

BUY

TP: Rs 555 | ▲ 18%

MAHINDRA LOGISTICS

Logistics

30 January 2021

Topline growth makes a stellar comeback

Mahindra Logistics' (MLL) Q3FY21 consolidated revenue grew by a strong 15% YoY led by SCM (+24%) while the mobility segment lagged (-60%). MLL's focus on offering an integrated solutions basket is bearing fruit, as evident from steady new client wins and strong traction in new initiatives. The cyclical upturn in auto volumes also bodes well for the anchor client segment. An improving growth outlook prompts us to raise FY22/FY23 EPS by 6%/10% and reset our target P/E to 33x (vs. 29x). On rollover, we have a new Mar'22 TP of Rs 555 (vs. Rs 420).

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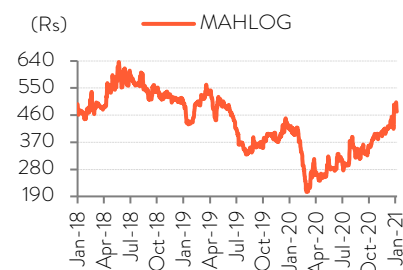
SCM segment prints stellar recovery: Both anchor (+20% YoY) and non-anchor (+28%) verticals shone in Q3, a first in several quarters, catalysing strong SCM growth. The non-auto, non-anchor segment grew 32% YoY by dint of a festive season-led demand uptick in key client verticals (e-com, consumer), deeper penetration at existing clientele and traction in new accounts. Cyclical volume recovery in the anchor client's tractor and auto verticals boosted auto segment growth (+20% YoY). New initiatives – B2B express (+40% YoY) and freight forward (+90%) – continue to gather steam.

Ticker/Price	MAHLOG IN/Rs 472
Market cap	US\$ 462.1mn
Shares o/s	71mn
3M ADV	US\$ 0.6mn
52wk high/low	Rs 544/Rs 195
Promoter/FPI/DII	58%/20%/8%

Source: NSE

EBITDA margin ticks up: Operating leverage benefits stemming from sturdy topline growth lifted EBITDA margin by 39bps YoY to 5.1%, despite a 45bps contraction in gross margin. Supply-side challenges – higher fuel cost, liquidity issues of transporters – added to cost pressure and dented gross margins. Adj. PAT rose 17% YoY, slower than EBITDA (+25%) as depreciation (+29%) and finance cost (+28%) shot up following higher right-of-use assets/lease liabilities.

STOCK PERFORMANCE



Source: NSE

Solid growth foundation, raise target multiple: We expect MLL to sustain its Q3 growth momentum driven by both the auto and non-auto segments. Thus, we raise our FY22/FY23 EPS estimates by 6%/10%. We also raise our target P/E multiple to 33x (vs. 29x) and assign a revised Mar'22 TP of Rs 555. BUY.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	38,513	34,711	32,774	40,052	46,440
EBITDA (Rs mn)	1,512	1,583	1,501	2,293	2,788
Adj. net profit (Rs mn)	856	551	424	904	1,197
Adj. EPS (Rs)	12.0	7.7	5.9	12.6	16.7
Adj. EPS growth (%)	33.2	(35.7)	(23.0)	113.0	32.3
Adj. ROAE (%)	18.7	10.6	7.5	14.5	17.1
Adj. P/E (x)	39.3	61.2	79.5	37.3	28.2
EV/EBITDA (x)	21.8	20.7	21.9	14.6	12.0

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)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Total revenues	10,468	9,079	15.3	8,325	25.7	22,897	26,594	(13.9)
Operating expenses	8,970	7,668	17.0	7,047	27.3	19,309	22,541	(14.3)
% of sales	85.7	84.5	124bps	84.6	105bps	84.3	84.8	(43bps)
Employee expenses	798	802	(0.4)	726	10.0	2,256	2,311	(2.4)
% of sales	7.6	8.8	(120bps)	8.7	(109bps)	9.9	8.7	116bps
Other expenses	169	185	(8.6)	179	(5.6)	452	539	(16.2)
% of sales	1.6	2.0	(42bps)	2.2	(54bps)	2.0	2.0	(6bps)
Total expenditure	9,938	8,655	14.8	7,952	25.0	22,017	25,391	(13.3)
EBITDA	530	424	24.8	373	41.9	881	1,203	(26.8)
EBITDA margin (%)	5.1	4.7	39bps	4.5	58bps	3.8	4.5	(68bps)
Depreciation	243	188	29.1	209	16.5	636	514	23.7
EBIT	287	236	21.4	165	74.0	245	689	(64.4)
Interest expenses	55	43	27.9	45	21.9	145	120	21.1
Other income	18	20	(12.4)	83	(78.7)	128	109	17.9
PBT	250	213	17.0	202	23.3	228	678	(66.3)
PBT margin (%)	2.4	2.4	3bps	2.4	(5bps)	1.0	2.5	(155bps)
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Income tax	66	57	15.7	54	21.7	61	221	(72.6)
Effective tax rate (%)	26.3	26.6	(29bps)	26.6	(35bps)	26.5	32.6	(612bps)
Reported PAT – before profit/(loss) from JVs/Minority/Associates	184	157	17.4	149	23.9	168	457	(63.3)
Profit/(loss) from JVs/Minority/Associates	2	1	NM	(1)	NM	(7)	3	NM
Reported PAT – after profit/(loss) from JVs/Minority/Associates	183	155	17.4	150	21.8	174	454	(61.6)
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	183	155	17.4	150	21.8	174	454	(61.6)
Adjusted PAT margin	1.7	1.7	3bps	1.8	(6bps)	0.8	1.7	(95bps)

Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Supply chain management								
Revenue	10,098	8,169	23.6	8,039	25.6	22,063	23,731	(7.0)
Gross profit	1,008	853	18.2	808	24.8	2,221	2,414	(8.0)
Gross margin	10.0	10.4	(46bps)	10.1	(7bps)	10.1	10.2	(11bps)
EBIT	805	687	17.1	631	27.5	1,676	1,958	(14.4)
EBIT margin	8.0	8.4	(45bps)	7.9	12bps	7.6	8.3	(65bps)
Enterprise mobility solutions								
Revenue	369	911	(59.5)	287	28.8	834	2,863	(70.9)
Gross profit	26	86	(69.8)	16	62.5	35	266	(86.8)
Gross margin	7.0	9.4	(240bps)	5.6	146bps	4.2	9.3	(509bps)
EBIT	12	86	(86.0)	6	96.7	11	266	(95.7)
EBIT margin	3.3	9.4	(614bps)	2.1	112bps	1.4	9.3	(791bps)

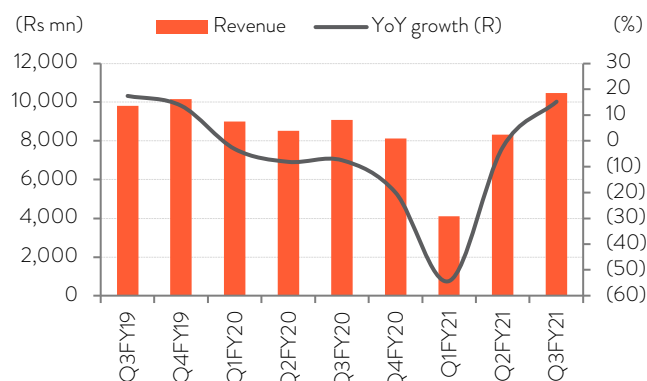
Source: Company, BOBCAPS Research

FIG 3 – SEGMENT-WISE REVENUE BREAKDOWN – CONSOLIDATED

Y/E Mar (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Supply Chain Management (SCM) segment (A)	10,098	8,169	23.6	8,039	25.6	22,063	23,732	(7.0)
Mahindra Group	5,084	4,243	19.8	4,165	22.1	10,970	13,370	(18.0)
Non-Mahindra clients	5,015	3,926	27.7	3,874	29.5	11,094	10,362	7.1
Total SCM - Service-wise breakup								
Transportation	8,084	6,537	23.7	6,344	27.4	17,150	19,119	(10.3)
Warehousing	2,015	1,632	23.5	1,695	18.9	4,914	4,613	6.5
Total SCM - Industry-wise breakup								
Auto	5,971	4,997	19.5	4,868	22.7	12,914	15,497	(16.7)
Non-auto	4,127	3,172	30.1	3,171	30.1	9,149	8,235	11.1
Non-Mahindra SCM - Service-wise breakup								
Transportation	3,376	2,707	24.7	2,530	33.4	7,261	7,041	3.1
Warehousing	1,639	1,219	34.5	1,344	21.9	3,833	3,321	15.4
Non-Mahindra SCM - Industry-wise breakup								
Auto	891	807	10.4	706	26.2	1,952	2,318	(15.8)
Non-auto	4,124	3,125	32.0	3,168	30.2	9,142	8,050	13.6
Mahindra Group SCM - Service-wise breakup								
Transportation	4,708	3,830	22.9	3,814	23.4	9,889	12,078	(18.1)
Warehousing	376	413	(9.0)	351	7.1	1,081	1,292	(16.3)
Mahindra Group SCM - Industry-wise breakup								
Auto	5,080	4,190	21.2	4,162	22.1	10,962	13,179	(16.8)
Non-auto	3	47	(93.6)	3	-	7	185	(96.2)
People Transport Solution (PTS) segment (B)	369	911	(59.5)	287	28.8	834	2,863	(70.9)
Total consolidated revenue (A+B)	10,468	9,079	15.3	8,325	25.7	22,897	26,594	(13.9)

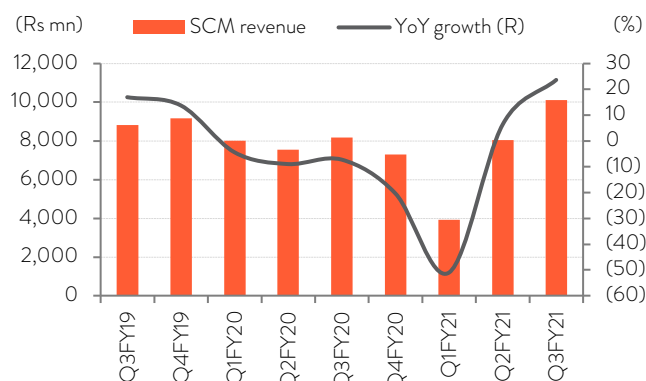
Source: Company, BOBCAPS Research

FIG 4 – CONSOLIDATED REVENUE GREW AT A STURDY 15% YOY...



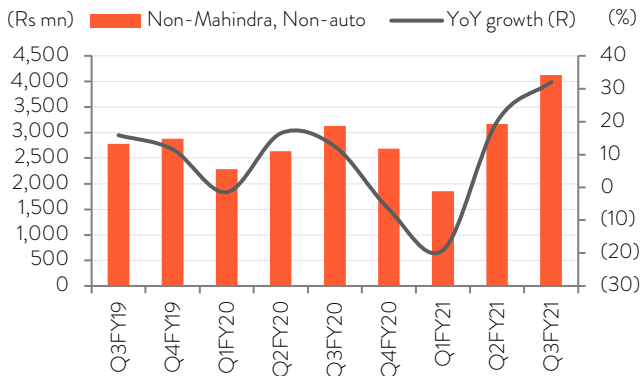
Source: Company, BOBCAPS Research

FIG 5 – ...LED BY STRONG 24% YOY GROWTH IN SCM SEGMENT REVENUE



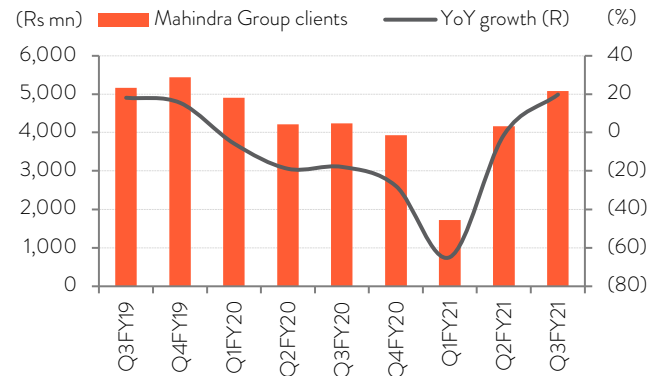
Source: Company, BOBCAPS Research

FIG 6 – NON-MAHINDRA, NON-AUTO SEGMENT REVENUE SURGED 32% YOY



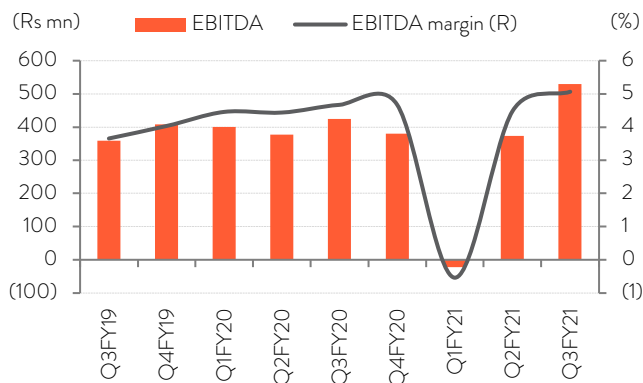
Source: Company, BOBCAPS Research

FIG 7 – MAHINDRA GROUP SEGMENT REVENUE ALSO ROSE BY A HEALTHY 20% YOY



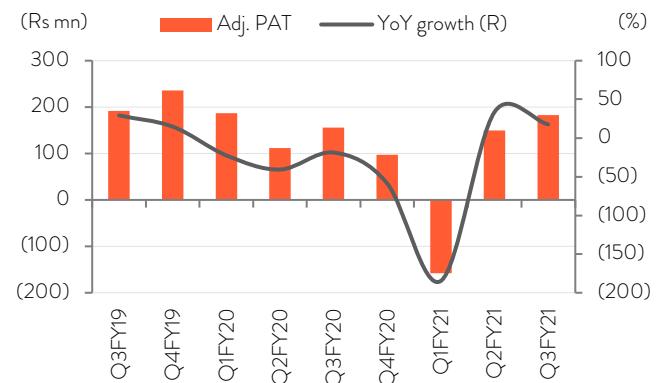
Source: Company, BOBCAPS Research

FIG 8 – EBITDA INCREASED 25% YOY, EBITDA MARGIN EXPANDED 39BPS



Source: Company, BOBCAPS Research

FIG 9 – ADJ. PAT GROWTH WAS LOWER AT 17% DUE TO HIGHER DEPRECIATION AND FINANCE COSTS



Source: Company, BOBCAPS Research

Valuation methodology

Factoring in the Q3FY21 operational beat, we raise our revenue estimates for FY21/FY22/FY23 by 3%/4%/5% and EBITDA estimates by 1%/9%/10%. Our FY22/FY23 earnings estimates stand raised by 6%/10% consequent to the EBITDA revision, but our FY21 PAT forecast reduces by 6% factoring in higher depreciation and finance costs in Q3FY21. Given the improvement in earnings outlook, we raise our target P/E multiple to 33x (~15% increase over the 29x assigned previously). We also roll over valuations and move to a revised Mar'22 target price of Rs 555 (from Rs 420).

We believe Q3FY21 marks the beginning of a strong growth phase for MLL. Its endeavour to provide integrated logistics solutions to clients appears to be panning out well with several new clients added in Q3 – a large consumer durables company, prominent pharma company, defence equipment manufacturer, and European auto OEM. New client wins, coupled with deepening relationships with existing clients across solutions, should propel the non-auto segment.

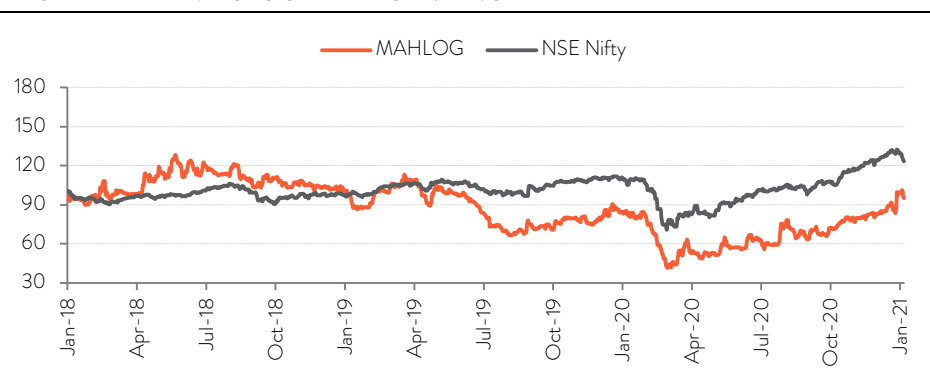
The ongoing cyclical recovery in auto volumes would provide a fillip to the anchor and non-anchor auto segments. Enterprise mobility is also expected to pick up gradually as employees return to the workplace following waning virus apprehensions and the vaccination drive. We reiterate our BUY rating on MLL.

FIG 10 – REVISED ESTIMATES – CONSOLIDATED

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	31,928	32,774	2.7	38,476	40,052	4.1	44,311	46,440	4.8
EBITDA	1,480	1,501	1.4	2,104	2,293	9.0	2,526	2,788	10.4
EBITDA margin (%)	4.6	4.6	(6bps)	5.5	5.7	26bps	5.7	6.0	30bps
PAT	449	424	(5.5)	854	904	5.8	1,089	1,197	9.9
PAT margin (%)	1.4	1.3	(11bps)	2.2	2.3	4bps	2.5	2.6	12bps

Source: Company, BOBCAPS Research

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- prolonged economic impact owing to the pandemic,
- 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	32,774	40,052	46,440
EBITDA	1,512	1,583	1,501	2,293	2,788
Depreciation	220	734	883	978	1,107
EBIT	1,293	848	618	1,315	1,681
Net interest income/(expenses)	(35)	(176)	(192)	(190)	(188)
Other income/(expenses)	76	140	149	93	107
Exceptional items	0	0	0	0	0
EBT	1,334	812	575	1,218	1,600
Income taxes	(468)	(257)	(147)	(311)	(400)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(10)	(3)	(3)	(3)	(3)
Reported net profit	856	551	424	904	1,197
Adjustments	0	0	0	0	0
Adjusted net profit	856	551	424	904	1,197

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	6,001	6,172	5,388	7,132	8,270
Other current liabilities	419	320	269	329	382
Provisions	215	213	201	246	285
Debt funds	377	359	359	0	0
Other liabilities	0	1,654	1,681	1,880	1,880
Equity capital	715	715	715	715	715
Reserves & surplus	4,325	4,785	5,210	5,888	6,785
Shareholders' fund	5,039	5,501	5,925	6,603	7,501
Total liabilities and equities	12,051	14,218	13,823	16,191	18,318
Cash and cash eq.	1,475	995	309	427	851
Accounts receivables	5,183	5,224	5,837	6,584	7,634
Inventories	0	0	0	0	0
Other current assets	3,180	3,645	3,442	4,206	4,877
Investments	38	31	31	31	31
Net fixed assets	660	918	1,394	1,434	1,411
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	2,557	3,256	3,261
Total assets	12,051	14,218	13,823	16,191	18,318

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	1,076	1,286	1,308	1,882	2,304
Interest expenses	35	36	43	22	0
Non-cash adjustments	(46)	(12)	0	0	0
Changes in working capital	(332)	(645)	(785)	(162)	(497)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	732	664	566	1,742	1,807
Capital expenditures	(294)	(639)	(700)	(500)	(500)
Change in investments	(38)	6	0	0	0
Other investing cash flows	0	(2,021)	(536)	(717)	(584)
Cash flow from investing	(332)	(2,654)	(1,236)	(1,217)	(1,084)
Equities issued/Others	3	1	0	0	0
Debt raised/repaid	31	(18)	0	(359)	0
Interest expenses	(35)	(36)	(43)	(22)	0
Dividends paid	(155)	(155)	0	(226)	(299)
Other financing cash flows	72	1,718	27	199	0
Cash flow from financing	(84)	1,510	(16)	(407)	(299)
Changes in cash and cash eq.	316	(480)	(686)	118	424
Closing cash and cash eq.	1,475	995	309	427	851

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	12.0	7.7	5.9	12.6	16.7
Adjusted EPS	12.0	7.7	5.9	12.6	16.7
Dividend per share	1.8	1.5	0.0	3.2	4.2
Book value per share	69.7	76.1	82.1	91.6	104.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.9	0.9	1.0	0.8	0.7
EV/EBITDA	21.8	20.7	21.9	14.6	12.0
Adjusted P/E	39.3	61.2	79.5	37.3	28.2
P/BV	6.8	6.2	5.7	5.1	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	64.2	67.9	73.8	74.2	74.8
Interest burden (PBT/EBIT)	103.2	95.7	93.1	92.6	95.2
EBIT margin (EBIT/Revenue)	3.4	2.4	1.9	3.3	3.6
Asset turnover (Revenue/Avg TA)	7.4	5.4	4.3	4.8	5.1
Leverage (Avg TA/Avg Equity)	1.1	1.2	1.4	1.3	1.3
Adjusted ROAE	18.7	10.6	7.5	14.5	17.1

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)	(5.6)	22.2	16.0
EBITDA	26.3	4.6	(5.2)	52.8	21.6
Adjusted EPS	33.2	(35.7)	(23.0)	113.0	32.3
Profitability & Return ratios (%)					
EBITDA margin	3.9	4.6	4.6	5.7	6.0
EBIT margin	3.4	2.4	1.9	3.3	3.6
Adjusted profit margin	2.2	1.6	1.3	2.3	2.6
Adjusted ROAE	18.7	10.6	7.5	14.5	17.1
ROCE	25.8	13.6	8.2	16.0	18.8
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	14.9	13.9	13.8
Current ratio	1.5	1.4	1.7	1.5	1.5
Net interest coverage ratio	37.2	4.8	3.2	6.9	8.9
Adjusted debt/equity	(0.2)	(0.1)	0.0	(0.1)	(0.1)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

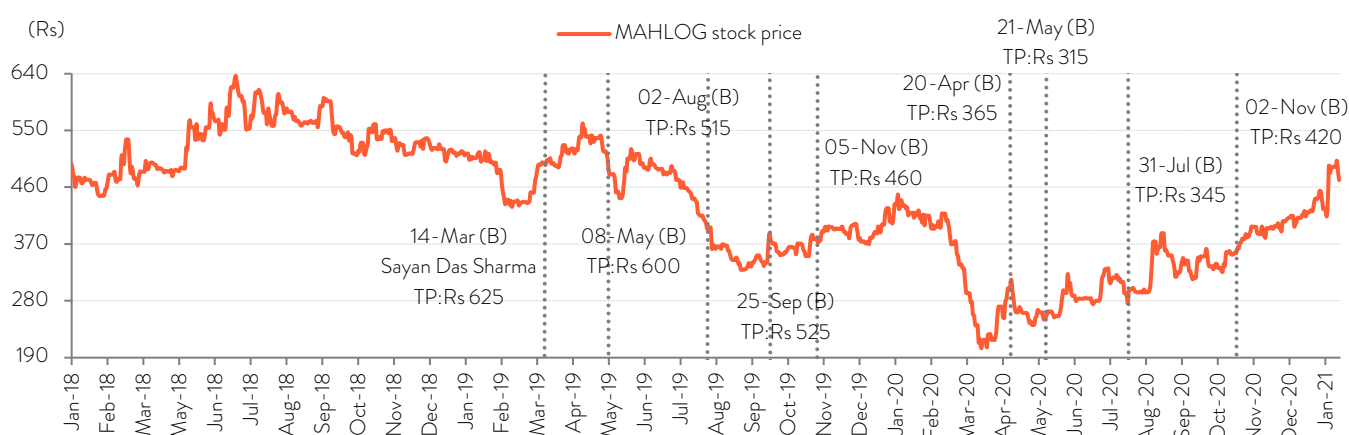
ADD – Expected return from >+5% to +15%

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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As of 31 December 2020, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 43 have BUY ratings, 14 have ADD ratings, 6 are rated REDUCE and 25 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

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