

Seasonality impacts Q4; wins new clients

Mahindra Logistics (MLL) continued to report its normalised performance at pre-Covid levels in its auto segment (28% YoY growth due to weak base and QoQ largely flat). However, the non-auto segment declined QoQ (down 16% QoQ, up 29% YoY due to weak base), which the management has clarified was affected by seasonality (non-festive season), indicating the growing importance of e-commerce and flex-warehousing solutions in its revenue mix. Enterprise mobility solutions continued to face headwinds due to lower utilisation of buses by companies, as most employees continued to work from home. Due to a change in product mix, margins stayed unchanged YoY (contracted 40 bps QoQ) to 4.7%. The company also reported an exceptional expense of ₹ 2.8 crore due to an impairment loss on investment in JV.

Increased relevance of 3PL players post pandemic

MLL saw continued strong underlying demand for segments such as e-commerce, consumer durables & FMCG, pharma, etc, due to increased digitisation of bigger companies as well as MSMEs, as a strategy to counter the changed buying habits of consumers (omni-channel presence). Auto segment also showed strong momentum, helped by the revival in the PV and farm sector. Specialised 3PL companies in such environments can provide reduced logistics costs, better turnaround time to each client on greater efficiency, lower capex, better utilisation level vs. each company's internal logistics operations.

Capital allocation focused on generating more growth avenues

MLL via its EV based Last-mile logistics, which deals with multiple clients, recently, announced its partnership with Flipkart for electrification of its logistics fleet. Overall, MLL procured 300 EV vehicles and expects the count to go above ~1000. However, the company aims to form a JV model for procurement of vehicles and is interested mainly in dealing in the network optimisation of the EV fleet. Also, MLL on its recent agreement with Bajaj Electricals for logistics optimisation and outsourcing arrangement, intends to create (in the next 12 months) several smaller interlinked fulfilment centres, supported by two national warehouses (to add 2 mn sq ft space). Subsequently, we expect SCM segment to grow at 17% CAGR (FY21-23E).

Valuation & Outlook

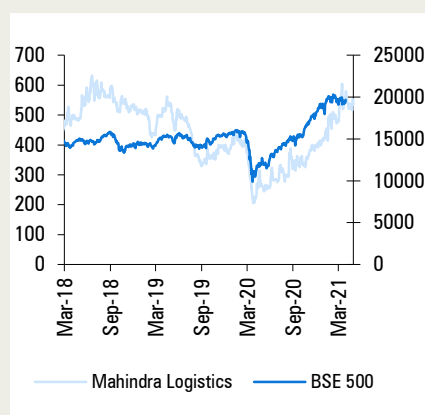
MLL has been strengthening its cash position in the balance sheet during the pandemic and has even improved its WC position. Going forward, given MLL's strong B2B and B2C expertise in warehousing, first-mile, last-mile, line-haul, the changing situation presents a good opportunity for MLL to expand its relation with existing clients as well as win newer clients, by providing customers with multi-modal offering and invest in digitisation and innovation. We remain positive on MLL's future prospects and faster growth in its core segments. We maintain our **BUY** recommendation on the stock with a revised target price of ₹ 630 (earlier ₹ 540).



Stock data

Market Capitalisation (₹ cr)	3,870.2
Debt (FY21) (₹ cr)	26.4
Cash (FY21) (₹ cr)	197.8
EV (₹ cr)	3,698.8
52 Week High / Low (₹)	615/240
Equity Capital (₹ cr)	71.5
Face Value (₹ cr)	10.0

Price Performance



Key risks to our call

- 1) Slowdown in auto sector
- 2) Hardening of diesel prices in the near to medium term

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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR
Net Sales	3,851.3	3,471.1	3,263.7	3,775.1	4,687.7	2.5%
EBITDA	151.2	158.3	134.2	188.8	271.9	12.1%
PAT	85.6	55.1	29.9	49.2	102.6	-6.4%
P/E (x)	45.2	70.2	129.3	78.7	37.7	
M.Cap/Sales (x)	1.0	1.1	1.2	1.0	0.8	
RoCE (%)	25.8	24.6	18.8	23.8	32.7	
RoE (%)	17.2	10.1	5.8	8.2	15.1	

Source: Company, ICICI Direct Research

Research Analyst

Bharat Chhoda

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	974.0	1,053.7	811.8	20.0	1,046.8	-7.0	YoY strong growth mainly due to 28% growth in SCM segment and weak base
Operating expenses	833.4	906.2	680.1	22.5	897.0	-7.1	Gross margins impacted by higher diesel prices and higher transportation component
Employee Expenses	70.9	79.0	75.6	-6.2	79.8	-11.2	
Other Expense	23.6	16.9	18.1	30.1	16.9	39.2	Higher other expense due to recategorisation of certain expenses from employee and operating expense to other expense
Total Expense	927.8	1,002.1	773.8	19.9	993.8	-6.6	
EBITDA	46.2	51.6	38.0	21.4	53.0	PL	
EBITDA Margin (%)	4.7	4.9	4.7	6 bps	5.1	-32 bps	EBITDA margins expanded mainly due to higher operating leverage
Depreciation	26.1	24.3	22.0	18.4	24.3	7.3	
Interest	5.6	5.5	5.7	-1.1	5.5	2.6	
Other Income	4.7	2.1	3.1	49.5	1.8	164.2	
Exceptional Gain/Loss	2.8	0.0	0.0	NA	0.0	NA	Reported exceptional expense of ₹ 2.8 crore due to an impairment loss on investment in JV
PBT	16.4	24.0	13.4	PL	25.0	PL	
Total Tax	4.0	6.0	3.6	9.4	6.6	-39.5	
PAT	12.4	17.9	9.8	26.6	18.4	PL	
Key Metrics	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	
Mahindra SCM revenues	500.2	490.6	392.5	27.4	508.4	-1.6	YoY growth due to strong volumes from the farm sector and weak base
Non-Mahindra SCM revenue	438.1	473.1	339.4	29.1	501.5	-12.6	Strong YoY performance due to broad based recovery in auto, e-commerce, pharma, FMCG, etc
SCM revenues	938.3	963.7	731.9	28.2	1,009.9	-7.1	
PTS revenues	35.7	36.6	81.3	-56.1	36.9	-3.3	

Source: Company, ICICI Direct Research

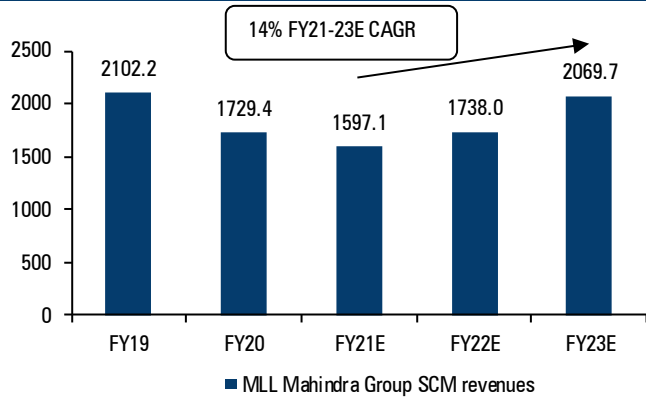
Exhibit 2: Change in estimates

(\$ Crore)	FY22E					FY23E			Comments
	FY20	FY21	Old	New	% Change	Old	Introduced	% Change	
Gross Revenue	3,471.1	3,263.7	3,829.3	3,775.1	-1.4	4,627.8	4,687.7	1.3	Revenue estimates revised upwards due to strong Q3 results
EBITDA	158.3	134.2	195.3	188.8	-3.3	263.8	271.9	3.1	
EBITDA Margin (%)	4.6	4.1	5.1	5.0	-10 bps	5.7	5.8	10 bps	Margins largely rangebound at 5-6%
PAT	55.1	29.9	68.9	49.2	-28.7	111.1	102.6	-7.6	
EPS (₹)	7.7	4.2	9.7	6.9	-29.0	15.6	14.3	-8.0	

Source: Company, ICICI Direct Research

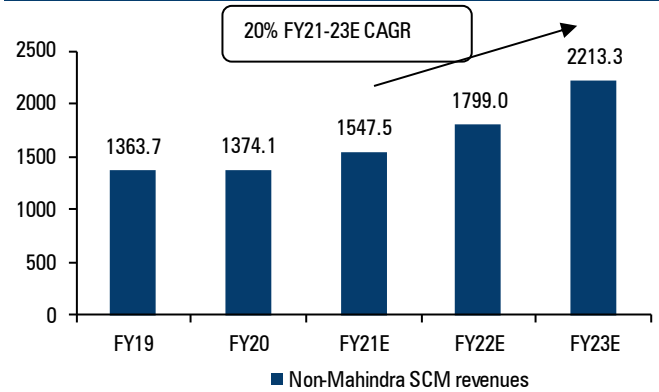
Key Metrics

Exhibit 3: Mahindra group SCM revenues



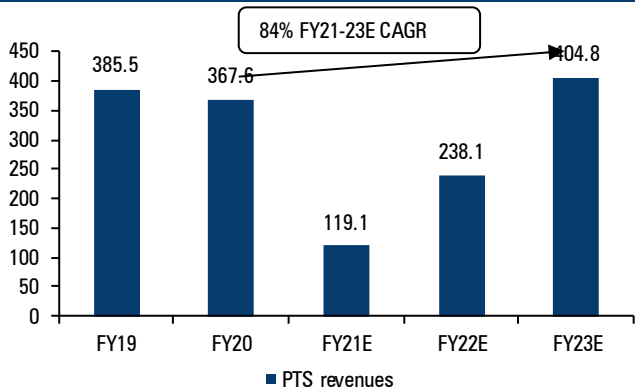
Source: ICICI Direct Research, Company

Exhibit 4: Non-Mahindra SCM revenues



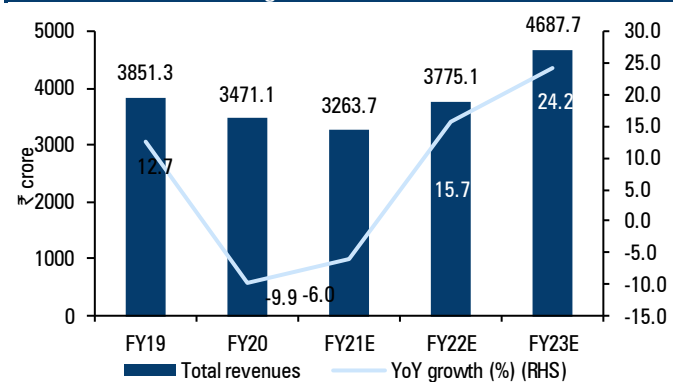
Source: ICICI Direct Research, Company

Exhibit 5: PTS revenues



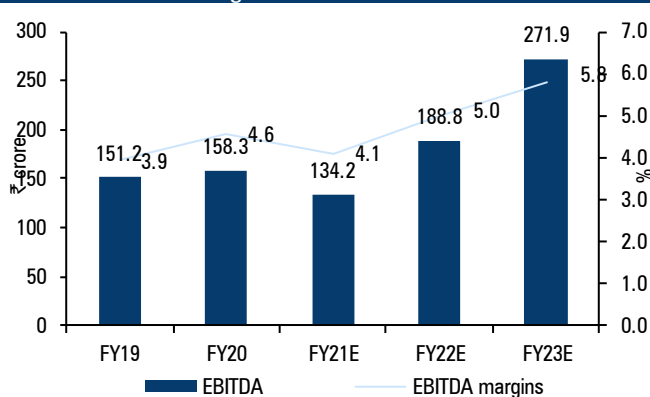
Source: ICICI Direct Research, Company

Exhibit 6: Revenues to grow at CAGR of 10% over FY20-22



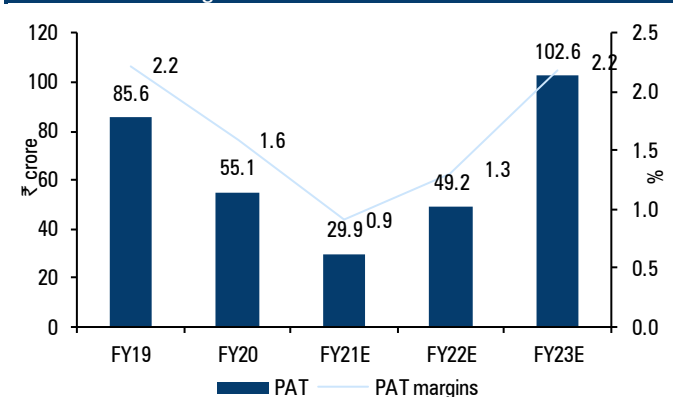
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA to grow at CAGR of 19% over FY20-22



Source: Company, ICICI Direct Research

Exhibit 8: PAT to grow at CAGR of 26% over FY20-22



Source: Company, ICICI Direct Research

Exhibit 9: Valuation parameters

Year	Sales (₹ cr)	Sales Gr. (%)	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	3851.3	12.7	11.9	34.2	45.2	25.3	17.2	25.8
FY20	3471.1	-9.9	7.7	-35.1	70.2	24.0	10.1	24.6
FY21E	3263.7	-6.0	4.6	-45.6	129.3	27.2	5.8	18.8
FY22E	3775.1	15.7	6.9	63.4	78.7	20.1	8.2	23.8
FY23E	4687.7	24.2	14.3	107.9	37.7	13.9	15.1	32.7

Source: ICICI Direct Research; Reuters

Financial Summary

Exhibit 10: Profit & Loss Statement					₹ crore
(Year-end March)/ (₹ crore)	FY20	FY21E	FY22E	FY23E	
Total Operating Income	3,471.1	3,263.7	3,775.1	4,687.7	
Growth (%)	-9.9	-6.0	15.7	24.2	
Freight Expense and Charges	2,934.2	2,764.3	3,182.4	3,951.7	
Gross Profit	537.0	499.4	592.7	736.0	
Gross Profit Margins (%)	15.5	15.3	15.7	15.7	
Employee Expenses	306.7	296.5	324.7	365.6	
Other Expenditure	72.1	68.7	79.3	98.4	
Total Operating Expenditure	3,312.9	3,129.5	3,586.3	4,415.8	
EBITDA	158.3	134.2	188.8	271.9	
Growth (%)	4.6	-15.2	40.7	44.0	
Interest	17.6	20.1	25.3	25.8	
Depreciation	73.4	89.7	117.8	133.4	
Other Income	14.0	17.5	18.9	23.4	
PBT before Exceptional Items	81.2	41.9	64.6	136.1	
Less: Exceptional Items	0.0	2.8	0.0	0.0	
PBT after Exceptional Items	81.2	39.1	64.6	136.1	
Total Tax	25.7	10.0	16.3	34.2	
PAT before MI	55.5	29.1	48.3	101.8	
Minority Interest	-0.3	-1.2	-1.2	-1.2	
PAT	55.7	30.3	49.5	103.0	
EPS Growth (%)	-35.1	-45.6	63.4	107.9	
EPS (Adjusted)	7.7	4.6	6.9	14.3	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow Statement					₹ crore
(Year-end March)/ (₹ crore)	FY20	FY21E	FY22E	FY23E	
Profit/(Loss) after taxation	55.1	29.9	49.2	102.6	
Add: Depreciation & Amortization	73.4	89.7	117.8	133.4	
Add: Interest Paid	17.6	20.1	25.3	25.8	
Net Increase in Current Assets	25.0	-64.5	-80.8	-140.5	
Net Increase in Current Liabilities	5.1	163.9	-92.6	163.7	
Others	-90.8	54.7	0.0	0.0	
CF from Operating activities	85.4	293.7	18.8	285.1	
(Purchase)/Sale of Fixed Assets	-62.4	-69.0	-70.0	-45.0	
Long term Loans & Advances	0.0	0.0	0.0	0.0	
Investments	-26.3	-54.8	0.0	-150.0	
Others	45.5	-43.2	-79.6	-116.6	
CF from Investing activities	19.2	-98.0	-79.6	-266.6	
(inc)/Dec in Loan	0.8	-6.7	-5.0	-5.0	
Dividend & Dividend tax	-16.4	-20.8	-19.8	-19.8	
Less: Interest Paid	-3.6	-4.2	-2.6	-2.0	
Other	-55.8	-65.8	-61.5	0.0	
CF from Financing activities	-75.0	-97.5	-88.9	-26.8	
Net Cash Flow	29.6	98.2	-149.6	-8.2	
Cash and Cash Equivalent at the beginnin	70.0	99.5	197.8	48.1	
Cash and Cash Equivalent at the end	99.5	197.7	48.1	39.9	

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Equity Capital	71.5	71.7	71.7	71.7	
Reserve and Surplus	473.1	496.4	525.7	608.6	
Total Shareholders funds	544.6	568.1	597.4	680.3	
Minority Interest	5.4	2.8	2.8	2.8	
Total Debt	29.3	26.4	21.4	16.4	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Long-Term Provisions	0.0	0.0	0.0	0.0	
Other Non Current Liabilities	15.7	15.9	16.2	16.5	
Source of Funds	595.0	613.2	637.8	716.0	
Gross Block - Fixed Assets	369.5	589.0	719.0	824.0	
Accumulated Depreciation	142.9	232.6	350.3	483.8	
Net Block	226.6	356.4	368.6	340.2	
Capital WIP	15.0	3.1	3.1	3.1	
Fixed Assets	241.7	359.5	371.7	343.3	
Investments	36.7	108.3	108.3	258.3	
Goodwill on Consolidation	4.3	4.3	4.3	4.3	
Deferred Tax Assets	20.0	22.1	22.1	22.1	
Other non-Current Assets	132.6	35.3	36.0	36.7	
Inventory	0.0	0.0	0.0	0.0	
Debtors	522.4	485.6	561.7	697.5	
Loans and Advances	364.5	465.9	470.5	475.2	
Other Current Assets	0.0	0.0	0.0	0.0	
Cash	99.5	197.8	48.1	39.9	
Total Current Assets	986.5	1,149.2	1,080.4	1,212.6	
Creditors	617.2	766.1	672.3	834.8	
Provisions	5.6	6.1	6.2	6.3	
Other Current Liabilities	204.0	293.4	306.5	320.2	
Total Current Liabilities	826.8	1,065.5	984.9	1,161.3	
Net Current Assets	159.7	83.7	95.4	51.4	
Application of Funds	595.0	613.2	637.8	716.0	

Source: Company, ICICI Direct Research

Exhibit 13: Key Ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Reported EPS	7.7	4.2	6.9	14.3
BV per share	76.0	79.3	83.4	94.9
Cash per Share	13.9	27.6	6.7	5.6
Dividend per share	2.3	2.9	2.8	2.8
Operating Ratios (%)				
Gross Profit Margins	15.5	15.3	15.7	15.7
EBITDA margins	4.6	4.1	5.0	5.8
PAT Margins	1.6	1.0	1.3	2.2
Inventory days	0.0	0.0	0.0	0.0
Debtor days	54.9	54.3	54.3	54.3
Creditor days	64.9	85.7	65.0	65.0
Asset Turnover	9.4	5.5	5.3	5.7
Return Ratios (%)				
RoE	10.1	5.8	8.2	15.1
RoCE	24.6	18.8	23.8	32.7
RoIC	27.7	28.0	25.0	34.2
Valuation Ratios (x)				
P/E	70.2	129.3	78.7	37.7
EV / EBITDA	24.0	27.2	20.1	13.9
EV / Net Sales	1.1	1.1	1.0	0.8
Market Cap / Sales	1.1	1.2	1.0	0.8
Price to Book Value	7.1	6.8	6.5	5.7
Solvency Ratios				
Debt / EBITDA	0.2	0.2	0.1	0.1
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.3	1.2	1.4	1.3

Source: Company, ICICI Direct Research

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