

Press Release

Balaji Warehousing Company Private Limited

July 22, 2021

Rating Assigned



Total Instruments Rated*	Rs. 38.70 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A Three**) on the Rs. 38.70 Cr bank facilities of Balaji Warehousing Company Private Limited (BWCPL). The outlook is '**Stable**'.

About the Company

BWCPL, incorporated in 1994 in Bangalore and promoted by Mr. K Kodandarami Reddy, provides logistics and warehousing services to private and public enterprises across Karnataka, Tamil Nadu, Telangana and Andhra Pradesh. The company acts as clearing and forwarding (C&F) agents for cement and fertilizer manufacturers where the goods received from railway siding/factories are moved to warehouses and other destinations. The company provides comprehensive warehousing solutions which includes unloading cargo, transportation to warehouses, storage and distribution. The Group operates with a total storage area of around 8.50 lakh sq.ft across various locations in Tamil Nadu, Karnataka and Andhra Pradesh. BWCPL owns operates a fleet of 250 trucks both owned and lease. The company leases majority of the warehouse spaces and the agreements have price escalation clause 5% every year. BWCPL's clients include Coromandel International Limited, Zuari Cement Limited, Food Corporation of India, Andhra Cements Limited, SPIC Ltd, among others.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of BWCPL to arrive at the standalone rating.

Key Rating Drivers

Strengths

• Established track record of the company and reputed clientele

BWCPL was incorporated in 1994 and provides logistics and warehousing services to private as well as Government clients across Karnataka, Tamil Nadu, Telangana and Andhra Pradesh. The company acts as clearing and forwarding (C&F) agents for cement and fertilizer manufacturers where the goods received from railway siding/factories are moved to warehouses and other destinations. The company provides comprehensive warehousing solutions which includes unloading cargo, transportation to warehouses, storage and distribution. It offers a comprehensive warehousing service package, which includes unloading from railway cargo, transportation to warehouses, storage and distribution. At present, BWCPL has a total storage area of around 8.5 lakh Sq.ft of which 94% is leased. BWCPL's customers include reputed players like Coromandel International Limited, Zuari Cement Limited, Food Corporation of India, Mangalore Chemicals & Fertilizers Ltd, SPIC Ltd etc. The company has established relationship with its customers, which is reflected in the repeat orders received from them. The operating income of the company has grown at a CAGR of around 12 per cent over the last three years through 2021. Most of the clients operate based on agreements, which are signed for two years and renewed regularly. Acuite believes that the company's established track record and reputed clientele base is likely to lead to sustenance of business risk profile over the medium term.

- **Asset-light operating model contributes to stability of operating margins**

The company has an asset-light business model as 90 percent of its fleet demand is met through hired vehicles from the market. Further, 94 percent of the company's warehouse capacity is also leased leading to low fixed overheads and low capital expenditure requirements. BWCPL's fixed costs constitute around 15 percent of its operating costs, thereby leading to increased ability to negotiate contract terms to protect its operating margins. BWCPL reported with stable operating margins in the range of 6.56% to 6.93% over past 3 years ended FY21 (Prov). The company reported profit after tax in the range of 0.93% to 2.37% over the same period. Acuite believes, asset light operations will help the company in maintaining a comparatively debt free capital structure.

- **Moderate Financial risk profile**

BWCPL's financial risk profile is moderated marked by low gearing and moderate net worth and debt protection indicators. The net worth of the company stands moderate at around Rs 39.96 crore as on March 31, 2021. The net worth has improved over the last three years from Rs. 36.24 crore in 2019 as result of healthy accretion to reserves, the latter being a result of healthy revenue growth and stable operating margins. The company has followed a conservative financial policy in the past as reflected by its peak gearing of around 0.71 times over the last three years. The company gearing however has deteriorated to around 0.68 times as on March 31, 2021 on account of Increase in debt taken to fund lease deposits payments. The gearing is expected to remain at around similar levels and improve in further on account of accretion of profits to reserves and absence of any debt funded capex. The debt protection metrics were comfortable with gearing in the range of 0.44x to 0.71x and TOL/TNW in the range of 0.79x to 0.96x over the past 3 years ended FY21 (Prov). The coverage indicators were moderate as observed from Interest Coverage ratio of 4.02 times and DSCR of 1.98 times in FY21 (Prov). Acuite believes, the asset light nature of business and conservative financial risk policy of management will help company maintain and improve the financial risk profile on long run.

Weaknesses

- **Presence in highly competitive and fragmented industry**

The company is present in highly fragmented and competitive in nature, dominated by small and unorganized players, resulting in intense competition and limited pricing flexibility. However, the integrated nature of operations gives the company competitive advantage.

- **Working capital intensive nature of operations**

The operations of the company are highly working capital intensive as observed from the gross current asset days in the range of 124 to 143 days over past 3 years ended FY21 (Prov). Further, the working capital facilities were almost fully utilized over past 6 months ended June 2021. The same can be attributed to the delay in collection of receivables. Acuite believes, clients with higher bargaining power will negotiate for better deals resulting in lower margins for the company on long run which will be partially offset by the integrated nature of operations of the company.

Liquidity Position: Adequate

The liquidity position was adequate as observed from comfortable net cash accruals exceeding the debt repayments with GCA in the range of Rs 5.10 Cr to Rs 6.89 Cr while the debt repayment was in the range of Rs 2.18 Cr to Rs 6.16 Cr over the past three years ended FY21 (Prov). The gross current assets days improved from 143 days in FY19 to 124 days in FY21 (Prov). The working capital facilities were almost fully utilized over the past 6 Months ended June 2021. The company has no plans for any debt funded capex in near future and the debt repayments are limited to existing facilities.

Rating Sensitivities

- A substantial and sustained increase in the scale of operations.
- An elongation of the working capital cycle
- Fall in the operating profitability and/or deterioration in the liquidity position

Outlook: Stable

Acuite believes that BWCPL will maintain a 'Stable' outlook over the medium term, owing to its promoters' extensive experience in the industry, asset light structure and reputed clientele. The outlook may be revised to 'Positive' in case the company achieves more than envisaged sales and profitability and improving its capital structure. Conversely, the outlook may be revised to

'Negative' if there is stretch in its working capital management or larger than-expected debt-funded capex or drop in profitability leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	134.39	115.24
PAT	Rs. Cr.	2.63	1.07
PAT Margin	(percent)	1.95	0.93
Total Debt/Tangible Net Worth	Times	0.68	0.44
PBDIT/Interest	Times	4.02	3.65

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Not applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	9.35%	Not Applicable	12.00	ACUITE BBB-/Stable (Assigned)
Working Capital Demand Loan	31 Aug 2020	7.95%	31 Aug 2024	1.20	ACUITE BBB-/Stable (Assigned)
Term Loan	31 Jan 2016	9.35%	31 Jan 2023	2.50	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Assigned)

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