

# MAHINDRA LOGISTICS

## Auto tailback but outlook positive

India Equity Research | Logistics



Mahindra Logistics' (MLL) 8% sales decline in Q2FY20 is not surprising given the significant slowdown in the auto sector in FY20 so far. Excluding Ind AS 116 impact, margin contracted 80bps YoY as lower volumes hurt the cost structure (PAT fell 30%). However, warehousing business grew ~25%, which is encouraging. Nearly 65% of MLL's sales rely on the auto sector, and hence, FY20 can continue to be painful. Notwithstanding the ongoing slowdown, we are confident of the 3PL market's long-term growth potential. And, MLL's market positioning within it remains solid; hence, retain 'BUY'. To factor in the ongoing weakness and Ind AS 116 impact, we revise down FY20E and 21E EPS 22% each, leading to revised DCF-based TP of INR520 (from INR570).

### Dependence on beleaguered auto sector hits earnings

MLL posted a weak quarter with sales declining 8% YoY and EBITDA (ex-Ind AS 116 accounting impact) plunging 28% YoY. While a weak performance was anticipated, the impact of slowdown in the auto sector (contributes ~65 to revenue) was more severe. A key positive was that despite the unfavourable macro environment, the warehousing segment grew 25% YoY, as the company aggressively added capacity (1.1mn sq ft in H1FY20). It is worth noting, that ex-auto, the Supply Chain segment managed to grow 17% YoY in Q2FY20 despite the economic headwinds.

### FY20 may continue to be painful; long-term potential unharmed

Given sustenance of the sharp plunge in auto OEM volumes, FY20 looks challenging for MLL. Though warehousing growth will partially offset this damage, we expect overall top-line growth to be a tough ask. Beyond this slowdown, we estimate the 3PL category in India to post 13-15% CAGR and MLL's market positioning remains solid.

### Outlook and valuation: Near-term pain; retain 'BUY'

Our long-term bullish stance on MLL remains unchanged with 'BUY'. However, to factor in the slowdown in the auto sector and also incorporating Ind AS 116 accounting impact, we slash FY20/21E EPS by 22% each. Our DCF-based TP, in turn, falls to INR520. Our DCF methodology is based on WACC of 13% and terminal growth of 6%. The stock is trading at 31x one year forward PE.

#### EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

#### MARKET DATA (R: MALO BO, B: MAHLOG IN)

CMP	: INR 373
Target Price	: INR 520
52-week range (INR)	: 578 / 317
Share in issue (mn)	: 71.4
M cap (INR bn/USD mn)	: 27 / 377
Avg. Daily Vol. BSE/NSE ('000)	: 88.6

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY20	Q4FY19
Promoters *	58.5	58.5	58.5
MF's, FI's & BKs	11.8	13.4	12.6
FII's	17.2	17.3	9.6
Others	12.5	10.7	19.2
* Promoters pledged shares (% of share in issue)	:	NIL	

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	0.8	(6.0)	(6.8)
3 months	4.1	(15.8)	(19.8)
12 months	3.3	(35.8)	(39.0)

#### Financials

(INR mn)

Year to March	Q2FY20	Q2FY19	% Chg	Q1FY20	% Chg	FY19	FY20E	FY21E
Net revenues	8,524	9,274	(8.1)	8,990	(5.2)	38,513	36,953	42,132
EBITDA	378	340	11.2	401	(5.7)	1,512	1,692	2,200
Adjusted Profit	114	189	(39.5)	186	(38.6)	856	724	998
Adjusted Diluted EPS	1.6	2.6	(39.7)	2.6	(38.6)	12.0	10.1	13.9
Diluted P/E (x)							36.6	26.6
ROAE (%)							13.6	16.6

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November 5, 2019

## Financial snapshot

(INR mn)

Year to March	Q2FY20	Q2FY19	% change	Q1FY20	% change	YTD20	FY20E	FY21E
Net revenues	8,524	9,274	(8.1)	8,990	(5.2)	17,515	36,953	42,132
Gross profit	1,324	2,062	(35.8)	1,318	0.4	2,642	3,665	4,610
Other expenses	182	1,091	(83.3)	172	5.6	354	(929)	(782)
Total expenditure	8,146	8,934	(8.8)	8,590	(5.2)	16,736	35,260	39,931
EBITDA	378	340	11.2	401	(5.7)	778	1,692	2,200
Depreciation	177	51	245.2	149	19.1	326	687	830
EBIT	201	288	(30.4)	252	(20.3)	453	1,006	1,371
Interest	42	8	412.3	36	16.9	77	153	158
Other income	19	13	43.4	70	(73.6)	89	121	126
Add: Prior period items	-	-	-	-	-	-	-	1
Add: Exceptional items	-	-	-	-	-	-	-	1
Profit before tax	178	293	(39.4)	287	(38.0)	464	973	1,341
Provision for taxes	65	102	(36.7)	100	(35.1)	164	249	343
Minority interest	(2)	2	NA	(1)	NA	(2)	-	-
Associate profit share	-	-	-	(1)	(100.0)	(1)	-	-
Profit- Discontinued Ops	-	-	-	-	-	-	-	-
Reported net profit	114	189	(39.5)	186	(38.6)	301	724	998
Adjusted Profit	114	189	(39.5)	186	(38.6)	301	724	998
Diluted shares (mn)	72	72	-	72	-	72	72	72
Adjusted Diluted EPS	1.6	2.6	(39.7)	2.6	(38.6)	4.2	10.1	13.9
Diluted P/E (x)	-	-	-	-	-	-	36.6	26.6
EV/EBITDA (x)	-	-	-	-	-	-	15.5	11.8
ROAE (%)	-	-	-	-	-	-	13.6	16.6
<b>As % of net revenues</b>								
Employee cost	9.0	6.8	-	8.3	-	8.6	7.9	7.6
Other expenses	2.1	11.8	-	1.9	-	2.0	(2.5)	(1.9)
EBITDA	4.4	3.7	-	4.5	-	4.4	4.6	5.2
Reported net profit	1.3	2.0	-	2.1	-	1.7	2.0	2.4

## Company Description

Mahindra Logistics (MLL) is one of the leading third-party logistics (3PL) companies in India with about 60% business coming from its anchor client—parent company Mahindra & Mahindra. MLL is a multi-year compounding story in our view as: 1) it is one of the most equipped plays on the high-growth Indian 3PL space (CAGR of ~17% given strong demand drivers and enablers) with the right strategic attributes to outpace industry growth; and 2) high earnings growth momentum (about 31% EPS CAGR over FY18–21E), which provides a strong fundamental backing to its current valuation.

## Investment Theme

MLL ranks highly on all the key success parameters that go on make a very successful 3PL business model in India, in our view. Its focus on high growth verticals and scaling up its business through an asset light approach are critical success enablers.

MLL is a leader in the Indian 3PL sector, which we estimate will triple from USD6 to USD17bn by 2025. We see factors such as GST and a mindset change towards integrated logistics are key drivers in the medium term for the growth.

Focus on high growth verticals from MLL is turning out to be a critical growth strategy, in our view

## Key Risks

The automobile sector accounts for a lion's share of 3PL sales in India. Any large slowdown in this sector would adversely impact MLL's growth. Our thesis rests greatly on the implied benefits that GST is likely to offer such as catalysing warehouse consolidation in India, which would nudge several large customers towards outsourced logistics. A slower-than-expected pickup in this trend is a key downside risk to our thesis.

Our growth assumptions are based on MLL aggressively growing its non-Mahindra business.

Slower-than-expected growth in this segment is another downside risk.

## Financial Statements

## Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	6.8	6.3	6.8
Inflation (Avg)	3.6	3.4	3.7	4.0
Repo rate (exit rate)	6.0	6.3	4.5	4.5
USD/INR (Avg)	64.5	70.0	71.0	71.0
<b>Sector</b>				
3PL industry growth(%)	19	19	20	17
3PL industry size (USD bn)	5	7	8	9
<b>Company</b>				
Warehousing revenue from others (INR mn)	2,730	3,540	4,602	5,983
PTS revenue (INR mn)	3,405	3,850	4,274	4,744
SCM sales growth (%)	30	13	(6)	14
SCM EBITDA margin (%)	4	3	4	5
PTS EBITDA margin (%)	5	6	6	7
Transportation rev. from Mahindra (INR mn)	16,721	19,320	16,615	18,609
Transportation rev. from others (INR mn)	9,830	10,120	9,614	10,672
PTS sales growth (%)	15	13	11	11
Warehousing revenue from Mahindra (INR mn)	1,459	1,680	1,848	2,125

## Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	34,161	38,513	36,953	42,132
Gross profit	2,738	4,789	3,665	4,610
Employee costs	262	2,638	2,901	3,192
Other Expenses	1,279	639	(929)	(782)
Total operating expenses	32,964	37,001	35,260	39,931
EBITDA	1,197	1,512	1,692	2,200
Depreciation	197	220	687	830
EBIT	1,000	1,293	1,006	1,371
Less: Interest Expense	38	35	153	158
Add: Other income	58.8	76.3	120.94	126.41
Profit Before Tax	1,021	1,334	973	1,339
Less: Provision for Tax	368	468	249	343
Less: Minority Interest	13	8	-	-
Associate profit share	-	(3)	-	-
Reported Profit	640	856	724	996
Adjusted Profit	640	856	724	996
Shares o/s (mn)	70	71	71	71
Adjusted Basic EPS	9.1	12.0	10.2	14.0
Diluted shares o/s (mn)	71	72	72	72
Adjusted Diluted EPS	9.0	12.0	10.1	13.9
Adjusted Cash EPS	11.7	14.4	19.7	25.5
Dividend per share (DPS)	1.5	1.8	1.5	2.1
Dividend Payout Ratio(%)	16.6	15.0	15.1	15.1

## Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Gross margin	8.0	12.4	9.9	10.9
Operating expenses	3.7	1.7	(2.5)	(1.9)
Interest Expense	0.1	0.1	0.4	0.4
EBITDA margins	3.5	3.9	4.6	5.2
EBIT margins	2.9	3.4	2.7	3.3
Net Profit margins	1.9	2.2	2.0	2.4

## Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	28.1	12.7	(4.1)	14.0
EBITDA	57.0	26.3	11.9	30.0
Adjusted Profit	40.4	33.8	(15.5)	37.6
EPS	34.8	32.4	(15.5)	37.6

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	711	715	715	715	
Reserves & Surplus	3,485	4,268	4,864	5,684	
Shareholders' funds	4,196	4,982	5,578	6,399	
Minority Interest	70	57	-	-	
Long term borrowings	181	89	989	989	
Short term borrowings	81	196	196	196	
Total Borrowings	262	285	1,185	1,185	
Long Term Liabilities	148	164	164	164	
Def. Tax Liability (net)	(141)	(187)	(187)	(187)	
<b>Sources of funds</b>	<b>4,534</b>	<b>5,301</b>	<b>6,740</b>	<b>7,560</b>	
Gross Block	1,072	1,308	3,598	4,698	
Net Block	605	660	2,264	2,534	
Capital work in progress	6	26	26	26	
Intangible Assets	54	53	53	53	
Total net fixed assets	664	739	2,342	2,612	
Non current investments	-	38	38	38	
Cash and Equivalents	1,161	1,475	1,324	1,654	
Sundry Debtors	5,200	6,317	5,619	6,406	
Loans & Advances	-	150	150	150	
Other Current Assets	1,461	1,877	1,825	1,996	
Current Assets (ex cash)	6,662	8,344	7,594	8,552	
Trade payable	4,863	6,001	5,264	6,002	
Other Current Liab	322	562	562	562	
Total Current Liab	5,185	6,563	5,827	6,565	
Net Curr Assets-ex cash	1,477	1,781	1,767	1,987	
<b>Uses of funds</b>	<b>4,534</b>	<b>5,301</b>	<b>6,740</b>	<b>7,560</b>	
BVPS (INR)	59.8	69.9	78.3	89.8	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	640	856	724	996	
Add: Depreciation	197	220	687	830	
Interest (Net of Tax)	25	23	103	106	
Others	(1,226)	(415)	(100)	(515)	
Less: Changes in WC	(483)	(265)	14	(220)	
Operating cash flow	119	950	1,400	1,637	
Less: Capex	(372)	(342)	(2,290)	(1,100)	
<b>Free Cash Flow</b>	<b>(253)</b>	<b>608</b>	<b>(890)</b>	<b>537</b>	

Cash flow metrics		FY18	FY19	FY20E	FY21E
Year to March					
Operating cash flow	119	950	1,400	1,637	
Financing cash flow	39	(113)	619	(334)	
Investing cash flow	1	(947)	(2,169)	(974)	
Net cash Flow	159	(111)	(150)	330	
Capex	(372)	(342)	(2,290)	(1,100)	
Dividend paid	-	(129)	(128)	(176)	

Profitability and efficiency ratios		FY18	FY19	FY20E	FY21E
Year to March					
ROAE (%)	16.7	18.7	13.7	16.6	
ROACE (%)	25.4	27.8	18.6	20.9	
ROA	15.4	17.4	12.0	13.9	
Debtors Days	62	63	54	59	
Payable Days	58	60	51	55	
Cash Conversion Cycle	4	3	3	4	
Current Ratio	1.5	1.5	1.5	1.6	
Debt/EBITDA (x)	0.2	0.2	0.7	0.5	
Adjusted Debt/Equity	0.1	0.1	0.2	0.2	
Net Debt/Equity	(0.2)	(0.2)	-	(0.1)	
Interest Coverage Ratio	26.5	37.2	6.6	8.7	
LT debt /Cap empl. (%)	4.0	1.7	14.7	13.1	
Debt / Cap employed (%)	5.8	5.4	17.6	15.7	

Operating ratios		FY18	FY19	FY20E	FY21E
Year to March					
Total Asset Turnover	8.2	7.8	6.1	5.9	
Fixed Asset Turnover	53.6	56.1	24.4	17.2	
Equity Turnover	8.8	8.3	7.0	7.0	

Valuation parameters		FY18	FY19	FY20E	FY21E
Year to March					
Adj. Diluted EPS (INR)	9.0	12.0	10.1	13.9	
Y-o-Y growth (%)	34.8	32.4	(15.5)	37.6	
Adjusted Cash EPS (INR)	11.7	14.4	19.7	25.5	
Diluted P/E (x)	41.2	31.1	36.8	26.8	
P/B (x)	6.2	5.3	4.8	4.1	
EV / Sales (x)	0.7	0.7	0.7	0.6	
EV / EBITDA (x)	21.1	16.8	15.6	11.9	
Dividend Yield (%)	0.4	0.5	0.4	0.6	

## Additional Data

### Directors Data

Pirojshaw Sarkari	CEO	Zhooben Bhiwandiwalla	Director
Ranu Vohra	Director	Sunish Sharma	Director
Parag Shah	Director	Darius Pandole	Director
Chandrasekar Kandasamy	Director	Ajay Mehta	Director
Avani Davda	Director		

Auditors - Deloitte Haskins and Sells LLP

*\*as per last available data*

### Holding – Top10

	Perc. Holding		Perc. Holding
Reliance Capital Trustee	4.7	Goldman Sachs	2.9
Commonwealth bank of Australia	2.9	DSP Blackrock	2.4
Invesco	1.5	Motilal Oswal FOC	1.2
Frostrow Capital	0.9	Norges Bank	0.8
Motilal Oswal AMC	0.7	UTI AMC	0.6

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
04 Jun 2019	NORMANDY HOLDINGS LIMITED	SELL	6415083	490.20
04 Jun 2019	RELIANCE CAPITAL TRUSTEE CO. LTD-A/C RELIANCE SMALL CAP FUND	BUY	425000	490.00
04 Jun 2019	GOLDMAN SACHS INDIA FUND LIMITED	BUY	609543	490.00
04 Jun 2019	KOTAK FUNDS - INDIA MIDCAP FUND	BUY	3015277	490.00
29 Nov 2018	PARTNERS ENTERPRISE	SELL	1622047	525.00
29 Nov 2018	RELIANCE MUTUAL FUND	BUY	1015047	525.00

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
21 Dec 2018	Begur Ravi Prakash	Sell	16108.00
03 Dec 2018	Partners' Enterprise	Sell	1622047.00
21 Nov 2018	Begur Ravi Prakash	Sell	25000.00
16 Nov 2018	Pramod Nair	Sell	20213.00

*\*as per last available data*

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### Coverage group(s) of stocks by primary analyst(s): Logistics

Blue Dart Express Ltd, Container Corporation of India Ltd, Future Supply Chain, Mahindra Logistics Ltd, TCI Express Ltd, Transport Corporation of India, VRL Logistics Ltd

#### Recent Research

Date	Company	Title	Price (INR)	Recos
04-Nov-19	<b>Future Supply Chain Solutions</b>	Weak quarter, but long-term prospects strong; <i>Result Update</i>	510	Buy
31-Oct-19	<b>Blue Dart Express</b>	Earnings erosion continues; <i>Result Update</i>	2407	Reduce
31-Oct-19	<b>Container Corporation</b>	Volume languishes; market share loss continues; <i>Result Update</i>	588	Hold

#### Distribution of Ratings / Market Cap

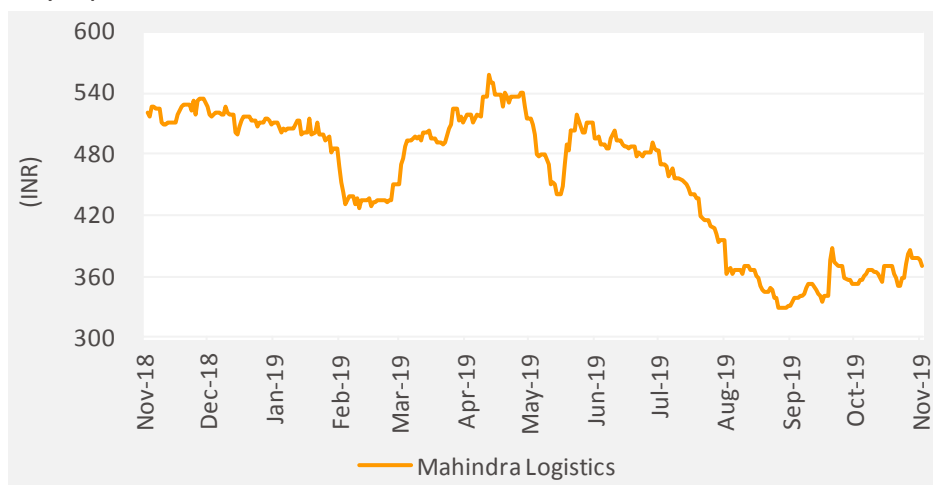
##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

#### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart



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