AVG Logistics Ltd.

April 01, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long-term Bank Facilities-Term Loan	11.50	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Assigned**
Long-term Bank Facilities- Cash Credit	27.50 (reduced from 29.50)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	8.50	**CARE A3+ (A Three Plus);**	**Reaffirmed**
Total	**47.50 (Rupees Forty seven crore and fifty lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of AVG Logistics Limited (AVG) continue to 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 marked by increasing scale of operations.

However, these rating strengths are partially offset 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.

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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

AVG has been promoted by Mr. Sanjay Gupta, who has an experience of approximately 30 years 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.

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 December 31, 2018, AVG has a fleet size of 390 owned trucks (PY: 264) and more than 800 leased trucks. Out of the 390 owned trucks 128 (PY: 85) are refrigerated 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 (~51.79% of the total operating income during FY18). 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 marked by increasing scale of operations

The total operating income of the company witnessed a growth of 15% in FY18 to reach Rs. 224.77 crore owing to

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

increase in income from warehousing and road freight income. During FY18, AVG generated 89.29% (PY: 89.56%) of its total operating income from Road operations, while the warehousing, railway and air services contributed to the balance 10.44% of the total operating income

The PBILDT margin of the company significantly improved in FY18 to 10.72% from 8.61% in FY17 on account of reduction in operational expenses and continuous addition of owned fleet. In line with increase in PBILDT margin, the PAT margin of the company increased to 3.35% in FY18 from 2.31% in FY17.

The overall gearing of the company improved from 2.03x as on March 31, 2017 to 1.72x as on March 31, 2018 mainly on account accretion of profits to net-worth. The other debt coverage indicators like total debt to GCA and Interest coverage ratio also improved to 3.97x and 3.78x in FY18.

H1FY19 performance: In H1FY19, AVG reported a growth of 30% in the total income to reach Rs. 133.77 crore and PAT of Rs. 3.10 crore. The PBILDT margins slightly moderated in H1FY19 to 8.36% as the company was unable to pass on the diesel price hike to the customers.

Further, in April 2018 (FY19), AVG successfully raised funds through IPO of Rs. 33 crore resulting in improvement in the capital structure. The overall gearing stood at 1.04x as on September 30, 2018.

Key Rating Weaknesses

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 average working capital utilisation stood at 61.42% for the 12-month ended February 2019.

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 cyclicality in logistics sector on account of stable demand from FMCG sector.

Analytical approach: Standalone

Applicable Criteria

CARE's Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

CARE's methodology for Short-term Instruments

CARE's methodology for Factoring Linkages in Ratings

CARE's methodology for financial ratios (Non Financial sector)

About the Company

AVG Logistics Limited was incorporated in January 2010 and is in the business of providing road transportation services and warehousing facilities to various domestic and multinational companies. AVG is promoted by Mr. Sanjay Gupta, who has an experience of approximately thirty years in the logistics domain.

As on December 31, 2018, AVG has a fleet size of 390 owned trucks and more than 800 leased trucks. The company successfully completed its IPO and got 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18(A)
Total operating income	194.86	224.77
PBILDT	16.78	24.10
PAT	4.50	7.54
Overall gearing (times)	2.03	1.72
Interest coverage (times)	3.06	3.78

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

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 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 BBB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	8.50	CARE A3+
Term Loan-Long Term	-	-	June 2025	11.50	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 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.	Fund-based - LT-Cash Credit	LT	27.50	CARE BBB; Stable	1)CARE BBB; Stable (05-Apr-18)	1)CARE BBB-; Stable (05-Apr-17)	-	1)CARE BBB- (20-Jul-15)
2.	Non-fund-based - ST-Bank Guarantees	ST	8.50	CARE A3+	1)CARE A3+ (05-Apr-18)	1)CARE A3 (05-Apr-17)	-	1)CARE A3 (20-Jul-15)
3.	Term Loan-Long Term	LT	11.50	CARE BBB; Stable	-	-	-	-

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