

ABC India Limited

September 08, 2022

Ratings

Facilities	Amount (₹ crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	10.25 (Reduced from 14.57)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	5.68	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Assigned
Short Term Bank Facilities	6.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	21.93 (₹ Twenty-One Crore and Ninety-Three Lakhs Only)		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of ABC India Limited (ABC) continue to derive comfort from long experience of the promoters in the logistics business, diversified portfolio of services, reputed client base and satisfactory capital structure and debt protection metrics. The financial performance of the company witnessed moderation in FY22 (refers to the period April 1 to March 31) and Q1FY23 on account of lower execution of project division orders which have been postponed to FY23. With execution of past orders along with increase in order book, the revenue is expected to increase going forward. The operating margin has, however, improved in FY22 mainly due to decline in shipment and custom clearing expenses in project division and execution of higher margin orders in Full Truck Load (FTL) division.

The ratings continue to be constrained by its high collection period in the project division, group exposure and low profitability margin in the sector due to intense competition.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustaining the increase in scale of operations with regular receipt and execution of orders.
- Ability to further grow and broaden the client base in FTL segment leading to diversification of the order book.
- Sustaining capital structure with gearing ratio below 0.50x.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Weakening of liquidity profile due to elongation in collection period.
- PBILDT margin below 5% on a sustained basis.
- Increase in overall gearing beyond unity.
- Substantial increase in exposure to group company.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters: ABC was initially a part of TCI-Bhoruka group, promoted by Late Mr P D Agarwal. Mr. Ashish Agarwal (Managing Director) looks after the day-to-day affairs of the company along with support from a professional management team. He has over a decade of experience in transport business.

Diversified portfolio of services: ABC is engaged in multi modal logistics business and provides a wide range of services including transportation services, third party logistics, shipping, custom house clearing agent, C&F agent, warehousing, etc. While the company had acquired a large fleet of owned vehicles, primarily for its project logistics vertical, the profitability has been adversely impacted in the past few years mainly due to underutilization of owned fleet on the back of low orders in this niche segment. Following the same, the company has been reducing its fleet size and has been selective in taking orders in the project business.

Reputed client base with increase in order book providing moderate revenue visibility: ABC has a well-diversified and reputed client base. The client-base of the company includes Bharat Heavy Electricals Limited (BHEL), Bharti Hexacom Limited, Bharti Airtel along with top retail customers in FTL Division. Moreover, the company has been able to secure repeat orders from majority of the clients.

The company has diversified its order book with orders from BHEL now accounting for only about 20% of the order book as on July 31, 2022 as against 52% as on August 31, 2021.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Satisfactory capital structure and debt protection metrics: The overall gearing ratio improved marginally to 0.49x as on March 31, 2022 (0.52x as on March 31, 2021), despite increase in working capital borrowings due to gradual repayment of term debt and accretion of profits to reserves. TD/GCA, however moderated slightly from 4.27x as on March 31, 2021 to 4.90x as on March 31, 2022 due to decline in GCA.

Key rating weaknesses

Moderate financial performance in FY22 and Q1FY23: The total operating income of the company declined significantly by 36.14% y-o-y to Rs.82.53 crore in FY22 mainly due to lower execution of project division orders. These orders are expected to be executed in FY23. The delay/postponement in projects led to lower revenue by around Rs.31 crore in FY22. Also, the logistics and FTL business was affected due to the second wave of COVID-19. However, going forward, the revenues are expected to improve on the back of project executions and improved FTL and logistics business with the abatement of COVID-19. The PBILDT margin however improved from 3.77% in FY21 to 4.98% in FY22 mainly due to decline in shipment and custom clearing expenses in project division and execution of higher margin orders in FTL division. The company achieved PAT of Rs.2.73 crore in FY22. The company earned GCA of Rs.3.76 crore vis-à-vis repayment obligation of Rs.1.55 crore in FY22. In Q1FY23, the company reported operating income of Rs.20.08 crore and PAT of Rs.0.90 crore as against an operating income of Rs.25.23 crore and PAT of Rs.0.65 crore in Q1FY22.

Working capital intensity with high collection period: ABC's business is working capital intensive on account of huge upfront expenses incurred in conducting operations both through own fleet of vehicles as well as hired vehicles. The company provides credit period of around 3-5 months to clients. However, the average collection period for the company has deteriorated to 244 days in FY22 as against 158 days in FY21 due to substantial decline in revenue. The working capital requirement of the company is mainly funded through a mix of internal accrual and bank borrowings.

Low profitability margin due to intense competition: The profitability margin in the transportation and project segment is low due to intense competition from both organised as well as unorganised players. Further, less project allocations in the economy have resulted in weak demand for fleet services that ABC provides, in the past few years, which has further depressed the profitability of the companies operating in transportation segment.

Stable industry outlook:

The road transportation sector is highly fragmented with the presence of a large number of unorganised small truck operators. It is estimated that over 70% of truck owners in India have a fleet size of between one and five trucks. Truck operators are heavily dependent on intermediaries such as brokers and booking agents. The handlers hold a dominant position in pricing freight rates, shrinking margins of truck operators. Consequently, pure road transportation or trucking lacks pricing power and has low ability to pass on rising fuel and other costs. Larger fleet owners are obviously much better placed due to a large client base which they use to optimize utilization and achieve better margins.

Liquidity: Adequate

Adequate liquidity is marked by GCA of Rs.3.76 crore vis-à-vis debt repayment obligations of Rs.1.55 crore in FY22 and free cash and bank balance of Rs.1.53 crore as on March 31, 2022. The average utilization of the fund-based limits stood at ~76% during last 12 months ended July 31, 2022 supported by above unity current ratio.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies

About the company

ABC, incorporated in 1972, is currently engaged in surface transportation and project logistics business. The company provides the multi modal logistics services (road, rail, river, custom, storage and warehousing) and Odd Dimensional Cargo services through a network of 20 branches in 20 locations including warehouses across the country. The company also owns one petrol pump for which it has outsourced operations on commission basis.

ABC was initially a part of TCI-Bhoruka group promoted by Late Mr P D Agarwal. In 1995, the entire group business was divided among six brothers, with main entities being – ABC, Transport Corporation of India, GATI Ltd, Bhoruka Power Corporation Ltd and others. However, ABC operates independently and there is no financial and operational linkage between the entities. Mr Ashish Agarwal (grandson of Late Mr P D Agarwal) looks after the day-to-day operations of the company.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (Prov.)
Total operating income	130.47	83.82	20.08
PBILDT	6.10	5.39	1.23
PAT	-0.78	2.73	0.90
Overall gearing (times)	0.52	0.49	0.50
Interest coverage (times)	2.44	2.44	2.86

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of facilities

Name of the Bank facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-Bank Guarantee	-	-	-	-	6.00	CARE A3
Fund-based - LT-Cash Credit	-	-	-	-	8.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	Dec 2024	2.25	CARE BBB-; Stable
Fund-based - LT/ ST-Bank Overdraft	-	-	-	Jan 2029	5.68	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-Bank Guarantee	ST	6.00	CARE A3	-	1)CARE A3 (19-Oct-21)	1)CARE A3 (07-Oct-20)	1)CARE A3 (29-Aug-19)
2	Fund-based - LT-Cash Credit	LT	8.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (19-Oct-21)	1)CARE BBB-; Stable (07-Oct-20)	1)CARE BBB-; Stable (29-Aug-19)
3	Fund-based - LT-Term Loan	LT	2.25	CARE BBB-; Stable	-	1)CARE BBB-; Stable (19-Oct-21)	1)CARE BBB-; Stable (07-Oct-20)	1)CARE BBB-; Stable (29-Aug-19)
4	Fund-based - LT/ ST-Bank Overdraft	LT/ST*	5.68	CARE BBB-; Stable / CARE A3	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Bank Overdraft	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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