

BUY

TP: Rs 460 | ▲ 23%

MAHINDRA LOGISTICS

Logistics

05 November 2019

Auto weakness mask strength in other verticals

Mahindra Logistics (MLL) reported below expected performance in Q2FY20, with consolidated revenue/EBITDA (adj. for IND-AS 116) declining 8%/28% YoY. SCM/PTS segment revenues fell 9%/1% YoY. Plummeting auto volumes remain a near-term obstacle, but robust growth in non-Mahindra, non-auto (+17% YoY) & warehousing (+35%) segments, and robust client addition are encouraging long-term developments. We slash our FY20-22 earnings by 20-24% and roll to a Mar'21 TP of Rs 460 (Rs 525 earlier). Retain BUY.

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Plunging auto volumes take toll: Revenue from Mahindra Group clients plummeted 19% YoY, triggering a 9% fall in SCM revenue. Non-Mahindra auto revenue also declined 15%. Management expects some green shoots in Q4, but a sustained recovery in these segments hinge on a revival in auto cycle.

Non-auto verticals buoyant: Key non-auto verticals – consumer, pharma, e-commerce – sustained strong growth trajectory (+35% YoY) aided by new clients added over recent quarters. Client addition was robust across verticals (FMCG, apparel, auto) in Q2 as well. Warehousing growth was sturdy (+35% YoY), as reflected in hefty space addition (1.1mn sq ft in H1). Buoyancy in non-auto verticals should partially cushion lower auto revenues going ahead.

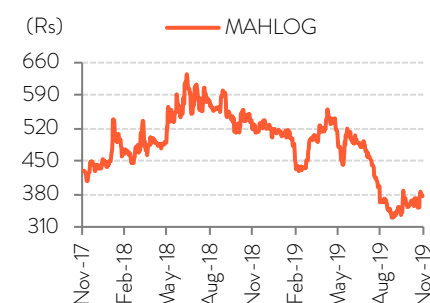
Margin disappoints again: Gross margin expanded 60bps YoY to 8.8% (adj. for IND-AS 116) due to higher contribution from the value-added segments. However, lower absorption of fixed expenses following a revenue dip negated its impact, leading to 80bps YoY fall in EBITDA margin to 2.9%.

TP reduced: We cut FY20E/FY21E/FY22E earnings by 24%/22%/20% and move to a revised Mar'21 TP of Rs 460 set at 25x P/E (vs. 27x). Retain BUY.

Ticker/Price	MAHLOG IN/Rs 373
Market cap	US\$ 376.8mn
Shares o/s	71mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 578/Rs 317
Promoter/FPI/DII	59%/12%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	34,161	38,513	37,531	42,135	48,673
EBITDA (Rs mn)	1,197	1,512	1,220	1,574	2,025
Adj. net profit (Rs mn)	640	856	747	1,019	1,312
Adj. EPS (Rs)	9.0	12.0	10.5	14.3	18.4
Adj. EPS growth (%)	34.1	33.2	(12.8)	36.4	28.8
Adj. ROAE (%)	16.7	18.7	14.2	17.1	19.7
Adj. P/E (x)	41.4	31.1	35.7	26.1	20.3
EV/EBITDA (x)	21.6	17.1	20.9	15.8	12.3

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 (EXCL. IND-AS 116 IMPACT)

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Total revenues	8,526	9,274	(8.1)	8,992	(5.2)	17,517	18,555	(5.6)
Operating expenses	7,322	8,151	(10.2)	7,773	(5.8)	15,095	16,247	(7.1)
% of sales	85.9	87.9	(202bps)	86.5	(57bps)	86.2	87.6	(139bps)
Employee expenses	764	631	21.1	745	2.5	1,510	1,238	21.9
% of sales	9.0	6.8	216bps	8.3	68bps	8.6	6.7	195bps
Other expenses	194	152	28.2	178	9.2	372	326	14.4
% of sales	2.3	1.6	64bps	2.0	30bps	2.1	1.8	37bps
Total expenditure	8,281	8,934	(7.3)	8,697	(4.8)	16,977	17,811	(4.7)
EBITDA	245	340	(27.9)	295	(17.0)	540	745	(27.5)
EBITDA margin (%)	2.9	3.7	(79bps)	3.3	(41bps)	3.1	4.0	(93bps)
Depreciation	58	51	13.5	54	7.8	112	102	10.1
EBIT	187	288	(35.2)	241	(22.5)	428	643	(33.5)
Interest expenses	9	8	7.4	9	(4.4)	18	16	12.7
Other income	18	13	41.1	70	(73.9)	88	42	110.8
PBT	196	293	(33.1)	302	(34.9)	498	669	(25.6)
PBT margin (%)	2.3	3.2	(86bps)	3.4	(105bps)	2.8	3.6	(76bps)

Source: Company, BOBCAPS Research

FIG 2 – QUARTERLY PERFORMANCE – CONSOLIDATED (AS PER IND-AS 116)

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Total revenues	8,524	9,274	(8.1)	8,990	(5.2)	17,515	18,555	(5.6)
Operating expenses	7,200	8,151	(11.7)	7,672	(6.2)	14,872	16,247	(8.5)
% of sales	84.5	87.9	(343bps)	85.3	(87bps)	84.9	87.6	(265bps)
Employee expenses	764	631	21.1	745	2.5	1,510	1,238	21.9
% of sales	9.0	6.8	216bps	8.3	68bps	8.6	6.7	195bps
Other expenses	182	152	20.0	172	5.6	354	326	8.8
% of sales	2.1	1.6	50bps	1.9	22bps	2.0	1.8	27bps
Total expenditure	8,146	8,934	(8.8)	8,590	(5.2)	16,736	17,811	(6.0)
EBITDA	378	340	11.2	401	(5.7)	778	745	4.5
EBITDA margin (%)	4.4	3.7	77bps	4.5	(2bps)	4.4	4.0	43bps
Depreciation	177	51	245.2	149	19.1	326	102	219.7
EBIT	201	288	(30.4)	252	(20.3)	453	643	(29.6)
Interest expenses	42	8	412.3	36	16.9	77	16	387.3
Other income	19	13	43.4	70	(73.6)	89	42	112.5
PBT	178	293	(39.4)	287	(38.0)	464	669	(30.6)
PBT margin (%)	2.1	3.2	(108bps)	3.2	(110bps)	2.7	3.6	(95bps)
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Income tax	65	102	(36.7)	100	(35.1)	164	235	(30.0)
Effective tax rate (%)	36.4	34.9	154bps	34.8	161bps	35.4	35.1	32bps
Reported PAT – before profit/(loss) from JVs/Minority/Associates	113	191	(40.8)	187	(39.5)	300	434	(30.9)
Profit/(loss) from JVs/Minority/Associates	(1)	(2)	NM	(0)	NM	(1)	(5)	NM
Reported PAT – after profit/(loss) from JVs/Minority/Associates	112	192	(41.8)	187	(40.2)	298	430	(30.5)
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	112	192	(41.8)	187	(40.2)	298	430	(30.5)
Adjusted PAT margin	1.3	2.1	(76bps)	2.1	(77bps)	1.7	2.3	(61bps)

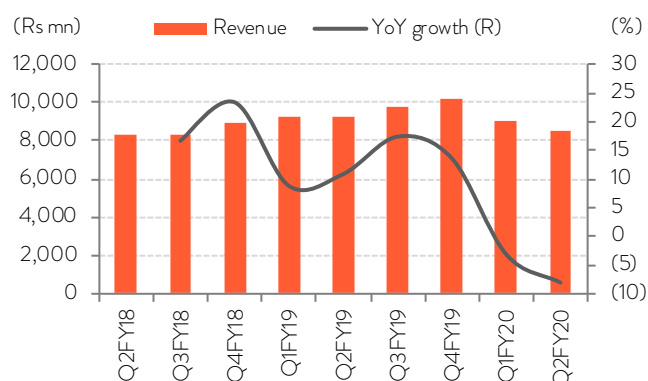
Source: Company, BOBCAPS Research

FIG 3 – SEGMENT-WISE CONSOLIDATED REVENUE BREAK-DOWN

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Supply Chain Management segment (A)	7,553	8,292	(8.9)	8,010	(5.7)	15,563	16,672	(6.7)
Mahindra Group	4,185	5,194	(19.4)	4,890	(14.4)	9,075	10,404	(12.8)
Non-Mahindra clients	3,368	3,098	8.7	3,120	7.9	6,488	6,268	3.5
Non-Mahindra SCM - Service-wise								
Transportation	2,221	2,250	(1.3)	2,160	2.8	4,381	4,650	(5.8)
Warehousing	1,147	848	35.3	960	19.5	2,107	1,618	30.2
Non-Mahindra SCM - Industry-wise								
Auto	709	831	(14.7)	810	(12.5)	1,519	1,681	(9.6)
Non-auto	2,659	2,267	17.3	2,310	15.1	4,969	4,587	8.3
People Transport Solution (PTS) segment (B)	971	981	(1.0)	981	(0.9)	1,952	1,881	3.8
Total consolidated revenue (A+B)	8,524	9,274	(8.1)	8,990	(5.2)	17,515	18,555	(5.6)

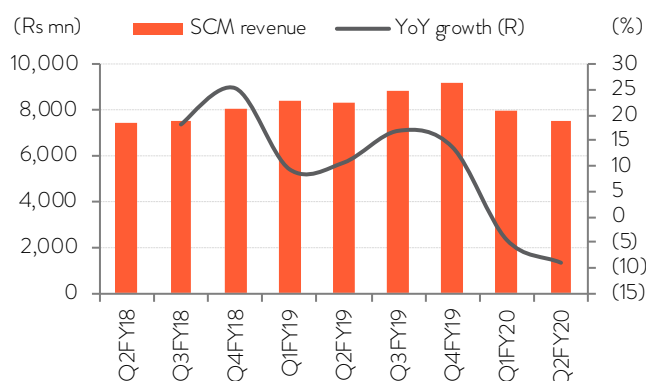
Source: Company, BOBCAPS Research

FIG 4 – CONSOLIDATED REVENUE DECLINED 8% YOY TO RS 8.5BN



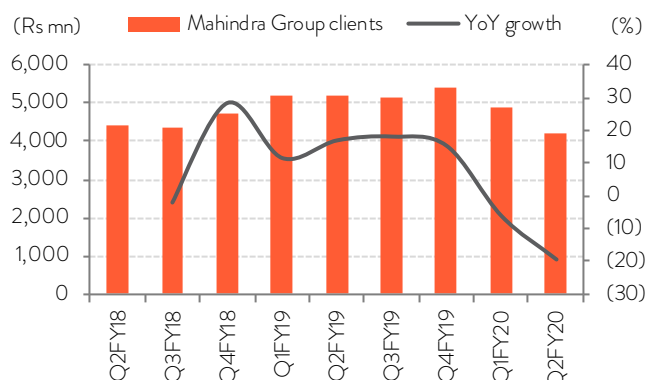
Source: Company, BOBCAPS Research

FIG 5 – SCM SEGMENT REVENUE DECLINED 9% YOY...



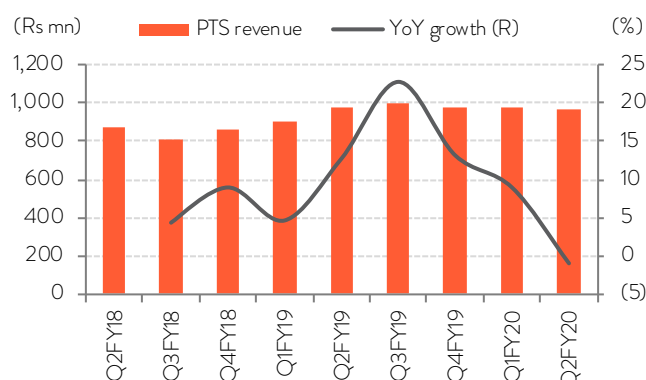
Source: Company, BOBCAPS Research

FIG 6 – ...DUE TO A SHARP 19% YOY DROP IN REVENUE FROM ANCHOR CLIENT SEGMENT



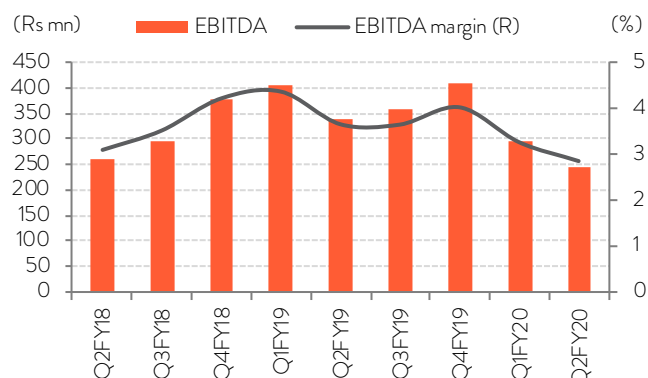
Source: Company, BOBCAPS Research

FIG 7 – REVENUE FROM PTS SEGMENT ALSO FELL 1% YOY



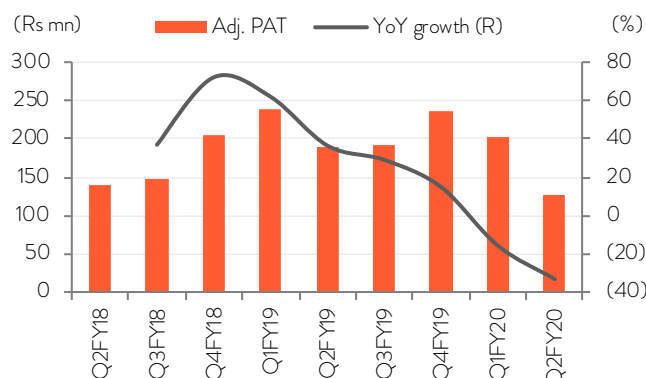
Source: Company, BOBCAPS Research

FIG 8 – LOWER REVENUE LED TO A 28% YOY DROP IN EBITDA (ADJ. FOR IND-AS 116)



Source: Company, BOBCAPS Research

FIG 9 – ADJ. PAT (AFTER MINORITY) FELL 42% YOY



Source: Company, BOBCAPS Research

Earnings call highlights

- Overall business environment remains challenging. SCM revenues have been impacted by cyclical downturn in the dominant auto vertical, and subsequent reduction in production days by many OEMs. Management expects some uptick in auto transportation in Q4.
- PTS segment revenue/profitability declined as – 1) some existing clients scaled back business, and 2) stabilisation of new client account got delayed. Expects to come back to growth path from H2 onwards.
- MLL added several new clients in Q2FY20, including Asian Paints; additional business from Volkswagen; several FMCG brands in health, hygiene, and apparel categories; large engine manufacturer, among others.
- Remains committed to grow the consumer and pharma verticals within the non-Mahindra SCM segment. During Q2, robust growth in consumer, pharma, and e-commerce verticals negated the loss of business from a large bulk client in Q1FY20.
- MLL has added 0.7mn sq ft of warehousing area in Q2, taking the total area under management to 16.4mn sq ft. Area addition in H1 stands at 1.1mn sq ft.
- The company has moved to the new corporate tax regime of 25.6%. However, it is not reflected in Q2FY20 profit as it has restated deferred tax assets.

Valuation methodology

Prolonged cyclical downturn in auto industry, the key vertical for MLL (67% of revenue in H1FY20), is likely to continue to weigh on topline growth in H2. PTS growth has also slowed down to 4% in H1, adding to growth challenges. Accordingly, we slash our revenue and earnings estimates for FY20-FY22 by 4-6% and 20-24%, respectively. We also pare our target P/E multiple to 25x from 27x given the challenging externalities. Rolling valuations over, we have a revised Mar'21 target price of Rs 460 (Rs 525 earlier). Maintain BUY.

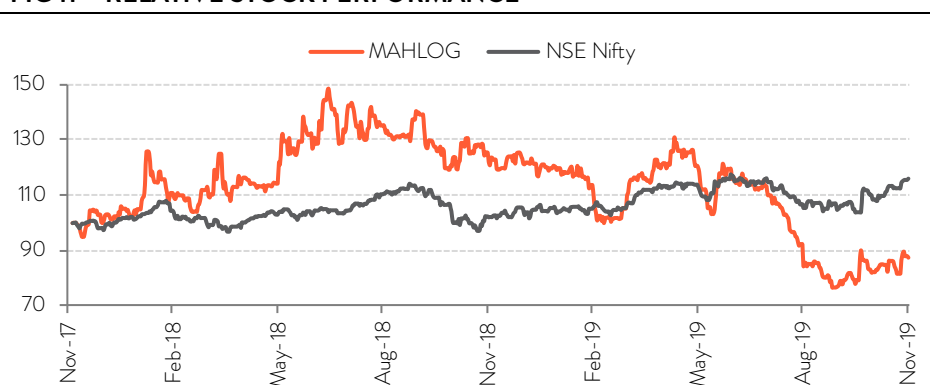
We remain positive on MLL's long-term prospects considering (1) its entrenched competitive positioning in India's burgeoning 3PL industry, (2) robust clientele and increasing presence in the key auto, consumer and pharma verticals within the 3PL industry, (3) impressive return ratios (ROIC of ~35% in FY19), and (4) strong, net-cash balance sheet.

FIG 10 – REVISED ESTIMATES - CONSOLIDATED

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	39,045	37,531	(3.9)	44,492	42,135	(5.3)	51,494	48,673	(5.5)
EBITDA	1,449	1,220	(15.8)	1,940	1,574	(18.9)	2,418	2,025	(16.3)
EBITDA margin (%)	3.7	3.2	(46bps)	4.4	3.7	(63bps)	4.7	4.2	(54bps)
PAT	979	747	(23.7)	1,313	1,019	(22.4)	1,642	1,312	(20.1)
PAT margin (%)	2.5	2.0	(52bps)	3.0	2.4	(54bps)	3.2	2.7	(49bps)

Source: Company, BOBCAPS Research

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- lower-than-estimated traction in the non-Mahindra client segment,
- 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	FY20E*	FY21E*	FY22E*
Total revenue	34,161	38,513	37,531	42,135	48,673
EBITDA	1,197	1,512	1,220	1,574	2,025
Depreciation	197	220	239	297	353
EBIT	1,000	1,293	980	1,276	1,672
Net interest income/(expenses)	(38)	(35)	(31)	(18)	(8)
Other income/(expenses)	59	76	133	128	124
Exceptional items	0	0	0	0	0
EBT	1,021	1,334	1,083	1,387	1,788
Income taxes	(368)	(468)	(327)	(355)	(458)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(13)	(10)	(9)	(13)	(18)
Reported net profit	640	856	747	1,019	1,312
Adjustments	0	0	0	0	0
Adjusted net profit	640	856	747	1,019	1,312

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Accounts payables	4,863	6,001	6,169	6,926	8,001
Other current liabilities	205	419	308	346	400
Provisions	180	215	210	235	272
Debt funds	346	377	235	115	40
Other liabilities	0	0	0	0	0
Equity capital	711	715	715	715	715
Reserves & surplus	3,554	4,325	4,885	5,649	6,305
Shareholders' fund	4,266	5,039	5,599	6,363	7,019
Total liabilities and equities	9,860	12,051	12,522	13,987	15,733
Cash and cash eq.	1,161	1,475	1,974	1,904	2,051
Accounts receivables	5,200	6,317	6,684	7,503	8,668
Inventories	0	0	0	0	0
Other current assets	1,480	2,046	1,993	2,238	2,585
Investments	0	38	38	38	38
Net fixed assets	605	660	797	849	846
CWIP	6	26	0	0	0
Intangible assets	54	53	53	53	53
Deferred tax assets, net	141	187	187	187	187
Other assets	1,213	1,250	797	1,214	1,305
Total assets	9,860	12,051	12,522	13,987	15,733

Source: Company, BOBCAPS Research | *Excluding Ind-AS 116 impact

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Net income + Depreciation	837	1,076	986	1,316	1,665
Interest expenses	38	35	31	18	8
Non-cash adjustments	(9)	(46)	0	0	0
Changes in working capital	(614)	(332)	192	(662)	(438)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	252	732	1,209	672	1,235
Capital expenditures	(240)	(294)	(350)	(350)	(350)
Change in investments	0	(38)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(240)	(332)	(350)	(350)	(350)
Equities issued/Others	31	3	0	0	0
Debt raised/repaid	3	31	(142)	(120)	(75)
Interest expenses	(38)	(35)	(31)	(18)	(8)
Dividends paid	(129)	(155)	(187)	(255)	(656)
Other financing cash flows	197	72	0	0	0
Cash flow from financing	66	(84)	(359)	(392)	(739)
Changes in cash and cash eq.	78	316	500	(70)	147
Closing cash and cash eq.	1,161	1,475	1,974	1,904	2,051

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Reported EPS	9.0	12.0	10.5	14.3	18.4
Adjusted EPS	9.0	12.0	10.5	14.3	18.4
Dividend per share	1.5	1.8	2.6	3.6	9.2
Book value per share	59.0	69.7	77.7	88.6	98.0

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
EV/Sales	0.8	0.7	0.7	0.6	0.5
EV/EBITDA	21.6	17.1	20.9	15.8	12.3
Adjusted P/E	41.4	31.1	35.7	26.1	20.3
P/BV	6.3	5.3	4.8	4.2	3.8

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Tax burden (Net profit/PBT)	62.7	64.2	69.0	73.5	73.4
Interest burden (PBT/EBIT)	102.1	103.2	110.5	108.7	106.9
EBIT margin (EBIT/Revenue)	2.9	3.4	2.6	3.0	3.4
Asset turnover (Revenue/Avg TA)	7.8	7.4	6.5	6.7	7.0
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.0
Adjusted ROAE	16.7	18.7	14.2	17.1	19.7

Source: Company, BOBCAPS Research | Note: TA = Total Assets | *Excluding Ind-AS 116 impact

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E*	FY21E*	FY22E*
YoY growth (%)					
Revenue	28.1	12.7	(2.5)	12.3	15.5
EBITDA	57.0	26.3	(19.4)	29.0	28.7
Adjusted EPS	34.1	33.2	(12.8)	36.4	28.8
Profitability & Return ratios (%)					
EBITDA margin	3.5	3.9	3.2	3.7	4.2
EBIT margin	2.9	3.4	2.6	3.0	3.4
Adjusted profit margin	1.9	2.2	2.0	2.4	2.7
Adjusted ROAE	16.7	18.7	14.2	17.1	19.7
ROCE	23.6	25.8	17.4	20.7	24.7
Working capital days (days)					
Receivables	56	60	65	65	65
Inventory	0	0	0	0	0
Payables	54	59	62	62	63
Ratios (x)					
Gross asset turnover	33.3	32.4	25.1	22.7	22.0
Current ratio	1.5	1.5	1.6	1.6	1.6
Net interest coverage ratio	26.5	37.2	32.0	72.8	215.1
Adjusted debt/equity	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | *Excluding Ind-AS 116 impact

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

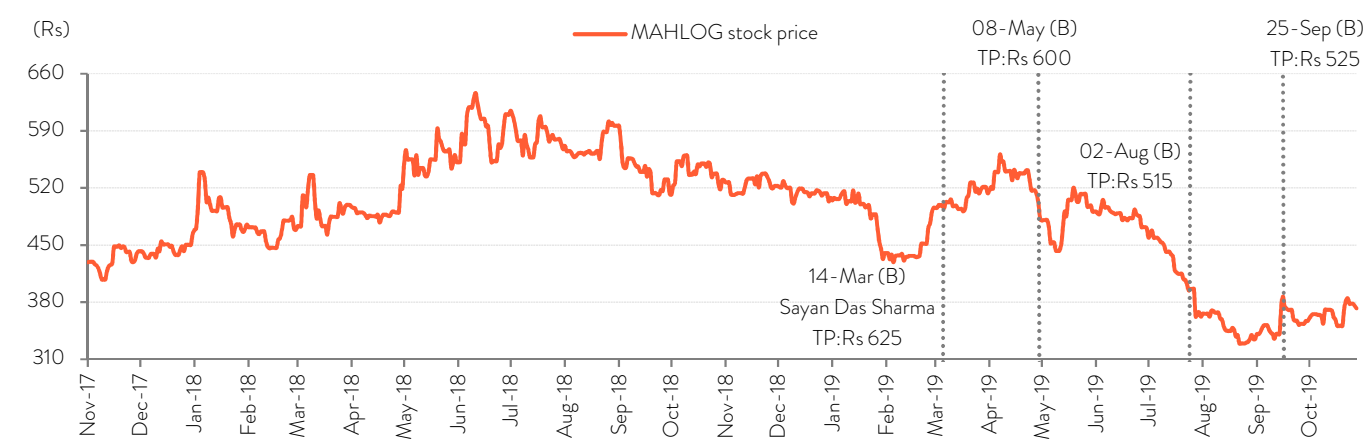
ADD – Expected return from >+5% to +15%

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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