AVG Logistics

12 May 2023

Well-poised to tap growth opportunities in the logistics sector

MANAGEMENT MEET UPDATE

Sector: Logistics	**Rating: NR**
CMP: Rs 185	**Target Price: NA**

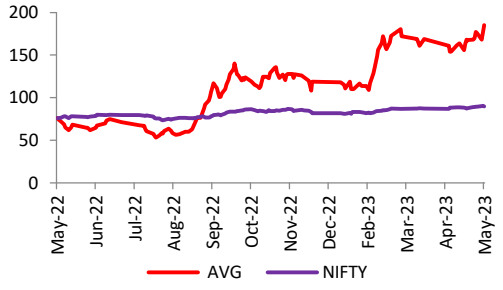
Stock Info

Sensex/Nifty	61,905/18,297
Bloomberg	AVG IN
Equity shares (mn)	11.8
52-wk High/Low	Rs 194.5/ 53
Face value	Rs 10
M-Cap	Rs 2.3bn/USD 27.8mn
3-m Avg value	Rs 1.4mn

Shareholding Pattern (%)

	Mar 23	Sep 22	Mar 22
Promoter	61.2	61.2	61.2
–Pledged	-	-	-
FII	0.2	0.2	0.2
DII	24.0	24.0	24.0
Others	14.6	14.6	14.6

Stock Performance (1-year)



We met the management of AVG Logistics and key highlights are:

AVG Logistics (AVG) is a key company in the logistics sector that provides a wide range of services such as Road transport, Reefer transportation, Railway logistics solutions, Warehousing services, and other value-added services. AVG is well known for it's dominance in providing multi-modal logistics services to FMCG companies primarily Nestle, HUL, Dharampal Satyapal Group etc. The company owns a fleet of over 600 vehicles including ~207 reefers vehicles. In Reefers transportation business, which contributes ~25% of revenues, the management expects to add ~70 reefers in FY24, and 200 reefers over the next few years would be a key growth driver in the coming years. The company has already tapped a couple of new business avenues which is likely to fuel growth in the reefer segment.

Further, the company has signed four new contracts with Indian Railways for 5-6 years, which is likely to boost its Rail Transport business which is currently at around Rs500 mn/annum. Also, the traditional LTL transport business is expected to grow at 12-15% owing to expansion in fleet size, tapping new geographies, and economic growth supported by government policy.

Also, the company provides warehousing services to a few key clients and has a total of ~7L sq. ft. of warehouse facility. The company is expecting another 2L sq. ft. of the area to be operational from Jun-Jul'23.

Overall, reefer transport has a gross margin of nearly 25-30%, while rail and dry road transport have a gross margin of ~16% and ~11% respectively. Due to changes in the revenue mix, the EBITDA margin is set to see higher levels going forward.

The company is converting most of the NBFC's loans with bank loans which reduce its interest cost. Lastly the company's net debt-to-equity is still at the comfortable level of 1.3x. Due to the asset-heavy balance sheet, ROE/ROCE stood at over 11% which is likely to improve further with higher revenues and a better margin profile. We expect the company is well placed to benefit from India's growth in the manufacturing sector. Also, the government's national logistics policy is expected to benefit in the long term.

The stock is trading at a PER of 20.9x on annualized H1FY23 EPS. Currently, we don't have a RATING on the stock.

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Investors are advised to refer disclosures made at the end of the research report.

Strong economic growth amid favorable policy to boost demand growth

Globally logistics sector has a market size of US$5.2 tn which is projected to grow at a CAGR of 4.5% over the next five years. The logistics sector is one of the most vital sectors for any country which contributes between 6-20% of the country's GDP. Developed country like the USA spends 8-9% of their GDP on logistics, while in Germany it's more competitive as it's less than 8%.

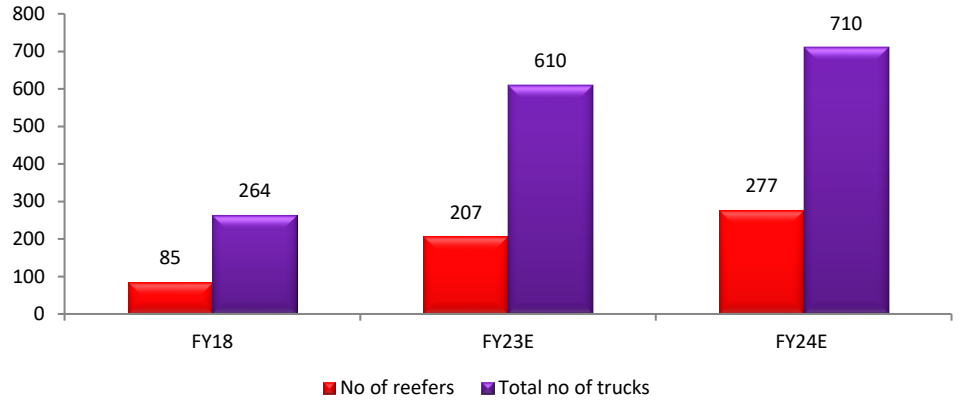
India at present stands as the largest country in terms of population of ~1.4bn (2020) while the logistics market is estimated to be US$220 bn by the end of 2023. The domestic logistics market is growing at a faster pace than the economy and is expected to maintain its CAGR of 8-10% in the coming years. Since 2014, India has witnessed Multi fold changes in the logistics landscape like implementation of GST, improvement in road infrastructure, and a high degree of automation leading to improvement in logistics efficiency. It's estimated that the reforms have led to around 200-300 bps improvement in cost to GDP ratio. We believe all logistics companies are poised to see robust growth over the next decade giving India is gradually becoming a global manufacturing hub.

Focus on Reefer transportation to aid margins

The company provides a wide range of services such as Road transport services (Primary and Secondary), Railway Logistics Solutions, Reefer Transportation, Warehousing services, and other value-added services as well. The company has an extensive reach across the nation with over 80+ branches and 7 zonal offices. The company also has a fleet of 610 trucks (264 in FY18) including 207 reefers (85 in FY18). The company is focusing more on reefers transportation as it's a high-margin business. AVG expects to add another 200 reefers over the next 3-4 years while 70 is planned in FY24 itself. This is expected to cater to demand from ice cream and pizza segments.

On the margin front, the reefer is always a higher margin business which gives a gross margin of 25-30% compared to 15-16% for rail transport and 10%-11% for LTL transport. The company has started exploring new business opportunities which need temperature control and expects it to gain significant momentum in the coming quarters.

Exhibit 1: Fleet Movement



Source: Company

New contracts to boost Rail transport revenue and margins

The company provides different rail logistics services to its customers such as Full rack and peace meal transportation, container movement, and terminal management across all CONCOR ICDs. The company has recently signed a few new contracts with Indian Railways for 5-6 year contracts which would augment growth going forward. Contracts across 6 rail routes have a total worth of Rs5.1 bn with a revenue potential of Rs6.5 bn over the next 5-6 years i.e. ~Rs1 bn/year. All new contracts with Indian Railways are subject to the uniform cost for the first three years followed by 10% per annum. However, the company's contracts with the customers are subject to a 4-5% hike every year which would take care of the margin in the future.

1. Delhi-Bangalore-Delhi (6yr contract; Twice a week; worth Rs2.4 bn)
2. Goa-Guwahati-Goa (6yr contract; Weekly; Worth Rs1.2 bn)
3. Delhi-Goa-Delhi (5yr contract; daily; Worth Rs659 mn)
4. Goa-Patna (5yr contract; Weekly; Worth Rs37.4 mn)
5. Ludhiyana-Guwahati-Silchar (6yr contract; Weekly; Worth Rs650 mn)
6. Delhi-Chennai-Delhi (6yr contract; Weekly; Worth Rs200 mn)

Total revenue from rail transport is expected to be Rs500-600 mn while new contracts are likely to boost growth in coming years. The company is also looking to add a couple of more routes which would further add to revenue. On a margin front, rail transport gives ~400-500bps higher margin compared to road transport which is in the range of 15%-16%.

Road Transport to see a modest 12-15% growth

LTL transport business which is nearly 60% of the total business is likely to see a modest 12-15% growth led by economic growth and expansion into new geographies. Currently, the company owns nearly 400+ dry trucks and over 600+ trucks run on lease. AVG management indicated adding nearly 30+ trucks per year to their balance sheet to tap the growth. Generally, it takes ~4 years to recover the cost of the truck.

Exhibit 2: Branch locations



Source: Company

Warehouse expansion to increase revenue share

The company has a total of ~7,05,000 sq. ft. of leased warehousing space spread over 7 different warehouses in North India under operation. 81,189 sq. ft. of owned warehousing space under operation in Mysore and 50,000 sq. ft. of owned warehousing space in Agartala which is likely to start by Jun-Jul'23. The warehouses in Modinagar, and Murthal solely cater to Nestle, AVG's biggest client. The Rajpura warehouse caters to HUL while the warehouses in Dasna and Bakoli cater to Mother Dairy. AVG provides several types of warehousing services such as industrial and retail warehousing, liquid storage, cold storage, agri-warehousing, and container storage services on a short, medium, and long-term basis to clients. The company is looking to add nearly 2L sq.ft. in FY24 including 50k sq.ft. of Agartala. The segment's revenue contribution is nearly Rs150-180 mn which is likely to grow in a linear way.

Customer stickiness reflects the quality of services

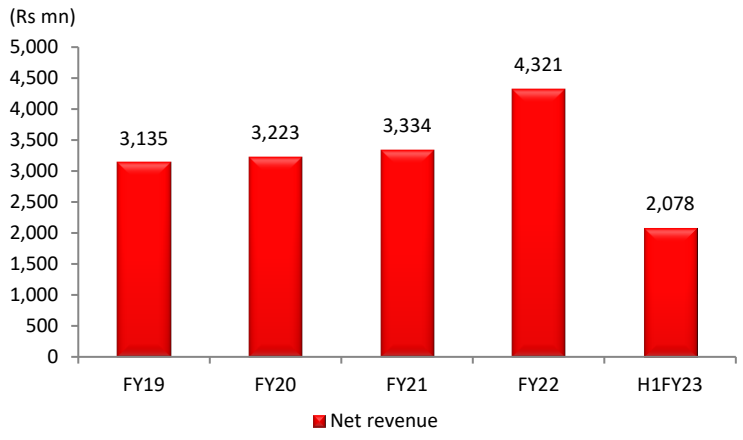
AVG has built an enviable list of marquee customers over the years like Nestle, HUL, Amara Raja, DS Group, and TNPL among others. Nestle is associated with the company since the beginning and nearly contributes 32-35% of the total business. The company's top 10 customers contribute nearly 70% of revenues which include Nestle, Dharampal Satyapal Group, SC Johnson, GSK Pharma and Amara Raja etc.

EBITDA margin likely to improve on change in product-mix

The EBITDA margin remained very volatile over the past couple of years mainly due to excessive costs during the pandemic. The margin was in the range of 7.5%-10.6% during FY18-FY20 which got hit during FY21-FY22. However, it started to recover in H1FY23 and achieved a margin of 11.6% in H1FY23 which is also contributed by Ind-AS. We expect margins to improve owing to higher contributions from high-margin reefer and rail transport and stable energy prices.

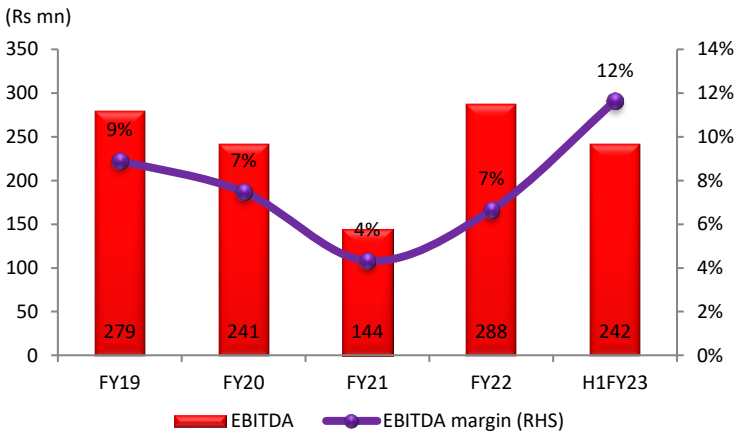
The company is converting most of the NBFC's loans with bank loans, which is reducing its interest cost. Lastly the company's net debt-to-equity is still at the comfortable level of 1.3x. Due to the asset-heavy balance sheet, ROE/ROCE stood at over 11% which is likely to improve further with higher revenues and a better margin profile.

Exhibit 3: Net revenue trend



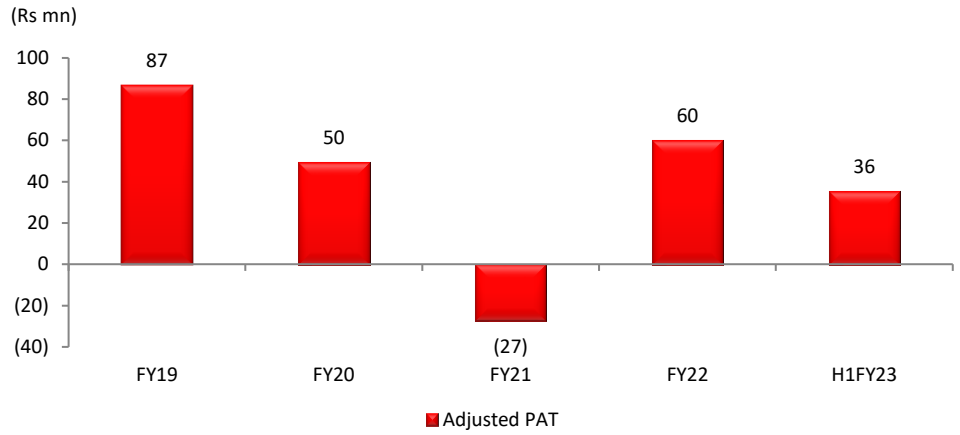
Source: Company

Exhibit 4: EBITDA & EBITDA margin trend



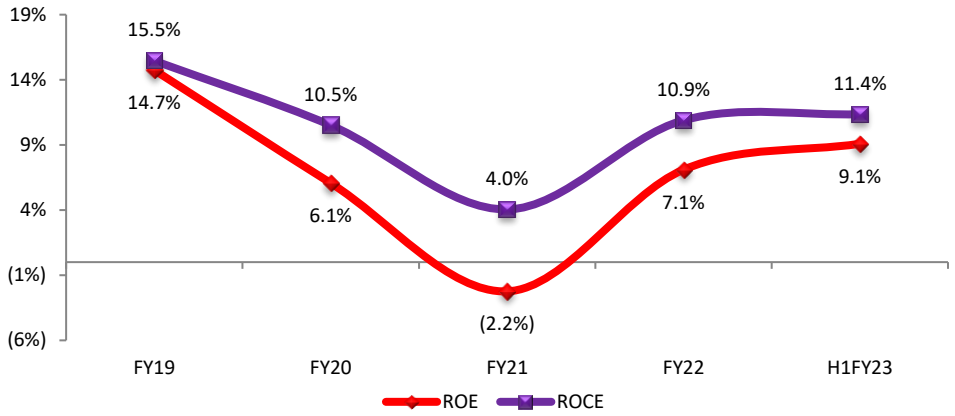
Source: Company

Exhibit 5: Net profit trend



Source: Company

Exhibit 6: ROE and ROCE



Source: Company, Systematix Institutional Research

Peer Comparison

Exhibit 7: Peer group comparison

Company (Rs mn)	Consolidated figures - H1FY23					
	Mkt Cap	Revenue	EBITDA	EBITDA %	PAT	PAT %
AVG Logistics	2,180	490	55	11.2%	16	3.4%
Allcargo Logistics	73,200	1,09,751	8,844	8.1%	510	0.5%
Shree Vasu Logistics	1,940	490	55	11.2%	16	3.4%
Ritco Logistics	4,360	3,601	263	7.3%	120	3.3%
DRS Dilip Roadlines	2,270	1,139	52	4.6%	32	2.8%

Source: Systematix Institutional Research

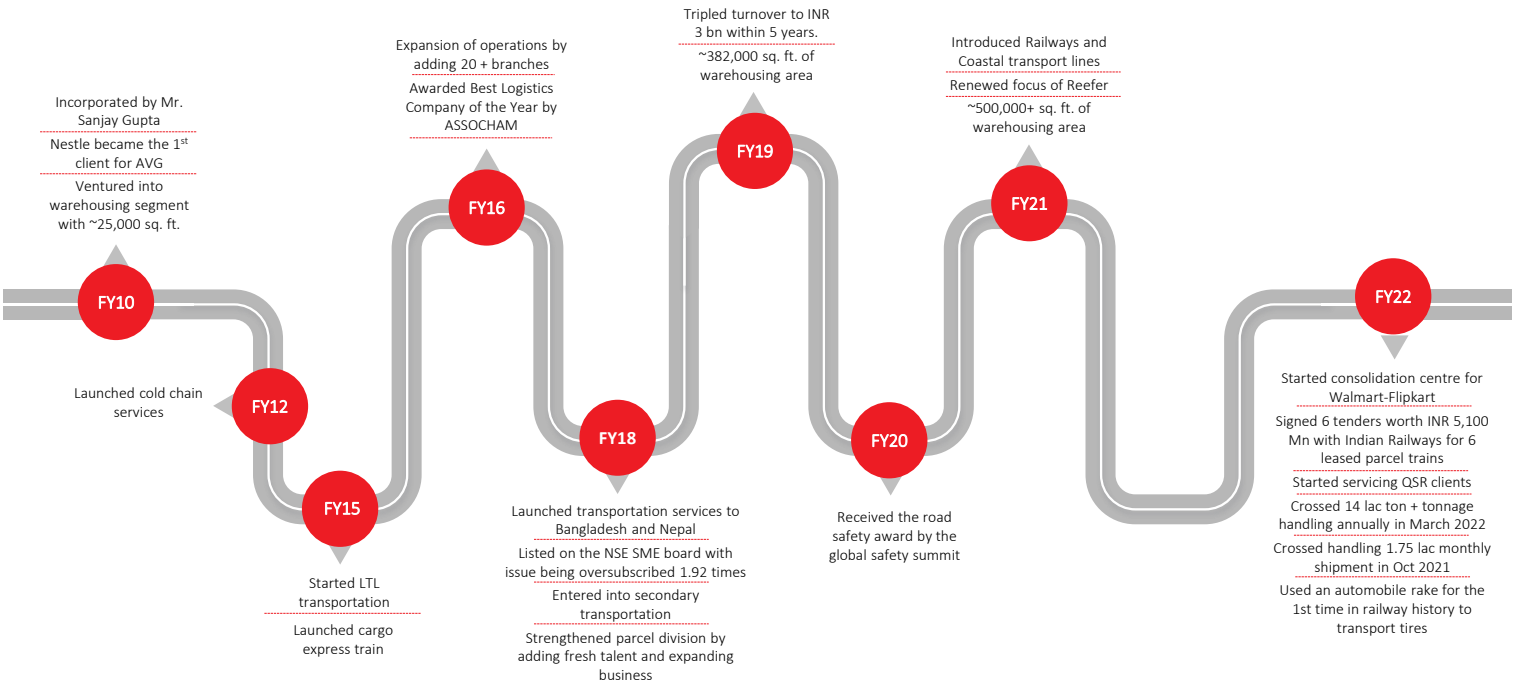
About AVG Logistics

AVG Logistics was founded by Mr. Sanjay Gupta in 2010, the company is based in Delhi. In terms of business, they specialize in 2 of the most critical logistics function i.e. Transportation (FTL, PTL, Railway, Coastal) & Warehousing. They also provide end-to-end value-added services such as customs clearing, port logistics, forklifts, cranes, and containers on rent to their clients. AVG is well known for it's dominance in providing multi-modal logistics services to FMCG companies primarily Nestle, HUL, Dharampal Satyapal Group etc.

Presence: From its 80+ branches the company successfully runs a fleet of over 500+ trucks and 6 leased warehouses. Currently, the company owns a warehouse in Mysore and is in the process of building a state-of-the-art warehouse in Agartala, Tripura with ~0.7mn sq.ft. operational space. The company is experienced in handling high volume and heavy capacity. With over 415+ employee strength (skilled workers included) the company runs its day-to-day operations.

The company has a varied list of marquee clientele, including some of well-known brands like Nestle, HUL, Amara Raja, Airtel, MRF, etc.

Exhibit 8: Timeline



AVG Logistics has evolved as multi-modal service solutions provider for its clients

Source: Company, Systematix Institutional Research

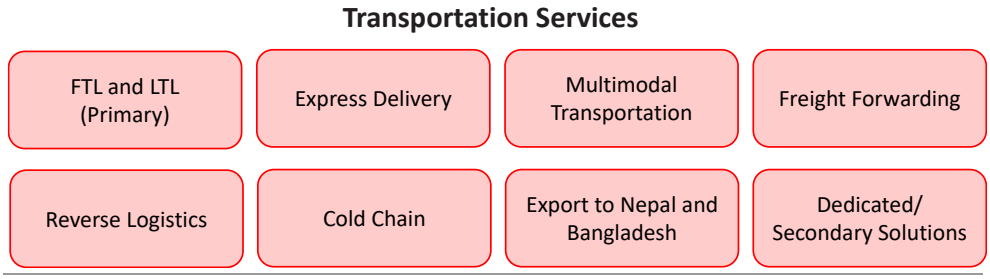
Growth: By adding more vehicles in Cold chain segment (currently ~200), the company will push to grow in organized retail, processed food, pharmaceuticals, etc. Other areas like Dry FTL business, Train lease were the management would like to add more multi axle (higher capacity) vehicles and more routes respectively.

Exhibit 9: Management

			
Mr. Sanjay Gupta MD & CEO 30+ Years	**Gurpreet Singh** CFO 20+ Years	**Vinayak Gupta** Vice President 5 Years	**Rajiv Agarwal** Director – Sales & Operations 25 Years

Source: Company

Exhibit 10: Transportation Services



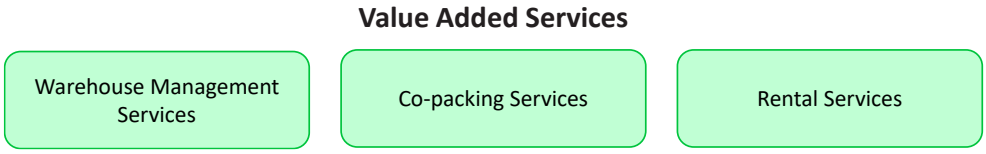
Source: Company

Exhibit 11: Rail Logistics Benefits



Source: Company

Exhibit 12: Value Added Services



Source: Company

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22	H1FY23
Net revenue	**3,135**	**3,223**	**3,334**	**4,321**	**2,078**
Operating Expenses	2,540	2,644	2,816	1,731	1,646
Gross Profit	**595**	**578**	**518**	**619**	**347**
Employee cost	123	141	123	161	83
Other expenses	192	196	250	171	107
EBITDA	**279**	**241**	**144**	**288**	**156**
Depreciation	76	93	68	64	37
EBIT	**204**	**148**	**77**	**224**	**119**
Interest Cost	84	97	122	146	61
Other Income	22	15	12	7	6
PBT Before Exceptionals	**142**	**66**	**-34**	**85**	**64**
Exceptional Items	-8	-2	-10	0	-5
PBT	150	68	-24	85	69
Tax	33	19	-6	25	19
Reported PAT	117	49	-18	60	50
Adjusted PAT	**87**	**50**	**-27**	**60**	**45**
Reported EPS (Rs)	9.2	5.0	-1.5	5.1	4.2
Adjusted EPS (Rs)	**8.4**	**4.8**	**-2.3**	**5.1**	**3.8**

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22	H1FY23
Share Capital	103	103	118	118	118
Reserves & Surplus	583	635	668	728	769
Net worth	**686**	**738**	**786**	**846**	**887**
Short + Long Term Debt	599	646	1,065	1,154	1,149
Deferred Tax Liabilities	-2	-13	-14	-22	-23
Other Long Term Liabilities	32	25	39	54	62
Capital Employed	**1,316**	**1,396**	**1,876**	**2,032**	**2,074**
Gross Block	679	766	1,065	1,295	1,372
Accumulated Depreciation	305	373	430	477	514
Net Block	375	393	635	818	858
Capital WIP	79	164	22	0	42
Total Fixed Assets	453	556	658	818	901
LT Investments & Others	213	203	270	283	321
Current Assets	**1,080**	**1,318**	**1,358**	**1,467**	**1,372**
Short Term Investments					
Inventories	1	7	1	4	7
Sundry Debtors	705	812	837	913	882
Cash & Bank Balance	24	62	58	52	10
Short Term Loans & Adv.	295	346	305	299	260
Others	56	92	158	199	213
Current Liabilities & Prov.	**430**	**681**	**410**	**536**	**520**
Creditors	96	275	172	276	228
Other Current Liabilities	334	407	238	260	292
Net Current Assets	650	637	948	931	852
Total Assets	**1,316**	**1,396**	**1,876**	**2,032**	**2,074**

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22	H1FY23
Pre-Tax Profit	134	64	-24	85	60
Depreciation	76	93	68	64	37
Change in Working Capital	-283	33	-276	9	-16
Tax Paid	-58	-68	-50	-44	-19
Other Operating Activities	73	84	246	172	96
Operating Cash Flow	**-58**	**205**	**-36**	**285**	**158**
Capital Expenditure	-290	-187	-170	-226	-119
Change in Investments	-77	-16	-6	-20	0
Other Investing Activities	-15	63	36	38	-14
Investing Cash Flow	**-382**	**-140**	**-141**	**-207**	**-133**
Free Cash Flow	-440	65	-177	77	25
Equity raised/(repaid)	295	0	65	0	0
Debt raised/(repaid)	222	72	248	89	-6
Other Financing Activities	-69	-99	-113	-148	-61
Financing Cash Flow	**449**	**-27**	**200**	**-59**	**-67**
Change in Cash	9	38	23	18	-42
Opening Cash Balance	15	24	34	34	52
Closing Cash Balance	**24**	**62**	**58**	**52**	**10**

Source: Company, Systematix Institutional Research

Key Ratios

YE: Mar	FY19	FY20	FY21	FY22	H1FY23
Growth					-
Revenue growth	38.3%	2.8%	3.4%	29.6%	-3.8%
EBITDA growth	16.1%	-13.7%	-40.1%	99.2%	68.2%
Adjusted PAT growth	15.0%	-42.9%	-155.1%	-320.7%	18.2%
Margins					
Gross margin	19.0%	17.9%	15.5%	14.3%	20.8%
EBITDA margin	8.9%	7.5%	4.3%	6.7%	11.6%
PBT margin	4.5%	2.0%	-1.0%	2.0%	7.2%
Effective Tax rate	21.9%	27.6%	25.3%	29.1%	12.5%
Adjusted PAT margin	2.8%	1.5%	-0.8%	1.4%	1.7%
Operating Cycle					
Inventory days	0	1	0	0	1
Debtor days	82	92	92	77	77
Creditor days	12	34	20	25	22
Working Capital Cycle	70	59	72	52	56
Return Ratios					
ROE	14.7%	6.1%	-2.2%	7.1%	9.1%
Pre-tax ROCE	15.5%	10.5%	4.0%	10.9%	11.4%
Net debt / Equity	0.9	0.9	1.4	1.4	1.3
Yield Analysis					
CFO Yield	0.0%	15.1%	0.7%	15.9%	17.1%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Valuation					
P/E (x)	19.1	35.0	-120.5	34.4	25.7
P/B (x)	2.6	2.5	2.6	2.4	2.3
EV/Sales (x)	0.8	0.7	0.9	0.7	0.8
EV/EBITDA (x)	8.5	9.9	21.3	11.0	10.3

Source: Company, Systematix Institutional Research

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DISCLOSURES/APPENDIX

I. ANALYST CERTIFICATION

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