Angel Broking
Service Truly Personalized

October 30, 2017

Mahindra Logistics Limited

Asset light model backed by heavy growth

Mahindra Logistics Limited (MLL) is a part of Mahindra & Mahindra group and works as a 3rd party logistics services provider. MLL was incorporated in 2007 and has become one of largest 3rd party logistics solutions providers in India. MLL follows an asset light business model in which most assets (vehicles and warehouses) are owned /provided by its business partners. The company operates in two business segments i.e. Supply Chain Management (SCM) and corporate People Transport Solutions (PTS).

Operating in an attractive industry: Domestic logistics industry, valued at `6.4trillion, is expected to grow by ~13% to reach `9.2trillion by 2020. Within the industry, the 3rd party logistics segment is expected to witness a growth of ~21%. The industry is highly fragmented and post GST implementation, organized large players are expected to see improved cost structure and gain market share. We believe that MLL is operating in an industry with tailwinds.

Impressive growth in non-Mahindra revenues: MLL was dependent on its parent Mahindra and Mahindra to derive its revenue. In the last few years however, company has successfully diversified its business and 45% of its revenues are derived by non-Mahindra clients. Company has hired global consultant McKinsey to devise its sales strategy which has clearly helped the company to diversify and report a healthy growth rate of 17.5% in the top-line over last three years.

Strong return profile: While MLL reported EBITDA margins of 2.9% in FY2017 and 5 year PAT CAGR of 17.2%, the adjusted numbers show a different picture with 3.2% EBITDA margins and PAT CAGR of 25.2%. FY2017 adjusted ROE and ROIC also work out to be 17.3% and 40% respectively, far better than its peers.

Outlook and valuation: At the upper end of the price band (`425-`429), the issue is priced at 66.2x and 50.8x of its reported and adj. FY2017 earnings. Due to its asset light model, there is no exact comparable peer; however, the thumb rule for any investment is growth and returns. MLL has exhibited CAGR of 15% and 25% in top-line and adj. bottom-line respectively, which is better than its players i.e. VRL logistics and Transport Corporation of India. In terms of returns, company has shown a better return profile (ROE & ROIC of 17.3% and 40% v/s. peer group avg. – 13% & 14% respectively). **Based on its growth story, diversification strategy, strong parent repute and post GST attractiveness of the logistics sector, we assign Subscribe rating to the issue.**

Key Financials

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017
Net Sales	**1,751**	**1,931**	**2,064**	**2,667**
% chg	*14.3*	*10.3*	*6.9*	*29.2*
Net Profit	**37**	**39**	**36**	**46**
% chg	*49.9*	*5.2*	*(6.6)*	*28.1*
OPM (%)	2.9	3.0	2.5	2.9
EPS (Rs)	**5.9**	**6.6**	**5.3**	**6.6**
P/E (x)	83.4	79.2	84.9	66.2
P/BV (x)	24.5	11.5	10.1	8.8
Adj. RoE (%)	29.4	15.2	13.2	17.3
RoCE (%)	38.7	19.0	13.5	16.4
EV/Sales (x)	1.7	1.6	1.5	1.1
EV/EBITDA (x)	57.8	52.7	58.3	39.7

Source: Company, Angel Research

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Issue Open: October 31, 2017
Issue Close: November 02, 2017

Issue Details

Face Value: `10

Present Eq. Paid up Capital: `71.1cr

Offer for Sale: *1.9cr shares (*`821.62cr - **`829.36cr)

Fresh issue: Nil

Post Eq. Paid up Capital: `71.1cr

Issue size (amount): *`821.62cr -**`829.36cr

Price Band: `425-429

Lot Size: 34 shares and in multiple thereafter

Post-issue implied mkt. cap: *`3,023cr - **`3,052cr

Promoter and promoter group holding Pre-Issue: 74.64%

Employee reservation: 1.25 lakh shares(*`5.3cr - **`5.4cr)

Promoter and promoter group holding Post-Issue: 61.05%

**Calculated on lower price band*
*** Calculated on upper price band*

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

****Post Issue Shareholding Pattern**

Promoters Group	61.05
DIIs/FIIs/Public & Others	38.95

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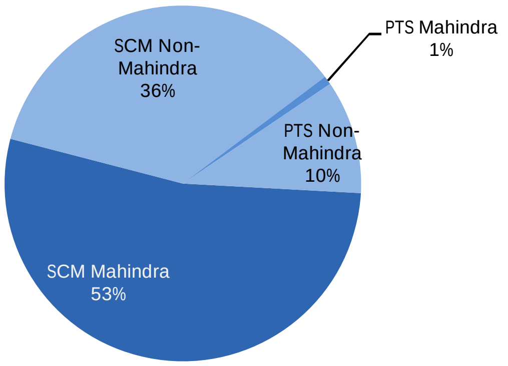
Company background

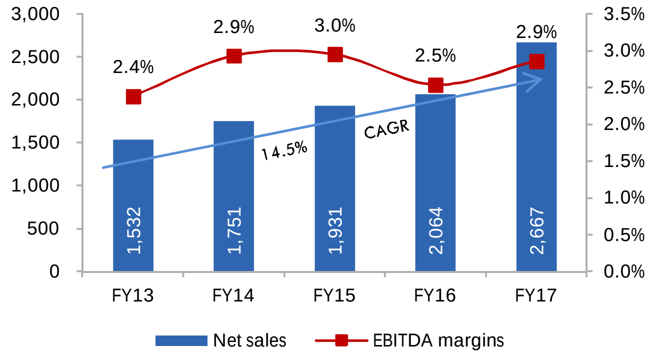
Mahindra Logistics Limited (MLL) is a part of Mahindra & Mahindra group and works as a third party logistics services provider (3PL). MLL was incorporated in 2007 and has become one of largest 3rd party logistics solutions providers in India. MLL follows an asset light business model in which most assets (vehicles and warehouses) are owned /provided by its business partners. The company operates in two business segments, Supply Chain Management (SCM) and corporate People Transport Solutions (PTS). MLL is a 3PL company involved into logistics, warehouse management, inbound and outbound activities, etc.

Exhibit 1: Business mix (FY17)



Source: Company, Angel Research, #JVs are not consolidated

Exhibit 2: Revenue growth and margin profile



Source: Company, Angel Research

Exhibit 3: Evolution of MLL's business

Year	Milestone
2000	Set-up of the logistics business as a separate division of Mahindra & Mahindra
2009	Logistics business transferred by M&M to MLL
2011	Achieves `1,000cr turnover
2014	Investment by Private equity players Normandy and Kedaara AIF Enters Ecommerce business
2015	Acquisition of Lords and JV with IVC to for 2X2 Logistics
2017	Achieves `2,500cr turnover

Source: Company, Angel Research

Business segments

Supply Chain Management business (SCM): This segment offers customized and end-to-end logistics solutions and services including transportation and distribution, warehousing, in-factory logistics and value added services to clients. It has a pan-India network comprising 24 city offices and over 350 client and operating locations as on May 2017. It has a large network of over 1,000 business partners providing vehicles, warehouses and other assets and services for the SCM business. Key clients in this business are Volkswagen India Private Limited, Vodafone India Limited, Thermax Limited, JSW Steel Limited, Ashok Leyland Limited, Siemens Limited, Bosch Limited, BMW India Private Limited, 3M India Limited, and Mercedes-Benz India Private Limited.

People Transport Solutions (PTS): This segment provides technology enabled people transportation solutions and services across India to over 100 domestic and multinational companies operating in the IT, BPOs, KPOs, financial services, consulting and manufacturing industries. It offers services through a fleet of vehicles provided by a large network of over 500 business partners. As on May 2017, the company operated PTS business in 12 cities and over 120 client operating locations across India. Key clients in India for the PTS business include Tech Mahindra Limited, AXISCADES Engineering Technologies Limited and ANZ Support Services India Private Limited.

MLL operates two subsidiaries named 2X2 Logistics Private Limited and Lords Freight (India) Private Limited.

Issue details

This is a 100% offer for sale (OFS) issue. Through this IPO, the promoter i.e. Mahindra and Mahindra will sell total 96.7 lakh shares (`411cr on the lower band and `415cr on the upper band) while equal no. of shares will be offloaded by PE investors i.e. Normandy Holdings and Kedaara AIF (Kedaara Capital Alternative Investment Fund). Normandy Holdings is a fully owned subsidiary of Kedaara Capital. Promoter, Mahindra and Mahindra's stake would come down to 58.77% after the IPO.

Kedara Capital had bought 22.99% stake in the company for `200cr in 2014 (implying the then market cap of `870cr). Kedaara Capital continues to hold 22.99% stake in MLL (pre issue), however after it sells 13.59% stake in the company through IPO, Kedaara capital's stake would come down to 9.4%.

Exhibit 4: Selling shareholders and pre and post IPO shareholding pattern

Entity name	Pre issue		Shares offered	Post-issue	
	No of shares held	% of total shares		No of shares held	% of total shares
Mahindra & Mahindra Limited (Promoter)	51,478,330	72.36%	9,666,173	41,812,157	58.77%
Partners' Enterprise (Promoter group)	1,622,147	2.28%	nil	1,622,147	2.28%
Promoter and Promoter group	53,100,477	74.64%	9,666,173	43,434,304	61.05%
Normandy	15,686,263	22.05%	9,271,180	6,415,083	9.02%
Kedaara AIF	668,304	0.94%	394,993	273,311	0.38%
Public	1,686,880	2.37%	nil	21,019,226	29.55%

Source: Company, Angel Research

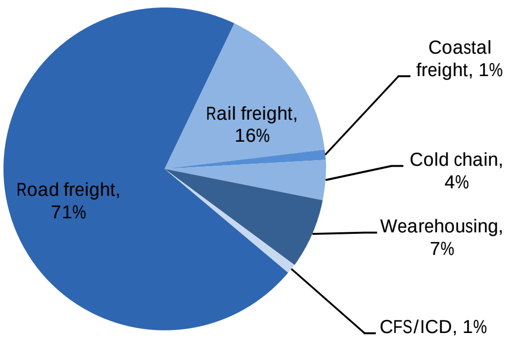
Objects of the fresh issue

- Achieve the benefits of listing the Equity Shares on the Stock Exchanges
- Enhance visibility and brand image and provide liquidity to the Shareholders
- Offer for sale for partial exit of existing shareholders

Investment Rationale

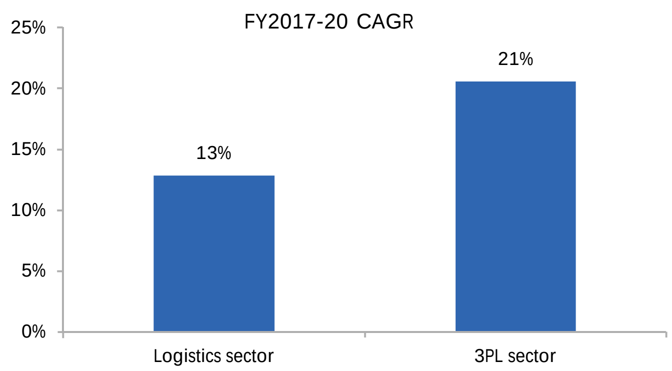
Logistics industry to grow at a CAGR of 13% over the next three years: India's logistics industry is estimated at `6.4 trillion in FY2017 and it is expected to grow at a CAGR of 13% to `9.2 trillion in FY2020. The logistics industry is dominated by transportation (~88% share of the logistics industry), which is expected to remain high over the next 3-4 years. Large segment of the industry is fragmented, hence dominated by the unorganized players. In warehousing too, there is scarcity of quality warehouses. The 3rd party logistics market (3PL) is valued at `325bn in 2017 (~5% of the total logistics sector), which is expected to grow at a CAGR of ~21% to reach to `570bn in 2020 (~6% of the total domestic logistic sector). 3PL companies are like one stop shop for the companies which can focus on the core tasks such as manufacturing by outsourcing their logistics operations to the 3PL companies. This growth push will be offered by sectors such as automobiles, e-commerce, consumer goods, organized retail and engineering.

Exhibit 5: Break-up of the domestic logistics sector



Source: Company, Angel Research

Exhibit 6: 3PL to grow faster than logistics industry

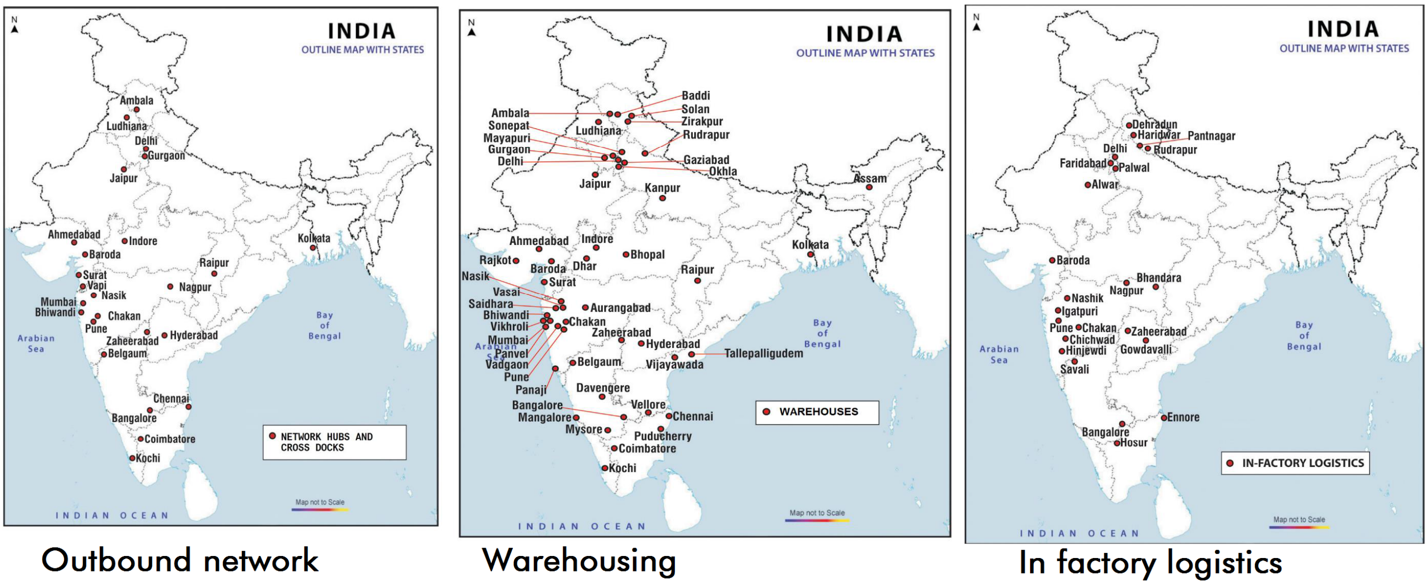


Source: Company, Angel Research

GST – Game changer for logistics sector: As the sector is largely fragmented, the share of the unorganized players is very high in this sector. The GST implementation in July 2017 is expected to help the manufacturing companies to aggregate state based warehouses into one large, regional warehouse that would offer cost and operational efficiency in large markets. As logistical inefficiency and primary transport costs decline, the hub-and-spoke model is expected to proliferate, which is expected to result in improved serviced levels. Implementation of GST will result in most business decisions being focused on supply chain efficiency and not on state-wise tax benefits. Many businesses have already started considering a complete redesign of their supply chain network. This will be a boon to the logistics sector and to the large organized players in the sector.

MLL an integrated player with pan India reach: MLL offers end-to-end logistics solutions and services such as transportation, distribution, warehousing, inbound and outbound logistics, etc. to its clients. In its SCM business it has a pan-India network comprising 24 city offices and over 350 client and operating locations as on May 2017. It has a large network of over 1,000 business partners providing vehicles, warehouses and the other assets and services for the SCM business. In its PTS business, company has over 100 domestic and MNC clients and offers services through a fleet of vehicles provided by a large network of over 500 business partners.

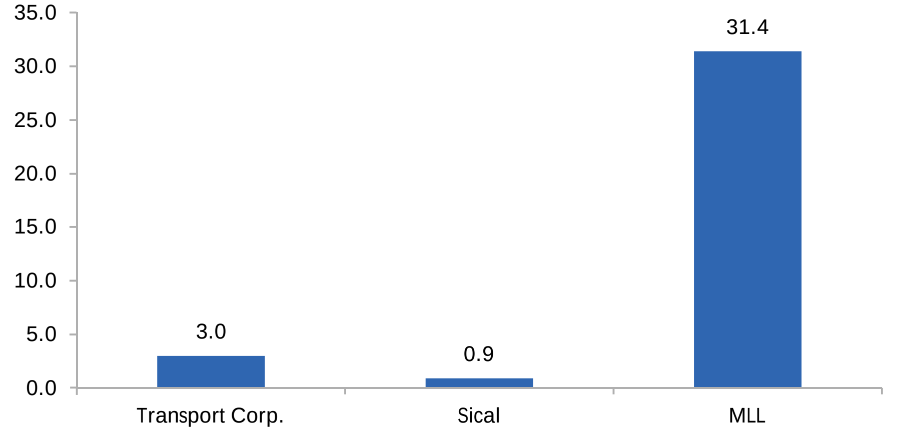
Exhibit 7: MLL’s pan India network



Source: Company, Angel Research

An asset light model: Unlike other players in the logistics industry, MLL operates an asset light model. It has a large network of over 1,000 business partners who offer vehicles, warehouses and the other assets and services. Company has over 10.0 million square feet of pan India warehousing space. Company also operates in-factory stores and line-feed at over 35 manufacturing locations. All the assets are owned by its large business partners hence, company does not require investing in the large capex expansion unlike other industry players.

Exhibit 8: MLL’s fixed asset T/O (x) is far higher than its peers



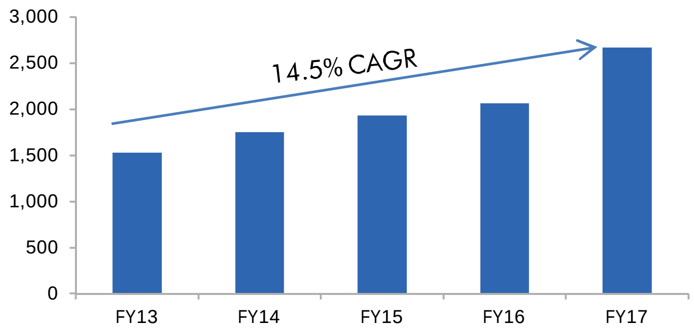
Source: Company, Angel Research, Capitaline, # based on FY17 numbers

This asset light model has given the company capabilities to serve over 200 domestic and multinational companies operating in several industry verticals in India. The asset light model offers considerable benefits such as improved scalability and flexibility of offerings to suit varied sectors and customers. With the advent of GST, the asset light model looks better placed as it has been tested with great success in the pre-GST era. We believe that asset light model is scalable and hence, large organized service providers like MLL will be better positioned to acquire a larger share of the logistics market in the long term.

MLL has exhibited a track record of faster growth – MLL, despite having a high dependence on its strong parent, has shown a faster revenue growth due to its diversification in other industries. The company's emphasis has been to grow the non-Mahindra business, which has clearly helped it to grow faster than the industry and within a few years of operations, the company has become one of the largest players in the industry (B2B logistics).

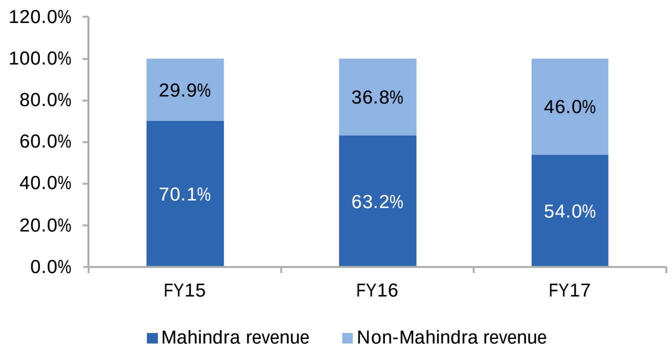
While the other industry players were growing at the rate less than 10%, MLL has managed to grow at the rate of 15% between FY2013-17. The company hired global consultant McKinsey in 2015 to scale up its business, especially that of the non-Mahindra segment and results are clearly visible with the 17.5% top-line CAGR between FY2015-17. During this period, its non-Mahindra revenue in SCM business grew at 64.5% CAGR. In FY2015, Mahindra group contributed 70% of its business, which has changed to 54% by FY2017.

Exhibit 9: 14.5% revenue growth



Source: Company, Angel Research

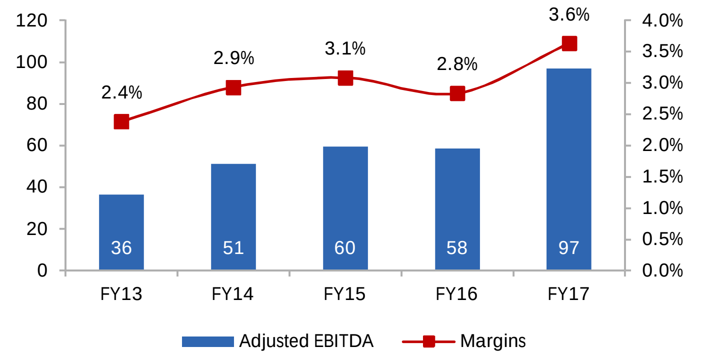
Exhibit 10: Decreasing dependence on MnM



Source: Company, Angel Research

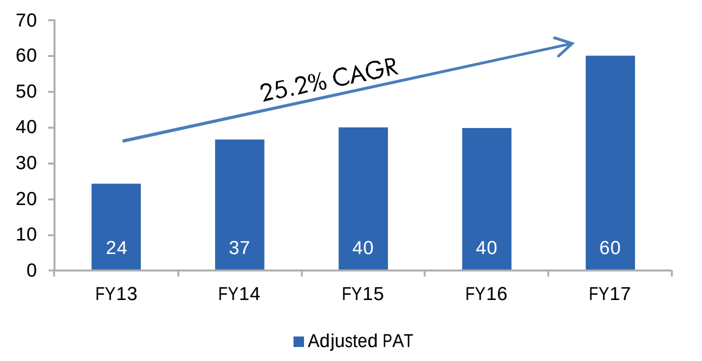
Financial performance: Owing to the diversification in the various industries and growing non-Mahindra revenue, company reported 14.5% CAGR in the net sales over FY2013-17. During this period, its peers grew by <10% rate, indicating that asset light model garnered higher market share in the 3PL industry. On the margins front, company saw margins improving from 2.4% in FY2013 to 2.9% in FY2017. Adjusted for the consultant fees paid to McKinsey, the FY2017 EBITDA margins work out to be 3.6%, indicating a 125bps appreciation in the EBITDA margins since FY2013. The company's PAT CAGR during this period works out to be 17.2%, however adjusted PAT CAGR works out to be 25.2%.

Exhibit 11: 125bps expansion in adj. EBITDA margins



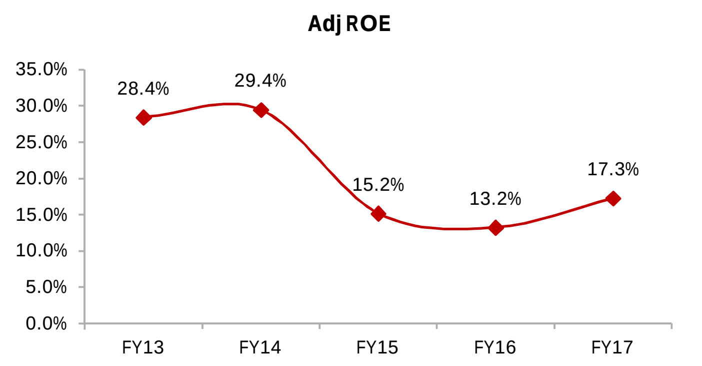
Source: Company, Angel Research

Exhibit 12: 25.2% CAGR in Adj. PAT



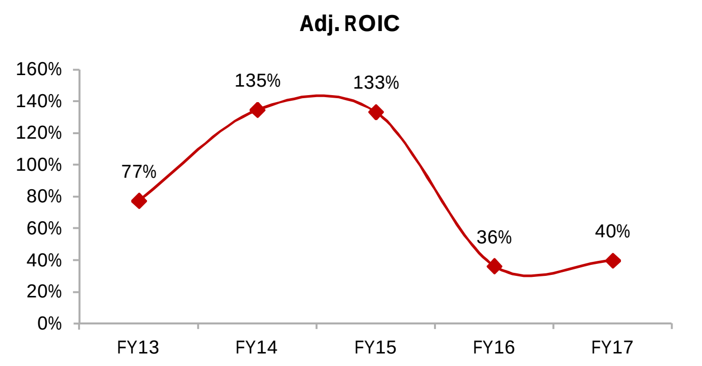
Source: Company, Angel Research

Exhibit 13: Adj. ROE



Source: Company, Angel Research

Exhibit 14: Adj. ROIC



Source: Company, Angel Research

Outlook and Valuation:

At the upper end of the price band (`425-`429), the issue is priced at 66.2x and 50.8x of its reported and adj. FY2017 earnings. Due to its asset light model, there is no exact comparable peer; however, the thumb rule for any investment is growth and returns. MLL has exhibited CAGR of 15% and 25% in top-line and adj. bottom-line respectively, which is better than its players i.e. VRL logistics and Transport Corporation of India. In terms of returns, company has shown a better return profile (ROE & ROIC of 17% and 40% v/s. peer group avg. – 13% & 14% respectively). **Based on its growth story, diversification strategy, strong parent repute and post GST attractiveness of the logistics sector, we assign Subscribe rating to the issue.**

Downside risks

- Slowdown in the parent's business
- Consolidation by mid-sized players in the sector

Income statement

Y/E March (` cr)	FY14	FY15	FY16	FY17
Net Sales	**1,751**	**1,931**	**2,064**	**2,667**
% chg	*14.3*	*10.3*	*6.9*	*29.2*
Total Expenditure	**1,699**	**1,874**	**2,012**	**2,590**
Personnel Expenses	88	123	151	188
Others Expenses	1,611	1,751	1,861	2,402
EBITDA	**51**	**57**	**52**	**76**
% chg	*40.7*	*11.1*	*(8.1)*	*45.7*
(% of Net Sales)	*2.9*	*3.0*	*2.5*	*2.9*
Depreciation& Amortisation	3	6	8	15
EBIT	**48**	**51**	**44**	**62**
% chg	*44.0*	*5.9*	*(13.5)*	*39.9*
(% of Net Sales)	*2.7*	*2.6*	*2.1*	*2.3*
Other income	6	9	13	10
Interest & other Charges	0	0	1	3
Recurring PBT	**54**	**59**	**56**	**68**
% chg	*50.1*	*9.1*	*(5.5)*	*21.2*
Exceptional Items	-	-	-	-
PBT (reported)	**54**	**59**	**56**	**68**
Tax	18	21	20	22
(% of PBT)	*32.6*	*35.0*	*35.7*	*32.1*
PAT before MI	**37**	**39**	**36**	**46**
Minority Interest (after tax)	-	-	-	-
PAT after MI(reported)	**37**	**39**	**36**	**46**
Exceptional Items	-	-	-	-
Reported PAT	**37**	**39**	**36**	**46**
% chg	*49.9*	*5.2*	*(6.6)*	*28.1*
(% of Net Sales)	*2.1*	*2.0*	*1.7*	*1.7*
Basic EPS (`)	**6.3**	**6.6**	**5.4**	**6.7**
Fully Diluted EPS (`)	**5.9**	**6.6**	**5.3**	**6.6**
% chg	*45.2*	*12.5*	*(19.1)*	*24.4*

Source: DRHP, Angel Research

Balance Sheet

Y/E March (` cr)	FY14	FY15	FY16	FY17
SOURCES OF FUNDS				
Equity Share Capital	59	60	60	68
Reserves& Surplus	65	205	242	280
Shareholder's Funds	**124**	**265**	**302**	**348**
Minority Interest	-	4	3	5
Total Loans	-	4	24	28
Other long term liabilities	2	2	2	0
Long-term provisions	6	9	12	13
Deferred Tax Liability	-	0	-	-
Total Liabilities	**133**	**283**	**342**	**394**
APPLICATION OF FUNDS				
Gross Block	19	30	61	85
Less: Acc. Depreciation	5	9	16	29
Net Block	**14**	**21**	**45**	**56**
Intangible assets	1	5	5	6
Investments	0	110	68	58
Capital Work in Progress	0	0	2	1
Other noncurrent assets	32	26	55	79
Current Assets	**287**	**357**	**416**	**618**
Sundry Debtors	153	199	245	412
Cash	87	52	24	50
Loans & Advances	-	10	27	25
Other Assets	47	95	120	130
Current liabilities	**202**	**236**	**249**	**423**
Net Current Assets	**85**	**121**	**167**	**194**
Total Assets	**133**	**283**	**342**	**394**

Source: DRHP, Angel Research

Cash Flow Statement

Y/E March (` cr)	FY14	FY15	FY16	FY17
Profit before tax	54	59	56	68
Depreciation	3	6	8	15
Change in Working Capital	5	(21)	(67)	(61)
Interest / Dividend (Net)	(6)	(7)	(10)	(4)
Direct taxes paid	(11)	(15)	(38)	(52)
Cash Flow from Operations	**49**	**27**	**(48)**	**(29)**
(Inc.)/ Dec. in Fixed Assets	(10)	(11)	(35)	(24)
(Inc.)/ Dec. in Investments	6	(154)	36	78
Cash Flow from Investing	**(4)**	**(165)**	**1**	**53**
Issue of Equity	1.8	101.2	-	1.4
Inc./(Dec.) in loans	-	2.0	19.6	4.4
Dividend Paid (Incl. Tax)	-	-	-	-
Interest / Dividend (Net)	(0.1)	(0.2)	(1.2)	(3.3)
Cash Flow from Financing	**2**	**103**	**18**	**2**
Inc./(Dec.) in Cash	46	(35)	(28)	27
Opening Cash balances	41	87	52	24
Closing Cash balances	**87**	**52**	**24**	**50**

Source: DRHP, Angel Research

Key Ratios

Valuation Ratio (x)	FY14	FY15	FY16	FY17
P/E (on FDEPS)	83.4	79.2	84.9	66.2
P/CEPS	76.6	68.5	69.0	50.3
P/BV	24.5	11.5	10.1	8.8
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/Sales	1.7	1.6	1.5	1.1
EV/EBITDA	57.8	52.7	58.3	39.7
EV / Total Assets	8.8	5.8	5.2	3.7
Per Share Data (`)				
EPS (Basic)	6.3	6.6	5.4	6.7
EPS (fully diluted)	6.3	6.6	5.4	6.7
Cash EPS	5.6	6.3	6.2	8.5
DPS	0.0	0.0	0.0	0.0
Book Value	17.5	37.2	42.4	48.9
Returns (%)				
ROCE	38.7	19.0	13.5	16.4
Angel ROIC (Pre-tax) Adj.	134.7	133.3	36.3	39.8
ROE Adj.	29.4	15.2	13.2	17.3
Turnover ratios (x)				
Asset Turnover (Gross Block)	91.5	63.6	33.9	31.4
Receivables (days)	32	38	43	56
Payables (days)	39	41	39	53
Working capital cycle (ex-cash) (days)	(8)	(4)	4	4
Solvency ratios (x)				
Net debt to equity	(0.7)	(0.2)	(0.0)	(0.1)
Net debt to EBITDA	(1.7)	(0.8)	(0.0)	(0.3)
Interest Coverage (EBIT / Interest)	874.2	139.6	33.4	17.7

Source: DRHP, Angel Research, #ROIC is adjusted for consultancy charges in PL statement and Income Tax Assets in BS

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