ZINKA LOGISTICS SOLUTION LIMITED

November 12, 2024

BLACKBUCK

SMC Ranking

★ ½ ☆ ☆ ☆ (1.5/5)

Issue Highlights

Industry	**Software Products**
Offer for sale (Shares)	20,685,800
Fresh Issue (Shares)	20,146,520
Net Offer to the Public	**40,832,320**
Issue Size (Rs. Cr.)	1057.56-1114.72
Price Band (Rs.)	259-273
Employee Discount	54
Offer Date	13-Nov-24
Close Date	18-Nov-24
Face Value	1
Lot Size	25

Issue Composition

	In shares
Total Issue for Sale	40,832,320
QIB	30,624,240
NIB	6,124,848
Retail	4,083,232

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	34.32%	27.89%
QIB	65.68%	66.32%
NIB	0.00%	3.47%
Retail	0.00%	2.31%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The company propose to utilise the Net Proceeds towards funding the following objects:

Funding towards sales and marketing costs;

Investment in Blackbuck Finserve Private Limited, its NBFC subsidiary, for financing the augmentation of its capital base to meet its future capital requirements;

Funding of expenditure about product development; and

General corporate purposes.

Book Running Lead Manager

- Axis capital Limited
- Morgan Stanley India Company Pvt. Ltd
- JM Financial Limited
- IIFL Securities Limited

Name of the registrar

- Kfin Technologies Limited

About the company

Founded in April 2015, Zinka Logistics Solution Limited offers a digital platform, the BlackBuck app, for truck operators. In the fiscal year 2024, 963,345 truck operators in the country conducted their business through the platform, representing 27.52% of all Indian truck operators. Zinka Logistics Solution's BlackBuck app is a platform that offers payments, telematics, a freight marketplace, and vehicle financing services to help truck operators achieve their goals efficiently. As of March 31, 2024, the company had processed a Gross Transaction Value (GTV) of Rs. 17,396.19 crore in payments. As of March 31, 2024, the company had a monthly average of 356,050 active telematics devices and has facilitated 4,035 loans with a total value of Rs. 1,96.79 crore. As of March 31, 2024, the company offered vehicle financing to customers in 48 districts across seven states in India.

Strength

India's largest digital platform for truck operators: It is India's largest digital platform for truck operators as of March 31, 2024 and has facilitated over 41.34 crore transactions for 963,345 annual transacting truck operators in Fiscal 2024. Its has served 27.52% truck operators in India and facilitated 32.92% of the commercial vehicles tolling payments in Fiscal 2024. Its services are available across 628 districts, constituting 80% of India's districts as of June 30, 2024. Its business model is centered around truck operators and aims to solve their challenges by providing them a digital platform to manage tolling and fueling payments, track their fleet real-time, find loads and financing for used vehicles to grow their business. Blackbuck App is available in four vernacular languages, Hindi, Kannada, Tamil and Telugu in addition to English.

Strong network effects of platform resulting in robust customer retention rates and higher monetization: It has a wide network of truck operators built over nine years of operations. It has built a nationwide truck operator base through targeted digital and telemarketing campaigns and effective nationwide on-ground teams. Through this, it has been able to grow its customer base of annual transacting truck operators to 963,345 in Fiscal 2024 from 482,446 in Fiscal 2022. It has achieved strong retention rates among its customers, driven by its offerings which aim to address key challenges faced by its customers and its ability to continually innovate and offer new products to streamline its customers' operations. The company has high customer engagement rates since its offerings are an integral part of its customers' operations, with 62.04%, 60.12% and 54.16% of its annual transacting truck operators transacting on a monthly basis in Fiscal 2024, Fiscal 2023 and Fiscal 2022, respectively.

Repeatable playbook of creating and launching new offerings: The company focuses on addressing challenges faced by truck operators in India by creating innovative solutions. It aims to create new offerings that fill market gaps and meet customer needs. Using an agile product development approach, it utilizes feedback from its customers, to develop products which address their pain points in operations. When its product is primed for release, it implements a launch strategy that leverages its existing marketing channels and physical touchpoints to target a faster adoption among customers, at a lower cost. The strength of the existing customer base coupled with the depth and scale of its sales and distribution network helped it scale the adoption of its telematics offerings rapidly.

Omnichannel distribution network with robust sales and service strategy driving customer adoption: Truck operators in India are spread across metro, urban and rural communities. Building trust with truck operators on digital platforms requires significant handholding, due to a perceived lack of trust and familiarity with smartphone applications. It aims to solve this gap in trust and familiarity through its sales and service strategy. Its distribution strategy, covering both sales and servicing, is a mix of digital and physical

Touchpoints to cater to the specific requirements of this set of users. It uses a mix of digital marketing and targeted notifications through the BlackBuck App and its 9,374 Touchpoints, as of June 30, 2024, on the ground, to acquire new customers, as well as cross-sell/upsell its products to existing customers. As of June 30, 2024, its Touchpoints include 843-member telesales unit that reaches out primarily to its existing customers for upselling and cross-selling its products as well as 587 channel partners through whom it reach out to truck operators for sales across multiple product offerings. As of June 30, 2024, it has sold and serviced its products in 80% of India's districts, including in all the major transportation hubs and across 76% of the toll plaza network in India. It has been able to increase its base of annual transacting truck operators to 963,345 customers in Fiscal 2024 from 761,871 in Fiscal 2023 and 482,446 in Fiscal 2022.

Scalable and reliable in-house technology integrating with multiple stakeholders: Being a solution provider, focused exclusively on truck operators, the company has developed most of its technology stack and solutions in-house aimed at providing reliable, accurate and real-time solutions to several key challenges faced by truck operators in India through its platform. It has a dedicated in-house product, engineering and data science team which develops technology layers enabling its comprehensive suite of solutions to address these challenges and they are assisted by inputs from its customers to ensure continuous feedback-driven new product development.

High growth business with operating leverage and strong unit economics: Its asset-light business model is based on offering services to truck operators, and generates revenue through platform fees, subscription fees and commissions. It neither takes any inventory risk nor own trucks on its balance sheet, and mainly distribute loans through its Financial Partners. Its business model has predictable revenue streams such as tolling and fueling payments, that are daily use cases for its truck operators, and telematics has monthly recurring subscription fees. It is a high-growth company, given that the trucking industry offers vast revenue potential for companies that solve challenges and inefficiencies and enhance value for truck operators. As it has scaled its operations in the last three fiscal years, it has achieved high contribution margin and have been able to improve its operating leverage and Adjusted EBITDA margins.

Strategy

Deepen distribution and continue strengthening the truck operator base: Its success in the logistics industry can be attributed primarily to its investments made towards distribution and servicing for its customers. Its distribution strategy is well aligned with the demography of its customer base and the nature of its products and solutions, which it believes has brought continuous success over the years. It intends to continue to focus on growing its customer base by attracting new transacting truck operators to its platform. It would do this by investing in deepening its distribution base and increasing the density of its distribution in key strategic pockets across India, where its proportionate market shares are lower, such as Gujarat, Karnataka and Tamil Nadu.

Continue investing in core verticals of payments and telematics: Its core offerings of payments and telematics have scaled significantly over the last three years. In order to grow these offerings, it has continually built strong customer value proposition. The fuel sensor is one of its newest products in its telematics offering and it intends to continue to work on its product value proposition and customer experience, with an aim to increase customer acceptance and reliance. It expects these offerings will continue to grow in the upcoming years, driven by further investments towards its distribution capabilities as well as the projected growth of India's trucking industry.

Focus on growing loads marketplace and vehicle finance verticals: Its customer base of 963,345 truck operators, as on March 31, 2024, provides it with the opportunity to offer new products to existing customers and develop newer offerings by leveraging data and insight into the day-to-day operations of truck operators. Its loads marketplace and vehicle financing offerings are currently in their growth phase, and it aims to continue to expand these offerings. The company intends to focus on growing the loads marketplace in the upcoming years through investments in product and technology. Further, based on the performance of the freight brokerage offering, it proposes to expand use of this offering to other cities across the country. Its understanding of its customers, trucking routes, asset deployment and real-time data on trucks enables it to cater to the requirements of both financial institutions and truck operators looking to seek vehicle financing. Leveraging its

strengths, it has been able to establish the product market fit for this business, having facilitated disbursements of 5,109 loans amounting to ₹2,527.56 million up to June 30, 2024. As of June 30, 2024, it provide vehicle financing to customers in 52 districts across seven states in India. It intends to continue growing this business, including by investing in BlackBuck FinServe Private Limited ("BFPL").

Continue to innovate, launch new offerings and solve problems for truck operators: It follows a customer-centric approach in its business; this has helped it to launch multiple offerings since its incorporation. As it onboard more truck operators onto its platform and gather more operational data, it continues to gain deeper insights into their operating challenges. This enables it to create tailored product offerings which simplify operations, improve efficiency, and enhance profitability for its truck operator partners. It intends to continue investing towards its product development initiatives to launch new offerings. It aims to continue to leverage its domain expertise, data-led insights, and technology capabilities to continuously iterate and expand its suite of products and services, ensuring that it remains at the forefront of addressing the evolving needs of the trucking ecosystem.

Continue to scale and invest in technology infrastructure and data science capabilities: Technology and data science are at the core of the products it develop for truck operators. Its scale of operations and nature of businesses, in particular the payment and telematics verticals, require it to invest in building technology capabilities. As the scale of its operations continue to increase and it launches new offerings, it needs to continuously build technology to manage scale. In the vehicle financing space, it intends to innovate through technology-enabled loan origination system, fraud detection and prevention systems, and sales enablement products. In newer telematics offerings of fuel sensors it would invest in further product development to enable affordability and accuracy to scale ahead. Its multiple business offerings also rely on usage of data capabilities, which help build intelligence interfaces and enable optimization of operations for its customers. With the scale of real-time data collection continuing to increase and its aim to introduce new products and offerings which will create value for customers, it will continue to invest in its technology and data science capabilities.

Risk factor

- The company has incurred net losses and witnessed negative operating cash flows in the past.
- It depends on its business partners in its payments and vehicle financing offerings.
- It intends to utilize a part of the Net Proceeds towards investment in Blackbuck Finserve Private Limited, which does not have an established operating history.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
C.E. Info System	404.08	134.84	24.79	76.25	14.13	133.73	2	1890.15	10283.07
Zinka Logistics Solutions Limited	296.92	-166.99	-ve	-ve	5.38	50.71	1	273.00	4817.81

***Peer Companies financials are based on TTM**
****Niva Bupa Health Insurance Company Limited Financials are based on FY24**

Valuation

The company is loss making during FY24, we are considering the P/Bv valuation, on the upper end of the price band of Rs.273, pre issue, book value of Rs. 22.07 of P/Bvx 12.37x. Post issue, book value of Rs. 50.71 of P/Bvx 5.38x.

Looking at the P/B ratio at Rs.259, pre issue, book value of Rs. 22.07 of P/Bvx 11.74x. Post issue, book value of Rs. 50.71 of P/Bvx 51.11x.

Industry Outlook

India's rapid economic growth sets the stage for an expanding trucking sector. The Indian trucking sector is a US$ 18-25 billion revenue pool as of Fiscal 2024 and is expected to grow to US$ 35billion by Fiscal 2028. Trucking is one of the fastest growing sectors in logistics in India. High fragmentation in this industry is a result of multiple operationally complex processes required to run the business

efficiently. Given the complexity of trucking operations, an operator's oversight can significantly impact profitability. Consequently, managing ownership beyond a few trucks becomes increasingly cumbersome. The trucking industry offers vast revenue potential for companies that solve challenges and inefficiencies and enhance value for truck operators.

Outlook

The company is India's largest digital platform for truck operators and has a wide network of truck operators built over nine years of operations. It intends to continue to focus on growing its customer base by attracting new transacting truck operators to its platform. Its loads marketplace and vehicle financing offerings are currently in their growth phase, and it aims to continue to expand these offerings. The major concern for the company is that it has been making losses for the last couple of years.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	13-November-24
BID/ISSUE CLOSES ON	18-November-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	19-November-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	20-November-24
Credit of Equity Shares to Demat Accounts of Allottees	20-November-24
Commencement of trading of the Equity Shares on the Stock Exchanges	21-November-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-24 (3 Months)	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)
Revenue from operations	92.17	296.92	175.68
Total expenditure	83.81	455.29	408.17
Operating Profit	**8.36**	**-158.37**	**-232.49**
OPM%	9.07	-53.34	-132.34
Other Income	6.16	19.59	19.41
PBDIT	**14.52**	**-138.78**	**-213.08**
Depreciation	6.95	25.34	20.41
PBIT	**7.57**	**-164.12**	**-233.49**
Interest	0.76	2.80	3.20
Profit BeforeTax Before before share of loss of an associate, exceptional items and tax	**6.81**	**-166.91**	**-236.68**
Share in net loss of an associate			
Exceptional items	25.62	0	0
PBT	**32.43**	**-166.91**	**-236.68**
Tax	0.05	0.08	0.17
PAT	**32.38**	**-166.99**	**-236.85**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-24	As on 31-Mar-24	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	27.57	29.18	19.17
Right-of-use assets	9.12	10.05	11.51
Other intangible assets	0.02	0.03	0.06
Financial Assets			
Investments	0.00	0.00	15.78
Loans	9.71	9.54	0.00
Other financial assets	26.81	26.76	2.33
current tax assets	11.01	21.67	26.92
Other non current assets	4.49	0.77	7.93
Total Non Current Assets	**88.72**	**98.00**	**83.70**
Current assets			
Assets classified held for sale	56.94	69.87	0.00
Financial Assets			
Investments	54.55	60.23	195.14
Trade Receivables	20.43	20.84	126.56
Cash and cash equivalents	133.18	154.74	96.49
Bank balances other than cash and cash equivalents	196.83	181.34	75.29
Loans	5.10	3.58	0.00
Other financial assets	43.07	36.49	42.30
Other assets	30.60	29.20	34.78
Total current assets	**540.69**	**556.29**	**570.55**
Total Assets	**629.41**	**654.29**	**654.25**
Non-current liabilities			
Financial liabilities			
Borrowings	2.35	2.85	0.00
Lease Liabilities	7.18	7.77	9.91
	0.00	0.00	0.00
Contract liabilities	3.12	2.79	0.00
Provisions	3.75	3.49	3.20
Total non-current liabilities	**16.39**	**16.89**	**13.11**
Current liabilities			
Liabilities directly associated with assets classified as held for sale	**3.46**	**3.17**	**0.00**
Financial liabilities			
Borrowings	158.67	170.89	165.84
Lease Liabilities	2.48	2.70	1.80
Trade payables - MSME	0.14	0.45	1.14
Trade payables - other than MSME	11.74	14.35	14.96
Other financial liabilities	14.53	63.58	53.62
Contract liabilities	59.30	55.46	41.40
Other current liabilities	10.47	8.55	3.08
Current tax liabilities	0.11	0.05	0.12
Provision	7.16	6.93	6.52
Total current liabilities	**264.58**	**322.96**	**288.48**
Total	**284.43**	**343.03**	**301.59**
Net worth represented by:			
Equity Share Capital	**5.66**	**0.01**	**0.01**
Reserves and surplus	**339.07**	**311.03**	**352.40**
Other equity	0.26	0.26	0.26
Net Worth	**344.98**	**311.29**	**352.66**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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