

August 30, 2024

Mahindra Logistics Limited: [ICRA]A1+ assigned for Commercial Paper; ratings reaffirmed for BLR

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term - Fund based/Non-fund based	435.00	350.00	[ICRA]AA (Stable)/[ICRA]A1+; reaffirmed
Commercial Paper^	-	100.00	[ICRA]A1+; assigned
Total	435.00	450.00	

*Instrument details are provided in Annexure-I, ^Commercial Paper is carved out of working capital lines

Rationale

The reaffirmation of ratings reflects Mahindra Logistics Limited's (MLL/ the company) strong financial profile, characterised by its low leverage and moderate debt coverage indicators, as well as its position as a key intermediary of its parent, Mahindra & Mahindra Limited's (M&M; rated [ICRA]AAA (Stable)/[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, visibility on volumes and a stable business avenue. Additionally, ICRA believes these business linkages also enhance its strategic importance for M&M, meeting a large part of the Group's logistics requirements. The ratings also factor in the high likelihood of M&M extending financial support to MLL, should there be a need, because of close business linkages between them. Further, MLL features as a growth gem for Mahindra and Mahindra limited. As a subsidiary of M&M, MLL enjoys access to the capital markets and healthy relationships with banks, which add to its financial flexibility and gives ICRA additional comfort on the Group's commitment in supporting the business of MLL, as and when required.

MLL's SCM business has a large contribution from the automotive segment, in line with some of its business from the parent entity. However, MLL has diversified beyond the automotive business to a large extent by developing a strong client base outside the Group in other segments such as e-commerce, consumer durables, fast moving consumer goods (FMCG) and pharmaceutical verticals. MLL continues to primarily follow an asset-light business model, which supports its credit profile, especially if there is declining business environment. MLL, at the consolidated level, has a strong financial risk profile, reflected in its gearing of 0.7 times (excluding lease liabilities) and adequate liquidity position with sufficient cash, bank balance and liquid investments aggregating to ~Rs. 77 crore as on March 31, 2024. Moreover, MLL had sanctioned working capital facilities of Rs. 350 crore as on March 31, 2024 at the standalone level of which ~75% was unutilised, providing it with an additional liquidity buffer.

The rating strengths are partially offset by the inherent cyclicity in the automotive industry, towards which MLL has high exposure. Additionally, the B2B express logistics business that it had acquired from Rivigo Services Private Limited (Rivigo/ RSPL; housed under MLL's subsidiary, MLL Express Service Private Limited [MESPL]) during November 2022 is currently loss making, though on QoQ basis the operating performance has improved. The company's ability to scale up volumes and turn it profitable as well as realise operational synergies, to drive sustainable earnings from this subsidiary and its impact on overall profitability remains a key monitorable. MLL's business also remains vulnerable to stiff competition from many unorganised players and technology driven start-ups in the logistics space.

The Stable outlook reflects ICRA's expectation that MLL will continue to enjoy strong financial flexibility as 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 liquidity profile.

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 – MLL derived ~55% of its revenues from the Mahindra Group in FY2024. In addition to the business linkages and strong business volumes, as a subsidiary of M&M, MLL enjoys access to the capital markets and healthy relationships with banks, which adds to its financial flexibility and supports the overall liquidity profile. MLL also features as a growth gem for M&M, which gives ICRA additional comfort on the Group's commitment in supporting the business, as and when required.

Presence with established companies – While the Mahindra Group accounted for ~55% of MLL's total revenues in FY2024, the concentration on the Group has reduced over the years from ~70% in FY2015. MLL has been focusing on strengthening its relationships with other original equipment manufacturers (OEMs) in the automotive industry and diversifying into other industry verticals like pharmaceuticals, FMCG and e-commerce, among others, to spread its revenue base, and has added several large reputed players to its clientele.

Comfortable capital structure and liquidity – At the consolidated level, excluding the impact of lease liabilities, MLL was net debt free till FY2022. However, with the growth of business, the working capital requirement of the company has increased. Besides this, MESPL (subsidiary of MLL) has availed long-term debt of Rs. 220 crore for acquisition of the Rivigo business, and it also utilised working capital facilities in order to support its operations in FY2024. Despite the increase in debt levels, coverage indicators remained moderate with net debt/OPBDITA of 1.1 times and interest coverage of 3.4 times in FY2024. The liquidity position of the MLL Group remains strong, reflected in its sizeable cash, bank balance as well as liquid investments aggregating to ~Rs. 77 crore as on March 31, 2024. Additionally, MLL had sanctioned working capital facilities of Rs. 350 crore as on March 31, 2024 at the standalone level, of which 75% was unutilised.

Credit challenges

Concentration of SCM business on automotive industry exposes MLL to high industry cyclicality – The company derives more than 50% of its SCM revenues from the automotive segment, exposing it to the cyclicality inherent in the industry. ICRA notes that with increasing business from non-automotive sectors, MLL's concentration on the automotive segment has reduced over the years. As a part of the diversification of segments and clients, MLL through MESPL had acquired Rivigo business and also transferred its express business to MESPL in FY2024. The MLL Express business has witnessed a slower-than-expected increase in profitability and recorded an EBITDA loss of Rs. 80.3 crore in FY2024. Consequently, the consolidated EBITDA margin contracted to 4.2% in FY2024 from 5.1% in FY2023. Considering an expected YoY improvement in MLL express business for FY2025, its impact on the consolidated profitability will remain a key point to monitor.

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

Environmental and Social Risks

Environmental considerations: Emission is the key environmental risk for the entity as it operates in the logistic sector. MLL has identified resource efficiency and greenhouse gas (GHG) emission reduction as key material issues and has accordingly set up processes to improve the same. To focus on these initiatives, the company targets to attain carbon neutrality by CY2039-2040. It is among the few companies in the logistics sector to receive validation by Science Based Targets Initiative (SBTi). The company plans to get its Built to Suit (BTS) warehousing facilities certified by the Indian Green Building Council (IGBC). MLL is

increasing the renewable energy component in its energy mix by installing solar panels at its warehouse facilities. The company is working towards making its facilities energy efficient and sustainable. As on March 31, 2024, over 3.6 million square feet of MLL's warehouses are energy positive, owing to utilisation of solar power. MLL reported 11% renewable energy share in its total energy consumption in FY2024. The company is also taking initiatives to increase the electric fleet to de-carbonise, especially in its eDel segment. ICRA expects the company to remain compliant with related emission norms, going forward, which in turn is expected to support business continuity and the company's credit profile with respect to any emission norm.

Social considerations: The company is exposed to social risks such as driver shortage and changing consumer preferences. The company has taken initiatives for employee empowerment, diversity in the workplace, and employee development and healthcare. MLL aims to provide a safe and transparent working environment to its employees, ensuring gender equality. It has also laid down policies on diversity and inclusion at the workplace for persons with diverse gender identities and sexual orientation, persons with disabilities and work-life balance.

Liquidity position: Strong

The liquidity position of the MLL Group is Strong, supported by its sizeable cash/bank balance and liquid investments of Rs. ~77 crore as on March 31, 2024. Moreover, MLL had sanctioned working capital facilities of Rs. 350 crore as on March 31, 2024 at the standalone level, 75% of which has remained unutilised. Further, at the standalone level, the company does not have any long-term debt repayment in the near term and has moderate capex plans for FY2025, which can be met from its available sources of liquidity. Moreover, MLL as part of Mahindra Group, enjoys access to capital markets and healthy relationships with banks which adds to its financial flexibility and support its overall liquidity profile.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company achieves further scale-up in revenues with higher sector and client diversification and further strengthening of its financial risk profile, on a sustained basis.

Negative factors – MLL's ratings may be downgraded if there is significant 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 (JVs) undertaken by the company, which may adversely impact MLL's credit profile on a sustained basis will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent / Group Company: Mahindra & Mahindra Limited (M&M) The ratings assigned to MLL factor in the high likelihood of its parent, M&M (rated [ICRA]AAA (Stable) / [ICRA]A1+), extending financial support to it because of close business linkages between them. ICRA also expects M&M to be willing to extend financial support to MLL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MLL. The details are given in Annexure-II.

About the company

MLL, a 58.03% subsidiary of M&M as on June 30, 2024, is a third-party logistics (3PL) provider, operating in the supply chain management (SCM) and enterprise mobility (EM) businesses. MLL's SCM business includes supply chain consultancy, warehousing, stores and line feeding, transportation and freight forwarding. Its EM business 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 requirements 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 1, 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 seven subsidiaries.

Key financial indicators (audited)

MLL Consolidated	FY2023	FY2024
Operating income	5128.3	5506.0
PAT	27.4	-52.1
OPBDIT/OI	5.1%	4.2%
PAT/OI	0.5%	-0.9%
Total outside liabilities/Tangible net worth (times)	3.5	3.8
Total debt/OPBDIT (times)	3.2	3.2
Interest coverage (times)	5.0	3.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore

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	Type	Current (FY2025)			Chronology of rating history for the past 3 years					
		FY2025			FY2024		FY2023		FY2022	
		Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based / Non-fund Based Facilities	Long Term/ Short Term	350.00	30-Aug-24	[ICRA]AA (Stable)/ [ICRA]A1+	28-Sep-23	[ICRA]AA (Stable)/ [ICRA]A1+	06-Oct-22	[ICRA]AA (Stable)/ [ICRA]A1+	30-Jun-21	[ICRA]AA (Stable)/ [ICRA]A1+
			-	-	-	-	14-Jul-22	[ICRA]AA (Stable)/ [ICRA]A1+	-	-
Commercial Paper Programme	Short Term	100.00	30-Aug-24	[ICRA]A1+	-	-	-	-	30-Jun-21	[ICRA]A1+ Withdrawn
Fund-based Working Capital Facilities	Long Term	-	-	-	-	-	-	-	30-Jun-21	[ICRA]AA (Stable)
Non-fund Based Facilities	Short Term	-	-	-	-	-	-	-	30-Jun-21	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term/Short Term - Fund based/Non-fund based	Simple
Commercial Paper	Very Simple

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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based / Non-fund Based Facilities	NA	NA	NA	350.00	[ICRA]AA (Stable)/[ICRA]A1+
NA*	Commercial Paper*	NA	NA	NA	100.00	[ICRA]A1+

Source: Company; * Yet to be placed, CP is carved out from working capital lines

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Annexure II: 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
MLL Express Services Private Limited	100.00%	Full Consolidation
MLL Mobility Private Limited	100.00%	Full Consolidation
V-Link Freight Services Private Limited	100.00%	Full Consolidation
MLL Global Logistics Limited	100.00%	Full Consolidation
ZipZap Logistics Private Limited	60.00%	Full Consolidation

Source: Q1 FY2025 Results

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Branches



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