Zinka Logistics Solutions Private Limited

September 19, 2018

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based facilities	262.0	262.0	[ICRA]A2+ (SO)/ reaffirmed;
Short-term fund-based facilities	0.0	15.00	Provisional rating of [ICRA]A2+(SO) confirmed as final
Unallocated	138.0	123.0	Provisional [ICRA]A2+ (SO); reaffirmed
Total	**400.0**	**400.0**	

*Instrument details in Annexure - I

Rating action

ICRA has reaffirmed the short-term rating of [ICRA]A2+(SO) (pronounced ICRA A Two Plus Structured Obligation) outstanding on the Rs.262.0 crore fund-based bank facilities of Zinka Logistics Solutions Private Limited (ZLSPL / the company). ICRA has also confirmed the provisional rating of [ICRA] A2+(SO) (pronounced as ICRA A two plus Structured Obligation) as final for the Rs. 15.00 crore short term fund-based facilities of ZLSPL. ICRA has also reaffirmed the short-term rating of Provisional [ICRA]A2+ (SO) (pronounced as Provisional ICRA A two plus Structured Obligation) outstanding on the balance Rs.123.00 crore short term unallocated facilities of the ZLSPL.

The letters SO in parenthesis suffixed to a rating symbol stands 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 reaffirmed (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. The final rating may differ from the provisional rating in case the completed actions / documentation is not in line with ICRA's expectations.

Rationale

On September 7, 2018, ICRA had assigned a short-term rating of Provisional [ICRA]A2+(SO) (pronounced Provisional ICRA A two plus Structured Obligation) to the Rs. 138.00 crore to unallocated limits of ZLSPL. The company has shared the transaction documents for an additional Rs.15.00 crore short-term fund-based facilities with ICRA. Since the transaction documents are in line with the rating conditions, the said rating of [ICRA]A2+(SO) has now been confirmed as final.

The facilities rated by ICRA are in the nature of bill discounting facilities. The primary source of repayment to the lenders shall be the payments from ZLSPL's customers against the invoices raised by the company. These high-credit profile customers 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 Provisional [ICRA]A2+(SO) rating assigned to Rs. 123.00 crore facilities is based on confirmation from the company that the facilities will be in nature of bill discounting facilities and will have similar terms and conditions as for existing facility. The provisional rating is subject to fulfilment of all conditions under the structure as mentioned to ICRA.

The rating continues to consider the company's strong promoter and management team, asset-light business model enabling rapid scale-up and its early-mover advantage in the technology-enabled logistics services segment supporting its improving market share. Further, the company's focus on strengthening its relationship with truckers and offering various value-added services to them has resulted in an expanding base of registered users supporting its business prospects. The company derived ~85% of its revenues during FY2018 from large corporates such as Hindustan Unilever Limited, Reliance Petrochemicals Limited, Hindustan Coca Cola Beverages Private Limited, Marico Limited and Anand Milk Union Limited, protecting the company from counter-party credit risk. ICRA also notes that the company's financial profile is currently characterized by healthy revenue growth, moderate gearing, strong liquidity position with ample cash balances and moderate working capital utilization levels.

The rating is however constrained by the nascent stage of operations which necessitates investments to strengthen its network across various regions of the country, develop and maintain its technology platform and increase truck empanelment to secure supply to meet increasing demand resulting in the company incurring losses at the operational level over the last three years. The current cash burn being incurred by the company is about Rs.10-11 crore per month (as compared to Rs.5-6 crore per month during FY2017, albeit on a higher monthly revenue run-rate compared to FY2017). ICRA also notes that ZLSPL continues to derive ~85% of its revenues from fixed rate contracts from large corporates with relatively longer tenure (6-12 months) making it vulnerable to input cost inflation. Further, high competitive intensity in the domestic Full Truck Load (FTL) logistics space continues to limit the company's pricing flexibility in turn impacting its margins. ICRA also notes that ZLSPL's working capital intensity continues to remain high owing to significant upfront payment to truck owners while offering a credit period to customers. While healthy revenue growth is likely to result in higher working capital requirements, the management's focus on tightening the collection period is expected to support ZLSPL's working capital cycle to a certain extent. The company's ability to raise capital to scale up its business and improve its profitability and debt protection metrics would be monitored.

Key rating drivers

Credit strengths

Transaction structure – The primary source of repayment to the lenders are the payments from ZLSPL's customers against the invoices raised by the company. The customers have a good credit profile and make payments 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 mitigating the risk of any shortfall in payment by the customers.

Early mover in technology-enabled logistics services industry and asset-light business model– Incorporated in April 2015, ZLSPL is among the early entrants to have scaled up in the technology-enabled logistics services space. While this has supported the company in capturing a healthy market share, ZLSPL's asset-light business model has enabled faster scale-up in turn supporting the company's robust revenue growth.

Reputed customer profile – Currently, the company operates solely in the B2B space and its customers include reputed players such as Hindustan Unilever Limited, Reliance Petrochem, Hindustan Coca Cola Beverages, Asian Paints, Berger Paints, Britannia Industries, Marico Limited, Anand Milk Union Limited, among others. ZLSPL's reputed client base mitigates the counter party credit risk to a large extent while also supporting its revenue growth.

Strong and expanding base of registered users – With timely delivery being one of the key success factors in the industry, the company has constantly endeavored to expand its registered user base among truck owners in a bid to ensure high availability of trucks. While resistance towards technology adoption by truck owners has been one of the key challenges faced by the company, it has been trying to address the same using its expanding field strength to convert truck owners into registered users. Further, the company also provides value-added services and fuel cards to truckers/drivers to improve retention rates.

Healthy financial profile – The company's financial profile is characterized by healthy revenue growth (59.4% in FY2018), moderate gearing (1.4x as on March 31, 2018), strong liquidity position with ample cash balances (~Rs.181.8 crore as on March 31, 2018) and moderate working capital utilization levels of 65% in the 12 months ending April 2018. Going forward, the company is expected to maintain a minimum cash balance of Rs.150 crore at any point in time to support its current cash burn levels of Rs.10-11 crore per month in addition to ensuring adequate liquidity in the system.

Credit challenges

Nascent stage of operations with continued cash burn – Owing to nascent stage of its operations and investments in strengthening its network across various regions, the company has reported sizeable losses over the last three years (cumulative net losses of Rs.214.7 crore since inception). The current cash burn being incurred by the company is about Rs.10-11 crore per month (as compared to Rs.5-6 crore per month during FY2017, albeit on a higher monthly revenue run-rate compared to FY2017). Going forward, performance will be dependent on the amount of equity raised by the company in the coming months and the business plan post the same.

High competitive intensity in the domestic FTL space – The Indian logistics industry is highly fragmented with the presence of a large number of logistics companies – mainly unorganized players and few large market participants. The industry has also been witnessing technology-aided disruption in the market. Given the intense competition and relatively commoditized nature of services, the incumbents face significant pricing pressure. In this backdrop, the company's ability to contain its cost and improve efficiencies remain critical for staying competitive on a sustainable basis.

Working-capital intensive nature of operations – ZLSPL's working capital intensity continues to be high because of stretched receivable days. Typically, ZLSPL pays 70-80% up front to the truck owner upon loading of the consignment and the balance within five days of receipt of proof of delivery (PoD, after 5-7 days of transit time). However, the company invoices the client only after acknowledgement of the PoD by the customer in hard copy thereby resulting in a lag of 20-22 days. Further, in case of fixed price contracts, the company allows credit period of 30-45 days to its customers post invoicing resulting in high working capital intensity. However, taking cognizance of the stress on working capital with the aforesaid arrangement, the company is exploring measures to reduce the collection cycle to 45-60 days going forward.

Links to applicable criteria:

Corporate Credit Rating Methodology

Approach for rating debt instruments supported by structural features (Non-securitised transactions)

About the company:

Incorporated in April 2015, Zinka Logistics Solutions Private Limited is a technology-enabled logistics service provider, which has developed a 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. Presently, the company offers services in over 300 cities across India and has over 1,50,000 truck owners and freight operators listed on its platform who offer services to over 400 clients currently. During FY2016 and FY2017, the company has raised Series A, B and C private equity funding totalling USD 62.5 million.

Key financial indicators (audited)

Parameter	FY2017	FY2018 Provisional
Operating Income (Rs. crore)	563.5	898.3
PAT (Rs. crore)	-86.6	-111.6
OPBDIT/ OI (%)	-14.5%	-11.5%
RoCE (%)	-28.0%	-21.0%
Total Debt/ TNW (times)	0.3	1.4
Total Debt/ OPBDIT (times)	-1.1	-2.7
Interest coverage (times)	-10.8	-5.2

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

					Current Rating (FY2019)		Chronology of Rating History for the past 3 years						
			Amount Rated (Rs. crore)	Amount o/s March 31, 2018 (Rs. Crore)	Date & Rating in FY2019		Date & Rating in FY2018					Date & Rating in FY2017	Date & Rating in FY2016
	Instrument	Type			Sep 2018	Sep, 2018	Jun 2018	Feb 2018	Nov2017	Oct 2017	Jun 2017	-	-
1	Fund based facilities	ST	277.0	NA	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	-	-
2	Unallocated	ST	123.0	-	Provisional [ICRA]A2+ (SO)	Provisional [ICRA]A2+ (SO)	-	-	-	-	-	-	-
3	Unallocated	ST	3.5	-	-	-	Provisional [ICRA]A2+ (SO); Withdrawn	Provisional [ICRA]A2+ (SO)	Provisional [ICRA]A2+ (SO)	Provisional [ICRA]A2+ (SO)	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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Bill Discounting	Dec 2016 – Jul 2018	-	NA	277.0	[ICRA]A2+ (SO)
Unallocated facilities	NA	-	-	123.0	Provisional [ICRA]A2+ (SO)

Source: the company

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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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