



Press Release

AVG Logistics Limited

October 27, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Fund Based	51.50	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)	Assigned
Short Term Bank Facilities – Non Fund Based	10.00	IVR A3/Credit watch with developing implications (IVR Single A Three under credit watch with developing implications)	Assigned
Long Term Bank Facilities – Fund Based - Proposed	10.00	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)	Assigned
Total	71.50		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of AVG Logistics Limited (AVG) takes into account its long track record of operations under an experienced management, established and diversified customer base, long term contract with the customers with diesel pass through clause & comfortable capital structure with moderate debt protection metrics. Further, the ratings also derive comfort from its improvement in scale during FY20 and sustained performance in H1 FY21. These rating strengths partially offset by high competitive intensity in logistics business, susceptibility of revenues to economic slowdown and variations in trade volumes, moderate working capital intensive nature of operations marked by elongated receivable period and moderation in profitability. The rating remains under credit watch with developing implications due to uncertainties arising from the headwinds of COVID-19. Infomerics will continue to monitor the developments in this regard and will take a view on the rating once the exact implications of the above on the credit risk profile of the company are clear.



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Key Rating Sensitivities:

Upward Factors:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Sustenance of the capital structure
- Improvement in working capital cycle and cash accruals

Downward factors:

- Any decline in the revenue and profitability on a sustained basis
- Moderation in the capital structure
- Any material stretch in working capital cycle weakens liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced management with long track record of operations**

The company is promoted by Mr. Sanjay Gupta (MD/CEO) in 2010, who is hailed as a veteran in logistics sector and possesses strong leadership experience in multi-modal logistics management. He has led Indo-Arya Logistics from INR 300 MN to INR 5 BN before starting AVG Logistics. Also, prior to the incorporation of AVG and working as CEO of IAL, the promoter was into the transportation business through 'Prem Crane & Transportation Services' (PCTS started operations in 2000). The directors are well supported by an experienced team of professionals. They are being assisted by a team of qualified and experienced staff who look after finance, production, and quality control, marketing and general administration.

- **Established and diversified customer base**

The company is associated with reputed companies like Nestle, DS Group, Amara Raja Batteries, MRF Tyres, GSK, Mother Dairy and Bharti Airtel. Additionally, Hindustan Unilever Limited (HUL), Hindustan Life care Limited (HLL), Apollo Tyres, Shahi Exports, SAIL, etc. are amongst the new customers which are added recently. This indicates its strong customer portfolio. Further, AVG has a diversified customer base as its top 10



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customers contributed only ~55% of revenues in FY2020. This is likely to insulate the company's revenues against loss of any customer(s) providing stability to revenues.

- **Long term contract with the customers with diesel pass through clause:**

AVG had agreement of 1 to 3 years with all its major customers which provides healthy revenue visibility over the near term and the agreement includes the escalation clause based on the 5% change in the diesel cost. However the concentration risk is mitigated to a large extent on account of repeated orders and relationship with majority of its customers over long period of time.

- **Comfortable capital structure with moderate debt protection metrics**

The capital structure of the company remained comfortable over the past fiscals. The overall gearing remained comfortable at 1.10x as on March 31, 2020 marginally deteriorated from 1.05x as on March 31, 2019 due to increase in total debt in FY20. The net worth of the company went up from INR 68.99 Cr in FY19 to INR 72.39 Cr in FY20 majorly due to accretion of profits to reserves.

Further, total indebtedness of the company as reflected by TOL/TNW remained stable and comfortable at 1.87x as on March 31, 2020 (TOL/TNW at 1.54x in FY19). The debt protection metrics remained strong, with interest coverage ratio at 2.52x in FY20 and moderate Total debt to GCA in FY20.

Key Rating Weaknesses

- **High competitive intensity in logistics business**

Indian logistics sector has high degree of fragmentation with the presence of large established companies and many small and medium sized unorganised companies. Further, logistics being a global industry the company also faces competition from the global operators also. Intense competition restricts the bargaining power and affect the profit margins to an extent. Due to high competition in the sector, higher operating efficiency, maintenance of superior service standards and providing innovative solutions to the evolving customer requirements will be keys for AVG to expand its market position.



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- **Susceptibility of revenues to economic slowdown and variations in trade volumes**

The performance of the logistics sector (freight forwarding industry) is linked to global economic activities, which impact the trade volumes, especially given the stiff competition amid the highly fragmented industry structure. Any slowdown in domestic and global manufacturing/industrial activities, due to weak economic conditions or restrictive trade policies, can have a negative impact on the company's revenues and its cash flows. Further, growth and development in port, rail, road infrastructure are also plays a crucial role for its business opportunities which is also dependent on various socio-political aspects and economic scenarios.

- **Moderation in profitability**

The profit margins of the company remained thin in FY20 due to intense competition in the operating spectrum along with low value additive nature of its operations and sluggish economic scenarios. The operating margin remained comfortable and stood at 7.57% in FY20 as against 9.04% in FY19. Moreover, the company witnessed traction in its operating margin during FY20 mainly due to weaker market condition in the FMCG, Auto sectors, etc. its biggest revenue contributors due to subdued economic scenarios caused by Covid-19.

- **Moderate Working capital intensive nature of operations marked by elongated receivable period**

The operations of the company are working capital intensive as reflected by working capital cycle of 64 days (though remained below 100 days in last 3 years), majorly due to stretched receivables (at 86 days in FY20 increased from last year, at 69 days).

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Companies

Financial Ratios & Interpretation (Non-financial Sector)



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Liquidity - Adequate

The liquidity position of the company is expected to remain adequate marked by expected GCA of ~INR 17.68 Cr – ~INR 29.47 Cr from FY21-FY23, as against scheduled debt repayments of INR 9.03 Cr – INR 18.85 in the same period. Further, its bank limits remained moderately utilized to the extent of ~75% during the past 12 months ended September 2020 indicating moderate liquidity buffer and cash and bank balances stood at INR 6.19 Cr in FY20. The current ratio stood at 1.26x in FY 20 and remained satisfactory.

About the Company

The company was incorporated in January 2010 by Mr. Sanjay Gupta. The company is engaged in the business of providing road transportation services and warehousing facilities. The company is majorly providing end-to-end supply chain services including logistics and warehousing and has presence in more than 60 locations. As on November 30, 2019, AVG has a fleet size of 412 owned trucks and more than 800 leased trucks. The companies has various reputed clientele spread across sectors like FMCG, Automotive parts and equipment's, Pharmaceuticals and Consumer durables. The company is providing services to various domestic and international clients.

Financials: Standalone

For the year ended*/As on	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	313.49	322.28
EBITDA	28.34	24.38
PAT	10.12	4.48
Tangible Net worth	68.99	72.39
EBITDA Margin (%)	9.04	7.57
PAT Margin (%)	3.20	1.38
Overall Gearing Ratio (x)	1.47	1.26

**As per Infomerics Standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	CC	Long Term	40.00	IVR BBB- / Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)	-	-	-
2.	Term Loan	Long-Term	11.50	IVR BBB- / Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)	-	-	-
3.	ILG	Short-Term	10.00	IVR A3 / Credit watch with developing implications (IVR Single A Three under credit watch with developing implications)			
4.	CC - Proposed	Long-Term	10.00	IVR BBB- / Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs.in Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – CC	-	-	-	40.00	IVR BBB- / Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)
Long Term Bank Facilities – Term Loan	-	-	Sep. 2026	11.50	IVR BBB- / Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)
Short Term Bank Facilities – ILG	-	-	-	10.00	IVR A3 / Credit watch with developing implications (IVR Single A Three under credit watch with developing implications)
Long Term Bank Facilities – Proposed CC	-	-	-	10.00	IVR BBB- / Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)