

June 30, 2022

Avanthi Warehousing Services Private Limited: Ratings reaffirmed; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ CC	22.00	22.00	[ICRA]BBB+ (Stable); reaffirmed, Outlook revised to Stable from Positive
Long-term / Short-term – Non-fund based	22.00	22.00	[ICRA]BBB+ (Stable) / [ICRA]A2; reaffirmed; Outlook revised to Stable from Positive
Long term - Fund based TL	10.65	38.60	[ICRA]BBB+ (Stable); reaffirmed; Outlook revised to Stable from Positive
Long term – Unallocated	28.35	0.40	[ICRA]BBB+ (Stable); reaffirmed; Outlook revised to Stable from Positive
Total	83.00	83.00	

*Instrument details are provided in Annexure-1

Rationale

Avanthi Warehousing Services Private Limited (AWSPL), under a composite scheme of arrangement, has demerged its transportation services business into Awaze Limited and the warehousing services business will continue under AWSPL. Further, Saiyana Warehouse Private Limited, a Group entity providing warehousing services, is merged with AWSPL. The NCLT approval for the scheme was received in April 2022. For arriving at the ratings, ICRA has taken a consolidated view of the AWSPL and other entities operating in the Group, including Awaze Limited, given the close business as well as financial linkages, and common management. ICRA is given to understand that post-demerger, AWSPL will provide corporate guarantee to the bank facilities of Awaze Limited. The details of the consolidated entities are given in Annexure II.

The revision in outlook factors in the likely moderation in the company's debt coverage metrics in FY2023 owing to higher-than-expected debt-funded capex towards construction of warehouses. The operating margins declined by 200-250 bps in FY2022 due to reduced utilisation levels in AWSPL's warehousing business with no commensurate reduction in rentals from the lessors. The pressure of high input costs, in the form of fuel expenses, continues in FY2023 and the ability to optimally lease out warehouses and pass on the third-party lease rates is critical for supporting the operating margins in FY2023. It is exposed to project execution risk associated with the capex plans and offtake risks pertaining to the incremental capacities.

The rating continues to factor in its established track record of operations, supported by its widespread network and the promoters' extensive experience in the logistics industry. ICRA also takes note of AWSPL's established customer relationships, as reflected by repeat business from leading fertilizer companies. The asset-light model of transportation business, allows it to withstand cost pressures during industry downturns, although it constrains the margins to an extent.

The ratings, however, are constrained by company's modest scale of operations relative to its peers. Further, the ratings are constrained by high sector concentration as the fertilizer industry contributes to over ~90% of its revenues. Moreover, it faces high client concentration with the top five customers accounting for more than 80% of its revenues. AWSPL is also exposed to geographical concentration risk as it derives most of its revenues from Telangana and Andhra Pradesh (AP). The ratings consider the highly fragmented nature of the industry characterized by the presence of unorganized operators. AWSPL's leverage is comfortable with the estimated TD/OPBIDTA around 2.0x as on March 31, 2022. With debt funded capex being taken up by AWSPL, ICRA expects the leverage to increase in the medium term.

Key rating drivers and their description

Credit strengths

Established track record leading to reputed customer base – AWSPL has longstanding presence in the integrated logistics solutions space with presence across Andhra Pradesh and Telangana, leading to established customer relationships. It enjoys repeat orders from Coromandel Fertilisers Limited, Telangana State Markfed, Andhra Pradesh State Markfed, Fertis India Private Limited, etc. This provides stability to AWSPL's business volume and mitigates the counterparty risk to an extent, owing to its reputed clientele comprising private and Government bodies.

Asset-light model of operations for logistics business – AWSPL has an asset-light business model with a small in-house fleet of 60 trucks, while about 90% of the total requirement is met through hired fleet. The asset-light model of transportation business, though constraints margins to an extent, helps AWSPL in saving fixed costs and provides flexibility in case of industry downturns.

Comfortable leverage metrics, however, expected to increase due to debt funded capex – AWSPL's leverage is comfortable with the TD/OPBIDTA estimated to be around 2.0 times as on March 31, 2022. ICRA expects the leverage to moderate in the medium term, considering the debt funded capex plans.

Credit challenges

Moderation in operating margins in FY2022 - The operating margins declined by 200-250 bps in FY2022 due to reduced utilization levels in AWSPL's warehousing business with no commensurate reduction in rentals from the lessors. The pressure of high inputs costs, in the form of fuel expenses, continues in FY2023 and the AWSPL's ability to lease out and pass on the third-party lease rates is critical for supporting the operating margins in FY2023.

Project risks associated with debt-funded capex plans, expected moderation in coverage metrics going forward – AWSPL has significant capex plans towards warehouse expansions going forward. The higher-than-expected debt funded capex along with the pressure on operating margins is likely to moderate the debt coverage metrics in FY2023. AWSPL is exposed to the project execution risk associated with the capex plans. Besides it remains exposed to offtake risks.

Revenue concentration with a few clients belonging to single industry – Despite healthy revenue growth over the past few years, AWSPL's scale of operations continues to be moderate relative to the competition and market size. Moreover, AWSPL derives ~90% of its revenues from the fertilisers industry which are exposed to agro-climatic conditions and government policies. Besides, AWSPL faces high customer concentration as it derived more than 80% of its revenues from top five customers in FY2021-FY2022. However, these customers have been associated with AWSPL for the past 15 years and it has been operating in these regions over a long period. Further, AWSPL has high geographical concentration as it derives most of its revenues from Andhra Pradesh and Telangana.

Liquidity position: Adequate

AWSPL has unencumbered cash and liquid balances of Rs 21.3 crore as on March 31, 2022. The average working capital utilization for the 12 month period that ended in May 2022 stood at 60%. It has significant capex plans of worth over Rs. 100 crore during FY2023-FY2024, of which 70% is expected to be funded by external debt. It has long-term debt repayment obligations of Rs. 10.2 crore for FY2023 which are likely to be comfortably met from its cash flow from operations.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if AWSPL demonstrates significant revenue growth and an increase in profitability supported by the ramp up of the upcoming warehouses and diversification into new industries resulting in an improvement in the debt coverage metrics on a sustained basis.

Negative factors – Negative pressure on the ratings may arise if there is any significant decline in revenues or profitability or any stretch in the working capital cycle or an increase in debt-funded capex, impacting AWSPL’s liquidity position. Specific credit metrics that could lead to a rating downgrade include DSCR below 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	ICRA has taken a consolidated view of the AWSPL, Awaze Limited and other entities (mentioned in Exhibit 2) operating in the Group, given the close business, financial linkages, and common management.

About the company

Incorporated in 1997, AWSPL is a supply-chain logistics company, providing services such as warehousing, handling, supervisory and transportation to companies in fertilisers, FMCG, cement, paints, and agri-commodities industries, among others. The company is promoted by Mr. N. Narayana Reddy and family, with footprints spread across Telangana and Andhra Pradesh. It has 46 warehouses (of which 12 are owned by AWSPL, 9 are leased from its Group companies and the remaining are leased from others) with an aggregate capacity of 55,37,200 sft and an in-house fleet of 60 trucks to support its operations.

Key financial indicators (audited) - Consolidated

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	226.8	292.9
PAT (Rs. crore)	19.7	23.8
OPBDIT/OI (%)	14.4%	13.7%
PAT/OI (%)	8.7%	8.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4
Total Debt/OPBDIT (times)	1.2	0.8
Interest Coverage (times)	6.9	10.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on May 31, 2020 (Rs. crore)	Date & Rating on Jun 30, 2022	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
1	Cash Credit	Long-term	22.00	NA	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Non-fund Based Bank Facilities	Long-term & Short-term	22.00	NA	[ICRA]BBB+ (Stable)/[ICRA]A2	-	[ICRA]BBB+ (Positive)/[ICRA]A2	[ICRA]BBB+ (Positive)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2
3	Term Loans	Long-term	38.60	38.60	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
4	Unallocated Facilities	Long-term	0.40	NA	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Non-fund Based Bank Facilities	Very Simple
Term Loans	Simple
Unallocated Facilities	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: www.icra.in

Annexure-I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit-I	-	-	-	10.00	[ICRA]BBB+ (Stable)
NA	Cash Credit – II	-	-	-	12.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee - I	-	-	-	10.00	[ICRA]BBB+ (Stable)/[ICRA]A2
NA	Bank Guarantee - II	-	-	-	12.00	[ICRA]BBB+ (Stable)/[ICRA]A2
NA	Term Loan-I	FY2015	-	FY2023	1.03	[ICRA]BBB+ (Stable)
NA	Term Loan-II	FY2021	-	FY2025	0.48	[ICRA]BBB+ (Stable)
NA	Term Loan-III	FY2018	-	FY2025	0.48	[ICRA]BBB+ (Stable)
NA	Term Loan-IV	FY2017	-	FY2024	1.08	[ICRA]BBB+ (Stable)
NA	Term Loan-V	FY2015	-	FY2022	0.09	[ICRA]BBB+ (Stable)
NA	Term Loan-VI	FY2016	-	FY2023	0.82	[ICRA]BBB+ (Stable)
NA	Term Loan-VII	FY2015	-	FY2022	0.66	[ICRA]BBB+ (Stable)
NA	Term Loan-VIII	FY2022	-	FY2030	33.96	[ICRA]BBB+ (Stable)
NA	Unallocated	-	-	-	0.40	[ICRA]BBB+ (Stable)

Source: Company

Annexure-II: List of entities considered for consolidated analysis

Company	Ownership	Consolidation Approach
Avanthi Warehousing Services Private Limited	100.00% (rated entity)	Full Consolidation
Saiyana Warehouse Private Limited	-	Full Consolidation
Farmers Fertilisers Mixing Company	-	Full Consolidation
NDR Warehousing Company	-	Full Consolidation
Kakatiya Enterprises	-	Full Consolidation
Amrutesh Enterprises	-	Full Consolidation
N. Narayana Reddy firm	-	Full Consolidation
Awaze Limited	-	Full Consolidation

Source: Company

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