

June 30, 2021

Mahindra Logistics Limited: Ratings reaffirmed for bank loans

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|--|
| Long-term Fund-based | 48.00 | 48.00 | [ICRA]AA(Stable); reaffirmed |
| Short -term - Non-Fund Based | 15.00 | 15.00 | [ICRA]A1+(Stable); reaffirmed |
| Long-term / Short-term, Fund-based / Non-fund Based Facilities | 172.00 | 172.00 | [ICRA]AA(Stable)/[ICRA]A1+; reaffirmed |
| Commercial Paper | 100.00 | - | [ICRA]A1+; reaffirmed & withdrawn |
| Total | 335.00 | 235.00 | |

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings reflects Mahindra Logistics Limited's (MLL) strong financial profile reflected by its low leverage and strong debt coverage indicators, as well as its position as a key intermediary in Mahindra & Mahindra Limited's (M&M, rated [ICRA]AAA (Stable) and [ICRA]A1+) automotive and farm equipment business by providing end-to-end supply chain solutions. The strong business linkage with the Mahindra Group, particularly M&M, in the supply chain management (SCM) segment, provides MLL with the requisite experience, volume and a stable business avenue. MLL's SCM business has a large contribution from the automotive segment, in line with its large share of business from the parent entity. MLL has also developed a strong client base outside the Group in other segments such as e-commerce, fast moving consumer goods (FMCG) and pharmaceutical verticals. MLL being a subsidiary of M&M, also enjoys access to capital markets and healthy relationships with the banks, which adds to the financial flexibility.

The ratings also consider MLL's increasing client diversification in its SCM business, and the respectable position it enjoys in the people logistics (enterprise mobility or EM) business. 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. The ratings also factor in MLL's comfortable capital structure, as reflected by a gearing of 0.5 time (including lease liabilities) as on March 31, 2021. The liquidity position of the company also remains strong with sizeable cash and bank balance as well as liquid investments aggregating to Rs. 252.8 crore and unutilised fund-based bank lines of Rs. 170 crore as on March 31, 2021. Excluding lease liability, MLL is a net debt-free company.

The rating strengths are partially offset by the inherent cyclical nature in the automotive industry towards which it has high exposure. MLL's automotive segment's revenues witnessed 17% and 6% YoY de-growth in FY2020 and FY2021, respectively, due to the overall slowdown in the domestic automotive industry coupled with the negative impact of the Covid-19 pandemic. MLL's business also remains vulnerable to stiff competition from many unorganised players and technology driven start-ups.

ICRA has reaffirmed and withdrawn the [ICRA]A1+ rating assigned to the commercial paper programme of MLL at the request of the company as the company has not issued any Commercial paper during the year and there is no amount outstanding against the commercial paper. This is in line with ICRA's policy on withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strong financial flexibility as part of Mahindra Group; strong business linkages with Group in SCM segment provide requisite volume and stable business avenue – While MLL was initially focussed on meeting the SCM requirements of the Mahindra Group, it subsequently diversified its client base beyond the Group. It continues to cater to almost the entire supply chain requirements of M&M. MLL derived 49% of its revenues from the Mahindra Group in FY2021. In addition to the business linkages and strong business volume, as a subsidiary of M&M, MLL enjoys access to capital markets and healthy relationships with the banks, which adds to the financial flexibility and supports the overall liquidity profile.

Asset-light business model provides operational flexibility, especially during challenging business environment – MLL primarily follows an asset-light strategy. MLL's vehicles are hired from transport companies/firms on a contractual basis, and all its warehousing requirements are on a lease basis. Such a policy results in low capital expenditure (capex) requirements and, hence, low fixed costs. While the policy results in modest operating margin, it provides flexibility during industry down cycles and helps it in reducing the volatility in ROCE.

Broad customer base with presence among established companies – The Mahindra Group accounted for ~50% of MLL's total revenues (including EM) in FY2020 and FY2021 respectively. ICRA notes that the revenue concentration on the Group has reduced over the years from ~70% in FY2015 to 49% in FY2021. MLL has been focussing on strengthening its presence with other original equipment manufacturers (OEMs) in the automotive industry and also diversifying into other industry verticals like pharmaceuticals, FMCG and e-commerce, among others. MLL has added several new customers in the non-automotive segment over the past few years, resulting in diversification of its customer profile.

Comfortable capital structure and liquidity – At a consolidated level, excluding impact of lease liabilities, MLL maintains its net-debt free status. The liquidity position of the company continues to remain strong as reflected by its sizeable cash and bank balance as well as liquid investments aggregating to Rs. 252.8 crore and unutilised fund-based bank lines of Rs. 170 crore as on March 31, 2021.

Credit challenges

Concentration of SCM business on automotive industry exposes MLL to high industry cyclicality – The company derives ~60% of its SCM revenues from the automotive segment, exposing the business to cyclicality inherent in the industry. ICRA notes that with increasing business from the non-automotive sectors, the concentration risk has reduced over the years. The high concentration of revenues on the automotive industry exposes MLL to the high demand cyclicality associated with the industry. Consequently, its automotive segment's revenues witnessed 17% and 6% YoY de-growth in FY2020 and FY2021, respectively, due to the overall slowdown in the domestic automotive industry coupled with the negative impact of the Covid-19 pandemic. While its automotive business under the SCM and EM verticals have been impacted, the non-automotive SCM business has supported overall performance and the share of revenues from this vertical has increased from 35% in FY2020 to 40% in FY2021.

Stiff competition from large number of unorganised players and technology driven start-ups – MLL faces intense competition from the unorganised logistics service providers and technology driven start-ups in the SCM business. In the EM business, it faces competition from local travel operators as well as from application-based transportation service providers.

Liquidity position: Strong

The liquidity position of MLL is strong, supported by its sizeable cash and bank balance as well as liquid investments of Rs. 252.8 crore and unutilised bank lines of Rs. 170 crore as on March 31, 2021. While the term loan repayments remain nominal, the company has moderate capex plans for FY2022. MLL, as part of the Mahindra Group, enjoys access to capital markets and healthy relationships with the banks which adds to the financial flexibility and supports its overall liquidity profile.

Rating sensitivities

Positive factors – The rating is unlikely to be upgraded unless there is a substantial scale-up in revenues of MLL, along with greater sector and client diversification, with sustained improvement in ROCE.

Negative factors – MLL’s rating may be downgraded if there is any weakening in the credit profile of M&M and/or weakening in the operating performance of MLL. Any debt-funded capex / inorganic acquisition or investments in subsidiaries / joint ventures undertaken by the company, which may adversely impact MLL’s credit profile will be a negative trigger. Sustained fall in core ROCE (excluding lease liabilities) below 20% will also be a negative trigger.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology |
| Parent/Group Support | Not applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the consolidated financials of Mahindra Logistics Limited. The details are given in Annexure-2. |

About the company

MLL, a 58.34% subsidiary¹ of M&M, is a third-party logistics (3PL) provider, operating in the SCM and EM businesses. MLL’s SCM business includes supply chain consultancy, warehousing, stores and line feeding, transportation and freight forwarding. Its EM business, meanwhile, provides customisable and technology-enabled employee transportation services to corporate enterprises.

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. MLL concluded its initial public offering (IPO) in November 2017 and was listed on the Bombay Stock Exchange and the National Stock Exchange.

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 2X2 Logistics provides transportation services to MLL, Original equipment manufacturers (OEMs) and other transport companies through its fleet of owned trucks.

¹ As on March 31, 2021

Key financial indicators (audited)

| MLL Consolidated | FY2020 | FY2021 |
|--|---------|---------|
| Operating Income (Rs. crore) | 3471.14 | 3263.72 |
| PAT (Rs. crore) | 55.45 | 29.18 |
| OPBDIT/OI (%) | 4.57% | 4.13% |
| PAT/OI (%) | 1.60% | 0.89% |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.56 | 1.91 |
| Total Debt/OPBDIT (times) | 1.27 | 2.00 |
| Interest Coverage (times) | 8.99 | 6.70 |

Note: Above figures are as per IndAS 116

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History For the past 3 years | | | |
|---|---------------------------------------|-------------------------|-----------------------------|--|-----------------------------|---|-------------------------|-------------------------|--|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Mar 31, 2021 (Rs. crore) | Date & Rating in | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 | |
| | | | | | 24-Jun-21 | 25-Jun-20 | 27-Dec-19 | 29-Nov-18 | |
| 1 | Fund-based Working Capital Facilities | Long-term | 48.00 | NA | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | |
| 2 | Non-fund Based Facilities | Long-term | 15.00 | NA | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | |
| 3 | Fund-based/Non-fund Based Limits | Long-term/Short-term | 172.00 | NA | [ICRA]AA (Stable)/[ICRA]A1+ | [ICRA]AA (Stable)/[ICRA]A1+ | - | - | |
| 4 | Commercial Paper Programme | Short-term | - | NA | - | [ICRA]A1+ | - | - | |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--|----------------------|
| Long term, fund based | Simple |
| Short term, Non-fund based | Simple |
| Long Term / Short Term - Fund based/Non Fund Based | Simple |
| Commercial Paper | Very Simple* |

*rating withdrawn

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (RS Crore) | Current Rating and Outlook |
|---------|--|-----------------------------|-------------|---------------|-------------------------|----------------------------|
| NA | Long term, fund based | - | - | - | 48.00 | [ICRA]AA(Stable) |
| NA | Short term, Non-fund based | - | - | - | 15.00 | [ICRA]A1+ |
| NA | Long Term / Short Term - Fund based/Non Fund Based | - | - | - | 172.00 | [ICRA]AA(Stable)/[ICRA]A1+ |

Source: Company

Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---------------------------------------|-----------|------------------------|
| LORDS Freight (India) Private Limited | 99.05% | Full Consolidation |
| 2X2 Logistics Private Limited | 55.00% | Full Consolidation |
| Transtech Logistics Private Limited | 39.79% | Equity method |

Source: Company

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About ICRA Limited:

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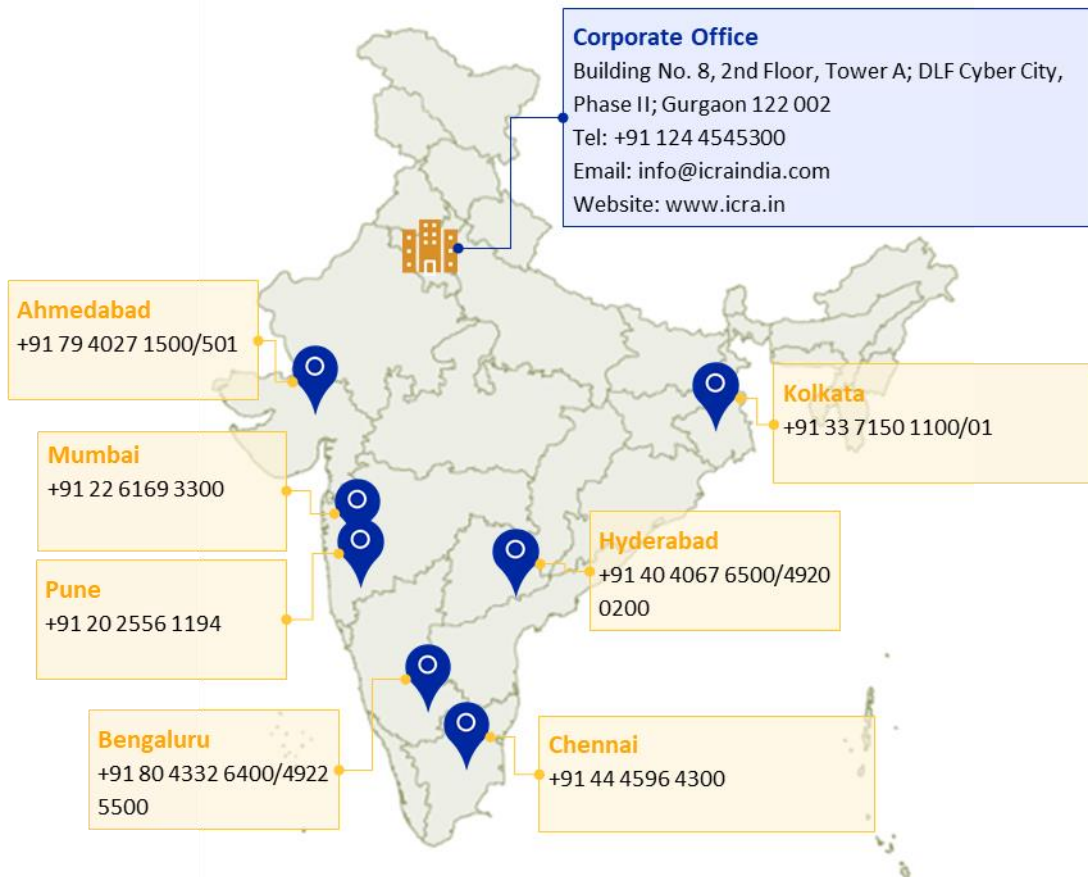
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