Press Release

Maheshwari Logistics Limited

March 24, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Ratings Action
Long Term Bank Facilities - Fund Based	55.00 (Increased from INR 40.00)	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	Reaffirmed/Assigned
Short Term Bank Facilities - Non-fund based	61.20	IVR A2+ (IVR Single A Two Plus)	Assigned
Total	**116.20**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Maheshwari Logistics Limited (MLL) derives comfort from its experienced promoters, diversified business portfolio, satisfactory financial risk profile marked by stable performance with moderate capital structure and debt-protection matrices. The ratings also positively factors in improvement in its profit margins in 9MFY20. However, the rating strengths are partially offset by its exposure to fluctuation in price of materials in paper and coal trading segment, intense competition & presence in highly regulated coal trading industry, geographical constraints, thin profitability and working capital intensive nature of operations.

Key Rating Sensitivities:

Upward Factor:

- Significant growth in scale of business with improvement in profitability metrics on a sustained basis thereby leading to overall improvement in cash accruals, which is significantly higher than Infomerics expectation
- Improvement in the capital structure
- Improvement in working capital cycle and sufficient liquidity buffer with enhancement in the existing limits or working capital limits utilisation at below 90% on a sustained basis

Downward factor:

- Significant decline in revenue and/or profitability on a sustained basis impacting the overall financial risk profile on a sustained basis
- Moderation in the capital structure with overall gearing at over 2x
- Any material stretch in working capital cycle weakening the liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

The promoters of MLL has long standing business experience in the field of paper and logistics and in coal transportation. Vast business experience of the promoters supports the business risk profile of the company to an extent.

- **Diversification in business portfolio**

The company has diversified business portfolio with presence in trading (mainly Coal) imported coal, Pet coke [MLL is a dealer of Nayara Energy Ltd (formerly known as Essar Oil], Waste paper), logistics (mainly coal transportation from various ports in Gujarat and transportation for various industries such as chemical, cement and paper) and manufacturing of Kraft paper. All the business segments has around 25% or more contribution each in its overall revenue profile. The diversification in the business helps the company to distribute the risk amongst different segments in times of distress and thereby maintaining profitability. MLL had entered into a joint venture with Blackbuck (Registered as Zinka Logistics Solution Pvt. Ltd.) for logistic business during FY19, which played a major role for elevation in the top-line from the logistic business segment and contributed a revenue of Rs.166.21 crore (which is ~40% of overall Logistic business revenue). However, MLL discontinue its JV with Blackbuck owing to its lower contribution in profit (JV earned a profit of Rs.0.54 crore on a turnover of Rs.166.21 crore in FY19) which had a negative impact on the overall revenue profile of the company during 9MFY20.

- **Stable performance over the years with gradual improvement in profitability**

The company has delivered stable performance over the past years and registered a CAGR of ~12% during FY17-FY19 with a y-o-y growth of about ~19% in FY19. The growth was mainly driven by steady improvement in its transportation and Kraft paper-manufacturing segment. During FY19, the logistic and Kraft paper-manufacturing segment witnessed a y-o-y growth of ~78% and ~59% respectively. On the other hand, MLL witnessed a y-o-y moderation of ~20% from its trading segment mainly due to increased focus of the company to trade in high margin products (high margin PET coke sale increased by ~ 80% in FY19 as compared to FY18) instead of volume-based business and decline in waste paper trading sales due to use of waste papers in its own Kraft paper manufacturing. With improvement in revenue and gradual higher contribution in revenue from the Kraft paper-manufacturing segment the profitability of the company witnessed steady improvement, the EBITDA margin, and the PAT margin improved from 3.78% and 1.31% respectively in FY17 to 4.47% and 2.22% respectively in FY19. During 9MFY20, the company witnessed moderation in its overall revenue and registered a total operating income of Rs.582.57 Cr vis-s-vis Rs.787.69 Cr in 9MFY19. Discontinuation of JV along with prolonged monsoon affecting the coal transportation during the year has affected the revenue from its logistics segment, which in turn largely affected the overall revenue of the company. However, during 9MFY20, the company started its captive power plant (CPP) of 4.5 MW, which along with trading of high margin products drive the profitability of the company, and the company has posted an EBITDA margin and PAT margin of 7.27% and 2.57% respectively in 9MFY20 as against 4.40% and 1.45% respectively in 9MFY19. Infomerics expects a stable performance of MLL with moderation in overall revenue in FY20, though profit margins are expected to improve.

- **Satisfactory financial risk profile marked by moderate capital structure and debt-protection matrices**

The financial risk profile of the company remained satisfactory marked by its moderate leverage ratios as on the past three account closing dates. The long-term debt-equity ratio and the overall gearing ratio remained moderate at 0.79x and 1.22x respectively as on March 31, 2019. Further, the total indebtedness of the company as reflected by TOL/TNW remained satisfactory at 2.22x as on March 31, 2019. Further, the interest coverage ratio of the company remained healthy over the past years and stood comfortable at 2.53x in FY19. Gross cash accruals (GCA) also witnessed steady improvement from Rs.15.60 crore in FY17 to Rs.25.70 crore in FY19. Total debt to GCA though remained moderate at 5.62x in FY19 improved from 6.29x in FY18 driven by improvement in cash accruals. As on September 30, 2019, the overall gearing continued to remain moderate at 1.22x. The interest coverage ratio also remained healthy at 2.98x in 9MFY20. Infomerics believes the financial risk profile of the company will continue to remain satisfactory in near term.

- **Favourable demand for Kraft paper industry**

The kraft papers are mainly used in packaging sector. The kraft paper industry in India is expected to witness a significant growth in future as the government of India has started putting nationwide curbs on use of single use plastic and endorsed many awareness programmes on less usage of plastic, which will indirectly push demand for the kraft paper manufacturing industries.

Key Rating Weaknesses

- **Exposure to fluctuation in price of materials in paper and coal trading segment**

The company has no long-term supply agreement for supply of waste papers and is dependent on spot prices. On the other hand, coal prices are also volatile. Moreover, the company has to hire trucks from various parties to support its logistics operations. Hence, any upward revision in the cost of raw material/traded goods or unfavourable hire charges may affect the margins of the company amidst stiff competition in the market.

- **Thin profitability**

The profit margins of the company though improved remained thin over the years. The company has healthy revenue contribution (~38% in FY19) from its trading segment, which is relatively a low margin business due to its lower value additive nature and highly competitive operating spectrum due to low product differentiation and presence of many participants. Further, the profitability of the company also remained restricted in its logistics segment due to high competition in the sector from various organised and unorganised players. Consequently, the

EBITDA margin of the company remained thin in the range of 3.78% - 4.47% during FY17-FY19. With range bound EBITDA margin, the PAT margin of the company also remained thin in the range of 1.31%-1.42% during FY17-FY19. However, with introduction of CPP, which enhances the profitability in Kraft paper manufacturing segment and higher focus on high margin goods in trading segment the EBIDTA margin, improved to 7.27% in 9MFY20.

- **Intense competition & highly regulated coal trading industry**

The coal trading and logistics industry are highly fragmented with presence of many organised and unorganised players. Intense competition in the operating spectrum limits the pricing flexibility of the company. Further, coal-trading segment has high government regulations. Hence, any negative government regulation may affect the business profile of the company.

Limited value addition in trading activities restricts the pricing flexibility and in turn exerts pressure on the company's margins.

- **Geographical constraints**

MLL largely operates in the state of Gujarat and Rajasthan. Any disruption in these states may influence the business profile of the company.

- **Working capital intensive nature of operations**

The business of the company working capital intensive due to its elongated receivable period amidst high competition in the operating spectrum. To fund its working capital requirements the company is largely dependent on its working capital bank borrowings. Consequently, the cash credit limit utilisation of the company remained high at ~93% during the past 12 months ended January 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing, Trading & Service Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

MLL has generated gross cash accruals of Rs.25.16 crore in FY19. The liquidity position of the company is expected to remain adequate marked by expected cash accruals of the company in the range of ~Rs.26-32 crore as compared to its debt repayments in the range of ~Rs.12-20 crore during FY20-22. However, its bank limits remained highly utilized to the extent of ~93% during the past 12 months ended January 2020 indicating a limited liquidity buffer. Enhancement in bank limit is crucial for MLL's liquidity.

About the Company

Maheshwari Logistics Limited (MLL) was incorporated in 2006 as private limited company by Mr. Vinay Maheshwari, Mr. Amit Maheshwari, Mr. Vipul Vashi and Mr. Varun Kabra in Gujarat. The company was initially engaged in providing logistics service and trading of coal and waste papers. During 2015-16, the company ventured into manufacturing of Kraft papers by entering into a business transfer agreement with Daman Ganga Recycled Resources LLP. In December 2016, the company changed its constitution and became a public limited company. Presently, MLL is operating in three business segments, logistics, trading and manufacturing of Kraft paper. The company has 21 branches across the country. Further, MLL has 5 waste paper collection centres across Gujarat 1 and Maharashtra 4 to support its waste paper trading and Kraft paper manufacturing segment (where waste paper is a raw material) and a coal screening facility in Vapi, Gujarat. Further, the company has owned fleet of 109 trucks (in Dec 31, 2019) for its logistics segment has tie-ups with many truck owners. The Company is also having a fully owned (99%) LLP named as "Maheshwari Logistics (India) LLP" engaged in providing logistics service to unorganised sectors.

Financials:

(Rs. crore)

For the year ended*/As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	870.11	1037.07
EBITDA	35.21	46.40
PAT	11.65	14.80
Tangible Net worth	102.29	116.27
EBITDA Margin (%)	4.05	4.47
PAT Margin (%)	1.33	1.42
Overall Gearing Ratio (x)	1.27	1.22

**As per Infomerics Standards*

Status of non-cooperation with previous CRA: ICRA moved the rating to ISSUER NOT COOPERATING category vide its press release dated February 25, 2020 due to unavailability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	*52.00	IVR A-/Stable	-	-	-
2	SLC	Long Term	3.00	IVR A-/Stable	-	-	-
3.	LC	Short Term	58.00**	IVR A2+	-	-	-
4.	LER	Short Term	3.20	IVR A2+			

***** WCDL of Rs.5.00 Cr (Sublimit to CC)

**BG of Rs.3.00 Cr (Sublimit to LC)

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities - CC	-	-	-	*52.00	IVR A-/Stable

Long Term Bank Facilities – SLC	-	-	-	3.00	IVR A-/Stable
Short Term Bank Facilities – LC	-	-	-	58.00**	IVR A2+
Short Term Bank Facilities – LER	-	-	-	3.20	IVR A2+

***** WCDL of Rs.5.00 Cr (Sublimit to CC)

**BG of Rs.3.00 Cr (Sublimit to LC)