November 30, 2021

Zinka Logistics Solutions Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund based	567.0	449.0	Ratings re-affirmed at [ICRA]A4+
Short-term non-fund based	10.0	25.0	Ratings re-affirmed at [ICRA]A4+
Short-term unallocated	73.0	0.0	-[1]
Total	**650.0**	**474.0**	

Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the rating continues to factor Zinka Logistics Solutions Private Limited's (ZLSPL/the company) experienced promoter and management team, asset-light business model enabling scale-up, and its early-mover advantage in the technology-enabled logistics services segment. Under its freight segment, ZLSPL derives more than 60% of its revenues from large corporates such as Hindustan Unilever Limited, Hindustan Zinc Limited, Jindal Stainless Limited, Electro Steels Limited, Asian Paints, United Breweries Limited Reliance Petrochemicals Limited, etc. protecting the company from counterparty credit risks to a certain extent. The company has received periodic equity infusions, with the latest fund raise resulting in an equity infusion of US$ 67 mn. This has resulted in increase in cash balances of the company to Rs. 762.8 crore as on September 30, 2021 as against Rs. 326.0 crore as on March 31, 2021. ICRA also notes that the company's investment towards scaling up its presence in the services segment (selling of fastag, GPS and fuel cards) has facilitated steady increase in its base of registered users enhancing its business prospects and cross-sell opportunities.

The FY2021 and Q1 FY2022 performance of the company was impacted due to the pandemic and intermittent lockdowns imposed by Govt of India. On a provisional basis, ZLSPL reported revenues of Rs. 873.4 crore as against Rs. 2,235.7 crore in FY2020 (degrowth of 60.9% on YoY basis). That said, with gradual easing of Covid related restrictions and effect of second wave of the pandemic subsiding, ZLSPL's operations have shown strong recovery from July 2021.

The rating is, however, constrained by significant operating losses on account of continued investments in product development and selling expenses towards scaling up its services segment. The company has been ramping up its sales force to acquire new customers leading to expanding EBITDA losses in the recent months. In addition to the operating losses, high interest costs towards working capital borrowings and high-cost long-term borrowings have also impacted the company's net profits and cash accruals over the years. While ZLSPL's current EBITDA loss is about Rs. 11-12 crore per month (up from Rs. 7-8 crore in FY2021) and the same is expected to widen going forward in the near-term, the current PE-funded cash balances are expected to support its operations over the next several quarters. Even as the company intends to invest further to secure higher market share of the total available supply in the country on its platform, translation of the same into results remains to be seen.

Under its freight segment, while the company intends to reduce its losses by foregoing contracts which are not margin-accretive, intense competition in the Full Truck Load (FTL) roads logistics space will continue to weigh on the company's pricing flexibility. The company's operations have turned highly working capital-intensive in FY2021 and H1 FY2022 on account of its

[1] The company has not availed any additional limits.

stretched debtor position. As of October 2021, the company has Rs. 181 crore of receivables outstanding for more than 180 days. The same has increased from Rs. 148 crore in January 2021. The company used to provide services to SME client and there has been delay in receipt of payments, resulting in build-up of receivables. In order to control the same, the company is currently avoiding sizeable exposure in SME industry. Going forward, the company will remain vulnerable to macro-economic cycles given its line of business.

Key rating drivers and their description

Credit strengths

Strong promoter and management team; follows an asset-light business model enabling faster scale-up – ZLSPL has strong promoter and management team with relevant experience and deep understanding of the domestic logistics industry and supply chain management and its asset-light business model, supports its technology platform and ability to raise sizeable equity.

Moderate customer concentration; reputed client profile mitigates counter-party credit risk. - The company operates solely in the B2B space and its customers include reputed players such as Hindustan Unilever Limited, Reliance Petrochemicals Limited, Hindustan Zinc Limited, and Marico Limited among others. ZLSPL's reputed client base mitigates the counterparty credit risk to a large extent while supporting revenue growth. Overall, ZLSPL derived 70% of its revenues from its top 10 customers in Q1 FY2022. Going forward also, working with credit worthy clients will remain ZLSPL's prime focus thereby mitigating counter party credit risk.

Strong liquidity position on the back of periodic equity infusion - The company has received periodic equity infusions, with the latest fund raise resulting in an equity infusion of US$ 67 mn from Tribe Capital, IFC Emerging Asia Fund and VEF, Wellington Management, Sands Capital, and IFC- the World Bank's investment arm. This has resulted in increase in cash balances of the company to Rs. 762.8 crore as on September 30, 2021 as against Rs. 326.0 crore as on March 31, 2021.

Credit challenges

Investments in strengthening its network and services resulting in continued loss at both operating and net level - The company has been ramping up sales force for acquisition of new customers leading to expanding EBITDA losses in the recent months. In addition to the operating losses, high interest costs towards working capital borrowings and high-cost long-term borrowings have also impacted the company's net profits and cash accruals over the years. While ZLSPL's current EBITDA loss is about Rs. 11-12 crore per month (up from Rs. 7-8 crore in FY2021) and the same is expected to widen going forward in the near-term. Even as the company intends to invest further to secure higher market share of the total available supply in the country on its platform, translation of the same into results remains to be seen.

High competitive intensity limits pricing flexibility – The Indian logistics industry is highly fragmented with the presence of several logistics companies – mainly unorganised players and a few large market participants. The industry has also been witnessing technology-driven disruptions from players like ZLSPL. Given the intense competition fuelled by sizeable private equity investments in the sector, both incumbents as well as newcomers face significant pricing pressure. This restricts the company's ability to improve its gross margins to a certain extent. Going forward, ZLSPL's ability to contain its cost and improve efficiencies remains critical for the company to stay competitive.

High working capital intensity; significant pile-up of receivables - The company's operations have turned highly working capital-intensive in FY2021 and H1 FY2022 on account of its stretched debtor position. As of October 2021, the company has Rs. 181 crore of receivables outstanding for more than 180 days. The same has increased from Rs. 148 crore in January 2021. The company used to provide services to SME client and there has been delay in receipt of payments, resulting in build-up of receivables. In order to control the same, the company is currently avoiding sizeable exposure in SME industry.

Liquidity position: Adequate

ZLSPL's operating cash flows continue to remain strained owing to its weak negative operating profits. However, the company's liquidity profile remains healthy supported by healthy cash and liquid investments on the back of sizeable equity infusion ($67 million dollars; approximately Rs. 510 crore) in July 2021. The average utilization of the fund-based working capital limits remained at 41% for the past 12-month period ending October 2021. The cash and liquid investments stood at Rs.762.8 crore as on September 30, 2021 (includes encumbered cash). As against this, the company has repayments of Rs. 62.4 crore in FY2022.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a sustained improvement in margins, profitability and debt protection metrics while showcasing an improvement in its receivable cycle while maintaining a strong liquidity position along .

Negative factors – ICRA could revise the rating downwards in case the time taken for the company to turnaround is longer than expected, significant cash losses are incurred or prolonged elongation in the debtor days leads to deterioration in the overall debt metrics of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the company.

About the company

Incorporated in April 2015, Zinka Logistics Solutions Private Limited (ZLSPL) started its journey with an asset-light full-truck-load (FTL) model for long-haul trucking. Currently, the company's business operations can be broadly divided into two segments: Freight and services/market place. Under freight segment, the company follows an asset-light business pattern for operations and currently operates only in long-haul, full-truck-load, open-truck, standard-delivery, and inter-city freight services. ZLSPL transportation business helps shippers match their demand for trucks with the right fleet owners based on the type of material to be transported, source, destination among other parameters. ZLSPL does not engage in part-truck load services.

Under Marketplace segment, the company's mobile application acts as an interface between the customers and truckers wherein, for any on-the-spot shipment a customer is looking to place, the app acts as an intermediary between the customer and the trucker. Prices are discovered through the market participation - about 50-60 truckers bid for a shipment. By way of eliminating middlemen, the company enables the truck drivers to earn better realizations per tonne. Under the pure marketplace model, the company generates revenues in the form of commission which are borne by the truck owners / drivers

Under service segment the company provides like GPS, fuel card and Fastag to its customers. Over the last 6-9 months, ZLSPL has been increasing its focus in the services vertical, rebranded as fleet management services. Initially, services worked as a support function to the demand team to meet the requirements of its clients, the fleet owners. But now, ZLSPL wants to be a one-stop shop for everything a fleet owner needs – fuel, Fastag, GPS, and load board.

Key financial indicators

Standalone	FY2020 audited	FY2021 provisional
Operating Income (Rs. crore)	2,235.7	873.4
PAT (Rs. crore)	-452.4	-162.6
OPBDIT/OI (%)	-15.1%	-12.9%
PAT/OI (%)	-20.2%	-18.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.2
Total Debt/OPBDIT (times)	-1.6	-3.1
Interest Coverage (times)	-4.4	-2.2

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019			
					Nov 30, 2021	Sep 25, 2020	Aug 02, 2019	Jan 21, 2019	Sep 19, 2018	Sep 07, 2018	Jun 07, 2018
1	Fund-based facilities	Short term	449.0	181.2	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)
2	Short-term non-fund based limits	Short term	25.0	15.0	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	Provisional [ICRA]A2+ (SO)	Provisional [ICRA]A2+ (SO)	Provisional [ICRA]A2+ (SO)	-
3	Unallocated	Short term				[ICRA]A4+	-		-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund-based facilities	Simple
Short-term non-fund based limits	Very 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Short-term fund-based facilities	NA	NA	NA	449.00	[ICRA]A4+
NA	Short-term non-fund based limits	NA	NA	NA	25.00	[ICRA]A4+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	ZLSPL ownership	Consolidation Approach
NA	NA	NA

Source: *Company*

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About ICRA Limited:

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