

Mahindra Logistics Ltd.

Industry **Logistics**
Bloomberg **MAHLOG IN**
BSE CODE **540768**

Topline growth back on track, margins impacted by one off costs to meet spur in E-commerce festive demand

RATING	ACCUMULATE
CMP	483
Price Target	567
Potential Upside	17%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	654/441
Mkt Capital (Rs Cr)	3,447
Free float (%)	30%
Avg. Vol 1M (,000)	20
No. of Shares (Cr)	7.11
Promoters Pledged %	0%

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3QFY19 Result Update

- ❑ MAHLOG reported a revenue growth of 17.5% YoY to INR 981cr, slightly below our expectation of INR 1009cr on the back of robust growth across both the segments.
- ❑ SCM segment contributing to 90% of the topline, grew by 16.9% YoY to INR 881cr. PTS segment revenue stood at INR 100cr with a YoY growth of 23.5%.
- ❑ Within SCM segment, M&M & Non M&M businesses stood at INR 516cr (18.1% YoY growth) & 365cr (15.1% YoY growth) respectively. Further, in Non M&M side, transportation revenue grew by 10.2% to INR 271cr while warehousing revenue grew by 30.6% to INR 94cr.
- ❑ Gross margins expanded by 117bps to 23.5% due to operational efficiency & better revenue mix.
- ❑ EBITDA margin expanded by 13bps YoY to 3.7% (our expectation of 4.4%) in 3QFY19. This was largely due to higher other expenses (up by 29.5% YoY) to meet incremental demand from E-commerce sector during the festive season. Also, warehousing space addition continued to be aggressive (1.3mn sq ft added in 9MFY19).
- ❑ PAT for the quarter stood at INR 19cr with a growth of 29.1% YoY (our expectation of INR 26cr) on the back of lower than expected EBITDA margin expansion.

View and Valuation

Going forward the management has set a revenue target of INR 6,000cr by FY21. Considering the benefits of GST & E-way bill, industry concentration is gradually shifting from unorganized to large 3PL organized players. Management has guided for another 0.5mn & 1mn sq ft of warehousing space addition in Q4FY19 & FY20 respectively. Despite a slight miss on revenues & a one off impact on margins, we largely maintain our estimates on the back of strong revenue pipeline backed by client wins in Non M&M side, a 50 bps YoY EBITDA margin expansion for next 2-3 years & higher proportion of warehousing revenue.

We expect revenue, EBITDA and PAT to grow at 18.5%, 34.1% and 40.7% CAGR respectively over FY18-20e. We continue to maintain an ACCUMULATE rating on the stock keeping a target price of INR 567 (valued at 32x FY20e EPS).

Key Risks to our rating and target

- ❑ Issues on the Business Partner's side can affect the overall performance of MLL as it operates primarily through a network of over 1500 Business Partners.
- ❑ Entry of Startups and consolidation by mid-sized players in the sector.

KEY FINANCIAL/VALUATIONS	FY16*	FY17*	FY18	FY19E	FY20E
Net Sales	2064	2667	3416	3894	4800
EBITDA	52	76	120	157	215
EBIT	44	62	100	136	193
PAT	37	46	64	89	127
EPS (Rs)	6	7	9	13	18
EPS growth (%)	-7%	10%	37%	40%	42%
ROE (%)	12%	13%	15%	18%	21%
ROCE (%)	14%	17%	23%	27%	32%
BV	49	50	59	69	84
P/B (X)	8.7	8.6	8.2	7.0	5.8
P/E (x)	71.9	65.3	53.7	38.4	27.1

* Based on Issue Price

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3QFY19 Results

Margins below expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	835	893	928	927	981	17.5%	5.8%	2,667	3,416	28.1%
Other Income	1	1	3	1	2	7.6%	20.2%	10	6	-39.1%
COGS	649	701	730	721	751	15.7%	4.1%	2,094	2,679	27.9%
Employee Cost	60	60	61	63	69	15.1%	8.7%	188	229	21.7%
Other Expenses	97	94	97	109	126	29.5%	15.2%	308	389	26.2%
EBITDA	29	38	41	34	36	21.7%	5.7%	76	120	57.0%
EBITDA Margin	3.5%	4.2%	4.4%	3.7%	3.7%	0.1%	0.0%	2.9%	3.5%	0.6%
Depreciation	5	5	5	5	6	6.9%	11.3%	15	20	35.1%
Interest	1	1	1	1	1	-20.9%	7.4%	3	4	8.0%
Tax	9	12	13	10	12	27.5%	12.8%	22	37	69.6%
Minority Interest	1	0	0	0	(0)	-119%	-180%	0	1	162.5%
Net Profit	15	20	24	19	19	29.1%	1.2%	46	64	40.3%
PAT Margin	1.8%	2.3%	2.6%	2.0%	2.0%	0.2%	-0.1%	1.7%	1.9%	0.2%

Double Digit Revenue Growth in both the segments

MAHLOG reported a revenue growth of 17.5% YoY to INR 981cr, slightly below our expectation of INR 1009cr on the back of robust growth across both the segments. SCM segment contributing to 90% of the topline, grew by 16.9% YoY to INR 881cr. PTS segment revenue stood at INR 100cr with a YoY growth of 23.5%. Within SCM segment, M&M & Non M&M businesses stood at INR 516cr (18.1% YoY growth) & 365cr (15.1% YoY growth) respectively. Further, in Non M&M side, transportation revenue grew by 10.2% to INR 271cr while warehousing revenue grew by 30.6% to INR 94cr. Management has guided for INR 6000cr revenue in FY21.

Gross Margins expanded by 117bps YoY but EBITDA margin expansion was limited to only 13bps YoY

Gross margins expanded by 117bps to 23.5% due to operational efficiency & better revenue mix. EBITDA margin expanded by 13bps YoY to 3.7% (our expectation of 4.4%) in 3QFY19. This was largely due to higher other expenses (up by 29.5% YoY) to meet incremental demand from E-commerce sector during the festive season. Also, warehousing space addition continued to be aggressive (1.3mn sq ft added in 9MFY19). Management has guided for a 0.5% improvement in EBITDA margins every year for the next 2-3 years.

PAT grew by 29.1% YoY, QoQ PAT margins remained flat despite a sharp rise in other expenses

PAT for the quarter stood at INR 19cr with a growth of 29.1% YoY. This is despite the fact that the other expenses came in higher by INR 17cr QoQ primarily due to 0.7mn sq ft of warehousing space addition in Q3FY19 & higher cost to meet E-commerce festive demand.

Concall Highlights

- Industry Initiatives: The new logistics division within the department of commerce is preparing a national integrated logistics plan. The government is formulating a policy for the integrated development of multi-modal logistics parks.
- Auto sector witnessed some softness due to higher insurance cost & liquidity crunch in NBFCs leading to higher non production days. Management expects growth to be back on track from Q4FY19 onwards.
- E-commerce sector saw good performance but that resulted in higher commitment of manpower & hence, limited margin expansion.
- Top 20 client contribution to the total Non M&M SCM revenue stood at 64% in Q3FY19 with consumer & FMCG segments delivering highest growth.
- A few notable client wins (Total 200 clients in Non M&M side) during the quarter include a multinational engineering & industrial major, a global construction equipment manufacturer, a global telecom equipment manufacturer, India's leading lubricant manufacturing & marketing company, a multinational beverage group & a Leading non-ferrous manufacturer.
- Total addition of 1.3mn sq ft in 9MFY19. Another 0.5mn to be added in Q4FY19 & 1mn sq ft in FY20. Management continues to believe that addition would depend primarily on supply of Grade A warehouses.
- Management believes that freight forwarding business of the company has the potential to increase its contribution to the total revenue from 5-6% currently to 10-12% in the medium term. This will be through airways as well as waterways.
- Management guidance of INR 6000cr revenue by FY21 & 0.5% EBITDA margins expansion for the next 2-3 years is maintained.

Exhibit: Net sales (Rs. Crore) and Sales Growth trend
 High Teens growth after 2 quarters. SCM segment grew by 16.8% while PTS segment grew by 23.5%

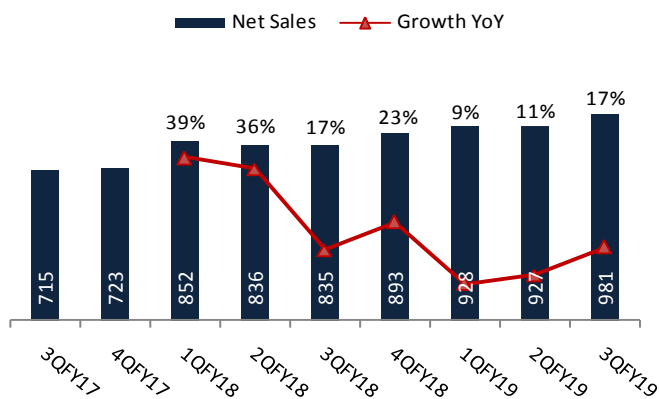


Exhibit: GP (Rs. Crore) and Gross Margin trend
 Gross margins improved on account of better revenue mix (towards warehousing) and operational efficiencies

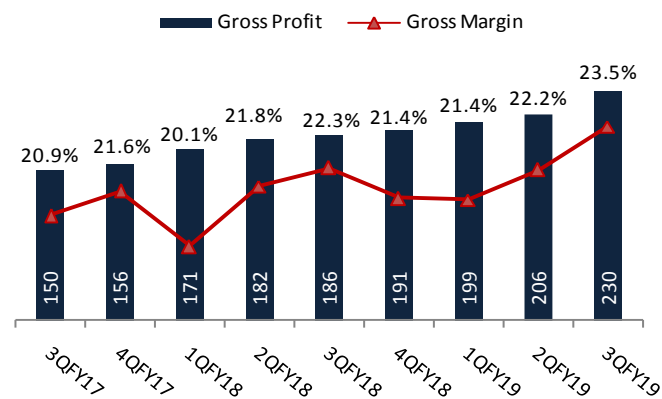


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend
 Gross margin improvement was offset by higher other expenses & one offs to meet higher festive demand

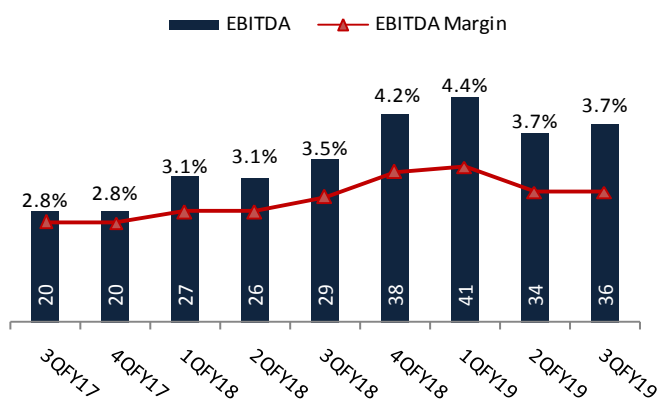


Exhibit: PAT (Rs. Crore) and PAT Margin trend
 PAT grew by 29.1% YoY with margin improvement of 20bps YoY to 2%

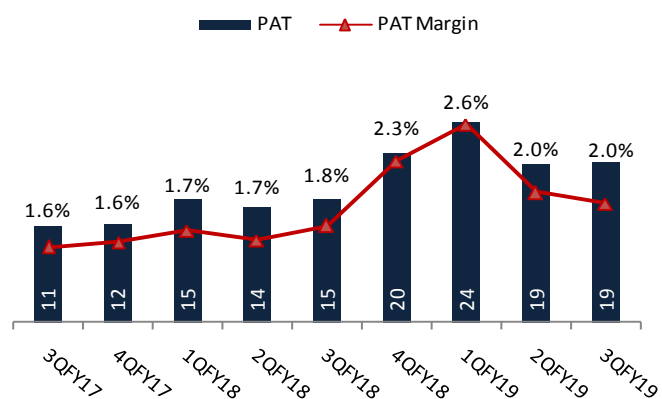


Exhibit: Debt Equity Ratio
 With the increase in profitability & improving cash flows debt to equity ratio will continue to be below 0.1

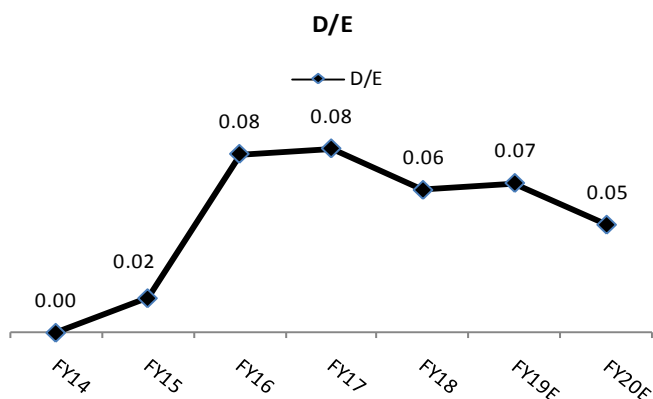


Exhibit: Return Ratios
 Return ratios to improve going ahead as the profitability improves

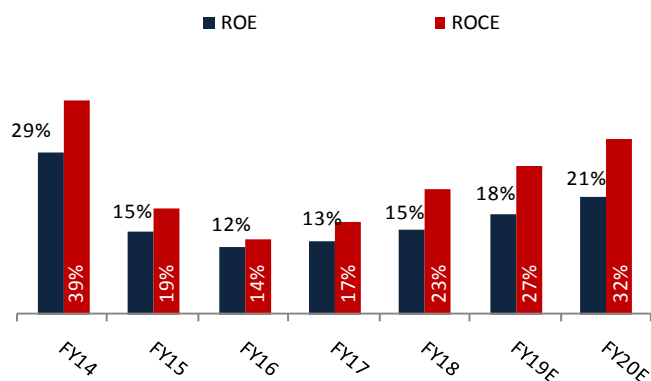


Exhibit: SCM Revenue Composition

Contribution from Non M&M stands at 41.4% of Total SCM revenue as against 40.9% in FY18

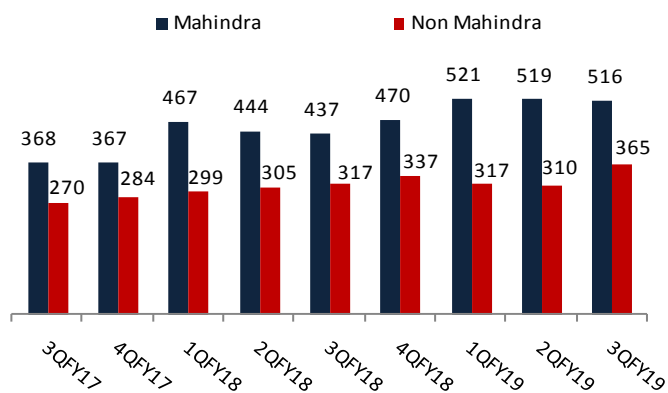


Exhibit: Trend in Segmental Revenue

PTS segment grew by 23.5% YoY while the SCM segment grew by 16.8% YoY in Q3FY19

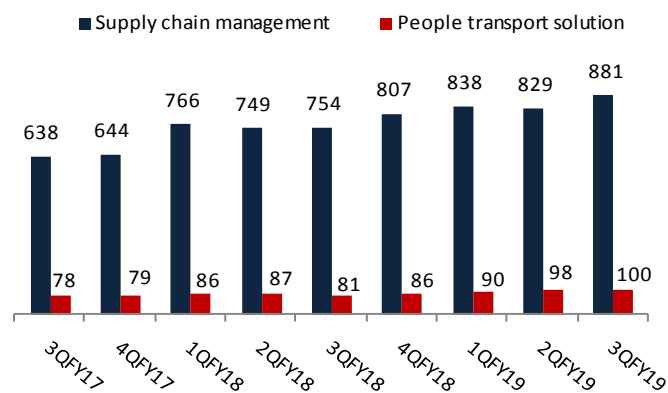


Exhibit: Non Mahindra SCM Revenue-Activity Wise

Warehousing & Other value added segments grew by 30.6% YoY while transportation revenues grew by 10.2%

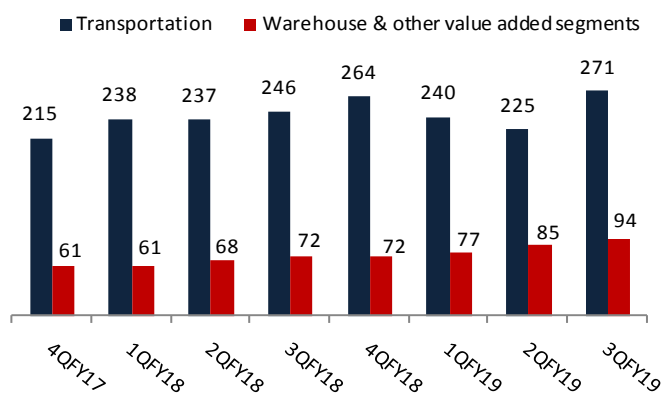
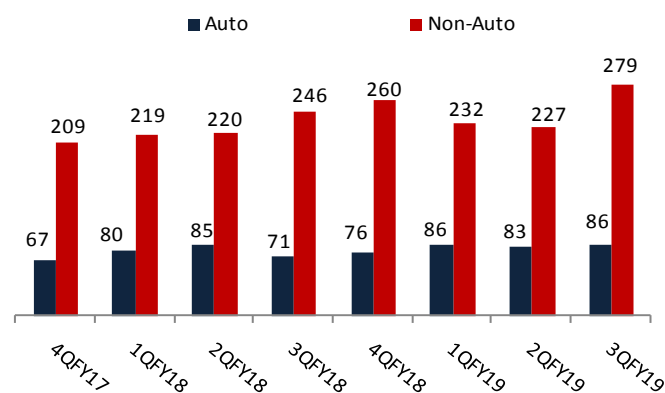


Exhibit: Non Mahindra SCM Revenue-Industry Wise

Non-Auto side saw a 13.2% YoY growth in Q3FY19 while the auto side grew by 21.1% despite higher insurance cost & liquidity crunch



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	59	60	60	68	71	71	71
Preference Share Capital	-	41	41	-	-	-	-
Reserves	65	164	201	280	348	421	526
Networth	124	265	302	348	420	492	597
Debt	-	4	24	28	26	32	28
Other Non Current Liab	8	11	14	13	15	15	15
Total Capital Employed	133	280	339	389	461	539	640
Net Fixed Assets (incl CWIP)	16	22	48	58	62	66	69
Non Current Investments	0	0	0	0	0	8	12
Other Non Current Assets	15	29	58	60	53	137	137
Non Current Assets	31	51	106	118	115	211	217
Inventory	2	-	-	-	-	-	-
Debtors	153	199	245	412	520	585	721
Cash & Bank	87	102	84	50	66	47	79
Other Current Assets	63	167	156	237	285	318	380
Current Assets	304	468	485	699	871	949	1,180
Creditors	189	219	223	399	486	577	705
Provisions	1	3	4	3	3	3	3
Other Current Liabilities	12	14	22	21	29	32	40
Curr Liabilities	202	236	249	423	518	613	748
Net Current Assets	102	233	236	276	352	336	432
Total Assets	335	519	591	817	986	1,160	1,397

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,750	1,931	2,064	2,667	3,416	3,894	4,800
Change (%)		10.3%	6.9%	29.2%	28.1%	14.0%	23.3%
Other Income	6	9	13	10	6	7	6
EBITDA	51	57	52	76	120	157	215
Change (%)		11.1%	-8.1%	45.7%	57.0%	31.3%	37.0%
Margin (%)	2.9%	3.0%	2.5%	2.9%	3.5%	4.0%	4.5%
Depr & Amor.	3	6	8	15	20	21	22
EBIT	48	51	44	62	100	136	193
Finance Cost	0	0	1	3	4	4	4
EBT	54	59	56	68	102	140	196
Tax	18	21	20	22	37	50	68
Minority Int & P/L share of Ass.	-	(1)	(1)	0	1	0	(0)
Reported PAT	37	39	37	46	64	89	127
Change (%)		7.3%	-6.9%	24.8%	40.3%	39.7%	41.7%
Margin(%)	2.1%	2.0%	1.8%	1.7%	1.9%	2.3%	2.6%

Financial Details

Key Ratios

Y/E March	FY14*	FY15*	FY16*	FY17*	FY18	FY19E	FY20E
ROE	29.4%	14.8%	12.1%	13.1%	15.3%	18.2%	21.2%
ROCE	38.7%	19.2%	13.7%	16.8%	22.8%	26.9%	31.9%
Asset Turnover	5.2	3.7	3.5	3.3	3.5	3.4	3.4
Debtor Days	32	33	39	45	50	55	55
Inv Days	0	0	0	0	0	0	0
Payable Days	46	47	49	54	60	70	70
Int Coverage	874	140	33	18	27	38	52
P/E	71	67	72	65	54	38	27
Price / Book Value	21.0	9.9	8.7	8.6	8.2	7.0	5.8
EV/EBITDA	49.2	43.3	48.6	38.1	28.0	21.4	15.5

* Based on Issue Price

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	54	59	56	68	102	140	196
(inc)/Dec in Working Capital	6	(17)	(65)	(66)	(48)	(86)	(63)
Non Cash Op Exp	5	6	10	21	28	21	22
Int Paid (+)	0	0	1	3	4	4	4
Tax Paid	(11)	(15)	(38)	(53)	(70)	(50)	(68)
others	(6)	(7)	(12)	(8)	(4)	(7)	(6)
CF from Op. Activities	49	27	(48)	(34)	12	21	84
(inc)/Dec in FA & CWIP	(10)	(11)	(35)	(23)	(37)	(25)	(25)
Free Cashflow	39	16	(83)	(57)	(25)	(3)	59
(Pur)/Sale of Inv	-	(161)	26	11	9	(8)	(4)
others	6	7	10	9	29	7	6
CF from Inv. Activities	(4)	(165)	1	(3)	0	(26)	(22)
inc/(dec) in NW	2	101	-	1	7	-	-
inc/(dec) in Debt	-	2	20	6	0	6	(4)
Int. Paid	(0)	(0)	(1)	(3)	(4)	(4)	(4)
Div Paid (inc tax)	-	-	-	-	-	(17)	(21)
CF from Fin. Activities	2	103	18	4	4	(15)	(29)
Inc(Dec) in Cash	46	(35)	(28)	(33)	16	(19)	32
Add: Opening Balance	41	87	102	84	50	66	47
Add: FD with Maturity > 3 months	-	50	10	-	-	-	-
Closing Balance	87	102	84	50	66	47	79

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