

## ABC India Limited

October 07, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	13.54 (Reduced from 14.44)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	6.00	CARE A3 (A Three)	Reaffirmed
<b>Total Facilities</b>	<b>19.54</b> <b>(Rs. Nineteen Crore and Fifty-Four Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ABC India Ltd (ABC) continue to draw comfort from the long experience of the promoters in logistics business, diversified portfolio of services, reputed clientele and moderate order book position. The ratings also factor in the significant increase in operating income in FY20 (refers to the period April 1 to March 31) and improvement in capital structure and debt coverage indicators, though profitability margins declined.

The ratings continue to remain constrained by the concentration in the order book, intense competition impacting profitability, susceptibility of profits to volatility in fuel prices and high collection period in the project segment.

#### Rating Sensitivities

*Positive Factors - Factors that could lead to positive rating action/upgrade:*

- Sustaining the increase in scale of operations with regular receipt and execution of orders.
- Ability to further grow and broaden the client base leading to diversification of the order book.
- Sustaining capital structure with gearing remaining below 0.50x.

*Negative Factors- Factors that could lead to negative rating action/downgrade:*

- Significant elongation of the operating cycle.
- Substantial decline in scale of operations.
- PBILDT margins reducing to below 5% on a sustained basis.
- Increase in overall gearing beyond unity.

### 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.

##### **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 moderate order book providing revenue visibility**

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. The residual work from the same stood at Rs.112.51 crore as on March 31, 2020 which is expected to be completed by June 2021. These orders provide revenue visibility.

ABC has also been witnessing growth in 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 10:90.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Consistent improvement in capital structure**

ABC has been gradually reducing debt and the company's overall gearing ratio further improved to 0.42x as on March 31, 2020 from 0.59x as on March 31, 2019 with improvement in networth and lower debt. There are no major capex plans in the medium term and the capital structure is expected to remain comfortable.

**Moderate financial performance**

ABC's operating income significantly improved to Rs.168.77 crore in FY20 from Rs.115.04 crore in FY19 mainly due to higher execution of orders in the project division. The profitability margin was however, impacted due to shifting of certain deliveries to Q1FY21 for which large part of cost was incurred in Q4FY20 and also due to provisions on long due receivables. The company achieved PBILDT of Rs.9.20 crore in FY20 as against Rs.8.75 crore in FY19.

The company reported PAT of Rs.4.27 crore in FY20 as against Rs.5.75 crore in FY19. Interest coverage ratio remained stable at 2.27x in FY20. GCA stood at Rs.4.55 crore in FY20.

In Q1FY21, the performance of the company was subdued on account of outbreak of Covid-19 with lower operating income of around Rs.23 crore and PBILDT of Rs.1.13 crore as against an operating income of Rs.48 crore and PBILDT of Rs.2.65 crore in Q1FY20. However, with the relaxation of lockdown restrictions, the business operations have picked up.

**Key Rating Weaknesses****Intense competition in the industry**

The profitability margin in the transportation and project segment is low due to intense competition from both organised as well as unorganised sector players. Further, lower project allocation has impacted demand for fleet services that ABC provides.

Though the overall demand prospects remain stable in the long term, there has been a slowdown in consumption demand with the ongoing COVID-19 pandemic. However, with gradual resumption of economic activities and reopening of roads, the demand is expected to recover.

**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. However, in majority of the orders, the margin for fuel cost fluctuations is taken into account in the pricing of the contract.

**Concentrated order book**

The order book is concentrated with orders from BHEL contributing to the major part of the order book. Going forward, the orders in the FTL segment are expected to increase and the company is also having a significant bidding pipeline for project division. Ability to garner new orders and further 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 100 days in FY20 as against 118 days as on FY19 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 average working capital utilisation remained moderate at around 80% for the 12 months ending August 2020 and the cash accruals are likely to be sufficient to meet the debt repayment obligations. The operating cycle has improved to 45 days in FY20 as against 82 days in FY19. The company had cash balance of Rs.2.62 crore as on August 31, 2020. The current ratio stood adequate at 1.44x as on March 31, 2020. ABC had availed moratorium on debt repayment in terms of the Covid-19 Regulatory Package of the Reserve Bank of India.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on Rating Outlook and Credit Watch](#)

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

[Criteria for Short Term Instruments](#)

[Financial Ratios- Non Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology- Service Sector Companies](#)

### About the Company

ABC, incorporated in 1972, is currently engaged in two business segments - surface transportation and project logistics. 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 19 branches (reduced from 28) in 20 locations including warehouses across the country. The company also operates one petrol pump.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	115.04	168.77
PBILDT	8.75	9.20
PAT	5.75	4.27
Overall gearing (times)	0.59	0.42
Interest coverage (times)	2.25	2.27

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

**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 for this company:** Annexure 4

#### 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	-	-	December 2021	2.24	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-Bank Guarantees	ST	6.00	CARE A3	-	1)CARE A3 (29-Aug-19)	1)CARE A4+ (06-Feb-19)	1)CARE A4+ (09-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	11.30	CARE BBB-; Stable	-	1)CARE BBB-; Stable (29-Aug-19)	1)CARE BB+; Stable (06-Feb-19)	1)CARE BB+; Stable (09-Oct-17)
3.	Fund-based - LT-Term Loan	LT	2.24	CARE BBB-; Stable	-	1)CARE BBB-; Stable (29-Aug-19)	1)CARE BB+; Stable (06-Feb-19)	1)CARE BB+; Stable (09-Oct-17)

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-** Not applicable

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

### Contact us

**Media Contact**

Mradul Mishra

Contact no: +91-22-6837 4424

 Email ID : [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)
**Analyst Contact**

Name: Ms. Mamta Muklania

Contact no. : 033-4018 1651/98304 07120

 Email ID : [mamta.khemka@careratings.com](mailto:mamta.khemka@careratings.com)
**Relationship Contact**

Name: Mr. Lalit Sikaria

Contact no. : 033-40181607

 Email ID: [lalit.sikaria@careratings.com](mailto:lalit.sikaria@careratings.com)
**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**