Mahindra Logistics Ltd

October 3, 2018

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STOCK BROKING PVT. LTD.

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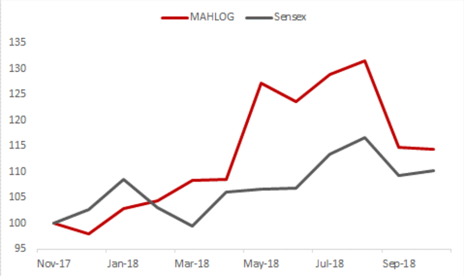
ACCUMULATE	
Current Price	512
52 Week Range	654/405
Target Price	615
Upside	20%

Key Share Data	
Market Cap (Rs.bn)	36.38
Market Cap (US$ mn)	498
No of o/s shares (mn)	71.1
Face Value	10
Monthly Avg. vol (BSE+NSE) Nos	52,466
BSE Code	540768
NSE Code	MAHLOG
Bloomberg	MAHLOG:IN

Price performance



% Shareholding	June-18	Mar-18
Promoters	61.05	61.05
Institutions	20.05	19.98
Others	18.90	18.97
Total	**100.0**	**100.0**

MAHINDRA LOGISTICS- MLL

Rs 325bn Opportunity growing at 19-20%: Total Logistics market size in India is Rs 6.4 trillion of which 3PL business is ~6% at Rs 325bn (relevant to MLL) expected to grow at CAGR of 19-20% over FY17-20. Mahindra Logistics at Rs 34bn has a long way to go.

Transformational year for Logistics with big policy decisions; introduction of GST, plans for 35 Multi-modal parks and Infra Status key benefits for growth: Introduction of GST will gradually lead a shift from unorganized to organized, governments plan to open 35 Multi-modal parks to cover 50% of freight and Infra Status would help to decrease cost of funding for more REIT's to invest in Warehouse. This will help India's logistic sector cost to come in 10% range which is the global efficient average.

MLL Strengths: MLL is one of the largest 3PL player in India with revenue of Rs 34bn+ for FY18; 15,000+ workforce; network of 24 offices with 350+ operating locations and 20 Network Hub; Warehouse spread across 13.mn sqft (with the ability to run a single warehouse as large as 0.4mn sqft) and 50+ stockyards; 1500+ Business partners

Brand Mahindra: Mahindra eco-system helps MLL to connect with Top-management of company's where-in the sale of high margin value added services would happen.

Non- MNM business to grow to 50%, will aid to sustain revenue growth and increase scope of margin improvement: MLL's non-Mahindra SCM business is spread across Auto Engineering, consumer & pharma, e-Commerce & bulk having equivalent revenue contribution. Mahindra business which was at 90% in FY09 has reduced to ~54% by FY18 and expected to reduce further to 50% in next 2-3-year period. We believe this will help the company to diversify from core auto parental business to others and increase scope of margin expansion.

Gross Margins Expansion: Rise in Non-Mahindra business, increasing of solutions with existing clients, rise in warehouse space (which has higher margins) along with full utilization of existing space from March-2018 (Gurgaon 2lac sqft now fully utilized) would lead to improvement in margins. Also, most of the business is on contractual basis which provides sustainability to existing margins.

Enough room for growth in top 20 Clients contributing ~67% of Non- MNM business: Revenue contribution from top-20 clients is ~67% as MLL is a solution provider rather than just services. The current penetration is at 50% with these and hence the scope of revenue expansion from these existing clients at least 80%.

Asset Light Business Model with low capex requirement: MLL has a unique 'Asset-light services led' business model, pursuant to which assets necessary for operations such as vehicles, warehouses and manpower are provided by business partners. This enables MLL to offer a variety of flexible scalable solutions and services based on client's requirement and handle complexities that are unique to the Indian logistics industry.

We recommend investors to Accumulate Mahindra Logistics Ltd with a target price of Rs 615 i.e. an upside of 20% based on our weighted average target price model giving 30% weightage to PE method and 70% weightage to DCF.

FINANCIALS

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY16	20,639.3	6.9	585.0	2.8	399.3	(0.6)	6.7	76.6	13.2	15.4
FY17	26,665.9	29.2	968.2	3.6	600.4	50.4	8.8	57.9	17.3	21.9
FY18	34,161.2	28.1	1,297.3	3.8	705.0	17.4	9.9	51.6	16.8	24.7
FY19E	40,626.5	18.9	1,723.9	4.2	993.0	40.9	14.0	36.6	19.8	28.0
FY20E	48,366.4	19.1	2,374.1	4.9	1,391.5	40.1	19.6	26.2	22.5	32.2

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BACKGROUND

Mahindra Logistics Ltd (MLL), incorporated in 2008, is end-to-end logistics solution and service provider. Mahindra logistics was a part of Mahindra and Mahindra Ltd., before 2008 serving transportation and distribution, warehousing, freight forwarding and supply chain services.
In November 2017 the company **got listed** on both exchanges, through an IPO of Rs.8293.6 Mn with issue price of Rs. 432 which got listed at a marginal low end of Rs. 429.

Key Strengths: MLL is one of India's largest 3PL player with 15,000+ workforce (20 people in the Sales-team each vertical has sales head and below them they have 4to 5 senior people more); network of 25 offices with 350+ operating locations and 20 Network Hub; Warehouse spread across 13mn sqft (with the ability to run a single warehouse as large as 0.4mn sqft), In-factory stores and line feed at 35+ manufacturing locations across India and 50+ stockyards

Business:
Company provides supply chain management (SCM) and (PTS) people transportation solutions and services across India operating in the IT, ITeS, business process outsourcing, financial services, consulting and manufacturing industries. SCM and PTS has a huge network, covering 200 companies in SCM and 100 in PTS business with over 1500+ business partners in total SCM also operates in-factory stores and line-feed at over 35 manufacturing locations, which gives MLL good experience and huge opportunity to grow in this business line as well.

2 Subsidiaries
Company has 2 subsidiaries, **2X2 Logistics**, that provides logistics and transportation services to OEMs to carry finished automobiles from the manufacturing locations to stockyards or directly to the distributors through specially designed vehicles. The company owns 152 car carriers under this business. Opportunistic business since the company has captive business of MNM and also does it for another OEM's.

Another subsidiary is **Lords**, which provides international freight forwarding services for exports and imports, customs brokerage operations, project cargo services and charters.

MLL to increase its stake by 8.69%, which company is currently holding 60% stake. For additional stake of 8.79% MLL will be spending about Rs.1.86 crore, where initially for 60% stake company invested Rs. 8crore. Total investment post the additional acquisition will be of Rs. 9.86 cr.

Stake acquired in TLPL: Transtech Logistics Private Limited (TLPL) TLPL has built a technology platform SAAS (Software as a Service), that serves the supply chain automation needs for 3PLs, shippers and transporters. TLPL operates from Bangalore, India under the brand name "ShipX". MLL has been a customer to ShipX for more than three years and using the product for its Supply Chain Management ("SCM") Vertical. The Company would acquire up to 115,554 Compulsory Convertible Preference Shares and 100 Equity shares with total investment on Rs. 7 crores. The proposed investment in TLPL, which has built a technology platform, is expected to bring operational efficiencies in SCM function of the Company. Further, it would also provide opportunities to the Company to offer technology solutions to its customers and business partners. This is part of the larger end-to-end digitization plan for the company.

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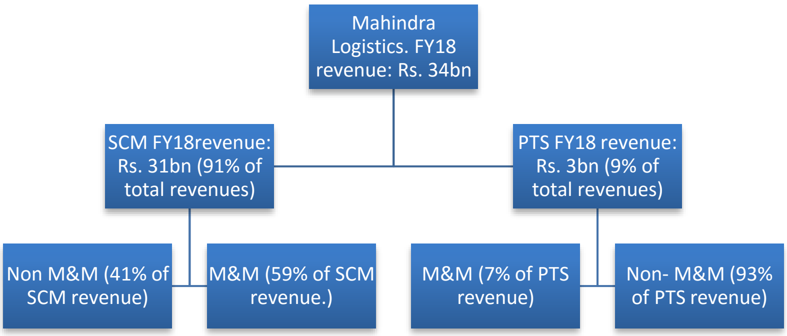
Sales Mix as per FY18:



INDUSTRY & OPPORTUNITY SIZE:

Overall Logistics is at Rs 6.4tn to grow at 13% CAGR reaching 9.2tn by 2020: As per CRISIL Report Indian logistics industry comprising segments such as road freight, rail freight, coastal freight, warehousing, cold chain and container freight stations and inland container depots (CFS/ ICD) is estimated at Rs 6.4 trillion in Fiscal 2017 which is expected to grow at a CAGR of ~13% to Rs 9.2 trillion by Fiscal 2020, dominated by transportation, which accounts for approximately 88%, and its share is expected to remain high over the next 3-4 years supported by investments of ~Rs 10.3 trillion in roads (national highways, state roads and rural roads) between Fiscals 2018 and 2022 (as per Crisil report)

Logistic Costs to be reduced to less than 10%: According to Press Information Bureau ("PIB"), as at May 2017, India's logistics cost as a percentage of GDP is 13-14% which makes products costlier and exports un-competitive. Government target is to bring this down to less than 10% of GDP (US spends 9.5% and Germany 8%), increase jobs in the sector from 22mn in FY16 to 40mn by FY19.

As per World Bank's Logistic Performance Index India's rank rose from 54 in 2014 to 35 in 2016 and target is to reach 15th rank.

Some of the important ongoing projects include "Logistics hub and Road Project", "E-Toll", "Dedicated Freight Corridor", "Delhi Mumbai Industrial Corridor", "Port Community System", "River Waterways", "Common user cargo terminals, air cargo community system, cargo hubs"
India is one of the fastest growing economies in the world. Public sector spending has increased at a CAGR of 8.30% during the period between Fiscal 2012 to Fiscal 2016 thus improving logistic costs is need-of the hour additionally it is a key to Make in India.

GST- An opportunity for organized players: GST is mainly focused on supply chain efficiency and not on state-wise tax benefits. With this over a longer period logistics industry is going to benefit the most, leading to increase in business opportunities for organized players operating large sized warehouses in key geographies.

The implementation of GST have three major implications for the logistic sector – a) consolidation of warehousing network and a shift towards a 'hub and spoke' model, b) higher degree of tax compliance with business moving away from un-organized transportation service providers to organized sector and c) creation of level playing field between Express and traditional transport services providers by virtue of access to input tax credit.

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Further consolidation of warehouses (from smaller go-downs to larger warehouse) will give benefit to larger players like MLL, as players like MLL have the ability in-terms of process and technology investments; and being from Mahindra family the company would get attraction from client side and larger warehouses can be operated efficiently. Consolidation would further lead to reduction is cost per square feet and shift from 9ton trucks to 16ton trucks (abroad it is 25-ton trucks for better efficiency), which would further reduce cost per KM**.**

With successful implementation of GST, company took possession of two multi-product, multi-user warehouses in Gurgaon and Chakan. At present Gurgaon is at optimal level utilization where the plan is to expand our warehouse capacity in Delhi, as company is getting huge demand in that region and Chakan is at beginning level where the benefit will come at the end of Q2FY19. In Q1FY19 company launched 2 new business for marque customer L'Oréal for warehousing and secondary distribution. Further MLL plans to expand its warehouse business in Bangalore and Chennai region.

Post GST logistics business is more about setting up regional distribution centers with distributing the goods to a much larger area than what was happening before, so now customers who were good with us are now insisting on integrating our IT systems with their ERPs, so it is two things that happen when you do that. One is you get stickiness with the customer because once you kind of get your IT systems linked up, it is very-very expensive and difficult to move away unless of course you do not give the right service. But getting the integration process takes a lot of time and that is what company is experiencing in the first quarter.

Infrastructure Status: Crucial Policy Decision in favor of the logistics sector: Logistics sector (which includes industrial parks, warehouses, cold storages and transportation) was given the infrastructure status, which likely to attract more funding at competitive rates for the identified warehousing projects, on a long-term basis; as rising logistics cost impacts global competitiveness of exporters. Government has also made some structural change which will help in coordination between ministries and departments.

E-way bill: E-way will simplify the documentation for interstate movement with uniform structure across the country. For entire inter-state movement only one E-way bill is required even though cargo passes through multiple states and multiple modes. Time taken for transporting the goods already produced and waiting at the warehouse can be reduced drastically as the bill will be produced at the origin itself. The removal of check post is expected to reduce travel time for the trucks. Indian trucks' productivity is very low (200 km per day) whereas it is expected to increase to ~350 km per day through reduction of congestion and electronic toll collection. Global productivity of ~600-800km per day in developed countries.

It will improve self-compliance with matching data of outward and inward supply and collection of input tax credit and also expected to reduce intervention of officials and increase use of technology to facilitate faster movement of goods.

Additionally, Sagarmala, Bharatmala and increase in number of regional airlines would increase connectivity of small regional areas via smaller aircrafts.

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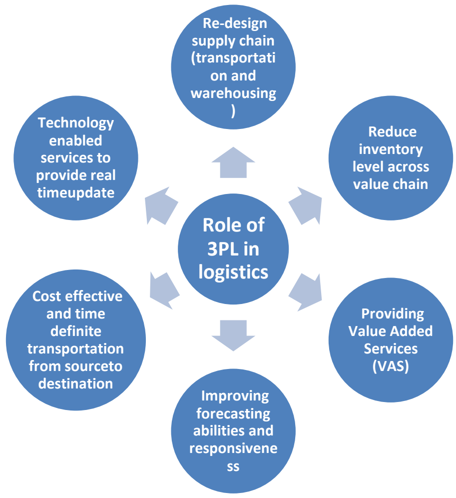
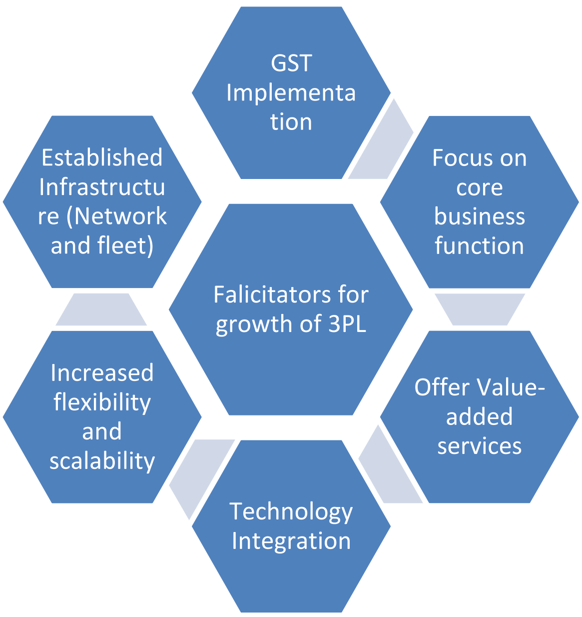
3PL to grow at CAGR of 19-21%: 3PL business in India is ~6% of the total Rs 6.4 trillion logistic market, at Rs 325bn (relevant to MLL), which is 95% unorganized and expected to grow at CAGR of 19-21% over FY17-20 to reach Rs 570-580 billion by Fiscal 2020.This is much higher than the 13% CAGR in the overall logistic sector. Mahindra Logistics at Rs 34bn has a huge opportunity to grow.

GST will lead demand for other services like value-added warehousing to increase. Thus, 3PL becomes an attractive sub segment on account of its characteristics i.e. asset light model (yet having high entry barriers due to difficulty in setup of network and establishing track record).



Growth facilitators 3PL



3PL in India is mainly concentrated (~77%) on transportation services much higher than global operators like China which has 54% on transportation services and USA which is at 63%.

The share of 3PL in the overall logistics spend of the segments stated below is expected to increase from ~21% in Fiscal 2017 to ~25% in Fiscal 2020.

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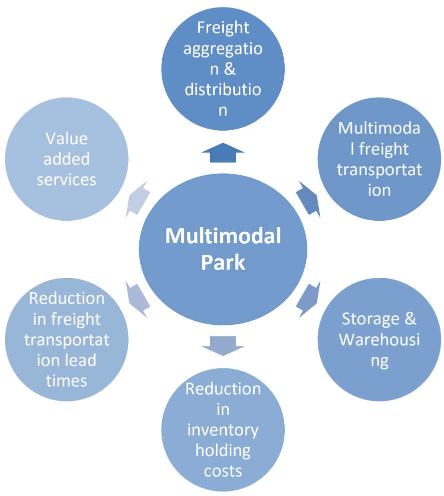
Sector	3PL Market size in FY17 (Rs. In billions)	3PL Market size in FY20 (Rs. In billions)	CAGR between fiscals 2017 to 2020 (%)
Automotive components	108-112	165-170	14-16
Cars and UV'	66-68	119-121	20-22
Commercial vehicles and tractors	25-27	33-35	8-10
2 & 3 wheelers	54-56	81-83	13-15
Engineering	3-5	6-8	20-22
E-commerce	59-62	135-140	30-32
Consumer durables and FMCG	20-22	39-43	24-26
Pharmaceuticals	22-24	29-31	8-10
Bulk	8-10	10-12	6-8
Organized Retail	27-29	60-62	29-31
Telecom	0.2-0.4	0.2-0.4	-

Government Focus increased to improve Make in India: Government has appointed Special Secretary Logistics, as well as a Department of Logistics has been formed under the Commerce Ministry. More importantly, focus by the Government is on reducing the cost of logistics and specific measurable parameters have been declared for the same.

The government also plans to set-up **Multimodal Logistics parks** in-order to make logistics spends efficient at less than 10% in line with other efficient countries: The Ministry plans to develop 35 Multimodal Logistics Parks (MMLPs) in India which will, cater to 50% of the freight movement, enabling 10% reduction in transportation costs and 12% reduction in C02 emissions. Land parcels have been identified and pre-feasibility studies initiated on six of these locations. The government is also working to formulate a uniform policy for the development of MMLPs.



Multi-modal Park: Multi-Modal Logistics Park (MLP) is basically as a multi-modal freight-handling facility with a minimum area of 100 acres comprising mechanized warehouses, specialized storage solutions such as cold storage, facilities for mechanized material handling and inter-modal transfers container terminals, bulk / break-bulk cargo terminals. In addition, a Multi Modal Logistics Park is expected to provide value added services such as customs clearance, provisions for late stage processing activities such as sorting / grading and cold chain, aggregation / disaggregation, etc. to handle freight. Multimodal park will head towards as seen in chart;

Anchor Client: Mahindra group gives good visibility in-terms of future growth. Approximately 96% of Mahindra's requirement is fulfilled via MLL logistics.

Anchor Industry: Automotive

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High Retention Rate for top 25 non-Mahindra Group clients in SCM business remained at 92.0% between Fiscals 2015 and 2017: MLL started relationship with this client by providing basic transportation and warehousing services. Over the years, it expanded its services in new geographies, and added services such as in-factory logistics.

Asset Light Approach:

MLL operate its business on the basis of an "asset-light" business model which enables it to offer a variety of flexible, scalable, solutions and services based on client's (from diverse set of industry verticals) requirements and handle complexities that are unique to the Indian logistics industry.

Management of any fluctuations in demand can be managed more efficiently and minimize any adverse effects resulting from cyclical movements.

The Mahindra brand and company's experience in the logistics industry have enabled it to build long-standing relationships with a large number of business partners who provide the operating assets they use for SCM and PTS businesses.
We have strength of 1000 business partners in SCM and 500 in PTS to fulfill the requirement. MLL has been partner with them and grow them along with it.

An "asset-light" business model also helps us reduce capital expenditure requirements, mitigate the effects of operational risks relating to direct fuel costs, maintenance costs and depreciation in addition to reducing the effect of any risks emanating from changes in laws and regulations.

Asset Light business model helps both MLL as well as customers in-terms of high return on equity, low capex, lower working capital requirement for MLL and scalable solution (both upwards and downwards), flexible customized solutions that meet specific needs for the customers.

In case of warehouse MLL has 13mn+ sqft which is either on back to back lease basis with the customer or on upfront lease (only in Gurgaon and Chakan)

Asset Light model has helped the company to maintain the ROCE at +20%.

IT infra: Consistent investments in technology over the past several years and addition to investments in software systems, MLL has invested in building the capabilities of its technology team. Going forward, MLL will focus on the areas, which MLL could operate, by providing "software as a service offering" on a cloud-based platform.

People Management: MLL conducted driver training for people, working for Mahindra Logistics & others, under Pradhan Mantri Kaushal Vikas Yojana (PMKVY). Target is to train 10,000 drivers across India, in FY19.

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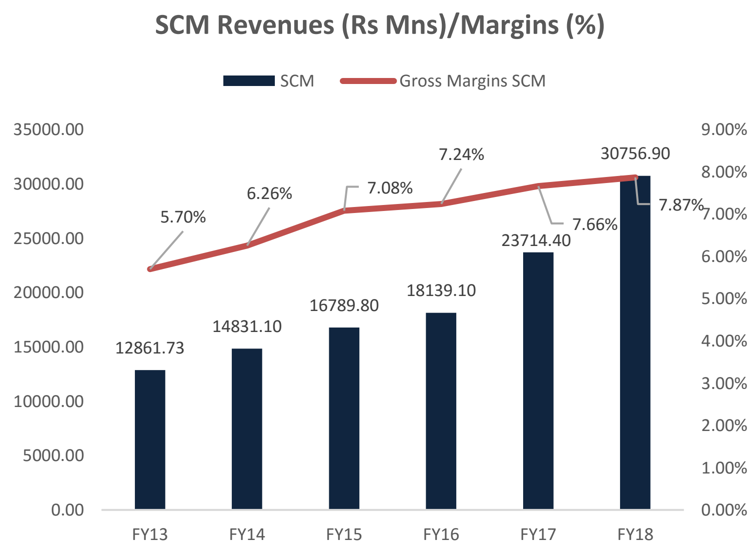
SCM (Supply Chain Management) BUSINESS (91% FY18 Revenues)



Currently at 6-7% market share in Supply Chain Management (SCM) business, MLL has huge opportunity to grow.
SCM business spans across 4 main verticals i.e. Auto & Engineering, Consumer & Pharma, Ecommerce and bulk.

MLL offers customized and end-to-end logistics solutions and service including transportation and distribution, warehousing, in-factory logistics and value-added services. It has PAN India network comprising 24 city offices and over 350 clients in operating locations, it also serves 200 domestic and multinational companies operating in several industry verticals in India. Over 1,000business partners as on Q1FY19, providing vehicles, warehouses and other assets and services for MLL's SCM business.

As of now MLL manages over 13million+ square feet of warehousing space spread across pan-India network with almost 100% utilization in Gurgaon and Chakan being in initial stage to give benefit by the end of Q2FY19 for multi-user warehouses, built-to-suit warehouses, stockyards, network hubs and cross docks. MLL operated in "in-factory stores" and line-feed at over 35 manufacturing locations. Certain key clients for SCM business include Volkswagen, Thermax Limited, JSW Steel Ltd., Ashok Leyland, Siemens Ltd., Bosch Ltd., BMW India Pvt. Ltd., Mercedes-Benz India Pvt. Ltd etc.

SCM's revenue between FY13 to FY18has been growing at a CAGR of 19%. Company's endeavor to penetrate and enhance relationships with existing customers has enabled it to achieve this growth.

MLL's non-Mahindra SCM business is at 41% of SCM in FY18 (grown from 21% in FY15) which spread across Auto Engineering, consumer & pharma, e-Commerce & bulk having equivalent revenue shares contribution. This business between FY15 to FY18 has been growing at a CAGR of 52.8%. Around 9 years back the spread was 90% Mahindra and 10% non-Mahindra, and the Non-Mahindra business aided by the Mahindra brand. Also, Mahindra businesses base was a good starting point to get businesses from other in-terms of showcasing the services end to end value MLL would add.

Warehousing value-added services to escalate to 20% from the current levels of 16% of SCM that would improve margins. Gurgaon facility now fully utilized that would also improve margins going forward.

Gross margins in the SCM business has improved from 7.1% in FY15 to 7.87% in FY18.

Enough room for growth in top 20 Clients contributing ~66% of Non- MNM business: Revenue contribution from top-20 clients is ~66% as MLL is a solution provider rather than just services. The current penetration is at 50% with these and hence the scope of revenue expansion from these existing clients is at least 80%.

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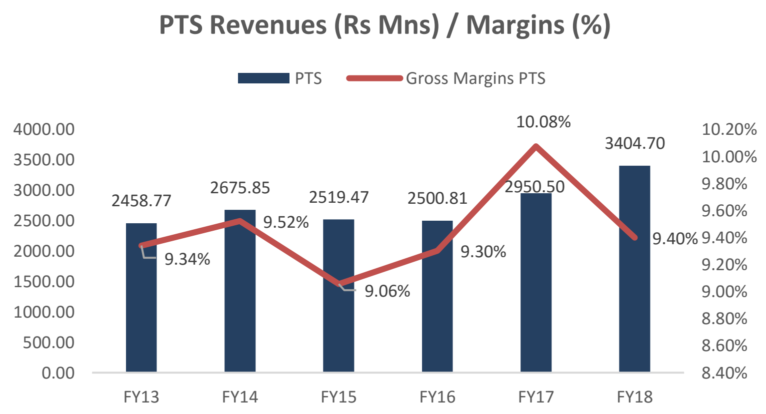
PTS (People Transport Solution) Business (9% FY18 Revenues)



Rs.85-95 billion size opportunity by FY20: PTS industry is driven by IT and ITeS sectors which had market of Rs. 65-75 billion in FY17 and is expected to grow at a CAGR of 8.5%-9.5% by FY2020 to Rs.85-95 billion size opportunity. The IT and ITeS sectors, with an estimated employee base of approx. 3.8 million in FY17 are biggest users of PTS industry in India.

Certain key clients include Tech Mahindra Ltd., AXISCADES Engineering Technologies Ltd., ANZ support services India Pvt. Ltd. Etc.

PTS business has been growing at a CAGR of ~6.7% over FY13 to FY18.Gross margins within the same period has de-grown from 10.1% to 9.4%. Contraction in Gross Margins was largely due to the loss-making shuttle bus pilot project which is discontinued since January 2018.

FINANCIALS:

MLL revenues has been growing at a CAGR of ~17.4% over FY13 to FY18 to Rs 34161.2mn.
FY18 being an adaption year for the industry for GST, E-Waybill, plan to open 35 Multimodal park and Infra-Status are big drivers for MLL whose is one of largest 3PL player.
We expect going forward overall business to grow at a CAGR of 18.2% between FY18 to FY21. This would be aided by 18.9% CAGR growth in SCM business and 11.6% in PTS business.

Margins:

MLL current margins are~3.5%; with rise in warehousing &value-added services it would improve to 4.7% in FY20. The margins are in low single digit mainly on account of its 3PL business model where-in the core business income starts from Gross margins levels as all other costs are just a pass through hence income earned for management and value-added services in logistics is the core.

MLL margin improvement are sustainable on a long-term basis; as MLL's warehousing in-factory logistics value added services contracts are generally three to five years. Transportation contracts are annual, but these are renewed annually. MLL churn is hardly 7%, hence 92-93% would repeat. MLL does not do any spot business, so they are not in the spot market, they only do business which is contractual in nature. Hence smaller fluctuations in freight costs would not impact margins. Additionally, fuel costs are fully pass-through for them.

As the contribution of warehouse &value-added services increase with penetration within the existing clients the margins will automatically follow. Broadly gross margins in-case of transportation is 6-8% and warehousing & other value added would be 12-to-20%.

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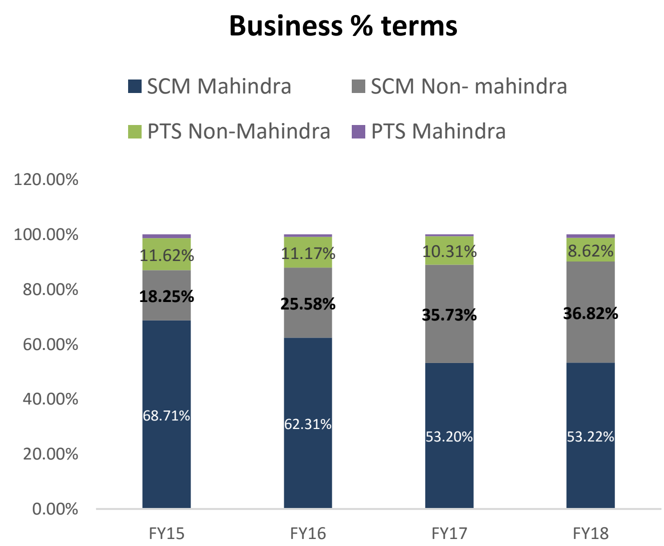
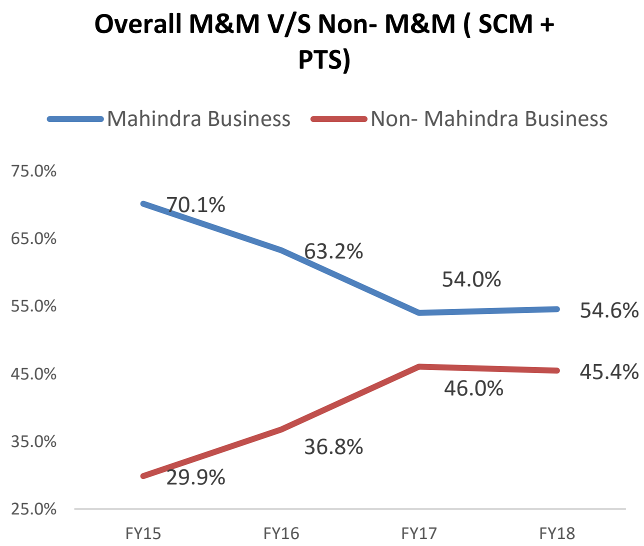
Other cost-effective measures: Reduction in energy and costs via initiatives taken by teams through Kaizen at warehouses. Energy efficiencies through LED lighting, Warehouse designs for natural lighting and ventilation.

Non-Mahindra business increases:





Mahindra business which was at 90% in FY09 has reduced to ~53% by FY18 and expected to reduce further to 50% in next 2-3-year period. We believe this will help the company to diversify from core auto parental business to others and increase scope of margin expansion.

EBIDTA has been growing at a CAGR of 27% between FY13 to FY18 to Rs 1297mn. Going forward this is expected to grow at CAGR of 30.2% on account of rise in warehousing and value-added business. MLL is net debt-free (standalone business which is majority portion of the business) and hence there is no incremental interest cost going forward.
PAT has been growing at a CAGR of 17.2% between FY13 to FY18 and is expected to grow at a CAGR of 40.6% going forward supported by all the above operational factors.
Capex: MLL being an Asset light company has low capex requirement hence spend for the FY19 is expected to remain in the range of Rs 200 to Rs 250mn.

Working Capital Improvement: MLL's Working capital has been impacted in the current year on account of unbilled revenue and pending TDS refund claims. The management mentioned that with GST settling in, unbilled revenues have declined by 40% in Q3FY18 and have been recognized as receivables to be eventually realized as per the receivables cycle.

The company has started to receive TDS, where in Q1FY19 company received Rs. 177mn which includes interest of Rs. 19mn refunds, which would help improve operating cash flows.

Further implementation of e-way bill is helping for quick validate service and revenue claims with clients and thus reducing unbilled revenues.

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Strong Free Cash Flows:
MLL generated Rs472mn Free Cash Flows for FY18 and going forward this is expected to grow at 66% CAGR to Rs 1,782 mn between FY18 to FY21.This is mainly on account improvement in EBIDTA and very low capex requirement (due to 3PL business model).
MLL ROE and ROCE for FY18 stood at 15% and 25% respectively, asset light model and net-debt free status and improving operational performance would lead these ratios to improve to 23% and 31% respectively. MLL would be generating free cash flow of Rs 1,722mn by FY20.

Q1FY19: Q1FY19 revenues grew by 9% YoY to Rs 9281.9mn supported by healthy growth from existing clients. EBIDTA increased by 53% YoY to Rs 405.1mn and EBIDTA margins stood at 4.36% as against 3.11% last year. MLL recorded Net Profit of Rs 240.10 Mn (excluding non-controlling interest) registering a growth of 62% YoY.

Q1FY19 Segment wise:
SCM business grew by 9.4% to Rs 8382.2mn and gross margins improved to 8.50% v/s 7.31% YoY. SCM Non- Mahindra business grew by 6.1% to Rs 3170mn.
PTS business stood at Rs 900mn registering 4.4% YoY growth and gross margins stood at 10.62% v/s 10.05% Y-o-Y, decline in PTS gross margin was largely due to the losses of our shuttle bus pilot service which we have now discontinued.

OUTLOOK: MLL as one of the largest 3PL players in India is well positioned to sustainably register high-growth in the years to come. Big transformations for the logistics industry because of GST, infra status and other policy decisions has opened a huge opportunity for organized 3PL players like MLL. MLL with its asset light business model has multiple levers for it to outperform industry growth in Non-Mahindra business. MLL's Mahindra business will grow in line with the Mahindra group and the Non-Mahindra's business has huge opportunity to grow within the top 20 clients that contribute 67% of revenues with 50% penetration as on date.

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VALUATION

DCF Calculation

Particulars	FY15	FY16	FY17	FY18	FY19e	FY20e	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e
EBIT	622	634	919	1,159	1,550	2,157	2,566	3,135	3,768	4,369	5,197	6,052	7,244	8,509	10,078
EBIT (I-T)	416	425	616	776	1038	1445	1719	2100	2524	2927	3482	4055	4854	5701	6752
Dep	60	83	146	197	242	297	360	432	514	604	566	653	592	661	731
NOPAT	476	508	762	974	1281	1742	2079	2533	3038	3531	4048	4708	5445	6362	7483
Capex	-15	-334	-262	-247	-256	-306	-356	-406	-456	-506	-581	-606	-606	-606	-606
Change in WC	25	-723	-546	-270	-826	273	45	-361	302	-391	-461	-544	-1219	-848	-1001
FCFF	487	(550)	(46)	457	199	1,709	1,769	1,766	2,884	2,635	3,007	3,558	3,621	4,908	5,876
FCFF Growth Rate		-213%	-92%	-1096%	-56%	757%	3%	0%	63%	-9%	14%	18%	2%	36%	20%
Weights		0	0	0	0	1	2	3	4	5	6	7	8	9	10
Cost of Capital %	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%
	1	1	1	1	1	0.89	0.80	0.72	0.64	0.57	0.51	0.46	0.41	0.37	0.33
PV FCFF	487	(550)	(46)	457	199	1,529	1,416	1,265	1,848	1,511	1,542	1,633	1,487	1,803	1,931

Sum of PV of FCF	**15965.1**
Calculation of Terminal Value	
Terminal Growth Rate	5%
Terminal Year Free Cash Flow	6169.9
Terminal Value	90958.4
PV of Terminal Value	29859.2
Enterprise Value	45824.2
Add: Cash & Investments	1350.9
Less: Debt	(266.0)
Market Capitalisation	46909.2
No. of shares	71.1
Value per share	**659.4**
CMP	**511.0**
% upside	**29.0**

WACC for explicit forecast Growth

Expected Market Return (Rm)	14.0%
Risk Free Rate (Rf)	7.5%
Market Risk Premium	6.5%
Beta	0.7
Cost of Equity	11.8%
Cost of Debt	10.0%
Tax rate	33.0%
Post Tax Cost of Debt	6.7%
Long term debt to capital ratio	0.0%
WACC	**11.7%**
Debt	265.9
Equity	36354
Total	36619

WACC for terminal growth

Expected Market Return (Rm)	14.0%
Risk Free Rate (Rf)	7.5%
Market Risk Premium	6.5%
Beta	0.7
Cost of Equity	11.8%
Cost of Debt	10.0%
Tax rate	33.0%
Post Tax Cost of Debt	6.7%
Long term debt to capital ratio	0.0%
WACC	**11.8%**

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Particulars				EPS Rs		P/E		EV/EBIDTA	
Name of the Company	**CMP**	**NO. of Shares**	**M.Cap (Rs Mns)**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**
Blue Dart	2940	23.72	69743	70.2	92.4	41.9	31.8	23.5	19.1
Future supply chain logistics	657	40.1	26293	23.8	32.8	27.6	20.0	16.3	12.6
TCI Express	569	38.3	21777	17.9	21.4	31.7	26.6	19.9	16.7
Mahindra Logistics	512	71.1	36388	14.0	19.6	36.6	26.2	20.5	14.2
AVERAGE						**34.5**	**26.2**	**20.0**	**15.6**

Weighted Average Target Price	Multiple	Target Price	Assigned	Price	Comment
Target Price Using PE Multiple	26.2	511.5	30%	153	Average PE of peers for FY20 is 26x
DCF		659	70%	462	Based on Calculation
Target Price				615	

At CMP of Rs 512 MLL trades at 36.6x FY19e EPS of Rs 14 and 26.2x its FY20e EPS of Rs 19.6.

MLL is truly based on 3PL model which has very low capex (as even in case of warehouse tie-ups, it is a back to back long-term contracts) compared to other listed logistic players including company's which have express business, hence valuing MLL on DCF based approach becomes more relevant.

We recommend investors to **Accumulate** Mahindra Logistics Ltd with a target price of Rs 615 i.e. an upside of 20% based on our weighted average target price model giving 30% weightage to PE method and 70% weightage to DCF.

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P&L (Rs mn)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**	**FY21E**
Net Sales	20,639.3	26,665.9	34,161.2	40,626.5	48,366.4	56,391.3
Freight Expenses	(16,554.7)	(20,939.6)	(26,785.0)	(31,851.2)	(37,725.8)	(43,985.2)
Employee Cost	(1,508.9)	(1,883.0)	(2,291.2)	(2,703.6)	(3,109.2)	(3,637.7)
Other Expenses	(1,990.8)	(2,875.1)	(3,787.7)	(4,347.8)	(5,157.4)	(5,998.9)
Operating Profit	**585.0**	**968.2**	**1,297.3**	**1,723.9**	**2,374.1**	**2,769.5**
Depreciation	(83.0)	(146.0)	(197.3)	(242.5)	(296.7)	(359.9)
PBIT	502.0	822.2	1,100.0	1,481.4	2,077.4	2,409.5
Other income	131.9	96.5	58.8	68.2	79.2	156.5
Interest	(13.0)	(35.0)	(37.7)	(38.3)	(38.9)	(39.5)
PBT	620.9	883.7	1,121.1	1,511.3	2,117.7	2,526.4
Extraodinary Fixed term consultant fees	61.6	205.7	100.0	-	-	-
Profit before tax (post exceptional)	559.3	678.0	1,021.1	1,511.3	2,117.7	2,526.4
Provision for tax	(199.8)	(217.5)	(368.4)	(498.7)	(698.8)	(833.7)
Reported PAT	**359.5**	**460.5**	**652.7**	**1,012.6**	**1,418.9**	**1,692.7**
MI	6.0	(4.8)	(12.6)	(19.5)	(27.4)	(32.7)
Net Profit	365.5	455.7	640.1	993.0	1,391.5	1,660.0
Adjusted Profit (excl Exceptionals)	**399.3**	**600.4**	**705.0**	**993.0**	**1,391.5**	**1,660.0**

Cash Flow St. (Rs. mn)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**	**FY21E**
Net Profit	399.3	600.4	705.0	993.0	1,391.5	1,660.0
Add: Dep. & Amort.	83.0	146.0	197.3	242.5	296.7	359.9
Cash profits	**482.3**	**746.4**	**902.3**	**1,235.5**	**1,688.2**	**2,020.0**
(Inc)/Dec in						
-Sundry debtors	(458.3)	(1,668.5)	(1,079.6)	(984.2)	(440.9)	(326.8)
-Inventories	-	-	-	-	-	-
-Loans/advances	(170.0)	20.0	250.0	-	-	-
- Other Current Assets	(259.5)	(629.0)	(409.2)	(281.2)	(328.5)	(384.0)
'-Current Liab and Provisions	127.0	(32.4)	99.0	67.0	77.1	88.7
Sundry Creditors	37.4	1,764.3	870.2	372.7	965.7	667.4
Change in working capital	(723.3)	(545.6)	(269.6)	(825.8)	273.4	45.3
CF from Oper. activities	**(241.1)**	**200.8**	**632.7**	**409.7**	**1,961.5**	**2,065.3**
CF from Inv. activities	**75.3**	**(143.9)**	**(159.6)**	**(250.0)**	**(300.0)**	**(350.0)**
CF from Fin. activities	**(18.9)**	**(391.2)**	**(314.7)**	**30.3**	**(59.1)**	**(125.7)**
Cash generated/(utilised)	**(184.7)**	**(334.3)**	**158.4**	**190.1**	**1,602.4**	**1,589.6**
Cash at start of the year	1,021.0	836.3	502.0	660.3	850.4	2,452.8
Cash at end of the year	836.3	502.0	660.3	850.4	2,452.8	4,042.4
	-	-	-	-	-	-

Balance Sheet	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**	**FY21E**
Equity capital	598.2	680.0	711.4	711.4	711.4	711.4
CCPS	408.9	-	-	-	-	-
Reserves	2,010.9	2,796.6	3,484.6	4,313.8	5,475.7	6,861.8
Net worth	**3,018.0**	**3,476.6**	**4,196.0**	**5,025.2**	**6,187.1**	**7,573.2**
MI	29.4	47.9	69.5	89.0	116.4	149.1
Non Current Liabilites	341.1	328.6	328.4	350.6	376.0	405.3
Current Liabilites	2,526.3	4,314.9	5,266.1	5,687.7	6,709.2	7,440.5
TOTAL LIABILITIES	**5,914.7**	**8,167.9**	**9,860.0**	**11,152.5**	**13,388.8**	**15,568.2**
Non Current Assets	1,070.0	1,469.0	2,018.5	1,887.1	1,786.9	1,705.5
Fixed Assets	480.3	578.7	621.1	628.6	631.9	622.0
Goodwill	43.3	43.3	43.3	43.3	43.3	43.3
Non Current Investments	0.2	0.2	-	-	-	-
Deferred Tax Asset	87.6	131.9	141.1	144.0	144.0	144.0
Long Term Loans and Advances	-	-	-	-	-	-
Other Non Current Assets	458.7	714.9	1,213.0	1,071.1	967.7	896.2
Current Assets	4,844.6	6,699.0	7,841.5	9,265.4	11,601.8	13,862.6
Current investments	680.9	580.4	500.5	500.5	500.5	500.5
Inventories	-	-	-	-	-	-
Trade Receivables	2,452.3	4,120.8	5,200.4	6,184.6	6,625.5	6,952.3
Cash and Bank Balances	836.3	502.0	660.3	850.4	2,452.8	4,042.4
Short Term Loans and Advances	270.0	250.0	-	-	-	-
Other Current Assets	605.2	1,245.8	1,480.3	1,729.9	2,023.0	2,367.4
TOTAL ASSETS	**5,914.7**	**8,167.9**	**9,860.0**	**11,152.5**	**13,388.8**	**15,568.2**

Ratios	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**	**FY21E**
OPM	2.8	3.6	3.8	4.2	4.9	4.9
NPM	1.92	2.24	2.06	2.44	2.87	2.94
Tax rate	(35.7)	(32.1)	(36.1)	(33.0)	(33.0)	(33.0)
Growth Ratios (%)						
Net Sales	7	29.2	28.1	18.9	19.1	16.6
Operating Profit	(1.7)	65.5	34.0	32.9	37.7	16.7
PBIT	(6.2)	63.8	33.8	34.7	40.2	16.0
PAT	(0.6)	50.4	17.4	40.9	40.1	19.3
Per Share (Rs.)						
Net Earnings (EPS)	6.67	8.83	9.91	13.96	19.56	23.33
Cash Earnings (CPS)	8.1	11.0	12.7	17.4	23.7	28.4
Dividend	-	-	1.5	1.9	2.7	3.2
Book Value	50.4	51.1	59.0	70.6	87.0	106.5
Free Cash Flow	(9.0)	0.6	6.6	3.0	24.2	25.0
Valuation Ratios						
P/E(x)	**76.6**	**57.9**	**51.6**	**36.6**	**26.2**	**21.9**
P/B(x)	10.1	10.0	8.7	7.2	5.9	4.8
EV/EBIDTA(x)	50.1	35.1	27.4	20.5	14.2	11.6
Div. Yield(%)	-	-	0.3	0.4	0.5	0.6
FCF Yield(%)	**(1.8)**	**0.1**	**1.3**	**0.6**	**4.7**	**4.9**
Return Ratios (%)						
ROE	13%	17%	17%	20%	22%	22%
ROCE	15%	22%	25%	28%	32%	31%

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