

Rating Rationale

Brickwork Ratings assigns ‘BWR BB+ (Stable)/ A4+’ Rating for Bank Credit Facilities aggregating ₹ 12 Crore of Avaneesh Logistics Pvt Ltd.

Bank Loan Rating: BWR BB+/ A4+

Outlook : Stable

Brickwork Ratings (BWR) has assigned the Rating¹ of **BWR BB+** (Pronounced BWR Double B Plus) with a stable outlook for the long term Bank Credit Facilities (CC) of ₹ 10 Crore and ‘**BWR A4+**’ (Pronounced BWR A Four Plus) for the Short term Bank credit facilities (BG) of ₹ 2 Crores of **Avaneesh Logistics Pvt Ltd.**’s (“ALPL” or “the Company”).

Facility	Limits (₹ Cr)	Tenure	Rating
Cash Credit	2.50	Long Term	BWR BB+ (Pronounced Double B Plus)
Proposed Cash Credit	7.50	Long Term	BWR BB+ (Pronounced Double B Plus)
B.G	0.5	Short Term	BWR A4+ (Pronounced BWR A Four Plus)
Proposed B.G	1.5	Short Term	BWR A4+ (Pronounced BWR A Four Plus)
Total	₹12.00 (INR Twelve Crores only)		

The rating reflects promoters experience and expertise with established market position in the logistics business, long standing relations with reputed customer base, strong profitability and coverage indicators, huge potential market with increase in industrial activities in the area resulting revenue visibility, and promoters ability to infuse equity as per business requirement.

The rating is however constrained by company’s relatively small scale of operations restricting economies of scale, profitability highly susceptible to volatility in fuel prices, industry characterized by severe competition from unorganized players in market, concentrated expertise limiting scope for diversification and exposure to cyclical end user industries.

Operations

Incorporated in 1980 as partnership firm, Sapra Transport was involved in the business of material handling, transportation and mining. Since April 2011, the business was transferred

¹ Please refer to BWR website www.brickworkratings.com for definition of the Ratings.

to Avaneesh Logistics Pvt limited. Since inception the company has its operations and registered office in Nagpur and have catered to various organizations and have expanded its operations phenomenally.

Work Specialisation

- Liasioning with Western Coal fields for all coal related matter from linkage of coal to lifting of coal from mines.
- Handling of bulk material i.e. coal, iron ore, limestone, gypsum, slag & sand etc.
- Rake loading and unloading.
- In plant handling of material
- Operation & Maintenance of coal feeding circuit
- Excavation of mines

Company at times enters into quarterly or yearly contracts with clients for transportation of minerals or other raw materials to their factories. Contracts includes cost escalation clause reflecting company's ability to pass on increase in fuel cost. During peak period the company has arrangement with small transporters inorder to increase the capacity of fleets. Company has very good contacts and goodwill in the markets which helps them to make such arrangements easily. Fourth quarter of the year is generally peak season for the company and majority of billing takes place during this period.

Company is not involved in aggressive marketing as majority of orders are received on account of promoters long standing contacts and strong relationship with the clients with quality of services provided by the company, reflecting repeat order from existing clients and new orders as well. Mr. Anil Sapra personally looks after marketing activities and has very good contacts in the markets reflecting continuous and steady flow of business.

Financial performance

Revenues increased by 30% to Rs. 40Cr, compared to Rs. 30Cr. in FY11, on account of acquisition of new orders and increase in volumes of material & mineral handling. Recently company has seen surge in mineral handling activities due to increase in industrial activities in vidharbha area. Company maintains healthy operating margins of 13% on account of better cost management and increase in scale of operations resulting operating leverage. Net profit margin, however have remained thin at 1.5% on account of high director's remuneration and increase in other expenses. Going further revenue is expected to increase mainly on account of increase in business activities due to two power plants project coming up in the area. Operating profit margin is expected to maintain current level.

Due to service nature of business, Company is not required to maintain any inventory. Company generally provides credit period of average 30-45 days to their clients. However, due to higher business activities during last quarters has resulted in higher debtors days. Creditors which mainly consist of subcontractors provide credit period of 30-45 days for the company. However going forward company is expecting to increase its reliance on bank funding to pay off subcontractors, because the discounts provided by them on immediate payments of dues is much higher than interest outgo. Working capital requirement for the company is higher during peak season due to increase in business activities.

Debt levels mainly consist of working capital limits and term loan taken for purchase of equipments. Debt levels are expected to increase due to increase in bank cash credit limits from Rs. 2.5 Cr. To Rs. 10 Cr. Debt equity ratio is expected to increase in FY13 (although at comfortable level), on account of increase in debt levels, however partly mitigated by increase in networth. Networth of the company has been on upward trend on account of better profitability which is again ploughed back into the business. Partners are committed for further equity infusion as per business requirement. Comfortable coverage ratios along with low gearing reflects the ability of the company to pay its dues in timely manner and provides further room for additional debt for expansion. NCA/Total debt has shown improving trend over recent past driven by better operating performance and declining debt levels. However, going further NCA/Total debt is expected to decline marginally on account of increase in debt levels due to higher utilization of bank facilities.

Outlook

Going forward, the firm's ability to maintain favourable capital structure and effectively manage its working capital along with the substantial growth in revenues, profit margins and cash accruals would be key rating sensitivities for the firm.

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Annexure I- Key Financials- Avaneesh Logistics Pvt Ltd

Ratios	2011	2012
	Audited	Audited
Operating Income	30.39	39.67
EBITDA	3.53	5.21
PAT	0.69	0.60
Long term borrowings	6.40	7.38
Short term borrowings	2.53	2.48
Total Debt	8.93	9.86
Paid Up Equity Capital	0.10	0.10
Reserves & Surplus	11.34	11.94
Tangible Net worth (Rs. Cr)	12.52	13.56
Debt to Equity (x)	0.79	0.86
Interest Coverage (x)	3.40	3.89
EBITDA Margin (%)	11.62%	13.13%
PAT Margin (%)	2.26%	1.51%
Net Cash Accruals / Total Debt (x)	0.25	0.33
Current Ratio (x)	1.11	1.22

**Calculations has been based on BWR ratio definition*