April 05, 2022

Coldman Logistics Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	72.51	63.00	[ICRA]BB(Stable); reaffirmed
Unallocated Limits	-	9.51	[ICRA]BB(Stable); reaffirmed
Total	**72.51**	**72.51**	

Instrument details are provided in Annexure-1

Rationale

The reaffirmation of Coldman Logistics Private Limited's (CLPL) rating factors in its commissioning of incremental warehouses in FY2022 and improvement in the company's operating margins in the fiscal, driven by increased economies of scale and cost rationalisation initiatives. Despite loss-marking operations and steady capex undertaken for enhancing warehousing capacity, CLPL's gearing level has remained moderate, supported by steady equity infusion by the company's shareholders over the years. Moreover, the ongoing capex is proposed to be funded through equity, part of which has already been infused in FY2022, keeping the company's leverage level under check. The rating also considers the extensive experience of CLPL's promoters and management in the warehousing business, its geographically-diversified business with warehouses at multiple locations, revenue diversification in the logistics business to provide support to its warehousing operations, and its well-reputed and moderately diversified customer base.

The rating is, however, constrained by CLPL's modest scale of operations and continued loss-making operations, translating into weak return indicators and coverage metrics. Moreover, the highly competitive and fragmented nature of the industry limit the pricing flexibility. Any termination of lease agreement prior to the lock-in period can negatively impact the company's operations. ICRA also notes the significant capex to be undertaken by CLPL in the near to medium term. However, the same is being funded through equity infusion, which provides comfort to an extent. Also, improvement in scale of operations along with profitability and timely infusion of equity remains critical to improve the company's liquidity profile.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its directors in the warehousing industry, along with expected ramp-up in scale through improving occupancy of its existing and planned new warehouses.

Key rating drivers and their description

Credit strengths

Established experience of directors and management in cold storage business; reputed customer base – CLPL's promoters and directors have an experience of around three decades in diverse business segments namely cold chain, reefer trucks, and trading. The well-experienced directors, coupled with the project management and business administrative team, shall enable its future growth. The company has reputed clients like Mondelez India Foods Private Limited, Hindustan Coco Cola Beverages Private Limited, Schreiber Dynamix Dairies Pvt Ltd, Ferrero India Pvt Ltd, Tasty Bite Eatables Ltd, Parag Milk Foods, etc. The top-10 customers contributed ~55% of the total revenues in FY2021 and 9M FY2022, indicating moderate customer concentration risk. Further, most of the customers provide repeat orders, which ensures sustainability of revenues. The company has minimum-guarantee contracts with its customers to reserve a certain portion of its warehousing for them.

Geographical diversification and presence in logistics business to provide support to warehousing division – The company has 14 operational warehouses across 10 locations in eight states, and is adding new capacity by setting up four additional warehouses at two new locations primarily under the TCW model. These are expected to get commissioned in FY2023, which will increase the total warehousing capacity to ~87,000 pallets from the existing ~66,500 pallets. CLPL's warehouses at multiple locations provide diversification in terms of geography and commodities to be handled based on the geographical demand. Apart from this, the company has diversified its operations into the logistics business with a sizeable fleet of owned reefer trucks to support its primary warehousing business.

Moderate gearing levels supported by equity infusion - Despite loss-marking operations and steady capex undertaken for enhancing warehousing capacity, CLPL's gearing level remained moderate at 1.03 times as on March 31, 2021 and 1.26 times as on December 31, 2021. This has been supported by steady equity infusion by the company's shareholders over the years to meet the operational, capex and debt related funding requirements of the business. The capex planned for FY2022 and FY2023 is proposed to be funded through equity infusion of ~Rs. 65 crore, part of which has already been infused in FY2022. This, coupled with improvement in accrual generation, is expected to sustain the moderate gearing levels over the medium term.

Considerable improvement in OPBIDTA margins and cost-rationalising strategies – The company was making losses in its initial years, and broke even at the operating level in FY2021, given that it has been incurring capex with relatively moderate scale of operations. However, there has been considerable improvement in margins ~9.5% in 9M FY2022 compared with 3.2% in FY2021, on the back of better absorption of fixed overheads and cost-rationalisation initiatives.

Credit challenges

Modest scale of operations has led to limited economies of scale and net losses – The company's scale of operations remains modest despite some scaling up and improvement in operating margins in FY2021 and 9M FY2022. This, coupled with high interest expenses, has continued to result in net losses, which has translated into weak return indicators and coverage metrics.

CLPL is adding four new warehouses at Bangalore, Mumbai (JNPT), Kolkata and Coimbatore over the next year, which will widen its geographic presence and enhance its warehouse capacity. Nevertheless, the operations will remain exposed to the risk associated with timely project completion, customer acquisition and scaling up of revenues and profitability, which remains contingent on the timely infusion of equity funding to an extent.

Any termination of lease agreement prior to lock-in period to negatively affect operations – Against the 14 operational warehouses, most of the warehouses are either on land lease, or ready shell lease or on TCW lease, on a long-term basis. Any early termination by the lessor owing to unforeseen circumstances will entail the company to find a new location/lessor and hence may result in business loss till the time the new warehouses and/or agreement resumes.

Highly fragmented industry limits pricing flexibility – The cold chain industry in India is dominated by several domestic players catering to the localised markets. The organised players account for a small portion of the total cold chain industry market. The company faces intense competition from the unorganised players. The fragmented nature of industry could constrain the pricing power and the operating profit margin of the players in the industry. However, there has been a growing demand for single-point end-to-end cold chain service providers by multinational companies. Moreover, CLPL has been certified with an AA grade by the British Retail Consortium (BRC), which is for food safety norms, across the supply chain for all its warehouses (except Sonepat). This, coupled with the company's widening geographic presence and established relations with its key customers, mitigates the risk to an extent.

Liquidity position: Stretched

CLPL's liquidity is stretched, given that it has continued to report net losses till 9M FY2022 and has sizeable annual debt repayment of ~Rs. 9.5 crore p.a. over the next few years. The company's operating profits improved in FY2021 and 9M FY2022, however, sustainability of the same remains critical. In the absence of adequate accrual generation, CLPL's debt obligations have been serviced by infusion of equity and unsecured loans by the promoters/investors. Moreover, the undrawn bank lines (~Rs. 5.4 crore as on February 28, 2022) support the liquidity to some extent. However, improvement in scale of operations along with profitability and timely infusion of equity or unsecured loans remains critical to improve the company's liquidity profile.

Rating sensitivities

Positive factors – Substantial growth in revenues coupled with stabilisation of operations and improvement in margins and internal accruals, leading to improvement in coverage indicators, would be a key factor for upward movement in ratings.

Negative factors – Lower than anticipated scaling up of operations leading to lower cash accruals and weakening of CLPL's liquidity profile; and deterioration in the capital structure owing to any debt-funded capex would be key factors for downgrade of the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the company.

About the company

CLPL, incorporated in September 2012, provides cold storage and ambient/dry storage facilities for various agro commodities, dairy products, companies in the food processing industry and pharmaceutical industries at its warehouses. At present, the company has 14 operational warehouses, across 10 locations in eight states, which operates under the brand name Coldman. It has an aggregate total storage capacity of ~66,500 pallets. The company also provides end-to-end food distribution service, transport service, container stuffing, de-stuffing, blast freezer, labelling, real-time inventory report, etc, to its customers.

Key financial indicators (Audited)

CLPL	FY2020	FY2021
Operating Income (Rs. crore)	73.89	68.21
PAT (Rs. crore)	-34.72	-18.84
OPBDIT/OI (%)	-19.78%	3.21%
PAT (%)	-46.99%	-27.62%
Total Outside Liabilities/Tangible Net Worth (times)	0.89	1.17
Total Debt/OPBDIT (times)	-4.78	40.30
Interest Coverage (times)	-2.30	0.29
DSCR (times)	-0.78	0.18

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on February 28, 2022	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					April 5, 2022	April 30, 2021	September 30, 2020	-
1	Fund based - OD	Long-term	15.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-
2	Term loan	Long-term	48.00	48.00	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable), ISSUER NOT COOPERATING	-
3	Unallocated limits	Long-term	9.51	-	[ICRA]BB (Stable)	-	[ICRA]B+ (Stable), ISSUER NOT COOPERATING	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based -OD	Simple
Term loan	Simple
Unallocated limits	N.A.

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based -OD	NA	NA	NA	15.00	[ICRA]BB (Stable)
NA	Term loan	FY2017	8.5 – 9%	FY2028	48.0	[ICRA]BB (Stable)
NA	Unallocated limits	NA	NA	NA	9.51	[ICRA]BB (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: NA

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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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