




# Mahindra Logistics Limited

Industry	Logistics
Bloomberg	MAHLOG IN
BSE CODE	540768

**Revenue growth to pickup in FY20 with 50bps margin expansion**

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>482</b>
<b>Price Target</b>	<b>569</b>
<b>Potential Upside</b>	<b>18%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

## Stock Info

52wk Range H/L	654/418
Mkt Capital (Rs Cr)	3,443
Free float (%)	30%
Avg. Vol 1M (,000)	27
No. of Shares (Cr)	7.14
Promoters Pledged %	0%

## Research Analyst

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## 4QFY19 Result Update

- MAHLOG reported a revenue growth of 13.7% YoY to INR 1015cr, below our expectation of INR 1057cr. SCM segment contributing to 90% of the topline, grew by 13.7% YoY to INR 917cr while PTS segment revenue stood at INR 97cr.
- Within SCM segment, Mahindra & Non Mahindra businesses stood at INR 543cr (15.5% YoY growth) & 374cr (11% YoY growth) respectively. Further, in Non Mahindra side, growth in transportation was subdued at 5.3% while warehousing revenue grew by 33.3% to INR 96cr.
- Q4FY19 EBITDA grew by 8.5% to INR 41cr resulting into margin contraction of 20bps YoY. However, full year EBITDA margin expanded by 43bps YoY to 3.93% in line with management guidance of 50bps margin expansion annually. This is despite INR 5.6cr (INR 1.7cr in FY18) charge on account of ESOP/RSU as MAHLOG continues to benefit from higher growth in warehousing and efficiencies across segments.
- PAT for the quarter stood at INR 24cr with a growth of 14.8% YoY (our expectation of INR 27cr) on the back of lower than expected topline growth & EBITDA margin.
- After 3 consecutive years of negative free cash flow, MAHLOG has turned the corner with INR 44cr FCF in FY19.

## View and Valuation

Despite a low teen revenue growth in FY19 & subdued demand environment in auto industry, management is confident of a revival in growth to high teens in FY20. This is largely on the back of opening of new opportunities in consumer centric industries post GST & expected turnaround in auto segment post general elections.

Management continues to guide for higher growth in warehousing with a 1mn sq ft of addition in FY20 along with a pickup in transportation activity in the Non Mahindra space as company starts offering distribution logistics services to its newly acquired clients.

We factor in the overall softening in the demand environment & lower our FY20 revenue/PAT estimates by 5.6%/8.7%. However, we believe that MAHLOG will outpace the industry growth of 10-12% & expect revenue/PAT to grow by 17.6%/35% coupled with a 50bps margin expansion in FY20. We maintain our BUY rating on the stock but lower the target price to INR 569 (35x FY20e EPS).

## Key Risks to our rating and target

- Continued slowdown in Auto Industry
- Entry of Startups and consolidation by mid-sized players in the sector.

KEY FINANCIAL/VALUATIONS	FY16*	FY17*	FY18	FY19	FY20E
Net Sales	2064	2667	3416	3851	4530
EBITDA	52	76	120	151	199
EBIT	44	62	100	129	176
PAT	37	46	64	86	116
EPS (Rs)	6	7	9	12	16
EPS growth (%)	-7%	10%	37%	33%	35%
ROE (%)	12%	13%	15%	17%	19%
ROCE (%)	14%	17%	23%	26%	29%
BV	49	50	59	70	83
P/B (X)	8.7	8.6	8.2	7.3	5.8
P/E (x)	71.9	65.3	53.7	42.6	29.8

\* Based on Issue Price

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**4QFY19 Results**
**Below expectation**

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
<b>Net Sales</b>	<b>893</b>	<b>928</b>	<b>927</b>	<b>981</b>	<b>1,015</b>	<b>13.7%</b>	<b>3.4%</b>	<b>3,416</b>	<b>3,851</b>	<b>12.7%</b>
Other Income	1	3	1	2	2	130.1%	23.2%	6	8	29.8%
COGS	778	730	721	863	885	13.8%	2.6%	2,679	3,199	19.4%
Employee Cost	60	61	63	69	71	19.4%	4.1%	229	264	15.1%
Other Expenses	17	97	109	14	17	-0.7%	22.6%	389	238	-38.8%
<b>EBITDA</b>	<b>38</b>	<b>41</b>	<b>34</b>	<b>36</b>	<b>41</b>	<b>8.5%</b>	<b>13.8%</b>	<b>120</b>	<b>151</b>	<b>26.3%</b>
<b>EBITDA Margin</b>	<b>4.2%</b>	<b>4.4%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>4.0%</b>	<b>-0.2%</b>	<b>0.4%</b>	<b>3.5%</b>	<b>3.9%</b>	<b>0.4%</b>
Depreciation	5	5	5	6	6	15.2%	6.0%	20	22	11.3%
Interest	1	1	1	1	1	21.2%	18.4%	4	3	-7.7%
Tax	12	13	10	12	12	2.3%	2.3%	37	47	27.0%
Minority Interest	0	0	0	(0)	0	-53.8%	250.0%	1	1	-59.5%
<b>Net Profit</b>	<b>20</b>	<b>24</b>	<b>19</b>	<b>19</b>	<b>24</b>	<b>14.8%</b>	<b>22.8%</b>	<b>64</b>	<b>86</b>	<b>33.8%</b>
<b>PAT Margin</b>	<b>2.3%</b>	<b>2.6%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.3%</b>	<b>0.0%</b>	<b>0.4%</b>	<b>1.9%</b>	<b>2.2%</b>	<b>0.3%</b>

**Low Teens Growth in both the segments**

MAHLOG reported a revenue growth of 13.7% YoY to INR 1015cr on the back of low teens growth across both the segments. SCM segment contributing to 90% of the topline, grew by 13.7% YoY to INR 917cr while PTS segment revenue stood at INR 97cr (YoY growth of 13.1%). Within SCM segment, Mahindra & Non Mahindra businesses stood at INR 543cr (15.5% YoY growth) & 374cr (11% YoY growth) respectively. Further, in Non Mahindra side, growth in transportation was subdued at 5.3% while warehousing revenue grew by 33.3% to INR 96cr.

**Full year EBITDA margin expanded by 43bps YoY to 3.93%**

Q4FY19 EBITDA grew by 8.5% to INR 41cr resulting into margin contraction of 20bps YoY. However, full year EBITDA margin expanded by 43bps YoY to 3.93% in line with management guidance of 50bps margin expansion annually. This was driven by efficiencies across all segments & higher contribution from warehousing. Also, warehousing space addition continued to be aggressive with 1.6mn sq ft added in FY19. Management has guided for a 0.5% improvement in EBITDA margins every year for the next 2-3 years.

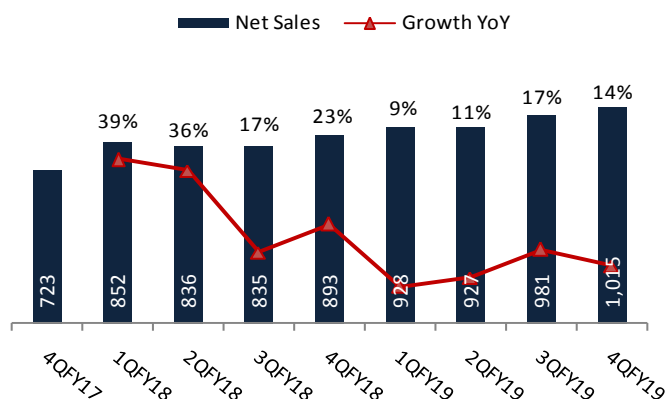
**Full year PAT growth of 33.8%, PAT margins improved by 35bps to 2.22% in FY19**

PAT for the quarter stood at INR 24cr with a growth of 14.8% YoY which is lower than our expectation of INR 27cr on the back of lower than expected topline growth & EBITDA margin.

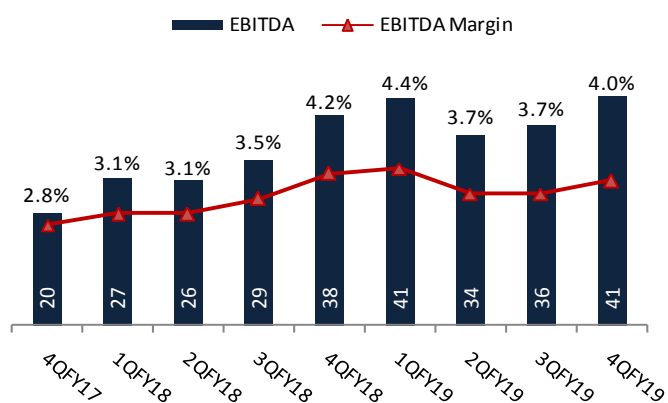
**Concall Highlights**

- Industry Initiatives: The Ministry of Commerce has released the draft of the National Logistics Policy. Apart from setting up a separate fund and a single-window e-marketplace, the draft policy also suggested setting up of a National Council for Logistics which will be chaired by the Prime Minister. The Ministry also issued a new notification on 28th March 2019 setting new standards for Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME-II), criteria under which electric vehicles will be eligible for incentives.
- Auto sector witnessed subdued demand on PV side due to increased cost of ownership, higher insurance cost & hardening of interest rates. While on the CV side, sluggish economic activity led to decline in volumes. The consumer sector demand also showed signs of slowing especially in the rural space with rural to urban multiplier falling to 1.1x from 1.3x in Q3FY19.
- E-commerce is buoyed by the entry of Reliance into the space with Flipkart also looking to up the ante with setup of warehousing facilities across the country.
- Top 25 client contribution to the total Non M&M SCM revenue stood at 65% in FY19 with consumer & FMCG segments delivering highest growth.
- Management is exploring opportunities within Mahindra group in the fields of defence, aerospace, solar & steel trading. Outside the Mahindra group, MAHLOG is targeting consumer centric sectors like durables, FMCG.
- With the applicability of Ind AS 116 from April 1, 2019 onwards, company will account for operating leases (warehouses) into its Balance Sheet. Besides this, management has guided for INR 25-35cr of capex in FY20.
- Management continues to guide for 1mn sq ft addition in FY20 depending on supply of Grade A warehouses. Management has identified Bhiwandi, Bangalore, Chennai, Kolkata & NCR as the potential destinations.
- TDS credit as on FY19 stands at INR 77.3cr.

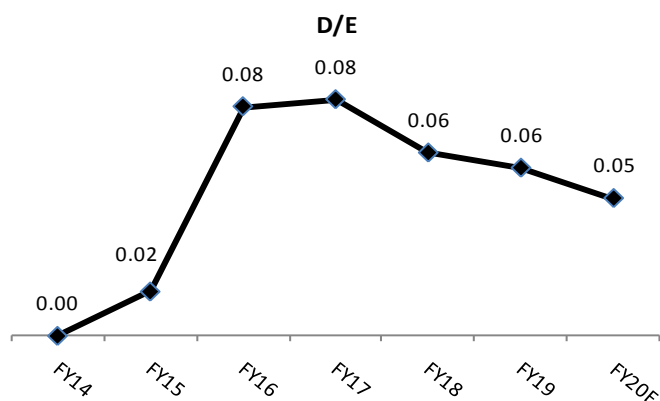
**Exhibit: Net sales (Rs. Crore) and Sales Growth trend**  
Growth moderated to 13% in FY19 post the strong growth of 28% in FY18



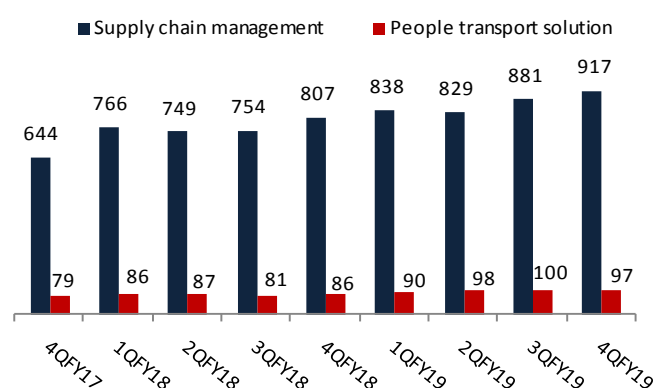
**Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend**  
Despite 20bps contraction in Q4FY19, full year margins expanded by 42bps (in line with management guidance)



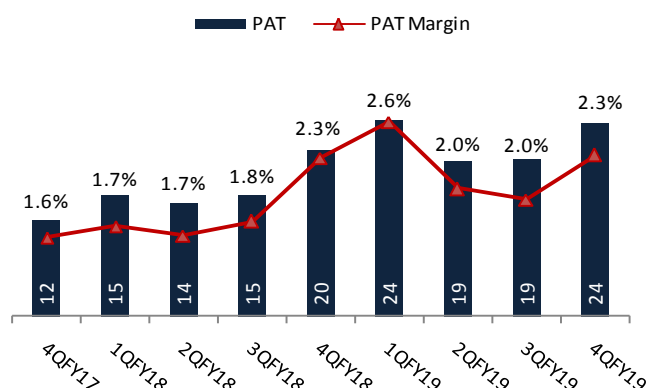
**Exhibit: Debt Equity Ratio**  
With the increase in profitability & improving cash flows debt to equity ratio will continue to be below 0.1



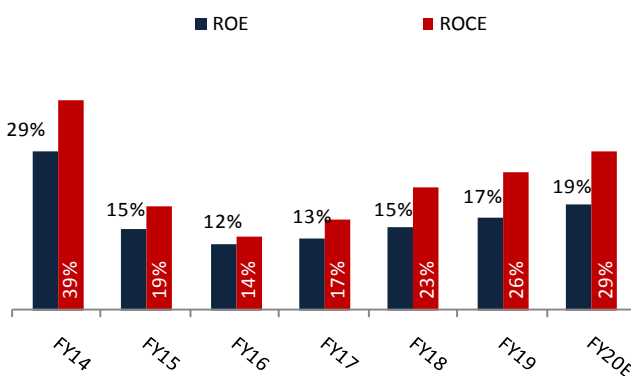
**Exhibit: Trend in Segmental Revenue**  
Both the segments witnessed 13-14% growth YoY



**Exhibit: PAT (Rs. Crore) and PAT Margin trend**  
Q4FY19 PAT growth was limited to 14.8% due to high base.

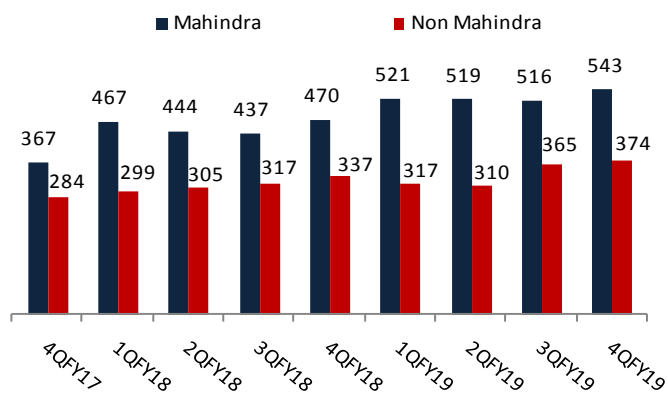


**Exhibit: Return Ratios**  
Return ratios to improve going ahead as the profitability improves



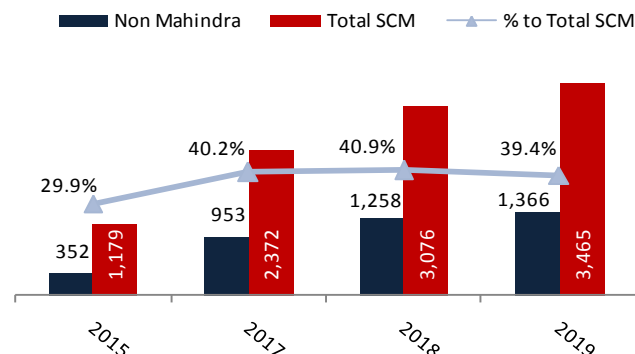
## Exhibit: SCM Revenue Composition

Despite slowdown in auto segment, revenues from Mahindra grew by 15.5%



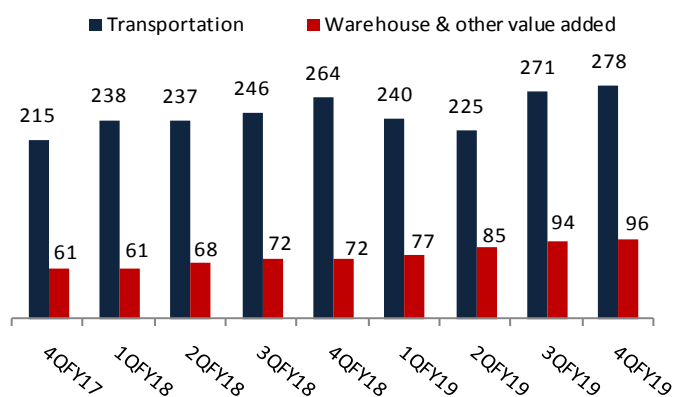
## Exhibit: SCM Revenue Composition

Over the last 4 years, contribution from Non Mahindra SCM business has increased from 30% to 40%



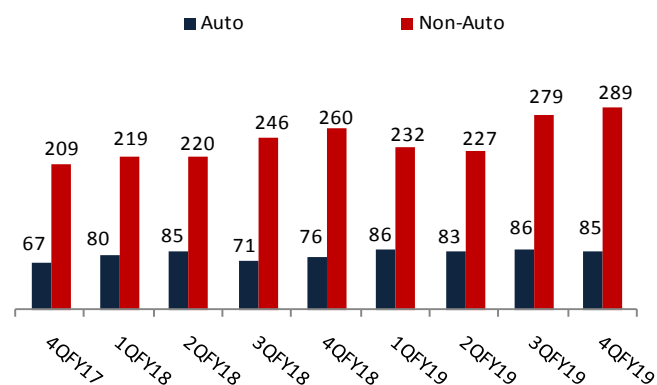
## Exhibit: Non Mahindra SCM Revenue-Activity Wise

Warehousing & Other value added segments grew by 33.3% YoY, Warehousing as a % of Non Mahindra SCM has increased from 22% to 26% in FY19



## Exhibit: Non Mahindra SCM Revenue-Industry Wise

Non-Auto side saw a 11.2% YoY growth in Q4FY19 while the auto side grew by 11.8% despite slowdown in auto industry



## Financial Details

### Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Equity Share Capital	59	60	60	68	71	71	71
Preference Share Capital	-	41	41	-	-	-	-
Reserves	65	164	201	280	348	427	524
<b>Networth</b>	<b>124</b>	<b>265</b>	<b>302</b>	<b>348</b>	<b>420</b>	<b>498</b>	<b>595</b>
Debt	-	4	24	28	26	29	29
Other Non Current Liab	8	11	14	13	15	16	16
<b>Total Capital Employed</b>	<b>133</b>	<b>280</b>	<b>339</b>	<b>389</b>	<b>461</b>	<b>543</b>	<b>640</b>
Net Fixed Assets (incl CWIP)	16	22	48	58	62	70	74
Non Current Investments	0	0	0	0	0	4	7
Other Non Current Assets	15	29	58	60	53	150	150
<b>Non Current Assets</b>	<b>31</b>	<b>51</b>	<b>106</b>	<b>118</b>	<b>115</b>	<b>223</b>	<b>231</b>
Inventory	2	-	-	-	-	-	-
Debtors	153	199	245	412	520	632	653
Cash & Bank	87	102	84	50	66	70	59
Other Current Assets	63	167	156	237	285	280	352
<b>Current Assets</b>	<b>304</b>	<b>468</b>	<b>485</b>	<b>699</b>	<b>871</b>	<b>982</b>	<b>1,064</b>
Creditors	189	219	223	399	486	600	589
Provisions	1	3	4	3	3	5	5
Other Current Liabilities	12	14	22	21	29	51	53
<b>Curr Liabilities</b>	<b>202</b>	<b>236</b>	<b>249</b>	<b>423</b>	<b>518</b>	<b>656</b>	<b>647</b>
Net Current Assets	102	233	236	276	352	326	417
<b>Total Assets</b>	<b>335</b>	<b>519</b>	<b>591</b>	<b>817</b>	<b>986</b>	<b>1,205</b>	<b>1,295</b>

### Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
<b>Revenue from Operation</b>	<b>1,750</b>	<b>1,931</b>	<b>2,064</b>	<b>2,667</b>	<b>3,416</b>	<b>3,851</b>	<b>4,530</b>
<i>Change (%)</i>		10.3%	6.9%	29.2%	28.1%	12.7%	17.6%
Other Income	6	9	13	10	6	8	8
<b>EBITDA</b>	<b>51</b>	<b>57</b>	<b>52</b>	<b>76</b>	<b>120</b>	<b>151</b>	<b>199</b>
<i>Change (%)</i>		11.1%	-8.1%	45.7%	57.0%	26.3%	31.9%
<b>Margin (%)</b>	<b>2.9%</b>	<b>3.0%</b>	<b>2.5%</b>	<b>2.9%</b>	<b>3.5%</b>	<b>3.9%</b>	<b>4.4%</b>
Depr & Amor.	3	6	8	15	20	22	23
EBIT	48	51	44	62	100	129	176
Finance Cost	0	0	1	3	4	3	4
<b>EBT</b>	<b>54</b>	<b>59</b>	<b>56</b>	<b>68</b>	<b>102</b>	<b>133</b>	<b>180</b>
Tax	18	21	20	22	37	47	63
Minority Int & P/L share of Ass.	-	(1)	(1)	0	1	1	1
<b>Reported PAT</b>	<b>37</b>	<b>39</b>	<b>37</b>	<b>46</b>	<b>64</b>	<b>86</b>	<b>116</b>
<i>Change (%)</i>		7.3%	-6.9%	24.8%	40.3%	33.8%	35.0%
<b>Margin(%)</b>	<b>2.1%</b>	<b>2.0%</b>	<b>1.8%</b>	<b>1.7%</b>	<b>1.9%</b>	<b>2.2%</b>	<b>2.6%</b>

## Financial Details

### Key Ratios

Y/E March	FY14*	FY15*	FY16*	FY17*	FY18	FY19	FY20E
ROE	29.4%	14.8%	12.1%	13.1%	15.3%	17.2%	19.4%
ROCE	38.7%	19.2%	13.7%	16.8%	22.8%	25.5%	29.2%
Asset Turnover	5.2	3.7	3.5	3.3	3.5	3.2	3.5
Debtor Days	32	33	39	45	50	55	53
Inv Days	0	0	0	0	0	0	0
Payable Days	39	39	39	43	47	51	47
Int Coverage	874	140	33	18	27	37	50
P/E	71	67	72	65	54	43	30
Price / Book Value	21.0	9.9	8.7	8.6	8.2	7.3	5.8
EV/EBITDA	49.2	43.3	48.6	38.1	28.0	23.4	16.7

\* Based on Issue Price

### Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	54	59	56	68	102	133	180
(inc)/Dec in Working Capital	6	(17)	(65)	(66)	(48)	45	(102)
Non Cash Op Exp	5	6	10	21	28	28	23
Int Paid (+)	0	0	1	3	4	3	4
Tax Paid	(11)	(15)	(38)	(53)	(70)	(129)	(63)
others	(6)	(7)	(12)	(8)	(4)	(8)	(8)
<b>CF from Op. Activities</b>	<b>49</b>	<b>27</b>	<b>(48)</b>	<b>(34)</b>	<b>12</b>	<b>73</b>	<b>34</b>
(inc)/Dec in FA & CWIP	(10)	(11)	(35)	(23)	(37)	(29)	(27)
Free Cashflow	39	16	(83)	(57)	(25)	44	6
(Pur)/Sale of Inv	-	(161)	26	11	9	(31)	(4)
others	6	7	10	9	29	8	8
<b>CF from Inv. Activities</b>	<b>(4)</b>	<b>(165)</b>	<b>1</b>	<b>(3)</b>	<b>0</b>	<b>(53)</b>	<b>(23)</b>
inc/(dec) in NW	2	101	-	1	7	-	-
inc/(dec) in Debt	-	2	20	6	0	2	-
Int. Paid	(0)	(0)	(1)	(3)	(4)	(3)	(4)
Div Paid (inc tax)	-	-	-	-	-	(15)	(18)
others	-	-	-	-	-	-	-
<b>CF from Fin. Activities</b>	<b>2</b>	<b>103</b>	<b>18</b>	<b>4</b>	<b>4</b>	<b>(17)</b>	<b>(22)</b>
Inc(Dec) in Cash	46	(35)	(28)	(33)	16	4	(11)
<b>Add: Opening Balance</b>	<b>41</b>	<b>87</b>	<b>102</b>	<b>84</b>	<b>50</b>	<b>66</b>	<b>70</b>
Add: FD with Maturity > 3 months	-	50	10	-	-	-	-
<b>Closing Balance</b>	<b>87</b>	<b>102</b>	<b>84</b>	<b>50</b>	<b>66</b>	<b>70</b>	<b>59</b>

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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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