December 28, 2022

Flyjac Logistics Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based – Cash credit	11.00	5.00	[ICRA]A+ (Stable); reaffirmed
Short term – Interchangeable	(8.00)	-	-
Short term - Fund/Non fund based - Others	-	8.50	[ICRA]A1+; reaffirmed
Long term/Short term – Unallocated limits	4.00	1.50	[ICRA]A+ (Stable)/ [ICRA]A1+; reaffirmed
Total	**15.00**	**15.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation takes into account the management's extensive experience and established track record in the freight forwarding and logistics business, the strong parentage of Japan-based Hitachi Transport System Limited (HTSL) and the expected funding support towards Flyjac's planned capex in the medium term.

ICRA takes note of the acquisition of HTSL by Kohlberg Kravis Roberts (KKR), which is currently under progress, and the developments and its implication on Flyjac remains a monitorable. ICRA favourably notes the company's diversified and reputed customer profile and its status as a multi-modal freight forwarder offering end-to-end logistics services. The ratings also consider the comfortable capitalisation and coverage indicators due to the limited borrowings owing to its relatively asset-light model. During FY2022, the company witnessed a healthy revenue growth of 53%, driven by higher freight forwarding revenue from sea freight segment.

The ratings, however, are constrained by the company's modest profit margins as a result of pricing pressures in the intensely competitive and fragmented freight forwarding industry. The ratings further note the susceptibility of the company's profitability to the volatility in foreign exchange rates and the working capital-intensive nature of Flyjac's business, given its elongated receivable and short payable cycles; although, the strong cash and liquid balances and healthy accruals support its liquidity position.

ICRA also takes note of the ongoing sizeable debt-funded capex (funded by its parent) planned over near to medium term, which is likely to put pressure on the company's return indicators and coverage metrics, though these remain healthy at present, backed by limited external borrowings. Moreover, a favourable funding pattern anticipated for the capex, with attractive borrowing cost and repayment tenure from the parent company, is a source of comfort. ICRA will continue to monitor the development related to the capex programme and its related impact on the credit metrics, going forward.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectation that Flyjac's financial performance and credit profile will continue to benefit from the extensive experience of its promoters, its parentage and expected support for planned capex from the parent entity. The impact of the ongoing change of ownership at the parent level, however, remains a monitorable.

Key rating drivers and their description

Credit strengths

Experienced management and established track record in freight forwarding and logistics business – Flyjac was originally established as a partnership firm in 1990 by Mr. A. S. Madhavan, Mr. L. C. Jobanputra and Mr. Ravikumar Varriath, before being converted into a private limited company in 2008. Mr. A. S. Madhavan is the company's Chairman, while Mr. A.V. Ravikumar is its Managing Director, both of whom have experience of over two decades in the freight forwarding and logistics industry.

Benefits from parent group– Flyjac enjoys marketing and operational support with Hitachi Transport System Private Limited (HTSL) as its parent. At present, Flyjac is implementing a major capex plan, for which the parent entity has provided support in the form of equity and ECB loans. ICRA takes note of the acquisition of HTSL by Kohlberg Kravis Roberts (KKR), which is under progress, and the developments and its implication on Flyjac remains a key monitorable.

Multi-modal freight forwarder providing end-to-end services– Flyjac is an integrated international 3PL company providing end-to-end services, including supply chain logistics, air and ocean international freight forwarding, and custom clearance, warehousing, and distribution management. It covers all gateways in the country with offices in 27 strategic locations and warehousing facilities in 17 locations. Apart from this, it is present in 60 countries across all continents. In FY2022, the company's sales grew 53%, driven by higher freight forwarding revenue from sea freight segment.

Diversified and reputed customer profile – Flyjac's clientele is well-diversified and consists of reputed engineering majors. Its top ten clients generated ~25-35% of the total revenues in the last five fiscals.

Comfortable capitalisation and coverage indicators – Flyjac's limited borrowings, owing to its relatively asset-light model, have kept the company's gearing at near-zero levels during the last five fiscal-ends. Subsequently, the coverage indicators remained healthy. Its liquidity position is adequate, supported by healthy cash and liquid investments. Going forward, with the planned capex to be partly funded through ECB by the parent, the capital structure and the coverage indicators may witness some moderation. However, favourable payment terms and interest cost and lack of external debt funding mitigate the impact.

Credit challenges

Modest profit margins due to pricing pressures on freight forwarding industry – Historically, the company's operating profit margin (OPM) has remained low in the range of 4-5%, given the intense competition in freight forwarding and allied services. The company reported an OPM of 4.89% in FY2022 against 4.01% in FY2021. The net profit margin (NPM) remained at 4.53% in FY2022 against 1.76% in FY2021. However, due to the increase in the scale of operations in FY2022, the absolute profits witnessed healthy growth.

Expected moderation in debt coverage indicators due to sizeable debt funded capex planned over medium term; although debt is solely bought in by promoter entity at favorable borrowing cost which provides comfort – Flyjac plans to incur a large capex, a sizeable part of which is expected to be funded by way of debt from the parent entity during the next three to four years. The increase in debt towards the capex is expected to moderate the debt coverage indicators from the present levels. However, the debt is being solely brought in by the parent at a favourable interest rate, with no external borrowings by the company, which provides comfort to an extent.

Vulnerability of profitability to adverse movements in forex rates – Most of the company's sea freight transactions are in foreign currency, while its air freight transactions are mostly executed in rupee terms. Flyjac does not follow any definite hedging policy, which exposes its profitability to the volatility in exchange rates.

Moderately working capital-intensive business; pricing pressures in competitive freight forwarding industry – The company's operations are working capital-intensive, reflected in NWC/OI of 14% as on March 31, 2022 (19% as on March 31, 2021) due to the elongated receivables and short payables. Flyjac gets a credit period of up to 30 days from the airlines, while it makes upfront payments to the shipping companies. Given the intense competition in the freight forwarding industry, the company offers an extended credit period of 60-90 days to its clients. Some of its clients are industry majors, resulting in limited bargaining power, besides having to provide liberal credit terms to maintain healthy relationships with these entities. The debtor days stood high and increased to 71 days as on March 31, 2022 from 93 days as on March 31, 2021.

Liquidity position: Adequate

The company's liquidity profile is expected to be adequate, aided by expected cash accruals, availability of unutilised working capital limits and free cash and liquid investments (Rs. 46.08 crore as on 31st March 2022). The company has ongoing capex plans which are being funded through a mix of equity and debt from the parent at favourable terms.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is healthy revenue growth and improvement in profitability on timely commissioning of the planned capex and generation of remunerative returns.

Negative factors – The ratings may be downgraded if the company reports lower-than-anticipated revenues or profitability or larger-than-expected debt-funded capex or a stretch in the working capital cycle that will weaken the liquidity. Any moderation in the credit profile of the parent – HTSL - or weakening of linkages of HTSL with Flyjac may also impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit parent or group support
Parent/Group support	The ratings derive comfort from the parentage of a reputed international 3PL logistics player – Hitachi Transport Systems Ltd. - and being a part of Japanese conglomerate – Hitachi Ltd. (rated A3/Stable/P-2 by Moody's Investor Services as on Nov 2022). The impact of the acquisition of HTSL by KKR will be monitored
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer

About the company

Flyjac Logistics Private Limited was originally established as a partnership firm in 1990 by Mr. A. S. Madhavan, Mr. L. C. Jobanputra and Mr. Ravikumar Varriath, before being converted into a private limited company in 2008. Mr. A. S. Madhavan is the company's Chairman, while Mr. A. V. Ravikumar is its Managing Director. In April 2010, Flyjac was acquired by HTSL, which holds a 99% stake in it. The remaining 1% stake is held by Hitachi Transport System (Asia) Pte. Ltd. Flyjac is an integrated international 3PL company, providing end-to-end services, including supply chain logistics, air and ocean international freight forwarding, and custom clearance, warehousing and distribution management. Flyjac covers all gateways in the country with offices in 27 strategic locations and warehousing facilities in 17 locations. Apart from this, it is present in 60 countries across all continents.

In FY2022, the company reported a net profit of Rs. 59.6 crore on an operating income (OI) of Rs. 1,314.2 crore compared with a net profit of Rs. 15.0 crore on an OI of Rs. 856.9 crore in the previous year.

Key financial indicators (audited)

FLPL	FY2021	FY2022
Operating income	856.9	1,314.2
PAT	15.0	59.6
OPBDIT/OI	4.0%	4.9%
PAT/OI	1.8%	4.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.3
Total debt/OPBDIT (times)	0.6	0.2
Interest coverage (times)	51.1	86.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					December 28,2022	September 30,2021	May 27,2020	-
1	Cash credit	Long Term	5.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
2	Interchangeable	Short Term	-	-		[ICRA]A1+	[ICRA]A1+	-
3	Fund/Non fund based - Others	Short Term	8.50	-	[ICRA]A1+	-	-	-
4	Unallocated	Long Term/ Short Term	1.50	-	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Fund/Non fund based - Others	Simple
Unallocated	Not applicable

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	5.00	[ICRA]A+ (Stable)
NA	**Fund/Non fund based - Others**	NA	NA	NA	8.50	[ICRA] A1+
NA	**Unallocated**	NA	NA	NA	1.50	[ICRA]A+ (Stable) / [ICRA] A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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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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