September 25, 2020

Zinka Logistics Solutions Private Limited: Rating reaffirmed at [ICRA]A4+

Summary of rating action

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based facilities	522.0	567.0	Ratings re-affirmed at [ICRA]A4+
Short-term non-fund based facilities	0	10.0	Ratings re-affirmed at [ICRA]A4+
Unallocated	478.0	73.0	Ratings re-affirmed at [ICRA]A4+
Total	**1,000.0**	**650.0**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has reaffirmed the rating on the bank loan facilities of Zinka Logistics Solutions Private Limited (Zinka/the company) at [ICRA]A4+ (pronounced as ICRA A four plus).

The rating continues to factor Zinka's experienced promoter and management team, asset-light business model which has enabled rapid scale up and its early mover advantage in the technology-enabled logistics services segment. However, during FY2020, the company pivoted from an aggressive revenue-driven model to focus on margin-accretive verticals and contracts. Consequently, the revenue growth momentum slowed down and remained at 26.9% in FY2020. However, healthy growth under the margin-accretive services segment and cost cutting measures adopted by the company resulted in steady improvement in gross margins over the last few months, thereby reducing the monthly EBITDA loss to Rs 6.0 crore for June 2020 as against peak EBITDA losses of Rs. 38 crore in November 2019. Despite the monthly cash burn, funds raised from equity investors (Sequoia Capital, Accel Partners, Sands Capital, International Finance Corporation, B Capital, and Goldman Sachs) during FY2018 and FY2019 continue to support Zinka's strong liquidity position; cash and liquid investments stood at Rs. 526 crore as on June 30, 2020.

The overall financial risk profile draws strength from comfortable capital structure with gearing of 1.0 time (as on March 31, 2020), although the coverage indicators remain weak due to operating losses. Further the liquidity risk profile remains strong with sizable cash and liquid investments.

The rating is, however, constrained by significant operating and net losses on account of continued investments in both selling and product development in addition to sizeable interest costs. While the company intends to reduce its losses by foregoing contracts which are not margin-accretive, intense competition in the Full Truck Load(FTL) roads logistics space will continue to weigh on the company's pricing flexibility. The company's operations continue to remain working capital-intensive on account of the high debtor days. However, the debtor days had improved to 85 days in FY2020 as against 106 days in FY2019. Going forward, the company will remain vulnerable to macro-economic cycles given its line of business. The nationwide lockdown owing to the Covid-19 outbreak coupled with company's discretion in executing selective, high margin contracts for credit worthy clients led to sharp decline in revenue's in Q1FY2021. ICRA also notes the further stretch in the company's receivable cycle because of the ongoing disruptions caused by the pandemic.

Key rating drivers and their description

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 on the back of highly experienced promoter and management team and its asset-light business model, supported by its technology platform and ability to raise sizeable equity.

Sizeable reduction in cash burn from Q4 FY2020 - Increasing focus on profitability since November 2019 has led to sizable reduction in the company's month-on-month cash burn. The same was achieved through execution of higher gross margin contracts for credit worthy companies, discontinuation of negative gross margin services and introduction of new services coupled with cost control measures (reduction in employee cost and significant reduction in other expenses). Further in FY2020, the company incurred sizeable customer acquisition expenses to increase its user base under the fastag service. The company partnered with IDFC to issue Fastags (implementation of which started from July 1, 2019 on national highways) to truck drivers. However, post significant ramp up in Fastag revenues, the investments in customer acquisitions have steadily reduced over the last few months. Overall, the company's operating losses reduced to Rs. 6 crore in June 2020 from Rs. 38 crore in November 2019. ICRA expects the company's overall net losses for FY2021 to reduce from FY2020 level.

Moderate customer concentration; reputed client profile mitigates counter-party credit risk. - The company 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. Zinka's reputed client base mitigates the counterparty credit risk to a large extent while supporting revenue growth. Overall, Zinka derived 55.9% of its revenues from its top 10 customers in FY2020. Going forward also, working with credit worthy clients will remain Zinka's prime focus thereby mitigating counter party credit risk.

Strong liquidity position and comfortable capital structure- The company's cash and liquid investment stood at Rs.526 crore as on June 30,2020. The gearing also remained at 1.0 time as on March 31, 2020; the same will continue to remain at similar levels over the medium term. The company's debt largely comprises of working capital limits. The reduced interest rates on the bank facilities availed by the company over the past few months will result in improvement in overall coverage indicators of the company.

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 incremental investments in its services segment, the company continues to incur heavy net losses. The company received equity infusion from several marquee investors like Sequoia Capital, Accel Partners, Sands Capital, International Finance Corporation, B Capital, and Goldman Sachs during FY2018 and FY2019. The said equity infusions have played a vital role in supporting the overall operations of the company, although Zinka reported a sizeable net loss of Rs. 338 crore in FY2020. Going forward, the improvement in the gross margins for both freight and services segment is expected to lead to reduction in monthly cash burn thereby improving the overall profitability of the company.

High competitive intensity limits pricing flexibility – The traditional 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 also been witnessing technology-driven disruptions from players like Zinka. 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 to a certain extent. Going forward, Zinka's ability to contain its cost and improve efficiencies remains critical for the company to stay competitive.

Working capital intensity continues to remain moderately high on account of extended credit period being provided to its customers- The company's operations have remained working capital intensive in nature primarily on account of stretch in debtor collection. Although the same had improved in FY2020 to 85 days as against 106 days in FY2019. The company continues to remain vulnerable to macro-economic cycles in line with its line of business. ICRA also notes the further stretch in the company's receivable cycle in light of the ongoing disruptions caused by the pandemic.

Disruption in the company's operations post the Covid-19 Pandemic- The nationwide lockdown during the month of March 2020 had severely impacted the logistics industry. The lockdown coupled with the company's discretion on executing selective, high margin contracts for credit worthy clients led to a sharp decline in the company's Q1FY2021 revenues. However, with significant revival in Fastag revenues over the last 2-3 months, the company's gross margins under the services segment has improved. Going forward, the sustained recovery of revenues in freight segment and contribution from the margin accretive services segment will remain a key monitorable for the company.

Liquidity position: Adequate

Although the fund flow from operations was negative at Rs.411.9 crore for FY2020, the company's liquidity is **adequate** with sizable cash and liquid investments, given the equity infusion during FY2018 and FY2019. The average utilization of the fund based working capital limits remained moderately high at 69.8% for the past 12-month period ending June 2020. The cash and liquid investments stood at Rs.526 crore as on June 30,2020 (includes encumbered cash). As against this, the company has repayments of Rs. 66 crore FY2021.

Rating sensitivities

Positive triggers: ICRA could upgrade the ratings if the company demonstrates a sustained improvement in margins, profitability and debt protection metrics while maintaining a strong liquidity position.

Negative triggers: – ICRA could downgrade the rating in case the time taken for the company to turnaround its profits are longer than expected; significant cash losses or prolonged elongation in the debtor days leading to deterioration in the overall debt metrics of the company could also lead to downgrade pressure on the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	No
Consolidation/Standalone	Standalone

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.

The company has two business segments. Under the freight segment, the provides freight services to corporates. Under the services segment, the company provides various services pertaining to fastag, insurance, fuel etc.

At present, Zinka offers services in over 400 industrial hubs and more than 4,00,000 truck owners and freight operators are listed on its platform who offer services to 10,000+ currently.

Key financial indicators

Standalone	FY2019 (audited)	FY2020 (provisional)
Operating Income (Rs. crore)	1,790.7	2,239.0
PAT (Rs. crore)	-345.0	-338.0
OPBDIT/OI (%)	-14.8%	-15.4%
RoCE (%)	-35.1%	-22.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.3
Total Debt/OPBDIT (times)	-2.0	1.8
Interest Coverage (times)	-5.5	-5.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years								
				Amount o/s March 31, 2020 (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019				Date & Rating in FY2018			
	Instrument	Type	Amount Rated (Rs. crore)		September 25, 2020	August 2, 2019	Jan 21, 2019	Sep 19, 2018	Sep 07, 2018	Jun 7 2018	Feb 23, 2018	Nov 21, 2017	Oct 23, 2017	Jun 13, 2017
1	Fund-based facilities	ST	567.0	474.0	[ICRA]A4+	[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	Short-term non-fund based limits	ST	10.0	-	[ICRA]A4+	[ICRA]A4+	Provisional [ICRA]A2+ (SO)	Provisional [ICRA]A2+ (SO)	Provisional [ICRA]A2+ (SO)	-	-	-	-	-
3	Unallocated	ST	73.0	-	[ICRA]A4+		-	-	-	Provisional [ICRA]A2+ (SO); Withdrawn	Provisional [ICRA]A2+ (SO)	Provisional [ICRA]A2+ (SO)	Provisional [ICRA]A2+ (SO)	Provisional [ICRA]A2+ (SO)

Amount in Rs. crore

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	2019-2020	-	NA	567.0	[ICRA]A4+
Unallocated facilities	NA	-	-	73.0	[ICRA]A4+
Short-term non-fund based limits				10.0	[ICRA]A4+

Source: Firm

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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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