

## ABC India Limited

October 19, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	14.57 (Enhanced from 13.54)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	6.00	CARE A3 (A Three)	Reaffirmed
<b>Total Bank Facilities</b>	<b>20.57</b> <b>(Rs. Twenty Crore and Fifty- Seven Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of ABC India Ltd (ABC) draw comfort from long experience of the promoters in logistics business, diversified portfolio of services, reputed clientele, and comfortable capital structure. The ratings further factors in moderate financial performance in FY21 (refers to the period April 1 to March 31) and Q1FY22. The ratings are, however, constrained by high collection period in the project segment, increase in exposure to group company, concentration in the order book, intense competition and susceptibility of profits to volatility in fuel prices.

### 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:

- Significant deterioration in gross operating cycle.
- Substantial decline in scale of operations by further 20%.
- PBILDT margin below 5% on a sustained basis.
- Increase in overall gearing beyond unity.
- Substantial increase in exposure to group company

### 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.

#### Comfortable capital structure and satisfactory debt protection metrics

ABC's overall gearing ratio remained comfortable at 0.52x as on March 31, 2021 (0.41x as on March 31, 2020). With expectation of higher profitability on account of more focus on FTL business and better credit terms negotiated, the company proposes to reduce debt further. Accordingly, the overall gearing ratio is expected to improve further in the near future. TD/GCA also stood satisfactory at 4.27x as on March 31, 2021 (3.07x as on March 31, 2020).

#### Concentrated order book position albeit reputed clientele

ABC has a reputed client base comprising established entities in both the public sector and private sector and it has been getting repeat orders from its major clients. ABC had received a large size project division order worth Rs.141 crore from Bharat Heavy Electricals Ltd (BHEL) in February 2018 which subsequently increased to Rs.195 crore to be executed by FY22 for multi-modal transportation of export cargo. The residual work from the same stood at Rs.48 crore as on August 31, 2021 which is expected to be completed by March 2022. Further, the bidding pipeline is around Rs.300 crore as on September 27, 2021 for various project based orders in which the company has expertise. These orders provide revenue visibility.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

ABC has also been witnessing growth in its Full Truck Load (FTL) business through an asset light business model by aggregating transporters from the unorganized sector and focus towards generating regular business volumes. The proportion of revenue from owned and hired fleet is 10:90.

#### **Key Rating Weaknesses**

##### **Moderate financial performance in FY21 and Q1FY22**

ABC's operating income deteriorated significantly by 22% Y-o-Y to Rs.130.90 crore in FY21 as the company was impacted in Q4FY21 due to the slowdown in movement of goods due to the outbreak of the second wave of the ongoing pandemic in March 2021. With lower than anticipated movement of cargo during the year, the operating income was lower than FY20. PBILDT margin stood low at 4.99% in FY21 (5.46% in FY20). Interest coverage ratio improved moderately from 2.27x in FY20 to 2.61x in FY21 on account of decrease in interest expenses. The company reported GCA of Rs.4.23 crore against debt repayment obligation of Rs.3.70 crore in FY21.

In Q1FY22, the company reported operating income of Rs.25.23 crore and PAT of Rs.0.65 crore as against an operating income of Rs.22.89 crore and PAT of Rs.0.44 crore in Q1FY21.

##### **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 158 days in FY21 as against 100 days as on FY20. The working capital requirement of the company is mainly funded through a mix of internal accrual and bank borrowings.

##### **Increase in exposure to group company**

The investment in Assam Bengal Carriers increased from Rs.10.67 crore in FY20 to Rs.13.67 crore in FY21. However, the investment is expected to reduce going forward.

##### **Concentrated order book**

The order book is concentrated with orders from BHEL contributing to the major part of the order book. Going forward, the orders in the FTL segment are expected to increase and the company is also having a significant bidding pipeline for project division. Ability to garner new orders and further diversification in the order book is a key rating sensitivity.

##### **Intense competition in the industry**

The profitability margin in the transportation and project segment is low due to intense competition from both organised as well as unorganised sector players. Further, lower project allocation has impacted demand for fleet services that ABC provides.

##### **Profitability susceptible to volatility in fuel price**

The profitability of ABC is susceptible to volatility in fuel price as the company generally enters into a fixed price contract for its project division. However, in majority of the orders, the margin for fuel cost fluctuations is taken into account in the pricing of the contract.

##### **Stable Industry Outlook**

Logistics, including freight management, is the most critical component of the supply chain which facilitates the manufacturing and domestic & international trading businesses. It is also highly dependent on the growth prospects of the economy. The government has announced significant policy measures and made budgetary allocations towards the improvement of rail, road and water connectivity which is expected to translate in improving the overall logistics and transportation around the country.

##### **Liquidity: Adequate**

Adequate liquidity is marked by gross cash accruals of Rs.4.23 crore vis-à-vis debt repayment obligations of Rs.3.70 crore and free cash balance of Rs.1.80 crore as on Mar 31, 2021 (Prov.). The average utilization of the fund based bank limits and non-fund based limits stood at ~85% and ~66% respectively in last 12 months ended July 31, 2021 and August 31, 2021 respectively supported by above unity current ratio. The company has availed moratorium for the principal amount of the term loan on account of Covid-19 measure by RBI thereby extending the tenure. It has also availed deferment of interest on CC account.

##### **Analytical approach: Standalone**

##### **Applicable Criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Policy on default recognition](#)  
[Financial Ratios – Non financial Sector](#)  
[Rating Outlook and Credit Watch](#)  
[Short Term Instruments](#)  
[Service Sector Companies](#)

### About the Company

ABC, incorporated in 1972, is currently engaged in two business segments - surface transportation and project logistics. The surface transportation and project division provides the multi modal logistics services (road, rail, river, custom, storage and warehousing) and Odd Dimensional Cargo services through a network of 19 branches (reduced from 28) in 20 locations including warehouses across the country. The company also operates one petrol pump.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)
Total operating income	168.78	130.90
PBILDT	9.21	6.53
PAT	4.27	-0.78
Overall gearing (times)	0.41	0.52
Interest coverage (times)	2.27	2.61

A: Audited

Note: The total operating income does not include the revenue from petrol pump business of Rs.37.98 crore in FY21 (Rs.53.84 crore in FY20) and includes the net profit from the business.

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

**Any other information:** Not Applicable

**Disclosure of Interest of Independent/Non-Executive Directors of CARE:** Not Applicable

**Disclosure of Interest of Managing Director & CEO:** Not Applicable.

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

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

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Bank Guarantees		-	-	-	6.00	CARE A3
Fund-based - LT-Cash Credit		-	-	-	11.30	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	Jan 2022	3.27	CARE BBB-; Stable

### 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-Bank Guarantees	ST	6.00	CARE A3	-	1)CARE A3 (07-Oct-20)	1)CARE A3 (29-Aug-19)	1)CARE A4+ (06-Feb-19)
2	Fund-based - LT-Cash Credit	LT	11.30	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Oct-20)	1)CARE BBB-; Stable (29-Aug-19)	1)CARE BB+; Stable (06-Feb-19)
3	Fund-based - LT-Term Loan	LT	3.27	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Oct-20)	1)CARE BBB-; Stable (29-Aug-19)	1)CARE BB+; Stable (06-Feb-19)

- Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / 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	Non-fund-based - ST-Bank Guarantees	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 instrument:** CARE has classified instruments rated by it on the basis of complexity. 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.

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