December 30, 2024

Associated Road Carriers Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]A+(Stable); reaffirmed
Total	**-**	**-**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to factor in Associated Road Carriers Limited's (ARCL/the company) promoters' experience of over five decades in the road logistics industry and ARCL's established relationships with its clientele. The rating also considers ARCL's highly diversified client base leading to revenue diversification across various industries, insulating the company from slowdown in any industry to some extent. ICRA expects the company's financial profile to remain strong characterized by negligible leverage and a comfortable liquidity position. Supported by a moderate growth in revenues and accruals, ARCL's credit metrics are expected to remain healthy.

While ARCL enjoys an asset-light structure with most of its fleet hired from the market, its margins remain exposed to inflationary pressures on overheads, volatility in fuel costs as well as spot hiring charges. The Indian logistics industry is highly fragmented with several logistics companies - mainly unorganized players and a few large market participants. The fragmented nature of the industry results in stiff competition, thereby exerting pressure on profitability margins to a certain extent. Further, limited value-added services reduce customer stickiness and expose the company to the risk of a shift in customer preference to integrated logistics service providers.

The Stable outlook on the rating reflects ICRA's opinion that ARCL will continue to maintain a comfortable financial profile supported by healthy accruals and no major debt addition plans.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters - ARCL benefits from the promoter's experience of more than five decades in the road logistics industry and its established relationships with its clients. Moreover, in FY2023, the second generation of the promoter family has been inducted as part of the top management.

Diversified customer base - The company is present in multifarious segments such as capital goods, heavy engineering, metals, minerals, mining and telecommunication. Thus, it derives its revenues from a granular customer base across various industries, thereby mitigating the risk of revenue decline due to any industry-specific downturns. With its top five clients accounting for only 5% of its revenues in H1 FY2025, ARCL's customer concentration risk remains low.

Robust capitalisation and coverage indicators with healthy liquidity – ARCL reported a healthy YoY revenue growth of 8.9% to Rs.1,711 crore in FY2024 on account of an increase in business from existing customers. ARCL follows an asset-light model resulting in low capex requirements; it also funds its working capital needs from its internal accruals. Thus, it is a debt free company, which along with moderate margins results in comfortable coverage indicators with TD/OPBITDA of 0 times as on March 31, 2024 (PY: 0.2 times) and interest coverage of 117.6 times in FY2024 (PY: 70.6 times). ICRA expects ARCL's capitalisation and debt coverage metrics to remain comfortable, supported by its nil debt levels and steady operating performance. The company had executed a share buyback of Rs.305.3 crores in FY 2023 and FY 2024.

Asset light business model- With more than 90% of its vehicles hired from the market, ARCL's lower share of owned vehicles helps in saving on fixed costs in the event of a business downturn.

Credit challenges

Profitability remains susceptible to inflationary pressures and input cost volatility - Since the contracts with its clients only allow partial pass through in case of significant rise in fuel prices, ARCL's profitability remains susceptible to fuel price volatility. Also, ARCL hires more than 90% of its fleet from the spot market. The high share of rental vehicles could impact ARCL's margins in the event of a significant short-term spurt in hire charges.

Intense competition from organised and unorganised players - The Indian logistics industry is highly fragmented, with several entities operating in the field -mainly unorganised players and a few large, organised players. Many competitors also offer integrated services or other value-added services. The fragmented nature of the industry results in stiff competition, thereby exerting pressure on profit margins. While operating margins witnessed some improvement in FY2024, they are expected to moderate slightly owing to competitive pressures.

Liquidity position: Strong

ARCL's liquidity is strong with free cash and liquid investment balances of Rs.73.4 crore as on September 30, 2024. The company does not have any significant capex plans. ARCL has no external debt outstanding on its books as on September 30, 2024 and there are no long-term repayment obligations.

Rating sensitivities

Positive factors – The ability of the company to significantly scale up its operations and improve its margins while maintaining its healthy liquidity position could lead to a higher rating.

Negative factors – Negative pressure on the ratings could arise in case of material decline in margins, increase in working capital intensity led by elongation in receivables cycle, buyback of shares or dividend payout resulting in deterioration of liquidity position and coverage indicators, on a sustained basis. Any sizeable capital expenditure (capex) or inorganic transactions materially impacting the liquidity position could also lead to a review of ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of ARCL

About the company

Incorporated in 1972, Associated Road Carriers Limited is engaged in surface transportation of cargo. The company's network covers more than 400 cities and towns across India (through its 585 branches and franchisee network) and operates on a hub-and-spoke model. ARCL's service encompasses transporting small parcels to heavy/odd dimensional cargo, and containers. The company caters to a wide range of industries such as capital goods, metals, cement and refractories, fertilisers and chemicals, power and energy, pharmaceutical, oil and petroleum, heavy engineering, automobile, construction and infrastructure, paper, textiles, and agriculture, among others.

ARCL's promoters, Mr. Ram Kumar Goel (Chairman and Managing Director), Mr. Chhabil Das Goyal (Joint Managing Director) and Mr. Banwarilal Sharma (Director), were employed with the Transport Corporation of India before floating ARCL. In

January2023, the next generation of the Goyal family was inducted into the company. They are currently involved in the business along with the first generation.

Key financial indicators (audited)

ARCL Standalone	FY2023	FY2024
Operating income	1,571.6	1,711.2
PAT	95.2	117.2
OPBDIT/OI	7.9%	8.7%
PAT/OI	6.1%	6.8%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.2	0.0
Interest coverage (times)	70.6	117.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Dec 30, 2024	Date	Rating	Date	Rating	Date	Rating
Issuer Rating	Long Term	-	[ICRA]A+ (Stable)	Dec 27, 2023	[ICRA]A+ (Stable)	Feb 15, 2023	[ICRA]A+ (Stable)	Feb 02, 2022	[ICRA]A+ (Stable)
Cash Credit	Long Term	-	-	-	-	-	-	Feb 02, 2022	[ICRA]A+(Stable); withdrawn
Letter of Credit & Bank Guarantee	Long Term	-	-	-	-	-	-	Feb 02, 2022	[ICRA]A+(Stable); withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer rating**	NA	NA	NA	-	[ICRA]A+(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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