

February 09, 2024

Capricorn Logistics Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based OD	3.45	6.00	[ICRA]BBB+ (Stable); Reaffirmed and assigned for enhanced amount
Long term - Fund-based CC	30.00	33.50	[ICRA]BBB+ (Stable); Reaffirmed and Assigned for enhanced amount
Long term - Fund based WCDL (Sub Limit)	(15.00)	(15.00)	[ICRA]BBB+ (Stable); Reaffirmed
Long term - Non-fund Based BG (Sub Limit)	(2.00)	(2.00)	[ICRA]BBB+ (Stable); Reaffirmed
Long term - Non-fund Based Credit Exposure Limit	-	1.40	[ICRA]BBB+(Stable); assigned
Long term - Non-fund Based Credit Exposure Limit (Sub Limit)	(3.95)	(19.00)	[ICRA]BBB+ (Stable); Reaffirmed and assigned for enhanced amount
Long term - Term loan	-	31.47	[ICRA]BBB+ (Stable); Assigned
Long term - Non-fund Based – Working capital	-	5.00	[ICRA]BBB+ (Stable); Assigned
Long term - Fund-based OD (Sub limit)	-	(5.00)	[ICRA]BBB+ (Stable); Assigned
Long-term - Unallocated	30.84	0.00	-
Total	64.29	77.37	

*Instrument details are provided in Annexure-I

Rationale

The ratings factor in ICRA's expectation that Capricorn Logistics Private Limited (CLPL) will maintain a comfortable credit profile on the back healthy freight volumes supported by an expanding customer base and CLPL's comfortable leverage levels. The ratings consider CLPL's established track record of operations, supported by its widespread geographical presence, and the promoters' extensive experience in the logistics industry. The ratings also consider the company's multi-modal nature of operations with established presence across air, sea and road transportation catering to both imports and exports insulating the company to some extent from volatile trade dynamics. The ratings further draw comfort from the company's established customer relationships, integrated nature of supply chain offerings like freight forwarding, custom clearance, warehousing, and third-party logistics (3PL) services, etc.

The operating revenues grew by ~11% in FY2023 on the back of healthy offtake from existing customers and sustained additions of new customers. While improved offtake from existing customers coupled with customer additions is expected to aid revenue generation in the near term, a decline in container rates in 9M FY2024 may result in 20-25% contraction in the company's revenue in FY2024. CLPL's margins expanded by 20 basis points (bps) to 5.3% in FY2023 on the back of increase in scale of operations, resulting in better absorption of fixed costs. Margins are expected moderate by 20-50 bps in FY2024 owing to lower scale of operations. The ratings favourably factor in the company's comfortable coverage metrics as well as adequate liquidity.

The ratings are, however, constrained by high debtor days owing to elongated receivables cycle in custom clearance business and high credit period offered to a key customers. However, ICRA notes that CLPL's receivables cycle has improved over the

past two years, leading to improved working capital cycle. The company's margins are thin inherent to the nature of operations as a freight forwarder; and furthermore, given its asset-light model, the company mainly relies on the fleet hired from the spot market and service providers like shipping lines and airline carriers. The profitability, hence, remains susceptible to intense competition, volatile freight rates and foreign exchange (forex) rate fluctuations. Comfort, however, is taken from the fact that the company has been able to pass on a part of increased freight costs to its customers in the past. The prospects of the company are closely associated with economic cycles and prevailing trade dynamics, but ICRA positively notes the company's established relationships with its clients.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that CLPL will continue to benefit from its extensive track record of operations, which is expected to get better by further expansion in client base and improvement in working capital position.

Key rating drivers and their description

Credit strengths

Long track record of operations and extensive experience of promoters — CLPL has an established operational track record of over two decades and a widespread network across India. The promoters have extensive experience in the logistics sector, which has supported the business growth through sustained customer additions and maintaining good relationships with various vendors.

Multi-modal freight forwarding services — CLPL benefits from its established presence across air, ocean, and surface level transportation services. Its presence across the three modes of freight forwarding, coupled with its warehousing capabilities, helps the company in offering its clients integrated services throughout the supply chain. The company derived ~44% of its revenues from air freight, 33% from ocean freight, and the remaining from custom clearance and warehousing services in FY2023. The company enjoys healthy relationships and special arrangements with various airlines and airports (like the Mumbai International Airport Limited, or MIAL) for priority consolidations. The company also has tie ups with various shipping service providers for multiple weekly sailing options. Its established relationships with service providers also aids the company in offering seamless services.

Established relationships with reputed clientele across diversified sectors — CLPL has a customer base of reputed players, including Siemens Limited, Siemens Healthcare Limited, Tata Group companies, Hindustan Unilever Limited, etc, which results in modest counterparty credit risk. Its top five customers generated ~45% of its revenues in FY2023 and H1 FY2024. The operating revenues grew at a CAGR of 18.5% from Rs. 497.0 crore in FY2019 to Rs. 964.7 crore in FY2023, primarily led by broader business recovery across various end-user industries like Fast Moving Consumer Goods (FMCG), consumer electronics, pharmaceuticals and automotives. However, in H1 FY2024, the revenues contracted by ~20-25%, despite growth in volumes from existing and new customers, on account of correction of freight rates. The company plans to foray into new geographies and add new customers, which will augur well for its growth and revenue diversity.

Wide presence across various geographies — The company has a pan-India presence with more than 30 offices across 23 major cities in India. The company also has overseas presence through its subsidiaries in 10 countries across Asia, Europe and North America. The company's subsidiaries offer last-mile connectivity and local presence for its clients in India. CLPL is also planning to expand its presence on the back of demand from its existing customers. Its ability to successfully scale up in various new geographies and maintain the asset-light model with lower reliance on debt will be a key rating monitorable.

Credit challenges

Highly fragmented industry limits pricing power; exposed to fluctuating freight and forex rates — The freight forwarding and consolidation business in India is highly fragmented, with a major part of the business made up by the unorganised segment. The fragmented nature of the industry results in stiff competition, thereby exerting pressure on profitability margins. The

company's margins are also exposed to volatility in container rates with respect to ocean freight, hire charges of road fleet and charges for air freight which vary based on demand-supply dynamics. Comfort is taken from the periodic renewal of freight rates with its clients and back-to-back arrangement with its service providers. Further, the company's profitability remains exposed to fluctuations in forex rates, which is mitigated to some extent by natural hedge.

Elongated receivable cycle — The company has an elongated receivables cycle in its custom clearance business and offers a high credit period to a key customer. CLPL's debtor days improved marginally to 83 as on March 31, 2023 (PY: 86 days), on the back improved efficiency in collections and diversifying revenues from custom clearance, which has a long receivables cycle. However, the sustenance of improvement in debtor days remains a monitorable.

Exposed to economic downturns and slowdown in international trade — 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 during the down cycles in FY2020 and FY2021, when its freight volumes, revenues and profitability declined due to weaker revenue growth and pandemic-led disruptions, respectively. However, its asset-light model of operations and marquee customer profile mitigates the risk to some extent.

High customer concentration risk — CLPL's top five customers generated about 42% and 48% of its revenues in FY2023 and H1 FY2024, respectively. This client contribution trend has been in the range of 40-50% in the last four years ended FY2023. Comfort, however, is taken from the established relationships and long-term contracts with its customers. The strong business profile of its clientele also insulates the company to some extent from the concentration risk and downturn in economic cycles.

Liquidity position: Adequate

The liquidity position is adequate marked by expected retained cash flows of ~Rs. 25-30 crore, healthy cash and bank balances of ~Rs. 30.0 crore (as on September 30, 2023) and undrawn working capital lines of ~Rs. 7.2 crore as on November 30, 2023, against repayment obligations of Rs. 3.6 crore in FY2024 and Rs. 5.6 crore in FY2025. It also has a capex plan of ~Rs. 18 crore for a new warehousing facility in Goa, to be funded through a term loan of Rs. 12 crore and the remaining through internal accruals. ICRA expects the company to generate adequate cash flows to meet its capex needs and debt repayment.

Rating sensitivities

Positive factors – ICRA could upgrade CLPL's rating if there is sustained improvement in revenues and earnings leading to improved liquidity and sustained improvement in TOL/TNW to less than 1.5 times.

Negative factors – Negative pressure on CLPL's rating could arise if there is decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Deterioration in working capital cycle impacting the company's liquidity position could also be a trigger for a rating downgrade. Specific credit metrics that could lead to a downgrade of CLPL's rating include interest coverage below 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated

About the company

CLPL was incorporated in 2001 by Late Sadananda Shetty and his associates as a third-party logistics service provider. The company has presence across the value chain in freight forwarding vertical and provides services such as air freight, ocean freight, contract logistics, surface transportation, customs clearances and brokerage, 3PL and warehouse management services for both import and export requirements of its clients. The company has a pan Indian presence with more than 30 offices across 23 states and an overseas presence through its 10 subsidiaries across Asia, Africa, Europe and North America.

Key financial indicators (audited)

CLPL Consolidated	FY2022	FY2023
Operating income	865.2	964.7
PAT	28.2	29.1
OPBDIT/OI	5.1%	5.3%
PAT/OI	3.3%	3.0%
Total outside liabilities/Tangible net worth (times)	3.3	2.2
Total debt/OPBDIT (times)	1.1	0.9
Interest coverage (times)	8.8	10.1

Source: Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

CLPL Standalone	FY2022	FY2023	H1FY2024*
Operating income	735.4	899.1	305.5
PAT	21.5	30.8	8.3
OPBDIT/OI	4.8%	5.5%	4.8%
PAT/OI	2.9%	3.4%	2.7%
Total outside liabilities/Tangible net worth (times)	2.1	1.4	1.2
Total debt/OPBDIT (times)	1.3	0.8	1.9
Interest coverage (times)	8.2	10.9	7.0

Source: Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * Provisional numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 09, 2024	Dec 19, 2022	-	-
1 Fund based OD	Long term	6.00	0.10	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2 Fund-based CC	Long term	33.50	32.50	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
3 Fund-based WCDL (Sub Limit)	Long term	(15.00)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
4 Non-fund Based BG (Sub Limit)	Long term	(2.00)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
5 Non-fund Based Credit Exposure Limit	Long term	1.40	-	[ICRA]BBB+ (Stable)	-	-	-
6 Non-fund Based Credit Exposure Limit (Sub Limit)	Long term	(19.00)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
7 Term Loan	Long term	31.47	28.44	[ICRA]BBB+ (Stable)	-	-	-
8 Non-fund Based – Working Capital	Long term	5.00	0.6	[ICRA]BBB+ (Stable)	-	-	-
9 Fund-based OD (Sub limit)	Long term	(5.00)	-	[ICRA]BBB+ (Stable)	-	-	-
10 Unallocated	Long term	-	-	-	[ICRA]BBB+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based OD	Simple
Long term - Fund-based CC	Simple
Long term - Fund-based WCDL (Sub Limit)	Simple
Long term - Non-fund Based BG (Sub Limit)	Very Simple
Long term - Non-fund Based Credit Exposure Limit	Very Simple
Long term - Non-fund Based Credit Exposure Limit (Sub Limit)	Very Simple
Long term - Term Loan	Simple
Long term - Non-fund Based - Working capital	Simple
Long term - Fund-based OD (Sub limit)	Very 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 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	Long term - Fund-based OD	-	-	-	6.00	[ICRA]BBB+ (Stable)
NA	Long term - Fund-based CC	-	-	-	33.50	[ICRA]BBB+ (Stable)
NA	Long term - Fund-based WCDL (Sub Limit)	-	-	-	(15.00)	[ICRA]BBB+ (Stable)
NA	Long term - Non-fund Based BG (Sub Limit)	-	-	-	(2.00)	[ICRA]BBB+ (Stable)
NA	Long term - Non-fund Based Credit Exposure Limit	-	-	-	1.40	[ICRA]BBB+ (Stable)
NA	Long term - Non-fund Based Credit Exposure Limit (Sub Limit)	-	-	-	(19.00)	[ICRA]BBB+ (Stable)
NA	Long term - Term Loan	FY2023	-	FY2038	14.36	[ICRA]BBB+ (Stable)
NA	Long term - Term Loan	FY2024	-	FY2034	6.71	[ICRA]BBB+ (Stable)
NA	Long term - Term Loan	FY2024	-	FY2031	11.40	[ICRA]BBB+ (Stable)
NA	Long term - Non-fund Based - Working capital	-	-	-	5.00	[ICRA]BBB+ (Stable)
NA	Long term - Fund-based OD (Sub limit)	-	-	-	(5.00)	[ICRA]BBB+ (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

Company Name	CLPL Ownership	Consolidation Approach
Vriddhi Logitech Pvt Ltd	100%	Full Consolidation
Capricorn SCM Pvt Ltd	100%	Full Consolidation
Raj Clearing Agency	94%	Full Consolidation
Capricorn Logistics INC	100%	Full Consolidation
Capricorn Logistics HK Pvt Ltd	100%	Full Consolidation
Capricorn Global Logistics Pte. Ltd	100%	Full Consolidation
Capricorn Logistics Kenya Ltd	100%	Full Consolidation
Capricorn Logistics GMBH	100%	Full Consolidation
Capricorn Logistics (Shanghai) Ltd	100%	Full Consolidation
Capricorn Logistics Egypt	100%	Full Consolidation
Capricorn Logistics SRL	100%	Full Consolidation

Source: Company

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