,001)	(1,060)	(1,119)
Change in investments	0	0	0	0	0
Other investing cash flows	943	(416)	0	0	0
Cash flow from investing	319	(1,128)	(1,001)	(1,060)	(1,119)
Equities issued/Others	4	2	0	0	0
Debt raised/repaid	0	(67)	(2,114)	(553)	482
Interest expenses	0	0	(275)	(187)	(184)
Dividends paid	(155)	(107)	(179)	(196)	(292)
Other financing cash flows	(461)	(530)	2,569	936	(6)
Cash flow from financing	(612)	(702)	0	0	0
Chg in cash & cash eq.	(408)	(1,955)	(448)	516	133
Closing cash & cash eq.	995	2,528	2,080	2,597	2,730

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	7.7	4.2	13.7	20.4	32.5
Adjusted EPS	7.7	4.6	13.7	20.4	32.5
Dividend per share	1.5	2.5	2.7	4.1	6.5
Book value per share	76.0	79.3	90.4	108.1	136.5

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	1.2	1.3	1.1	0.9	0.8
EV/EBITDA	27.1	32.6	17.7	13.8	9.6
Adjusted P/E	79.9	134.0	44.8	30.0	18.8
P/BV	8.1	7.7	6.8	5.7	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	68.4	78.8	74.8	74.8	74.8
Interest burden (PBT/EBIT)	95.0	93.2	92.8	99.4	100.2
EBIT margin (EBIT/Revenue)	2.4	1.4	3.4	4.1	5.7
Asset turnover (Rev./Avg TA)	264.3	210.5	242.2	261.0	280.0
Leverage (Avg TA/Avg Equity)	2.5	2.8	2.8	2.6	2.2
Adjusted ROAE	10.5	5.9	16.1	20.5	26.6

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(9.9)	(6.0)	27.5	14.7	14.4
EBITDA	4.6	(15.2)	86.7	25.1	39.1
Adjusted EPS	(35.9)	(40.4)	199.0	49.2	59.6
Profitability & Return ratios (%)					
EBITDA margin	4.6	4.1	6.0	6.6	8.0
EBIT margin	2.4	1.4	3.4	4.1	5.7
Adjusted profit margin	1.6	1.0	2.4	3.1	4.3
Adjusted ROAE	10.5	5.9	16.1	20.5	26.6
ROCE	13.9	6.1	19.2	26.2	34.7
Working capital days (days)					
Receivables	55	54	54	55	55
Inventory	0	0	0	0	0
Payables	65	86	86	80	60
Ratios (x)					
Gross asset turnover	22.5	9.5	9.7	9.0	8.5
Current ratio	1.3	1.3	1.2	1.3	1.6
Net interest coverage ratio	11.2	8.2	10.9	49.4	133.6
Adjusted debt/equity	0.4	0.5	0.1	0.0	0.0

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

Disclaimer

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

BUY – Expected return >+15%

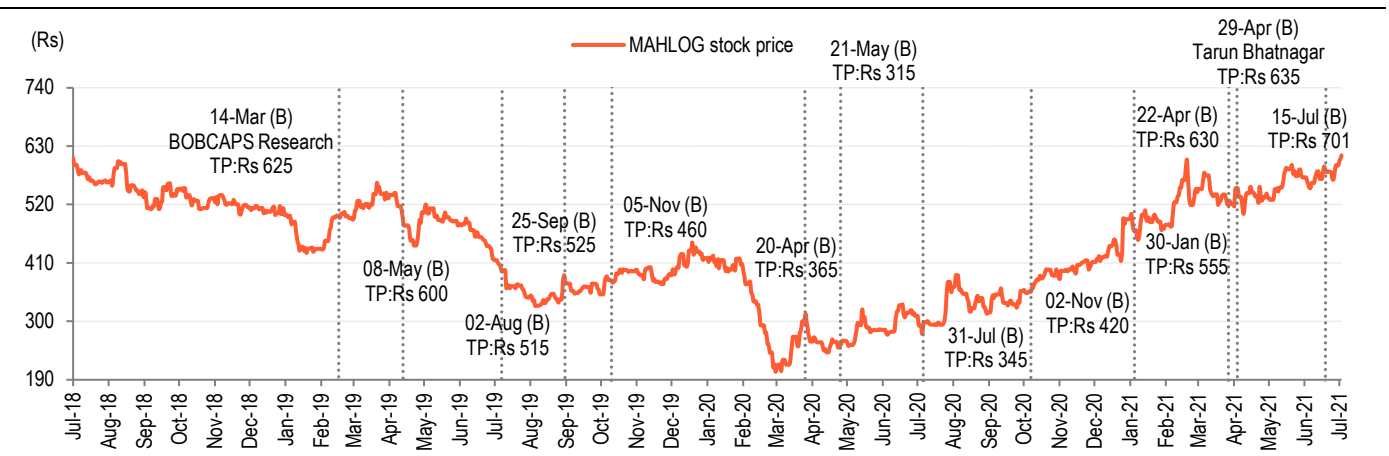
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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, H – Hold, S – Sell, A – Add, R – Reduce

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