RATING REPORT

Agility Logistics (Pvt.) Limited

REPORT DATE:
November 18, 2021

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	*November 18, 2021*		*December 24, 2020*	
Rating Outlook	Rating Watch-Developing		Stable	
Rating Action	*Maintained*		*Reaffirmed*	

RATING ANALYST:
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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 (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.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 2020 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'2020, APWC reported total assets and net equity of USD 7.4b (2019: USD 6.8b), and USD 3.72b (2019: USD 3.62b), respectively while net profit for 2020 amounted to USD 169.2m (2019: USD 329.0m).

Agility Presence Worldwide			
America	**Europe**	**Middle East & Africa**	**Asia Pacific**
24 Countries	32 Countries	23 Countries	24 Countries
104 Offices	130 Offices	80 Offices	160 Offices

<u>In Pakistan, ALPL is positioned as a mid-sized logistics company in terms of revenue relative to other logistics service providers.</u>

<u>DSV Panalpina A/S acquires Agility's Global Integrated Logistics (Agility GIL) Business Arm</u>

As per a Press Release dated August 16, 2021, Agility GIL was acquired by DSV Panalpina A/S (DSV). Agility GIL is the global logistics division of APWC. DSV is a Denmark based Global Transport and Logistics company that currently has presence in Pakistan. Main segments in which it operates internationally include DSV Road, DSV Air & Sea, and DSV Solutions. As per the acquisition arrangement, Logistics hand- Agility GIL- encompassing freight forwarding and handling business through road, air and sea will be amalgamated with DSV, fortifying DSV's market position in the world's top three largest transport and logistics company. This acquisition by DSV is in exchange of 8% shareholding in DSV by Agility GIL.

The company is currently under the country-wise integration process whereby freight, forwarding and handling business in Pakistan will also be transferred to DSV's operations in Pakistan over the next six months. The transfer mechanism includes phasing out of current contracts with ALPL and renewals contracts will be executed with DSV, Post transfer, the name of ALPL is expected to change to Ágility Solutions. All operational and sales staff of the freight, forwarding and handling segment will be transferred to DSV; however, the senior management at ALPL shall remain with the company only. Revenue mix of ALPL has depicted sizeable growth in the freight & forwarding business with the same comprising 38.8% of the total in 2020. The growth is attributable to shift in orders from regional countries. This whole business segment will be shifted to DSV once the integration is completed. No financial impact of the merger is expected in 2021 since the process may take another six months from the date of merger announcement. Post integration, the company's business mix shall largely comprise distribution sales followed by warehousing business. Management expects growth in these segments to off-set the impact of loss of freight & forwarding business segment; though the same may take some time.

Agility Pakistan

ALPL operations in Pakistan are handled by more than 700 employees situated in 8 branches spread across Pakistan, with its head office located in Karachi. ALPL provides end-to-end supply chain and logistics solution (One window solution) for its clients. Services include freight forwarding & handling, customs clearance, fleet management, warehousing and distribution services. 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. Given integration of freight and forwarding business with DSV, the management will either close or transfer six of the relevant branches to DSV.

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.

Freight Forwarding & Handling:

The Freight Forwarding & Handling segment deals in import and export related services. This segment contributed around two-fifth (2019: one-fourth) of the company's revenue. Client base in the segment includes a number of local companies and MNCs. As discussed above, this segment will be transferred post-merger with DSV, significantly affecting aggregate top line of ALPL.

Fleet Management:

Fleet management segment caters to transportation requirements of clients and represented around 14% (2019: 15.5%) of total revenues during 2020. Large clients within the fleet management segment include Unilever Pakistan Limited, Sindh Engro Coal Mining Company, Colgate Palmolive Limited, Jade E-Services Pakistan and Friesland Campania. The company possesses its own sizeable fleet of vehicles to cater to client needs. Around two-thirds of the fleet is owned by ALPL while the remaining is outsourced.

Warehousing:

Warehousing segment contributed around 18.4% (2019: 21.6%) in 2020 to the topline of the company. 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. 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 Lotte Akhtar Beverages (Pvt.) Ltd, Procter & Gamble Pakistan (Pvt.) Ltd., Pakistan Mobile Communications, National Foods Limited, and Nokia Solutions & Network.

Custom Clearance:

Proportion of this segment in overall revenues is small at around 2.8%. Major clients in this segment include major MNCs such as Unilever Pakistan Limited, Mondelez Pakistan Limited, General Electric, Pakistan Petroleum Limited and Red Bull.

Distribution:

Distribution segment facilitates customers by transporting goods from manufacturers' warehouse to point of sale. Owing to supply chain disruptions caused by COVID-19, the segment faced a decline of 23% in revenues. Historically, the segment has recorded healthy growth in revenues. The company faced 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, Nestle Pakistan Limited and Fauji Fresh & Freeze Private Limited. The management envisages proportion of distribution segment to increase, going forward.

Key Rating Drivers

Assigned ratings to ALPL incorporate strong sponsor profile and demonstrated track record of support of Agility Group who have a global presence and are one of the leading logistics & supply chain players in the Middle East. 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.

Financial Profile

Revenue base is projected to depict a decline in 2022 due to impact of transfer of freight and forwarding business to DSV. Projected growth in the remaining segments particularly distribution and warehousing segment shall be on the back of higher business from existing clientele, and new client additions.

Sales revenue of the Company has grown at a Compound Annual Growth Rate (CAGR) of 16.0% during 2016-2020. For 6M2021, sales revenue was reported at Rs. 7.65b. Growth in revenue base during the outgoing and ongoing year was a function of exorbitant growth of 82% in freight forwarding and handling segment. Revenue from the distribution segment declined owing to supply chain disruptions amidst COVID-19. Revenues during 2021 are expected to be reported higher due to full year impact of new client additions at the end of the outgoing year Mercantile, National Foods and E-Store Samsung. Revenue base is projected to depict a decline in 2022 due to impact of transfer of freight and forwarding business to DSV. As per management, key focus going forward will be towards the distribution segment followed by warehousing segment. Growth in these segments is projected on the back of higher business from existing clientele, along with new client additions.

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 bottom-line of the company will be affected by reduced top-line and lower margins from distribution and warehousing segments post completion of transfer of higher margin earning freight and forwarding business, going forward.

Variation in segmental contribution to revenues has resulted in fluctuations in overall gross margins within a narrow band over time. Gross margins reduced in the ongoing year on account of high cost of freight. Given competitive sector dynamics, margins are expected to remain thin. Lower finance costs as a result of conversion of long-term loan from Parent Company to equity and one-off income on reversal of accrued markup on the same enabled the company to report a net profit after tax to the tune of Rs. 380m in 2020. In absence of one-off income, overall net profit was reported lower at Rs. 21m in 1H2021. The company has continued to implement stringent cost controls and taken a number of cost rationalization initiatives in order to manage expenses. Going forward, overall bottom-line of the company will be affected by reduced top-line and lower margins from distribution and warehousing segments post completion of transfer of higher margin earning freight and forwarding business.

While quantum of cash generated from operations remained low, coverages of the same against outstanding obligations have witnessed improvement on a timeline basis.

Funds from Operations (FFO) increased to Rs. 231.6m (2020: Rs. 359.4m, 2019: Rs. 231.3m) in 1H2021. While the quantum of FFO remain on the lower end as compared to peers, coverages against outstanding obligations improved on a timeline basis being a function of conversion of Long-term Debt to equity. The company has no plans to mobilize long-term debt going forward. Cash conversion cycle of the company was elevated in the ongoing year due to extensions in credit terms requested by clients. Management envisages credit terms to improve post recovery in the overall market dynamics. The company has a running finance limit of Rs. 576m which is projected to be utilized completely going forward. The current ratio was reported at 1.4x (at end-June'21.

Capitalization indicators draw support from strong sponsor profile and conversion of intercompany long-term loan to equity.

Equity base of the company was reported at Rs. 3.25b at end-June'21. Debt structure comprises a combination of Short and Long-term Debt. Short-term borrowings have decreased on a timeline basis. Total available running finance lines amount to Rs. 576m. During 2020, the Company converted its long-term intercompany loan to equity. Following this, long-term loan only comprises a finance lease liability amounting to Rs. 24m now. Gearing and Leverage Ratios stood at modest levels - 0.16x (2020: 0.17x, 2019: 0.36x), and 0.87x (2020: 0.73x, 2019: 1.29x), respectively. Given no plans of additional long-term debt drawdown, leverage indicators are expected to improve going forward in line with profit retention, albeit small. Given the thin margins, it is considered prudent to maintain gearing at low levels.

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. Reporting line of the department has room for improvement. 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 facilitates in client servicing.

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 II

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				
	18-Nov-21	A	A-2	Rating Watch-Developing	Maintain
	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	September 16, 2021