Flomic Global Logistics Limited(Revised)

February 11, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	4.10	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	17.00	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)	Assigned
Short Term Bank Facilities	3.70	CARE A3 (A Three)	Assigned
Total Bank Facilities	**24.80 (Rs. Twenty-Four Crore and Eighty Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Flomic Global Logistics Limited (FGLL) takes into consideration experienced and well-established promoter, established network of carrier partners and diversified customer base.

The above rating strengths are, however, offset by modest scale of operations, low and volatile profitability margins, working capital intensive nature of operations, moderate financial risk profile and coverage indicators, competition from large number of unorganized players and susceptibility to economic slowdown and variation in trade volumes.

Rating Sensitivities:

Positive rating sensitivities:

- Increase in revenue to over Rs.300crore and PBILDT margin at 8% on sustained basis

Negative rating sensitivities:

- Increase in total debt leading to overall gearing deteriorating to 2.0x on a continuous basis
- Decline in revenue to below 150 crore and PBILDT margins below 7% on continuous basis

Detailed description of the key rating drivers:

Key Rating Strengths

Experienced and well-established promoter

Mr. Lancy Barboza, the Managing Director, has overall experience of more than three decades in the industry. After working in few freight forwarding companies at the start of his career, he decided to start his own venture from Mangalore Port and seeing greater opportunities of EXIM trade in Mumbai he shifted his business to Mumbai. He later converted his company into a Private Limited Company by the name Flomic Freight Services Pvt Ltd, in the year 1992. In 2020, Flomic Freight Services Pvt Ltd received the approval of amalgamation with Vinaditya Trading Company Limited from NCLT via reverse merger route. FGLL has a team of qualified professionals, pan India presence and in-house IATA, MTO, Custom Clearance, Warehousing & Transportation, thus it can offer multiple services under one roof. FGLL is a member of the World Cargo Alliance which is an association of over 2000 freight forwarding companies spread across the globe.

Established network of carrier partners and diversified customer base

The company handles transportation assignments of all types of commodities and to every corner of the world. It has established relationship with its diverse clientele who have been associated for the past several years providing repeat business. Basis its worldwide network of partners, FGLL provides total freight forwarding solutions to internationally reputed customers. The company has established a wide network of third-party agents in the countries where it does not have presence thus enhancing its reach globally. It has partnered with asset owners strategically located at various distribution hubs at important ports and cluster manufacturing locations.

FGLL has diversified into warehousing and third party logistics to cater to customers' requirements and has set up warehouses in Bhiwandi, Kolkata, Gurgaon, Pune and other locations. It is a licensed customs broker offering customs broking service at all major seaports, airports and other cargo distribution points.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key Rating Weaknesses

Modest scale of operations

The total operating income (TOI) of the company has grown by ~44% to Rs.167crore in FY21 as compared to Rs.116crore in FY20 largely on account of increase in global freight rates. The scale of operations remains at modest level in fragmented industry with large number of unorganised players.

The management envisages higher margins from warehousing and supply chain segment going forward and has decided to take warehouses/ godowns on lease as a measure to expand the business since FY20. FGLL also has started specialized services like exhibition cargoes, repair and return cargoes, demonstration and return back cargoes which are highly specialized and considered niche segment.

Low and volatile profitability margins

The company operates as a freight forwarder dealing directly with the exporters/ importers where in for the shipment of goods, the company has to enter into contracts with carriers. The PBILDT margins improved from 7.44 % as on March 31, 2020 to 9.48% as on March 31, 2021 largely on account of increased freight rates during the fiscal. However, the PBILDT margins moderated during H1Y22 and stood at 7.56 % (PY: 12.09%). Going forward, the company expects to maintain PBILDT margins in the range of 7 to 8% basis the expected continuity of higher freight rates and its expansion in the higher margin warehousing and supply chain segment.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature. The average collection period of FGLL remains elongated due to extended credit provided to customers to remain competitive and to acquire new customers. The collection period stood at 74 days as on March 31, 2021 as compared to 64 days as on March 31, 2020. The company has to pay upfront to shipping lines while the airlines provide a credit period of 30 days. The average utilization of fund based limits for the twelve months ending September 2021 is 84% and provides limited liquidity backup.

Operations in fragmented industry with presence of large number of unorganized players

The Indian logistics industry is characterized by its high degree of fragmentation. India's diverse geographical and socio-economic features, huge retail network and infrastructure limitations enable most of the logistics service providers in the country to provide the entire gamut of logistics services. Further, the company has to compete with large number of small and medium-size players operating in the logistics sector. Presence of various players results in intense competition within the industry. High fragmentation and intense competition leads to unhealthy price wars and discounts resulting in pressure on margins and depressed freight rates.

Moderate financial risk profile and coverage indicators

The financial risk profile of the company remains moderate marked by high gearing on account of lease liability on go downs and offices acquired during amalgamation, lower interest coverage and debt coverage indicators in FY21. The overall gearing deteriorated to 1.83 times as on March 31, 2021 as compared to 1.68 times as on March 31, 2020 owing to increase in total debt in line with the increase in scale of operations. The Total Debt / Gross Cash Accruals (TD/GCA) ratio improved to 3.88 times as on March 31, 2021 as compared to 6.34 times as on March 31, 2020 due to increase in cash accruals. The financial risk profile of the company is expected to remain steady as the company envisages growth in the scale and profitability of the business in the coming years.

Susceptibility to economic slowdown and variation in trade volumes

The performance of the logistics and freight forwarding industry is linked to global economic activities which have an impact on the Exim trade volume. Any slowdown in the domestic and global manufacturing/industrial activities due to weak economic conditions or restrictive trade policies can have a negative impact on the business of the company.

Liquidity: Adequate

FGLL has cash and cash equivalent of Rs.6.50crore as on March 31, 2021 and a comfortable current ratio of 1.19. It reported cash accruals of Rs.11.19crore in FY21. The average utilization of fund based limits for the twelve months ended September 2021 was 84%. This provides a liquidity support to a large extent as there is no near term capex plans and no substantial loan repayments. The company did not avail any moratorium during FY21.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Service Sector Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

FGLL is an international freight forwarder which provides multiple services to its clients in the form of air freight forwarding, sea freight forwarding , custom broking, consolidation, cross trade & project cargo handling, supply chain (warehousing), transportation, domestic trade by land and air, and event & exhibition logistics. The company provides end to end solution to its clients wherein it picks up the export cargo from the factory in India and delivers to the warehouse of the buyer in a foreign country. In-house warehousing and transportation started since FY20 giving inward integration opportunity to increase customer engagement. Since the management envisaged higher margins being achieved from warehousing and supply chain segment going forward, it decided to take warehouses/ offices on lease as a measure to expand the business. FGLL also has started specialized services in FY21 like exhibition cargoes, repair and return cargoes , demonstration and return back cargoes which are highly specialized and considered niche segment.

Brief Financials (Rs. crore)-Consolidated	FY20 (A)	FY21 (A)	H1FY22(UA)
Total operating income	115.53	166.68	136.85
PBILDT	8.59	15.80	10.34
PAT	(0.05)	2.47	1.50
Overall gearing (times)	1.68	1.83	2.22
Interest coverage (times)	3.03	4.13	3.86

A: Audited; UA: Un-audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2025	4.10	CARE BBB-; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	17.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Bank Guarantee		-	-	-	1.00	CARE A3
Fund-based - ST-Term loan		-	-	-	2.70	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	4.10	CARE BBB-; Stable	-	-	-	-
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	17.00	CARE BBB-; Stable / CARE A3	-	-	-	-
3	Non-fund-based - ST-Bank Guarantee	ST	1.00	CARE A3	-	-	-	-
4	Fund-based - ST-Term loan	ST	2.70	CARE A3	-	-	-	-

**Long term/ short term*

Annexure-3: Detailed explanation of covenants of the rated facilities- Not applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Fund-based - ST-Term loan	Simple

Annexure 5: Bank Lender Details:
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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