

Mahindra Logistics Limited

November 29, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Facilities	50.00	50.00	[ICRA]AA (Stable); Reaffirmed
Short-term, Non-fund Based Facilities	15.00	15.00	[ICRA]A1+; Reaffirmed
Total	65.00	65.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A)¹ assigned to the Rs. 50.00-crore² long-term fund-based facilities of Mahindra Logistics Limited (MLL or the company). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 15.00-crore short-term non-fund based facilities of MLL. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation takes into account the strong parentage of MLL as a subsidiary of Mahindra & Mahindra Limited (M&M, rated [ICRA]AAA (Stable)/ [ICRA]A1+), MLL's established presence in the supply chain management (SCM) segment with M&M being a key customer, the increasing client diversification in its SCM business, and the leadership position it enjoys in the people logistics (people transport solutions or PTS) business because of its first mover advantage. The company's financial risk profile is strong as indicated by its healthy capital structure, robust liquidity position and sustained improvement in profitability. 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.

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 ('the Group') particularly M&M, in the SCM segment, provides MLL with the requisite experience, volume and a stable business avenue. MLL's SCM business is at present primarily focussed on the automotive segment, in line with its large dependence on the parent entity for business. While MLL has also developed a strong client base outside the Group, its current dependence on the Group remains high at 58% of the total revenues in H1 FY2019 (55% in FY2018 and 54% in FY2017).

MLL's operating profit margins (OPM) remain thin given the asset-light business model employed by the company, wherein it continues to be a business aggregator and executor. 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 its OPM over the past few years, with the OPM in H1 FY2019 at 4.0%, as against 3.5% in FY2018 and 2.9% in FY2017. While the profit margins are relatively better in the PTS business, the business remains vulnerable to stiff competition from a large number of unorganised players. Improving scale and profitability of its subsidiaries is also aiding improvement in its consolidated OPM. MLL's profitability, as measured by the return on capital employed (ROCE),

¹For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

²100 lakh = 1 crore = 10 million

has been strong, despite thin margins, owing to its asset-light business strategy. Its capital structure also remains healthy—debt-free on a standalone basis since FY2013 and low debt levels on a consolidated basis. MLL continues to enjoy superior liquidity, as reflected by sizeable cash and bank balance and liquid investments aggregating to Rs. 71.0 crore as on September 30, 2018, and primarily unutilised bank lines of Rs. 48.0 crore.

Outlook: Stable

The Stable outlook reflects ICRA expectations that MLL will continue to enjoy strong financial flexibility being 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 profitability, while aiming to grow the topline. The outlook may be revised to Positive if the company's credit profile further improves through sustained improvement in sales as well as operating profitability with higher share from the high-margin warehousing business. The outlook may be revised to Negative in case of any large debt-funded acquisition that may suppress profitability and adversely impact the capital structure.

Key rating drivers

Credit strengths

Strong financial flexibility by being a part of the Mahindra Group; strong business linkages with the Group in the SCM segment provides requisite volume and stable business avenue – While MLL was initially focussed on meeting the SCM requirements of the Group companies, it subsequently diversified its client base beyond the Group. It continues to cater to almost the entire supply-chain requirements of M&M. It derived ~55% and ~58% of its total revenues in FY2018 and H1 FY2019, respectively, from the Mahindra Group. In addition to the business linkages and strong business volume, MLL, being a part of the Mahindra Group, derives flexibility in tapping the banking and financial markets in case of funding requirements.

Asset-light business model provides operational flexibility, especially in declining business environment – MLL primarily follows an asset-light strategy (asset-light model on a standalone basis, while its subsidiary company 2X2 Logistics follows an asset-heavy model). While the vehicles are hired from transport companies on a contractual basis, all its warehousing requirements are on a lease basis. Such a policy results in very low capital expenditure requirements and hence, low fixed costs. While the policy affects the profit margins negatively due to higher operating costs, it provides flexibility during industry down-cycle and helps in reducing the volatility in RoCE.

Broad customer base with presence among established companies in each industry segment – Though MLL derived ~55% of its FY2018 revenues from the Group, the revenue concentration on the Group has reduced over the years, from ~78% in FY2014. MLL has been focussing on strengthening its presence with the other original equipment manufacturers in the automotive industry and also to diversify its presence into other industry verticals (like pharmaceuticals, fast moving consumer goods (FMCG), telecom and e-commerce industries). MLL has, over the past three years, added several new customers in the non-automotive segment, resulting in diversification of its customer profile.

Leadership position in PTS business, with first mover advantage – By virtue of being an early entrant into the people movement service, a growing requirement for the information technology (IT) and IT enabled services (ITeS) companies, MLL has established a leading position in the PTS business. MLL has a moderately diversified customer base, with it deriving ~49% of its PTS segment revenues in H1 FY2019 from the top five customers. Though a majority of the segment revenues is derived from IT / ITeS companies, these are reputed companies in the industry and have been garnering continued business.

Healthy capital structure and liquidity – MLL's OPM has improved in the past few fiscals to 4.0% in H1 FY2019 from 3.5% in FY2018 and 2.9% in FY2017 due to gradual shift in the business mix in its SCM segment in favour of higher margin

warehousing and line feeding businesses, as against its traditional transportation business. Supported by strong accruals and minimal capital expenditure requirements, MLL’s capital structure remains strong— debt-free on a standalone basis since FY2013 and low debt levels on a consolidated basis (gearing of 0.1 times as of September 2018). MLL continues to enjoy healthy liquidity, as reflected by sizeable cash and bank balance and liquid investments aggregating to Rs. 71.0 crore as on September 30, 2018, and mainly unutilised bank lines of Rs. 48.0 crore. The liquidity, however, has reduced over the past two years due to an increase in working capital intensity (as measured by NWC/OI of 8% in H1 FY2019 as against 4% in FY2016 and 1% in FY2015), as the new businesses (non-Mahindra Group customers) are provided with a higher credit period.

Credit challenges

Concentration of SCM business on automotive industry exposes MLL to high industry cyclicality – MLL’s SCM segment derived ~69% and ~72% of its consolidated revenues in FY2018 and H1 FY2019, respectively, from the automotive industry, thus exposing the business to cyclicality inherent in the industry. However, with increasing business from non-automotive industry, the concentration has reduced over the years.

Stiff competition from a large number of unorganised players – MLL faces intense competition from the unorganised logistics service providers in the SCM business. In the PTS business, it faces competition from the local travel operators and also from the application-based transportation service providers.

Liquidity position

MLL has been a debt-free company on a standalone basis since FY2013 and has low debt levels (Rs. 32.6 crore as on September 30, 2018) on a consolidated basis. The repayment obligations of the company are low with ~Rs. 8.4 crore in FY2019, ~Rs. 8.4 crore in FY2020 and ~Rs. 8.4 crore in FY2021. As on September 30, 2018, it had cash and bank balance and liquid investments aggregating to Rs. 71.0 crore at the consolidated level. The company also has unutilised bank lines of Rs. 48.0 crore, providing adequate liquidity buffer in case of any increase in its working capital requirements.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent Company: Mahindra & Mahindra Limited The company’s ratings derive comfort from the strong financial flexibility by being a subsidiary of M&M (rated [ICRA]AAA (Stable)/ [ICRA]A1+) and its strong linkages with the Group, with ~56% of total revenues in H1 FY2019 derived from the Mahindra Group.
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MLL. As on September 30, 2018, the company has two subsidiaries that are listed in Annexure-2.

About the company

MLL, at present a 61.05% subsidiary of M&M, is a third-party logistics (3PL) provider, primarily operating in the SCM and PTS businesses. 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.

During FY2014 and FY2015, Kedaara Capital, a private equity investor, infused Rs. 200.0 crore in the company through a combination of primary and secondary investments. MLL concluded its initial public offering (IPO) in November 2017 and

has got listed in the Bombay Stock Exchange and the National Stock Exchange. As on September 30, 2018, Kedaara Capital, along with Normandy Holdings Limited, held a 9.40% stake in the company.

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 MLL has 78.81% stake in LORDS as on September 30, 2018. In October 2018, MLL has announced increasing its stake in LORDS to 83.87%. MLL holds 55% stake in 2X2 Logistics, with the balance 45% held by IVC Logistics Limited. 2X2 Logistics is a business associate for MLL and provides transportation services to MLL through its fleet of owned trucks (152 as on September 30, 2018).

Key financial indicators (audited; consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	2666.6	3416.1
PAT (Rs. crore)	46.1	65.3
OPBDIT/ OI (%)	2.9%	3.5%
RoCE (%)	19.9%	25.4%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.4	0.3
Interest Coverage (times)	21.9	31.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Fund-Based Limits	Long-term	50.00	-	November 2018 [ICRA]AA (Stable)	March 2018 [ICRA]AA (Stable)	December 2016 [ICRA]AA (Stable)	December 2015 [ICRA]AA (Stable)
2 Non-Fund Based Limits	Short-term	15.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

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	Fund-based – Cash Credit	NA	NA	NA	50.00	[ICRA]AA (Stable)
NA	Non-Fund Based – Bank Guarantee / Letter of Credit	NA	NA	NA	15.00	[ICRA]A1+

Source: Mahindra Logistics Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
LORDS Freight (India) Private Limited	78.81%	Full Consolidation
2X2 Logistics Private Limited	55.00%	Full Consolidation

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah

+91 22 6114 3442
kinjal.shah@icraindia.com

Vicky Bhoir

+91 22 6114 3450
vicky.bhoir@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents