Maheshwari Logistics Limited
July 24, 2023

Ratings

Instrument/ Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	189.20	IVR A-/ Stable (IVR Single A Minus with stable Outlook)	Assigned	Simple
Short Term Bank Facilities	72.00	IVR A2+ (IVR A Two Plus)	Assigned	Simple
Total	261.20	Rupees Two Hundred Sixty One Crore and Twenty Lakhs.		

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has assigned long-term rating of IVR A- with a Stable outlook and short-term rating of IVR A2+ for the bank loan facilities of Maheshwari Logistics Limited (MLL).

The rating assigned to the Maheshwari Logistics Limited derives comfort from experienced promoters, diversification in business portfolio & favourable demand, comfortable financial risk profile, adequate debt protection metrics, besides diversified customer & supplier portfolio. However, these factors are offset by thin profitability, exposure to fluctuation in price of materials in paper & coal trading segment, and intense competition & highly regulated coal trading industry.

The stable outlook indicates a low likelihood of rating change in the medium term. IVR believes that the MLLs business & financials risk profile will be maintained over the medium term. The company has a diverse portfolio & the company has registered improved top line in last 2 FYs. IVR expects that the company performance will remain stable.

IVR has principally relied on the standalone audited financial results of Maheshwari Logistics Limited up to FY23, three years projected financials till FY26, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:
Upward Factors

- Significant growth in scale of business with improvement in profitability metrics
- Improvement in the debt protection metrics
- Maintaining the overall gearing below 1.20x.

Downward Factors

- Significant reduction in the scale of operations & profitability impacting the debt coverage indicators.
- Deterioration in the capital structure with overall gearing to above 1.5x and interest coverage to below 2x

- Elongation in the operating cycle > 120 days impacting the liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record and experienced promoters:
The company has established track record of the operations over the years. The promoters of MLL have long standing business experience in the field of paper and logistics and in coal transportation. Business experience of the promoters supports the business risk profile of the company to an extent.

Diversification in business portfolio and favorable demand:
The company has diversified business portfolio and derives revenue from three key segments with presence in trading (mainly Coal, Pet coke, Wastepaper), logistics (mainly coal transportation from various ports in Gujarat and transportation for various industries such as chemical, cement, paper, steel) and manufacturing of Kraft paper. During FY23, the company registered sales of Rs. 1144.36 crore, which was mainly contributed by ~39% from Kraft Paper Manufacturing and wastepaper trading, ~45% from Coal Trading, ~5% from Pet coke sales, ~11% from logistics division. The diversification in the business helps the company to distribute the risk amongst different segments in times of distress and thereby maintaining scale of operations, besides profitability to an extent. The kraft papers are mainly used in packaging sector, where as kraft paper industry in India is expected to witness a stable 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, increased urbanization and its recyclable properties all around the world favours the demand of the products, besides the coal & logistics sector is expected to do better in medium term owing to stable domestic demand.

Comfortable financial risk profile:
MLL's scale of operation remained strong with a total operating income of Rs. 1144.36 crore in FY23 against Rs. 1034.67 crore in FY22. The company saw a decline in the top line with Rs. 670.44 crore in FY21 from Rs. 758.58 in FY20 owing to Covid-19 induced lockdown restrictions but thereafter the company has shown consistent growth in next 2 FYs. The long-term debt-equity ratio and the overall gearing ratio is at comfortable level at 0.73x and 1.17x respectively owing to good net worth of Rs. 163.39 crore against outstanding debt as on March 31, 2023. Further, the total indebtedness of the company as reflected by TOL/TNW remained satisfactory at 1.89x as on March 31, 2023. Operating cycle of the company is comfortable at 48 days in FY23 marked by comfortable debtor collection period & inventory period of 44 days & 33 days respectively in FY23.Current ratio of the company stood comfortably at 1.47x in FY23 (PY:1.58x)

Adequate debt protection metrics:
The company has adequate debt protection metrics marked by comfortable interest service coverage ratio (ISCR) of the company at 2.25x in FY23 (PY:2.77x in FY22). Debt service coverage ratio (DSCR) is satisfactory at 1.12x in FY23. ISCR & DSCR are expected to remain comfortable in FY24.

Diversified customer supplier portfolio
The company has a diversified profile of the customers & suppliers, top 10 customers & suppliers constitute ~36% & 37% respectively in FY23, which offset the risk of concentration risk.

Key Rating Weaknesses

Thin Profitability
The operating profit margins (OPM) of the company marginally declined from 4.99% in FY22 to 4.42% in FY23 due to healthy revenue contribution (~50% in FY23) from its trading (coal & Pet coke) segment (coal & coke), 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, while value added products from Kraft manufacturing witnessed some decline in FY23. The net profit margins also declined in line with OPM from 1.65% in FY22 to 1.19% in FY23. Further, the profitability of the company 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 4.42% - 6.35% during FY21-FY23. While PAT margin of the company also remained thin in the range of 1.19%-1.65% during the same period.

Exposure to fluctuation in price of materials in paper and coal trading segment
The company does not have long-term supply agreement for supply of waste papers and is dependent on spot prices. In addition to that, revenue of the company is mainly from coal & coke trading (~50% in FY23), whereas prices of the coal are volatile in nature. Besides that, the company hire trucks from various parties to support its logistics operations. Hence, any adverse 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.

Intense competition & highly regulated coal trading industry
The coal trading, kraft paper & logistics industry are highly fragmented with presence of many organised and unorganised players. Low entry barrier and intense competition in the industry, limits the pricing flexibility of the company. Further, coal-trading segment is highly regulated under government guidelines/policies, thus any unfavourable change in government regulation/policies may impact the business risk profile of the company. Limited value addition in trading activities restricts the pricing flexibility and in turn exerts pressure on the company's margins.

Analytical Approach: For arriving at the ratings, IVR has analysed MLL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:
Rating Methodologies for Manufacturing Entities
Rating Methodologies for Trading Entities
Rating Methodologies for Service Entities

[Financial Ratios & Interpretation Non- Financial Sector](#)
[Criteria for assigning rating outlook](#)

Liquidity – Adequate
The gross cash accruals of the company stood at Rs. 32.23 crore (PY: Rs. 30.03 crore) against a repayment obligation of Rs. 26.31 crore in FY23, while the company is expected to generate cash accruals of more than Rs. 35 crore against repayment obligation of Rs. 27 crore for FY24. Unutilized working capital provides cushion to the company in case of requirement while scaling up its operations. The company also has an adequate current ratio of 1.47 in FY23 & expected to remain comfortable in next FYs. The free cash & cash equivalent was Rs. 15.80 crore as on March 31, 2023. Liquidity is expected to remain Adequate.

About the Company
Maheshwari Logistics Limited (MLL) was incorporated in 2006 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 manufacturing of Kraft paper (having capacity of 1 lakh MT), logistics and trading (coal & Pet coke).

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	1034.67	1144.36
EBITDA	51.62	50.60
PAT	17.15	13.67
Total Debt	174.62	191.82
Tangible Net worth	151.54	163.39
EBITDA Margin (%)	4.99%	4.42%
PAT Margin (%)	1.65%	1.19%
Overall Gearing Ratio (x)	1.15x	1.17x

Financials as per Infomerics standards

Status of non-cooperation with previous CRA : Nil.

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument / Facilities	Current Rating (Year 2023-24)^			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based	Long Term	189.20	IVR A-/ Stable; Assigned	-	IVR BBB+/ Stable; Revised & Withdrawn **(Aug 02, 2021)** IVR BBB; Downgraded & moved to Issuer Not Cooperating **(June 16,2021)**	-
2.	Non- Fund Based	Short Term	72.00	IVR A2+; Assigned	-	IVR A2; Revised & Withdrawn **(Aug 02, 2021)** IVR A3+; Downgraded & moved to Issuer Not Cooperating **(June 16,2021)**	-

^Not accepted ratings IVR BBB+ (Stable) / IVR A2 dated 09.06.2023

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com

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 – Term Loan/GECL	-	-	-	114.20	IVR A-/Stable
Long term Bank Facilities – Cash Credit/SLC	-	-	-	75.00	IVR A-/Stable
Short term Bank Facilities – LC	-	-	-	68.00	IVR A2+
Short term Bank Facilities – CEL	-	-	-	4.00	IVR A2+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-maheshwari-jul23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Press Release

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