January 16, 2023

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	449.00	441.00	Ratings re-affirmed at [ICRA]A4+
Short-term, non-fund based	25.00	25.00	Ratings re-affirmed at [ICRA]A4+
Total	**474.00**	**466.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the rating factors in ICRA's expectation that Zinka Logistics Solutions Private Limited (ZLSPL/ the company) will continue to garner steady business in the freight logistics segment and improve its presence in the services segment (selling fastag, GPS and fuel cards). The increasing penetration in the services segment has facilitated a steady increase in its base of registered users, enhancing its business prospects and cross-selling opportunities. The sustenance of the business profile has been supported by regular equity infusion, the last one being in Q2 FY2022. Consequently, the company's liquidity position remains comfortable and is expected to remain so for the next few quarters. The rating favourably factors in the experienced promoter and management team, asset-light business model enabling scale-up, and its early-mover advantage in the technology-enabled logistics services space. ZLSPL's freight division has a reputable client profile with a moderate customer concentration, protecting it from counterparty credit risks to a certain extent.

The rating is, however, constrained by ongoing and significant operating losses from seasonal elevated vehicle hire charges, which could not be passed on to end-clients as well as significant employee costs and selling expenses towards scaling up its services segment. In addition, high provisioning for accounts receivable over the years has also significantly affected the EBITDA margins, although the same is expected to moderate in the medium-term. Significant ESOP expenses booked during the last equity infusion have also impacted on the company's net profits in FY2022. While ZLSPL's EBITDA losses may continue 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 a higher market share of the total available supply of trucks in the country on its platform, translation of the same into adequate returns remains to be seen. While its freight segment intends to reduce its losses further by foregoing contracts that are not margin accretive, intense competition in the Full Truck Load (FTL) roads logistics space will continue to weigh in on ZLSPL's pricing flexibility. However, for the services segment wherein majority of the sales force scale up has already happened, incremental sales are expected to be higher margin accretive and should support profitability. The rating also factors in high working capital intensity of business led by a long receivable cycle and advance payments to truck owners in the freight segment.

Key rating drivers and their description

Credit strengths

Strong promoter and management team; asset-light business model enables faster scale-up – ZLSPL has a strong promoter and management team with relevant experience and considerable understanding of the domestic logistics industry. Its asset-light business model, supported by a proprietary technology platform, provides it with the ability to raise sizeable equity capital from private equity investors.

Moderate customer concentration risk; reputed client profile mitigates counter-party credit risk to some extent – ZLSPL 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 counter-party credit risk to a large extent. However, this is mainly for the freight segment, which drives ~75% of its revenues. The same is expected to grow only at a gradual pace as the company is likely to focus on the services segment.

Comfortable liquidity position on the back of periodic equity infusion – ZLSPL has received periodic equity infusions, with the last fund raise resulting in an equity infusion of $67 million from Tribe Capital, IFC Emerging Asia Fund and VEF, Wellington Management, Sands Capital, and IFC, the World Bank's investment arm. The infusion has enabled ZLSPL to sustain its operations and maintain significant free cash balances.

Credit challenges

Significant losses continue, ability to reduce the same remains to be seen – ZLSPL reported revenues of Rs. 767.1 crore in FY2022 against Rs. 853.3 crore in FY2021 (degrowth of 10% on YoY basis) partly on the back of curtailment of certain loss-making lanes in the freight segment. The company's operating losses expanded as the company was ramping up its sales force for the acquisition of new customers and was incurring selling expenses in the services segment. Apart from that, debtor provisioning and significant ESOP expenses (concurrent with last round of equity raise) added to the losses in FY2022. In H1 FY2023, on a provisional basis, the company has incurred losses at the operating level. However, ICRA notes that the management has devised a multi-pronged approach to reduce the cash burn, which includes focus on higher margin accretive services segment; although the full-fledged effects of these initiatives are yet to be seen.

High competitive intensity limits pricing flexibility – The Indian logistics industry is highly fragmented with 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 fueled 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 costs and improve efficiencies remains critical for it to stay competitive.

High working capital intensity led by long receivable cycle – ZLSPL has a long working capital cycle led by a long receivable cycle and the need to make advance payments to truckers, in the freight segment. ICRA notes that the company's working capital intensity declined in FY2022 and H1 FY2023 on a YoY basis; however, part of the reduction in debtors came from provisioning of bad debts.

Liquidity position: Adequate

ZLSPL's operating cash flows continue to remain strained owing to its negative operating profits. However, its liquidity position is supported by free cash and cash equivalents of ~Rs. 506 crore (as on March 31, 2022), most of which is parked in liquid instruments. ICRA notes that the same have reduced in YTD FY2023 on the back of continued cash losses. However, cash losses are expected to decline in the medium-term. The term loan repayment obligations have reduced significantly and remains low for FY2023. ZLSPL has Rs. 441 crore of sanctioned fund-based working capital facilities and the average working capital limit utilisation has been 40% for the last 12 months ending September 2022.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to break even at the operating level, while showcasing an improvement in its receivable cycle and maintaining a comfortable liquidity position.

Negative factors – ICRA could revise the rating downwards in case the company's free cash levels deplete substantially. Moreover, continued cash losses, elongation in the working capital cycle resulting in further deterioration of credit metrics and liquidity position could also lead to a rating downgrade.

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 ZLSPL.

About the company

Incorporated in April 2015, ZLSPL started its journey with an asset-light full-truckload (FTL) model for long-haul trucking. Currently, the company's business operations can be broadly divided into—(i.) freight, and (ii.) services/marketplace. The company's freight segment 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.

The company's online platform, 'Blackbuck', acts as an interface between shippers and truckers in its marketplace segment, wherein the app acts as an intermediary for any on-the-spot shipment a shipper is looking to place. Prices are discovered through market participation with 50-60 truckers bidding for a shipment. By eliminating the middlemen, the company enables truck drivers to earn better realisations per tonne.

Its services segment, meanwhile, sells tracking (GPS) devices, Fastags and fuel cards to customers. Initially, ZLSPL's services worked as a support function for the marketplace; but now its target is to become a one-stop shop for everything a fleet owner needs—from fuel and Fastag to GPS and load board.

Key financial indicators (audited)

ZLSPL Standalone	FY2021	FY2022
Operating income	853.3	767.1
PAT	-233.7	-293.4
OPBDIT/OI	-21.6%	-35.1%
PAT/OI	-27.4%	-38.2%
Total outside liabilities/Tangible net worth (times)	1.7	0.5
Total debt/OPBDITA (times)	-2.2	-0.7
Interest coverage (times)	-3.2	-8.8

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 16, 2023	Nov 30, 2021	Sep 25, 2020	Aug 02, 2019
1	**Short-term fund based**	Short term	441.00	-	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**
2	**Short-term non-fund based**	Short term	25.00	--	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**
3	**Short Term Unallocated**	Short term	-	-	**-**	**-**	**[ICRA]A4+**	**-**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund based	Simple
Short-term non-fund based	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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Short-term fund based**	NA	NA	NA	441.00	[ICRA]A4+
NA	**Short-term non-fund based**	NA	NA	NA	25.00	[ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis - NA

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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.

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