

4<sup>th</sup> November 2020

CMP – ₹363.6/-

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## Quarterly Result Highlights

- **Higher SCM revenues as ramp up seen in E-commerce and Consumer segment** – Mahindra Logistics (MLL) reported strong sequential numbers on the back of higher SCM revenues and income-tax refunds. Supply Chain Management (SCM) segment reported a revenue growth of 6% YoY in Q2FY21 as ramp-up in E-commerce and Consumer segment (constituting 50% of Non-M&M SCM revenues) drove 17% YoY growth in Non-M&M non-automotive segment. Expect recovery in automotive demand from 2HFY21 and scale up of new contracts won through FY20-21 to drive SCM revenue growth through FY20-23. The key auto business reached pre-COVID levels for both M&M and non-M&M clients, driven by pent-up demand. Gross margin improvement was contained due to one-time cost related to project starts, higher freight expenses and volatility in pricing of services. The Enterprise Mobility segment (EM/PTS) reported another weak quarter with revenue at ₹287mn (-70.4% YoY) on weak demand from IT/ITES and financial services. The company generated meaningful free cash flow in 1HFY21 comparable to FY20 levels on account of release of working capital and release of pending income-tax refunds.
- **Market share in E-commerce at high teens** – The company has introduced flex solutions to allow ecommerce customers to capture the seasonal spike in demand in new geographies. Operating inside the customer network and infrastructure, the solution allows setup and takes down short-term warehousing capacity in a few weeks' time. The strength of flex solutions comes from the company's ability to work within the customer's network, which also allows expansion of service offering by the company.
- **Non-M&M SCM revenues deliver healthy growth print on low base** – A 16% YoY growth in non-M&M revenues should be seen in the context of base effects – weakness on loss of large customer in the bulk segment and modest seasonality due to an early festive season. The growth thus is well-spread across transportation (non-auto) and warehousing segments. While uptick in transportation revenues may have a pent-up effect, the growth in warehousing is commendable. Here MLL's express distribution and flex warehousing are adding to its existing offering. MLL expects the growth seen in E-commerce, consumer and auto to sustain in the coming quarters. The auto segment now accounts for less than one-fifth of the segmental revenues and almost half of the related warehousing and service revenue.
- **Expect business reaching pre-COVID levels in next few quarters** – Overall SCM revenues have reached near pre-COVID levels. Customer acquisition was strong during the quarter and the company added a few accounts from a leading capital goods company, consumer durable company, power tool manufacturer and freight forwarding. MLL continues to see opportunities in growth in warehousing services, multi-modal networks, omni-channel distribution, service integration and greater level of technology adoption
- **Order intake is up YoY** – There is more demand for solutions e.g. consolidation and network optimisation for transportation service. The company's focus market remains ecommerce, consumer and general manufacturing – lucrative both in terms of supply complexity and size of wallet.

## Important Statistics

<b>MCAP (₹bn)</b>	26.03
<b>52 Week H/L (₹)</b>	458 /199
<b>NSE Code</b>	MAHLOG
<b>BSE Code</b>	540768

  

<b>Shareholding pattern (%)</b>	<b>Sep'20</b>
Promoter	50.9
DII	31.2
FII	8.2
Public & Others	11.5

## Financials

Particulars	FY18	FY19	FY20	1HFY21
Revenue	34,161	38,513	34,711	12,430
EBITDA	1,256	1,502	1,597	373
EBITDA Margin (%)	3.7	3.9	4.6	3.0
Net Profit	653	856	551	14
Diluted EPS (₹)	8.8	12.0	7.7	0.2
DPS (₹)	1.5	1.8	1.5	
P/E (x)	41.1	30.2	47.0	
EV/EBITDA (x)	20.6	16.3	15.7	
P/BV (x)	6.2	5.2	4.8	
RoNW (%)	16.2	18.7	10.6	
RoCE (%)	25.5	18.0	12.2	

Source: Company Filing, Way2wealth Research

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Expect improving outlook for farm segment coupled with new contracts from defence, solar and other emerging business verticals of Mahindra group to offset weak automotive demand. Also the management is expecting healthy growth in Non-M&M warehousing and value-added services

- **Client addition in Q2FY21** – Some customer acquisitions/ further penetrations highlighted in Q2FY21 are: i) Glass company, ii) Electrical goods manufacturer in western part of India, iii) Distribution solution for a capital goods manufacturer (metro rail) in Kolkata, iv) The company is about to go live with a power tools manufacturer – BTS in Chennai. During Q2FY21, the company won one end-to-end solution logistics fulfillment contract for a large consumer durable company with targeted delivery to distributors. This has been a large contract win with 1-1.5 mn sq ft. space dedicated across India. Freight Forwarding business continues to show robustness with pharma clients of the company distributing across multiple parts of the US now.
- **While non-M&M warehousing revenue is increasing in double digits for the past couple of quarters**, warehousing space under management has not been following suit. There has been a decline in stockyards and stores and line feed operations pertaining to auto customers and those has been offset by external warehousing space, build to suit facilities for multiple clients. The new capacity added is also higher value add than the facilities that are being dropped off leading to higher revenue/sq.ft. In Q2FY21, the company added 0.8mn sq ft of BTS multi user facility. Further, flex solutions for ecommerce customers have been introduced, covering 12 locations and ~1 mn sq ft of warehousing space.
- **The management reiterated its ₹100bn revenue target by FY26** – 3PL + transportation addressable market size for the company is ₹1,200bn. Three basic assumptions behind ₹100bn revenue target are based on auto market recovery to 7% growth rate, favourable policy environment for 3PL and successful execution of strategy (across 3PL, Freight Forwarding including cross border, express and shared enterprise mobility).

#### View

Prolonging challenges on shared mobility continued to impact Passenger transport services (PTS) revenues. There are tailwinds in freight forwarding including cross border and integrated transportation service offerings. Given the push towards omni-channel that Covid-19 pandemic induced disruption has led to, MLL witnessed meaningful increase in demand in its sorting and fulfillment centres. Significant growth in e-market place augurs well for a profitable 3PL model with market share in high teens. The company has swift growth across sectors driven by changing demand patterns from clients as they look for integrated solutions and partly on pent-up demand. Recovery in non-M&M non-auto segment, new order wins and expansion in warehousing bode well for the coming quarters. **Expect limited capex due to asset light operations and healthy cash flows we continue to view it as a BUY with a fair price of ₹410-420.**

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## Key Performance Parameters

(₹ mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	1HFY21	1HFY20	YoY (%)
Net revenues	8,325	8,524	(2.3)	4,105	102.8	12,430	17,515	(29.0)
Gross margin	824	873	(5.6)	398	107.0	1,222	1,741	(29.8)
Gross Margin (%)	9.9	10.2		9.7		9.8	9.9	
EBITDA	456	408	11.8	6	7,500.0	373	867	(57.0)
EBITDA Margin (%)	5.5	4.8		0.1		3.0	5.0	
Net profit	150	142	5.6	-166	(190.4)	14	356	(96.1)
Diluted EPS (₹)	2.1	2.6		-2.2		0.2	5.0	

Source: Company Filing, Way2wealth Research

(₹ mn)

SCM Revenue breakup	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Mahindra	4,165	4,215	(1.2)	1,721	142.0
Non-Mahindra	3,874	3,338	16.1	2,205	75.7
Total	8,039	7,553	6.4	3,926	104.8

SCM Revenue by Service breakup	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Transportation	6,344	5,972	6.2	2,722	133.1
Warehousing & VAS	1,695	1,581	7.2	1,204	40.8
Total	8,039	7,553	6.4	3,926	104.8

SCM Revenue by Industry breakup	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Auto	4,868	4,851	0.4	2,075	134.6
Non-Auto	3,171	2,702	17.4	1,851	71.3
Total	8,039	7,553	6.4	3,926	104.8

Source: Company Filing, Way2wealth Research

## Non-Mahindra SCM Revenue breakup

SCM Non-Mahindra Service Wise Break-up (%)	Q2FY21	Q2FY20	Q1FY21
Warehousing	35	34	39
Transportation	65	66	61

SCM Non-Mahindra Industry Wise Break-up (%)	Q2FY21	Q2FY20	Q1FY21
Non-Auto	83	77	84
Auto	17	23	16

(₹ mn)

SCM Non-Mahindra by Service breakup	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Transportation	2,530	2,196	15.2	1,355	86.7
Warehousing & VAS	1,344	1,142	17.7	850	58.1
Total	3,874	3,338	16.1	2,205	75.7

Source: Company Filing, Way2wealth Research

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Name of the Security	Mahindra Logistics Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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