

Sector update

We hosted Mr. VS Parthasarathy, President of Mobility Services Sector (MSS), Mahindra Group; Chairman of Mahindra Logistics, Meru and Smartshift Logistics Solutions (Porter). He was Group CFO and Group CIO of M&M in his previous role.

Research Analysts:

Abhijit Mitra

abhijit.mitra@icicisecurities.com
+91 22 6637 7289

Udaykiran Paluri

udaykiran.paluri@icicisecurities.com
+91 22 6637 7510

Logistics

Unlocking value through mobility services

Mr Parthasarathy highlighted his vision to make MSS a US\$3bn (Rs2000bn) valuation entity by FY25/26 (4x growth). The three business segments, 1. Transport as a Solution (TaaS) includes Mahindra Logistics (ex-Alyte) and Porter will contribute US\$1.5bn (Rs110bn), 2. Mobility as a solution (MaaS), which currently constitutes Meru, Alyte and Zoomcar is expected to contribute US\$500mn (Rs38bn) and 3. Vehicle as a solution (VaaS), which consists of Mahindra First Choice Wheels (MFCW) is expected to contribute US\$1bn (Rs75bn). The interaction adds a time-bound valuation target (US\$1bn by FY25/26) in addition to an already publicized revenue target for Mahindra Logistics (MLL), and showcases the optionality embedded in the MaaS and VaaS.

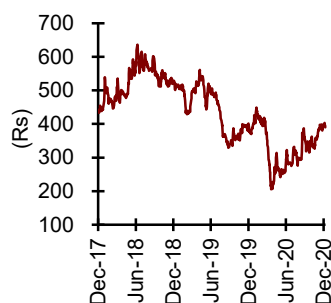
- ▶ **Mobility as a Solution – aspires to become a credible & profitable no. 3 in shared mobility and strengthen the current leadership position in enterprise mobility.** M&M acquired Meru's 36.63% stake for US\$6.2Mn (Rs447mn) in CY19. Mahindra Logistics houses an enterprise mobility business branded as Alyte. Besides, this M&M had been running Glyd, a premium EV shared mobility pilot. Glyd has now been integrated with Meru. Now Meru offers two electric choices - EVGO, a point-to-point and daily rental service and Glyd, the premium mobility option. Currently Meru is running 250 E Veritos in the portfolio. Electric versions of XUV and KUV100 will add to EV fleets of Meru and Alyte. All the three services are under the umbrella of **MSS**.
- ▶ **Targeting a profitable MaaS model.** The model envisages an optimal mix of B2B (shared enterprise mobility largely targeted through Alyte), B2B2C (on demand model for enterprise customers) and B2C (select operating routes involving demand centres like airports, railways stations, business parks etc.). While the Covid-19 pandemic has impacted mobility trends, the shift from unorganized to organized presents a major opportunity. Revenue possibility of Rs 12-13bn with a RoE target of 18% looks feasible. The number of electric vehicles (EVs) will be ramped up to 1,000 in the medium term with 15% fleet expected to be electric in the next 2-3 years. Initially the fleet investment risk may need to be taken by **MSS** to demonstrate the viability of EVs to business partners and demonstrate the benefits of the business model – except for this the management aims to operate with an asset light model. The initial acceptance looks encouraging, the infra for a scalable service with an electric fleet is currently under works. Management is also keeping an eye on the inorganic opportunities in the space.
- ▶ **Vehicle as a Solution – aspires to be India's leading player leveraging cutting edge auto tech platform.** MFCW targets to leverage the network effect through three channels: i) Retail channels with 1,000+ outlets – selling used cars. This business is trying to create a digital footprint given the current scenario. Used car market segment in the country continues to grow at 40-50% p.a., ii) enterprise services – requirement of finance companies from repossession to ready reckoner for pricing – *Indian Blue Book, inspections, yard services and sales in both wholesale and retail markets*. MFCW also satisfies requirements of insurance companies, ride hailing like Ola, Uber. The business model is already profitable, & the growth possibilities are multifold. iii) *Carandbike* – which was acquired recently is the third cog of the VaaS business. While currently it carries reviews and draws significant following/clicks (2nd largest in India), the idea is to convert it to a transaction portal.

All these segments in VaaS offers an integrated offering, make B2B2C footprint much more accessible and set up future B2C footprint as well.

- ▶ **How MFCW is placed vis-à-vis competition.** The integrated offering and the unorganised nature of the market allows MFCW enough headroom to grow. Piecemeal presence on enterprise customers or retail outlets or classifieds (where majority of the existing competition can be categorised) has its limitations, while an integrated offering increases choice and stickiness of enterprise as well as retail (dealers) customers.
- ▶ **Transport as a Solution – envisions to rise to be a Rs100bn logistics solutions provider by FY26** delivering exceptional customer experience through differentiated, technology enabled solutions.
- ▶ **Four levers driving MLL growth.** MLL sees the potential to add 2-3mn sq. ft. of warehousing space every year. MLL can create additional 15-16mn sq. ft of warehousing space by CY25, augmented by very fast-growing sectors like e-commerce, pharma, consumer etc. New business remains an active area of pursuit – namely freight forwarding, express, multi-modal. Value-added solutions remain the third pillar supporting the business – flexible solution for pop-up demand of ecommerce being cited as one example. The three pillars being knit by the overlay of technology so that the customer receives an integrated offering. MLL clearly remains the largest value-contributing piece in MSS expected to contribute ~ 50% of value in targets for FY25/26.

Price chart

Mahindra Logistics



Source: Bloomberg

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