December 16, 2022

Coldman Logistics Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term -Term Loan	48.00	41.49	[ICRA]BB(Stable); Reaffirmed
Long Term -Overdraft	15.00	12.00	[ICRA]BB(Stable); Reaffirmed
Long term - Unallocated	9.51	31.80	[ICRA]BB(Stable); Reaffirmed/assigned
Total	**72.51**	**85.29**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in the extensive experience of Coldman Logistics Private Limited's (CLPL) promoters and management in the warehousing business, regular equity infusion by its strong shareholder base, and its geographically diversified business with warehouses at multiple locations. The rating also notes CLPL's revenue diversification in the logistics business to provide support to its warehousing operations, and its well-reputed customer base. The rating also factors in CLPL's position as one of the largest players in the organised cold chain logistics sector in India.

During FY2022 and H1 FY2023, the company's operating margins improved to 10.9% and 10.5%, respectively, from 3.2% in FY2021, supported by economies of scale and various cost rationalisation initiatives undertaken by the company. CLPL had 16 operational warehouses as on September 30, 2022, with total pallet capacity of ~71,767 and five more under construction warehouses are expected to be operational by the end of FY2023, which will increase the total pallet capacity to ~95,371. CLPL has been focusing more on Build-to-Suit (BTS) model, where company ties up with customers first and then builds the capacity as per the requirements of the customer which is expected to lead to higher occupancy rates for the upcoming warehouses. Despite loss-making operations and steady capex for enhancing its warehousing capacity, CLPL's gearing level has remained moderate in the past, supported by steady equity infusion by the shareholders over the years.

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 limits the pricing flexibility, and any termination of lease agreement from the lessors prior to the lock-in period can negatively impact its operations. Although the company has seen more than 99% retention rate for its customers over the past six years of its operations, higher customer concentration and agreement renewal from CLPL's customers remain a risk. ICRA also notes the significant capex being undertaken by CLPL during FY2023, which will be funded through a mix of debt and equity and will have an impact on return indicators and coverage metrics in the near term. The same are expected to improve from FY2024 because of expected improvement in accruals, supported by increased capacity utilisation from existing and new warehouses. Also, improvement in scale of operations along with profitability and timely financial support, if required, from its shareholders/investors 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 as well as planned new warehouses.

Key rating drivers and their description

Credit strengths

Established experience of directors and key management personnel in cold storage business; reputed customer base – CLPL's promoters and directors, have an extensive experience of around three decades in diverse business segments namely cold chain, reefer trucks, and trading. The well-experienced directors, coupled with the professional project management and business administrative team, shall enable its future growth. The company has various reputed clients, from sectors like agro commodities, dairy products, food processing and pharmaceutical. CLPL has seen a customer retention rate of more than 99% during the past six years of its operations. It also enters into minimum guarantee contracts with its customers to reserve a certain portion of its warehousing space.

Geographical diversification in-terms of warehouses at multiple location and presence in logistics business to provide support to warehousing division – The company had 16 operational warehouses at 12 locations and across 9 states as on September 30, 2022. It is in the process of adding new capacity with five warehouses at two new locations, primarily under a dry shell lease model. These are expected to become operational in FY2023, which will increase the total warehousing capacity to ~95,371 pallets from the current ~71,767 pallets. For the new capacity additions, CLPL has shifted to BTS model, where company does the customer acquisition first and then builds the capacity as per the requirements of the customer which is expected to lead to higher occupancy for newly added warehouses. Presence at multiple locations provides diversification in terms of geography as well as commodities, based on the geographical demand. Apart from the same, 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 periodic equity infusion – Despite loss marking operations and steady capex for enhancing its warehousing capacity, CLPL's gearing level has remained moderate at 0.79 time as on March 31, 2022 and 0.75 time as on September 30, 2022. This has been supported by steady equity infusion by the company's shareholders over the years to meet the operational, capex and debt servicing related funding requirements. The planned capex of ~Rs.53 crore for FY2023 is proposed to be funded through a mix of equity and debt. Debt of ~Rs.31.8 crore is expected to be availed from banks and out of the already infused equity of Rs.40.0 crore during Q4FY2022 and H1FY2023, ~Rs.21.2 crore is allocated for the ongoing capex. This debt-funded capex is expected to have an impact on return indicators and coverage metrics during FY2023, which are expected to improve from FY2024 owning to expected improvement in operating leverage from increased capacity utilisation of existing and new warehouses

Considerable improvement in operating margins and cost rationalising strategies – Given that the company has been under capex mode with relatively moderate scale of operations, it was loss making in its initial years. After breaking even in FY2021, its margins have improved to ~10.5% in H1 FY2023. This has been driven by better absorption of fixed overheads by improved capacity utilisation and cost rationalisation initiatives like use of solar power, own procurement of pallets and increased focus on the BTS model. Sustenance of improved operating margins will be a key rating monitorable going forward.

Credit challenges

Modest scale of operations; weak return and coverage metrics – Despite some scaling up and resultant improvement in operating margins in FY2022 and H1 FY2023, the company's scale of operations remains modest. Coupled with the high interest expense, this has continued to result in net losses, translating into weak return indicators and coverage metrics. As on September 30, 2022, CLPL had 16 operational warehouses and its in the process of adding five new warehouses during FY2023, which will widen its geographic presence and enhance its warehousing capacity. Nevertheless, the operations will remain exposed to risk associated with timely project completion and scaling up of revenues and profitability, which remains contingent upon the timely disbursal of the proposed term loan from the bank and extension of financial support from its promoters/ investors in case of any delay in disbursal of the term loan.

Client agreement and high customer concentration risk: The company typically enters short-term contracts of one to three years with its customers for warehousing services. However, any delay in renewal of contracts by customers may lead to loss of revenue. Also, during FY2022 and H1 FY2023, its top 10 warehousing customers drove ~72% of the warehousing revenue and the top customer drove ~40% of its total revenue.

Any termination of lease agreement from lessors prior to lock-in period to negatively affect operations – Against the 16 operational warehouses, most are either taken on land lease, dry 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 is again resumed.

Highly fragmented industry limits pricing flexibility – The cold chain industry in India is dominated by several domestic players catering to local markets. Organised players account for a small share of the total cold chain industry. The company faces intense competition from unorganised players. The fragmented nature of the 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 AA grade for food safety by the British Retail Consortium (BRC), across the supply chain for majority of its warehouses. Coupled with the company's widening geographic presence and established relations with its key customers, this mitigates the risk to an extent.

Liquidity position: Stretched

CLPL's liquidity is stretched given that it has continued to report net losses till H1FY2023 and has sizeable annual debt repayment of Rs.9.8 crore, Rs.9.8 crore and Rs.10.8 crore during FY2023, FY2024 and FY2025 respectively which also includes repayment of proposed term loan of Rs.31.8 crore. The OPBITDA of the company improved in FY2022 and H1FY2023, however, sustainability of the same remains critical. In the absence of adequate cash accrual generation, CLPL's debt obligations have been serviced by infusion of equity and unsecured loans by the promoters/investors. Moreover, undrawn bank lines (~Rs. 7.0 crore as on October 31, 2022) support the liquidity to some extent. However, improvement in scale of operations along with profitability as well as timely infusion of equity or unsecured loans (if required) remains critical to improve the liquidity profile of the company.

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, any delay in completion of planned capex and lower than expected utilisation of the new warehouses would be factors for the 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

Incorporated in September 2012, CLPL provides cold storage and ambient/dry storage facilities for various agro-commodities, dairy products, food processing and pharmaceutical players at its warehouses. At present, the company has 16 operational warehouses in 12 locations across nine states, which operates under the brand name, Coldman. It has an aggregate total storage capacity of ~71,767 pallets. Apart from warehousing facilities, the company provides end-to-end food distribution services, transport services, container stuffing, de-stuffing, blast freezer, labeling, real-time inventory report, etc.

Key financial indicators (Audited)

CLPL	FY2021	FY2022	H1 FY2023
Operating Income (Rs. crore)	68.26	76.29	39.35
PAT	-18.84	-12.01	-5.14
OPBDIT/OI	3.2%	10.9%	10.5%
PAT/OI	-27.6%	-15.7%	-13.1%
Total outside liabilities/Tangible net worth (times)	1.17	0.92	0.85
Total Debt/OPBDIT (times)	40.32	9.64	9.78
Interest Coverage (times)	0.29	0.90	1.15

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 September 30, 2022	Date & Rating in	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					December 16, 2022	April 05, 2022	April 30, 2021	September 30, 2020	-
1	Fund based - OD	Long-term	12.00	4.90	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-
2	Term loan	Long-term	41.49	42.31	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable), ISSUER NOT COOPERATING	-
3	Unallocated limits	Long term	31.80	-	[ICRA]BB (Stable)	[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, is available on ICRA's website: Click Here

Annexure I: 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	12.00	[ICRA]BB (Stable)
NA	**Term loan**	FY2017	8.5 – 9%	FY2028	41.49	[ICRA]BB (Stable)
NA	**Unallocated limits**	NA	NA	NA	31.80	[ICRA]BB (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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