

ICICI Securities Limited
is the author and
distributor of this report

Q4FY21 results update
and reco change

Target price: Rs624

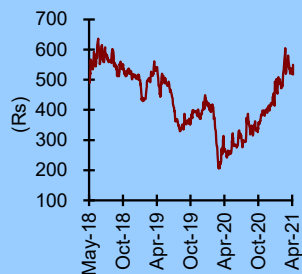
Target price revision
Rs624 from Rs572

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	58.4	58.4	58.4
Institutional investors	30.5	31.5	32.9
MFs and other	7.7	8.8	8.9
Banks / FIs	0.0	0.0	0.0
Insurance Cos.	1.9	1.9	2.7
FII	20.9	20.8	21.3
Others	11.1	11.1	8.7

Source: CMIE

Price chart



INDIA

ICICI Securities

Mahindra Logistics

ADD

Downgrade from BUY

Drop in warehousing revenues drive miss

Rs555

Mahindra logistics (MLL) Q4FY21 numbers were lower than expected. Non MnM supply chain revenues declined 13% QoQ, as warehousing revenues declined 25% QoQ. The drop in high margin warehousing revenues for the quarter also impacted margins. EBITDA margins fell 40bps QoQ. Given the strong underlying trend in fulfillment and warehousing and the consistent large integrated deal wins that we see for MLL, the current quarter drop in Non – MnM SCM warehousing revenues don't project a trend. A weak base (Q4FY20) still allowed for 17% YoY growth in Non MnM warehousing revenue growth. We do see scope for earnings downgrade for FY22 as Covid impacts Q1FY22 auto revenues. We would like to reiterate MLL as a structural organised play on improving warehousing and integrated solutions. Due to recent runup in stock price and the near term overhang on earnings we downgrade MLL to ADD from BUY.

- ▶ **Major contract wins in Q4FY21.** Two major logistics contract entered in Q4FY21, highlights that MLL is well poised to take advantage of industry trends in SCM. This includes i) increase in adoption of Omni-channel strategy across businesses, making returns more costly ii) higher tech integration – ability to provide plug and play model for different customers iii) tremendous growth witnessed in fulfillment and warehousing, driven in part by growth in ecommerce and post GST consolidation trends and iv) need for integrated service offerings which return is leading to wallet share increase. **Management reiterated the revenue target of Rs100bn by CY26.**
- ▶ **Bajaj Electricals' (BEL) integrated logistics services deal.** MLL has entered into complete end to end redesign and outsourcing of Bajaj Electricals' Logistics. The scope of the contract was guided at Rs10bn for a period of 5 years and while it will lead to a per SKU cost reduction of > 20% for BEL, can still accrue meaningful margins to MLL.
- ▶ **Partners with Flipkart.** Flipkart partnered with MLL as one of its key logistics partners to help fast track deployment of electric vehicles across its logistics fleet in the country. Mahindra Logistics will play a significant role in working with various OEMs and help Flipkart's sustainable transition to EVs. MLL through EDeL will enable Flipkart in its journey towards building a green supply chain by not only deploying a large fleet of EVs but also **creating a conducive environment for EV deployment and operations across the country.** This includes building supporting infrastructure and technology such as charging stations and parking lots, training workforce, route planning and even battery swapping stations in the near future.
- ▶ **Downgrade to ADD with an increased target price of Rs 624/share (Rs 572/share earlier).** MLL's business model has multiple pivots to ensure growth and augment an already attractive investment story, the pivots being: contract manufacturing, freight forwarding, multimodal offering and entry into express logistics.

Market Cap	Rs39.5bn/US\$533mn
Reuters/Bloomberg	MALO.BO/MAHLOG IN
Shares Outstanding (mn)	71.7
52-week Range (Rs)	605/242
Free Float (%)	41.6
FII (%)	21.3
Daily Volume (US\$'000)	789
Absolute Return 3m (%)	16.7
Absolute Return 12m (%)	110.7
Sensex Return 3m (%)	7.7
Sensex Return 12m (%)	53.8

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	34,711	32,637	41,124	50,587
EBITDA (Rs mn)	1,583	1,342	2,066	2,983
Net Income (Rs mn)	544	300	771	1,363
EPS (Rs)	7.6	4.2	10.8	19.1
P/E (x)	72.9	132.7	51.4	29.1
CEPS (Rs)	17.9	16.7	24.2	33.9
EV/E (x)	24.9	28.5	18.2	12.2
Dividend Yield	0.3	0.5	0.4	0.4
RoCE (%)	9.7	5.6	16.1	23.9
RoE (%)	10.0	5.3	12.4	18.4

Research Analyst:

Abhijit Mitra

abhijit.mitra@icicisecurities.com
+91 22 6637 7289

Table 1: Q4FY21 result review*(Rs mn)*

	Q4FY21	Q4FY20	Chg. YoY (%)	Q3FY21	Chg. QoQ (%)
Total income from operations	9,740	8,118	20.0	10,468	(7.0)
Operating expenses	8,334	6,801	22.5	8,970	(7.1)
Employee wages	709	756	(6.2)	798	(11.2)
Other expenses	236	181	30.1	169	39.2
Total expenses	9,278	7,738	19.9	9,938	(6.6)
EBITDA	462	380	21.4	530	(12.8)
<i>EBITDA Margin (%)</i>	4.7	4.7		5.1	
Depreciation	261	220	18.4	243	7.3
Other Income	47	31	49.5	18	164.2
Finance Cost	56	57	(1.1)	55	2.6
PBT	191	134	42.4	250	(23.4)
Tax	40	36		66	
PAT	152	98	54.7	184	(17.6)

Source: Company data, I-Sec research

Table 2: Performance assessment

	Q4FY21	Q4FY20	Chg. YoY (%)	Q3FY21	Chg. QoQ (%)
Auto as % of total sales	60.8	56.2	457	57.0	373
Mahindra as % of total sales	51.4	48.4	300	48.6	278
Total Warehousing mix (%)	16.8	18.1	(127)	19.3	(246)
Total transportation mix (%)	79.5	71.9	763	77.2	232
Growth rates (%)					-
Total revenue	20.0	(20.0)	3,999	15.3	470
Mahindra SCM revenue	27.4	(27.9)	5,532	19.8	762
Non - Mahindra SCM revenue	29.7	(9.4)	3,909	27.7	192
Transportation	35.3	(16.2)	5,148	24.7	1,060
Warehousing	17.1	10.2	696	34.5	(1,733)
Auto	32.4	(18.6)	5,106	11.2	2,118
Non-Auto	28.9	(6.7)	3,564	32.0	(303)

Source: Company data, I-Sec research

Assumptions

FY21 is a landmark year for MLL as it witnessed non-M&M supply chain revenues matching that of M&M supply chain. Warehousing and transportation (to support the warehousing) will be the predominant revenue and margin driver for MLL going forward.

Table 3: Segmental breakup of topline

(Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Segment Revenue					
Supply Chain Management	34,659	31,035	31,446	39,448	46,783
Mahindra SCM revenue	21,022	17,294	15,972	18,045	20,029
Transportation	19,300	15,580	14,472	16,421	18,227
Infactory/Warehousing	1,722	1,714	1,497	1,624	1,803
Auto and Farm	20,684	17,048	15,965	17,977	19,955
Others	338	246	8	67	75
Non - Mahindra SCM revenue	13,637	13,741	15,475	21,403	26,754
Transportation	10,123	9,385	10,423	14,590	18,238
Warehousing	3,514	4,356	5,052	6,813	8,516
T:W (Non SCM)	2.9	2.2	2.1	2.1	2.1
Auto	3,399	3,001	2,870	2,312	3,074
Non-Auto	10,238	10,740	12,604	19,091	23,680
Total Auto (M&M / non M&M)	24,083	20,049	18,445	20,290	23,029
People Transport Solution	3,855	3,676	1,287	1,480	3,308
Revenue from Operations (net)	38,513	34,711	32,733	41,124	50,587

Source: Company data, I-Sec research

Downgrade to ADD from BUY

We downgrade to **ADD** from **BUY** with a revised target price of Rs624/share at 32x FY23E EPS from Rs 572/share earlier (30x FY23E).

Key risks

Key downside risks are i) slowdown in Grade A+/Grade A++ warehousing adoption by the industry, ii) higher competition, and iii) lower than expected auto sector revenues. Key upside risks are: i) better than expected traction in warehousing revenues, ii) continued improvement in product mix leading to margin surprise, and iii) management ability to execute upon its Rs100bn revenue guidance by FY26.

Financial summary

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Revenue from operations	34,711	32,637	41,124	50,587
Operating Expenses	33,129	31,295	39,058	47,604
EBITDA	1,583	1,342	2,066	2,983
% margins	4.6%	4.1%	5.0%	5.9%
Depreciation & Amortisation	734	897	960	1,056
Gross Interest	176	201	210	231
Other Income	140	175	159	159
Profit before tax	812	392	1,056	1,855
Less: Taxes	257	100	274	482
Net Income (Reported)	544	300	771	1,363

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	10,825	12,254	13,587	16,813
of which cash & cash eqv.	995	1,978	2,624	3,943
Total Current Liabilities & Provisions	6,442	8,076	7,072	8,547
Net Current Assets	4,383	4,178	6,516	8,266
Net Fixed Assets	2,461	3,580	1,118	362
Intangible assets	10	172	10	10
Capital Work-in-Progress	150	21	150	150
Other non-current assets	573	364	573	773
Total Assets	7,777	8,534	8,567	9,761
Liabilities				
Borrowings	670	452	670	670
Deferred Tax Liability	(200)	(221)	(200)	(200)
Other non-current liabilities	1,811	2,562	1,818	1,818
Minority Interest	54	28	75	85
Equity Share Capital	715	717	715	715
Reserves & Surplus	4,731	4,964	5,495	6,679
Net Worth	5,447	5,681	6,209	7,394
Total Liabilities	7,777	8,534	8,567	9,761

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Net Profit before tax	812	392	1,056	1,855
Depreciation	734	897	960	1056
Non-Cash Adjustments	262	197	51	72
Working Capital Changes	(653)	838	(497)	(432)
Taxes Paid	(325)	515	(274)	(482)
Operating Cashflow	854	2937	1295	2069
Capital Commitments	(624)	(712)	(254)	(300)
Free Cashflow	230	2226	1041	1769
Other investing cashflow	986	(368)	159	(41)
Cashflow from Investing Activities	362	(1080)	(95)	(341)
Inc (Dec) in Borrowings	(576)	(727)	0	0
Issue of share capital	0.9	1.3	0	0
Finance cost	(36)	(42)	(210)	(231)
Dividend paid	(155)	(107)	(179)	(179)
Cashflow from Financing Activities	(763)	(875)	(389)	(410)

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	7.6	4.2	10.8	19.1
Cash EPS	17.9	16.7	24.2	33.9
Book Value per share (BV)	76.1	79.2	86.9	103.5
OCF per share	11.9	41.0	18.1	29.0
FCF per share	3.2	31.0	14.6	24.8
Growth (%)				
Net Sales	(9.9)	(6.0)	21.8	23.0
EBITDA	4.6	(15.2)	47.0	44.4
PAT	(36.4)	(44.9)	120.3	76.7
Valuation Ratios (x)				
P/E	72.9	132.7	51.4	29.1
P/BV	7.3	7.0	6.4	5.4
EV / EBITDA	24.9	28.5	18.2	12.2
EV / Sales	1.1	1.2	0.9	0.7
Operating Ratios				
Employee cost / Sales (%)	8.8	9.1	8.0	7.0
Effective Tax Rate (%)	31.7	25.6	26.0	26.0
Net D/E Ratio (x)	(0.1)	(0.3)	(0.3)	(0.4)
FCF yield (%)	0.6	5.6	3.1	5.3
Return/Profitability Ratios (%)				
EBITDA Margins	4.6	4.1	5.0	5.9
Net Income Margins	1.6	0.9	1.9	2.7
Return on Equity (RoE)	10.0	5.3	12.4	18.4
RoCE	9.7	5.6	16.1	23.9

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, *Abhijit Mitra, MBA (Finance), BE*; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.