Analyst: Raj Bardhan Kumar Singh Vol: - IPO/2017/10/30/1.0 30th October 2017

Mahindra Logistics Limited

Incorporated in 2008, India's largest 3PL solutions providers in the Indian logistics industry which was estimated at Rs.6.40 trillion in Fiscal 2017, according to the CRISIL Report. They believe that their competitive advantage 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. Their 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. They operate in two distinct business segments, **SCM and corporate PTS**.

SCM business: They offer customized and end-to-end logistics solutions and services including transportation and distribution, warehousing, in-factory logistics and value added services to the clients. They operate SCM business through a pan-India network comprising 24 city offices and over 350 client and operating locations as at May 31, 2017. They have a large network of over 1,000 business partners providing us vehicles, warehouses and the other assets and services for their SCM business.

Set out below is a graphical representation of the SCM services as well as integrated, end-to-end solutions

Certain key clients for the SCM business include 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

PTS business: They provide 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. They offer their services through a fleet of vehicles provided by a large network of over 500 business partners.
As at May 31, 2017, they operated PTS business in 12 cities and over 120 client and operating locations across India. Certain key clients in India for PTS business include Tech Mahindra Limited, AXISCADES

Engineering Technologies Limited and ANZ Support Services India Private Limited. Their 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 Services offerings can be classified primarily into two segments, SCM and PTS. Set forth below is a breakdown of the revenue from rendering of services, across the business segments that they operate in, for the periods indicated.

	Fiscal 2017		Fiscal 2016		Fiscal 2015	
	Amount	Percentage of total revenue from operations	Amount	Percentage of total revenue from operations	Amount	Percentage of total revenue from operations
	(₹ million)	(%)	(₹ million)	(%)	(₹ million)	(%)
Revenue from operations						
SCM business	23,715.37	88.94	18,138.52	87.88	16,789.49	86.95
PTS business	2,950.50	11.06	2,500.81	12.12	2,519.47	13.05
Revenue from operations (A)	**26,665.87**	**100.00**	**20,639.33**	**100.00**	**19,308.96**	**100.00**
Direct costs						
SCM business	21,897.18	82.12	16,825.36	81.52	15,601.04	80.80
PTS business	2,653.23	9.95	2,268.17	10.99	2,291.31	11.87
Total direct costs (B)	**24,550.41**	**92.07**	**19,093.53**	**92.51**	**17,892.35**	**92.66**
Gross margins (C= A – B)	**2,115.46**	**7.93**	**1,545.80**	**7.49**	**1,416.62**	**7.34**

Price Band	**Rs. 425-429 per Equity Share**
Issues Open	**Tuesday, Oct 31, 2017**
Issue Close	**Thursday, Nov 02, 2017**
Issue Type	**100% Book Built Issue IPO**
Bid Lot	**34 Equity share and multiple thereafter**
Maximum Bid amount for Retail	**Rs, 2 Lacs**
Total Issue size	**19,332,346 Equity Shares of Rs. 10 aggregating up to Rs. 829.36 Cr.**
Net Offer to the public	**19,207,346 Equity Shares**
Employee Reservation Portion	**Up to 125,000 Equity Shares**
QIB*	**50% of the Net offer or 9,603,672 Equity Shares**
Anchor Investor Portion	**Up to 60% of the QIB Portion**
Retail Portion	**Not less than 35% of the Net Offer or 6,722,572 Equity Shares**
Non-Institutional Category	**15% of the Net offer or 2,881,102 Equity shares**
Mutual Fund Portion	**5% of QIB Portion or 192,074 Equity Shares**
Mode of Payment	**ASBA Mandatory (No cheque will be accepted)**
Book Running Lead Managers	**Kotak Mahindra Capital Company Limited, Axis Capital Limited**
Face Value	**Rs. 10 per Equity Share**
Listing At	**NSE, BSE**
Registrar	**Link Intime India Private Limited**

The Mahindra Group is one of India's leading corporate groups and has operations across several industries and countries. The Mahindra Group has a strong presence in the utility vehicles, farm equipment, information technology, financial services, aerospace, real estate, hospitality and logistics sectors. The Mahindra Group's consolidated revenue and profits in Fiscal 2017 were Rs.897.13 billion and Rs.40.51 billion, respectively.

As at May 31, 2017, M&M had a market capitalization of Rs.879.68 billion. M&M is included by the Forbes magazine in its list of the "World's Biggest Public Companies (Global 2000 list)" for the year 2017. (Source: Forbes magazine, as available on http://www.forbes.com/global2000/list/ as at July 31, 2017.) In addition to being anchor client, entities within the Mahindra Group have provided them access to their quality systems and corporate governance practices. Prior to 2008, Their business was operated as a division of M&M serving the transportation and distribution, warehousing and in-factory logistics requirements of M&M. Subsequently, this business was transferred to Mahindra Logistics Limited in 2008.

Company Strategies:

- Continue to grow share of the business from non-Mahindra Group clients
- Focus on large revenue clients by providing integrated, end-to-end solutions and continue to provide additional services to existing clients
- Continue to diversify their revenues from industry verticals such as consumer, pharmaceuticals, e-commerce and bulk
- Continue to focus on enhancements in technology
- Leveraging on the changing logistics industry dynamics, particularly with implementation of the GST regime
- Continue to establish new multi-user warehouses
- Continue to explore new business opportunities in new industry verticals and business segments

Company Strength:

- An "asset-light" business model which allows flexibility and scalability in operations and high capital efficiency
- Customized, technology driven logistics solutions
- Integrated, end-to-end logistics services and solutions
- The Mahindra brand and support from the Mahindra Group
- Presence across diverse industry verticals with long-standing client relationships
- Experienced management team with strong domain expertise

Company Promoters:

The Promoters of the Company is Mahindra & Mahindra Limited.

Objects of the Issue:

The objects of the public issue are:

- To achieve the benefits of listing the Equity Shares on the Stock Exchanges and on the Stock Exchanges and for the Offer for Sale
- Also listing of the Equity Shares will enhance the visibility and brand image and provide liquidity to the Shareholders

Company will not receive any proceeds from the Offer and all the proceeds will be received by the Selling Shareholders.

Risk Factors Relating to Business:

Internal Risk Factor

- Their business and operations depend significantly on the parent and Promoter, Mahindra & Mahindra Limited and the other Mahindra Group entities.
- They operate in a highly fragmented and competitive industry and increased competition may lead to a reduction in the revenues, reduced profit margins or a loss of market share.
- They may not be able to manage the growth of the business effectively or continue to grow business at a rate similar to what they have experienced in the past.
- Business is highly dependent on technology and any disruption or failure of the technology systems may affect their operations.
- Difficulties and uncertainties surrounding the implementation of a GST regime in India may adversely affect their business strategy.
- They are susceptible to risks relating to unionization of the employees or personnel employed by the business partners.
- They are susceptible to risks relating to compliance with labor laws
- Their failure to perform in accordance with the standards prescribed in the client contracts could result in loss of business or payment of liquidated damages.
- They are exposed to the risk of delays or non-payment by the clients and other counterparties, which may also result in cash flow mismatches.
- Any disruptions which affect their ability to utilize the transportation network in an uninterrupted manner could result in delays, additional costs or a loss of reputation or profitability.
- They depend on their business partners for the adequate and timely supply of assets necessary for the operations such as vehicles and equipment. Any shortage of vehicles for use in the business may also result in additional costs.
- They may not be able to exercise complete control over the business partners. Any lapse by their business partners may adversely affect the business and reputation.
- They depend on skilled personnel and if they are unable to recruit and retain skilled personnel, their ability to operate or grow the business could be adversely affected.
- Their diverse and complex multi-location operations subject to various statutory, legal and regulatory risks the future
- They are susceptible to risks relating to interruptions and disruptions at the logistics and warehousing facilities.
- Misconduct or errors by manpower engaged by them could expose us to business risks or losses that could adversely affect the business prospects, results of operations and financial condition.
- They may face claims relating to loss or damage to cargo, personal injury claims or other operating risks that are not adequately insured.
- They do not verify the contents of the goods transported by them, thereby exposing the risks associated with the transportation of goods in violation of applicable regulations.
- They are subject to risks associated with operating a joint venture, 2X2 Logistics.

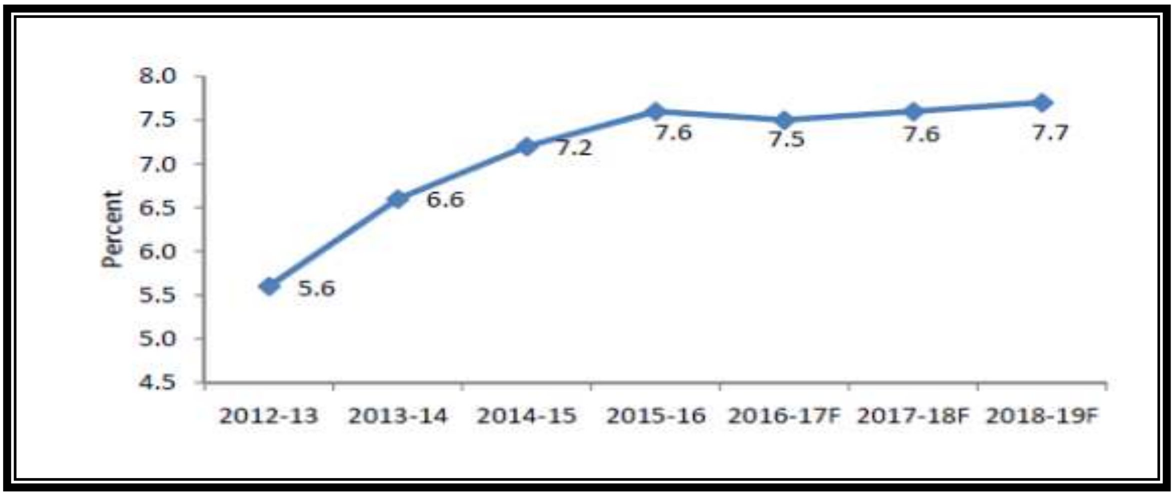
External Risk Factor

- Their business and operations may be affected by fluctuations in performance of the Indian economy and general economic activity in India
- Any further downgrading of debt ratings or of India’s sovereign debt rating could adversely affect the business.

- Trade deficits could have a negative impact on the business. If India's trade deficits increase or become unmanageable, the Indian economy, and therefore the business, future financial performance and the trading price of the Equity Shares could be adversely affected.
- Political instability or a significant change in the Government's economic liberalization and deregulation policies could adversely affect their business and the price of the Equity Shares.
- Changing laws, rules and regulations and legal uncertainties, including adverse application of tax laws and regulations, may adversely affect business, financial condition and financial performance.
- Their business and the price of the Equity Shares may be adversely affected by the implementation of GAAR
- Significant differences exist between Ind AS used to prepare the Restated Financial Statements for the Fiscals 2017, 2016 and 2015 and other accounting principles, such as Indian GAAP and IFRS, with which investors may be more familiar
- Their business and activities are regulated by the Competition Act.
- Terrorist attacks, communal disturbances, civil unrest and other acts of violence or war involving may adversely affect the financial markets and business.
- The occurrence of natural or man-made disasters may adversely affect on business, results of operations and financial condition.
- The requirements of being a public listed company may strain their resources and impose additional requirements.
- There may be less company information available in Indian securities markets compared to securities markets in other countries.
- Rights of shareholders under Indian laws may be more limited than under the laws of other jurisdictions.
- The ability of Indian companies to raise foreign capital may be constrained by Indian law.
- Any future issuance of Equity Shares may dilute shareholding and sales of the Equity Shares by the Promoter or other major shareholders may adversely affect the trading price of the Equity Shares.
- Investors may be subject to Indian taxes arising out of capital gains on the sale of the Equity Shares.

Industry

India's GDP grew at 7.60% in Fiscal 2016, up from 5.60% in Fiscal 2013. India is expected to remain the fastest growing major economy and become the fifth largest economy in the world by Fiscal 2020. The following graph depicts the percentage of annual real GDP growth between Fiscals 2013 and 2016, and forecast of growth up until Fiscal 2019:



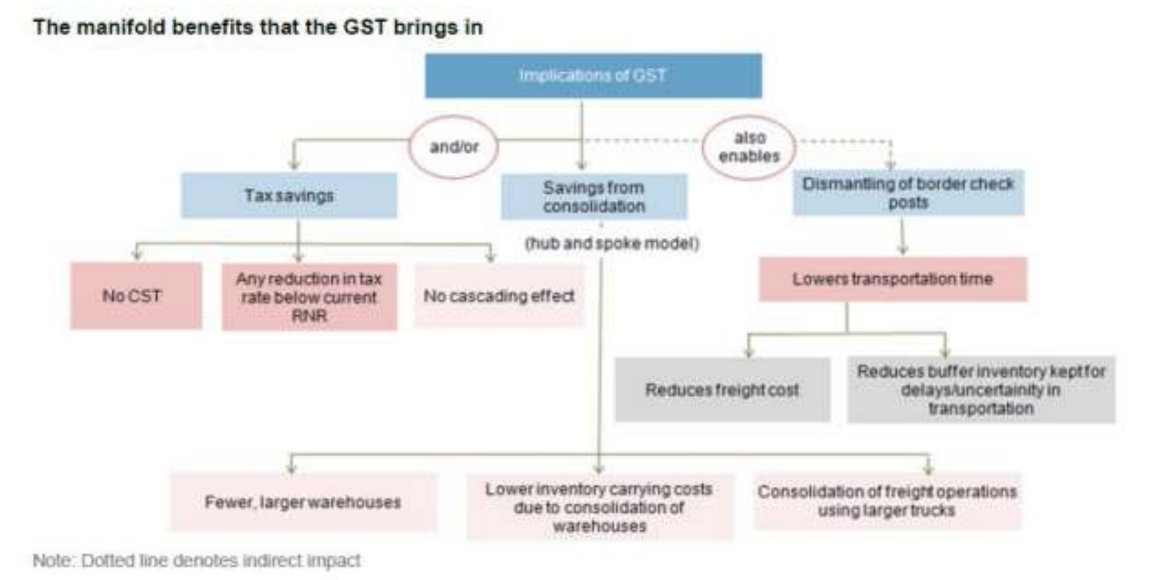
Salient trends in the Indian logistics industry

Indian logistics industry to grow at a CAGR of approximately 13.0% to Rs.9.2 trillion in Fiscal 2020
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 ₹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. Road transportation in India is highly fragmented with low average fleet ownership by transporters.

The Indian Government's increased focus on infrastructure
The CRISIL Report estimates investments of approximately Rs.10.3 trillion in roads (national highways, state roads and rural roads) between Fiscals 2018 and 2022. In case of railways, the investment numbers are estimated at Rs.6.7 trillion between Fiscals 2016 and 2020. Significant investments by the GoI to improve rail and road infrastructure are expected to improve the overall logistics scenario across India.

Integrated network development will promote use of multi-modal transportation
Multi-modal transportation is the combination of different means of transport such as roads, railways, waterways and aviation. The cost to transport goods through inland waterways and coastal shipping is cheaper than by rail, whereas 119 transportation by rail is cheaper than by road. Therefore, the Indian Government's move to shift traffic from road to rail and ships through DFCs and inland waterways, would make transportation more cost-efficient.

A simplified tax regime to lower costs and provide an opportunity for outsourcing
The GoI implemented a centralized goods and services tax ("GST") in July 2017, to replace the existing tax regime (excise, service and value-added taxes). The implementation of GST is important for growth in road freight, because tax efficiency was a company's primary concern while setting up its distribution network, instead of logistics costs or customer service. The result was the creation of multiple inefficient stocking and distribution locations in each state. GST enables 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 results in improved serviced levels. (Source: CRISIL Report.)

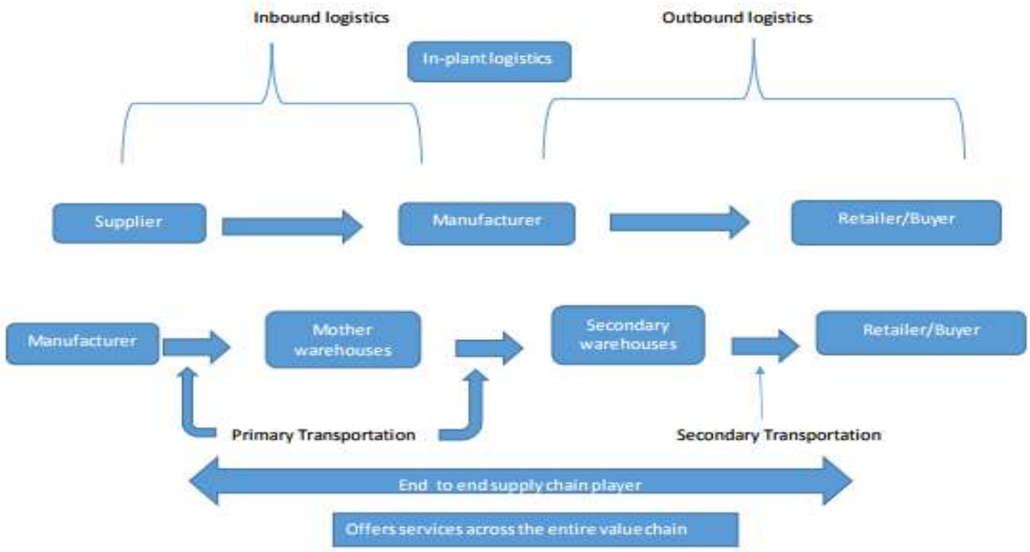


(Source: CRISIL Report.)

Third party logistics service providers gaining traction in India

A 3PL service provider represents a single vendor for all logistics requirements including supply chain design and consultancy and value added services, as compared to a 2PL company. (Source: CRISIL Report.)

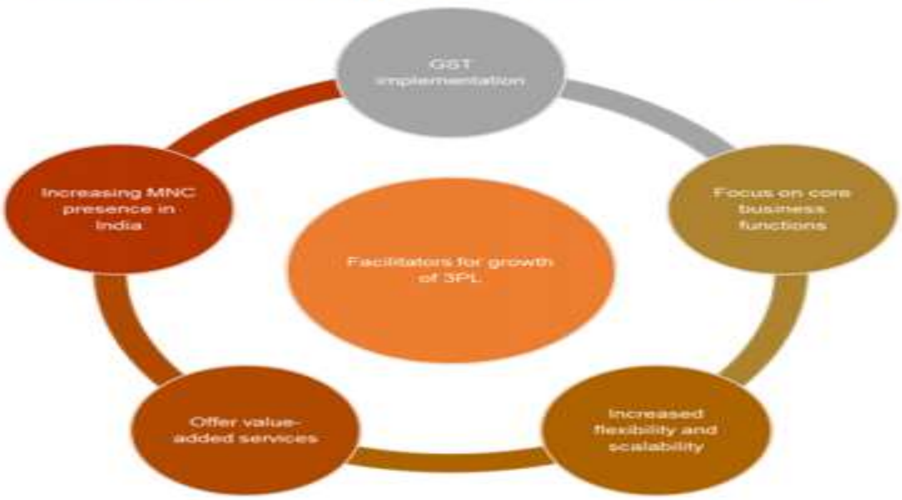
Typical supply chain management model



(Source: CRISIL Report.)

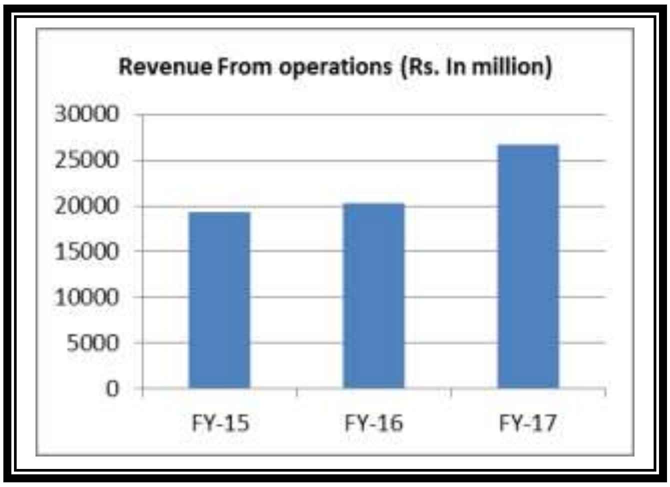
Key drivers for growth of 3PL service providers in India

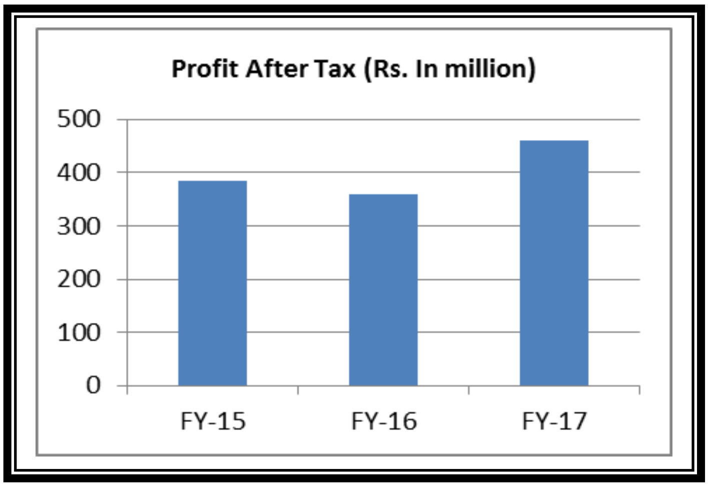
Key drivers for growth of 3PL service providers in India



(Source: CRISIL Report.)

Graphical Representation of Performance





Management:

Name of board members	Designation
Zhooben Bhiwandiwala	Chairman and Non-Executive Director
Parag Shah	Non-Executive Director
K. Chandrasekar	Non-Executive Director
Sunish Sharma	Non-Executive & Nominee Director
Neelam Deo	Independent Director
Darius Pandole	Independent Director
Ranu Vohra	Independent Director
Ajay Mehta	Independent Director

Restated consolidated statement of Balance Sheet

Restated Consolidated Statement of Assets and Liabilities Rs. in Millions

	Particulars	Note No. of Annexure V	As at 31st March, 2017	As at 31st March, 2016	As at 31st March, 2015
	ASSETS				
I	**NON-CURRENT ASSETS**				
	(a) Property, Plant and Equipment	4	559.46	447.25	209.40
	(b) Capital Work-in-Progress	4	6.95	24.24	0.18
	(c) Goodwill on consolidation		43.28	43.28	43.28
	(d) Intangible Assets	5	12.29	4.62	6.65
	(e) Intangible Assets Under Development	5	-	4.21	-
	(f) Financial Assets				
	(i) Investments	6	0.19	0.18	0.19
	(ii) Other Financial Assets	9	103.29	164.39	59.31
	(g) Deferred Tax Assets (Net)	10	128.37	87.60	71.42
	(h) Other Assets	11	10.16	17.87	15.60
	SUB-TOTAL		863.99	793.64	406.03
II	**CURRENT ASSETS**				
	(a) Financial Assets				
	(i) Investments	6	580.42	680.88	1,103.26
	(ii) Trade Receivables	7	4,120.78	2,452.27	1,993.94
	(iii) Cash and Bank Balance	12	501.69	236.28	520.96
	(iv) Bank Balances other than (iii) above	12	-	600.00	500.00
	(v) Loans	8	250.00	270.00	100.00
	(vi) Other Financial Assets	9	614.17	154.41	127.52
	(b) Current Tax Assets (Net)	13	544.23	276.40	110.74
	(c) Other Assets	11	672.80	431.70	306.93
	SUB-TOTAL		7,284.09	5,101.94	4,763.35
III	Non-Current Assets Classified as Held for Sale	14	19.09	19.09	19.09
	TOTAL ASSETS		8,167.17	5,914.67	5,188.47
	EQUITY AND LIABILITIES				
	EQUITY				
	(a) Equity Share Capital	15	679.99	598.22	598.22
	(b) Other Equity	16	2,844.44	2,449.09	2,083.27
	SUB-TOTAL		3,524.43	3,047.31	2,681.49
	LIABILITIES				
I	**NON-CURRENT LIABILITIES**				
	(a) Financial Liabilities				
	(i) Borrowings	17	197.74	201.09	1.08
	(ii) Other financial Liabilities	18	0.20	17.75	17.22
	(b) Provisions	19	130.74	120.00	90.10
	(c) Other Liabilities	20	-	2.27	3.64
	SUB-TOTAL		328.68	341.11	112.04
II	**CURRENT LIABILITIES**				
	(a) Financial Liabilities				
	(i) Borrowings	17	82.33	34.78	38.86
	(ii) Trade Payables				
	Due to micro and small enterprises		-	-	-
	Due to others	21	3,858.32	2,228.61	2,191.20
	(iii) Other Financial Liabilities	18	244.16	168.58	108.23
	(b) Provisions	19	61.43	44.69	25.08
	(c) Current Tax Liabilities (Net)		-	-	0.07
	(d) Other Liabilities	20	67.82	49.59	31.50
	SUB-TOTAL		4,314.06	2,526.25	2,394.94
	TOTAL		8,167.17	5,914.67	5,188.47

Restated consolidated statement of Profit & Loss

Restated Consolidated Statement of Profit & Loss

Rs. in Millions

	Particulars	Note No. of Annexure V	For the year ended March 31, 2017	For the year ended March 31, 2016	Proforma IND AS For the year ended March 31, 2015
I	Revenue from operations	22	26,665.87	20,639.33	19,308.96
II	Other Income	23	96.65	131.92	86.59
III	Total Revenue (I + II)		26,762.52	20,771.25	19,395.55
IV	EXPENSES				
	(a) Employee benefit expense	24	1,882.98	1,508.85	1,228.34
	(b) Finance costs	25	34.88	13.19	3.65
	(c) Depreciation and amortisation expense	4&5	146.07	82.64	60.37
	(d) Other expenses	26	24,020.40	18,607.09	17,510.86
	Total Expenses (IV)		26,084.33	20,211.77	18,803.22
V	Profit/(loss) before tax (III - IV)		678.19	559.48	592.33
VI	Tax Expense				
	(1) Current tax	27	261.07	215.98	224.44
	(2) Deferred tax	27	(40.64)	(16.18)	(17.32)
	(3) MAT Credit Entitlement		(2.93)	-	(0.03)
	Total Tax Expense		217.50	199.80	207.09
VII	Profit/(loss) After Tax (V - VI)		460.69	359.68	385.24
VIII	Profit/(loss) for the period		460.69	359.68	385.24
IX	Profit/(Loss) for the period attributable to:				
	Owners of the company		455.89	365.45	392.60
	Non Controlling Interests		4.80	(5.77)	(7.36)
X	Other comprehensive income				
	(i) Items that will not be reclassified to profit or loss Remeasurements of the defined benefit plans - Gains/(Losses)		(6.77)	(4.15)	(1.48)
	(ii) Income tax relating to items that will not be reclassified to profit or loss		2.61	1.44	0.44
	Total Other comprehensive income / (loss)		(4.16)	(2.71)	(1.04)
XI	Other comprehensive income for the period attributable to:				
	Owners of the company		(4.37)	(2.72)	(0.99)
	Non Controlling Interests		0.21	0.01	(0.05)
	Total comprehensive income for the period (VIII + X)		456.53	356.97	384.20
XII	Total comprehensive income for the period attributable to:				
	Owners of the company		451.52	362.73	391.61
	Non Controlling Interests		5.01	(5.76)	(7.41)
XIII	Earnings per equity share				
	(1) Basic (in Rs.)	28	6.70	5.37	6.60
	(2) Diluted (in Rs.)	28	6.70	5.37	6.60