



**Mahindra Logistics Q2FY22 Revenue better than expectation, but lower other income and higher depreciation & Int cost impacted profits**

#### Main factors impacting profits was:

Other income dropped 76% (last year had ~70mn of tax refunds), finance cost was up 52% and depreciation too was up by 57% (as post IND-AS 116 rent is included in Interest and Depreciation)

- **Revenue** at Rs 10,191mn (+22.4% YoY) (+17% QoQ)
- **EBIDTA** stood at Rs 500.3 mn (+34% YoY) (+11% QoQ)
- **EBIDTA margins** 4.91% (Vs 4.48% YoY) (Vs 5.15% QoQ)
- **PAT Adj.** stood at Rs 98mn (-34.6% YoY) (+5% QoQ)

#### Other Details

- **Operating expense as % to Revenue** 85.5% (Vs 84.64% YoY) (Vs 84.8% QoQ)
- **Employee Cost** at 757.2 mn (+4% YoY) (+6% QoQ)
- **Other expense as % to Revenue** 2% (Vs 2.2% YoY) (Vs 1.9% QoQ)
- **PBT** at 123.4 mn (-39% YoY)

#### Outlook:

- **H2 would be better than H1**
- *Festive season:* Sales growth in e-commerce is robust in line with expectations, in early part of the season was muted for reasons like supply chain issue in durable (cross border related), pent-up demand is not as strong YoY, however it is picking up currently.
- *E-commerce,* consumer services in freight-forwarding express expected to do well, acquisition of new business via category and account expansion would be the growth drivers.
- Flex solution order in E-commerce secured for festive season || **1 mn sq ft added for temporary solution**
- *Fuel price hike* are prospective and not retrospectively, historically there have been few sharp increases which were covered in regular periodic negotiations this time it is a continuous movement upwards, **most of it is compensated already now.**

#### Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY 21	FY 22E	FY 23E
Net sales	38,514	34,711	32,636	40,216	48,335
EBIDTA	1,513	1,582	1,341	2,218	3,057
Margins	3.9	4.6	4.1	5.5	6.3
PAT (adj)	857	551	319	651	1,105
growth (%)	21.5	(35.7)	(42.0)	103.8	69.8
EPS	12.0	7.7	4.5	9.1	15.4
P/E (x)	55.0	85.7	148.1	72.8	42.9
P/B (x)	9.5	8.7	8.3	7.7	6.7
EV/EBITDA (x)	30.4	30.4	35.4	22.1	15.8
RoE (%)	17.2	10.1	5.6	10.6	15.6
ROCE (%)	24.6	11.5	5.3	10.4	15.7

Source: Dalal and Broacha

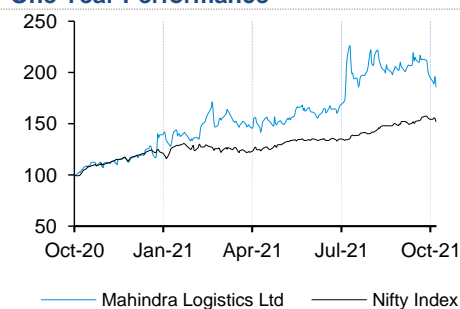
Rating	TP (Rs)	Up/Dn (%)
<b>Book Partial Profits</b>	<b>540</b>	<b>-18</b>

#### Market data

<b>Current price</b>	Rs	657
Market Cap (Rs.Bn)	(Rs Bn)	628
Market Cap (US\$ Mn)	(US \$ Mn)	8,376
Face Value	Rs	10
52 Weeks High/Low	Rs	821/344
Average Daily Volume	('000)	314
BSE Code		540768
Bloomberg		MAHLOG.IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Share Holding	Sep-21	Jun-21
Promoter	58.3	58.3
Public	41.8	41.7
Total	100	100

Source: Bloomberg

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## SEGMENTS

- **SCM Business** at 9784.2 mn (+22% YoY) (+16.5% QoQ), **EBIDT margins** 6.03% (Vs 7.49% YoY) (7.46% QoQ). **Gross margins** at 9.9% v/s 10.1% YoY and 10.7% QoQ.
  - Overall Value add business grew higher v/s transportation.
    - a) Warehouse revenue +24.8% YoY and 35.1% QoQ at Rs 2116mn
    - b) Transportation revenue +21% YoY and 12.2% QoQ at Rs 7669mn|| Pure freight forward business was at Rs 5100 mn, fuel cost was up by 5-6% i.e. 300mn, large amount is pass through
  
- **MNM SCM** 48% of Revenue (Vs 50% YoY)
  - Mahindra SCM Revenue +16% YoY and 10% QoQ @ Rs 4840mn (mainly on account of growth in farm segment)
  - MNM volume growth was +2.9% YoY @ 190600 units and on QoQ basis it was +2%
  
- **NON MNM SCM** 47.5% of Revenue (Vs 46.5% YoY)
  - Revenue +28% YoY +23.6% QoQ @ Rs 4950mn
  - Transport business in Non MNM grew higher at 29.2% YoY v/s warehouse business which grew by 25% YoY
  
- **Personal Mobility:**
  - Personal Mobility 4% of Revenue (Vs 3.4% YoY) (Vs 3.8% QoQ)
  - Revenue +41.8% YoY and 22.2% QoQ @ Rs 407mn (recovery over Q2FY20 was 41%).
  - Gross Margin @ 8.1% v/s 5.6% YoY and 7.8% QoQ supported by better revenue. EBIT margins at 4.5% (Vs 2.1% YoY) (Vs 3.5% QoQ)
  - Traditional clients i.e. BFSI and IT continue to pursue WFH, but on QoQ basis uptake seen, Q4FY22 should be good

## Other Points

- Piloted drone-based delivery of medicines in Telangana
- Overall Network: Network Hubs 50+ ||Customers 300+ ||Active Business partners 1450+|| Operating Locations 200+|| Drivers 6000+ || vehicles deployed per day 5500+
- +1.3 mn sq ft of grade 'A' warehouse capacity added, Warehouse space increased from 11.7mn sqft in Q1FY22 to 13.1mn sq ft in Q2FY22 and 11.1mn sqft FY21

- >Overall space under management stood at 17.2mnsqft v/s 18.1mn sqft QoQ and 17.5mn sqft YoY.
- Stock Yard space has reduced mainly as auto volumes came down, but their revenue contribution is generally low.

## Conference Call Highlights

- **Financials**
  - **Other Income** had tax refunds last year hence on a YoY basis it was down by 76%
  - **Freight Forward** business growth +75% || Express business growth +30%
  - **Interest and Depreciation** is high as due to IND-AS 116 the cost charges are frontloaded which impacts earnings in the short-term compared to previous model, but through the life cycle of the project in the later years it comes back and normalize. Also the newer ware-house have slightly higher rate as well.
  - With older accounting standard PBT would have been higher by Rs 450mn for H1FY22
  - **Multi-modal** is viable only above 1000kms, which is ~13% of our revenue
  - New initiatives were delayed which led to higher launch cost
- **Capex plans** FY22 at Rs 800 to Rs 900mn
- **SCM Business**
  - Auto segment (largest end market for MLL): Lower demand with increased volatility increasing operational cost and resistance in absorbing fuel cost movement in the quarter || PV slow, electric 2W picking up and farm sector good growth
  - **Consumer sector:** discretionary segment picking up in personal care, FMCG and food || Rural demand resilient || new launches and cost savings continue ||FMCG companies omnichannel requirement has increased
  - **Bajaj EElectricals end-to-end supply chain logistics program on track full ramp-up Q3FY22**
  - EDEL improved traction

## Quarterly Financials

MAHLOGISTICS ( Rs Mns )	Q2FY22	Q2FY21	YoY Growth	Q1FY22	QoQ Growth
<b>in MNs</b>					
Sales	10191.10	8325.10	22%	8733.60	17%
<b>Total operating Income</b>	<b>10191.1</b>	<b>8325.1</b>	<b>22%</b>	<b>8733.6</b>	<b>17%</b>
Other income	19.6	82.50	-76%	19.2	2%
<b>Total Revenue:</b>	<b>10210.70</b>	<b>8407.6</b>	<b>21%</b>	<b>8752.80</b>	<b>17%</b>
<b>Expenses:-</b>					
Raw Mat Cost	1240%				
<b>% to Operating Income</b>	<b>0%</b>				
Freight Expenses & Other Exps	8712.6	7046.7	24%	7407.3	18%
<b>% to Operating Income</b>	<b>85.5%</b>	<b>84.6%</b>		<b>84.8%</b>	
Employee benefit expenses	757.2	725.8	4%	711	6%
<b>% to Operating Income</b>	<b>7.4%</b>	<b>8.7%</b>		<b>8.1%</b>	
Other expenses	208.6	179.4	16%	165.2	26%
<b>% to Operating Income</b>	<b>2.0%</b>	<b>2.2%</b>		<b>1.9%</b>	
<b>Total Expenses</b>	<b>9,690.80</b>	<b>7,951.90</b>	<b>22%</b>	<b>8,283.50</b>	<b>17%</b>
<b>EBITDA (exc OI)</b>	<b>500.30</b>	<b>373.20</b>	<b>34%</b>	<b>450.10</b>	<b>11%</b>
<b>EBITDA Margin %</b>	<b>4.9%</b>	<b>4.5%</b>		<b>5.2%</b>	
EBITDA (inc OI)	519.90	455.70	14%	469.30	11%
Depreciation	328.2	208.5	57%	285.9	15%
PBIT	191.70	247.20	-22%	183.40	5%
Interest	68.3	44.8	52%	61.7	11%
<b>PBT (Before Exceptional)</b>	<b>123.40</b>	<b>202.40</b>	<b>-39%</b>	<b>121.70</b>	<b>1%</b>
<b>Exceptional Item</b>	<b>0.00</b>			<b>0.00</b>	
<b>PBT (post Exceptional)</b>	<b>123.40</b>			<b>121.70</b>	<b>1%</b>
Tax expenses	30.5	53.9	-43%	30.7	-1%
<i>Tax Rate</i>	<i>25%</i>	<i>27%</i>		<i>25%</i>	
PAT (reported)	92.90	148.50	-37%	91.00	2%
MI	-5.1	-2.7	89%	-2.5	104%
Share of loss of JV	0	-1.4	-100%	0	
<b>PAT</b>	<b>98</b>	<b>149.80</b>	<b>-35%</b>	<b>94</b>	<b>5%</b>
<b>NPM</b>	<b>0.96%</b>	<b>1.78%</b>		<b>1.07%</b>	
Equity	717.8	716	0.3%	717.1	0%
<b>EPS</b>	<b>1.37</b>	<b>2.09</b>	<b>-35%</b>	<b>1.30</b>	<b>5%</b>
<b>SEGMENT RESULTS</b>					
<b>SCM (Total A+B)</b>	<b>9784.20</b>	<b>8038.60</b>	<b>22%</b>	<b>8400.70</b>	<b>16%</b>
<i>Non-Mahindra SCM (A)</i>	<i>4948.0</i>	<i>3874.00</i>	<i>28%</i>	<i>4004.0</i>	<i>24%</i>
<i>Mahindra SCM (B)</i>	<i>4836.2</i>	<i>4164.60</i>	<i>16%</i>	<i>4396.7</i>	<i>10%</i>
<b>PTS Revenue</b>	<b>406.9</b>	<b>286.5</b>	<b>42%</b>	<b>332.9</b>	<b>22%</b>
<b>Total Operating Income</b>	<b>10191.10</b>	<b>8325.10</b>	<b>22%</b>	<b>8733.60</b>	<b>17%</b>
PBIT					
SCM	590.1	601.9	-2%	627	-6%
<b>PBIT Margins</b>	<b>6.0%</b>	<b>7.49%</b>		<b>7.5%</b>	
People transport solution	18.5	6.1	203%	11.7	58%
<b>PBIT Margins</b>	<b>4.5%</b>	<b>2.13%</b>		<b>3.5%</b>	
<b>Total</b>	<b>608.6</b>	<b>608</b>	<b>0%</b>	<b>638.7</b>	<b>-5%</b>
<b>PBIT Margins</b>	<b>6.0%</b>	<b>7.3%</b>		<b>7.3%</b>	

Source Dalal and Broacha

## Valuation

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### Going Forward:

Due to Ind-As 116 lease accounting, the upfront cost of new warehouse is growing from a lower base hence it is high which will reduce in the later years as the base goes up and business matures.

The company has building blocks in place with investments in technology

MLL logistics has an aspiration to reach Rs 10000crs revenue and a warehouse space addition of 20mn sqft (over a 5-year period) of which 4mn sqft has been contracted already. In addition to this the profitability is also expected to improve.

At CMP of Rs 660 Mahindra Logistics trades at 73x FY22e EPS of Rs 9.07 and 42.9x FY23e EPS of Rs 15.4. We are positive on the longer term opportunity in the logistics space but believe the stock is fully valued at current levels from a short to medium term perspective and hence change our recommendation from **“Buy on Dips to Book Partial Profits with a target price of Rs 540”**.



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