August 02, 2019

Zinka Logistics Solutions Private Limited: Rating downgraded to [ICRA]A4+ for existing limits; [ICRA]A4+ assigned to enhanced limits

Summary of rating action

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based facilities	252.00	522.0	Rating downgraded to [ICRA]A4+ from [ICRA]A2+ (SO) for existing limits; rating of [ICRA]A4+ assigned to enhanced limits
Unallocated	148.00	478.0	Rating downgraded to [ICRA]A4+ from Provisional [ICRA]A2+ (SO) for existing limits; rating of [ICRA]A4+ assigned to enhanced limits
Total	**400.00**	**1,000.0**	

**Instrument details provided in Annexure-I*

Rationale

The rated facilities include the bank lines, which are in the nature of bill discounting facilities. The primary source of repayment for the bill discounting facilities are the payments from Zinka's customers. The SO rating assigned earlier took comfort from the strong credit profile of Zinka's customers and the escrow mechanism indicated by the company that required customers to pay directly into an escrow account (lien marked in favour of the lender), thereby resulting in no commingling of funds with the other cashflows of Zinka. However, ICRA now notes that the initial terms indicated to ICRA including the creation of an escrow account and the ring-fenced nature of customer receipts are not being followed. Thus, the rating for the loan facilities has now been adjusted to reflect Zinka's standalone credit profile, which is characterised by operating losses since inception in 2015, in line with the company's stated policy and stakeholder requirements to drive scale.

The assigned rating factors in Zinka's experienced 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 revenue growth momentum and consequent improvement in market share over the years. Further, the company's diversification into the value-added services segment has resulted in an expanding base of registered users, which is expected to strengthen its relationships with truckers and improve its business prospects going forward. Zinka derived ~83% of its revenues in FY2019 from large corporates such as Hindustan Unilever Limited, Reliance Petrochemicals Limited, Reliance Jio Infocomm Limited, Hindustan Coca-Cola Beverages Private Limited, Marico Limited and Anand Milk Union Limited, protecting the company from counterparty credit risks. However, as the company grows and adds customers, the quality of customers has moderated. While the counterparty credit risk is expected to weaken, going forward, as Zinka scales up rapidly and adds smaller customers, overall quality of debtors is expected to remain strong since the company receives advance payments or payment on delivery for 85% (estimated) of its SME revenues.

Zinka witnessed robust revenue growth of 102.7% in FY2019, continuing with the 57.7% growth in FY2018. This was largely on the back of increased investments in shipper discounts and partner incentives, supported by equity infusion amounting to $150 million between September 2018 and May 2019 from several marquee investors like Sequoia Capital, Accel Partners, Sands Capital, International Finance Corporation, B Capital, Accel Partners and Goldman Sachs. Consequently, the company has a strong liquidity position with cash and liquid investments of Rs. 884.0 crore as on June 30, 2019.

The rating is, however, constrained by the company incurring a loss at the operating level on account of the nascent stage of operations. This necessitates investments to strengthen its network across the country, develop and maintain its technology platform, increase truck empanelment to secure supply to meet the increasing demand, support wallet share increase under its services segment and support its expanding employee base, which has increased multi-fold, in line with its revenues in the last few years. While the older logistics routes/clusters are turning gross margin profitable, entry into newer routes continues to drag margins. In addition to the operating losses, increase in interest costs towards working capital borrowings (in line with revenue growth) and high-cost long-term borrowings have also impacted the company's net profits and cash accruals over the last few years. Zinka's current cash burn is about Rs. 25 crore per month (compared to ~Rs. 10-11 crore per month in FY2018). While the current PE-funded cash balances are expected to support its operations over the next several quarters, Zinka would be dependent on further equity infusion to support its revenue growth and current cost structure.

ICRA also notes that while Zinka currently derives most of its revenues from large corporates, going forward, the share of the SME segment is expected to grow rapidly (currently contributing to 17% of Zinka's revenues compared to 11% in FY2017), where the counterparty credit risk is likely to be relatively higher. However, strong control checks during onboarding and an estimated 85% of the payments being received in advance or on delivery provide comfort to a certain extent. Further, intense competition in the domestic Full Truck Load (FTL) logistics space continues to limit the company's pricing flexibility, thereby capping it ability to improve its gross margins. ICRA also notes that Zinka's working capital intensity remains high owing to the significant upfront payments to truck owners while it offers credit periods to its customers.

Zinka's management is open to investments in adjacent verticals to support its core business. While the said investment is likely to be capped at $5 million over the next 12 months, ICRA will continue to monitor the same closely. Higher-than-expected investments or leveraging under these new investments could lead to a deterioration in the company's debt indicators and affect its liquidity position.

Key rating drivers

Credit strengths

Early mover in technology-enabled logistics services industry; asset-light business model – Incorporated in April 2015, Zinka is among the early entrants to have scaled up in the technology-enabled logistics services space. Zinka's asset-light business model, supported by its technology platform and sizeable equity funding, has enabled its rapid scale-up in the logistics segment with the company reporting a CAGR of 78.8% over the past three years. This growth momentum is expected to continue over the next 1-2 years.

Strong revenue growth supported by expanding base of registered users and diversification into services segment – With timely delivery being one of the key success factors in the industry, Zinka has constantly endeavoured 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 was one of the key challenges faced by the company, it has witnessed a continuous increase in the number of registered users on the back of its investments towards expanding the field strength. This has facilitated the onboarding of fleet owners and truck drivers into the company's ecosystem. Further, Zinka's diversification into the value-added services segment, wherein it offers cashless transactions via fuel cards, toll cards, etc, and the provision of purchasing of insurance and tyres at attractive prices to truckers/drivers to improve retention rates, has supported its overall revenue growth.

Reputed customer profile mitigates counterparty credit risk to a certain extent – The company operates solely in the B2B space and its customers include reputed players such as Hindustan Unilever Limited, Reliance Petrochemicals Limited, Reliance Jio Infocomm Limited, Hindustan Coca-Cola Beverages Private Limited, Marico Limited and Anand Milk Union Limited, among others. Zinka's reputed client base mitigates the counterparty credit risk to a large extent while supporting revenue growth. Overall, Zinka derives 31.4% of its revenues from its top 10 customers. While the counterparty credit risk is expected to weaken, going forward, as the company scales up rapidly and adds smaller customers, overall quality of debtors is expected to remain strong since the company receives advance payments or payment on delivery for ~85% (estimated) of its SME revenues.

Strong liquidity position supported by recent equity infusion – The company received equity infusion of $150 million from several marquee investors like Sequoia Capital, Accel Partners, Sands Capital, International Finance Corporation, B Capital, Accel Partners and Goldman Sachs between September 2018 and May 2019. This has supported Zinka's current liquidity position and cash and liquid investments stood at Rs. 884.0 crore as on June 30, 2019.

Credit challenges

Nascent stage of operations with significant operating losses and continued cash burn – Owing to the nascent stage of operations and investments for strengthening its network across various regions as well as its recent diversification into the services segment, the company reported a sizeable net loss of Rs. 267.9 crore in FY2019 (cumulative net losses of Rs. 487.6 crore since inception in 2015). Going forward, while Zinka's gross margins in the freight segment are expected to improve in the mature clusters, incremental investments in newer routes/clusters for expansion across the country are expected to continue to dent the blended margins. Further, investments in the form of partner incentives and other indirect expenses under the services segment are expected to add to Zinka's operating losses. In addition to the operating losses, increasing interest expenses towards working capital borrowings, in line with the healthy revenue growth of the company, also contribute to its overall cash burn, necessitating further equity infusion in the next two years.

Intense competition in domestic FTL space – 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 been witnessing technology-aided disruption. 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. Going forward, Zinka's ability to contain its cost and improve efficiencies remains critical for the company to stay competitive.

Working capital intensive nature of operations – Zinka's working capital intensity remains high because of the stretched receivable days. Zinka typically pays 60-80% upfront to the truck owner upon the loading of the consignment and the balance within 15-30 days of receipt of proof of delivery (PoD), which is after 5-7 days of transit time. However, the company invoices the client only after the acknowledgement of the PoD by the customer in hard copy, thereby resulting in a lag of 20-25 days. Further, in case of large corporates, the company offers a credit period of 30-45 days to its customers post invoicing, resulting in high working capital intensity. However, taking cognisance of the stress on the working capital under the aforesaid arrangement, the company is exploring measures to reduce the collection cycle to 45-60 days, going forward, from the current cycle of 95-100 days.

Liquidity position

Following the equity infusion of $150 million from several marquee investors between September 2018 and May 2019, the company has a strong liquidity position with cash and liquid investments of Rs. 884.0 crore as on June 30, 2019. While the current cash balances are expected to support its operations over the next several quarters, Zinka would be dependent on further equity infusion to support its revenue growth and current cost structure. The liquidity position is also supported by the presence of an average buffer of ~15% of the sanctioned working capital limits for the 12 months ended March 2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the standalone credit profile of the company

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 the online booking of trucks, the tracking and management of transportation for customers on the one hand and the 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) categories. 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, Zinka offers services in over 400 industrial hubs and more than 3,00,000 truck owners and freight operators are listed on its platform who offer services to 10,000+ currently. During FY2016 and FY2017, the company raised Series A, B and C private equity funding totalling $62.5 million. More recently, it raised Series D funding of $150 million between September 2018 and May 2019.

Key financial indicators

Parameter	FY2018	FY2019 Provisional
Operating Income (Rs. crore)	888.8	1,801.7
PAT (Rs. crore)	-116.7	-267.9
OPBDIT/ OI (%)	-12.2%	-12.5%
RoCE (%)	-22.6%	-24.2%
Total Debt/ TNW (times)	1.3	0.7
Total Debt/ OPBDIT (times)	-2.4	-2.5
Interest Coverage (times)	-5.5	-4.6

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 (FY2020)				Chronology of Rating History for the Past 3 Years								
		Type	Amount Rated (Rs. crore)	Amount o/s March 31, 2019 (Rs. crore)	Date & Rating	Date & Rating in FY2019				Date & Rating in FY2018				Date & Rating in FY17
					August 2019	Jan 2019	Sep, 2018	Sep, 2018	Jun 2018	Feb 2018	Nov 2017	Oct 2017	Jun 2017	-
1	Fund-based facilities	ST	522.0	445.6	[ICRA]A4+	[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	478.0	-	[ICRA]A4+	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
Short-term fund-based facilities	2017 - 2019	-	NA	522.0	[ICRA]A4+
Unallocated facilities	NA	-	-	478.0	[ICRA]A4+

Source: 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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