

July 16, 2024

## Zinka Logistics Solutions Limited: Update on Material Event

### Summary of rating action

| Instrument*                | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating outstanding |
|----------------------------|--------------------------------------|-------------------------------------|--------------------|
| Short-term –Fund-based     | 401.0                                | 401.0                               | [ICRA]A4+;         |
| Short-term –Non-fund based | 20.0                                 | 20.0                                | [ICRA]A4+;         |
| <b>Total</b>               | <b>421.0</b>                         | <b>421.0</b>                        |                    |

\*Instrument details are provided in Annexure-I

### Rationale

#### Material Event

Zinka Logistics Solutions Limited (ZLSL/Zinka/company) filed its Draft Red Herring Prospectus (DRHP) for an IPO on July 5, 2024. As part of the same, the company has disclosed that on March 22, 2024, the company entered into a non-binding term sheet which was superseded by a binding agreement dated June 26, 2024 with a third party buyer for slump sale of its corporate freight business for a consideration of Rs. 133.25 crore. The company expects this slump sale to be completed in FY2025 subject to regulatory and statutory approvals.

#### Impact of Material Event

ICRA notes that while the corporate freight business is the largest revenue generating segment for the company, over the last few years, ZLSL has focused on reducing the revenue from the same to improve its overall operating margins. This was largely on account of the relatively lower gross margins generated by the segment in addition to being more capital-intensive (on account of the higher working capital requirements) as compared to the company's other segments. ICRA understands that the company is hiving off its corporate freight business to improve its overall margin profile and reduce its working capital requirements.

While the company is expected to receive a total consideration of Rs. 133.25 crore, Rs. 68.25 crore of the same pertains to value of the net assets transferred. Effectively, the net consideration to be received by the company further to disposal of its corporate freight business is Rs. 65 crore. ICRA also notes that the company intends to re-invest the entire net consideration of Rs. 65 crore received to acquire a shareholding of 9-11% in the third party buyer.

ICRA has currently noted the above development and will continue to monitor the impact of the aforesaid slump sale on the business and credit profile of the company and will take appropriate action as required.

ICRA also notes that the company intends to raise Rs. 550 crore through primary issue of shares as part of its IPO and intends to use Rs. 200 crore of the same to fund its sales and marketing expenses, Rs. 140 crore of the same towards funding incremental investment in ZLSL's subsidiary, Blackbuck Finserve Private Limited and Rs. 75 crore of the same towards product development expenses while the balance will be utilised towards general corporate purposes.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click here](#)

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a>                                 |
| Parent/Group support            | Not Applicable  |
| Consolidation/Standalone        | For arriving at the ratings, ICRA has considered the standalone financials of ZLSL. |

## About the company

Incorporated in April 2015, ZLSL started its journey with an asset-light FTL model for long-haul trucking. Currently, the company's business operations can be broadly divided into—(i.) freight, and (ii.) truck operator services. The company's freight segment follows an asset-light business pattern for operations and currently operates only in long-haul, FTL, open-truck, standard-delivery, and inter-city freight services.

Its truck operator services segment, meanwhile, distributes Fastags, Fuel Loyalty cards and subscription services for tracking (GPS) devices to truck operators. Initially, ZLSL's services worked as a support function for the freight business; but now it has evolved to a one-stop shop for everything a fleet owner needs—from fuel and Fastag to GPS and load board.

## Key financial indicators (audited)

|  | FY2023  | FY2024  |
|--|---------|---------|
| Operating income                                     | 175.7   | 296.9   |
| PAT  | (290.5) | (193.9) |
| OPBDIT/OI  | -130.7% | -52.2%  |
| PAT/OI   | -165.4% | -65.3%  |
| Total outside liabilities/Tangible net worth (times) | 0.9     | 1.1     |
| Total debt/OPBDIT (times)                            | (0.8)   | (1.2)   |
| Interest coverage (times)                            | (56.7)  | (45.4)  |

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 (FY2025) |                         | Chronology of rating history for the past 3 years |                         |                         |  |
|------------------|------------|-------------------------|-------------------------|---|-------------------------|-------------------------|--|
|                  |            | Amount rated            | Date & rating in FY2025 | Date & rating in FY2024                           | Date & rating in FY2023 | Date & rating in FY2022 |  |
|                  |            | (Rs. crore)             | July 16, 2024           | Mar 14, 2024                                      | Jan 16, 2023            | Nov 30, 2021            |  |
| 1 Fund based     | Short Term | 401.00                  | [ICRA]A4+               | [ICRA]A4+   | [ICRA]A4+               | [ICRA]A4+               |  |
| 2 Non-fund based | Short Term | 20.00                   | [ICRA]A4+               | [ICRA]A4+   | [ICRA]A4+               | [ICRA]A4+               |  |

## Complexity level of the rated instruments

| Instrument             | Complexity Indicator |
|------------------------|----------------------|
| Short-term –Fund-based | Simple               |

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Short-term –Non-fund based

Very Simple

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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      | NA               | NA          | NA       | 401.0                    | [ICRA]A4+                  |
| NA   | Non-fund based  | NA               | NA          | NA       | 20.0                     | [ICRA]A4+                  |

Source: Company

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

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