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CIN : L63000MH2007PLC173466

30 November 2018

To,
BSE Limited, (Security Code: 540768)
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400 001

National Stock Exchange of India Ltd., (Symbol: MAHLOG)
Exchange Plaza, 5th Floor,
Plot No. C/1. "G" Block,
Bandra -Kurla Complex, Bandra (East),
Mumbai – 400 051

Dear Sirs,

Sub: Update on Credit Rating by ICRA Limited ("ICRA") – Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

Pursuant to Regulation 30(6) of the Listing Regulations, we hereby inform you that ICRA has reaffirmed the credit ratings as under:

Summary of rating action

Instrument	**Current Rated Amount (Rs. crore)**	**Rating Action**
Long-term, Fund-based Facilities	50.00	[ICRA]AA (Stable); Reaffirmed
Short-term, Non-fund Based Facilities	15.00	[ICRA]A1+; Reaffirmed
Total	**65.00**	

The outlook on long-term rating is stable.

In this regard, please find enclosed the ICRA report dated 30 November 2018 giving the rating rationale.

The same is also uploaded on Company's website viz. http://www.mahindralogistics.com/.

Kindly take the same on record and acknowledge receipt.

Thanking you,
For **Mahindra Logistics Limited**

Brijbala Batwal
Company Secretary

Encl: As above

Mahindra Logistics Limited

November 30, 2018

Mahindra Logistics Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Facilities	50.00	50.00	[ICRA]AA (Stable); Reaffirmed
Short-term,Non-fund Based Facilities	15.00	15.00	[ICRA]A1+; Reaffirmed
Total	**65.00**	**65.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A)[1] assigned to the Rs. 50.00-crore[2] long-term fund-based facilities of Mahindra Logistics Limited (MLL or the company). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 15.00-crore short-term non-fund based facilities of MLL. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation takes into account the strong parentage of MLL as a subsidiary of Mahindra & Mahindra Limited (M&M, rated [ICRA]AAA (Stable)/ [ICRA]A1+), MLL's established presence in the supply chain management (SCM) segment with M&M being a key customer, the increasing client diversification in its SCM business, and the leadership position it enjoys in the people logistics (people transport solutions or PTS) business because of its first mover advantage. The company's financial risk profile is strong as indicated by its healthy capital structure, robust liquidity position and sustained improvement in profitability. MLL continues to primarily follow an asset light business model (asset-light model on a standalone basis, while its subsidiary company, 2X2 Logistics Private Limited has an asset-heavy model), which is positive, especially in a declining business environment.

MLL is positioned as a key intermediary in M&M's automotive and farm equipment business by providing end-to-end supply-chain solutions. The strong business linkage with the Mahindra Group ('the Group') particularly M&M, in the SCM segment, provides MLL with the requisite experience, volume and a stable business avenue. MLL's SCM business is at present primarily focussed on the automotive segment, in line with its large dependence on the parent entity for business. While MLL has also developed a strong client base outside the Group, its current dependence on the Group remains high at 58% of the total revenues in H1 FY2019 (55% in FY2018 and 54% in FY2017).

MLL's operating profit margins (OPM) remain thin given the asset-light business model employed by the company, wherein it continues to be a business aggregator and executor. The changing business mix in the SCM segment in favour of higher margin warehousing and line feeding businesses, as against its traditional transportation business, has been aiding improvement in its OPM over the past few years, with the OPM in H1 FY2019 at 4.0%, as against 3.5% in FY2018 and 2.9% in FY2017. While the profit margins are relatively better in the PTS business, the business remains vulnerable to

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

[2] *100 lakh = 1 crore = 10 million*

stiff competition from a large number of unorganised players. Improving scale and profitability of its subsidiaries is also aiding improvement in its consolidated OPM. MLL's profitability, as measured by the return on capital employed (ROCE), has been strong, despite thin margins, owing to its asset-light business strategy. Its capital structure also remains healthy—debt-free on a standalone basis since FY2013 and low debt levels on a consolidated basis. MLL continues to enjoy superior liquidity, as reflected by sizeable cash and bank balance and liquid investments aggregating to Rs. 71.0 crore as on September 30, 2018, and primarily unutilised bank lines of Rs. 48.0 crore.

Outlook: Stable

The Stable outlook reflects ICRA expectations that MLL will continue to enjoy strong financial flexibility being a part of the Mahindra Group and its strong linkages with the Group. ICRA believes that MLL will maintain its current comfortable capital structure and profitability, while aiming to grow the topline. The outlook may be revised to Positive if the company's credit profile further improves through sustained improvement in sales as well as operating profitability with higher share from the high-margin warehousing business. The outlook may be revised to Negative in case of any large debt-funded acquisition that may suppress profitability and adversely impact the capital structure.

Key rating drivers

Credit strengths

Strong financial flexibility by being a part of the Mahindra Group; strong business linkages with the Group in the SCM segment provides requisite volume and stable business avenue – While MLL was initially focussed on meeting the SCM requirements of the Group companies, it subsequently diversified its client base beyond the Group. It continues to cater to almost the entire supply-chain requirements of M&M. It derived ~55% and ~58% of its total revenues in FY2018 and H1 FY2019, respectively, from the Mahindra Group. In addition to the business linkages and strong business volume, MLL, being a part of the Mahindra Group, derives flexibility in tapping the banking and financial markets in case of funding requirements.

Asset-light business model provides operational flexibility, especially in declining business environment – MLL primarily follows an asset-light strategy (asset-light model on a standalone basis, while its subsidiary company 2X2 Logistics follows an asset-heavy model). While the vehicles are hired from transport companies on a contractual basis, all its warehousing requirements are on a lease basis. Such a policy results in very low capital expenditure requirements and hence, low fixed costs. While the policy affects the profit margins negatively due to higher operating costs, it provides flexibility during industry down-cycle and helps in reducing the volatility in RoCE.

Broad customer base with presence among established companies in each industry segment – Though MLL derived ~55% of its FY2018 revenues from the Group, the revenue concentration on the Group has reduced over the years, from ~78% in FY2014. MLL has been focussing on strengthening its presence with the other original equipment manufacturers in the automotive industry and also to diversify its presence into other industry verticals (like pharmaceuticals, fast moving consumer goods (FMCG), telecom and e-commerce industries). MLL has, over the past three years, added several new customers in the non-automotive segment, resulting in diversification of its customer profile.

Leadership position in PTS business, with first mover advantage – By virtue of being an early entrant into the people movement service, a growing requirement for the information technology (IT) and IT enabled services (ITeS) companies, MLL has established a leading position in the PTS business. MLL has a moderately diversified customer base, with it deriving ~49% of its PTS segment revenues in H1 FY2019 from the top five customers. Though a majority of the segment revenues is derived from IT / ITeS companies, these are reputed companies in the industry and have been garnering continued business.

Healthy capital structure and liquidity – MLL's OPM has improved in the past few fiscals to 4.0% in H1 FY2019 from 3.5% in FY2018 and 2.9% in FY2017 due to gradual shift in the business mix in its SCM segment in favour of higher margin warehousing and line feeding businesses, as against its traditional transportation business. Supported by strong accruals and minimal capital expenditure requirements, MLL's capital structure remains strong— debt-free on a standalone basis since FY2013 and low debt levels on a consolidated basis (gearing of 0.1 times as of September 2018). MLL continues to enjoy healthy liquidity, as reflected by sizeable cash and bank balance and liquid investments aggregating to Rs. 71.0 crore as on September 30, 2018, and mainly unutilised bank lines of Rs. 48.0 crore. The liquidity, however, has reduced over the past two years due to an increase in working capital intensity (as measured by NWC/OI of 8% in H1 FY2019 as against 4% in FY2016 and 1% in FY2015), as the new businesses (non-Mahindra Group customers) are provided with a higher credit period.

Credit challenges

Concentration of SCM business on automotive industry exposes MLL to high industry cyclicality – MLL's SCM segment derived ~69% and ~72% of its consolidated revenues in FY2018 and H1 FY2019, respectively, from the automotive industry, thus exposing the business to cyclicality inherent in the industry. However, with increasing business from non-automotive industry, the concentration has reduced over the years.

Stiff competition from a large number of unorganised players – MLL faces intense competition from the unorganised logistics service providers in the SCM business. In the PTS business, it faces competition from the local travel operators and also from the application-based transportation service providers.

Liquidity position

MLL has been a debt-free company on a standalone basis since FY2013 and has low debt levels (Rs. 32.6 crore as on September 30, 2018) on a consolidated basis. The repayment obligations of the company are low with ~Rs. 8.4 crore in FY2019, ~Rs. 8.4 crore in FY2020 and ~Rs. 8.4 crore in FY2021. As on September 30, 2018, it had cash and bank balance and liquid investments aggregating to Rs. 71.0 crore at the consolidated level. The company also has unutilised bank lines of Rs. 48.0 crore, providing adequate liquidity buffer in case of any increase in its working capital requirements.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent Company: Mahindra & Mahindra Limited The company's ratings derive comfort from the strong financial flexibility by being a subsidiary of M&M (rated [ICRA]AAA (Stable)/ [ICRA]A1+) and its strong linkages with the Group, with ~56% of total revenues in H1 FY2019 derived from the Mahindra Group.
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MLL. As on September 30, 2018, the company has two subsidiaries that are listed in Annexure-2.

About the company

MLL, at present a 61.05% subsidiary of M&M, is a third-party logistics (3PL) provider, primarily operating in the SCM and PTS businesses. The company commenced operations from December 2000 as a division of M&M to handle the captive logistics and supply-chain needs of the Group. Subsequently, the division began operating for external clients across the country. MLL was spun off as a 100% subsidiary of M&M, with effect from April 01, 2008.

During FY2014 and FY2015, Kedaara Capital, a private equity investor, infused Rs. 200.0 crore in the company through a combination of primary and secondary investments. MLL concluded its initial public offering (IPO) in November 2017 and has got listed in the Bombay Stock Exchange and the National Stock Exchange. As on September 30, 2018, Kedaara Capital, along with Normandy Holdings Limited, held a 9.40% stake in the company.

MLL has two subsidiary companies — LORDS Freight (India) Private Limited (LORDS) and 2X2 Logistics Private Limited (2X2 Logistics). LORDS is an international freight forwarder and MLL has 78.81% stake in LORDS as on September 30, 2018. In October 2018, MLL has announced increasing its stake in LORDS to 83.87%. MLL holds 55% stake in 2X2 Logistics, with the balance 45% held by IVC Logistics Limited. 2X2 Logistics is a business associate for MLL and provides transportation services to MLL through its fleet of owned trucks (152 as on September 30, 2018).

Key financial indicators (audited; consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	2666.6	3416.1
PAT (Rs. crore)	46.1	65.3
OPBDIT/ OI (%)	2.9%	3.5%
RoCE (%)	19.9%	25.4%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.4	0.3
Interest Coverage (times)	21.9	31.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None