RATING REPORT

Agility Logistics (Pvt.) Limited

REPORT DATE:
December 24, 2020

RATING ANALYST:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-2	A	A-2
Rating Date	*December 24, 2020*		*January 3, 2020*	
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Initial*	

COMPANY INFORMATION	
Incorporated in 2001	**External auditors:** A. F. Ferguson & Co. Chartered Accountants
Private Limited Company	**Chairman & Chief Executive Officer:** Moin A. Malik
Key Shareholders (with stake 5% or more):	
Agility (Asia/Pacific) Limited, British Virgin Islands	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Agility Logistics (Pvt.) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Agility Logistics (Pvt.) Limited was incorporated in 2001 as a (Private) Limited Entity. Financial Statements of the company for FY19 were audited by A.F Ferguson & Co.

Agility Logistics (Pvt.) Limited (ALPL) is a wholly-owned subsidiary of Agility (Asia/Pacific), British Virgin Islands. The ultimate parent company of ALPL is Agility Public Warehousing Company K.S.C (APWC) which was incorporated in 1979, as PWC logistics in Kuwait. APWC started its operation as a government-owned enterprise in Kuwait and was privatized in 1997. The company's shares have been floated on the Kuwait Stock Exchange (KSE: AGLTY) since 1984 and the Dubai Financial Market (DFM: AGLTY) since 2006. APWC is amongst the largest logistic service providers in the Middle East and has expanded its footprint in Asia, Africa and Latin America via acquisitions and setting up its operations in the aforementioned places. As at end-Dec'2019, APWC reported total assets and net equity of KD 2.08b, and KD 1.1b, respectively while net profit for 2019 amounted to KD 100.0m.

Agility Presence Worldwide			
America	**Europe**	**Middle East & Africa**	**Asia Pacific**
24 Countries	32 Countries	23 Countries	24 Countries
100 Offices	130 Offices	80 Offices	160 Offices
1,400 Employees	2,600 Employees	9,500 Employees	9,500 Employees

Agility Pakistan

ALPL operations in Pakistan are handled by more than 700 employees situated in 8 branches spread across Pakistan, with its head office being located in Karachi.

Karachi	Rahimyar Khan	Sahiwal	Lahore	Islamabad
Head Office	Branch Office	Branch Office	Branch Office	Branch Office
Branch Office	Distribution Office	-	Distribution Office	Distribution Office
Distribution Office	**Bhawalpur**	**Faisalabad**	Airport	Warehouse
Warehouse	Distribution Office	Branch Office	Warehouse	Airport
Airport	**Bahawalnagar**	**Sheikhupura**	**Sargodha**	-
Sea Port	Distribution Office	Branch Office	Distribution Office	-
Sukkur	**Multan**	**Gujranwala**	**Sialkot**	-
Distribution Office	Branch Office	Distribution Office	Branch Office	-
Warehouse	Distribution Office	-	-	-

ALPL provides end-to-end supply chain and logistics solution (One window solution) for its clients. The company provides freight forwarding & handling, customs clearance, fleet management, warehousing and distribution services to its clients. The coverage of these services expands to diversified range of clients such as multi-national corporations (MNCs) and large local corporates who have had a lengthy association with the Company. Presence across a diverse array of segments allows the Company to cross sell services to clients which has contributed to increasing revenues over the years.

Business Segments

The Company's operations can be segregated into two broad segments; income from services and revenue from sale of goods. Revenue from services segment comprises income earned from freight forwarding & handling, customs clearance, fleet management and warehouse related services. Revenue from sale of goods represents sales revenue of the distribution segment.

Fleet Management:

Fleet management segment caters to transportation requirements of clients and represents around 17% of the total revenues. Large clients within the fleet management segment include Unilever Pakistan Limited, Sindh Engro Coal Mining Company, Colgate Palmolive Limited, and Friesland Campania. The company also has a sizeable fleet of vehicles to cater to client needs. Around two-third of the fleet is owned by ALPL while the remaining is outsourced.

Freight Forwarding & Handling:

The Freight Forwarding & Handling segment deals in import and export related services. This segment contributes around one-fourth of the company's revenue. Client base in the segment includes a number of local companies and MNCs and who are recommended by the global agility network.

Warehousing:

Warehousing segment contributes around one-fourth to the topline of the company. During FY19, healthy growth in income was recorded from the warehousing segment. ALPL has warehousing presence in North, Central and South of the country with a total space (covered & open area) of 2.2m sq.ft coupled with 28 vehicles for warehousing segment to cater clients' needs. With growing warehousing demand and to curtail rental expenses, ALPL is constructing a warehouse of 420k sq.ft on an already purchased land, and will move its three existing rental warehouse operation to the same. As per the company's management, ALPL will target more customers in the warehousing segment, as margins in this segment compare favorably to other segments. Leading clients in the segment include Procter & Gamble Pakistan (Pvt.) Ltd., Nokia, Pakistan Mobile Communications, National Foods Limited, and Lotte Akhtar Beverages (Pvt.) Ltd.

Custom Clearance:
The Custom Clearance Segment is a rapidly growing segment. While proportion in overall revenues is small, growth in income from Custom Clearance business was recorded at a healthy 35%. Major clients in this segment include Unilever Pakistan Limited, Mondelez Pakistan Limited, General Electric, and Red Bull.

Distribution:

Distribution segment facilitates customers through transporting goods from manufacturers' warehouse to point of sale. Owing to massive supply chain disruptions in the country due to the outbreak of COVID-19, the segment faced a decline of 13% in revenues. Historically, the segment has recorded healthy growth in revenues. The company incurred hindrances during the lockdown period, however it has been able to recover post-lockdown and is expecting to reach Pre-COVID-19 growth levels. Top five clients in distribution segment include Shell Pakistan Limited, Friesland

Campania, Samsung Dubai, and Nestle Pakistan Limited.

Rating Drivers Summary

Assigned ratings to ALPL incorporate strong sponsor profile and demonstrated track record of support of Agility Group who have a global presence and are amongst the leading logistics & supply chain players in the Middle East. Ratings also reflect the Company's position as an end to end logistics and supply chain service providers in the country. Business risk profile draws support form diversified nature of operations and revenue stream and strong client base primarily comprising MNCs (including sticky global relationships) and large local corporates. However, revenues remain exposed to macroeconomic volatility while overall customer concentration is on the higher side. Comfort is drawn from high customer retention, lengthy association with most clients and continuous addition of new clients. While revenues have been impacted in the ongoing year due to Covid-19, the Company has historically posted healthy growth in revenues (CAGR of 18% from 2015-2019). Assessment of financial risk profile incorporates strong projected growth in revenues, which along with cost rationalization initiatives are expected to result in improvement in profitability which currently remains modest due to thin margins and high effective tax rate. Ratings are constrained by low quantum of cash generated from operations and free cash flows. Conversion of existing long-term loan to equity and reversal of accrued markup (expected in 2021) has been incorporated in the ratings in previous review which will strengthen capitalization and profitability indicators. Overall corporate governance infrastructure is considered sound and is supported by a well-designed organizational structure & clear reporting lines, solid IT platform and documented policy & procedural framework.

Financial Profile

Sales are expected to depict decline in 2020 due to impact of Covid-19 particularly on revenues from the distribution segment. Revenues are expected to post double digit growth in 2021 on the back of new client additions, growing export business, and diversified operations.

The sales of the Company have grown at a Compound Annual Growth Rate (CAGR) of 18.0% during 2015-2019. However, sales are expected to be lower by around 10% in 2020. Decline in revenues is primarily on the back of lower Revenue from Sales of Goods while growth momentum was maintained from the services segment. Going forward, revenues are expected to record double digit growth in 2021 with healthy growth from services segment and recovery in sales from distribution segment. Growth will be supported by increasing export business, new customer additions, and diversified operations. In terms of segment wise growth, the Company expects increase in Fleet Management and Warehousing segment to be higher than other segments.

Gross Margins have remained low given competitive sector dynamics and depicted variation within a narrow band over time due to fluctuations in segmental revenues. Overall profitability will be supported by lower finance cost (due to lower benchmark rates and conversion of long-term loan into equity) and effective cost controls.

Variations in segmental revenues have resulted in fluctuations in Gross Margins within a narrow band over time. Given competitive sector dynamics, margins are expected to remain on the lower side but overall profitability will be driven by growth in revenues. While expenses have increased overtime in absolute terms, overhead to sales ratio has remained constant. The company has implemented stringent cost controls and taken a number of cost rationalization initiatives in order to manage expenses. However, higher interest rates and sizeable exchange losses exerted downward pressure on profitability. The Company has secured approval for converting long-term debt from Parent Company to Equity and reversal of accrued markup, which will significantly reduce Finance Costs and improve Profitability. Going forward, profitability profile will be supported by revenue growth and cost rationalization initiatives.

While quantum of cash generated from operations remained low, the same has increased on a timeline basis.

Funds from Operations (FFO) increased to Rs. 205.5m (FY18: Rs. 97.0m, FY17: Rs. 233.2m) in FY19 and the Cash Flow from Operations (CFO) turned positive. While cash flow coverage has increased, the same has room for improvement. Cash flow coverage of outstanding debt will enhance further up on conversion of Long-term Debt to equity. CAPEX incurred increased to Rs. 325.7m (FY18: Rs. 193.3m) in FY19 due to additions in Equipment and Vehicles. Despite increase in CAPEX, Free Cash Flows were positive in the outgoing year. Going forward, CAPEX is expected to increase on account of new warehouse construction plans. CAPEX for warehouse construction will be funded through borrowings. The current ratio was reported at 1.0x (FY18: 1.1x) at end-FY19.

Capitalization indicators draw support from strong sponsor profile and projected conversion of existing long term intercompany loan to equity over the rating horizon.

Equity base (including long term loan from the parent company) of the company was reported at Rs. 2.6b at end-FY19. Debt structure comprises a combination of Short and Long-term Debt. Horizontal trend indicates that the short term borrowing is depicting an increasing trend due to higher working capital requirements. Long-term loan primarily includes an intercompany loan from the parent company, having a mark-up rate of LIBOR plus 1.5% per annum. The Company has secured approval for converting the Principal amount on the same to equity while accrued mark-up will be reversed; thus increasing the Equity Base. Long-term loan includes a finance lease liability amounting to Rs. 69m. Gearing and Leverage Ratios stood at 0.4x (FY18: 0.3x; FY17: 0.2x), and 1.3x (FY18: 1.1x; FY17: 0.9x) respectively. Going forward, leverage indicators are expected to increase on account of debt draw down for funding CAPEX for new warehouse.

Corporate Governance

Overall corporate governance framework is supported by adequate internal control systems in place and solid IT infrastructure.

The assigned ratings incorporate ALPL's experienced senior management team which is supported by a well-defined organization structure and reporting lines. The company has an in-house internal audit department reporting to the CFO while policies and procedures are documented. Ratings draw support from integrated IT infrastructure and continuous focus on hardware and network infrastructure upgrades along with adequate backup procedures. Given the diverse nature of services provided, the company uses different software for warehousing, fleet management, custom clearance, distribution and records management. These are integrated into centralized systems for corporate reporting and report generation to cater to management requirements. The existing IT infrastructure is a competitive advantage and facilitate in client serving.

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix I

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					**Appendix III**
Name of Rated Entity	Agility Logistics (Pvt.) Limited				
Sector	Logistics and Distribution				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	24-Dec-20	A	A-2	Stable	Reaffirmed
	03-Jan-20	A	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**		
	Muhammad Salman Qureshi	CFO and Executive Director	November 25, 2020		