

## AVG Logistics Limited

January 08, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed and Withdrawn
<b>Total Bank Facilities</b>	<b>0.00</b> (Rs. Only)		

*Details of facilities in Annexure-1*

### Detailed Rationale, Key Rating Drivers and Detailed description of the key rating drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BB; Stable' [Double B; Outlook: Stable]/ CARE A4 (A Four) assigned to the bank facilities of AVG Logistics Limited with immediate effect. The above action has been taken at the request of AVG Logistics Limited and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.**

### Detailed description of the key rating drivers

At the time of last rating on December 13, 2019 the following were the rating weaknesses and strengths. *(Updated for the information available from lenders discussion)*

#### Key Rating Weaknesses

##### Stretched liquidity position

With the growing scale of operations (Rs.323.22 crore in FY20) the working capital limits from the banks have not increased thus resulting in stretched liquidity position and utilization of working capital limits is around 80-90% for past 12 months ending October 31, 2020. Further, the operating cycle stood at 63 days during FY20 (PY: 57 days) and AVG had cash & bank balance of Rs.3.43 crore as on March 31, 2020.

##### Working capital intensive operations

The company provides a credit period of around 45-60 days from the delivery of consignment. As the company is engaged in deliveries across the country, the delivery time adds up to the receivable cycle of the company. Further, with respect to the creditor, AVG has to make majority of payments (approx. 85%) to its vendors in advance for fuel. The business of the company is working capital intensive on account of huge upfront expenses incurred in conducting operations through own fleet of vehicles as well as hired vehicles. The time gap in collection of receivables and upfront outflow of expenses results in large working capital requirement. The operating cycle stood at 63 days during FY20 (FY19: 57 days). These requirements are funded largely through working capital facilities. However, with the growing scale of operations the working capital limits from the banks have not increased and thus resulting in stretched liquidity position.

##### Competitive and fragmented nature of the freight logistics industry

Around 80-85% of the road freight transport industry consists of small transport operators that own less than five trucks, are fragmented and unorganized. The highly fragmented and unorganized nature of the industry results in intense price competition and may lead to pressure on the company's profitability in case of adverse situations. Further, logistics operations are dependent on the overall economic condition of the country. Higher economic activity translates into higher freight movement which drives demand for road freight transport industry. However AVG's major exposure to FMCG sector partially mitigates risk arising from inherent cyclicity in logistics sector on account of stable demand from FMCG sector.

#### Key Rating Strengths

##### Experienced Promoters

AVG has been promoted by Mr. Sanjay Gupta, who has an experience of more than three decades in the logistics domain. Prior to the incorporation of AVG, the promoter was into the transportation business through 'Prem Crane & Transportation Services' (PCTS started operations in 2000) and has also worked as CEO for Indo Arya Central Transports Limited. The promoter is assisted by a team of professionals who have substantial experience in the logistics domain.

Further, the earlier CFO - Mr. Arun Kumar Goel resigned in November 2019 and the company appointed of Mr. Gurpreet Singh as the new CFO. Mr. Gurpreet Singh is a Chartered Accountant and has an industry experience of 20 years.

#### **Integrated logistics player with pan India presence and balanced mix of own fleet and third party vehicles**

AVG caters to a widely distributed Indian market by 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 438 owned trucks (PY: 390) and more than 800 leased trucks. Thus, AVG's balance business model helps in maintaining profitability margins and saving on fixed costs in the event of business downturn.

AVG has warehousing area across the country equipped with infrastructure to service its customers. Further the company was constructing two more warehouses in Agartala and Mysore. The construction of both the warehouses was expected to be completed by March 2020. The total cost of the same was expected to be Rs. 16 crore and the same would be financed by equity (raised through IPO) of Rs. 12 crore and debt of Rs. 4 crore.

#### **Reputed Clientele, albeit customer concentration risk**

Over the period, the company has developed established relationship with several reputed customers across varied industries which include several leading multi-nationals and domestic companies mainly in the FMCG sector. Moreover, the company has agreement of 1 to 3 years with all its major customers 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 repeat orders and relationship with majority of its customers over long period of time.

#### **Moderate Financial Profile**

As per the audited financials for FY20, AVG Logistics has registered total operating income of Rs.323.22 crore in FY20 vis-à-vis Rs.315.60 crore in FY19 marked by moderate growth in freight income. During FY20, AVG generated 84.40% (PY: 83.61%) of its total operating income from Road freight operations, 4.65% (PY: 4.60%) from the warehousing operations and 10.35% (PY: 11.39%) from trading operations (high sea sale). The PBILDT margins moderated in FY20 at 7.56 % (PY: 9.34%) as the company was unable to pass completely the hike in diesel prices to its customers and subdued economic scenario due to COVID-19, further the PAT margins remained at 1.39% (PY: 3.21%).

The overall capital structure of AVG marked by the overall gearing stands at 1.08x as on March 31, 2020 vis-à-vis 1.05x as on March 31, 2019. The other debt coverage indicators like Interest coverage ratio deteriorated to 2.79x in FY20 and total debt to GCA deteriorated to 6.29x as on March 31, 2020 on account of increased debt and reduction in GCA of company. Also AVG has provided a corporate guarantee of Rs. 39 crore for loan availed by its group concern M A Enterprises. Adjusting for the same, overall gearing would be 1.61x as on March 31, 2020.

#### **Liquidity Analysis: Stretched**

The liquidity profile remained stretched with average working capital utilization of around 80-90% for past 12 months ending October 2020. AVG had Rs.3.43 crore of free cash and bank balance as on March 31, 2020. The debt repayment of the company is Rs.15.21 crore in FY21 as against such repayments obligations, GCA generated in FY20 is Rs.12.68 crore. Further, the Company had availed moratorium for Interest and principal payment as per RBI COVID-19 guidelines till the month of August 2020.

**Analytical approach:** Standalone along with factoring in the debt of M A Enterprises for which AVG has extended Corporate Guarantee.

#### **Applicable Criteria**

[Policy on Withdrawal of ratings](#)

[Criteria on assigning Outlook to Credit Rating](#)

[Criteria for Short Term Instruments](#)

[CARE's default recognition policy](#)

[Financial ratios - Non Financial Sector](#)

[CARE's methodology for service companies](#)

[CARE's methodology for Factoring Linkages in Ratings](#)

#### **About the Company**

AVG Logistics Limited (AVG) was incorporated in January 2010 as a private limited company to provide road transportation services, warehousing facilities and Railway transportation to various domestic and multinational companies. AVG is promoted by Mr. Sanjay Gupta, who has an experience of more than three decades in the logistics domain.

Further, the company successfully completed its IPO and is listed on SME Emerge Platform of NSE on April 2018 by raising Rs. 33.06 crore. An anchor investor M/s Sixth Sense Opportunities II, promoted by Mr. Nikhil Vora has invested for 14.83% equity stake in the company (present holding 17.51% as on March 31, 2020)

#### Financial Performance.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total Operating Income	315.60	323.22
PBILD	29.48	24.43
PAT	10.12	4.48
Overall Gearing (times)	1.05	1.08
Interest coverage (times)	4.05	2.70

A: Audited

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantees	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BB; Stable (13-Dec-19) 2)CARE BBB (Under Credit watch with Developing Implications) (19-Nov-19) 3)CARE BBB; Stable (01-Apr-19)	1)CARE BBB; Stable (05-Apr-18)	1)CARE BBB-; Stable (05-Apr-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	1)CARE A4 (13-Dec-19) 2)CARE A3+ (Under Credit watch with Developing	1)CARE A3+ (05-Apr-18)	1)CARE A3 (05-Apr-17)

						Implications) (19-Nov-19) 3)CARE A3+ (01-Apr-19)		
3.	Term Loan-Long Term	LT	-	-	-	1)CARE BB; Stable (13-Dec-19) 2)CARE BBB (Under Credit watch with Developing Implications) (19-Nov-19) 3)CARE BBB; Stable (01-Apr-19)	-	-

**Annexure 3: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple
3.	Term Loan-Long Term	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

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