June 01, 2022

# Spoton Logistics Private Limited: Ratings reaffirmed; rating removed from watch with developing implications and Stable outlook assigned

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term – Fund-based – Cash Credit | 90.00 | 50.00 | [ICRA]BBB+(Stable); Reaffirmed and removed from watch with developing implications and Stable outlook assigned |
| Short-term – Fund-based – Working Capital Demand Loan | - | 40.00 | [ICRA]A2; Reaffirmed and removed from watch with developing implications |
| Long-term – Fund-based –Term Loan | 12.87 | 12.87 | [ICRA]BBB+(Stable); Reaffirmed and removed from watch with developing implications and Stable outlook assigned |
| Long-term – Interchangeable | - | (20.00) | [ICRA]BBB+(Stable); Reaffirmed and removed from watch with developing implications and Stable outlook assigned |
| Short-term – Interchangeable | (5.00) | - | - |
| Short-term – Interchangeable | - | (50.00) | [ICRA]A2; Reaffirmed and removed from watch with developing implications |
| Long-term/Short-term – Interchangeable | - | (3.0) | [ICRA]BBB+(Stable)/[ICRA]A2; Reaffirmed and removed from watch with developing implications and Stable outlook assigned to long term rating |
| Short term- Interchangeable | - | (32.00) | [ICRA]A2; Reaffirmed and removed from watch with developing implications |
| Unallocated | 95.13 | - | - |
| **Total** | **198.00** | **102.87** | |

**Instrument details are provided in Annexure-1*

# Rationale

The rating reaffirmation and removal from being under "watch with developing implications" along with a Stable outlook follows the robust revenue growth of Spoton Logistics Private Limited (SLPL ) in FY2021 and 9M FY2022, supported by healthy increase in freight volumes and realisations, and expected improvement in credit metrics in the current fiscal. ICRA notes the repayment of its high-cost debt by unsecured loans from SLPL's new promoter, Delhivery Limited. The ratings were placed on watch in September 2021 following the announcement of acquisition of SLPL by Delhivery Limited. As part of the purchase consideration, the company also received unsecured loans to the extent of Rs. 162.7 crore from its parent, which was partly used for repaying its existing NCD and partly for general corporate purposes and working capital requirements. ICRA derives comfort from SLPL being a wholly-owned subsidiary of Delhivery Limited. Post the acquisition in August 2021, SLPL is expected to leverage the reach and market penetration of its new parent, along with operational support for smooth functioning of the business. ICRA does not foresee any impact on SLPL's credit profile due to the change in its parentage. ICRA will continue to monitor any upstreaming of cash requirement to Delhivery Limited impacting its credit profile or any weakening of the parent's profile, given the operational and financial flexibility it derives from the parent, which will also remain a key rating monitorable.

The rating continues to derive comfort from the company's established position in the less-than-truck-load express road logistics segment, its asset-light model of operations, its long-term client contracts with fuel pass-through clauses, and its pan India service network. The ratings continue to consider its diversified client base, which reduces dependence on business from any particular client or industry.

The ratings, however, remain constrained by moderate coverage and capitalisation indicators, as reflected by gearing of 1.8 times as on March 31, 2021 owing to net losses in the last three years. The gearing had further increased to 3.5 times as on December 31, 2021 owing to infusion of unsecured loans from Delhivery in 9M FY2022. The rise in debt levels in 9M FY2022, coupled with the weakening of its profitability, moderated the capital structure and coverage indicators. The operating margins declined to 5.0% in FY2021 over 5.8% in FY2020 and 7.3% in FY2019 owing to increase in line haul charges and business being impacted by lockdowns in various locations during the Covid-19 pandemic. With improvement line haul charges and post-pandemic stabalisation of business, the operating margins improved to 6.5% in 9M FY2022 and is expected to continue forward. Coupled with the refinancing of its NCD in August 2021 at favourable terms and the expected improvement in its profitability aided by the anticipated revenue growth, this network optimisation (which would result in reduced line haul cost) is expected to support coverage numbers, going forward. The ratings continue to factor in the susceptibility of the company's revenues and profitability to economic slowdown and variations in trade volumes, especially given the stiff competition from several established companies in the industry. SLPL's ability to continue to innovate and meet evolving customer requirements, while scaling up its operations and improving its profitability further will remain a key rating monitorable, going forward. In addition, the increase in fuel prices, toll taxes and other unrecoverable costs, which SLPL may be unable to pass on to end-customers in its entirety, remain credit monitorables.

The Stable outlook on the long-term rating reflects ICRA's opinion that SLPL will continue to benefit from the reach and market presence of its parent, Delhivery Limited, its diversified industry presence, reputed clientele and asset-light business model with pan India presence.

## Key rating drivers and their description

### Credit strengths

**Healthy revenue growth over the years driven by growth in realisations and freight volumes handled –** SLPL's operating income grew by 14% to Rs. 799 crore in FY2021, aided by a 9% growth in its freight volumes, which increased to 7,92,174 MT in FY2021. The company witnessed healthy revenues growth to Rs. 755.8 crore in 9M FY2022 owing to increase in its freight volumes (6,94,098 MT in 9M FY2022) and better realisations. Going forward, the company's revenues are likely to grow at a steady pace aided by improved volumes from its customers and benefits from leveraging the market reach and business position of its parent company.

**Diversified clientele –** SLPL has a diversified customer base with its top five customers contributing 13% and 16% to its revenues in FY2021 and 9M FY2022, respectively. SLPL's top clients are renowned companies across varied industries such as engineering, lifestyle, electronics and pharmaceuticals. This fairly diversified client profile, along with its established relationships with its key customers, insulates the company's revenues against loss of any customer(s) and ensures repeat business.

**Asset-light model of operations –** With 100% of its fleet hired from a network of truck vendors/ operators, SLPL enjoys an asset-light business model. This model helps the company reduce its fixed costs and offers it the flexibility to scale up or scale down its operations, in line with economic cycles. Further, the company's hub-and-spoke model ensures significant cost savings, rationalisation of routes covered by vehicles, and optimum utilisation of resources, including vehicles and manpower.

**Acquisition by Delhivery Limited to provide operational support and ability to leverage market reach and business position of parent –** SLPL was acquired in August 2021 by Delhivery Limited, an established logistic player in India. ICRA derives comfort from SLPL's parentage and expects it to leverage on the reach, market penetration, operational and financial flexibility of its parent. Delhivery Limited has demonstrated its commitment towards SPL by infusing unsecured loans of Rs. 162.7 crore for refinancing its high-cost debt as well as for regular business and working capital requirements. The unsecured loans do not have any fixed repayment structure. Going forward, the seamless integration of SLPL and its ability to generate business synergy by leveraging the strengths of its parent, will be key for its credit profile.

## Credit challenges

**Moderate capitalisation and coverage indicators –** The capital structure of the company remained moderate as reflected in the gearing of 1.8 times as on March 31, 2021. The same further increased to 3.5 times as on December 31, 2021 owing to infusion of Rs. 162.7 crore from Delhivery Limited to refinance SLPL's high-cost NCD. The total debt/ OPBDITA also remained moderate at 4.3 times in FY2021 and 3.5 times in 9M FY2022. However, coverage numbers are expected to improve, with reduction of interest cost and expected improvement in profitability, given the increase in line haul charges and stabilisation of business in a post-pandemic era. The same is already reflected in improvement in operating margins to 6.5% in 9M FY2022 over 5.0% in FY2021.

**Margins remain vulnerable to fluctuation in hire charges for market vehicles, which are driven by demand–supply dynamics and fuel prices –** The company remains exposed to significant fluctuations in hire charges for market vehicles as the rates are primarily dependent on the demand–supply dynamics. It is also vulnerable to the volatility in fuel prices and its ability to limit timely lags in pass-through of large variations in fuel prices remains critical in maintaining its profitability margins, as evident from decrease in operating margins to 5.0% in FY2021 over 5.8% in FY2020. However, the margins improved to 6.5% in 9M FY2022 and is expected to remain at a similar range, going forward.

**Susceptibility of revenues to economic slowdown and variation in freight volumes –** The performance of the freight forwarding industry is linked to global economic activities, which impacts trade volumes, especially given the stiff competition in a highly fragmented industry structure. Any slowdown in domestic and global manufacturing/ industrial activities due to weak economic conditions or restrictive trade policies can have a negative impact on the company's revenues and its cash flows, as seen in H1 FY2021, when its freight volumes, revenues and profitability declined due to pandemic disruptions. However, its asset-light model of operations mitigates the risk to some extent.

**Contingent liability towards service tax payments –** SLPL has contingent liabilities of Rs. 60.0 crore as on March 31, 2021 towards service tax dues for vehicle hire services for transporting goods, under the reverse tax charge mechanism. The company has appealed against the demand raised by the Commissioner of the service tax department, before the Customs Excise and Service Tax Appellate Tribunal, and the matter is pending resolution. Any adverse ruling could impact the company's cash flows and liquidity position and could exert pressure on the ratings.

# Liquidity position: Adequate

SLPL's liquidity position is **adequate** as characterised by sufficient availability of buffer in its working capital facilities and considerable cash balances. The company has fund-based working capital facilities of Rs. 90.0 crore with average utilisation of nearly 60% of the sanctioned limits for the period March 2021–February 2022. The unencumbered cash stood at Rs. 23.3 crore as on December 31, 2021, at a consolidated level. Majority of the term loans on its books was from its parent, which does not not have any fixed payment tenure.

## Rating sensitivities

**Positive factors –** ICRA could upgrade SLPL's ratings if the company demonstrates healthy growth in operating income and improvement in profit margins on a sustained basis, leading to improved debt protection metrics. Specific credit metrics that could lead to an upgrade in ratings include interest coverage above 4.5 times on a sustained basis.

**Negative factors –** Negative pressure on SLPL's ratings may arise, if any significant reduction in the company's revenues and profitability leads to further weakening of its debt coverage indicators. Ratings may also be downgraded if any increase in working capital intensity or crystallisation of any of its sizeable contingent liabilities and/or any further debt-funded acquisitions weakens its liquidity position and key credit metrics. Weakening of credit profile of the parent could also be a negative trigger. Specific credit metrics that could lead to a downgrade in ratings include interest coverage below 3.2 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has consolidated the financials of SLPL, along with its subsidiary, Spoton Supply Chain and Solutions Private Limited (SSCSPL, erstwhile Raag Technologies and Services Private Limited). |

## About the company

Spoton Logistics Private Limited (formerly Startrek Logistics Private Limited) was established in November 2011 with the acquisition of TNT Express' domestic road express business by India Equity Partners PE fund. In 2019, India Equity Partners exited the business and a consortium of investors led by Samara Capital acquired SLPL. On August 24, 2021, Delivery Limited acquired 100% equity in SLPL along with its 100% subsidiary, SSCSPL, which is now a subsidiary of Delhivery Limited. The management team led by Mr. Abhik Mitra continues to run the business since its inception.

SLPL provides business express road logistics services on a pan India basis, covering more than 12,000 postal codes, through a network of 29 major transit hubs and 333 service centres. It provides logistics services to various sectors such as engineering, automotive, lifestyle, electronics and electricals, pharmaceuticals, agriculture, FMCG, chemicals, etc. SLPL operates through a hub-and-spoke model that entails consolidation of goods (small parcels/consignments) from multiple locations (service centres) at transit hubs and their re-distribution to respective destinations.

SLPL acquired 65% stake in SSCSPL, a national, third-party logistics (3PL) company headquartered in Chennai, in December 2019. The remaining 35% stake in SSCSPL was acquired by SSPL in August 2021. SSCSPL provides logistics solutions to renowned manufacturing and distribution companies.

## Key financial indicators (Consolidated)

| | FY2020 | FY2021 |
|---|---|---|
| Operating Income (Rs. crore) | 700.6 | 799.3 |
| PAT (Rs. crore) | -11.2 | -25.9 |
| OPBDIT/OI (%) | 5.8% | 5.0% |
| PAT/OI (%) | -1.6% | -3.2% |
| Total Outside Liabilities/Tangible Net Worth (times) | 3.9 | 3.5 |
| Total Debt/OPBDIT (times) | 4.9 | 4.3 |
| Interest Coverage (times) | 1.9 | 1.7 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations*

## Key financial indicators (Standalone)

| | FY2020 | FY2021 |
|---|---|---|
| Operating Income (Rs. crore) | 687.5 | 758.1 |
| PAT (Rs. crore) | -18.2 | -25.7 |
| OPBDIT/OI (%) | 5.8% | 5.0% |
| PAT/OI (%) | -2.6% | -3.4% |
| Total Outside Liabilities/Tangible Net Worth (times) | 3.9 | 3.4 |
| Total Debt/OPBDIT (times) | 4.9 | 4.5 |
| Interest Coverage (times) | 1.9 | 1.7 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations*

## 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 as on Dec 31, 2021 (Rs. crore) | Date & Rating in | FY2022 | | FY2021 | FY2020 | |
| | | | | | June 1, 2022 | Sept 2, 2021 | Apr 09, 2021 | -- | Feb 06, 2020 | Aug 28, 2019 |
| 1 | Fund-based facility – Cash Credit | Long-term | 50.00 | - | [ICRA]BBB+ (Stable) | [ICRA]BBB+& | [ICRA]BBB+ (Stable) | - | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) |
| 2 | Fund based-Working Capital demand loan | Short-term | 40.00 | - | [ICRA]A2 | - | - | - | - | - |
| 3 | Fund-based facility – Term Loan | Long-term | 12.87 | 12.79 | [ICRA]BBB+ (Stable) | [ICRA]BBB+& | [ICRA]BBB+ (Stable) | - | [ICRA]BBB+ (Stable) | - |
| 4 | Working capital demand loan* | Short-term | (50.0) | - | [ICRA]A2 | - | - | - | - | - |
| 5 | Bank Guarantee* | Long term/ Short term | (3.00) | - | [ICRA]BBB+ (Stable)/ [ICRA]A2 | - | - | - | - | - |
| 6 | Cash credit^ | Long-term | (20.00) | - | [ICRA]BBB+ (Stable) | - | - | - | - | - |
| 7 | Foreign currency demand loan^ | Short term | (32.00) | - | [ICRA]A2 | - | - | - | - | - |
| 8 | Bank Guarantee | Short-term | - | - | - | [ICRA]A2& | [ICRA]A2 | - | [ICRA]A2 | [ICRA]A2 |
| 9 | Unallocated | Long-term/short-term | - | - | - | [ICRA]BBB+&/ [ICRA]A2& | [ICRA]BBB+ (Stable); [ICRA]A2 | - | - | [ICRA]BBB+ (Stable)/ [ICRA]A2 |

&= Under watch with developing implications

* sublimit of Cash Credit

^ Sublimit of Working capital demand loan

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long term- Fund based- Cash Credit | Simple |
| Short term- Fund based- Working Capital demand loan | Simple |
| Long term- Fund Based-Term Loan | Simple |
| Long term- Interchangeable | Simple |
| Short term- Interchangeable | Simple |
| Long term/Short term- Interchangeable | Very Simple |
| Short term- Interchangeable | Simple |

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, is available on ICRA's website: Click Here

## 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 | Cash Credit | NA | NA | NA | 50.00 | [ICRA]BBB+(Stable) |
| NA | Working capital demand loan | NA | NA | NA | 40.00 | [ICRA]A2 |
| NA | Term Loan | December 2020 | NA | December 2025 | 12.87 | [ICRA]BBB+(Stable) |
| NA | Working capital demand loan* | NA | NA | NA | (50.0) | [ICRA]A2 |
| NA | Bank Guarantee* | NA | NA | NA | (3.00) | [ICRA]BBB+ (Stable)/ [ICRA]A2 |
| NA | Cash credit^ | NA | NA | NA | (20.00) | [ICRA]BBB+ (Stable) |
| NA | Foreign currency demand loan^ | NA | NA | NA | (32.00) | [ICRA]A2 |

***Source:*** *Company*

&= Under watch with developing implications
* sublimit of Cash Credit
^ Sublimit of Working capital demand loan

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

| Company Name | SLPL's Ownership | Consolidation Approach |
|---|---|---|
| Spoton Supply Chain and Solutions Private Limited (erstwhile Raag Technologies and Services Private Limited) | 100% | Full Consolidation |

***Source:*** *SLPL, ICRA Research*

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