India Ratings Upgrades EFC Logistics's Bank Facilities to 'IND BBB+'/Stable

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India Ratings and Research (Ind-Ra) has upgraded EFC Logistics India Private Limited (EFCLIPL) bank facilities long-term debt rating to 'IND BBB+' from 'IND BBB' with a Stable Outlook and short-term debt rating to 'IND A2' from 'IND A3+' as follows:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Watch	Rating Action
Term loan	-	-	31 March 2029	INR125	IND BBB+/Stable	Upgraded
Fund-based working capital limit	-	-	-	INR450	IND BBB+/Stable	Upgraded
Non-fund-based working capital limit	-	-	-	INR225	IND A2	Upgraded

Analytical Approach

Ind-Ra continues to take a standalone view of EFCLIPL to arrive at the ratings.

Detailed Rationale of the Rating Action

The upgrades reflects a continuous improvement in EFCLIPL's revenue and profitability and its comfortable credit metrics in FY24, which is likely to continue over the near to medium term. The ratings are supported by the promoters' industry experience of 30 years, and EFCLIPL's reputed customer profile and adequate liquidity. However, the ratings are constrained by the company's asset-intensive nature of business which is susceptible to slowdowns and its presence in a highly fragmented industry.

List of Key Rating Drivers

Strengths:

- Growth in revenue; diversified revenue streams
- Moderate-but-improving profitability margin
- Comfortable credit metrics
- Promoter's experience; reputed customer base

Weaknesses:

- Moderate asset-intensive business
- Highly fragmented industry & susceptibility to slowdown

Detailed Description of Key Rating Drivers

`**Growth in Revenue; Diversified Revenue Streams:** EFCLIPL's revenue grew around 20.25% yoy to INR4,878.36 million in FY24, mainly due to a stable demand from container freight stations (CFS), and transportation and warehousing segments. The company's revenue is largely driven by freight income (FY24: 73% ,FY23: 70%), followed by CFS (FY24: 21%, FY23: 23%). The company booked a revenue of INR2,300 million till September 2024. Ind-Ra expects the revenue will marginally improve during FY25, due to a stable demand from the existing customers.

Moderate-but-improving Profitability Margin: The EBITDA margins were around 10.54% in FY24 (FY23: 10.33%) with an absolute EBITDA of INR514.15 million (INR419.07 million) and return on capital employed was 11.1% (11.2%). The margins majorly depend upon lorry rental cost and fuel cost. Ind-Ra expects the margin to remain at similar levels in FY25, on account of the similar nature of operations and the presence of price escalation clause in its contracts with customers. The margins also depend on the revenue contribution from different segments.

Comfortable Credit Metrics: EFCLIPL's gross interest coverage (operating EBITDAR/gross interest expense + rents) was comfortable at 3.25x in FY24 (FY23: 3.8x). The slight deterioration in the ratio was due to an increase in the gross interest expenses to INR158.18 million in FY24 (FY23: INR110.37 million). The net leverage (adjusted net debt/operating EBITDAR) improved to 3.24x in FY24 (FY23: 3.98x), on account of the increase in absolute EBITDA, while the external borrowings remained at the similar level.

Promoter's Experience; Reputed Customer Base: The company's promoters have more than three decades of experience in providing logistic services, which has helped it establish and maintain strong relationships with a diversified and reputed customer base which have ensured repeat business. The company's customers include Jindal Group, Apollo Tyres Limited (debt rated at 'IND AA+'/Stable), Rungta Mines Limited (debt rated at 'IND AA-'/Stable) Procter & Gamble Home Products (I) Ltd., Hindustan Unilever Limited and Haldia Petrochemicals Limited (debt rated at 'IND A+'/Stable) among others.

Moderate Asset-intensive Business Model: EFCLIPL possesses a fleet of around 700 owned vehicles. This comprises various types of trucks, trailers and towing trailers along with cranes, forklifts among others. In addition, the company can hire over 1,000 vehicles based on its requirement. However, the company is also focusing on the fixed asset accounting model through continuous investments towards CFS, warehousing and cold storage, as the company has adequate land bank. This will also help the company to improve its profitability margin as this business generates high profit margins. Furthermore, the company would leverage its reputed clientele to generate business from the construction of warehouse and cold storage.

Highly Fragmented Industry & Susceptibility to Slowdown: The logistics industry in India is dominated by the presence of several local players catering to localised markets. Organised players account for only 10%-15% of the industry. EFCLIPL faces intense competition from unorganised players. The fragmented nature of industry could constrain the pricing power and the operating profit margin of the company; also, the performance of the logistics industry is directly related to global economic activities.

Liquidity

Adequate: EFCLIPL had cash and equivalents of about INR48.28 million at FYE24 (FYE23: INR32.98 million). The average utilisation of its fund-based working capital limits was around 48% during the 12 months ended August 2024. Ind-Ra expects the working capital use to have been on similar lines since then. Furthermore, the company has been incurring capex regularly to increase the capacity of facilities, largely being funded through bank loans, and the remaining through internal accruals. The company has debt repayments over FY25-FY26 (FY25: INR302 million; FY26: INR330 million). The debt service coverage ratio stood comfortable at 1.2x during FY24. The cash flow from operations remained adequate and increased to INR193.73 million in FY24 (FY23: INR103.47 million) due to the increase in the operating EBITDA of the company. The working capital cycle improved to 40 days in FY24 (FY23: 51 days) on account of an improvement in the debtor days to 49 (59). EFCLIPL does not have any capital market exposure and relies only on banks and financial institutions to meet its funding requirements.

Rating Sensitivities

Positive: Improvements in the scale of operations along with sustained profitability and leading to an improvement in the liquidity and the leverage reducing below 2.5x, all on a sustained basis, could lead to a positive rating action.

Negative: A decline in the scale of operations, resulting in a deterioration in the credit metrics, with the net leverage exceeding 3.5x and/or weakening of the liquidity position, all on a sustained basis, could lead to a negative rating action.

About the Company

Incorporated in 1983, EFCLIPL provides logistics and transportation services to industrial sectors such as fast-moving consumer goods, steel, petrochemicals, paper, lubricants, pharmaceuticals, and engineering goods, cements, chemicals and import-export containers. EFC has around 700 owned vehicles, warehouses at three locations and operates a CFS near the Jawaharlal Nehru Port Trust port.

Key Financial Indicators

Particulars	FY24	FY23
Revenue (INR million)	4,878.36	4,056.86
EBITDAR (INR million)	514.15	419.07
EBITDAR margin (%)	10.54	10.33
Gross interest coverage (x)	3.25	3.80
Net leverage (x)	3.24	3.98
Source: EFCLIPL; Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook			
				11 October 2023	18 September 2023	17 May 2023	8 March 2022
Issuer Rating	Long-term	-	-	-	WD	IND BBB (ISSUER NOT COOPERATING)	IND BBB/Stable
Fund-based working capital limit	Long-term	INR450	IND BBB+/Stable	IND BBB/Stable	-	IND BBB (ISSUER NOT COOPERATING)	IND BBB/Stable
Non-fund-based working capital limit	Short-term	INR225	IND A2	IND A3+	-	IND A3+ (ISSUER NOT COOPERATING)	IND A3+
Term loan	Long-term	INR125	IND BBB+/Stable	IND BBB/Stable	-	IND BBB (ISSUER NOT COOPERATING)	IND BBB/Stable

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Term loan	Low
Fund-based working capital limit	Low
Non-fund-based working capital limit	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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