Mahindra Logistics Limited

Instrument	Amount (In Rs. Crore)	Rating Action
Long-term, fund-based limits	50.00	[ICRA]AA (stable) reaffirmed
Short-term, non-fund based limits	5.00	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) assigned to the Rs. 50.00 crore[1] long-term, fund-based limits of Mahindra Logistics Limited ('MLL' or 'the company')[2]. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 5.00 crore short-term, non-fund based limits of MLL. The outlook on the long-term rating is 'stable'.

The re-affirmation of ratings takes into account the strong parentage of MLL as a subsidiary of Mahindra & Mahindra Limited (M&M, rated [ICRA]AAA (stable)/A1+), the established presence in the SCM segment with M&M being an anchor customer, the increasing client diversification in the SCM business, the leadership position it enjoys in the people logistics business because of its first mover advantage, and the strong financial risk profile of the company as indicated by robust profitability, debt free capital structure and healthy liquidity position. ICRA notes that the company continues to follow an asset light business model with fleet and warehouses taken on lease, which is positive, especially in declining business environments.

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 particularly M&M, in the SCM segment provides MLL with the requisite experience, volumes and a stable business avenue. MLL's SCM business is currently largely focused on the automotive segment, in line with its large dependence on the parent group for business. While MLL has also developed a client base outside the group, its current dependence on the group remains high at 63% (PY: 68%) of total revenues for FY2016. Near stagnant revenues from the group over the past two years and the growth in non-automotive SCM business through new client addition has led to moderation in share of the group in total revenues of MLL. While the company aims to further diversify its client base across multiple industry verticals, meaningful revenue diversification can be expected only over the medium to long-term.

The operating margins of MLL remain thin given the asset light business model employed by the company, wherein it continues to be a business aggregator and executor. While 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 operating margin over the past few years, the subdued revenue growth in FY2016 owing to pricing pressures from the original equipment manufacturers (OEMs) constrained the operating margin for FY2016. While the profit margins are relatively better in the PTS business, the business remains vulnerable to competition from a large number of unorganised players and emerging mobile app-based transportation service providers. Profitability–as measured by Return on Capital Employed (ROCE)–has been strong, despite thin margins, owing to its asset light business strategy. The capital structure of the company remains strong–debt free as of March 31, 2016, with high cash and bank balance and liquid investments (Rs. 185.62 crore as on March 31, 2016). The liquidity has been supported by the Rs. 100.00 crore PE infusion by Kedaara Capital in FY2015 in the form of compulsorily convertible preference shares. Effective utilisation of these funds remains a key rating sensitivity. The management has indicated its desire to become an integrated logistics service provider by having a footprint in international freight forwarding and cold storage services, and expanding warehousing operations, through acquisitions in the domain.

Company Profile:
Mahindra Logistics Limited (MLL), currently an 84.01% subsidiary of Mahindra & Mahindra Limited (M&M), is a third party logistics (3PL) provider, primarily operating in Supply Chain Management (SCM) and People Transport Solutions (PTS). The company commenced operations from December 2000 as a division of M&M to handle the captive logistics and supply chain needs of the Mahindra Group ('the group'). Subsequently, the division began operating for external clients across the country. MLL was spun off as a 100% subsidiary of

[1] 100 Lakh = 1 Crore = 10 Million
[2] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA Rating Publications

M&M, with effect from April 01, 2008. MLL is head-quartered in Mumbai, with nine offices and over 4,000 employees (on roll) across India.

During FY2014 and FY2015, Kedaara Capital, a private equity (PE) investor, infused Rs. 200.00 crore in the company through a combination of primary and secondary investments. As of March 31, 2016, Kedaara Capital held 13.34% stake in equity share capital and 100% stake in 0.001% Compulsorily Convertible Preference Shares (CCPS) of the company. Each CCPS is convertible into an equity share and post conversion, Kedaara Capital would hold 23.55% equity stake in MLL.

Recent Results:
For the twelve months ending March 31, 2016, the company reported a net profit of Rs. 37.30 crore on an operating income of Rs. 2,017.11 crore as against a net profit of Rs. 41.09 crore on an operating income of Rs. 1,916.95 crore for the twelve months ending March 31, 2015.

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