

## Allcargo Gati Limited

January 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Fixed Deposit	3.02	CARE BBB (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE Ratings Ltd (CARE Ratings) has placed its rating assigned to the fixed deposit program of Allcargo Gati Limited (Allcargo Gati) on rating watch with developing implications.

The rating action follows company's announcement on December 21, 2023, that board of Allcargo Logistics Limited and Allcargo Gati Limited have approved the composite scheme of arrangement for restructuring of businesses under Allcargo Logistics Limited and Allcargo Gati Limited (Formerly Gati Limited). As per the scheme, International Supply Chain (ISC) business which contributes more than 90% of revenue and EBITDA will be demerged into a separate entity: Allcargo ECU Limited. This would include the India part of International Supply Chain business along with the international subsidiaries held under the ECU Worldwide NV. The remaining entity, Allcargo Logistics, will hold the Express and Contract Logistics Business. The transfer of contract logistics and express logistics business will happen by way of amalgamation of Allcargo Supply Chain Private Limited (ASCPL (Contract logistics) and Gati Express & Supply Chain Private Limited (GESCPL- Express logistics) with and into Allcargo Gati Limited. Additionally, Allcargo Gati Limited (Contract logistics & express business) will merge with Allcargo Logistics Ltd.

Each Allcargo Logistics Limited shareholder will get one share of Allcargo ECU for every one share held. Shareholders of Allcargo Gati will get 63 shares of the post-demerged Allcargo Logistics for every 10 shares they hold. Post completion of the arrangement, promoter stake in Allcargo Logistics Limited would be 49.4% and the rest will be public holding whereas in Allcargo ECU, promoter stake would be to the extent of 70% and rest will be public. The above transaction is subject to various regulatory approvals. CARE Ratings will continue to closely monitor the said transaction and will remove the ratings from watch and take a rating action restructuring is concluded.

The rating assigned to fixed deposit program of Allcargo Gati continue to derive strength from the operational and financial synergy derived from Allcargo Logistics Limited (ALL). The rating also factor in improvement in revenue in FY22 (Audited) and H1FY23 (Unaudited) at consolidated level on account of established position of the company in the express cargo industry with pan-India presence, enabling it to cater to a diversified customer base from various industries. Allcargo Gati continues to have a comfortable capital structure owing to significant reduction in debt levels. CARE Ratings also notes that the company under the management of ALL has adopted an Asset Light Strategy and has divested a major part of its non-core business including land & buildings, commercial vehicles owned by the company and used the proceeds from such sale to pare the debt. The rating, however, is constrained by low PBILDT margins and net loss reported in FY22 (refers to the period April 01 to March 31). Furthermore, the rating continues to remain constrained by concentrated revenue profile deriving large share of revenues from Express Distribution (Less than Truck Load segment),stiff competition from unorganized players and new start-ups backed by deep-pocketed international PE investors.

### Rating sensitivities: Factors likely to lead to rating actions

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

- Improvement in TOI and PBILDT margins beyond 10% on sustainable basis.
- Improvement in Total debt/GCA to 2x or less.

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

- Deterioration in financial profile of the company with over all gearing going beyond 1x.
- Continuing of losses.

### Analytical approach:

Consolidated factoring in linkages with promoter Allcargo Logistics Limited (ALL) along with the management and financial support extended by ALL. The analytical approach also factors in operational linkages with subsidiaries while assessing the rating. The subsidiaries of Allcargo Gati which have been consolidated are mentioned in Annexure-6.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Outlook:** Not applicable

**Detailed description of the key rating drivers:**

**Key strengths**

**Operational and financial synergy derived from Allcargo Logistics Limited**

Allcargo Gati Limited (erstwhile known as Gati Ltd) was established in 1989. In April 2020, Allcargo Logistics Limited (ALL) (CARE AA; Stable/ CARE A1+) acquired 46.86% stake in the then Gati Limited and the same has subsequently increased to 47.30% as on March 31, 2022. As the entire management control is with ALL, it has become the promoter of Allcargo Gati Limited and its group/subsidiary companies. Post completion of acquisition, Mr. Shashi Kiran Shetty, who is also Chairman of ALL, has been appointed as the Managing Director of Allcargo Gati. CARE Ratings expects that the operational and financial synergistic benefit from ALL will accrue to Allcargo Gati by virtue of being its subsidiary.

**Management initiatives taken**

**Sales Acceleration Planned**

In February 2022, company has brought, structural changes in the organization where in re-alignment of sales team structure was done with a targeted approach towards key account management, MSME and retail. This is expected to result in increased market share and improve standard of customer service. Further, the management has adopted cluster based approach, where in centralized rate card for decision on discounts and dynamic pricing was put in place.

**Operation cost optimisation**

To optimise operational cost, company has introduced central war room for managing peak periods. To reduce transshipment cost network decision support and redesign of various routes with focus on connectivity has taken place. Similarly for enabling better service quality- hub modernisation, higher automation, route optimisation has taken place. Company has improved its infrastructure to accelerate capacity creation to manage higher loads in most efficient manner. Further, one new Super Hub was inaugurated in New Delhi in December 2021 which is fully operational. Two new hubs were inaugurated at Nagpur and Guwahati in October 2022 which are fully operational and are stabilizing. In addition, two new Super Hubs at Mumbai and Bangalore are expected to be operational by Q4FY23.

**Talent**

Company is setting industry wide best practice with special focus on talent retention and development through structured employee engagement and calendarized leadership intervention program.

**Established position in express cargo industry with pan-India presence**

Allcargo Gati through its subsidiary Gati Express and Supply Chain Private Ltd (GESCPL) operates through twenty express distribution hubs located at Ambala, Delhi, Jaipur, Lucknow, Noida, Delhi NCR, Ahmedabad, Bombay (Inside), Bombay (Outside), Indore, Pune, Bangalore, Hyderabad, Coimbatore, Chennai, Bhubaneswar, Kolkata, Guwahati and Ranchi covering the corners of the country. Further, the company has a network of 85 goods delivery warehouses having more than 1 Mn Sft, 538 own and franchise customer convenience centres reaching ~19000 pin codes across the country covering 650+ districts. It has employed about 3400 professionals across India for operations. Currently, the company operates 5,000-plus vehicles and an assured space across all major airline sectors which help delivery of goods to every corner of the country.

**Diversified segments with reputed customer base**

The company caters to a diversified clientele which is spread across varied industrial segments such as general manufacturing products, computer, peripherals & electronic components, auto components, pharmaceuticals, apparel and other. Besides segmental diversification, the company also benefits from client portfolio comprising reputed and major players in every segment. The company through its subsidiary GESCPL has long-term business relationship with some of its top clients which include TVS Motor Company Limited, 3M India Limited, Samsung India Electronics Private Limited, Maruti Suzuki India Ltd, Honda Motors, Schaeffler India Ltd. etc. The company has a diversified customer base of more than 650 clientele with top ten customers contributing 16.81% during FY22 (as against 11.83% during FY21).

**Large share of revenues from Express Distribution (Less than Truck Load (LTL) segment)**

Allcargo Gati 's subsidiary GESCPL has an integrated hub-and-spoke operating model that entails consolidation of goods from multiple locations through feeder vehicles to transshipment hubs and then further transported to respective destinations. Full Truck Load generates lesser net revenue than Express Distribution due to transportation of goods from a single customer to single destination for certain customers. However, in Express Distribution consolidation of goods from multiple customers are done through transshipment centres and further it is dispatched to multiple location resulting in better margins due to optimization of capacities.

### **Hiving off of non-core businesses; focus on express logistics**

Company over a period of two years have exited many non-core and non-performing businesses in order to increase its focus on its express logistic business. It has sold off overseas loss-making entity Gati Asia Pacific Pte Limited. In May 2021 the company also exited its cold chain solution business—GK Cold Chain Solutions Private Limited, (previously, Gati Kausar India Limited). Allcargo Gati has scaled down the business of Gati Import Export Trading Limited and is in the process of exiting its fuel station business. The steps taken by the company to exit from non-core operations augurs well for the overall growth of the company.

### **Comfortable financial risk profile**

The financial risk profile of the company remains comfortable with overall gearing at 0.51x as on March 31, 2022 (PY:0.58x). The company has prepaid its term loans and as on August 31, 2022 and there are no term loans outstanding. The other debt coverage indicators like Interest coverage and Total debt/GCA improved marginally to 1.37x (PY:0.55x) and 11.55x (PY:-1.56x) respectively for FY22.

### **Key weaknesses**

#### **Improvement in revenue and operating margins in FY22 however loss continue at PBT level albeit overall improvement reported in H1FY23**

The TOI of the company have improved by ~13% to Rs 1489.96 crore in FY22 vis-à-vis Rs. 1314.24 crore in FY21. Company has also reported improved PBILDT. PBILDT improved by about 52% to Rs 37.54 crore (PY: Rs 24.77 crore) and in terms of margin the same stood at 2.52% (PY: 1.88%) improved by 64 bps. Despite improved PBILDT margins company reported loss of Rs 12.55 crore at PBT level (excluding extraordinary income and expenses) for FY22. The primary contributing factor for the same has been increase in fuel cost which constituted ~57% of the total cost (PY: ~45% during FY21). However, on account of exceptional gain of Rs 12.05 crore final reported loss for FY22 stood at Rs -4.43 crore.

For H1FY23, company reported TOI of Rs 879.32 crore improved from Rs 692.67 crore in H1FY22 viz. improvement of ~27%. Further, PBILDT improved from Rs 19.16 crore in H1FY22 to Rs 52.31 crore in H1FY23 registering a growth of ~173%. In terms of margin the same stood at 5.95% improved from 2.77%. In terms of tonnage (volume) the same has improved by about 27% in H1FY23 to 5,62,000 MT in H1FY23 from 4,40,094 MT in H1FY22.

### **Concentrated Revenue profile**

The revenue profile of the company is broadly divided into three categories i.e. surface express constituting Less than truck load (LTL) and MVATS-Full Truck Load, Air express and Supply Chain Management (SCM). The major operational division of the company continues to be surface express division wherein Allcargo Gati derives most of the revenue contributing 92% of the total operating income.

### **Liquidity: Adequate**

The liquidity profile of the company is adequate. During H1FY23, the company has sold and realised Rs. 67 crore from the sale of its non-core assets which has improved the liquidity position of the company. Further, company is expected to receive Rs 52.50 crore from ALL on account of conversion of warrants in Q3FY23 and about Rs 50 crore from sale of asset in H2FY23. All the aforementioned will further improve the liquidity of the company. With the above liquidity in hand, company is expected to bring down its working capital limit which are currently at Rs 230 crore. The working capital utilization for the last twelve months ended October 2022 stood at ~76%. Considering the presence of unutilized credit lines and company's approach steps to become asset light by divestment of its assets and with no term loan outstanding, the company is expected to have comfortable liquidity position. Further, Allcargo Gati is a subsidiary of Allcargo Logistics Ltd (ALL) and the management of both the entities are same. Considering the financial strength of ALL along with gradual improvement in financial performance of Allcargo Gati, the credit risk profile of the Allcargo Gati is also expected to remain strong.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

### **Applicable criteria**

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Service Sector Companies](#)

## About the company and industry

### Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Services	Road Transport

Allcargo Gati Limited (Erstwhile known as Gati Limited) was established in 1989 and over the period of time emerged as one of India's largest road transport companies. Allcargo Gati has established connectivity across air, road, ocean and rail providing various logistics services to the customers in the industry with presence in 650+ districts in India covering ~19,000 pin codes. Allcargo Gati at group level offers wide range of services viz. Express Distribution, Supply chain management solution, e-commerce logistics, managed value-added transportation services (MVATS), freight forwarding and cold chain logistics. Allcargo Gati, at group level, has a network of over 600 offices including 24 surface transshipment hubs, operates a fleet of 5,000 vehicles on road across India.

In 2020, Allcargo Logistics Limited (CARE AA; Stable; CARE A1+) has acquired stake of 46.86% (subsequently increased to 47.30% as on March 31, 2022) and became the promoter of the then Gati Limited. Allcargo Logistics Limited incorporated in 1993, as a freight-forwarding agent, ALL became a multimodal transport operator in 1998 by offering logistics services. The company operates in multiple business segments - Multimodal Transport Operations (MTO), Container Freight Stations (CFS)/Inland Container Depot (ICD), Project & Engineering solutions, Contract Logistics and Logistics Parks. ALL is amongst the leading players in the global LCL consolidation market with a strong network across 160 plus countries and 300 plus offices covering over 4,000 port pairs across the world.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1489.96	1723.17	867.70
PBILDT	37.54	70.08	37.46
PAT	-4.43	-10.91	-6.54
Overall gearing (times)	1.57	1.24	NA
Interest coverage (times)	1.37	2.39	2.53

A: Audited UA: Unaudited, Not available Note: 'the above results are latest financial results available'

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

**Any other information:** 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:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit	-	-	-	30-09-2023	3.02	CARE BBB (RWD)

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (07-Dec-22)	1)CARE BBB; Stable (07-Oct-21)	1)CARE BB+; Stable (23-Dec-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (07-Oct-21)	1)CARE BB+; Stable (23-Dec-20)
3	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	1)Withdrawn (07-Oct-21)	1)CARE A4+ (23-Dec-20)
4	Fixed Deposit	LT	3.02	CARE BBB (RWD)	-	1)CARE BBB; Stable (07-Dec-22)	1)CARE BBB; Stable (07-Oct-21)	1)CARE BB+; Stable (23-Dec-20)
5	Fund-based - LT-Bill Discounting/ Bills Purchasing	LT	-	-	-	-	1)Withdrawn (07-Oct-21)	1)CARE BB+; Stable (23-Dec-20)
6	Fund-based - LT-Working capital Term Loan	LT	-	-	-	1)Withdrawn (07-Dec-22)	1)CARE BBB; Stable (07-Oct-21)	-

LT – Long term, ST – Short term

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fixed Deposit	Simple

**Annexure-5: Lender details**

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

**Note on the 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.

## Annexure-6: List of subsidiaries

Sr. No.	Name of companies	% of holding
1	Gati Express and Supply Chain Private Limited	70%
2	Gati Import Export Trading Limited	100%
3	Zen Cargo Movers Private Limited	100%
4	Gati Logistics Parks Private Limited	100%
5	Gati Projects Private Limited	100%

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### About us:

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