

Press Release
Kandoi Transport Limited

March 14, 2023

Rating Reaffirmed



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|------------------|-----------------------------------|------------------------|
| Bank Loan Ratings | 58.60 | ACUITE BBB- Stable Reaffirmed | - |
| Bank Loan Ratings | 68.76 | - | ACUITE A3 Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 127.36 | - | - |

Rating Rationale

ACUITE has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.127.36 Cr bank facilities of Kandoi Transport Limited (KTL). The outlook remains '**Stable**'.

Rating Rationale

The rating factors the steady business risk profile of the company backed by healthy order execution. The rating further considers the promoter's extensive experience in the industry and the reputed clientele base. These strengths are, however, offset by the working capital intensive nature of operations of the company and the decline in the profitability margins.

About the Company

Based in Odisha, Kandoi Transport Limited (KTL) was established in 1976, as a partnership firm, which was then converted to a Public Limited Company (unlisted) in the year 1995. KTL is a family run business and mainly caters to the transportation requirements of customers. The company has long term contracts with renowned companies and provides inland rail and road logistics services throughout India.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced promoters along with reputed clientele base

KTL has a long track record of operations of over four decades in the transport industry and is assisted by Mr. Ganesh Prasad Kandoi and Mr. Navin Kumar Kandoi, having more than two decades of experience in the same line of business. The company has established strong relationships with the reputed clientele, Northern Coalfields Limited, Hindalco Industries Ltd, Tata Steel Mining Limited, among others, thereby securing the regular flow of orders. Acuite derives comfort from the experienced management and the reputed clientele base of the company.

Improvement in the scale of operations coupled with healthy order book position

The company witnessed growth of around 47 per cent in the turnover levels in FY2022 and achieved Rs.341.04 Cr as against Rs.231.56 Cr in FY2021 owing to rise in the order level and execution by the company. KTL has achieved revenues of Rs.247.82 Cr till December, 2022 (provisional). Further, the company has unexecuted order book position of Rs.644.69 Cr to be executed in the next 12 to 24 months, thereby providing healthy revenue visibility over the medium term. Acuité believes that, going forward, the revenues are expected to improve further on account of the healthy order book position.

Above average financial risk profile

The company's above average financial risk profile is marked by improving networth, comfortable gearing and comfortable debt protection metrics. The tangible net worth of the company stood at a moderate level of Rs.67.15 Cr as on March 31, 2022 as compared to Rs.56.67 Cr as on March 31, 2021 due to accretion of reserves. The gearing of the company improved to 0.99 times as on March 31, 2022 as compared to 1.20 times as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.40 times as on March 31, 2022 as compared to 1.50 times as on March 31, 2021. The Interest Coverage Ratio stood comfortable at 2.80 times as on March 31, 2022, however, the Debt Service Coverage Ratio stood moderate at 1.46 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.17 times as on March 31, 2022. Acuité believes that going forward, the financial risk profile of the company will improve over the medium term, in absence of any major debt funded capex plans.

Weaknesses

Dip in the profitability margins

The operating margin of the company declined to 4.84 per cent in FY2022 as compared to 7.08 per cent in the previous year. The dip in margins are primarily on account of lag in recovering the reimbursements from the clients for the rise in prices of fuel backed by the pass on clause. Further, the PAT margin stood at 2.15 per cent in FY2022 as against 2.16 per cent in FY2021. However, the ROCE levels stood at a comfortable level of about 13.68 per cent in FY2022 as against 12.98 per cent in FY2021. Acuité believes that the company's ability to register improvement in the profitability margins will be key monitorable.

Working capital intensive nature of operations

The working capital intensive nature of operations of the company is marked by moderate but improving Gross Current Assets (GCA) of 121 days in 31st March 2022 as compared to 153 days in 31st March 2021. The GCA days are primarily on account of high other current assets which constitutes advances to contractors to the tune of Rs.16.83 Cr and advances to truck owners of around Rs.14.28 Cr as on 31st March 2022. However, the debtor period improved and stood moderate at 71 days in 31st March 2022 as compared to 114 days in 31st March 2021. Acuité believes that the working capital operations of the company will remain around similar levels as evident from the high other current assets and moderate collection mechanism.

Rating Sensitivities

- Sustenance of the growth in revenues along with improvement in profitability margins
- Improvement in the financial risk profile
- Elongation in working capital cycle

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.11.08 Cr as on March 31, 2022 as against long term debt repayment of Rs.5.16 Cr over the same period. The current ratio stood comfortable at 1.64 times as on March 31, 2022 as compared to 1.60 times

as on March 31, 2021. The cash and bank balances of the company stood at Rs.1.83 Cr as on March 31, 2022. The fund based limit remains utilised at 87 per cent over the six months ended December, 2022. However, the working capital management of the company is intensive in nature marked by Gross Current Assets (GCA) of 121 days in 31st March 2022 as compared to 153 days in 31st March 2021. Acuité believes that going forward the company will maintain the adequate liquidity position owing to the gradually improving accruals.

Outlook: Stable

Acuité believes that the company will maintain 'Stable' outlook over the medium term on account of the promoters' long standing experience in catering to the reputed players and the long term agreements with the customers along with the increase in the scale of operations. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle with improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and profitability or the financial risk profile deteriorates or in case of further elongation in the working capital cycle.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 341.04 | 231.56 |
| PAT | Rs. Cr. | 7.32 | 5.00 |
| PAT Margin | (%) | 2.15 | 2.16 |
| Total Debt/Tangible Net Worth | Times | 0.99 | 1.20 |
| PBDIT/Interest | Times | 2.80 | 2.27 |

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

CRISIL, vide its press release dated 31. 01. 2022 had downgraded the rating of Kandoi Transport Limited as 'CRISIL B/A4; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|---------------------------------|
| 07 Feb 2022 | Bank Guarantee | Short Term | 33.00 | ACUITE A3 (Assigned) |
| | Cash Credit | Long Term | 2.00 | ACUITE BBB- Stable (Assigned) |
| | Bank Guarantee | Short Term | 19.75 | ACUITE A3 (Assigned) |
| | Cash Credit | Long Term | 15.00 | ACUITE BBB- Stable (Assigned) |
| | Cash Credit | Long Term | 9.00 | ACUITE BBB- Stable (Assigned) |
| | Bank Guarantee | Short Term | 18.61 | ACUITE A3 (Assigned) |
| | Cash Credit | Long Term | 30.00 | ACUITE BBB- Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|---------------------|----------------|-----------------------|------------------|----------------|----------------|------------------|-------------------|--|
| Kotak Mahindra Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 30.40 | ACUITE A3 Reaffirmed |
| HDFC Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 18.61 | ACUITE A3 Reaffirmed |
| Axis Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 19.75 | ACUITE A3 Reaffirmed |
| HDFC Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 45.00 | ACUITE BBB- Stable Reaffirmed |
| Axis Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 9.00 | ACUITE BBB- Stable Reaffirmed |
| Kotak Mahindra Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 2.00 | ACUITE BBB- Stable Reaffirmed |
| Axis Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 2.60 | ACUITE BBB- Stable Reaffirmed |

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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