Allcargo Gati Limited

December 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Fixed deposit	0.13 (Reduced from 0.16)	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 (AGL) continues to remain on the 'Rating watch with developing implications' due to ongoing composite scheme of arrangement for restructuring businesses of Allcargo Logistics Ltd (ALL, rated CARE AA- (Rating watch with negative implications) / CARE A1+ (Rating watch with negative implications) and AGL. Per the scheme, the ISC business, which contributes over 85% of revenue and EBITDA of ALL will be demerged into a separate entity, Allcargo ECU Limited. (AEL). This would include the India part of ISC business and international subsidiaries held under the ECU Worldwide NV. The remaining entity, ALL, will hold the Express and Contract Logistics Business. Transfer of contract logistics and express logistics businesses will happen through amalgamation of Allcargo Supply Chain Private Limited (ASCPL- Contract logistics) and Gati Express & Supply Chain Private Limited (GESCPL- Express logistics) with and into AGL. AGL (Contract logistics and express business) will merge with ALL. Each ALL shareholder will get one share of Allcargo ECU for every one share held. AGL's shareholders will get 63 shares of post-demerged ALL for every 10 shares they hold. AGL expects the scheme to be approved by NCLT by April 2025. CARE Ratings Limited (CARE Ratings), will continue to monitor developments of this scheme and will take a view on the rating once there is fair amount of clarity on the impact of this scheme on the business and financial profile when all requisite approvals are in place.

The rating continues to derive strength from the operational and financial synergy derived by AGL from ALL, established position of AGL in the express cargo industry with pan-India presence enabling it to cater to a diversified customer base across industries. AGL has a comfortable capital structure and healthy liquidity profile. However, the rating is constrained by low profit before interest, lease rentals, depreciation, taxation and (PBILDT) margin FY24 (FY refers to April 01 to March 31). It is further constrained by, concentrated revenue profile deriving large share of revenues from less-than truck load (LTL) segment, stiff competition from unorganised players and new start-ups.

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 to gross cash accruals (TD/GCA) to 2x or less.

Negative factors

- Deteriorating financial profile, with overall gearing beyond 1.5x on sustained basis.
- Weakening PBILDT margin on sustained basis.

Analytical approach: Consolidated

CARE Ratings has also factored demonstrated track record of support being provided by the promoter group. AGL has strong linkages with ALL both in terms of management expertise and operational support. Analytical approach also considers operational linkages with subsidiaries, while assessing the rating. Companies consolidated is listed under Annexure-6.

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 saw a significant change in ownership, when ALL acquired a 46.86% stake in April 2020, with the current stake at 44.44% as on September 30, 2024. With full management control, ALL has become the promoter of AGL and its subsidiaries. Post acquisition, Shashi Kiran Shetty, Chairman of ALL, has been appointed Managing Director, AGL. CARE Ratings expects operational and financial synergistic benefits from ALL to accrue to AGL as its subsidiary.

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

Established position in express cargo with pan-India presence
Through its subsidiary, GESCPL, AGL operates through 19 express distribution hubs across India, including locations such as Ambala, Delhi, Jaipur, Lucknow, Noida, Delhi NCR, Ahmedabad, Mumbai (Inside and Outside), Indore, Pune, Bangalore, Hyderabad, Coimbatore, Chennai, Bhubaneswar, Kolkata, Guwahati, and Ranchi. The company also has a network of 90 goods delivery warehouses totaling over one million square feet, and over 530 customer convenience centers, owned and franchised, reaching ~19,000 pin codes across 650+ districts. AGL adopted an asset-light strategy, selling all its commercial vehicles and non-core assets. Currently, the company operates over 5,000 leased vehicles and maintains assured space across all major airline sectors, ensuring efficient delivery of goods to every corner of the country.

Large revenue shares from express distribution (LTL segment)
AGL's through its subsidiary GESCPL has an integrated hub-and-spoke operating model that entails consolidation of goods from multiple locations through feeder vehicles to transhipment hubs and then further transported to respective destinations. Full truck load generates lesser net revenue than express division (LTL mode) 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 transhipment centres and further it is dispatched to multiple location resulting in better margins due to optimisation of capacities.

Comfortable financial risk profile
The company's financial risk profile remains comfortable with overall gearing at 1.42x as on March 31, 2024 (PY: 1.24x), slight moderation was considering higher working capital debt and lease liabilities. The company has prepaid its term loans in FY23 and currently there are no term loans outstanding. Other debt coverage indicators such as TD/GCA improved marginally to 5.84x (PY: 6.20x) respectively while interest cover moderated to 1.74x (PY: 2.39x) for FY24.

Key weaknesses
Stagnant revenue coupled with deterioration in profitability
The company's TOI largely remained stagnant with 1% growth to ₹1,698 crore in FY24 vis-à-vis ₹1,723 crore in FY23. However, PBILDT margins declined from 4.07% in FY23 to 3.07% in FY24 due to higher operating costs and lower realised yields. Despite this, the company reported net profit of ₹6.11 crore against net loss of ₹10.91 crore in FY23.

Concentrated revenue profile
Revenue is broadly divided into three categories: surface express (including LTL and MVATS-Full Truck Load), air express, and supply chain management (SCM). The surface express division remains the major operational segment, contributing 91.10% of the TOI in FY24, compared to 92% in FY23 reflecting its concentrated revenue profile.

Liquidity: Adequate
The company's liquidity profile is adequate. As on September 30, 2024, the company had cash and liquid investments to the tune of ₹64.24 crore. In FY24, the company has sold and realised ₹77.79 crore from the sale of its non-core assets, which improved its liquidity position. In FY23, the company also prepaid its entire term loan. Considering the company's approach to become asset light by divestment of its assets and with no term loan outstanding, it is expected to have adequate liquidity position. As Allcargo Gati is a subsidiary of ALL, the management of both entities are the same. Considering ALL's financial strength and gradual improvement in Allcargo Gati's financial performance, CARE Ratings expects its credit risk profile 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 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 FY24. Over 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

Macroeconomic 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 over 650 districts in India covering over 19,000 pin codes. At the group level, Allcargo Gati offers a wide range of services – express distribution, SCM solutions, e-commerce logistics, MVATS, freight forwarding, and cold-chain logistics. At the group level, Allcargo Gati, has a network of over 600 offices, including 31 large hubs including 10 Air Hub, and maintains a fleet of over 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, GESCPL. About 87% of Allcargo Gati's revenue comes from express distribution under its subsidiary, GESCPL. 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 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 over 160 countries and over 300 offices covering over 4,000 port pairs across the world.

Brief Consolidated Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	1723.17	1697.99	834.59
PBILDT	70.08	52.15	37.14
PAT	-10.91	6.11	-3.47
Overall gearing (times)	1.24	1.42	NA
Interest coverage (times)	2.39	1.74	2.90

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: 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 and Rating Outlook
Fixed Deposit		-	-	30-09-3023*	0.13	CARE BBB (RWD)

*Outstanding pertains to unclaimed public deposit against which the company has created FD to the extent of ₹0.23 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 2024-2025	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
1	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (07-Dec-22)	1)CARE BBB; Stable (07-Oct-21)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (07-Oct-21)
3	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	-	1)Withdrawn (07-Oct-21)
4	Fixed Deposit	LT	0.13	CARE BBB (RWD)	-	1)CARE BBB (RWD) (27-Feb-24) 2)CARE BBB (RWD) (02-Jan-24)	1)CARE BBB; Stable (07-Dec-22)	1)CARE BBB; Stable (07-Oct-21)
5	Fund-based - LT-Bill Discounting/ Bills Purchasing	LT	-	-	-	-	-	1)Withdrawn (07-Oct-21)
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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Gati Express & Supply Chain Pvt Ltd	Full	Subsidiary
2	Gati Import Export Trading Ltd	Full	Subsidiary
3	Zen Cargo Movers Pvt Ltd	Full	Subsidiary
4	Gati Logistics Parks Pvt Ltd	Full	Subsidiary
5	Gati Projects Pvt Ltd	Full	Subsidiary
6	Gati Ship Limited	Moderate	Associate

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

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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