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IPO note: Mahindra Logistics Ltd. (MLL) - "SUBSCRIBE": Robust play in logistics with strong parentage..

Mahindra & Mahindra Group company Mahindra Logistics Ltd.'s IPO will be the first public offering from the USD 19 bn Group after a decade. It is the first 3PL (3rd Party Logistics) player to tap the Indian capital market and also the first logistics company to tap the Indian capital market after GST implementation. MLL's IPO comes on the heels of highly successful logistics company IPOs seen in recent years. MLL is best positioned to tap vast opportunities in the 3PL business. CRISIL Report has estimated the 3PL market in India at Rs.32,500-33,500 crore in Fiscal 2017, which is expected to grow at a CAGR of 19-21% to reach Rs.57,000-58,000 crore by 2020. The Logistics spend in India is 13% of the GDP stated to be Rs.6 lakh crore rupees in 2017 and stated to grow to Rs.9 lakh crore in 2020 at a CAGR of 13%

Looking at the vast growth potential, in FY14, Kedaara and Normandy invested in MLL and were the top shareholders along with the Mahindra & Mahindra Group. An asset light, integrated, end-to-end, tech driven 3PL company, MLL had revenues of Rs. 2,600 crore revenue in FY17 growing a CAGR of 15% over last 5 years; 13,900+ work force across India; 470+ client and operating locations across India. MLL has a large network of over 1,500 for its SCM and PTS businesses. MLL went through a business transformation initiative in FY15 and in FY17, it saw impressive results, wherein its turnover was Rs. 2,600 crore with 46% of that coming from outside of M&M and this 46% has grown at a CAGR of more than 65% over the last 4 years. The revenue from operations of SCM business attributable to non-Mahindra Group clients increased by a CAGR of 64.45% to Rs. 952.78 crore in FY 2017 from Rs. 352.31 crore in FY15. In fact, MLL added Rs. 500 crore of turnover in just one year from FY16 to FY17.

MLL's adjusted PAT witnessed CAGR of 22.26% to Rs. 60.04 crore in FY2017 from Rs. 40.17 crore in FY 2015. Being an asset light company MLL's adjusted ROE (excluding Surplus Funds) was an impressive 33.77% in FY17 – the amongst the highest in the 3PL organized sector. MLL's asset light business model leads to High Return on Equity, Low Cap Ex requirements, Low Working Capital requirements and Economic resilience due to low fixed costs

MLL serves industry verticals like automotive, engineering, consumer goods, pharmaceuticals, e-commerce and bulk. MLL's marquee clients include Volkswagen, Vodafone, Thermax, JSW Steel, Ashok Leyland, Siemens, Bosch, BMW India, 3M India, and Mercedes-Benz in the Supply Chain Management business and Tech Mahindra and ANZ Support in the People Transport Solutions business. MLL works with both the Top 2 e-commerce players and its service offerings include an innovative last-mile distribution service, transportation services for large appliances and management of fulfillment centers. Its revenues from clients operating in the e-commerce industry have increased at a CAGR of 110.67% to Rs. 212.75 crore in FY 2017 from Rs.47.94 crore in FY 2015. MLL's retention ratios are very good, with 92% retention rates over 2 years for top 25 SCM non-Mahindra Group clients

As at August 31, 2017, MLL managed over 10.0 million square feet of warehousing space spread across pan-India network of multi-user warehouses, built-to-suit warehouses, stockyards, network hubs and cross-docks. As at August 31, 2017, MLL operated in-factory stores and line-feed at over 35 manufacturing locations. Recently set up warehouse in Gurugram which is well connected to several manufacturing and consumption clusters in India and has an aggregate warehousing space of 191,000 square feet. It is also in the process of setting up additional large format, multi-user warehouses in certain strategic locations on a long-term lease basis. The locations for these multi-user warehouses take into consideration the post-GST demand patterns likely to emerge and how it intends to position itself to ideally serve clients' needs.

IPO note date 30th October, 2010

Issue date	Oct. 31 – Nov. 2, 2017
Type of issue	Offer for sale: 19.3 mn equity shares
Face Value	Rs. 10
Price Band	Rs. 425 – Rs. 429
Employee discount	Rs. 42
Issue allocation	QIB: 50% HNI: 15% Retail: 35%
Lot size	34 shares and in multiple thereof
Equity shares post issue	71.14 mn
Post issue market cap	Rs. 30.2 bn
Book Running Lead Managers	Kotak Mahindra Capital and Axis Capital

Registrar to the issue	Link Intime		
Y/e 31 Mar (Rs. cr)	Q1FY18	FY17	FY16
Revenues	852	2,667	2,064
EBITDA (%)	3.2	2.9	2.5
PAT	15	46	36
PAT (%)	1.76	1.72	1.74
EPS (Rs.)	8.56**	6.6	5.3
P/E (x)	50	66	85
P/BV (x)	-	8.8	10.1
ROE (%)	-	17.3	13.2
ROCE (%)	-	16.4	13.5

Source: RHP, Ajcon Research, *annualized Q1FY18EPS

Investment recommendation and rationale

At the upper end of the price band of Rs. 429, the IPO is valued at 66x on FY17 EPS and 50x on annualized Q1FY18 EPS which we believe is at a premium due to its asset light business model and high growth opportunity. With due consideration to factors like a) strong parentage, b) vast opportunities presented in third party logistics industry, c) total logistics market expected to cross Rs. 9.2 tn with 3PL market at Rs. 570-580 bn by FY 2020 (19-20% CAGR), d) asset light business model which others players in the logistics industry do not have, e) long standing relationship with marquee clients f) impressive financial performance with topline CAGR of 22 percent+ and strong ROCE of 16.4 percent, g) logistics sector being strong beneficiary post GST implementation, we recommend "SUBSCRIBE" to the issue.



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About its Subsidiary

MLL's subsidiary, 2X2 Logistics, provides logistics and transportation services to OEMs to carry finished automobiles from the manufacturing locations to stockyards or directly to the distributors through specially designed vehicles. MLL's other subsidiary, Lords, provides international freight forwarding services for exports and imports, customs brokerage operations, project cargo services and charters. In Lords it has recently added the capability to manage air freight charters. MLL's customers see international freight forwarding as an important component of overall service offering. In 2x2, it has invested in specialized car carriers. It is in the process of building a bespoke technology backbone for the business. It is rolling out technology such as IoT in the 2x2 business. One of India's largest automotive players gave MLL an entry because it was able to provide customized trailers through 2x2.

Growth Strategy

MLL will tap new business opportunities include cold chain solutions in pharmaceuticals, logistics centers in industrial parks, project logistics, over dimensional cargo, coastal shipping and inland waterways and multi-modal logistics in SCM business.

Objects of the Issue

It is an offer for sale issue; hence the company will not receive any proceeds from the IPO.

Offer for sale

The initial public offering of up to 1,93,32,346 equity shares comprises of an offer for sale of up to 96,66,173 shares by promoter Mahindra & Mahindra; up to 92,71,180 shares by Normandy Holdings; and up to 3,94,993 shares by Kedaara Capital Alternative Investment Fund – Kedaara Capital AIF 1.

The offer, which constitutes 27.17 percent of post-offer paid-up equity share capital, includes a reservation of up to 1,25,000 shares for subscription by eligible employees who will get shares at a discount of Rs 42 per equity share on the offer price.



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