



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Kunal Bhatia/ Nidhi Babaria

Management Meet update @ Dalal & Broacha

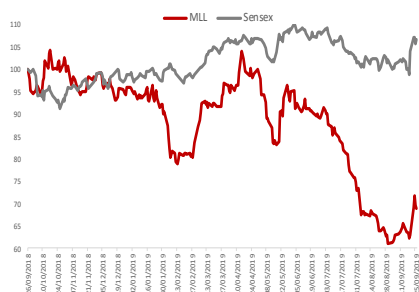
BUY

Current Price	375
52 Week Range	575/325
Target Price	493
Upside	31%

Key Share Data

Market Cap (Rs.bn)	26
Market Cap (US\$ mn)	377
No of o/s shares (mn)	71.45
Face Value	10
Monthly Avg. vol (BSE+NSE) Nos	63,075
BSE Code	540768
NSE Code	MAHLOG
Bloomberg	MAHLOG:IN

Price performance



We met up with Mahindra Logistics Ltd (MLL) and following were the Key; Takeaways:

Non- MNM- non- Auto business remains focus of expansion: (25% of revenues): MLL is continuously working towards increasing the share of this business by adding more consumer companies to its pie, Asian paints 1 lac sq-foot warehouse was a recent client-add in this space. This business was impacted in Q1FY20 on account of a business loss of a bulk-client , however festive season looks promising for Consumer & pharma and E-commerce (which together contribute ~17% of revenues) , management expects overall E-Commerce industry could hit record sales in the coming festive season and this would generate enough business for MLL to compensate the business loss on account of the bulk-client.

Expansion in manufacturing activity to aid growth: Government's move to cut tax rate for new manufacturing units and also easing FDI in contract manufacturing; would lead to rise in investment by FMCG MNC's in India. MLL's clients in NON-Auto space are mainly MNC's, thus future growth prospects remain bright.

Globally, complete **transition on account of GST** takes around 5-7-year period in-terms of warehouse consolidation and many other related activities hence the scope of work available is huge.

Digitization with differentiation: Digitization at hygiene level is already followed however MLL is putting in efforts to differentiate via activities such as optimum utilization, reduce re-seller shelf-life, increase multiple pin codes for its clients, deliver just-in-time, integrate warehouse with down- stream system. The company is also integrating its system with the client and create **Exit Barrier**.

The good part is all this would **not be at a high capex** cost as most of modules used are either on pay-per-use basis, built API charged to P&L (part of client's fees) or very specific licenses which are ~10-12% of overall capex.

Non MNM Auto business in-factory logistics, better margin v/s transportation: MNM has been able to reach one-notch up by getting the in-factory logistics work for few auto clients outside MNM that include Ashok Leyland, Volkswagen and General Motors. The company is also doing sub-part assembly to some extent.

Top 20 clients 64%: top 20 clients now contribute ~64% of the business which few years back was around 72% and the company would like to diversify going forward.

Working capital requirement would increase to strengthen relationship with truck drivers and build long-term relationship: The current scenario is tough due to slowdown in economic activity a) fleet miles has reduced, b) utilization has reduced c) billable time has come down post GST reducing check-posts d) vehicle cost has gone-up.

MLL has 2300 dedicated trucks and by helping them in this time by giving some leave way via advances would definitely help and build long term bonding.

Going forward in the short-to medium term period MNM SCM business i.e. ~55% of topline is expected to remain subdued however rise in activity in the festive season (on account of discount push that would lead inventory movement) and shift of BS4 to BS6 (inventory build-up too leading to inventory movement) would aid logistics activity in Q3 and Q4FY20.

We revise our estimates downward on account of slowdown in auto volumes. On a long-term basis we remain positive on MLL as it would definitely benefit when auto cycle revives, and economic activity picks up. The company has strong footing with Asset light business model.

Outlook and Valuations: At CMP of Rs 375 stock trades at 38x FY20 E EPS of Rs 10 and 25x FY21e EPS of Rs 15. We recommend investors to **Buy** the stock with a target price of Rs 493 based on our Weight average target price model (achievable in 12-18 months).

% Shareholding	June-19	Marc-19
Promoters	58.52	58.52
Others	41.48	41.48
Total	100	100

FINANCIALS

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY17	26,665.9	29.2	968.2	3.6	600.4	50.4	8.8	42.5	17	22
FY18	34,161.2	28.1	1,197.3	3.5%	705.0	17.4	9.9	37.8	17	22
FY19	38,513.7	12.7	1,512.7	3.9	859.2	21.9	12.0	31.2	17	25
FY20E	38,066.2	(1.2)	1,161.6	3.1	702.3	(18.3)	9.8	38.2	13	15
FY21E	43,713.9	14.8	1,711.1	3.9	1,078.7	53.6	15.1	24.8	17	21



P&L (Rs mn)	Q1FY19	Q1FY20
Operating Income	9281.9	8990.30
<i>Growth</i>		<i>-3%</i>
Operating expenses	8095.9	7672.10
<i>Growth</i>		<i>-5%</i>
%OP Income	87.2%	85.3%
Employee Cost	607	745.30
<i>Growth</i>		<i>23%</i>
%OP Income	6.5%	8.3%
Other Expenses	173.9	172.30
<i>Growth</i>		<i>-1%</i>
EBIDTA	405.10 	400.60
<i>Growth</i>		<i>-1%</i>
EBIDTA Margins	4.36%	4.46%
Depreciation	50.6	148.70
PBIT	354.50	251.90
Other income	28.8	70.10
<i>Growth</i>		<i>143%</i>
Interest	7.7	35.50
<i>Growth</i>		<i>361%</i>
PBT Before Exeptional	375.60 	286.50
<i>Growth</i>		<i>-24%</i>
Provision for tax	132.5	99.70
PAT	243.10	186.80
Minority Interest & extraordinary item	-3	-0.40
Net Profit Reported	240.10	186.40
Adjusted Net Profit	240.10	186.40
<i>Growth</i>		<i>-22%</i>
NPM	2.6%	2.1%
Equity	714.5	714.5
EPS on Adjusted PAT	3.36	2.61



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P&L (Rs mn)	FY16	FY17	FY18	FY19*	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18	FY19*	FY20E	FY21E
Net Sales	20,639.3	26,665.9	34,161.2	38,513.7	38,066.2	43,713.9	Net Profit	399.3	600.4	705.0	859.2	702.3	1,078.7
Freight Expenses	(16,554.7)	(20,939.6)	(30,009.7)	(33,724.0)	(33,278.7)	(37,953.9)	Add: Dep. & Amort.	83.0	146.0	197.3	219.5	261.4	311.8
Employee Cost	(1,508.9)	(1,883.0)	(2,291.2)	(2,637.7)	(2,967.4)	(3,323.5)	Cash profits	482.3	746.4	902.3	1,078.7	963.7	1,390.5
Other Expenses	(1,990.8)	(2,875.1)	(663.0)	(639.3)	(658.5)	(725.4)	(Inc)/Dec in						
Operating Profit	585.0	968.2	1,197.3	1,512.7	1,161.6	1,711.1	-Sundry debtors	(458.3)	(1,668.5)	(1,079.6)	(1,185.0)	127.9	(329.6)
Depreciation	(83.0)	(146.0)	(197.3)	(219.5)	(261.4)	(311.8)	-Inventories	-	-	-	-	-	-
PBIT	502.0	822.2	1,000.0	1,293.2	900.1	1,399.3	-Loans/advances	(170.0)	20.0	250.0	(150.0)	(15.0)	(16.5)
Other income	131.9	96.5	58.8	76.3	82.7	92.2	-Other Current Assets	(259.5)	(629.0)	(409.2)	(478.3)	(350.7)	(408.3)
							-Current Liab and						
Interest	(13.0)	(35.0)	(37.7)	(34.8)	(36.0)	(37.3)	Provisions	127.0	(32.4)	99.0	256.5	100.0	114.6
PBT	620.9	883.7	1,021.1	1,334.7	946.8	1,454.3	Sundry Creditors	37.4	1,764.3	870.2	1,137.5	(530.1)	664.5
Extraordinary Fixed term consultant fees	61.6	205.7	100.0	-	-	-	Change in working capital	(723.3)	(545.6)	(269.6)	(419.3)	(667.9)	24.8
Profit before tax (post exceptional)	559.3	678.0	921.1	1,334.7	946.8	1,454.3	CF from Oper. activities	(241.1)	200.8	632.7	659.4	295.8	1,415.3
Provision for tax	(199.8)	(217.5)	(368.4)	(467.9)	(238.3)	(366.0)	CF from Inv. activities	75.3	(143.9)	(159.6)	(606.3)	(250.0)	(300.0)
Reported PAT	359.5	460.5	552.7	866.8	708.5	1,088.2	CF from Fin. activities	(18.9)	(391.2)	(314.7)	(13.9)	98.0	(34.4)
MI	6.0	(4.8)	(12.6)	(7.6)	(6.2)	(9.5)	Cash generated/(utilised)	(184.7)	(334.3)	158.4	39.2	143.8	1,080.9
Net Profit	365.5	455.7	540.1	859.2	702.3	1,078.7	Cash at start of the year	1,021.0	836.3	502.0	660.3	699.5	843.4
Adjusted Profit (excl Exceptionals)	399.3	600.4	705.0	859.2	702.3	1,078.7	Cash at end of the year	836.3	502.0	660.3	699.5	843.4	1,924.2
								-	-	-	-	0.0	-
Balance Sheet	FY16	FY17	FY18	FY19*	FY20E	FY21E	Ratios	FY16	FY17	FY18	FY19*	FY20E	FY21E
Equity capital	598.2	680.0	711.4	714.5	714.5	714.5	OPM	2.8	3.6	3.5	3.9	3.1	3.9
CCPS	408.9	-	-	-	-	-	NPM	1.92	2.24	2.06	2.23	1.84	2.46
Reserves	2,010.9	2,796.6	3,484.6	4,267.7	4,854.1	5,754.8	Tax rate	(35.7)	(32.1)	(40.0)	(35.1)	(25.2)	(25.2)
Net worth	3,018.0	3,476.6	4,196.0	4,982.2	5,568.6	6,469.3	Growth Ratios (%)						
MI	29.4	47.9	69.5	57.1	63.3	72.9	Net Sales	7	29.2	28.1	12.7	(1.2)	14.8
Non Current Liabilities	341.1	328.6	328.4	252.5	277.0	305.3	Operating Profit	(1.7)	65.5	23.7	26.3	(23.2)	47.3
Current Liabilities	2,526.3	4,314.9	5,266.1	6,759.3	6,314.4	7,075.7	PBIT	(6.2)	63.8	21.6	29.3	(30.4)	55.5
TOTAL LIABILITIES	5,914.7	8,167.9	9,860.0	12,051.1	12,223.4	13,923.1	PAT	(0.6)	50.4	17.4	21.9	(18.3)	53.6
Non Current Assets	1,070.0	1,469.0	2,018.5	2,145.4	1,974.9	1,883.0	Per Share (Rs.)						
Fixed Assets	480.3	578.7	621.1	695.7	684.3	672.5	Net Earnings (EPS)	6.67	8.83	9.91	12.03	9.83	15.10
Goodwill	43.3	43.3	43.3	43.3	43.3	43.3	Cash Earnings (CPS)	8.1	11.0	12.7	15.1	13.5	19.5
Non Current Investments	0.2	0.2	-	37.5	37.5	37.5	Dividend	-	-	1.5	1.8	1.5	2.3
Deferred Tax Asset	87.6	131.9	141.1	187.3	144.0	144.0	Book Value	50.4	51.1	59.0	69.7	77.9	90.5
Long Term Loans and Advances	-	-	-	-	-	-	Free Cash Flow	(9.0)	0.6	5.2	6.2	0.9	15.9
Other Non Current Assets	458.7	714.9	1,213.0	1,181.6	1,065.8	985.7	Valuation Ratios						
Current Assets	4,844.6	6,699.0	7,841.5	9,905.7	10,248.5	12,040.1	P/E(x)	56.2	42.5	37.8	31.2	38.2	24.8
Current investments	680.9	580.4	500.5	775.2	775.2	775.2	P/B(x)	7.4	7.3	6.4	5.4	4.8	4.1
Inventories	-	-	-	-	-	-	EV/EBIDTA(x)	36.2	25.5	21.5	16.9	21.9	14.2
Trade Receivables	2,452.3	4,120.8	5,200.4	6,385.4	6,257.5	6,587.0	Div. Yield(%)	-	-	0.4	0.5	0.4	0.6
Cash and Bank Balances	836.3	502.0	660.3	699.5	843.4	1,924.2	FCF Yield(%)	(2.4)	0.2	1.4	1.6	0.2	4.2
Short Term Loans and Advances	270.0	250.0	-	150.0	165.0	181.5	Return Ratios (%)						
Other Current Assets	605.2	1,245.8	1,480.3	1,895.6	2,207.5	2,572.2	ROE	13%	17%	17%	17%	13%	17%
TOTAL ASSETS	5,914.7	8,167.9	9,860.0	12,051.1	12,223.4	13,923.1	ROCE	15%	22%	22%	25%	15%	21%

*(No.s excluding IND-AS 116 impact)



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