



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst/Associate: Kunal Bhatia/ Nidhi Babaria

Q2FY20 Result update @ Dalal & Broacha

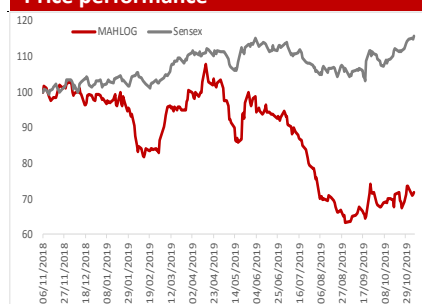
BUY

Current Price	395
52 Week Range	575/325
Target Price	507
Upside	28%

Key Share Data

Market Cap (Rs.bn)	28.01
Market Cap (US\$ mn)	393.75
No of o/s shares (mn)	71.49
Face Value	10
Monthly Avg. vol (BSE+NSE) Nos	57,504
BSE Code	540768
NSE Code	MAHLOG
Bloomberg	MAHLOG:IN

Price performance



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

MLL Q2FY20 Result was slightly below our estimates.

Q2FY20Update: Revenue down by 8% YOY at Rs.8,524.2mn mainly on account of auto slowdown. **Freight cost stood at 84.5% v/s 87.9% Y-O-Y.**

EBITDA & EBITDA Margins: up by 11% at Rs. 377.8mn & Margins at 4.43% v/s 3.66% y-o-y. (a charge of Rs 30mn was on account of ESOP in Q2FY20) Excluding IND AS-116, EBITDA margins were down by 80bps.

PAT (excl MI): down by 41% Y-O-Y to Rs. 112mn (as per IND AS 116) (pre Ind AS 116 company registered ~35% decline in PAT to Rs. 125 Mn)

SEGMENTS:

SCM business (~89% of Revenue): Overall SCM Revenues down by 9% YoY to Rs 7,552.8mn/ Gross Margins 10.35% v/s 7.81% YoY / PBIT Margins 8.33% v/s 7.31% YoY.

Ware housing business grew by 25% YoY.

Non-Auto SCM business was up by 17%

a) **Mahindra SCM** (~49% of Revenues) down by 19% YoY to Rs 4,185mn

b) **Non-Mahindra SCM** (~40% of Revenue) up by 9% YoY to Rs 3,368mn. Within which high margins Warehouse and value-added business grew by 25% YoY

PTS business (~10% of Revenues): down by 1% YoY to Rs 971mn / Gross margins 8.75% v/s 10.98% YoY / PBIT margins 8.8% v/s 10.8% YoY

MLL Concall KTA's:

-Auto witnessing worst decline in past 2 decades. This would continue in coming quarter. 30% decline in volume was seen in some segment.

-SCM Revenue growth led by top 20 clients (62% revenue contribution v/s 64% in Q1FY20)

-New customer addition: A) **Asian Paints** (East India Warehousing and distribution logistics), B) Expanded business with **VW India** distribution business in this quarter for Gurgaon and Bangalore areas. MLL will handle more than 2lac sqft of warehousing space and PDC (part distribution center) operations.

-Mahindra: Non-Mahindra Q2FY20 55%:45%

-Non-Mahindra auto (i.e. 25% in non-MnM) saw 9% growth during the quarter, (Consumer+Pharma+Ecommerce business +35% growth in Q2FY20). Ecom+FMCG contributes ~50%-55% of Non-Auto Non-M&M SCM business

-Warehousing and value-added services contribution to Non MNM SCM has reached 34% v/s 27% YoY. Warehousing revenues registered growth of 25%, while transportation Revenue declined by 15% in Q2FY20.

-Added 0.7 Mn sqft in Q2FY20 and 1.1mn in H1FY20 total now 16.4mn YTD. Company plans to add +1.4mn sq.ft. for FY20

-Marginal decrease in PTS business was mainly due to i) challenges in stabilization for some of the new business and ii) slower deployment in new accounts.

-Gross margin improvement due to i) business mix (increase in warehouse business) ii) Operational efficiency.

-Focus: A) Strengthening M&M business along with focus on expanding non-MNM with addition of clients in auto, pharma, FMCG and e-commerce. B) Growing warehousing and value-added services as it give higher margins and is considered to have sticky clients for longer term. C) Technology upgradation to bring operational efficiency.

-Incurred Rs. 300mn CAPEX in H1FY20, plans to do Rs. 350-400 mn in H2FY20 mainly for automation, digitization and technology to get operational efficiency.

-Tax rate for full year will be at ~26%.

Outlook and Valuations: MLL growth is expected to remain muted in the coming quarters as more than 50% dependence is on Mahindra Auto business. MNM (auto) has guided of a flat volume growth for tractors and a cautious outlook on Other auto business including CV and passenger cars. We have re-worked our numbers as per IND-AS116 and MLL is trading at 41x FY20e EPS of Rs 9.7 and 30x FY21e EPS of Rs 13.2. Our DCF-based Target price is Rs 507. Our DCF methodology is based on WACC of 12.1% and terminal growth of 5%. We recommend **BUY** for long term investor.

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	44.7	17	22
FY18	34,161.2	28.1	1,197.3	3.5%	705.0	17.4	9.9	39.9	17	22
FY19	38,513.7	12.7	1,512.7	3.9	859.2	21.9	12.0	32.8	17	25
FY20E	37,389.7	(2.9)	1,653.4	4.4	692.1	(19.4)	9.7	40.8	12	14
FY21E	42,946.4	14.9	2,054.5	4.8	943.8	36.4	13.2	29.9	15	17



P&L (Rs mn)	Q2FY19	Q2FY20	H1FY19	H1FY20
Operating Income	9273.5	8524.20	18555.40	17514.50
<i>Growth</i>		<i>-8%</i>		<i>-6%</i>
Operating expenses	8151.3	7200.20	16247.20	14872.30
<i>Growth</i>		<i>-12%</i>		<i>-8%</i>
%OP Income	87.9%	84.5%	87.6%	84.9%
Employee Cost	631	764.30	1238.00	1509.60
<i>Growth</i>		<i>21%</i>		<i>22%</i>
%OP Income	6.8%	9.0%	6.7%	8.6%
Other Expenses	151.6	181.90	325.50	354.20
<i>Growth</i>		<i>20%</i>		<i>9%</i>
EBIDTA	339.60 	377.80	744.70 	778.40
<i>Growth</i>		<i>11%</i>		<i>5%</i>
EBIDTA Margins	3.66%	4.43%	4.01%	4.44%
Depreciation	51.3	177.10	101.90	325.80
PBIT	288.30	200.70	642.80	452.60
Other income	12.90	18.50	41.70	88.60
<i>Growth</i>		<i>43%</i>		<i>112%</i>
Interest	8.1	41.50	15.80	77.00
<i>Growth</i>		<i>412%</i>		<i>387%</i>
PBT Before Exeptional	293.10 	177.70	668.70 	464.20
<i>Growth</i>		<i>-39%</i>		<i>-31%</i>
Provision for tax	102.2	64.70	234.70	164.40
<i>Tax Rate</i>	<i>35%</i>	<i>36%</i>	<i>35%</i>	<i>35%</i>
PAT	190.90	113.00	434.00	299.80
Minority Interest & Share of loss from JV	-1.5	-1.00	4.50	-1.40
Net Profit Reported	189.40	112.00	438.50	298.40
Adjusted Net Profit	189.40	112.00	438.50	298.40
<i>Growth</i>		<i>-41%</i>		<i>-32%</i>
NPM	2.0%	1.3%	2.4%	1.7%
Equity	714.5	714.5	714.5	714.5
EPS on Adjusted PAT	2.65	1.57	6.14	4.18



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P&L (Rs mn)	FY17	FY18	FY19	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	26,665.9	34,161.2	38,513.7	37,389.7	42,946.4	Net Profit	600.4	705.0	859.2	692.1	943.8
Freight Expenses	(20,939.6)	(30,009.7)	(33,724.0)	(31,864.7)	(36,471.5)	Add: Dep. & Amort.	146.0	197.3	219.5	680.0	744.5
Employee Cost	(1,883.0)	(2,291.2)	(2,637.7)	(3,033.4)	(3,488.4)	Cash profits	746.4	902.3	1,078.7	1,372.1	1,688.3
Other Expenses	(2,875.1)	(663.0)	(639.3)	(838.2)	(932.1)	(Inc)/Dec in					
Operating Profit	968.2	1,197.3	1,512.7	1,653.4	2,054.5	-Sundry debtors	(1,668.5)	(1,079.6)	(1,185.0)	239.2	(325.1)
Depreciation	(146.0)	(197.3)	(219.5)	(680.0)	(744.5)	-Inventories	-	-	-	-	-
PBIT	822.2	1,000.0	1,293.2	973.4	1,309.9	-Loans/advances	20.0	250.0	(150.0)	-	(15.0)
Other income	96.5	58.8	76.3	119.7	123.8	-Other Current Assets	(629.0)	(409.2)	(478.3)	(279.6)	(400.7)
Interest	(35.0)	(37.7)	(34.8)	(160.0)	(161.3)	-Current Liab and					
PBT	883.7	1,021.1	1,334.7	933.1	1,272.4	Provisions	(32.4)	99.0	256.5	326.9	124.5
Extraordinary Fixed term consultant fees	205.7	100.0	-	-	-	Sundry Creditors	1,764.3	870.2	1,137.5	(326.1)	220.9
Profit before tax (post exceptional)	678.0	921.1	1,334.7	933.1	1,272.4	Change in working capital	(545.6)	(269.6)	(419.3)	(39.6)	(395.5)
Provision for tax	(217.5)	(368.4)	(467.9)	(234.9)	(320.3)	CF from Oper. activities	200.8	632.7	659.4	1,332.5	1,292.9
Reported PAT	460.5	552.7	866.8	698.2	952.2	CF from Inv. activities	(143.9)	(159.6)	(606.3)	(2,511.0)	(401.5)
MI	(4.8)	(12.6)	(7.6)	(6.1)	(8.3)	CF from Fin. activities	(391.2)	(314.7)	(13.9)	1,168.5	(15.4)
Net Profit	455.7	540.1	859.2	692.1	943.8	Cash generated/(utilised)	(334.3)	158.4	39.2	(10.0)	876.0
Adjusted Profit (excl Exceptionals)	600.4	705.0	859.2	692.1	943.8	Cash at start of the year	836.3	502.0	660.3	699.5	689.6
						Cash at end of the year	502.0	660.3	699.5	689.6	1,565.6
							-	-	-	0.0	(0.0)
Balance Sheet	FY17	FY18	FY19	FY20E	FY21E	Ratios	FY17	FY18	FY19	FY20E	FY21E
Equity capital	680.0	711.4	714.5	714.5	714.5	OPM	3.6	3.5	3.9	4.4	4.8
CCPS	-	-	-	-	-	NPM	2.24	2.06	2.23	1.85	2.19
Reserves	2,796.6	3,484.6	4,267.7	4,835.9	5,624.0	Tax rate	(32.1)	(40.0)	(35.1)	(25.2)	(25.2)
Net worth	3,476.6	4,196.0	4,982.2	5,550.4	6,338.5	Growth Ratios (%)					
MI	47.9	69.5	57.1	63.2	71.6	Net Sales	29.2	28.1	12.7	(2.9)	14.9
Non Current Liabilities	328.6	328.4	252.5	1,312.2	1,335.4	Operating Profit	65.5	23.7	26.3	9.3	24.3
Current Liabilities	4,314.9	5,266.1	6,759.3	6,805.5	7,139.3	PBIT	63.8	21.6	29.3	(24.7)	34.6
TOTAL LIABILITIES	8,167.9	9,860.0	12,051.1	13,731.4	14,884.8	PAT	50.4	17.4	21.9	(19.4)	36.4
Non Current Assets	1,469.0	2,018.5	2,145.4	4,345.5	3,928.3	Per Share (Rs.)					
Fixed Assets	578.7	621.1	695.7	2,993.6	2,650.6	Net Earnings (EPS)	8.83	9.91	12.03	9.69	13.21
Goodwill	43.3	43.3	43.3	43.3	43.3	Cash Earnings (CPS)	11.0	12.7	15.1	19.2	23.6
Non Current Investments	0.2	-	37.5	34.8	34.8	Dividend	-	1.5	2.0	1.6	2.0
Deferred Tax Asset	131.9	141.1	187.3	135.7	144.0	Book Value	51.1	59.0	69.7	77.7	88.7
Long Term Loans and Advances	-	-	-	-	-	Free Cash Flow	0.6	5.2	6.2	(20.8)	13.7
Other Non Current Assets	714.9	1,213.0	1,181.6	1,138.1	1,055.6	Valuation Ratios					
Current Assets	6,699.0	7,841.5	9,905.7	9,385.9	10,956.5	P/E(x)	44.7	39.9	32.8	40.8	29.9
Current investments	580.4	500.5	775.2	330.1	330.1	P/B(x)	7.7	6.7	5.7	5.1	4.5
Inventories	-	-	-	-	-	EV/EBIDTA(x)	26.9	22.7	17.8	17.3	13.5
Trade Receivables	4,120.8	5,200.4	6,385.4	6,146.2	6,471.4	Div. Yield(%)	-	0.4	0.5	0.4	0.5
Cash and Bank Balances	502.0	660.3	699.5	689.6	1,565.6	FCF Yield(%)	0.1	1.3	1.6	(5.3)	3.5
Short Term Loans and Advances	250.0	-	150.0	150.0	165.0	Return Ratios (%)					
Other Current Assets	1,245.8	1,480.3	1,895.6	2,070.0	2,424.4	ROE	17%	17%	17%	12%	15%
TOTAL ASSETS	8,167.9	9,860.0	12,051.1	13,731.4	14,884.8	ROCE	22%	22%	25%	14%	17%



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