

Allcargo Gati Limited

February 27, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|------------------------|-----------------------------|---------------------|----------------------------------------------------------------|
| Fixed deposit | 0.16 (Reduced from 3.02) | CARE BBB (RWD) | Continues to be on 'rating watch with developing implications' |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the fixed deposit (FD) programme of Allcargo Gati Limited (Allcargo Gati) remains on rating watch with developing implications (RWD). Earlier in January 2024, the rating was placed on RWD following the company's announcement on December 21, 2023, that the board of Allcargo Logistics Limited (ALL; rated 'CARE AA [Rating watch with negative implications];/CARE A1+ [Rating watch with negative implications]') and Allcargo Gati have approved the composite scheme of arrangement for restructuring of businesses under ALL and Allcargo Gati. Per the scheme, the international supply chain (ISC) business of ALL will be demerged into a separate entity – Allcargo ECU Limited (Allcargo ECU). This will include the India part of the ISC business, with international subsidiaries held under the ECU Worldwide NV. ALL will hold the express and contract logistics business. The transfer of contract logistics and express logistics business will happen by amalgamating Allcargo Supply Chain Private Limited (ASCPL; contract logistics) and Gati Express & Supply Chain Private Limited (GES CPL; express logistics) with and into Allcargo Gati. Additionally, Allcargo Gati (contract logistics and express business) will merge with ALL.

Each ALL 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 ALL for every 10 shares they hold. After completing the arrangement, promoter stake in ALL will be 49.40% and the rest will be public-holding, whereas in Allcargo ECU, promoter stake will be to the extent of 70% and the rest will be public. The above transaction is subject to regulatory approvals. CARE Ratings will continue to closely monitor the transaction and will remove ratings from watch and action a rating action when the restructuring concludes.

The rating assigned to the FD programme of Allcargo Gati derives strength from operational and financial synergies with ALL. It also factors the improving revenue in FY23 at the consolidated level on the back of the company's established position in the express cargo industry with a pan-India presence, enabling it to cater to a diversified customer base across industries. Allcargo Gati has a comfortable capital structure owing to the significantly reduced 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 and buildings and commercial vehicles (CVs) owned by it and used proceeds from such sale to pare debt.

However, the rating is constrained by low profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin and net loss in FY23 (FY refers to April 01 to March 31). Concentrated revenue profile deriving large revenue shares from express distribution (less than truck load segment), stiff competition from unorganised players and new start-ups backed by deep-pocketed international private equity (PE) investors also constrain the rating.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving total operating income (TOI) and PBILDT margin beyond 10% on a sustained basis.
- Improving total debt (TD)/gross cash accruals (GCA) to 2x or less.

Negative factors

- Deteriorating financial profile, with overall gearing beyond 1x.
- Continuing losses.

Analytical approach: Consolidated

For arriving at the rating, CARE Ratings has considered consolidated financials of Allcargo Gati, factoring linkages with the promoter, ALL, with management and financial support extended by ALL. The analytical approach also considers operational linkages with subsidiaries while assessing the rating. List of companies consolidated is in Annexure-6.

Outlook: Not applicable

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

Detailed description of key rating drivers

Key strengths

Operational and financial synergies with ALL

Allcargo Gati (erstwhile known as Gati Limited) was established in 1989. In April 2020, ALL acquired 46.86% stake in the then Gati Limited, with the stake subsequently increasing to 50.16% as on December 31, 2023. ALL is the promoter of Allcargo Gati and its group and subsidiary companies, considering the entire management control is with it. Post acquisition, Shashi Kiran Shetty, Chairman of ALL, has been appointed Managing Director of Allcargo Gati. CARE Ratings expects operational and financial synergistic benefits from ALL to accrue to Allcargo Gati as its subsidiary.

Established position in express cargo with pan-India presence

Allcargo Gati, through its subsidiary, GESPL, operates through 19 express distribution hubs at Ambala, Delhi, Jaipur, Lucknow, Noida, Delhi-NCR, Ahmedabad, Bombay (inside), Bombay (outside), Indore, Pune, Bengaluru, Hyderabad, Coimbatore, Chennai, Bhubaneswar, Kolkata, Guwahati, and Ranchi covering corners of the country. The company has a network of 90 delivery warehouses for goods, having more than 1 million sq ft, more than 530 own and franchise customer convenience centres reaching about 19,000 pin codes across the country, covering more than 650 districts. As part of the management initiative, Allcargo Gati has recently adopted an asset-light strategy and sold all its CVs and other non-core assets. The company is currently operating more than 5,000 vehicles on lease with an assured space across all major airline sectors, aiding in goods delivery across the country.

Diversified segments with reputed customer base

Allcargo Gati caters to a diversified clientele, spread across varied industrial segments such as general manufacturing products, computer, peripherals and electronic components, auto components, pharmaceuticals, apparels, and others. Apart from segmental diversification, the company also benefits from client portfolio comprising reputed and major players across segments. The company, through its subsidiary, GESPL, has long-term relationships with some of its top clients, including TVS Motor Company Limited, 3M India Limited, Samsung India Electronics Private Limited, Maruti Suzuki India Limited, Honda Motor India, Page Industries Limited, and Schaeffer India Limited, among others. Allcargo Gati has a diversified customer base of more than 650 clientele, with top 10 customers contributing 15.29% in FY23 (as against 13.45% in FY22).

Large revenue shares from express distribution (less-than-truck load [LTL] segment)

Allcargo Gati's subsidiary, GESPL, has an integrated hub-and-spoke operating model that entails consolidating goods from multiple locations through feeder vehicles to transshipment hubs and then further transporting them to respective destinations. Full truck load generates lesser net revenue than the express division (LTL mode) due to transporting goods from a single customer to a single destination for certain customers. However, in express distribution, consolidating goods from multiple customers are done through transshipment centres and it is further dispatched to multiple locations, resulting in better margins due to optimising of capacities.

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

Allcargo Gati, over two years, has exited several non-core and non-performing businesses for increasing its focus on express logistic business. It has sold its 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. These steps by the company to exit from non-core operations augurs well for its overall growth.

Allcargo Gati has adopted an asset-light strategy, basis which the decision was taken to sell immovable properties and company-owned CVs and use proceeds from such sale to pare debt. In FY23, the company has realised cashflow of ₹77.76 crore by selling non-core assets.

Comfortable financial risk profile

The company's financial risk profile is comfortable with an overall gearing at 0.47x as on March 31, 2023 (PY: 0.51x). Allcargo Gati has prepaid term loans in FY23, with currently no outstanding term loans. Other debt coverage indicators such as interest coverage ratio (ICR) and TD/GCA improved marginally to 2.39x (PY: 1.37x) and 6.20x (PY: 11.55x), respectively, for FY23.

Key weaknesses

Improving revenue and margins y-o-y, however, net losses continue in FY23

The company's TOI improved by about 16% to ₹1,723 crore in FY23 as against ₹1,490 crore in FY22. The volume handled in surface express grew by about 17% from 958,711 metric tonne (MT) in FY22 to 1,123,131 MT in FY23. The PBILDT also improved

by about 87% to ₹70.08 crore (PY: ₹37.54 crore), with the PBILDT margin improving to 4.07% (PY: 2.52%). Despite this, Allcargo Gati reported net loss of ₹10.91 crore as against net loss of ₹4.43 crore in FY22. For 9MFY24, the company reported TOI of ₹1,292 crore (9MFY23: ₹1,308 crore) with PBILDT of ₹45.87 crore (9MFY23: ₹58.62 crore).

Concentrated revenue profile

The company's revenue profile is broadly divided into three categories – surface express comprising LTL and managed value-added transportation services (MVATS)-full truck load, air express, and supply chain management (SCM). The major operational division is surface express from which Allcargo Gati derives most revenue, contributing 92% of the TOI in FY23 (as against 92% in FY22).

Liquidity: Adequate

The company's liquidity profile is adequate. As on September 30, 2023, Allcargo Gati had cash and liquid investments of ₹102 crore. In FY23, the company sold and realised ₹78 crore by selling its non-core assets, which improved its liquidity position. The company has also received ₹52.50 crore from ALL on the back of conversion of warrants. In FY23, Allcargo Gati has also prepaid its entire term loan. Considering its approach to become asset-light by divesting its assets and with no term loan outstanding, CARE Ratings expects the company to have an adequate liquidity position. As Allcargo Gati is a subsidiary of ALL, the management of both entities is the same. Considering the financial strength of ALL and Allcargo Gati's financial performance gradually improving, CARE Ratings expects the credit risk profile of the latter to also remain adequate.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Allcargo Gati has implemented a sustainability strategy focused on ESG and is prioritising efforts for reducing carbon emissions. The company is planning to be carbon-neutral and to transition to 100% renewable sources for electricity consumption of all its owned facilities by 2040. To reduce carbon emissions, Allcargo Gati has made significant investments in electric vehicles (EVs) in FY23. More than 100 EVs have been deployed in a phased manner across the country for first and last-mile deliveries. To expand this capacity, Allcargo Gati signed a memorandum of understanding (MoU) with a clean energy solutions provider to add 500 electric cargo vehicles to its existing fleet. Allcargo Gati has an adequate governance structure, with 50% of its board comprising independent directors, and extensive disclosure.

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[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 (erstwhile known as Gati Limited) was established in 1989, and over time, has emerged as one of India's largest road transport companies. The company has established connectivity across air, road, ocean, and rail, providing logistics services to customers in the industry with presence in more than 650 districts in India covering more than 19,000 pin codes. Allcargo Gati at the group level offers a wide range of services – express distribution, SCM solutions, e-commerce logistics, MVATS, freight forwarding, and cold-chain logistics. Allcargo Gati, at the group level, has a network of more than 600 offices, including 24 surface transshipment hubs, operating a fleet of 5,000 vehicles on-road across India. Under Allcargo Gati, surface logistics that comprise surface express, air express, and SCM are housed under the subsidiary, GESPL. About 85% of Allcargo Gati's revenue comes from express distribution under its subsidiary, GESPL. Allcargo Gati standalone handles the e-commerce division with freight forwarding and fuel stations segment.

In 2020, ALL (rated 'CARE AA [Rating watch with negative implications]; CARE A1+ [Rating watch with negative implications]) acquired a 46.86% stake and became the promoter of the then Gati Limited. ALL was incorporated in 1993 as a freight-forwarding agent and 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) and inland container depot (ICD), project and engineering solutions, contract logistics and logistics parks. ALL is among the leading players in the global LCL consolidation market with a strong network across more than 160 countries and more than 300 offices covering more than 4,000 port pairs across the world.

| Brief Financials (₹ crore) - Consolidated | March 31, 2022 (A) | March 31, 2023 (A) | 9MFY24 (UA) |
|-------------------------------------------|--------------------|--------------------|-------------|
| Total operating income | 1489.96 | 1723.17 | 1292.19 |
| PBILDT | 37.54 | 70.08 | 45.87 |
| PAT | -4.43 | -10.91 | 12.29 |
| Overall gearing (times) | 0.51 | 0.47 | NA |
| Interest coverage (times) | 1.37 | 2.39 | |

A: Audited, UA: Unaudited, NA: Not available. Note: The above results are the 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 to Annexure-2

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

Complexity level of 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* | 0.16 | CARE BBB (RWD) |

*Outstanding pertains to unclaimed public deposit against which the company has created FD to the extent of ₹0.22 crore (including principal and interest) as collateral.

Annexure-2: Rating history for 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 | 0.16 | CARE BBB (RWD) | 1)CARE BBB (RWD) (02-Jan-24) | 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 rated instruments/facilities

Not applicable

Annexure-4: Complexity level of 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](#)

Annexure-6: List of entities consolidated

| Sr. No. | Name of Entity | Extent of Consolidation | Rationale for Consolidation |
|---------|-------------------------------------|-------------------------|-----------------------------|
| 1 | Gati Express & Supply Chain Pvt Ltd | 70% | Subsidiary |
| 2 | Gati Import Export Trading Ltd | 100% | Subsidiary |
| 3 | Zen Cargo Movers Pvt Ltd | 100% | Subsidiary |
| 4 | Gati Logistics Parks Pvt Ltd | 100% | Subsidiary |
| 5 | Gati Projects Pvt Ltd | 100% | Subsidiary |

Note on complexity levels of 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.

Contact us

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About us:

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