

February 23, 2024

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 | 5.00 | 5.00 | [ICRA]A+ (Stable); reaffirmed |
| Short term -Fund/Non-fund based - Others | 8.50 | 8.50 | [ICRA]A1+; reaffirmed |
| Long term/Short term – Unallocated limits | 1.50 | 1.50 | [ICRA]A+ (Stable)/ [ICRA]A1+; reaffirmed |
| Total | 15.00 | 15.00 | |

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings for Flyjac Logistics Private Limited (FLPL) takes into account the management's extensive experience in the logistics sector, the company's diversified and reputed customer profile and its status as a multi-modal freight forwarder offering end-to-end logistics services. The capitalisation and coverage indicators have moderated as the company availed long-term debt from its parent in FY2023 for its capex plans; however, the credit metrics continue to be healthy. The competitive interest rates and the long tenor of repayment provide comfort from a debt servicing point of view. In FY2023, the company witnessed a healthy revenue growth and the operating margins improved, driven by the increasing share of the supply chain and logistics segment which commands a higher margin compared to the legacy business.

The ratings are, however, constrained by the company's modest profit margins because 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. Nevertheless, the healthy cash and liquid balances and steady accruals support its liquidity position.

ICRA notes that the parent of FLPL i.e. Logisteed Limited (erstwhile Hitachi Transport Systems Limited, HTSL) was acquired by Kohlberg Kravis Roberts (KKR) in February 2023. Earlier, while assigning FLPL's ratings, ICRA had factored in the support from the parent i.e. Logisteed. However, after the change in the ownership of Logisteed Limited (FLPL's parent entity), ICRA has now assigned the ratings without factoring in the support from the parent entity as there is no clear trajectory of the support available from KKR. The ratings, however, have remained unchanged as even the earlier rating did not encompass any notch uplift based on parent support.

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 management and stable cash generation.

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.

Diversified and reputed customer profile – Flyjac’s clientele is well-diversified and consists of reputed engineering majors. Its top 10 clients generated ~25-35% of the total revenues in the last five fiscals.

Comfortable capitalisation and coverage indicators with long-tenor debt provided by the parent at favourable terms – Flyjac’s credit profile remains healthy, supported by the loans availed for the current capex programme from the promoters with elongated tenors and competitive interest rates. Significant equity infusion by the promoter entity in FY2022 and FY2023 for the capex has strengthened the company’s net worth and kept its credit profile healthy. The company’s credit profile will remain stable on the back of improving cash generation, modest debt repayments and no major capex plans.

Credit challenges

Modest profit margins due to pricing pressures in 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 6.57% in FY2023 against 5.21% in FY2022. The net profit margin (NPM) remained at 3.12% in FY2023 against 4.30% in FY2022.

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 – The company’s operations are working capital-intensive, reflected in NWC/OI of 14% as on March 31, 2023 (14% as on March 31, 2022) due to the elongated receivables and short payables. Flyjac gets a credit period of up to 30 days from 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, it has to provide liberal credit terms to maintain healthy relationships with these entities. However, with the company’s efforts, the debtor days improved to 58 days as on March 31, 2023, from 70 days as on March 31, 2022.

Liquidity position: Adequate

The company’s liquidity profile is expected to be adequate, aided by stable cash accruals, availability of unutilised working capital limits and free cash and liquid investments (Rs. 130 crore as on 31st March 2023) which will be used to fund the ongoing capex plans.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is healthy revenue growth and a significant improvement in profitability along with a comfortable credit profile and liquidity position.

Negative factors – The ratings may be downgraded if the company reports lower-than-anticipated revenues or profitability, or a larger-than-expected debt-funded capex. A stretch in the working capital cycle that will weaken the liquidity will also adversely impact the ratings. A specific trigger for downgrade is interest cover of less than 6 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology |
| Parent/Group support | NA |
| Consolidation/Standalone | The rating is based on the standalone financial statements of the issuer |

About the company

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. In April 2010, Flyjac was acquired by Hitachi Transport Systems Limited (HTSL, now Logisteed Ltd) which held a 99% stake in it. The remaining 1% stake was held by Hitachi Transport System (Asia) Pte. Ltd (now Logisteed Asia-Pacific PTE. Ltd).

In February 2023, KKR completed the acquisition of HTSL. After the acquisition, HTSL was renamed Logisteed Ltd that is now owned by HTSK, which is a fully owned special purpose entity of HTSK Holdings whose 90% shares are held by KKR and 10% by the Hitachi Group.

Key financial indicators (audited)

| FLPL Consolidated | FY2022 | FY2023 |
|--|----------|----------|
| Operating income | 1,314.68 | 1,353.61 |
| PAT | 56.48 | 42.28 |
| OPBDIT/OI | 5.21% | 6.57% |
| PAT/OI | 4.30% | 3.12% |
| Total outside liabilities/Tangible net worth (times) | 0.38 | 0.60 |
| Total debt/OPBDIT (times) | 0.38 | 2.26 |
| Interest coverage (times) | 53.56 | 33.30 |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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 | Type | Current rating (FY2024) | | Chronology of rating history for the past 3 years | | | | |
|------------|------------------------------|--------------------------|--------------------------------|---|------------------------------|------------------------------|------------------------------|------------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | |
| | | | | Feb 23, 2024 | Dec 28, 2022 | Sep 30, 2021 | May 27, 2020 | |
| 1 | Cash credit | Long term | 5.00 | -- | [ICRA]A+ (Stable) | [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+ | [ICRA]A1+ | - | - |
| 4 | Unallocated | Long term and short term | 1.50 | -- | [ICRA]A+ (Stable)/ [ICRA]A1+ | [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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