

July 14, 2022

Mahindra Logistics Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

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

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings reflects Mahindra Logistics Limited's (MLL) strong financial profile characterised 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. However, MLL has diversified significantly beyond the automotive business by developing 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 the capital markets and healthy relationships with banks, which adds to its financial flexibility.

MLL's Enterprise Mobility (EM) business witnessed a significant decline in revenues of 5% in FY2020 and 68% in FY2021, due to Covid-19-led lockdowns and work-from-home policies. However, ICRA notes that the business reported 21% growth in revenues in FY2022 due to back-to-office norms and resumption of travel. With the acquisition of Meru Travel Solutions Private Limited (MTSPL), Meru Mobility Tech Private Limited (MMTPL), V-Link Automotive Services Private Limited (VASPL), and V-Link Fleet Solutions Private Limited (VFSPL) in May 2022, ICRA expects the segment to benefit from growth in revenues and cross synergies among them.

MLL continues to primarily follow an asset-light business model, which is a positive, especially in a declining business environment. MLL has a strong financial risk profile, reflected in its gearing of 0.7 times (including lease liabilities) and strong liquidity position with sizeable cash, bank balance and liquid investments aggregating to Rs. 248.2 crore as on March 31, 2022. Moreover, MLL had sanctioned working capital facilities of Rs. 210 crore as on March 31, 2022 at standalone level which was unutilised. This sanctioned limit was further enhanced to Rs. 260 crore as on June 30, 2022. Excluding lease liability, MLL is a net debt-free company.

The rating strengths are partially offset by the inherent cyclicity in the automotive industry towards which it has high exposure. MLL's automotive segment's revenues witnessed 20% growth in FY2022 after de-growth of 16% in FY2020 and 6% in FY2021, 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.

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 – While MLL was initially focused 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 48% of its revenues from the Mahindra Group in FY2022. In addition to the business linkages and strong business volume, 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.

Asset-light business model provides operational flexibility, especially in declining 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 profit margins (OPM), it provides flexibility during industry down cycles and helps it in reducing the volatility in returns on capital employed (ROCE).

Broad customer base with presence among established companies – The Mahindra Group accounted for 48% and 49% of MLL's total revenues in FY2022 and FY2021, respectively. ICRA notes that the revenue concentration on the Group has reduced over the years from ~70% in FY2015. MLL has been focusing on strengthening its presence with other original equipment manufacturers (OEMs) in the automotive industry and 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 the impact of lease liabilities, MLL maintains its net debt-free status. The liquidity position of the company remains strong, reflected in its sizeable cash, bank balance as well as liquid investments aggregating to Rs. 248.2 crore as on March 31, 2022. Moreover, MLL had sanctioned working capital facilities of Rs. 210 crore as on March 31, 2022 at standalone level which was unutilised. This sanctioned limit was further enhanced to Rs. 260 crore as on June 30, 2022.

Credit challenges

Concentration of SCM business on automotive industry exposes MLL to high industry cyclicality – The company derived ~58% of its SCM revenues in FY2022 from the automotive segment, exposing the business to the cyclicality inherent in the industry. Consequently, its automotive segment's revenues witnessed 17% and 6% 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. ICRA notes that with increasing business from the non-automotive sectors, MLL's concentration on the automotive segment has reduced over the years. In FY2022, MLL's SCM business witnessed 20% growth in revenues due to increased demand from both the automotive and non-automotive segments.

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/bank balance and liquid investments of Rs. 248.2 crore as on March 31, 2022. Moreover, MLL had sanctioned working capital facilities of Rs. 210 crore as on March 31, 2022 at standalone level which was unutilised. This sanctioned limit was further enhanced to Rs. 260 crore as on June 30, 2022. The company does not have any long-term debt and has moderate capex plans for FY2023. MLL, as part of the Mahindra Group, enjoys access to the capital markets and healthy relationships with banks which adds to its financial flexibility and supports 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 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 (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	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MLL. The details are given in Annexure-2.

About the company

MLL, a 58.18% subsidiary of M&M as on March 31, 2022, 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 six subsidiary companies, LORDS Freight (India) Private Limited (LORDS), 2X2 Logistics Private Limited (2X2 Logistics), Meru Travel Solutions Pvt Ltd (MTSPL), Meru Mobility Tech Private Limited (MMTPL), V-Link Automotive Services Private Limited (VASPL), and V-Link Fleet Solutions Private Limited (VFSPL) and a 39.79% joint venture Transtech Logistics Private Limited (Shipx). LORDS is an international freight forwarder and 2X2 Logistics provides transportation services to MLL, other original equipment manufacturers (OEMs) and other transport companies through its fleet of owned trucks. Meru is a ridesharing company that provides app-based transportation services like city rides, city rentals, airport transfers, and outstation travel, etc., to individuals as well as corporate houses in various cities across India. ShipX is a SaaS (Software as a Service)-based Transport Management Solution (TMS) platform that serves the supply chain automation needs for 3PLs, shippers and transporters. MLL also acquired a 36% stake (on fully diluted basis) in ZipZap Logistics Private Limited (Whizzard) in April 2022, which operates as an intra-city distribution network for digital commerce and last mile delivery.

Key financial indicators (audited)

MLL - Consolidated	FY2021 Audited	FY2022 Audited
Operating Income (Rs. crore)	3263.7	4083.0
PAT (Rs. crore)	29.2	34.6
OPBDIT/OI (%)	4.1%	4.8%
PAT/OI (%)	0.9%	0.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.7
Total Debt/OPBDIT (times)	2.0	2.0
Interest Coverage (times)	6.7	6.7

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 (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
									14-July-22
1	Fund-based Working Capital Facilities	Long-term	-	--	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
2	Non-fund Based Facilities	Short-term	-	--	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
3	Fund-based / Non-fund Based Facilities	Long-term/ Short-term	335.00	--	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-	
4	Commercial Paper Programme	Short-term	-	--	-	[ICRA]A1+ withdrawn	[ICRA]A1+	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term / Short-term, Fund-based / Non-fund Based Facilities	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term / Short-term, Fund-based / Non-fund Based Facilities	-	-	-	335.00	[ICRA]AA (Stable)/ [ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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: FY2022 Annual Report; In addition, Meru Travel Solutions Private Limited (MTSPL), Meru Mobility Tech Private Limited (MMTPL), V-Link Automotive Services Private Limited (VASPL), and V-Link Fleet Solutions Private Limited (VFSPL) were acquired in May 2022 as 100% subsidiaries of MLL. MLL also acquired 36% stake (on fully diluted basis) in Zipzap Logistics Private Limited as on April 08, 2022.

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