Zinka Logistics Solutions Private Limited

January 21, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount(Rs. crore)[1]	Current Rated Amount(Rs. crore)	Rating Action
Unallocated	123.00	148.00	Provisional [ICRA]A2+ (SO); validity extended by 120 days
Short-term fund-based limits	252.00	227.00	[ICRA]A2+ (SO); reaffirmed
Short-term fund-based limits	25.00	25.00	Provisional rating of [ICRA]A2+ (SO) confirmed as final
Total	**400.00**	**400.00**	

*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.227.0 crore (revised from Rs.252 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. 25.00 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 Rs.148.00 crore (revised from 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

In September 2018, ICRA had assigned a short-term rating of Provisional [ICRA]A2+(SO) (pronounced Provisional ICRA A two plus Structured Obligation) to the Rs. 123.00 crore to unallocated limits of ZLSPL. The company has shared the transaction documents for an additional Rs.25.00 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 for the Rs.25.00 crore limits.

For the balance Rs.148.00 crore, the ratings are provisional and would be converted into final upon execution of the necessary transaction documents being in line with ICRA's expectations.

[1] *100 lakh = 1 crore = 10 million*

For now, ICRA has extended the validity of the same by 120 days; and would keep it under review in line with its published methodologies/ policies.

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.315 crore as on December 30, 2018) on the back of ZLSPL raising equity to the tune of ~Rs.290 crore during FY2019. 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.15 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 till FY2018 (cumulative net losses of Rs.214.7 crore since inception to FY2018). The current cash burn being incurred by the company is about Rs.15 crore per month. Going forward, performance will be dependent on the amount of equity raised by the company in the coming months and its 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.

Liquidity Position:

The company's average working capital utilization remained moderately high at 85% over the nine-month period ending December 2018. To fund the ongoing cash burn and increasing working capital requirements for growth, the company has raised about ~Rs.290 crore equity during FY2019 supporting the company's liquidity. Overall, the company had about ~Rs.315 crore cash balance as on December 31, 2018. In terms of repayments, the company has about Rs.10.94 crore repayments due in FY2019 and Rs.18.75 crore repayments due in FY2020. The recent equity infusion is expected to support the same. Going forward, in the event of slower than expected expansion in margins and consequent lower than expected cash accruals, the company's dependence on incremental borrowings and further fresh equity requirement is likely to be higher.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments supported by structural features (Non-securitised transactions
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer.

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 had raised private equity funding totalling USD 62.5 million. Further, the company had raised equity of ~Rs.290 crore during FY2019.

Key financial indicators (audited)

Parameter	FY2017	FY2018
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:

	Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years									
		Type	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
					Jan 2019	Sep 19, 2018	Sep 07, 2018	Jun 2018	Feb 2018	Nov 2017	Oct 2017	Jun 2017	-	-
1	Fund based facilities	ST	252.0	NA	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)	-	-
2	Unallocated	ST	148.0	-	Provisional [ICRA]A2+ (SO)	Provisional [ICRA]A2+ (SO)	Provisional [ICRA]A2+ (SO)	-	-	-	-	-	-	-
3	Unallocated	ST	-	-	-	-	-	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 – Sep 2018	-	NA	252.0	[ICRA]A2+ (SO)
Unallocated facilities	NA	-	-	148.0	Provisional [ICRA]A2+ (SO)

Source: the company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Mythri Macherla
+91 44 43326407
mythri.macherla@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
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