

ABC India Limited

August 29, 2019

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	14.44	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short term Bank Facilities	6.00	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Total	20.44 (Rs. Twenty crore and Forty Four Lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of ABC India Ltd (ABC) takes into account the improvement in the financial performance of the company in FY19 (refers to the period April 1 to March 31) and Q1FY20 marked by increase in operating income and profitability margins along with improvement in capital structure and debt coverage indicators. The ratings also factor in the improvement in order book position providing revenue visibility in the medium term.

The ratings continue to derive strength from the long experience of the promoters in logistics business, diversified portfolio of services and reputed clientele.

However, the ratings are constrained by the concentration in order book, intense competition impacting profitability, susceptibility of profits to volatility in fuel prices and high collection period.

The ability of the company to increase the scale of operations with diversification in order book, sustaining operating margin and efficient management of working capital while maintaining the capital structure are the key rating sensitivities.

Detailed description of the key rating drivers

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.

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 with increase in order book providing revenue visibility in the medium term

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. It has been progressing with the order satisfactorily and in June 2019, BHEL has awarded two contracts, one for Rs.137.5 crore and other for Rs.0.76 crore to ABC. These orders provide medium term revenue visibility.

ABC is also focusing on growing 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 25:75.

Consistent improvement in capital structure

ABC has been gradually reducing debt and the company's overall gearing ratio further improved to 0.59x as on Mar.31, 2019 from 0.98x as on Mar.31, 2018 with improvement in networth on account of improved profitability and lower debt. As on June 30, 2019, the overall gearing remained stable at 0.62x.

Improvement in financial performance in FY19

ABC's operating income significantly improved to Rs.115.04 crore in FY19 from Rs.58.88 crore in FY18 mainly due to higher execution of orders in FY19 in the freight division (with execution of BHEL orders). With higher recovery of fixed overheads and gradual reduction in the same, the company achieved significant improvement in PBILDT level (profit of Rs.8.75 crore

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

as against operating loss of Rs.3.81 crore in FY18). This was in spite of increased loss from the construction division. The company took various initiatives in FY19 to reduce operating cost. Hence, a combination of increased turnover, increased profitability from FTL operations and reduced operating cost led to improvement in profitability in FY19.

Capital charge reduced in FY19 as the company reduced its fleet size by sale of assets and also reduced borrowings resulting in lower depreciation and lower interest expense.

With improvement in operating performance and lower capital charge, the company reported operational profit before tax of Rs.4.23 crore in FY19 as against loss before tax of Rs.9.4 crore in FY18 (excluding exceptional income from sale of non-core assets). The company has nearly completed all its contracts in the construction division and the division is expected to have negligible turnover and loss going forward. Further, the company derives a stable income of about Rs.60 lakh from a petrol pump owned by it for which it has outsourced operations on commission basis.

Interest coverage ratio improved significantly to 2.25x in FY19 as against a negative figure in FY18. ABC generated a GCA of Rs.5.73 crore in FY19 as against Rs.1.39 crore in FY18.

In Q1FY20, ABC achieved operating income of Rs.48.10 crore and PBILDT of Rs.2.79 crore as against operating income of Rs.11.69 crore and operating loss of Rs.0.69 crore in Q1FY19.

Key Rating Weaknesses

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, lower project allocation has resulted in weak demand for fleet services that ABC provides. It has further depressed the profitability of the companies operating in transportation segment.

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.

Concentrated order book

The order book is concentrated with orders from BHEL contributing to about 90% of the order book. Diversification in the order book is a key rating sensitivity.

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 90-120 days to clients. Though the collection period continues to remain on the higher side, it improved to 101 days in FY19 as against 176 days as on FY18 with negotiation of better credit terms. The working capital requirement of the company is mainly funded through a mix of internal accrual and bank borrowings.

Liquidity: Adequate

The company has adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs.1.54 crore as on Mar.31, 2019. Liquidity position has also improved with improvement in operating cycle. The current ratio was moderate at 1.38x as on Mar.31, 2019.

Its capex requirements are low in the medium term and it proposes to finance the same through internal accruals. The average fund based working capital utilisation remained moderate at around 89% for the 12 months ending June 2019.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' 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, incorporated in 1972, is currently engaged in three business segments - surface transportation, project logistics and construction segment. 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 28 branches (reduced from 47) in 20 locations including warehouses across the country. The construction vertical undertakes civil construction activities in industrial belts specific to projects won by the company. The company also operates one petrol pump.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	58.88	115.04
PBILDT	-3.81	8.75
PAT	0.89	5.75
Overall gearing (times)	0.98	0.59
Interest coverage (times)	-0.89	2.25

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/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 A3
Fund-based - LT-Cash Credit	-	-	-	11.30	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	Dec 31, 2021	3.14	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-Bank Guarantees	ST	6.00	CARE A3	-	1)CARE A4+ (06-Feb-19)	1)CARE A4+ (09-Oct-17)	1)CARE A3 (17-Mar-17)
2.	Fund-based - LT-Cash Credit	LT	11.30	CARE BBB-; Stable	-	1)CARE BB+; Stable (06-Feb-19)	1)CARE BB+; Stable (09-Oct-17)	1)CARE BBB-; Stable (17-Mar-17)
3.	Fund-based - LT-Term Loan	LT	3.14	CARE BBB-; Stable	-	1)CARE BB+; Stable (06-Feb-19)	1)CARE BB+; Stable (09-Oct-17)	1)CARE BBB-; Stable (17-Mar-17)

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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