

ABC India Limited

February 06, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	14.74 (reduced from 16.93 cr)	CARE BB+ ; Stable (Double B Plus ; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	6.00 (reduced from 7 cr)	CARE A4+ (A Four Plus)	
Total facilities	20.74 (Rupees Twenty crore and seventy four lakh only)		

Details of facilities in Annexure-1

Detailed description of the key rating drivers

The ratings assigned to the bank facilities of ABC India Limited (ABC) continues to be constrained by the weak financial performance in FY18 (refers to the period April 1, to March 31) albeit improvement in H1FY19, low profit margin, intense competition, susceptibility of profits to volatility in fuel prices and working capital intensive nature of operations marked by high collection period. The ratings derive strength from the long experience of the promoters in logistics business, diversified portfolio of services with reputed client base and comfortable capital structure.

The ability of the company to increase in scale of operations, improve operating margin and efficient management of working capital funds remains the key rating sensitivities.

Key Rating Strength

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 professional management team and guidance of Mr Anand Kumar Agarwal (Chairman). Mr Anand Kumar Agarwal has over three decades of experience in transport business and Shri Ashish Agarwal has over a decade experience in transport business.

Well 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.

Reputed client base

ABC has a well-diversified and reputed client base. The client-base of the company includes, ABB India Ltd, Bharat Heavy Engineering Ltd, Techno Electric & Engineering Co. Ltd, KEI Industries Ltd. Moreover, ABC has been able to secure repeat orders from majority of the clients. ABC has received a large size project division order worth Rs.141 crore from BHEL in February 2018 to be executed by FY22, for multi-modal transportation of export cargo from India to project site in Bangladesh. ABC is also focusing on growing its Full Truck Load (FTL) business through an asset light business model by aggregating transporters from the unorganised sectors and focus towards generating regular business volumes.

Improvement in capital structure

ABC's overall gearing ratio has improved from 1.44x as on Mar.31, 2017 to 0.98x as on Mar.31, 2018 and further to 0.69x as on Sep.30, 2018 due to reduction of debt.

Key Weaknesses

Weak financial performance in FY18 albeit improvement in H1FY19

ABC's operating income declined by 28% y-o-y to Rs.57 crore in FY18 due to lower orders on account of implementation of GST in July 2017. Operational loss increased from Rs.0.34 crore in FY17 to Rs.5.44 crore in FY18 on account of loss incurred in construction division and lower profit from freight division. The reduction in overall revenue also led to lower recovery of fixed overheads leading to higher loss.

Lower capital charge coupled with profit from sale of assets, properties, and record management business led to nominal profit before tax in FY18 vis-à-vis loss before tax of Rs.6 crore in FY17. Although the GCA was low at Rs.1.39 crore in FY18, it serviced its debt obligation by disposing off non-core assets.

The performance of ABC improved in H1FY19 as compared to H1FY18 mainly due to improved performance of freight division (with execution of order from BHEL) and reduced operational loss in construction division. Operating margin

²Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

improved from 3.41% in H1FY18 to 5.87% in H1FY19. Interest cost reduced with reduction in overall debt level. With higher PBILDT and saving in interest expense, interest coverage ratio improved above unity in H1FY19. GCA in H1FY19 improved to Rs.0.7 crore vis-à-vis loss of Rs.1.21 crore in H1FY18.

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 has resulted in overall weak demand resulting in low order book position in the project logistics.

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 & construction division.

Working capital intensity with high collection period

ABC's business is working capital intensive on account of huge upfront expenses incurred in conducting operations through own fleet of vehicles as well as hired vehicles. The company provides credit period of around 90-120 days to clients. Further, the average collection period for the company although improved to 176 days in FY18 (against 188 days in FY17) is still on the high side.

Liquidity analysis

The average working capital utilisation remained high at around 95% for the 12 months ending November 2018. Operational loss and elongated collection period has led to a tight liquidity position. Hence, debt repayment and loss funding is being met out of proceeds from sale of non-core assets. Going forward, the healthy order book position and reduced debt repayment obligation are expected to improve the liquidity position of ABC.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Service Sector Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the company

ABC was promoted by Late Mr. P. D. Agarwal in 1972. The company has three business segments - surface transportation, project division and construction segment. The surface transportation provides the multi modal logistics services (road, rail, river, custom, storage and warehousing) and Over Dimensional Cargo services through a network of 47 branches and seven warehouses (with storage area of 86,272 square feet) across the country. The project division is mainly engaged in erection in cooling towers. The construction segment is engaged in civil construction activities in industrial belts. The company also operates one petrol pump.

Brief Financials (Rs. crore)	FY17 (A)	FY18(A)
Total operating income	73.43	57.08
PBILDT	-0.34	-5.44
PAT	-6.97	0.89
Overall gearing (times)	1.44	0.98
Interest coverage (times)	-0.66	-1.62

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Not applicable

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Facilities

Name of the Instrument	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 A4+
Fund-based - LT-Cash Credit	-	-	-	11.30	CARE BB+; Stable
Fund-based - LT-Term Loan	-	-	Dec.31, 2021	3.44	CARE BB+; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-Bank Guarantees	ST	6.00	CARE A4+	-	1)CARE A4+ (09-Oct-17)	1)CARE A3 (17-Mar-17)	1)CARE A3 (03-Mar-16) 2)CARE A3 (03-Apr-15)
2.	Fund-based - LT-Cash Credit	LT	11.30	CARE BB+; Stable	-	1)CARE BB+; Stable (09-Oct-17)	1)CARE BBB-; Stable (17-Mar-17)	1)CARE BBB- (03-Mar-16) 2)CARE BBB (03-Apr-15)
3.	Fund-based - LT-Term Loan	LT	3.44	CARE BB+; Stable	-	1)CARE BB+; Stable (09-Oct-17)	1)CARE BBB-; Stable (17-Mar-17)	1)CARE BBB- (03-Mar-16) 2)CARE BBB (03-Apr-15)

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