December 27, 2023

# Associated Road Carriers Limited: Ratings 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 factors in ICRA's expectation that Associated Road Carriers Limited's (ARCL/the company) financial profile will remain strong characterised 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. With a highly diversified client base leading to revenue diversification across various industries, the company is insulated from slowdown in any industry to some extent. The rating also considers the promoters' experience of over five decades in the road logistics industry and ARCL's established relationships with its clientele.

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 unorganised players and a few large market participants. The fragmented nature of the industry results in stiff competition, thereby exerting pressure on profitability margins in renewal of contracts. 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 receive healthy business across its segments supported by its granular customer base. Moreover, the company is expected 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 promoters' experience of more than five decades in the road logistics industry and its established relationships with its clients. Moreover, since FY2023, the second generation of the promoters have been inducted as part of the top management to address the long-term succession plans.

**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 industry sectors, thereby mitigating the risk of revenue decline due to any industry-specific downturns. With its top five clients accounting for only 4.7% of its revenues in H1 FY2024, ARCL's customer concentration risk is low as well.

**Robust capitalisation and coverage indicators with strong liquidity –** ARCL follows an asset-light model resulting in low capex requirements and it funds its working capital needs internally. Thus, it has negligible dependence on debt, which along with moderate margins results in comfortable coverage indicators with TD/OPBITDA of 0.2 times as on March 31, 2023 (PY: 0.3 times) and interest coverage of 70.6 times in FY2023 (PY: 67.3 times). ICRA expects ARCL's capitalisation and debt coverage metrics to remain comfortable, supported by its negligible debt levels and steady operating performance. In FY2023, the company had executed a share buyback of Rs. 181 crore.

**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 market vehicles could impact ARCL's margins in the event of a significant short-term spurt in hire charges owing to tight demand conditions. Being one of the largest fleet operators in the regions of its operations with sizeable bargaining power with brokers; however, this risk is mitigated to an extent.

**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 FY2023, 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 around Rs. 200 crore as on November 30, 2023. The company does not have any significant capex plans. ARCL has no external debt outstanding on its books (as on November 30, 2023) and neither any 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, 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 rating review.

## 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 January 2023, the next generation of the Goyal family was inducted into the company. They are currently involved in the business along with the first generation.

In 8M FY2024, the company achieved revenues of Rs. 1,080 crore on a provisional basis.

### Key financial indicators (audited)

| ARCL Standalone | FY2022 | FY2023 |
|---|---|---|
| **Operating income** | 1,368.4 | 1,571.6 |
| **PAT** | 66.9 | 95.2 |
| **OPBDIT/OI** | 6.1% | 7.9% |
| **PAT/OI** | 4.9% | 6.1% |
| **Total outside liabilities/Tangible net worth (times)** | 0.2 | 0.3 |
| **Total debt/OPBDIT (times)** | 0.3 | 0.2 |
| **Interest coverage (times)** | 67.3 | 70.6 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of March 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Dec 27, 2023 | Feb 15, 2023 | Feb 02, 2022 | Jan 07, 2021 |
| 1 | **Issuer rating** | Long-term | - | - | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** | - |
| 2 | **Cash Credit** | Long-term | - | - | - | - | **[ICRA]A+ (Stable); withdrawn** | **[ICRA]A+ (Stable)** |
| 3 | **Letter of Credit & Bank Guarantee** | Long-term | - | - | - | - | **[ICRA]A+ (Stable); withdrawn** | **[ICRA]A+ (Stable)** |

## 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 | NA | [ICRA]A+ (Stable) |

*Source: Company*

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

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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