

IPO UPDATE

Mahindra Logistics Limited

Industry:

According to Press Information Bureau (“PIB”), as at May 2017, India’s logistics cost as a percentage of GDP is 13-14%. According to the CRISIL Report, the Indian logistics industry comprising segments such as road freight, rail freight, coastal freight, warehousing, cold chain and container freight stations and inland container depots (“CFS/ ICD”) is estimated at Rs.6.4 trillion in Fiscal 2017. This is expected to grow at a CAGR of approximately 13.0% to Rs.9.2 trillion by Fiscal 2020. The industry is dominated by transportation, which accounts for approximately 88%, and its share is expected to remain high over the next 3-4 years.

The CRISIL Report has estimated the Third Party Logistic (3PL) market in India at Rs325-335 billion in Fiscal 2017, which is expected to grow at a CAGR of 19-21% to reach Rs570-580 billion by Fiscal 2020. The share of 3PL in the overall logistics spend of the segments stated below is expected to increase from approximately 21% in Fiscal 2017 to approximately 25% in Fiscal 2020.

Sector	3PL Market Size (Rs bn)		CAGR between FY17 to FY20 In %
	FY17 (Rs bn)	FY20 (Rs bn)	
Auto Components	108-112	165-170	14-16
Car and UVs	66-68	119-121	20-22
Commercial vehicles and tractors	25-27	33-35	8-10
Two and Three Wheelers	54-56	81-83	13-15
Engineering	3-5	6-8	20-22
E Commerce	59-62	134-140	30-32
Consumer durable and FMCG	20-22	39-43	24-26
Pharmaceuticals	22-24	29-31	8-10
Bulk	8-10	10-12	6-8
Organized retail	27-29	60-62	29-31
telecom	0.2-0.4	0.2-0.4	-

Source: Red Herring Prospectus

About the company:

The company is one of the India’s largest third party logistic solution provider (3PL solutions providers) in the Indian logistics industry which was estimated at Rs6.40 trillion in Fiscal 2017, according to the CRISIL Report.

The competitive advantage that the company possess is the “asset-light” business model pursuant to which assets necessary for the operations such as vehicles and warehouses are owned or provided by a large network of business partners. The technology enabled, “asset-light” business model allows for scalability of services as well as the flexibility to develop and offer customized logistics solutions across a diverse set of industries.

The company operates in two distinct business segments, supply chain management (“SCM”) and corporate people transport solutions (“PTS”).

Under SCM business, the company consults with, and design supply chain solutions for their clients’ which range from transportation (which may be network-based or a bespoke operation), warehousing (including multi-user as well as built-to-suit facilities), in-factory logistics (in order to effectively manage the movement and storage within a manufacturing facility), international freight forwarding and certain value added services (such as packaging, bundling, quality checks and kit-building).

SNAPSHOT	
Issue Opens	Tuesday, October 31, 2017
Issue Closes	Thursday, November 02, 2017
Price Band	Rs425 to Rs429
Bid Lot	34 shares and multiples thereafter
Face Value	Rs10
Listing	BSE & NSE
Type of Issue	Offer for Sale (OFS)
Offer Size	OFS- Rs8294 mn
Implied Market Cap	Rs30,173 mn
PE (based on FY17 earning)	65.5

Details of Selling Shareholder & No of Shares	
Mahindra & Mahindra Ltd	96,66,173
Normandy	92,71,180
Kedaara AIF	3,94,993
Total	1,93,27,346

Issue allocation	
Reservations	% of Net Issue
QIB	50%
NIP	15%
Retail	35%
Total	100%

Object of the offer	
<ul style="list-style-type: none"> To achieve the benefits of listing the Equity Shares on the Stock Exchanges. To enhance visibility, brand image and provide liquidity to the shareholders. 	

Last 3 year Summarized Financials			
Rs(mn)	FY15	FY16	FY17
Revenue	19,309	20,639	26,666
EBITDA	570	523	762
EBITDA %	2.95	2.54	2.86
PAT	385	360	461
PAT %	2.00	1.74	1.73

Last 3 year Summarized Cash flow			
Rs(mn)	FY15	FY16	FY17
Cash flow from Operation	268	(479)	(293)
Cash flow from Investing	(1648)	10	534
Cash flow from financing	1029	184	24

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About the company : (Contd)

The company operates SCM business through a pan-India network which comprised 24 city offices and serves over 200 clients, such as 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 in the automotive, engineering, consumer goods, pharmaceuticals, e-commerce and bulk industry verticals.



Source: Red Herring Prospectus

Under PTS business, the company provides technology-enabled people transportation solutions and services across India to over 100 domestic and multinational companies operating in the IT, ITeS, business process outsourcing, financial services, consulting and manufacturing industries

As at May 31, 2017, company operates PTS business in 12 cities and over 120 client operating locations across India. Certain key clients in India of PTS business include Tech Mahindra Limited, AXISCADES Engineering Technologies Limited and ANZ Support Services India Private Limited.

Segment wise and Year wise along with their percentage contribution to the total revenue has been tabled below :

Rs(mn)	FY15		FY16		FY17	
SCB Business	16,790	86.9%	18,138	87.8%	23,715	88.9%
PTS Business	2,519	13.1%	2500	12.2%	2,950	11.1%
Total	19,309	100%	20,639	100%	26,666	100%

Source: Red Herring Prospectus

Risk factors:

(a) Dependence on the Mahindra Group :

The Mahindra Group constituted the largest client group. Set out below are details of the revenue in Fiscals 2017, 2016 and 2015 which was attributable to services provided to the Mahindra Group and other clients, respectively.

Clientele wise revenue						
Rs(mn)	FY15		FY16		FY17	
Mahindra group Client	13,542	70%	13,053	63%	14,388	54%
Non Mahindra group client	5766	30%	7,586	37%	12,277	46%
Total	19,309	100%	20,639	100%	26,666	100%

Source: Red Herring Prospectus

Financials

Consolidated Rs (mn)	FY13	FY14	FY15	FY16	FY17
Revenue	15,355	17,570	19,396	20,771	26,763
Expenses	14,994	17,027	18,803	20,212	26,084
PBT	363	543	592	559	678
Tax	117	177	207	200	218
PAT	244	366	385	360	461
EPS (basic)	4.23	6.33	6.60	5.37	6.70
Book value per Share (BVPS)	14.89	21.49	45.09	44.81	51.83
Return on net Worth % (RONW)	28.4	29.5	14.4	11.8	13.1

Source: Red Herring Prospectus

Outlook and Recommendations:

The company has an asset light model which provides the flexibility and scalability in operations and high capital efficiency. However, the dependency on the automotive industry and limited number of clients exposes it to high risk of client concentration and dependency on performance of a particular industry. In terms of valuations, on the upper price band of Rs429, and EPS of Rs6.7, the P/E ratio works out to be 64x. Although the company has no direct peers for comparison, it seems to be highly priced. The IPO would be an avoid and can be invested into post listing.

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