

Rating Update

July 18, 2023 | Mumbai

Snowman Logistics Limited**Update as on July 18, 2023**

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

Upward factors

- Improvement in scale supported by capacity expansion coupled with improvement in operating margin to over 28%
- Improvement in capital structure with higher equity infusion or lower than expected debt
- Improvement in return on capital employed (ROCE)

Downward factors

- Weakening of operating margin to below 25% on a sustained basis, resulting in lower cash accrual
- Higher-than-expected, debt-funded capex, leading to deterioration in credit metrics

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Snowman Logistics Limited (Snowman) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the Company

Incorporated in 1993, Snowman provides pan-India, integrated, temperature-controlled warehousing, transportation and distribution services, covering all major cities and regions operating across 31 strategic locations across 15 cities. Its extensive infrastructure includes 15 ISO-22000 certified warehouses, 24 ISO 14001 certified warehouses, 1 GDP (Good Distribution Practices - Pharma) and 6 BRC certified warehouses. As of December 31, 2021, its assets included 117,526 pallets, 275 owned reefer vehicles and transportation assets. As on March 31, 2022, GDL held 40.3% stake in Snowman.

For the first nine months through December 2021, Snowman reported net profit of Rs 1.9 crore on revenue of Rs 209 crore, against net profit of Rs 0.5 crore on revenue of Rs 173 crore, respectively, in the corresponding period of the previous fiscal.

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Rating Rationale

April 26, 2022 | Mumbai

Snowman Logistics Limited*Rating Reaffirmed***Rating Action**

Total Bank Loan Facilities Rated	Rs.129.75 Crore
Long Term Rating	CRISIL A/Stable (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its rating on the long-term bank facilities of Snowman Logistics Limited (Snowman) at 'CRISIL A/Stable'.

The rating action reflects healthy operating performance across all segments in fiscal 2022. Improvement in operating income was driven by transportation segment, while warehousing segment contributed to improvement in margins. Higher revenue and operating margin in warehousing business was on account of utilisation reaching 90.0% in fiscal 2022, as compared to 85.0% during previous fiscal. Additionally, there was capacity addition of 11,500 pallets in fiscal 2022; another 8,000 pallets are expected to be added in fiscal 2023. The company has opened warehousing facilities in Siliguri and Coimbatore in fiscal 2022.

For transportation segment, operating income grew by 37.2% in 9m 2022, albeit it was on a lower base. However, margins continued to remain subdued on account of pandemic-related disruptions in Q1 2022 and sharp increase in fuel prices. Further, given the old fleet of vehicles, maintenance expenses have also remained high. Nevertheless, the company has now started passing on fuel price rise to customers through back-to-back contracts and has added 25 new vehicles (at a cost of Rs 8.5 crore) to the fleet. Both these measures coupled with resumption of operations at full pace should lead to improvement in margins from fiscal 2023 onwards.

The consignment agency business has also witnessed strong growth in fiscal 2022 after a subdued fiscal 2021 on account of the pandemic. Under the dedicated warehouse segment, the company has opened 4 new warehouses for e-commerce and pharmaceutical clients including Amazon, Fraazo, Impelpro, among others. The company is in discussion with Amazon to open additional facilities. Strong revenue growth is expected to continue for both segments over the medium term.

Financial risk profile and debt protection metrics are also expected to remain healthy even with the additional debt expected to be drawn down in medium term for meeting capital expenditure (capex) requirements. Liquidity is also healthy with cash and cash equivalents of Rs 37 crore as on March 31, 2022, expected net cash accrual of Rs 60-90 crore over the next three fiscals and negligible utilisation of working capital facilities of less than 1.0% for 12 months through March 2022.

The rating continues to reflect Snowman's established market position in the temperature-controlled logistics segment, benefits from continued parentage due to operational and strategic linkages with its parent, Gateway Distriparks Ltd (GDL; holding 40.3% stake in Snowman). The rating also factors in Snowman's adequate financial risk profile, with improving operating profitability and prudent funding mix for proposed capex plan. These strengths are partially offset by exposure to funding risks related to capex, susceptibility to competition and volatility in end-user segments.

Analytical Approach

For arriving at its rating, CRISIL Ratings has adjusted the EBITDA (earnings before interest, tax, depreciation and amortisation) by excluding lease rental components from fiscal 2020 onwards, by Snowman with depreciation and finance costs to comply with Ind-AS116 on lease accounting. Accordingly, CRISIL Ratings has not included lease liabilities in debt.

Key Rating Drivers & Detailed Description**Strengths:**

- **Established market position in the temperature-controlled logistics industry:** Snowman is the largest provider in the highly fragmented temperature-controlled warehousing, transportation and logistics industry in India. The company provides quality service and end-to-end solutions to customers in the temperature-controlled industry, thereby resulting in repeat orders and long-term contracts providing around 80% revenue visibility. As on December 31, 2021, the company had warehousing capacity of 117,526 pallets in 37 locations across 17 cities. It also had 275 reefer vehicles (refrigerated trucks) providing last-mile, inter-city distribution services through a consignment agency model. It caters to marquee customers in diversified end-user industries, such as seafood, pharmaceuticals, dairy, e-commerce and quick service restaurants (QSR). Under the dedicated warehouse segment, the company has opened 4 warehouses for ecommerce and pharmaceutical clients including Amazon, Fraazo, Impelpro, among others. The company is in discussion with large e-commerce players, including Amazon to open additional facilities, thereby providing steady revenue and profitability
- **Adequate financial risk profile and improving operating profitability:** Gearing is expected to be 0.31 time as on March 31, 2022, and is expected to remain low in the medium term, even after factoring in additional debt for partfunding the upcoming capex. The company has capacity of 1,17,526 pallets and addition of 8,000 pallets at cost of ~Rs 61 crore is underway which is expected to be completed in fiscal 2023. Any further capex would be funded through a mix of internal accruals and debt. Debt protection metrics are adequate with interest coverage and net cash accrual to total debt ratios estimated at around 9 times and 44%, respectively, in fiscal 2022. Any higher-than-expected debt for funding capex could adversely impact the capital structure and debt protection metrics and will remain a key rating sensitivity factor.
- **Continued parentage of GDL:** Post settlement of agreement between Snowman and Adani Logistics Ltd (ALL) in July 2020, GDL is the single largest owner with 40.3% stake in the company and substantial control on the board. The rating continues to benefit from moderate operational and strategic linkages with GDL, as both the companies offer complementary services in the logistics industry, thereby providing cross-selling opportunities to customers. GDL is one of the largest private players in the container freight station, railways and inland container depot businesses in India. Furthermore, Snowman is well established amongst the leading organised players, providing temperature-controlled services in India

Weaknesses:

- **Exposure to risks related to capacity expansion**
Snowman is adding 8,000 pallets in its warehouse business at a cost of about Rs 61 crore, which is expected to be completed in fiscal 2023. The company has plans for expanding across locations in India and almost double its capacity to about 2 lakh pallets over the medium term. The future capex is expected to be prudently funded through internal accruals and external borrowing. Snowman will remain exposed to risks related to implementation of capex in a timely manner and translation of the same into healthy demand. Any delay in implementation of capex or funding tie-up could adversely impact the company's financial risk profile and will remain a key monitorable
- **Highly capital-intensive operations:** The business is highly capital intensive, with continued investments in the warehousing and transport assets. Snowman has incurred Rs 312 crore as capex over the past five fiscals through 2022; however moderate operating performance has resulted in return on capital employed (ROCE) of about 2-4% during this period. While expected sustained improvement in operating profitability, is expected to result in improvement in ROCE, it will remain a key rating sensitivity factor
- **Susceptibility to competition and volatility in end-user segments:** The temperature-controlled industry is highly fragmented, with large presence of unorganised players given low barriers to entry. Snowman's operations are susceptible to competition from local players across markets. However, they lack quality end-to-end service offerings which helps organised players such as Snowman to garner marquee customers across end-user segments, such as pharmaceuticals, seafood, QSR, e-commerce and fast-moving consumer goods. Volatility in demand from end-user segments could impact Snowman's operating performance and will remain a key monitorable

Liquidity: Adequate

Liquidity is supported by expected net cash accrual of Rs 60-90 crore annually for the three fiscals through 2025, which will help meet capex, as well as debt obligations of Rs 20-30 crore annually over the same period. The company also had cash and cash equivalents surplus of Rs 37 crore as on March 31, 2022. Furthermore, bank limit utilisation remained negligible at less than 1.0% for the twelve months through March 2022.

Outlook: Stable

CRISIL Ratings believes Snowman will benefit from its established market position and operational linkages with GDL. The financial risk profile is expected to remain adequate, supported by expected improvement in operating performance and prudent funding of capex plans.

Rating Sensitivity factors

Upward factors

- Improvement in scale supported by capacity expansion coupled with improvement in operating margin to over 28%
- Improvement in capital structure with higher equity infusion or lower than expected debt
- Improvement in return on capital employed (ROCE)

Downward factors

- Weakening of operating margin to below 25% on a sustained basis, resulting in lower cash accrual
- Higher-than-expected, debt-funded capex, leading to deterioration in credit metrics

About the Company

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Key Financial Indicators*

Particulars	Unit	2021	2020
Net sales	Rs crore	237	240
Profit after tax (PAT)	Rs crore	12	(15)
PAT margin	%	5.2	-6.2
Adjusted debt/adjusted net worth	Times	0.20	0.15
Adjusted interest coverage	Times	13.22	6.68

*CRISIL Ratings-adjusted numbers

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	13.00	NA	CRISIL A/Stable
NA	Working Capital Loan	NA	NA	NA	10.00	NA	CRISIL A/Stable
NA	Rupee Term Loan 1	NA	NA	30-Sep-25	46.75	NA	CRISIL A/Stable
NA	Rupee Term Loan 2	NA	NA	31-Jul-27	60.00	NA	CRISIL A/Stable

Annexure - Rating History for last 3 Years

	Current	2022 (History)	2021	2020	2019	Start of 2019

Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	129.75	CRISIL A/Stable		--	19-04-21	CRISIL A/Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Cash Credit	13	CRISIL A/Stable
Rupee Term Loan	46.75	CRISIL A/Stable
Rupee Term Loan	60	CRISIL A/Stable
Working Capital Loan	10	CRISIL A/Stable

Criteria Details

Links to related criteria		
CRISILs Bank Loan Ratings - process, scale and default recognition		
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