September 28, 2023

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/ Short-term, Fund-based/ Non-fund Based Facilities	335.00	435.00	[ICRA]AA (Stable) / [ICRA]A1+; reaffirmed; assigned for enhanced amount
Total	**335.00**	**435.00**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmation of ratings reflects Mahindra Logistics Limited's (MLL/ the company) strong financial profile characterised by its low leverage and strong debt coverage indicators, as well as its position as a key intermediary in its parent, 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, 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 rating also factors in the high likelihood of M&M extending financial support to MLL, should there be a need, because of close business linkages between them. As a subsidiary of M&M, MLL also enjoys access to the capital markets and healthy relationships with banks, which adds to its financial flexibility.

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 a declining business environment. MLL, at a consolidated level, has a strong financial risk profile, reflected in its gearing of 0.7 times (excluding lease liabilities) and strong liquidity position with sizeable cash, bank balance and liquid investments aggregating to Rs. 193.5 crore as on March 31, 2023. Moreover, MLL had sanctioned working capital facilities of Rs. 300 crore as on March 31, 2023 at standalone level of which 50% was unutilised, providing it with an additional liquidity buffer.

The rating strengths are partially offset by the inherent cyclicality in the automotive industry towards which it has high exposure. Additionally, the B2B express logistics business that it had acquired from Rivigo Services Private Limited (Rivigo/ RSPL; housed under subsidiary – MLL Express Service Private Limited (MESPL)) last year is currently loss making and becoming a drag on its overall consolidated earnings. 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, remains a 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 ~52% of its revenues from the Mahindra Group in FY2023. 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.

Presence with established companies – While the Mahindra Group accounted for ~52% and ~47% of MLL's total revenues in FY2023 and FY2022, respectively, the 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, to diversify its revenue base, and has added several large reputed players to its clientele.

Comfortable capital structure and liquidity – At a consolidated level, excluding the impact of lease liabilities, MLL was net debt-free till FY2022. However, the company availed long-term debt of Rs. 220 crore through its subsidiary MESPL with regard to the acquisition of the Rivigo business, and the company also utilised working capital facilities in order to support its operations in FY2023. Despite the increase in debt levels, coverage indicators remain comfortable with net debt/OPBDITA at 0.8x and interest coverage of 5.0x in FY2023. The liquidity position of the MLL group remains strong, reflected in its sizeable cash, bank balance as well as liquid investments aggregating to Rs. 193.5 crore as on March 31, 2023. Additionally, MLL had sanctioned working capital facilities of Rs. 300 crore as on March 31, 2023 at a standalone level, of which 50% 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.

Stiff competition from large number of unorganised players and technology driven start-ups – MLL Group faces intense competition from the unorganised logistics service providers and technology driven start-ups in the SCM business. In the Enterprsie 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 risk for the entity as the company operates in the logistic sector. The Group has identified resource efficiency and greenhouse gas (GHG) emission reduction as key material issues and has accordingly set up processes to improve on the same. To give additional focus to these initiatives, the company targets to attain carbon neutrality by CY2039-CY2040 and achieve Science Based Targets Initiative (SBTi) certification by CY2032-CY2033. 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. Currently, over 4 million sq. ft. of MLL's warehouses were energy-positive, owing to the utilisation of solar power. The company is also taking initiatives to target 70% of it's line haul fleet to be on sustainable fuel and also increase it's electric fleet in the last mile. ICRA expects the company to remain compliant with related emission norms, going forward, which in turn is expected to support business continuity and MLL's credit profile with respect to any emission norms.

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 (PwDs) and work–life balance.

Liquidity position: Strong

The liquidity position of MLL Group is strong, supported by its sizeable cash/bank balance and liquid investments of Rs. 193.5 crore as on March 31, 2023. Moreover, MLL had sanctioned working capital facilities of Rs. 300 crore as on March 31, 2023; at a standalone level, 50% of the same was unutilised. Additionally, it has generated ~Rs. 130-190 crore of cash flows from operations in the last two years. The company does not have any long-term debt repayments in the near-term and has moderate capex plans for FY2024, which can be met from its available sources of liquidity. Moreover, MLL, as part of the Mahindra Group, enjoys access to capital markets and healthy relationships with banks, which add 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 factors 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 58.04% subsidiary of M&M as on June 30, 2023, 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, on the other hand, 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 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 eight subsidiary companies namely– (i) Lords Freight (India) Private Limited (LORDS), (ii) 2X2 Logistics Private Limited (2X2 Logistics), (iii) MLL Express Services Private Limited (MESPL), (iv) MLL Mobility Private Limited (MMPL), (v) V-Link Automotive Services Private Limited (VASPL), (vi) V-Link Fleet Solutions Private Limited (VFSPL), (vii) V-Link Freight Services Private Limited (VFSPL), and (viii) MLL Global Logistics Limited (MGLL). Additionally, it has a 39.79% joint venture, Transtech Logistics Private Limited (Shipx), and a 36.00% (on fully diluted basis) associate, ZipZap Logistics Private Limited (Whizzard).

Key financial indicators

MLL Consolidated	FY2022	FY2023
Operating income	4,140.8	5,128.3
PAT	15.1	27.4
OPBDIT/OI	4.5%	5.1%
PAT/OI	0.4%	0.5%
Total outside liabilities/Tangible net worth (times)	2.6	3.5
Total debt/OPBDIT (times)	2.2	3.2
Interest coverage (times)	6.2	5.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sep 28, 2023	Oct 06, 2022 Jul 14, 2022	Jun 30, 2021	Jun 25, 2020
1	Fund-based Working Capital Facilities	Long-term	-	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-fund Based Facilities	Short-term	-	-	-	-	[ICRA]A1+	[ICRA]A1+
3	Fund-based / Non-fund Based Facilities	Long-term / Short-term	435.00	-	[ICRA]AA (Stable)/ [ICRA]A1+	[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 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	Long-term / Short-term, Fund-based / Non-fund Based Facilities	-	-	-	435.00	[ICRA]AA (Stable)/ [ICRA]A1+

Source: Company

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

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	100.00%	Full Consolidation
MLL Mobility Private Limited	100.00%	Full Consolidation
V-Link Fleet Solutions Private Limited	100.00%	Full Consolidation
V-Link Automotive Services Private Limited	100.00%	Full Consolidation
V-Link Freight Services Private Limited	100.00%	Full Consolidation
MLL Global Logistics Limited	100.00%	Full Consolidation
Transtech Logistics Private Limited	39.79%	Equity Method
ZipZap Logistics Private Limited	36.00%*	Equity Method

*Source: Q1 FY2024 Results; *On fully diluted basis*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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