

## AVG Logistics Limited

December 13, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Remarks
Long-term Bank Facilities-Term Loan	11.50	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BBB and removed from Credit Watch with Developing Implications
Long-term Bank Facilities- Cash Credit	27.50	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BBB and removed from Credit Watch with Developing Implications
Short-term Bank Facilities	8.50	CARE A4 (A Four)	Revised from CARE A3+ and removed from Credit Watch with Developing Implications
<b>Total</b>	<b>47.50</b> <b>(Rupees Forty seven crore and fifty lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of AVG Logistics Limited (AVG) takes into account its stretched liquidity position resulting in the delays of around seven days in the interest servicing on its working capital limits. The rating revision also takes into account the qualified audit opinion in certain matters and material weaknesses identified by the auditor in the internal control systems of AVG as per the audit report for the period ended March 31, 2019.

Further, the ratings assigned to the bank facilities of AVG have been removed from credit watch with developing implications as the company has declared its H1FY20 results on November 21, 2019

Earlier the ratings were placed under credit watch with developing implications on account of delay in submission of H1FY20 results by the company to the stock exchange and resignation of the Chief Financial Officer (CFO).

The ratings continue to remain constrained by working capital intensive operations, ongoing capex for construction of warehouse along with continuous addition of owned fleet, revenue concentration risk in FMCG sector and competitive and fragmented nature of logistics industry.

The ratings however derive strength from extensive experience of promoters, reputed clientele, pan India presence with balanced mix of own fleet and third party vehicles and moderate financial profile.

Going forward, the ability of the company to profitably scale up the operations while maintaining its capital structure and liquidity position, along with revenue diversification and timely completion of the warehousing project within envisaged cost and timelines shall be the key rating sensitivities. Further, any additional investments in any group companies would remain the key monitorable factor.

### Key Rating Sensitivity:

#### Positive Sensitivity:

- Ability of the company to profitability scale up its operations while maintaining or enhancing its profitability margins by adding clientele from different industries
- Improvement in the liquidity position with effective management of the working capital limits on a sustained basis.

#### Negative Sensitivity:

- Any sizeable capex undertaken by the company impacting its capital structure with overall gearing of more than 1.5x on a sustained basis
- Any further stretch in the operating cycle on a sustained basis

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **Stretched liquidity position**

With the growing scale of operations (Rs. 315.60 crore in FY19) the working capital limits from the banks have not increased and continue to remain at Rs. 32.50 crore (including Rs. 5 crore of adhoc limits) thus resulting in stretched liquidity position and full utilization of the working capital limits. Further, there have been instances of delay of around seven days in the interest servicing of its working capital limits. The operating cycle stood at 57 days during FY19 and AVG had cash & bank balance of Rs. 2.36 crore as on March 31, 2019 and Rs. 7.31 crore as on September 30, 2019.

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

**Working capital intensive operations**

The company provides a credit period of around 45-60 days from the delivery of consignment. As the company is engaged in deliveries across the country, the delivery time adds up to the receivable cycle of the company. Further, with respect to the creditor, AVG has to make majority of payments (approx. 85%) to its vendors in advance for fuel. The business of the company 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 time gap in collection of receivables and upfront outflow of expenses results in large working capital requirement. The operating cycle stood at 57 days during FY19 (FY18: 61 days). These requirements are funded largely through working capital facilities. However, with the growing scale of operations the working capital limits from the banks have not increased and continue to remain at Rs. 32.50 crore (including Rs. 5 crore of adhoc limits) thus resulting in stretched liquidity position.

**Competitive and fragmented nature of the freight logistics industry**

Around 80-85% of the road freight transport industry consists of small transport operators that own less than five trucks, are fragmented and unorganized. The highly fragmented and unorganized nature of the industry results in intense price competition and may lead to pressure on the company's profitability in case of adverse situations.

Further, logistics operations are dependent on the overall economic condition of the country. Higher economic activity translates into higher freight movement which drives demand for road freight transport industry. However AVG's major exposure to FMCG sector partially mitigates risk arising from inherent cyclicity in logistics sector on account of stable demand from FMCG sector

**Key Rating Strengths****Experienced Promoters**

AVG has been promoted by Mr. Sanjay Gupta, who has an experience of more than three decades in the logistics domain. Prior to the incorporation of AVG, the promoter was into the transportation business through 'Prem Crane & Transportation Services' (PCTS started operations in 2000) and has also worked as CEO for Indo Arya Central Transports Limited. The promoter is assisted by a team of professionals who have substantial experience in the logistics domain. Further, the earlier CFO - Mr. Arun Kumar Goel resigned in November 2019 and the company appointed of Mr. Gurpreet Singh as the new CFO. Mr. Gurpreet Singh is a Chartered Accountant and has an industry experience of 20 years.

**Integrated logistics player with pan India presence and balanced mix of own fleet and third party vehicles**

AVG caters to a widely distributed Indian market by providing end-to-end supply chain services including logistics and warehousing and has presence in more than 60 locations.

As on November 30, 2019, AVG has a fleet size of 438 owned trucks (PY: 390) and more than 800 leased trucks. Thus, AVG's balance business model helps in maintaining profitability margins and saving on fixed costs in the event of business downturn.

AVG has warehousing area across the country equipped with infrastructure to service its customers. Further the company is constructing two more warehouses in Agartala and Mysore. The construction of both the warehouses is expected to be completed by March 2020. The total cost of the same is expected to be Rs. 16 crore and the same would be financed by equity (raised through IPO) of Rs. 12 crore and debt of Rs. 4 crore.

**Reputed Clientele, albeit customer concentration risk**

Over the period, the company has developed established relationship with several reputed customers across varied industries which include several leading multi-nationals and domestic companies mainly in the FMCG sector. Moreover, the company has agreement of 1 to 3 years with all its major customers and the agreement includes the escalation clause based on the 5% change in the diesel cost. However the concentration risk is mitigated to a large extent on account of repeat orders and relationship with majority of its customers over long period of time.

**Moderate Financial Profile**

As per the audited financials for FY19, AVG Logistics has registered growth of 39% in its total operating income to reach Rs. 315.60 crore in FY19 vis-à-vis Rs. 226.79 crore in FY18 marked by significant growth in freight income of ~38%. During FY19, AVG generated 83.61% (PY: 83.82%) of its total operating income from Road freight operations, while the warehousing income reduced to 4.60% (PY: 6.48%). The PBILDT margins moderated in FY19 at 9.34% (PY: 10.92%) as the company was unable to pass completely the hike in diesel prices to its customers. However, the PAT margins remained at 3.21% (PY: 3.33%).

The overall capital structure of AVG improved in FY19 on account successful completion of IPO in April 2018 which led to improvement of Net worth by Rs. 33.06 crore. The overall gearing improved to 1.05x as on March 31, 2019 vis-à-vis 1.70x as on March 31, 2018.

The other debt coverage indicators like Interest coverage ratio also improved to 4.05x in FY19. However on account of increased debt the total debt to GCA moderated at 4.42x as on March 31, 2019. Also AVG has provided a corporate guarantee of Rs. 39 crore for loan availed by its group concern M A Enterprises. Adjusting for the same, overall gearing

would be 1.62x as on March 31, 2019. Further the audited financials of AVG Logistics have been qualified for freight income of Rs. 19.45 crore, lorry-trip advance of Rs. 17.50 crore and computation of income tax as per the requirements of Income Tax Act, 1961. Adjusted revenue after considering the auditor qualifications would be Rs. 296.15 crore; Net worth Rs. 49.75 and overall gearing would be 1.46x as on March 31, 2019.

**H1FY20 Performance:** Total operating income of the company increased from Rs.133.77 crore in H1FY19 to Rs.145.33 crore in H1FY20; registering a growth of 9% on y-o-y basis. Further, PBILDT margins increased to 9.08% in H1FY20 from 8.36% in H1FY19. The overall gearing as on September 30, 2019 stood at 0.91x.

**Analytical approach:** Standalone along with factoring in the debt of M A Enterprises for which AVG has extended Corporate Guarantee.

#### Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[CARE's methodology for Short-term Instruments](#)

[CARE's methodology for service companies](#)

[CARE's methodology for financial ratios \(Non Financial sector\)](#)

[CARE's methodology for Factoring Linkages in Ratings](#)

#### About the Company

AVG Logistics Limited (AVG) was incorporated in January 2010 as a private limited company to provide road transportation services, warehousing facilities and Railway transportation to various domestic and multinational companies. AVG is promoted by Mr. Sanjay Gupta, who has an experience of more than three decades in the logistics domain.

Further, the company successfully completed its IPO and is listed on SME Emerge Platform of NSE on April 2018 by raising Rs. 33.06 crore. An anchor investor M/s Sixth Sense Opportunities II, promoted by Mr. Nikhil Vora has invested for 14.83% equity stake in the company (present holding 17.51% as on September 30, 2019)

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	226.79	315.60
PBILDT	24.77	29.48
PAT	7.55	10.12
Overall gearing (times)	1.70	1.05
Interest coverage (times)	3.88	4.05

A: Audited

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**Rating History for last three years:** Please refer annexure II

#### 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
Fund-based - LT-Cash Credit	-	-	-	27.50	CARE BB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	8.50	CARE A4
Term Loan-Long Term	-	-	June 2027	11.50	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 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.	Fund-based - LT-Cash Credit	LT	27.50	CARE BB; Stable	1)CARE BBB (Under Credit watch with Developing Implications) (19-Nov-19) 2)CARE BBB; Stable (01-Apr-19)	1)CARE BBB; Stable (05-Apr-18)	1)CARE BBB; Stable (05-Apr-17)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	8.50	CARE A4	1)CARE A3+ (Under Credit watch with Developing Implications) (19-Nov-19) 2)CARE A3+ (01-Apr-19)	1)CARE A3+ (05-Apr-18)	1)CARE A3 (05-Apr-17)	-
3.	Term Loan-Long Term	LT	11.50	CARE BB; Stable	1)CARE BBB (Under Credit watch with Developing Implications) (19-Nov-19) 2)CARE BBB; Stable (01-Apr-19)	-	-	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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