ICRA

June 13, 2017

Zinka Logistics Solutions Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based limits	196.50	[ICRA]A2+ (SO) Assigned
Unallocated	3.50	Provisional [ICRA]A2+ (SO) Assigned
Total	**200.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the short-term rating of [ICRA]A2+ (SO) (pronounced ICRA A Two Plus Structured Obligation)[1] to the Rs.196.50-crore[2] fund-based bank facilities of Zinka Logistics Solutions Private Limited (ZLSPL / the company). ICRA has also assigned the short-term rating of Provisional [ICRA]A2+ (SO) pronounced as pronounced as Provisional ICRA A two plus Structured Obligation) to the Rs.3.50-crore unallocated limits of ZLSPL. The letters SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms and its structure. SO ratings do not represent ICRA's opinion on the overall credit quality of the issuers concerned.

The provisional rating assigned (as denoted by the prefix 'Provisional' before the rating symbol) is subject to the fulfillment of all conditions under the structure and review of final documentation pertaining to the facility by ICRA, besides the executed documentation being in line with ICRA's expectations.

Rationale

The facilities rated by ICRA are in the nature of bill discount facilities. The primary source of repayment to the lenders shall be the payments from ZLSPL's customers against the invoices raised by the company. The customers largely have a good credit profile and are required to make a payment directly into an escrow account (lien marked in favour of the lender). Moreover, the lenders maintain a margin of 10% - 15% of the invoice amount at the time of disbursement. This mitigates the risk of any shortfall in payment by the customers.

The company is lead by a strong promoter and management team with relevant experience and deep understanding of the domestic logistics industry. Further, the company's asset light business approach mitigates the risks associated with low truck utilisation and its financial profile is characterised by a comfortable capital structure and strong liquidity position as on March 31, 2017, supported by recent PE funding. ZLSPL is one of the early movers in the technology-enabled logistics services industry with strengthening brand presence among addressable customers and fleet owners over the last two years. Its customer profile comprises industry majors such as Hindustan Unilever Limited, Hindustan Coca Cola Beverages, Britannia Industries Limited and Amul, among others. ZLSPL's renowned customer profile is expected to support future business growth, besides protecting the company from counter-party credit risk. The company has a strong and expanding base of registered users together with the overall positive outlook for the logistics industry – both of which are expected to drive future business growth for ZLSPL.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] 100 lakh = 1 crore = 10 million

The company is however in the nascent stage of its operations characterised by losses over the last two years even as the investment requirements towards platform upgradation, maintenance and truck empanelment are likely to pressurise margins until critical scale is achieved. 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. ZLSPL's working capital intensity remains high owing to significant upfront payment to truck owners while offering a credit period to customers. While a sharp scale up in business is likely to result in higher working capital requirements, the management's ongoing efforts towards tightening the collection period is expected to support its cash flow profile. Going forward, the company's ability to scale up its business profitably and improve its debt protection metrics would remain key rating sensitivities.

Key rating drivers

Credit strengths

- Facility structure characterized by escrow mechanism with lien marking in favour of the lenders
- Early mover in technology-based logistics services industry and strengthening brand recognition among customers and fleet owners
- Asset-light business approach reduces risks associated with low truck utilisation; enables faster scale up
- Strong and expanding base of registered users – over 103,000 trucks empanelled now – supports business growth
- Presence in business-to-business (B2B) space and renowned customer profile mitigates counter-party credit risk
- Strong promoter and management team with relevant experience and deep understanding of the domestic logistics industry and supply chain management
- Positive long-term outlook for the Indian road logistics industry to support future growth
- Financial profile characterised by comfortable capital structure and strong liquidity position as on March 31, 2017 supported by recent private equity (PE) funding

Credit weaknesses

- Nascent stage of operations incurring substantial losses; continued investments towards platform up-gradation, maintenance and truck empanelment likely to pressurise margins until critical scale is achieved
- High competitive intensity – both from traditional logistics service providers as well as technology based players – likely to maintain pressure on pricing
- Resistance to technology adoption by truck owners / drivers limits pace of growth; retention of truck drivers and having a high wallet-share with truck owners in an environment of high competition would be challenging
- Pricing risk arising from relatively longer tenure contracts with customers (6-12 months) borne by ZLSPL; vulnerable to input cost inflation
- Working capital intensity likely to remain high with significant upfront payment to truck owners while offering credit period to customers. Sharp scale up in business likely to lead to higher working capital requirements

Description of key rating drivers:

Zinka Logistics Solutions Private Limited (ZLSPL / the company) is a technology-enabled logistics service provider, which has developed mobile application-based assisted marketplace for freight providers and customers under the brand name 'Blackbuck'. The company operates solely in the B2B space and its customers include renowned players such as ITC Limited, Asian Paints, Berger Paints, Britannia Industries, Marico Limited, Mondelez, Hindustan Unilever among others. It also counts among its customers some third party logistics companies with a focus on warehousing, including Scorpion Express, Taut Logistics and ToI Logistics. ICRA notes that the company's renowned client base mitigates counter-party credit risk to a large extent. Nevertheless, given the intense competition and relatively commoditised nature of services, the incumbents face significant pricing pressure. Further, competition also accentuates the need for maintaining a strong base of loyal truck owners – especially for ZLSPL, given its asset light approach – with a view to ensuring timely service for its clients. Further, the technology platform is replicable (with certain investments) thereby blurring distinction / competitive advantage over a traditional logistics service provider. In this backdrop, the company's ability to contain its cost structure and improve efficiencies remain critical for staying competitive on a sustainable basis.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
Corporate Credit Ratings: A Note on Methodology
Approach for rating debt instruments supported by structural features (Non-securitized transactions)

About the company:
Incorporated in April 2015, Zinka Logistics Solutions Private Limited is a technology-enabled logistics service provider, which has developed mobile application-based assisted marketplace for freight providers and customers under the brand name 'Blackbuck'. The said mobile platform allows online booking of trucks, tracking and management of the transportation for customers on the one hand and optimal utilisation and effective management of the fleet for truck owners on the other. The company focuses on B2B logistics solutions and provides inter-city freight services in the long haul, full truckload and standard delivery (goods, temperature and delivery time) category. It follows an asset-light business model by matching truckers with shippers through its online platform, in turn minimising the downtime for trucks and maximising the utility of the asset for the truck operator. At present, the company offers services in over 300 locations across India and has over 103,000 trucks listed on its platform.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2017)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				June 2017	**-**	**-**	**-**
1	Bill Discounting	Short Term	196.50	[ICRA]A2+ (SO)	-	-	-
2	Unallocated	Short Term	3.50	Provisional [ICRA]A2+ (SO)	-	-	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating
Bill Discounting	Nov 2015 – Mar 2017	-	-	196.50	[ICRA]A2+ (SO)
Unallocated	-	-	-	3.50	Provisional [ICRA]A2+ (SO)

Source: Zinka Logistics Solutions Private Limited

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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.

For more information, visit **www.icra.in**

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