December 22, 2023

Coldman Logistics Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term – Term Loan	41.49	31.66	[ICRA]BB (Stable); Reaffirmed
Long-Term – Overdraft	12.00	12.00	[ICRA]BB (Stable); Reaffirmed
Long-term – Unallocated	31.80	41.63	[ICRA]BB (Stable); Reaffirmed
Total	**85.29**	**85.29**	

**Instrument details are provided in Annexure-I*

Rationale

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

The company's operating margins reduced to 8.0% in FY2023 from 10.5% in FY2022, following pre-operative expenses for some of the newly set up warehouses. However, margins improved to 15.6% in H1 FY2024 on the back of higher operating leverage and higher capacity utilisation of new warehouses, which are margin-accretive owing to the built-to-suit (BTS) model employed by the company. CLPL had 18 operational warehouses as on September 30, 2023, with a total pallet capacity of ~85,274. CLPL has been focusing more on the BTS model, where the company first ties up with customers and then builds the capacity as per the customer's requirements. This model is expected to lead to higher occupancy rates for 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. ICRA notes the significant capex undertaken by CLPL during FY2023 and H1 FY2024, which was funded primarily through unsecured loans and equity infusions. This led to an increase in the overall debt of the company. However, with the improvement in operating margins in H1 FY2024, the debt indicators improved to a certain extent. Going forward, the sustenance of operating margins and the improvement in debt indicators will be key rating monitorables for the company. Moreover, the highly competitive and fragmented nature of the industry limits the pricing flexibility, and any termination of lease agreements from the lessors prior to the lock-in period can negatively impact its operations. Although the company has more than 99% customer retention rates over the past six years of its operations, the potential risk lies in higher customer concentration and renewal of agreements by the customers.

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 the expected ramp-up in scale by improving the occupancy of its warehouses.

Key rating drivers and their description

Credit strengths

Established experience of directors and management in cold storage business; reputed customer base – CLPL's promoters and directors have extensive experience of around three decades in diverse business segments namely cold chain, reefer trucks, and trading. The company has various reputed clients, from sectors such as agro-commodities, fast-moving consumer goods, quick service restaurants, dairy products, food processing and pharmaceutical, and others. CLPL has seen a customer retention rate of more than 99% in 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 and presence in logistics business to support the warehousing division – The company had 18 operational warehouses at 12 locations and across 10 states as on September 30, 2023. It added five new warehouses, primarily under a dry shell lease model in FY2023 and H1 FY2024, which increased the total warehousing capacity to ~85,272 pallets from ~71,767 pallets as on September 30, 2022. For the new capacity additions, CLPL has shifted to the BTS model, where the company first acquires the customer and then builds the capacity as per the customer's requirements, which is expected to lead to higher occupancy for newly added warehouses. The company's presence across multiple locations provides diversification in terms of geography as well as commodities, based on geographical demand. Besides, 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 the loss marking operations and steady capex for enhancing its warehousing capacity, CLPL's gearing level has remained moderate at 0.96 times as on March 31, 2023 and 1.22 times as on September 30, 2023. This has been supported by steady equity infusions by the company's shareholders over the years to meet the operational, capex and debt servicing-related funding requirements. This support is expected to continue as and when required.

Considerable improvement in operating margins in H1 FY2024 – As the company had undertaken capex with a relatively moderate scale of operations, it was making losses in its initial years. After breaking even at the operating level in FY2021, its margins improved to ~10.5% in FY2022. While the margins for FY2023 reduced to ~8.0%, the same increased to ~15.6% in H1 FY2024. This was largely supported by better absorption of fixed overheads through improved capacity utilisation, higher operating leverage and increased focus on the BTS model. Sustaining the improved operating margins will be a key rating monitorable going forward.

Credit challenges

Moderate financial profile – Despite some scaling up and resulting improvement in operating margins in H1 FY2024, the company's scale of operations remains modest. Even though the company has achieved breakeven at the operating level, high interest expenses towards existing loans and incremental ones to fund part of the capex incurred in FY2023 and H1 FY2024 have continued to result in net losses. This, in turn, reflects in weak return indicators and coverage metrics. While the coverage metrics have improved to a certain extent in H1 FY2024, sustenance of the same will be a key monitorable going forward.

High customer concentration risk – The company typically enters into short-term contracts of one to three years with its customers for warehousing services. However, any delay in contract renewals by customers may lead to revenue loss. Also, during FY2023 and H1 FY2024, its top 10 warehousing customers drove ~70% of the warehousing revenue and the top customer accounted for ~26% of its total revenue.

Any termination of lease agreement from lessors prior to lock-in period to negatively affect operations – Most of the 18 operational warehouses are either obtained by land lease, dry shell lease or by 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 until the new warehouses and/or agreement is resumed.

Highly fragmented industry limits pricing flexibility – The cold chain industry in India is dominated by several domestic players catering to the 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 industry players. However, there has been a growing demand for single-point end-to-end cold chain service providers by multinational companies, which along with the company's widening geographic presence and established relations with its key customers mitigate the risk to an extent.

Liquidity position: Stretched

CLPL's liquidity is stretched given that it has continued to report net losses in H1 FY2024 and has a sizeable annual debt repayment of Rs.9.67 crore, Rs.8.05 crore and Rs.8.05 crore in FY2024, FY2025 and FY2026, respectively. The OPBITDA of the company reduced marginally in FY2023 on account of one-time expenses incurred for new warehouses but the same has improved in H1 FY2024 backed by higher capacity utilisation, however, sustainability of the same remains critical. In the absence of adequate cash accrual generation, CLPL's debt obligations have been serviced by equity infusions and unsecured loans by the promoters/investors. The undrawn bank lines (~Rs. 7.7 crore as on October 31, 2023) support the liquidity to some extent. However, improvement in the scale of operations along with profitability and timely infusion of equity or unsecured loans (if required) remain critical in enhancing the company's liquidity profile.

Rating sensitivities

Positive factors – Continued growth in revenues coupled with sustainability of improved margins and internal accruals resulting in DSCR more than 1.1 times, 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 in addition to incremental debt resulting in weakening of coverage indicators would impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit 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 18 operational warehouses in 12 locations across 10 states, which operate under the brand name, Coldman. It has an aggregate total storage capacity of ~85,274 pallets. Apart from warehousing facilities, the company provides end-to-end food distribution services, transport services, container stuffing, de-stuffing, blast freezer, labelling, real-time inventory reports and others.

Key financial indicators (audited)

CLPL	FY2022	FY2023	H1 FY2024*
Operating income (Rs. crore)	76.0	82.7	48.9
PAT (Rs. crore)	-12.0	-12.5	-4.6
OPBDIT/OI (%)	10.5%	8.0%	15.6%
PAT/OI (%)	-15.8%	-15.2%	-9.5%
Total outside liabilities/Tangible net worth (times)	0.9	1.2	1.3
Total debt/OPBDIT (times)	10.0	14.6	7.7
Interest coverage (times)	0.9	0.9	1.4

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of September 30,2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					December 22, 2023	December 16, 2022	April 05, 2022	April 30, 2021	September 30, 2020
1	Fund based - OD	Long-term	12.00	4.29	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-
2	Term loan	Long-term	31.66	32.48	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable), ISSUER NOT COOPERATING
3	Unallocated limits	Long term	41.63	-	[ICRA]BB (Stable)	[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 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	Fund based -OD	NA	NA	NA	12.00	[ICRA]BB (Stable)
NA	Term loan	FY2017	8.5 – 9%	FY2028	31.66	[ICRA]BB (Stable)
NA	Unallocated Limits	NA	NA	NA	41.63	[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

ANALYST CONTACTS

Shamsher Dewan
+91 124 454 5328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 2442
kinjal.shah@icraindia.com

Mythri Macherla
+91 22 6114 3435
mythri.macherla@icraindia.com

Kritika Jain
+91 80 4332 6404
kritika.jain@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches