

Flomic Global Logistics Limited (Revised)

October 26, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	0.80 (Reduced from 4.10)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	33.00 (Enhanced from 17.00)	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three)	Reaffirmed
Short Term Bank Facilities	1.00 (Reduced from 3.70)	CARE A3 (A Three)	Reaffirmed
Total Facilities	34.80 (Rs. Thirty-Four Crore and Eighty Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Flomic Global Logistics Limited (FGLL) continue to derive strength from the experience of management team in the logistics industry, established network of carrier partners and diversified customer base. The performance of the company has improved during FY22 and Q1FY23. Total Operating Income (TOI) has grown by ~132% to Rs.376 crore in FY22 as compared to Rs.162 crore in FY21. PBILDT margins have improved to 8.46 % in FY22 from 7.00% in FY21. However, CARE notes this was partially on account of significant increase in freight rate over the last two years (FY21 and FY22). The performance is expected to moderate with significant and ongoing correction in freight rate.

These rating strengths are however offset by working capital intensive nature of operations, moderate financial risk profile and coverage indicators, competition from large number of organised and unorganized players and susceptibility to economic slowdown and variation in trade volumes.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in revenue to over Rs. 550 crore and PBILDT margin at 8% on sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Increase in total debt leading to overall gearing deteriorating to 2.0x on a continuous basis
- Decline in revenue to below 200 crore and PBILDT margins below 7% on continuous basis

Outlook: Stable

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 &

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

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.

Improvement in total operating income (TOI) during FY22, along with healthy profitability

The total operating income (TOI) of the company has grown by ~132% to Rs.376.42 crore in FY22 as compared to Rs.162.23 crore in FY21 largely on account of increase in freight rates realized by the company due to limited cargo availability. The overall PBILDT margins have improved to 8.46 % in FY22 vis-à-vis 7.00% in FY21. However, CARE believes that the TOI and margins of the company would be affected going forward, due to sharp drop in container shipments and falling freight rates.

Key rating weaknesses

Working capital intensive nature of operations

The liquidity position of the company improved backed by increased accruals. The operating cycle of the company improved to 24 days in FY22 vis-à-vis 28 days in FY21. However, as the company operates in working capital intensive industry, the reliance on bank borrowings is high and the average utilization was around 92% for the 12 months ended September 2022, providing limited liquidity backup.

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 due to continues increase in warehousing space. The overall gearing slightly deteriorated to 1.89 times as on March 31, 2022 as compared to 1.83 times as on March 31, 2021 owing to increase in total debt in line with the increase in scale of operations. However, the interest coverage ratio improved to 5.14 times as on March 31, 2022 vis-à-vis 2.97 times as on March 31, 2021. 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.

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.

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.

Industry outlook:

Container Shipping rates have corrected by more than 60% backed by weak macroeconomic scenario

Freight rates have soared over the past couple of years (FY21 and FY22) as pent-up demand has picked up after the first wave of the pandemic. The demand was mainly driven by the sops provided by various countries in the backdrop of the pandemic. Consumers unleashed pent-up savings to buy new goods while the pandemic continued to disrupt the supply chains. Container freight rates have more than quadrupled since the start of the pandemic and continued to remain at elevated levels. Lockdowns, labour shortages, and strains on logistics networks led to shipping-cost increases and significantly lengthened

delivery times. However, freight rates have peaked and have started easing. Freight rates have declined by around 60% since the peak attained during Sept-Oct 2021, signalling that supply-chain disruption is easing. However, the rates remained high at around two times as compared to pre pandemic level. Global trade has entered a very difficult phase and countries are facing high inflation and impending recession is affecting the demand.

Liquidity: Stretched

FGLL's liquidity position is stretched. The company has term loan repayment obligation of Rs. 3.71 crore in FY23 and cash accruals is expected to be sufficient to meet the obligations. The utilization of fund-based limits for the past 12 months ending September 2022 is 92% and provides limited liquidity backup. The company has cash and cash equivalent of Rs.4.67 crore as on March 31, 2022 and has current ratio of 1.18. FGLL continued to remain working capital intensive mainly on account of funds being blocked in receivables.

Analytical approach: Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

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 is also engaged in various other services like exhibition cargoes, repair and return cargoes, demonstration and return back cargoes which are highly specialized and considered niche segment.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	162.23	376.42	139.57
PBILDT	11.35	31.85	10.13
PAT	2.47	9.64	3.21
Overall gearing (times)	1.83	1.89	NA
Interest coverage (times)	2.97	5.14	NA

A: Audited; UA: Unaudited; NA: Not available

Note: H1FY23 results are yet to be published by the company

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	01/06/2025	0.80	CARE BBB-; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	33.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Bank Guarantee		-	-	-	1.00	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	0.80	CARE BBB-; Stable	-	1)CARE BBB-; Stable (11-Feb-22)	-	-
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	33.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (11-Feb-22)	-	-
3	Non-fund-based - ST-Bank Guarantee	ST	1.00	CARE A3	-	1)CARE A3 (11-Feb-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of 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

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings 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.

Contact us**Media contact**

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Arunava Paul
Phone: +91-9820904584
E-mail: arunava.paul@careedge.in

Relationship contact

Name: Saikat Roy
Phone: +91-98209 98779
E-mail: saikat.roy@careedge.in

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