RATING REPORT

DSV Solutions (Private) Limited (DSPL)

(Formerly Known as Agility Logistics (Pvt.) Limited)

REPORT DATE:
December 16, 2022

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 16, 2022*		*November 18, 2021*	
Rating Outlook	Stable		Rating Watch-Developing	
Rating Action	*Maintained*		*Maintained*	

COMPANY INFORMATION	
Incorporated in 2001	**External auditors:** A. F. Ferguson & Co. Chartered Accountants
Private Limited Company	**Managing Director:** Muhammad Salman Qureshi
Key Shareholders (with stake 5% or more):	
DSV (Asia/Pacific) Limited	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

DSV Solutions (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

DSV Solutions (Pvt) Limited (Formerly known as Agility Logistics (Pvt.) Limited) was incorporated in 2001 as a (Private) Limited Entity. Financial Statements of the company for 2021 were audited by A.F Ferguson & Co.

DSPL currently operates with its head office located in Karachi. Given integration of freight and forwarding business with DSV, the management transferred two of its regional offices located in Lahore and Islamabad to DSV Air & Sea (SMC) Private Limited, leaving behind one located in Karachi.

DSV A/S (DSV) acquired Agility Global Integrated Logistics (GIL)

As per the Press Release dated August 16, 2021, Agility GIL was acquired by DSV A/S (DSV). Agility GIL was the global logistics division of Agility Public Warehousing Company, Kuwait. This acquisition aimed to fortify DSV's market position in the world's top three largest transport and logistics company. The integration at the global level was planned to capitalize demand emanating from the fast growing markets of Middle East and Asia Pacific. Complete operational and legal integration at the global level is expected by Q32022. Between August 16 and December 31, 2021, GIL contributed around $2.4b to revenue and $152m to EBIT before special items for the Group.

This acquisition by DSV was in exchange of 8% shareholding in DSV by Agility. Post-transfer, Agility Logistics (Private) Limited's name has been changed to DSV Solutions (Pvt) Limited and has been registered with SECP on 6th July 2022.

The cut-off date for transfer of business was April 01, 2022. As a part of the arrangement, freight and forwarding business through air and sea was transferred to DSV Air & Sea (SMC) Private Limited which has been operating in Pakistan since 2016. As per management, only the business operations have been transferred; assets and liabilities remain on DSPL's books. All operational and sales staff of the freight, forwarding and handling segment have been transferred to DSV; however, the senior management at DSPL remains the same. Out of an aggregate of 550 employees, 150 personnel were shifted to DSV Air & Sea (SMC) Private Limited.

Post transfer, the company operates in the Solutions segment offering the following services:

1. Warehousing,
2. Fleet management (road) and
3. Distribution (goods) services.

Ratings factor in strong sponsor profile

DSV Solutions (Pvt.) Limited (Formerly known as Agility Logistics (Pvt.) Limited) (DSPL) is a wholly-owned subsidiary of DSV (Asia/Pacific) Limited with ultimate parent company being DSV A/S (DSV). DSV is a Denmark based (listed on NASDAQ) Global Transport and Logistics company which has its presence in Pakistan. DSV has outstanding corporate rating of A3 and A- from Moody's and S&P on the international scale. Main segments in which it operates internationally include **DSV Road, DSV Air & Sea, and DSV Solutions**.

DSV Road- It is classified as one of the leading road freight operators in Europe with distribution in North America and Africa. It has the capability to handle around 30 million shipments every year with 20k trucks readily available at all times.

DSV Air & Sea- This segment has the ability to handle more than 2.6m TEUs of sea freight and around 1.7m MTs of air freight per annum.

DSV Solutions- This segment offers designing and delivering logistics solutions comprising facilities of a total area of 6m square meters.

DSV (Ultimate parent) has more than 75,000 employees, 1,500 offices and logistics facilities and operates in over 90 countries worldwide. It possesses a consolidated IT data platform with a global integrated transport network to provide complex supply chain solutions.

At end-2021, DSV held market share of around 4% amongst the global freight forwarders classifying as one of the top three at the international level. Top 5 global freight forwarders include DHL Logistics, Kuehne+Nagel, DSV+GIL, DB Schenker Logistics, and Nippon Express. Top 20 freight forwarders possessing an estimated market share of 20% depicts highly fragmented nature of the industry. Competitive advantage for DSV stems from greater scale, global networks, better IT infrastructure, and historical track record.

USD In Millions	December End		
	2019	2020	2021
Total Assets	14,634	15,804	24,677
Total Equity	7,398	7,766	11,357
Total Debt	1,198	3,491	5,620
Total Liabilities	5,435	8,038	13,320
Revenue	14,205	17,390	29,169
Gross Profit	3,563	4,280	6,018
Net Profit	556	639	1,801
CFO	1,032	1,541	1,952
Gross Margin	25%	25%	21%
Net Margin	4%	4%	6%
Gearing	0.16	0.45	0.49
Leverage	0.73	1.04	1.17
CFO/Total Debt	86%	44%	35%

DSV A/S reported a two-year revenue CAGR of 43% from 2019 to 2021. Highest profit generating division for the Company is Air & Sea that contributes around 68% to periodic gross profits.

Business risk profile is considered moderate given revenues majorly emanating from industries (FMCGs) that are categorized by inelastic demand

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 plans of continuously adding new clients. As a result of transfer of a business segment (air & sea) in the ongoing year, all agreements related to remaining divisions have been renewed with DSPL. Further, 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. The same strategy is planned to be followed, going forward.

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 customs clearance & freight and forwarding (till end-March'22), fleet management and warehouse related services. Revenue from sale of goods represents sales revenue of the distribution segment.

Revenue mix of DSPL has depicted sizeable growth in the distribution business with the same comprising 50.9% of the total in 2021. The growth is attributable to greater volumes of e-commerce sales for Apple and Samsung.

	2018		2019		2020		2021		HY2022	
Revenue from Services	Rs. in million	%	Rs. In million	%	Rs. In million	%	Rs. In million	%	Rs. In million	%
Freight forwarding and handling	2,525.2	22.8%	2,579.4	23.0%	4,699.2	38.8%	5,810.1	28.5%	1,630.6	27.9%
% Change	2.34%		2.14%		82.18%		23.64%			
Customs clearance services	245.6	2.2%	331.0	3.0%	340.0	2.8%	372.1	1.8%		
% Change	51.81%		34.78%		2.73%		9.42%			
Fleet management	1,513.0	13.7%	1,739.7	15.5%	1,645.6	13.6%	1,605.8	7.9%	426.3	7.3%
% Change	0.71%		14.98%		-5.41%		-2.42%			
Warehousing and related services	2,018.4	18.2%	2,421.1	21.6%	2,224.9	18.4%	2,238.1	11.0%	675.7	11.6%
% Change	40.10%		19.95%		-8.10%		0.59%			
Gross revenue from services	**6,302.3**	**56.9%**	**7,071.2**	**63.1%**	**8,909.8**	**73.6%**	**10,026.0**	**49.1%**	**2,732.7**	**46.8%**
Gross sales of Goods	**4,768.4**	**43.1%**	**4,130.1**	**36.9%**	**3,190.6**	**26.4%**	**10,376.1**	**50.9%**	**3,111.4**	**53.2%**
Gross Revenue of the company	**11,070.7**		**11,201.3**		**12,100.4**		**20,402.1**		**5,844.0**	

Freight and Forwarding (till end-March'22):

The Freight Forwarding & Handling segment deals in import and export related services. This segment contributed around 28.5% (2020: 38.8%) of the company's revenue. Client base in the segment includes a number of local companies and MNCs. As discussed above, this segment has ben transferred to DSV Air & Sea effective from April 01, 2022 and hence will not be a part of the company's revenue going forward significantly affecting the topline.

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 temporary downtick in revenue during 2020. However, the segment has recorded extraordinary growth in revenues in 2021 to Rs. 10.4b (2020: Rs. 3.2b) because of higher volumes from e-commerce sales for Samsung and Apple. The contracts with these two companies ended in the ongoing year (April-May'22) thereby negatively affecting revenues of this segment. Top five clients in distribution segment for 2021 and HY2022 include Mercantile Pacific Asia Pte.Ltd., Friesland Campania, Samsung Gulf Electronics, Nestle Pakistan Limited and Fauji Fresh & Freeze Private Limited. The management envisages proportion of distribution segment to increase, going forward.

Warehousing:

Warehousing segment contributed around 11% (2020: 18%) in 2021 to the topline of the company. DSPL 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, DSPL 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.

Fleet Management:

Fleet management segment caters to transportation requirements of clients and represented around 8% (2020: 14%) of total revenues during 2021. Large clients within the fleet management segment include Unilever Pakistan Limited, Sindh Engro Coal Mining Company, Total Parco Pakistan, 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 DSPL while the remaining is outsourced. As per management, 18 additional trailers will be provided to Sindh Engro Coal Mining Company, reaching to 257 fleet size over the rating horizon. Management expects impact of increase in revenue to be reflected by the end of the ongoing year.

Custom Clearance (Till end-March'22):

Proportion of this segment in overall revenues is small at around 1.8%. Major clients in this segment include major MNCs such as Unilever Pakistan Limited, Mondelez Pakistan Limited, General Electric, Pakistan Petroleum Limited and Red Bull. This business segment has also been transferred to DSV Air & Sea Pakistan.

With transfer of a sizeable business segment, topline of the company witnessed decline in 9M2022. Ratings are contingent on materialization of management's plan to gradually grow revenue base.

Sales revenue of the Company was reported higher at Rs. 19.5b (FY20: Rs. 11.1b) in 2021 attributable to growth in distribution segment. Given culmination of key contracts in the distribution segment (in Mar-April'22) along with divesture of air & sea business (historically contributed an average of 30% in revenues), revenue for 9M2022 was reported at Rs. 7.2b. As per management, excluding divested business segment, revenues during 2022 are expected to be reported higher than 2020 levels being a function of increase in fleet size and new client additions in the ongoing year. As per management, key focus going forward will be towards the fleet management as company plans to increase fleet size followed by distribution segment. With fleet management services, the company is able to cross-sell warehousing services as well. While revenue is projected to grow going forward, the same is expected to increase at a slower rate in the medium-term due to subdued macroeconomic environment.

Profitability profile of the Company dipped on account of transfer of highest margin generating segment to DSV and elevated tax expense

Despite significant increase in topline, gross margins reduced to 5.6% (FY20: 7.35%) in the outgoing year due to escalated costs of purchases during the year. Given competitive sector dynamics, margins are expected to remain thin, going forward. Variation in segmental contribution to revenues has also resulted in fluctuations in overall gross margins within a range. Overall profitability profile of the company weakened in the outgoing year due to absence of one-off other income and higher tax expense on elevated revenue base. Subsequently, the company reported a loss to the tune of Rs. 224m in 2021 having net loss margin of 1.1%.

Gross margins picked up pace in 9M2022 and were reported higher at 10.7% on account of on account of transfer of low-margin earning segment along with 4 month impact of volumetric distribution sales from Apple and Samsung. Overall net margin improved to 2.2% in 9M2022 due to higher gross margins and exchange gain of Rs. 231m. The company has continued to implement stringent cost controls and taken a number of cost rationalization initiatives in order to manage expenses. In the medium-term, although overall bottom-line of the company in absolute terms will be lower than historic levels, projected gradual improvement in the same is considered important through organic growth and onboarding new clients.

Elevated Liquidity profile of the company depicts room for improvement post transfer

With lower tax paid against incurred, Funds from Operations (FFO) increased to Rs. 573.7m (2020: Rs. 359.4m) in 2021. Coverages against outstanding obligations improved in 2020 being a function of conversion of Long-term Debt to equity at end-November'20. During 9M2022, FFO coverage in relation to outstanding obligations dropped in line with subdued net profit and higher financial cost paid during the period due to higher benchmark rates. Current ratio was reported at 1.0x (2021: 1.3x) at end-Sep'22. Cash conversion cycle of the company was elevated in 9M2022 due to extensions in credit terms requested by clients. Management envisages credit terms to improve post recovery in the overall market dynamics. Projected improvement in liquidity profile is considered important to sustain the ratings at current levels.

Capitalization indicators draw support from strong sponsor profile and low debt levels

Equity base of the company was reported higher due to profit retention at Rs. 3.2b at end-Sep'22 after eroding in 2021. Debt structure largely comprises Short-term Debt with total running finance lines available amounting Rs. 550m. In 2020, the Company converted its long-term intercompany loan to equity. Subsequently, Gearing and Leverage Ratios have decreased on a timeline basis to 0.17x (2021: 0.18x, 2020: 0.17x), and 0.74x (2021: 0.93x, 2020: 0.74x) at end-Sep'22, respectively. Given no plans of additional long-term debt drawdown and plans to retain profits, leverage indicators are expected to improve going forward.

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

The assigned ratings incorporate DSPL'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 facilitates in client servicing. As per management, the company employed Cargo-Wise I software in the ongoing year, normally used by SMEs in the logistics & supply chain industry.

Financial Summary (amounts in PKR millions)			Appendix I	
	2019	2020	2021	9MCY22
BALANCE SHEET				
Property Plant and Equipment	2,212.4	2,050.3	1,616.2	1,673.3
Other Fixed Assets	465.1	408.5	204.2	245.3
Stock-in-Trade	359.9	317.7	483.3	10.8
Trade Debts	2,200.6	2,135.9	2,145.5	1,382.1
Cash & Bank Balances	44.2	47.1	626.3	2.8
Total Assets	5,911.9	5,614.3	5,792.8	5,630.2
Trade and Other Payables	2,348.1	1,771.3	2,126.8	277.1
Long Term Debt (including current maturity)	29.4	23.8	3.1	3.8
Short Term Debt	898.7	527.0	545.0	536.0
Total Debt	928.1	550.9	548.1	539.8
Total Liabilities	3,328.5	2,386.8	2,793.5	2,393.1
Total Equity (including long term loan)	2,583.5	3,227.4	2,999.3	3,237.1
Paid-up Capital	2,416.62	2,416.62	2,416.62	4,418.54
INCOME STATEMENT				
Net Sales	10,109.4	11,065.1	19,543.0	7,175.9
Gross Profit	729.4	810.4	1091.3	765.5
Operating Profit	194.5	868.8	668.2	98.9
Profit Before Tax	-176.3	629.5	428.9	318.4
Profit After Tax	-373.2	379.7	-224.3	156.1
RATIO ANALYSIS				
Gross Margin (%)	7.2%	7.3%	5.6%	10.7%
Net Profit Margin	-3.7%	3.4%	-1.1%	2.2%
Net Working Capital	(41.8)	833.2	918.1	(95.6)
FFO	231.3	359.4	573.7	46.57
FFO to Total Debt (%)	24.9%	65.2%	104.7%	11.5%
FFO to Long Term Debt (%)	785.9%	1507.2%	18271.1%	1625.9%
Debt Servicing Coverage Ratio (x)	2.05	3.76	6.36	1.20
ROAA (%)	-6.2%	6.6%	-3.9%	4.0%
ROAE (%)	-13.7%	13.1%	-7.2%	6.3%
Gearing (x)	0.36	0.17	0.18	0.17
Leverage (x)	1.29	0.74	0.93	0.74
Current Ratio (x)	1.0	1.4	1.3	1.0

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	DSV Solutions (Pvt) Limited (Formerly: 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				
	16-Dec-22	A	A-2	Stable	Maintained
	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 Babar Saleem	CFO	November 03, 2022		
	Muhammad Akram Noorani	Manager Commercial	November 03, 2022		
	Daniyal Jamil	Manager Finance	November 03, 2022		