



Press Release
MEHRAB LOGISTICS AND AVIATION LIMITED
July 27, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	47.00	ACUITE B+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	47.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs. 47.00 Cr bank facilities of Mehrab Logistics and Aviation Limited (MLAL) . The outlook is '**Stable**'.

Rationale for the rating

The ratings on the bank loan facilities of MLAL takes cognizance of the company's long track record of operations marked by its experienced promoters. The ratings positively factor in MLAL's reputed and financially strong clientele and its long association with its key clients, which mitigates the counterparty risk to an extent. These strengths are offset by stretched liquidity due to elongated working capital management, full utilization of fund based limits and moderate revenue levels leading to lower accruals. Further, the ratings remain constrained by its weak financial profile marked by a leveraged capital structure with high reliance on external debt and low net worth, resulting in weak coverage indicators. Higher repayments and high finance cost are likely to keep MLAL's coverage metrics at modest levels in the near to medium term.

About the Company

Incorporated in 1997 in Lucknow, (U.P), Mehrab Logistics and Aviation Limited (MLAL) is promoted and managed by Mr. A.H Khan. The company is engaged in transportation of tractors, jeeps, cars etc., having a fleet of ~450 trailers.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of MLAL to arrive at the rating.

Key Rating Drivers

Strengths

Established operational track record and long association with renowned customers

Mr. A.H Khan, promoter of MLAL have an extensive experience of over two decades in the logistic industry which had enabled MLAL to establish relationships with reputed customers. The company has a reputed clientele and enjoys a long term relationship of more than a decade with some of the clients like Mahindra Logistics Limited, Maruti Suzuki India Ltd., Tata Motors Ltd., etc. to name a few. It provides services across India, primarily North India.

Moderate scale of operations

After supply chain disruptions followed by the pandemic outbreak, the supply shortage for

Indian passenger vehicle industry was further aggravated by the chip shortage till FY23. This had a ripple effect on the operations of logistic solution provider like MLAL, whose order book was adversely impacted. MLAL's revenues have been moderate, in the range of Rs. 105.65 Cr - Rs. 128.46 Cr during FY2020-FY2023 (Prov).

However, the company reported improved and healthy EBITDA margin of 13.74 per cent in FY23 (prov) as compared to 12.68 per cent in FY22 with a return on capital employed of 10.75 percent. The improvement in EBITDA margin was driven by a decrease in raw material costs due to inclusion of diesel escalation clauses in its contracts during FY23. Further, MLAL recovered the losses of FY22 and recorded PAT margin of 1.72 per cent in FY23 (prov). Intense competition continues to constrain scalability and bargaining power with customers and suppliers. Acuité believes the company's strong and expanding base of registered users together with the overall positive outlook for the logistics industry are expected to drive future business growth for MLAL going forward.

Weaknesses

Weak financial risk profile as reflected by leveraged capital structure and weak debt coverage indicators

MLAL's capital structure is highly leveraged with small networth of Rs. 7.42 Cr and high dependence on external borrowings as on 31st March 2023 (Prov). Financial risk profile is impacted due to continuous losses since last two fiscals leading to erosion of networth. The company has a high gearing of 9.27 times coupled with moderately weak debt-protection indicators as reflected by Interest coverage ratio of 2.78 times and Debt Service Coverage ratio of 0.67 times in FY2023 (prov) on the back of high debt repayment obligation. Total outside Liabilities to Net Worth ratio stood high at 11.82 times on account of deterioration in networth and high reliance on external debt as on March 31, 2023 (prov). Financial risk profile is expected to remain weak owing to deteriorated capital structure and expected small accretion to reserve.

Working capital intensive operations

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 168 days as on March 31, 2023(provisional) as against 164 days as on March 31, 2022. The high GCA days are on account of high debtor period which stood at 97 days as on March 31, 2023 as compared to 91 days as on 31st March 2022. However, the reputed client profile is expected to protect the company from counter-party credit risk. Further, the inventory days stood efficient at 26 days in FY2023 (prov.) compared to 24 days in FY2022. The company focuses on easy mobilisation of its resources, thereby improving the turnaround time and reducing the idleness of its fleet. Acuité believes that the working capital operations of the company will remain almost at the same levels as evident from the collection mechanism and efficient inventory levels over the medium term.

Competitive nature of the industry

The road logistics sector is highly fragmented with most of the business being handled by the unorganised segment. Therefore any slowdowns in the industry or any negative impact on the economy would have its impact on the players operating in the industry. This is further accentuated by limited pricing flexibility enjoyed by the company in the face of intense competition with a large number of players operating in the industry.

Rating Sensitivities

- Sustained growth in revenue and profitability
- Further weakening of the financial risk profile
- Elongation of the working capital management

Material covenants

None

Liquidity Position: Poor

MLAL's liquidity position continues to remain poor on account of low internal accrual generation, minimal free cash balances and with fully utilised working capital bank lines during last 7 months ended May 2023. MLAL's working capital intensity remains high owing to significant upfront payment to truck owners while offering a credit period to customers. Acuité notes that the company had a term debt repayment obligation of Rs. 39.28 Cr in FY22, which was majorly serviced through the proceeds from the sale of the hotel business. The hotel business was sold off by the company in FY21 from which it has received proceeds of Rs. 20 Cr. in FY21, while remaining Rs. 35 cr. were received in FY22. However, MLAL's annual debt repayment stands at ~Rs. 13.44 Cr in FY23, which is expected to be serviced through sufficient anticipated generation of cash accruals in FY24. Further, the promoters have extended unsecured loans to provide some support to its liquidity profile.

Outlook: Stable

Acuité believes that the outlook of the company will remain 'Stable' over the medium term on account of sustainable growth in the performance of the company marked by satisfactory scale of operations and sustenance of profitability margins coupled with long term experience of the promoters and association with reputed clientele. Conversely, the outlook may be revised in case of further weakening of its financial risk profile, elongation of the working capital cycle and deterioration in profitability margins thereby impacting the liquidity and debt protection indicators of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	128.46	129.03
PAT	Rs. Cr.	2.21	(2.34)
PAT Margin	(%)	1.72	(1.81)
Total Debt/Tangible Net Worth	Times	9.27	20.45
PBDIT/Interest	Times	2.78	1.30

Status of non-cooperation with previous CRA (if applicable)

Brickworks vide its press release dated 7th June 2023, had downgraded the company to BWR B-/Stable; Issuer Not Cooperating.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	32.00	ACUITE B+ Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.00	ACUITE B+ Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.00	ACUITE B+ Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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