

BUY

Target Price: Rs 525

Mahindra Logistics

LOGISTICS

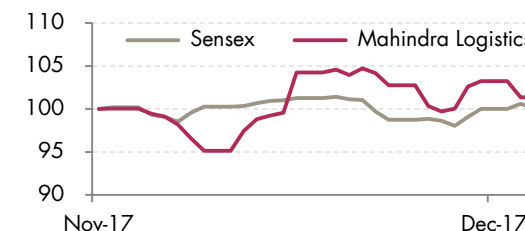
Long growth runway

CMP : Rs 435
Potential Upside : 21%

MARKET DATA

No. of Shares : 71 mn
Market Cap : Rs 31 bn
Free Float : 39%
Avg. daily vol (6mth) : 0 shares
52-w High / Low : Rs 460 / Rs 405
Bloomberg : MAHLOG IB Equity
Promoter holding : 61%
FII / DII : 6% / 7%

Price performance



Financial summary (consolidated)

Y/E	Sales	EBITDA	Adj PAT	Change	PAT mrgn	Adj EPS	ROCE	EV/E		
Mar	(Rs mn)	(Rs mn)	(Rs mn)	YOY (%)	(%)	(Rs) RoE (%)	(%)	(x)	PE (x)	
FY17	26,666	968	596	50.4	2.2	8.8 18.4	25.0	29.7	49.5	
FY18E	32,775	1,203	680	14.0	2.1	9.6 17.7	25.6	24.8	45.5	
FY19E	39,788	1,666	992	45.9	2.5	13.9 21.0	28.9	17.6	31.2	
FY20E	47,162	2,080	1,244	25.4	2.6	17.5 21.3	29.6	13.7	24.8	

Source: Company, Axis Capital

Key drivers

(%)	FY17	FY18E	FY19E	FY20E
SCM rev growth	31	23	22	19
Gross margin	7.7	7.5	7.7	7.7
PTS rev growth	18	19	17	14
Gross margin	10.1	9.5	9.8	10.0

Contents

Mahindra Logistics

LOGISTICS

	<u>Page</u>
♦ Investment summary	3
♦ A compounding story	5
• Asset light pan-India network	7
• Focus on high growth non-Automotive verticals	8
• Strong presence in Supply Chain Management	10
• Addressing the unorganized People Transport Solutions	11
♦ Financials	12
♦ Appendix	17-20
• India's supply chain to undergo a massive change	
• 3PL market growth to be led by non-Automotive	
• Mahindra Logistics – key management personnel	

Mahindra Logistics: Strong contender + Vast opportunity

Mahindra Logistics (MLL) is one of India's largest third party logistics (3PL)/ supply chain management (SCM) companies in India, but it accounts for only 6-7% of India's SCM industry. As we expect major business to shift to organized players under GST, we believe MLL has a long growth runway given:

- ◆ Unlike peers (dominating in automotive sector), MLL has diversified pan-India presence across high-growth non-automotive verticals like E-Comm, Engineering, FMCG, Pharma etc (together accounting for 40% of SCM revenue; 59% in FY20E)
- ◆ Strong relations with business partners (1,000+ across transport/ warehousing) help operate on an asset-light model. This coupled with technology integration enables it to offer customized solutions

Earnings to compound at 28% CAGR: Focus on non-automotive and reducing dependence on M&M group business should aid margin; however, we do not factor in any improvement as we expect MLL to reinvest for revenue growth. Expect premium valuations to sustain as MLL's strong positioning backed by credible management offers growth longevity, and potential to generate 25%+ RoCE/ free cash flows. **Initiate coverage with BUY** and TP of Rs 525 (30x FY20E EPS).

Mahindra Logistics – scalable business model

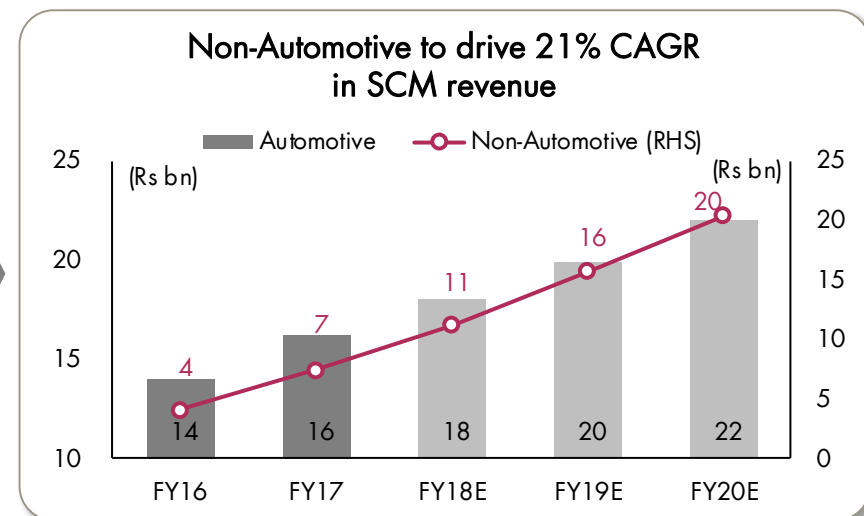
Asset light business model

- ◆ Vast network of business partners having pan-India presence
- ◆ Manages more than 10 mn sq ft through its business partners

Technology-integrated solutions

- ◆ Real-time monitoring through control towers ensures asset efficiency
- ◆ Customized software (**MILES**, **MyCargo 360**) for transportation

Mahindra
LOGISTICS



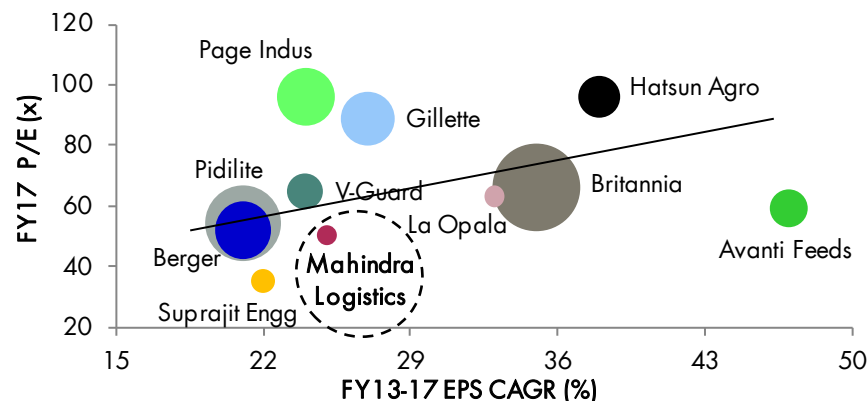
Valued at 30x FY20E EPS

Mahindra Logistics

LOGISTICS

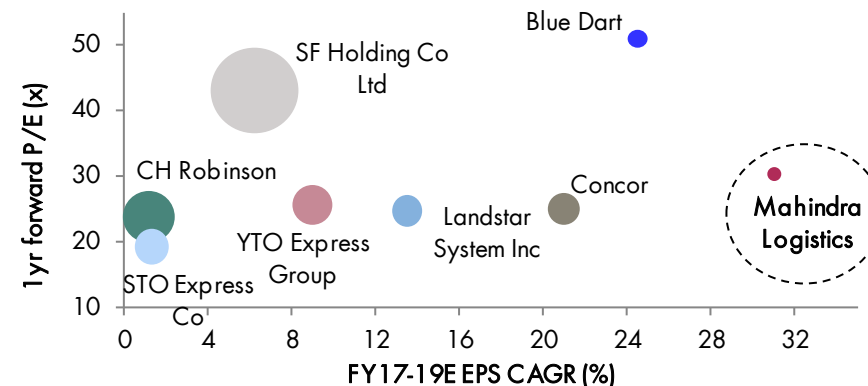
Given limited distinct comparables for MLL in the Indian logistics space, we draw parallels across leading players in select high-growth sectors in Indian listed universe and global peers

Comparative valuation among high-growth non-Nifty companies*



Mahindra Logistics attractively placed among key players across high-growth Indian sectors

Valuation profile of global and Indian logistic players



Global peers offer limited earnings growth vs. Indian logistics players

Two-stage DCF workings

Discount rate (%)	11.4%
Terminal growth rate (%)	5.0%
Rev CAGR FY20-25E	18%
Gross Profit CAGR FY20-25E	20%
Discounted FCFF (Rs mn)	36,890
(-) net debt	459
Discounted FCFE (Rs mn)	37,349
No of shares (mn)	71
Target Price	525
Implied PE - FY20E	30



TP sensitivity on WACC and terminal growth rate

(Rs/ shr)		WACC (%)				
		9%	10%	11%	12%	13%
Terminal growth (%)	3%	571	486	422	372	331
	4%	658	547	467	405	357
	5%	785	631	525	448	389
	6%	986	752	605	504	430
	7%	1,352	944	721	580	484

We value Mahindra Logistics at 30 x FY20E EPS, in line with our DCF workings

A compounding story...

Mahindra Logistics –snapshot

Mahindra Logistics

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Mahindra Logistics
Mkt. cap: Rs 31 bn
FY17 revenue: Rs 27 bn

SCM

FY17 revenue: Rs 24 bn

PTS

FY17 revenue: Rs 3 bn

Non M&M
40% of SCM
revenue

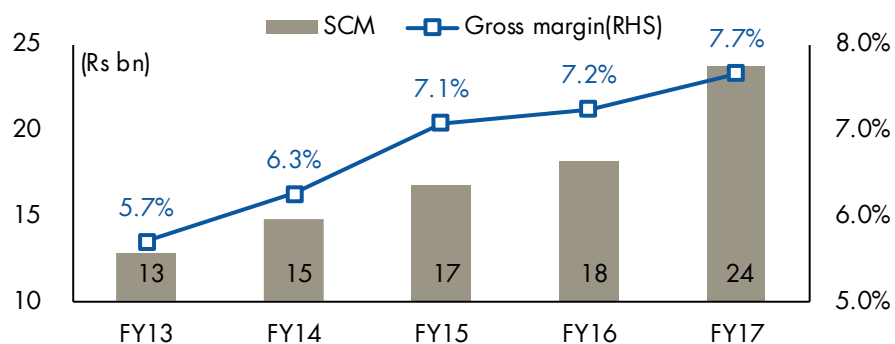
M&M
60% of SCM
revenue

M&M
7% of PTS
revenue

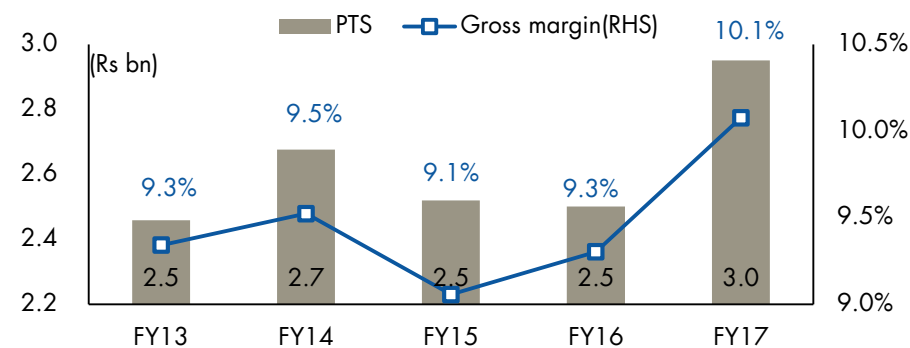
Non M&M
93% of PTS
revenue

54% of revenue

SCM historical revenue growth, gross margin



PTS historical revenue growth, gross margin

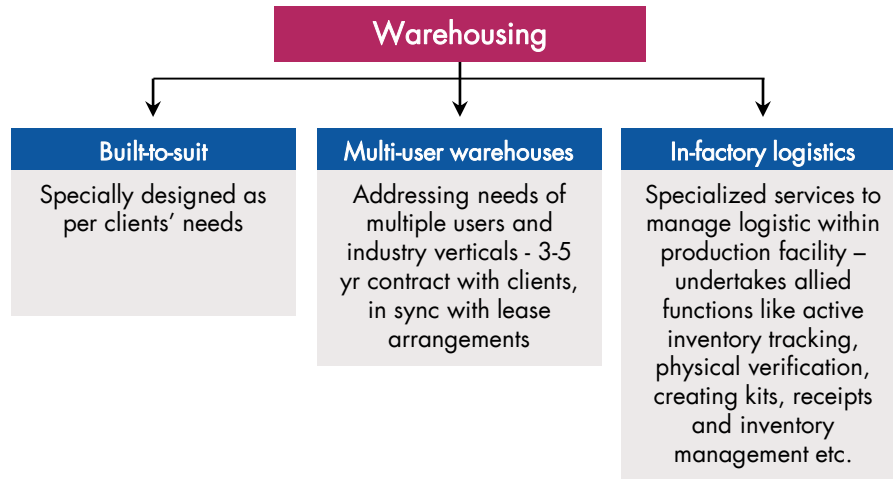


Asset light pan-India network

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MLL offers favorable warehousing solutions

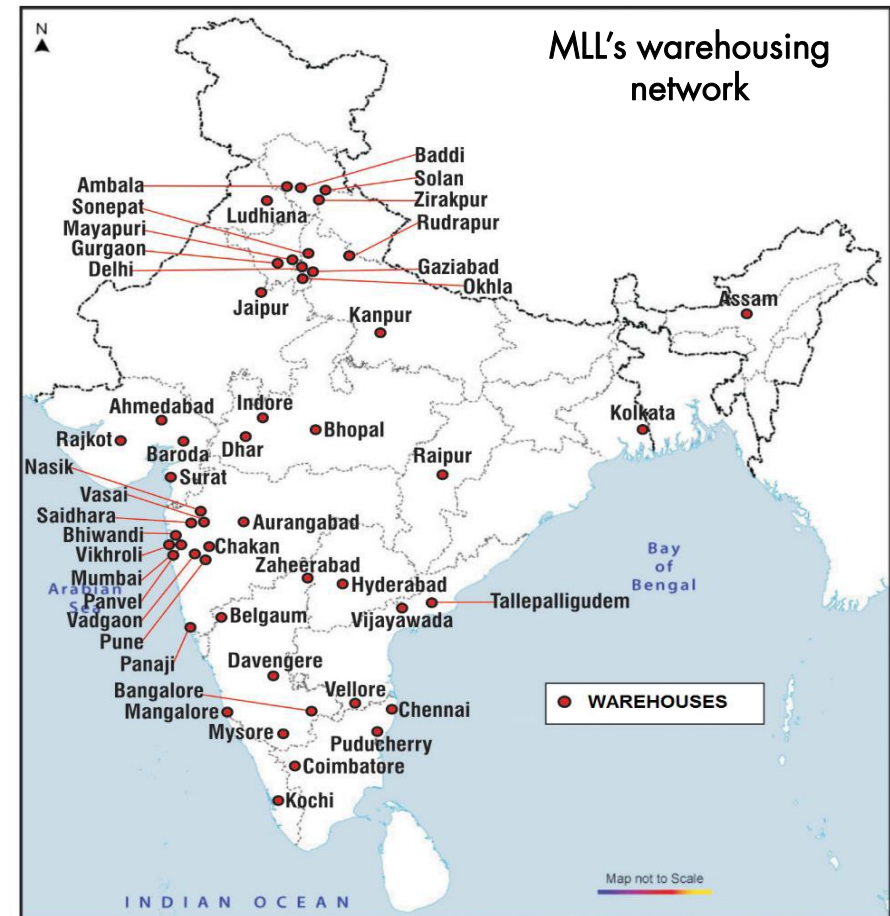


Source: Company, Axis Capital

Integrated logistics solutions



Source: Company, Axis Capital



- ♦ Pan-India network with 24 city offices, >350 client/ operating locations and >10 mn sq ft of warehousing space
- ♦ Operates across road (both full-truck load and part truck load), rail and air for domestic transportation

Focus on high growth non-Automotive verticals...

- ◆ Strengthening presence across diverse verticals...
 - MLL has successfully replicated its success in Automotive SCM solutions to non-Automotive verticals like E-Commerce, FMCG, Pharma, Engineering etc
 - Focus on large revenue generating clients aided 73% revenue CAGR over FY15-17. This was driven by >4x rise in revenues from E-Commerce, while other verticals boosted ~63% CAGR over the same time frame
 - Top 20 clients contributed ~71% to non-M&M SCM revenues in FY17
- ◆ ...better client mining and new client additions to drive growth
 - We believe higher business from exiting clientele and addition of new clients across non-Automotive verticals, will help MLL record 40% CAGR in non-Automotive business over FY17-20

MLL's key non-automotive clients



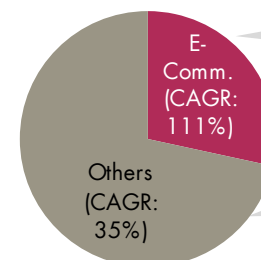
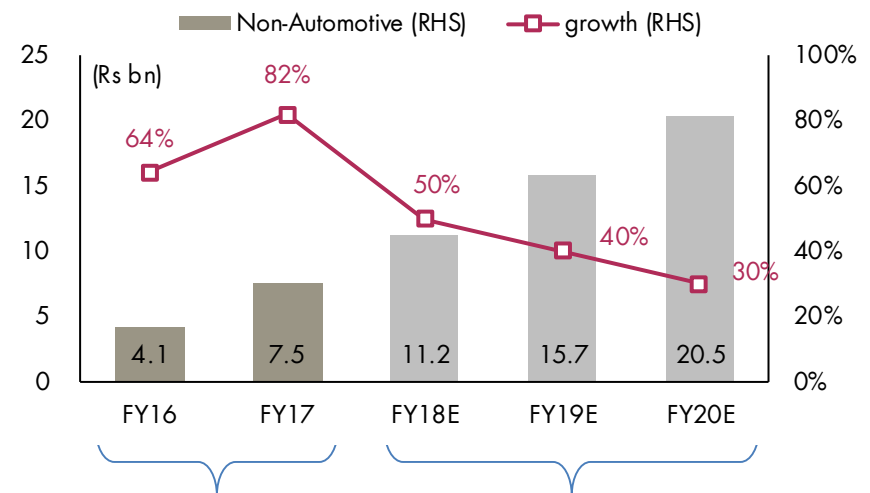
SIEMENS

3M
India Limited


vodafone



Non- Automotive SCM revenue to post 40% CAGR



E-Comm 3PL industry revenue to post 30-35% CAGR, as per CRISIL – MLL to grow in sync

Other verticals (led by Consumers) to post 21% CAGR, as per CRISIL – MLL to grow higher than industry due to strong presence

Interestingly, MLL has been able to manage supply chain for arch rivals within industry verticals seamlessly - > BMW – Volkswagen

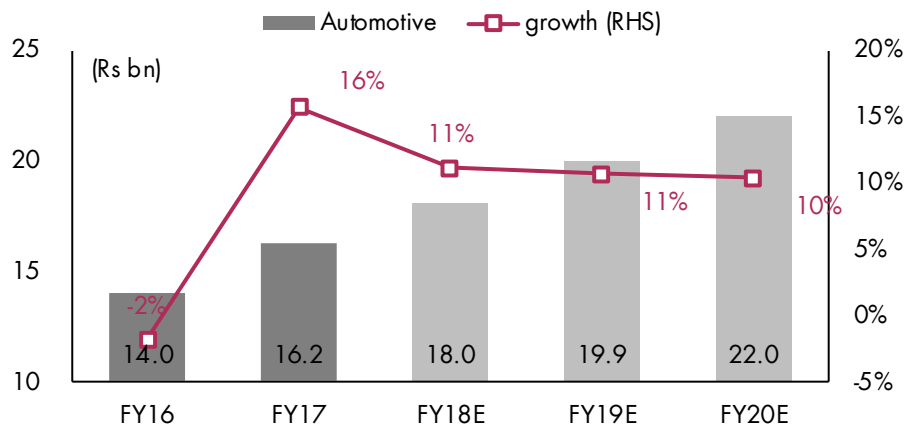
...to help reduce revenue concentration

- ♦ Declining dependence on M&M group ...
 - Strong expertise in Automotive SCM (given its parentage) aided MLL to scale up its offering to other non-M&M group players in Auto and allied sectors
 - M&M group contribution to aggregate revenue to reduce to 38% by FY20E (~54% currently)
- ♦ ...as other Automotive clients to drive revenue growth
 - Automotive will still be the largest revenue contributor to MLL's SCM revenues (in sync with 3PL industry'), though its concentration will decline to 47% by FY20E
 - CRISIL expects Automotive and related sectors to witness 16% CAGR over FY17-20E

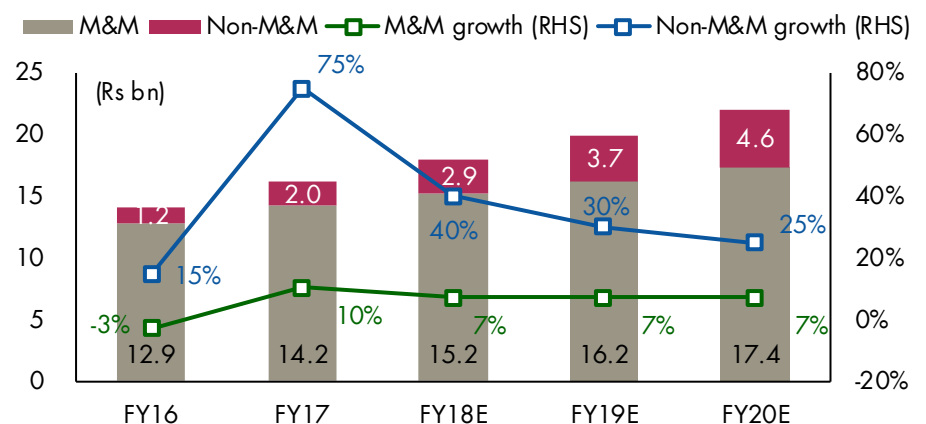
Key automotive clients



Automotive vertical to post 11% CAGR...

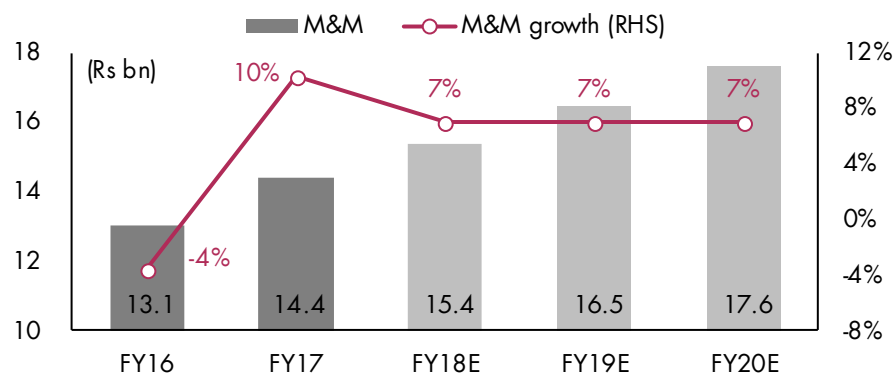


.. largely led by non-M&M group business

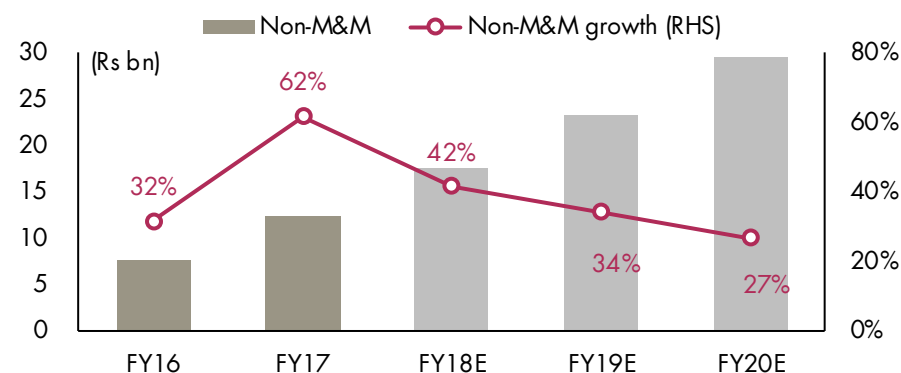


Strong presence in Supply Chain Management

M&M group's revenue growth trend

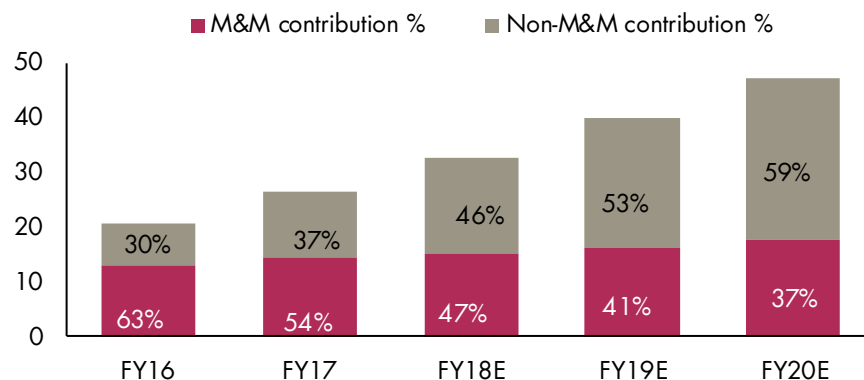


Non M&M group' SCM revenue growth trend

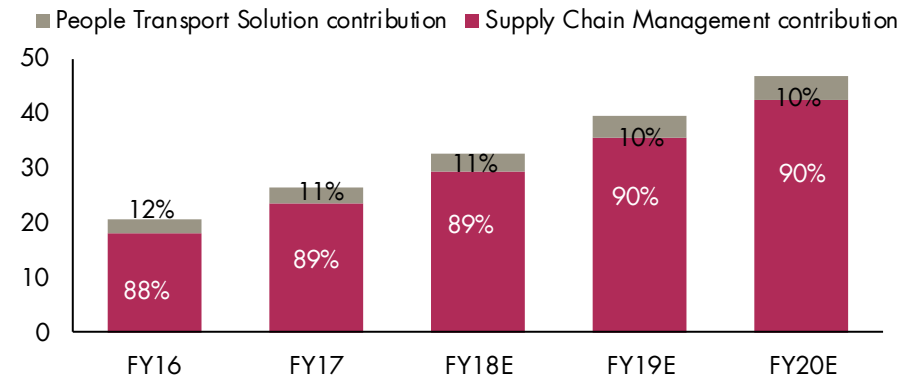


SCM (89% contribution currently) is the mainstay for MLL – within SCM, the company's dependence on M&M group's revenue (largely Automotive) is on a decline due to higher growth in non-automotive business

M&M group business dependence declining



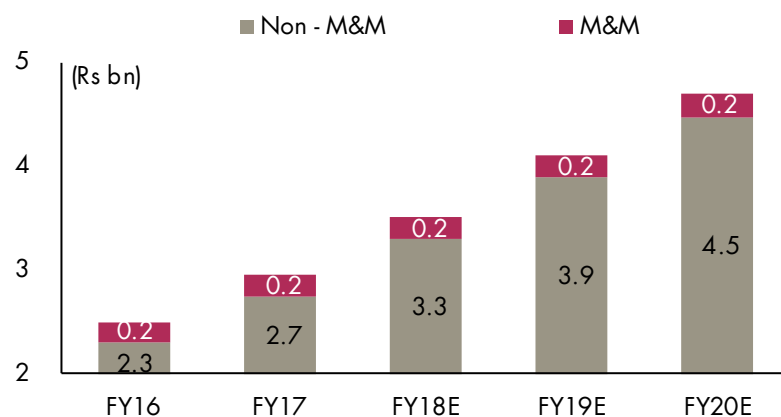
Segment revenue contribution



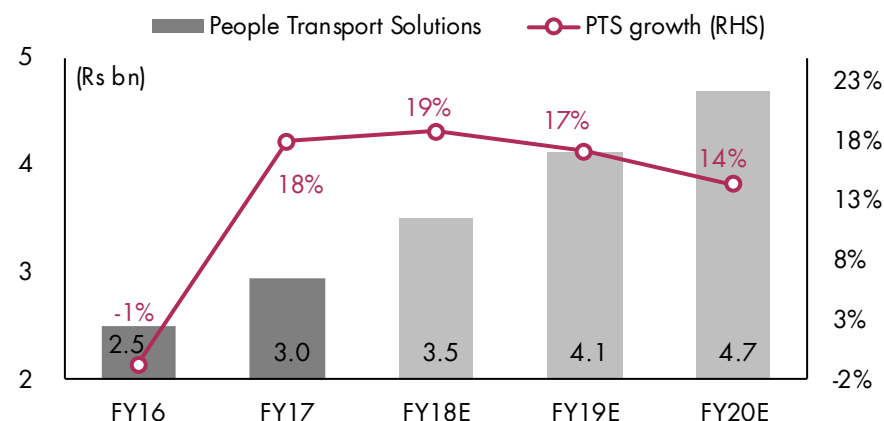
Addressing the unorganized People Transport Solutions

- ♦ **Offering technology-enabled People Transport Solutions (PTS)**
 - Operating through a fleet of vehicles provided by its business partners, MLL has presence at over 120 client locations across key sectors like IT, ITeS, BPO, financial services consulting, manufacturing industries etc
 - Integrated use of technology enables MLL to operate through optimized routes and improve vehicle utilization, driving cost efficiencies for its clients – this also enables optimal control and management of vehicles
 - CRISIL expects PTS industry to post ~9% CAGR to Rs 90 bn by FY20 (Rs 70 bn in FY17)
- ♦ **Quality control remains key focus**
 - MLL ensures vehicles follow stringent guidelines on maintenance and cleanliness; verified through regular inspections
 - Further, it ensures business partners' drivers are well trained, registered and are provided with uniform as per the applicable local regulations and clients' requirements

M&M revenue contribution to PTS remains limited...



...existing as well new clients to drive revenue growth

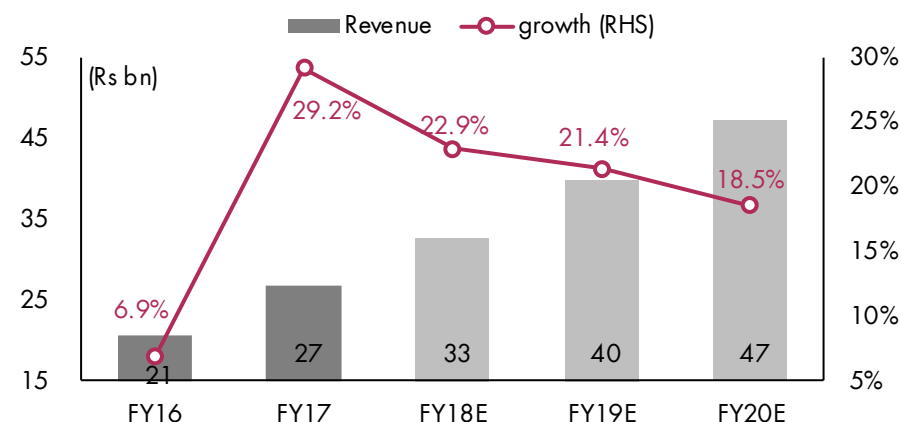


Financials

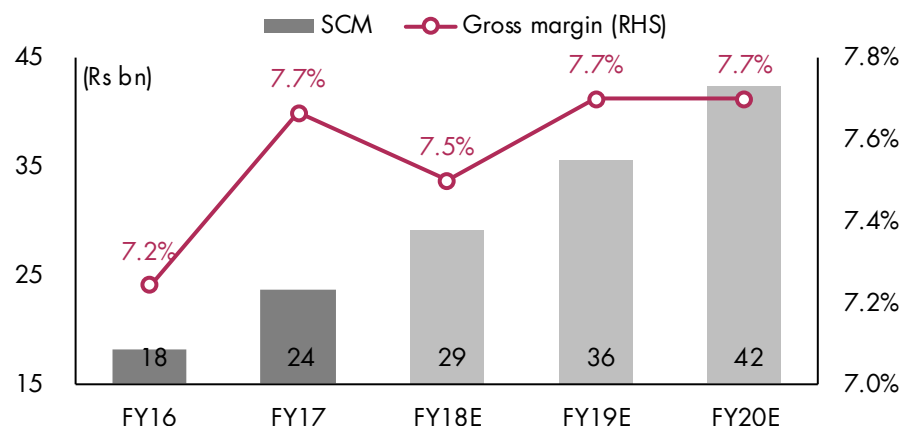
SCM business to drive revenue growth...

- ♦ GST to drive clients' focus on improving supply chain efficiency (and not tax-based efficiencies) resulting in streamlining logistics across verticals
 - This will drive 21% CAGR in MLL's SCM business
- ♦ PTS revenue to post 17% CAGR on addition of new clients across locations
- ♦ **Gross margin to remain largely stable** across SCM and PTS business, given focus on gaining scale across existing and new clients
 - Higher contribution from warehousing and value-added services may drive operating leverage benefits

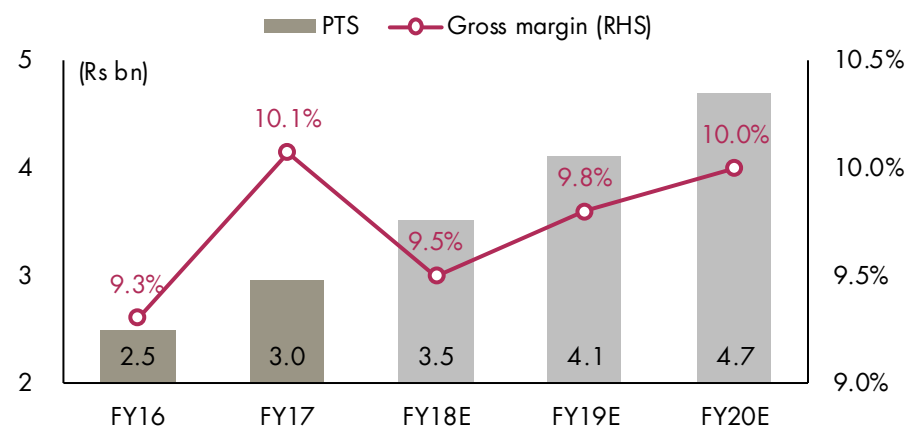
Revenue to post 21% CAGR over FY17-20E



SCM – Gross margin trend



PTS – Gross margin trend



...working capital requirements to remain limited

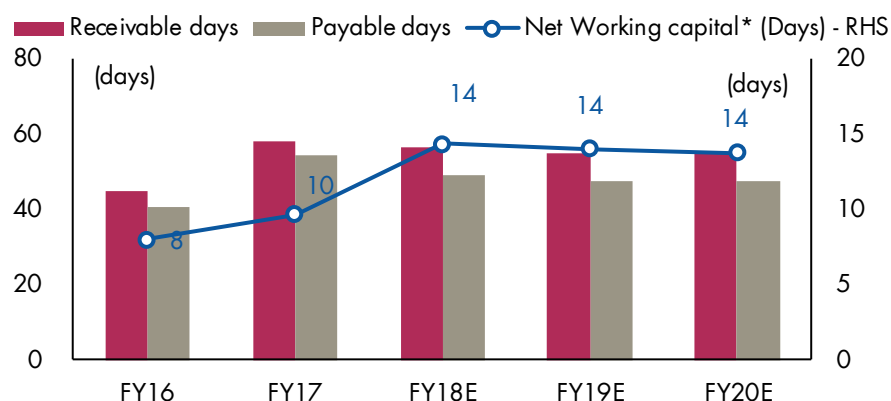
♦ Working capital requirement remains limited...

- Given MLL's service contract with clients is largely in sync with its warehousing lease arrangements (3-5 years each), there is limited working capital requirement
 - Advances for warehousing to continue, but advances for tax expected to reverse

♦ Expect non-Automotive business to post 40% CAGR

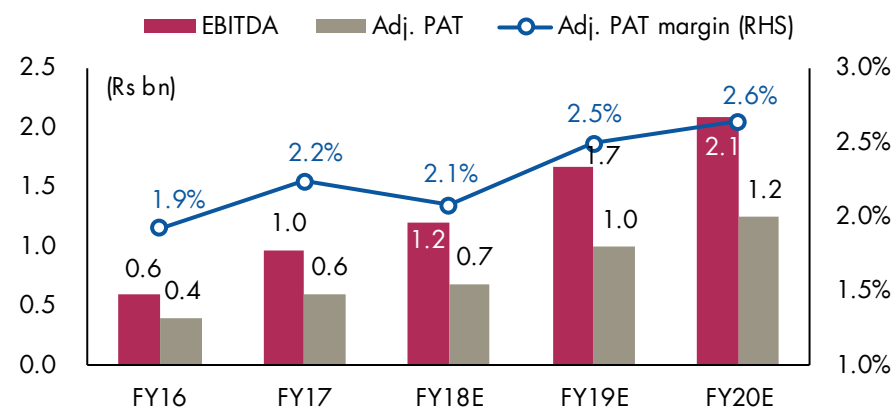
- This will be led by higher revenue from existing clients as well as revenue from new client additions
- Non-M&M group Automotive revenue to post 32% CAGR; M&M Automotive revenue expected at 4% CAGR over FY17-20E

Working capital trend

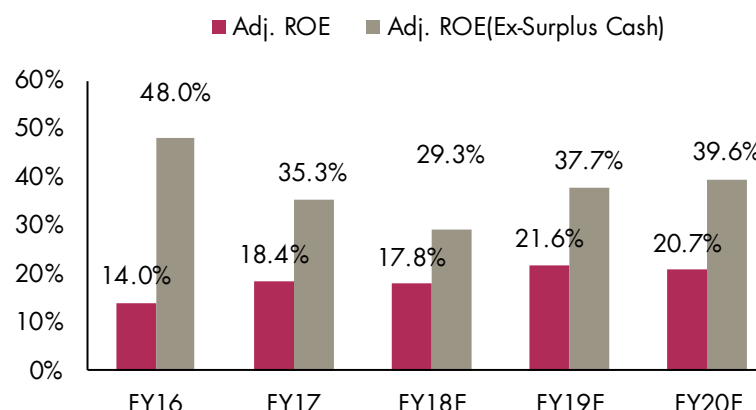


*Net working capital days calculated after considering Receivables, Other Current assets (ex-advance tax), payables and other current liabilities.

Expect 28% earnings CAGR



Firm return ratios given limited capex



Note: RoE (ex-surplus funds) excludes Cash, bank and current investments

Company financials (Consolidated)

Mahindra Logistics

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Profit & loss (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Net sales	26,666	32,775	39,788	47,162
Other operating income	-	-	-	-
Total operating income	26,666	32,775	39,788	47,162
Cost of goods sold	(23,815)	(29,310)	(35,496)	(42,063)
Gross profit	2,851	3,465	4,292	5,098
<i>Gross margin (%)</i>	<i>10.7</i>	<i>10.6</i>	<i>10.8</i>	<i>10.8</i>
Total operating expenses	(1,883)	(2,261)	(2,626)	(3,018)
EBITDA	968	1,203	1,666	2,080
<i>EBITDA margin (%)</i>	<i>3.6</i>	<i>3.7</i>	<i>4.2</i>	<i>4.4</i>
Depreciation	(146)	(182)	(222)	(258)
EBIT	822	1,022	1,444	1,822
Net interest	(35)	(43)	(56)	(62)
Other income	97	97	100	104
Profit before tax	884	1,075	1,487	1,863
Total taxation	(218)	(355)	(491)	(615)
<i>Tax rate (%)</i>	<i>24.6</i>	<i>33.0</i>	<i>33.0</i>	<i>33.0</i>
Profit after tax	662	716	992	1,244
Minorities	(4)	(4)	(4)	(4)
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	596	680	992	1,244
<i>Adj. PAT margin (%)</i>	<i>2.2</i>	<i>2.1</i>	<i>2.5</i>	<i>2.6</i>
Net non-recurring items	(206)	(100)	-	-
Reported net profit	457	616	992	1,244

Source: Company, Axis Capital

Balance sheet (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Paid-up capital	680	711	711	711
Reserves & surplus	2,797	3,517	4,513	5,761
Net worth	3,477	4,228	5,225	6,473
Borrowing	280	380	480	480
Other non-current liabilities	131	131	131	131
Total liabilities	3,935	4,787	5,883	7,132
Gross fixed assets	977	1,227	1,427	1,627
Less: Depreciation	(405)	(587)	(809)	(1,067)
Net fixed assets	572	640	618	560
Add: Capital WIP	50	50	50	50
Total fixed assets	622	690	668	610
Total Investment	684	684	684	684
Inventory	-	-	-	-
Debtors	4,121	5,080	5,968	7,074
Cash & bank	502	839	1,462	2,248
Loans & advances	864	590	716	849
Current liabilities	4,232	4,766	5,586	6,621
Net current assets	2,472	3,255	4,374	5,680
Other non-current assets	158	158	158	158
Total assets	3,935	4,787	5,883	7,132

Company financials (Consolidated)

Cash flow (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Profit before tax	884	1,075	1,487	1,863
Depreciation & Amortisation	146	182	222	258
Chg in working capital	(589)	(446)	(496)	(521)
Cash flow from operations	(293)	499	779	1,048
Capital expenditure	(243)	(250)	(200)	(200)
Cash flow from investing	534	(250)	(200)	(200)
Equity raised/ (repaid)	14	31	-	-
Debt raised/ (repaid)	44	100	100	-
Dividend paid	-	-	-	-
Cash flow from financing	24	88	44	(62)
Net chg in cash	265	338	623	785

Valuation ratios

Y/E March	FY17	FY18E	FY19E	FY20E
PE (x)	49.5	45.5	31.2	24.8
EV/ EBITDA (x)	29.7	24.8	17.6	13.7
EV/ Net sales (x)	1.1	0.9	0.7	0.6
PB (x)	8.5	7.3	5.9	4.8
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	(1.8)	0.8	1.9	2.7

Source: Company, Axis Capital

Key ratios

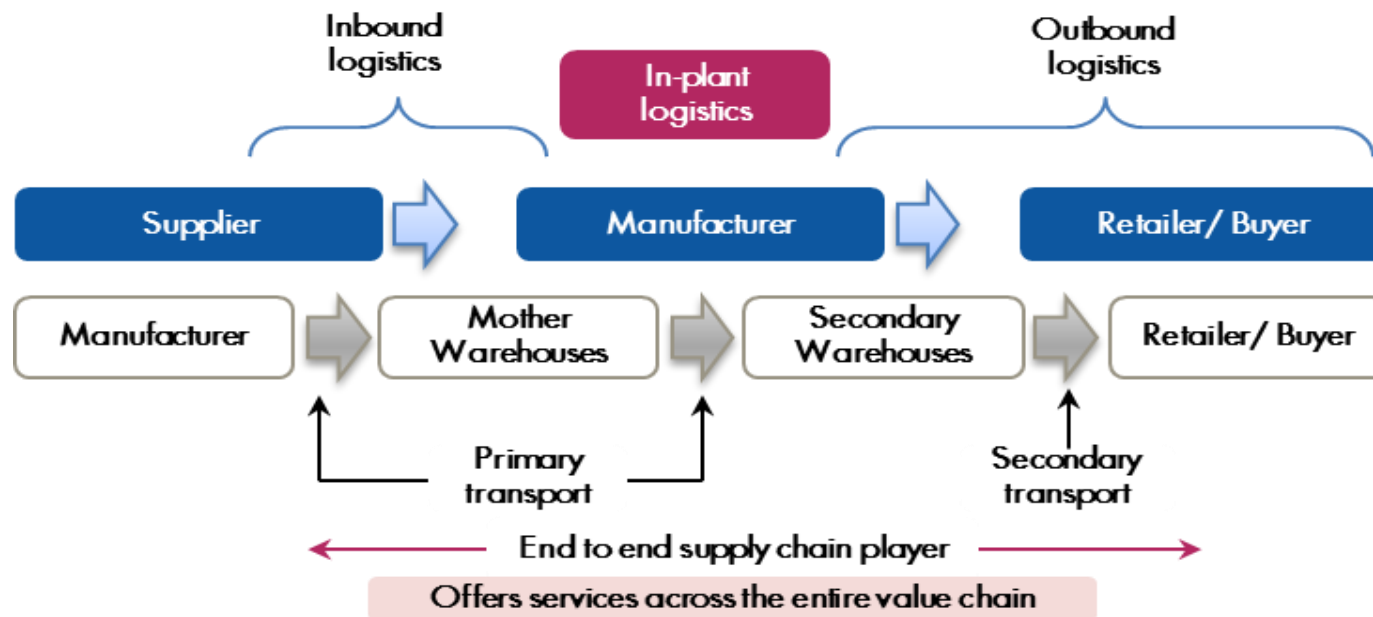
Y/E March	FY17	FY18E	FY19E	FY20E
OPERATIONAL				
FDEPS (Rs)	8.8	9.6	13.9	17.5
CEPS (Rs)	8.9	11.2	17.1	21.1
DPS (Rs)	-	-	-	-
Dividend payout ratio (%)	-	-	-	-
GROWTH				
Net sales (%)	29.2	22.9	21.4	18.5
EBITDA (%)	65.5	24.3	38.4	24.9
Adj net profit (%)	50.4	14.0	45.9	25.4
FDEPS (%)	32.3	9.0	45.9	25.4
PERFORMANCE				
RoE (%)	18.4	17.7	21.0	21.3
RoCE (%)	25.0	25.6	28.9	29.6
EFFICIENCY				
Asset turnover (x)	11.8	11.0	11.5	12.0
Sales/ total assets (x)	3.8	3.7	3.8	3.7
Working capital/ sales (x)	0.1	0.1	0.1	0.1
Receivable days	56.4	56.6	54.8	54.8
Inventory days	-	-	-	-
Payable days	58.3	54.2	52.6	52.7
FINANCIAL STABILITY				
Total debt/ equity (x)	0.1	0.1	0.1	0.1
Net debt/ equity (x)	(0.2)	(0.3)	(0.3)	(0.4)
Current ratio (x)	1.6	1.7	1.8	1.9
Interest cover (x)	23.6	23.8	25.8	29.2

Appendix

Appendix 1: India's Supply chain to undergo a massive change

- ♦ GST implementation will not only draw tax savings (input tax credit), but also drive streamlining of their logistics operations as business decisions will henceforth be focused on supply chain efficiency and not state-wise tax benefits
 - This in turn will increase business opportunities for organized service providers, as unorganized players will not be able to provide the required services unless they invest/ transform themselves into organized service providers
- ♦ Moreover post GST, erstwhile cost advantage of unorganized players (led by tax evasion given under-invoicing of cargo, overloading etc) will be wiped out, resulting in much bigger business growth opportunity for organized players

Logistics value chain



Appendix 2: 3PL market growth to be led by non-Automotive

- ♦ Seamless pan-India transportation will drive consolidation of distribution system (regional warehouses vs. state-wise warehouses, based on tax incentives earlier) will save inventory carrying cost
 - This will encourage outsourcing of logistics operations, driving operational efficiency
- ♦ Hub-and-spoke model to proliferate which will enhance requirement for line-hauls and last-mile connectivity

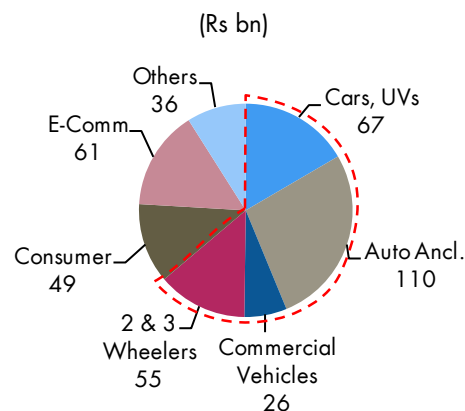
We believe organized 3PL service providers are well placed to offer customized, end-to-end integrated solution to clients. Ability to offer value added services and scale up across sectors (given flexibility in approach) to enhance clients' value accretion

Key growth drivers for 3PL

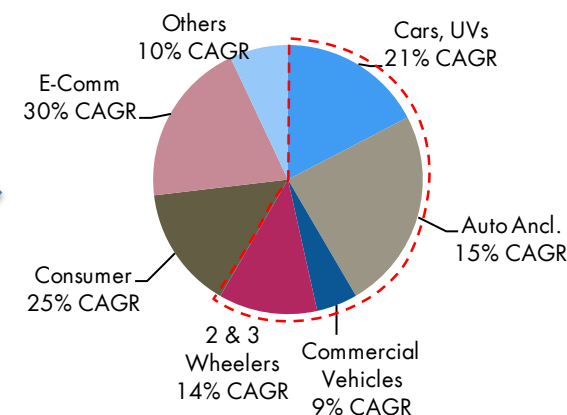


#3PL market size of Rs 330 bn ...

... to post 20% CAGR to Rs 575 bn



FY17



FY20

CRISIL expects Automotive 3PL market (64% of aggregate) to post 16% CAGR, while non-Automotive verticals to post 25% CAGR over FY17-20E

Appendix 3: Mahindra Logistics – key management personnel

**Chairman/
Non Executive Director**
Zhooben Bhiwandiwal

- ♦ Bachelor's degree in Commerce from University of Bombay and is a qualified CA
- ♦ Has over 31 years of experience in the finance, legal, significant cross border M&A, HR, marketing, strategy and other commercial functions
- ♦ Chairman of the HR Academy at the Mahindra Leadership University. He is the president of Mahindra Partners and group legal and member group legal executive board. Currently heads the Mahindra Partners division. and also a member of the global advisory board of i-Probono, UK, and Safe Kids Foundation, India.

Chief Executive Officer
Pirojshaw Sarkari

- ♦ Bachelor's Degree in Commerce from University of Mumbai and is qualified CA.
- ♦ Prior to joining the Company, he has served as senior management personnel in United Parcel Service Company, India and United Parcel Service Company, Manila, Philippines and Jetair Pvt. Ltd.

Chief Financial Officer
Nikhil Nayak

- ♦ Bachelor's Degree in Commerce from University of Bombay and is a qualified CA
- ♦ Received an award by Committee for Members in Industry, ICAI
- ♦ Prior to joining the Company, he has served as a senior management personnel in Bristlecone India Ltd., Pidilite Industries Ltd, Bombay Dyeing Manufacturing Company Ltd and ATIC Industries Ltd
- ♦ Selected to be amongst CFO India's 5th annual CFO 100 roll of honour.

Chief Operating Officer
Sushil Rathi

- ♦ Bachelor's Degree in Mechanical Engineering from Maulana Azad College of Technology, Bhopal University and a Post-Graduate Diploma in Industrial Engineering from National Institute for Training Industrial Engineering.
- ♦ Prior to joining the Company, he has worked with Anantara Solutions Private Ltd, the Premier Automobiles Ltd and Satyam Computer Services Ltd

VP - PTS
Rama Malik

- ♦ Bachelor's degree in Arts from University of Mumbai and a Master's degree in Business Administration from University of Pune.
- ♦ Previously worked with Hindustan Unilever (formely International Bestfoods), Kodak India Ltd and Writer Relocations, India

Disclaimer

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