

Chottanikarai Amman Road Transport

February 06, 2018

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	4.50	CARE B+; Stable (Single B Plus; Outlook Stable)	Assigned
Short-term Bank Facilities	9.50	CARE A4 (A Four)	Assigned
Total	14.00 (Rupees Fourteen crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Chottanikarai Amman Road Transport (CART) are tempered by small scale of operations with fluctuating and thin profitability margins, Moderate capital structure and debt coverage indicators, working capital intensive nature of operations and elongated operating cycle, highly fragmented industry with intense competition from large number of players and constitution of the entity as a partnership firm. The ratings are, however, underpinned by the experienced partners with established track record of the entity, growth in total operating income, reputed and established customer base and stable demand for transport and logistics industry.

Going forward, ability of the firm to increase its scale of operations, improve the profitability margins and capital structure with management of working capital borrowings would be the key rating sensitivities

Detailed Description of the key rating drivers

Key Rating Weaknesses

Small scale of operations

The total operating income (TOI), remained small at Rs.26.89 crore in FY17 with low net worth base of Rs.3.09 crore as on March 31, 2017 as compared to other peers in the industry

Fluctuating and thin profitability margins during review period

The firm has fluctuating PBILDT margins during review period. The PBILDT margin of the firm improved from 4.30% in FY15 to 5.17% in FY16 due to decrease in overheads. However, the PBILDT margin marginally decreased to 4.49% in FY17 due to increase in employee cost at the back of hire drivers on requirement basis and overheads. Despite increased interest cost, the PAT margin of the firm improved y-o-y from 1.38% in FY15 to 1.71% in FY17 at the back of increased in PBILDT absolute terms

Moderate capital structure and debt coverage indicators

The capital structure of the firm remained moderate during review period. The debt equity ratio of the firm remained nil for the last three balance sheet date ended March 31, 2017 on account of absence of long term loans. However, the overall gearing ratio of the company deteriorated from 0.93x as on March 31, 2015 to 2.63x as on March 31, 2016 due to avaiement of new working capital bank borrowings. The same stood improved to 1.59x as on March 31, 2017 due to increasing tangible network of the firm

CART has satisfactory debt coverage indicators during review period. Total debt/ GCA of the firm deteriorated from 13.25x in FY15 to 15.48x in FY16 due to increase in total debt levels. However it improved to 10.71x in FY17 due to

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

increase in cash accruals. The PBILDT interest coverage ratio of the firm improved from 1.49x in FY15 to 1.62x in FY17 due to increase in PBILDT levels.

Working capital intensive nature of operations and elongated operating cycle

The firm is operating in working capital intensive nature of business. The firm receives payment from its customers within 45-60days from the date of raising the bill. However the collection period in FY16 and FY17 i.e., 227 days and 270 days respectively is due to tender deposit (as per the agreement) held by the fertilizer companies which will be released after completion of the contract resulted in high collection period. The firm makes payment to its creditors (associate concern i.e., SPM logistics for availing the services like fleets for rental purpose or other transportation services) after receiving the payment from the debtors.

Constitution of the entity as a partnership firm with inherent risk of withdrawal of capital

The firm being a partnership firm is exposed to inherent risk of capital withdrawal by the partners, due to its nature of constitution. Further, any substantial withdrawals from capital account would impact the networth and thereby the financial profile of the firm.

Highly fragmented industry with intense competition from large number of players

The firm is engaged in transportation contract which is highly fragmented industry due to presence of large number of organized and unorganized players in the industry the firm faces huge competition. Further, the contract are tender driven and lowest bidder gets the work. For most contracts, the CART has a moderate bid to win ratio.

Key Rating Strengths

Long track record and experience of the partners for more than three decades in transportation sector

CART was established in 2006 and has been in the transportation business for more than three decades. The firm is managed by Mr. V. Muthuraman along with his mother Mrs. Sumathi (partner). The partners have an experience of more than three decades in transportation sector. Due to long term presence in the transportation business, the partners have developed good relations with suppliers and customers.

Growth in total operating income during review period

The total operating income of the firm increased at Compound Annual Growth Rate (CAGR) of 58.45% i.e., from Rs.10.71 crore in FY15 to Rs.26.89 crore in FY17 due to increased transportation contracts from existing customers and addition of new customers as well

Reputed and established customers

The customer base of the firm is well established, as the partners has been in this line of business for more than two decades, as a result of which, it has developed good contacts with the customers. The CART's clientele mostly comprises of fertilizer companies. The price is based on the tonnage of material transported and the destinations covered. The major customers are The Fertilizers and Chemicals Travancore Limited, Food Corporation of India, Indian Farmers Fertilizer Cooperative Limited, Coromandel International Limited, etc,

Stable demand for transportation and logistics

In the wake of globalization, the importance of logistics is increasing as more and more, both national and multi-national companies are sourcing, manufacturing and distributing their products and services on a global scale. Thus, the recognition of performance of logistics industry would become prime importance of economic development for India in long term. The Indian logistic industry has been gaining traction, with e-commerce penetration, economy revival, proposed GST implementation and government initiatives like "Make in India", National Integrated Logistic Policy, 100% FDI in warehouses and food storage facilities, etc. Some of the aforementioned initiatives during FY12-FY16 (refers to the

period April 1 to March 31) have led to significant improvement in functioning and operations of logistics companies in India which is reflected in multiple notching up of India's logistic performance index (LPI) rank by 19 places to 35th position from 54th position as per LPI 2016 report by World Bank. Furthermore, with respect to India's GDP growth the logistics industry is expected to grow at 1-1.5x as logistics business is directly correlated with economic activity. Considering the aforementioned aspect the Indian logistic industry is projected to grow at a CAGR of 15-20% during FY16~FY20.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Firm

Chottanikarai Amman Road Transport (CART) was established as a transport service provider in 2006 in Chennai by Mr. V. Muthuraman along with his family. CART is primarily engaged in contract transporting for reputed corporates in Tamil Nadu and Kerala. CART procures the contracts for covering parts of Tamil Nadu and Kerala, like Chennai, Coimbatore district, Tuticurin district, Tiruchirappalli district, Ernakulam district etc. through tenders from various companies. Once the CART procures a contract, it manages the end-to-end transporting requirements of the companies. CART has agreements with its customers (Fertilizers and Chemicals Travancore Limited, Food Corporation of India, Indian Farmers Fertilizer Cooperative Limited) for tenure of 2 years. The firm is insulated from the risk of loss/damage of goods as the goods (transported by CART) are covered under insurance by the fleet owners. Once the contract is procured, CART gets in touch with the local vehicle owners and then transports products of the customers and receives payments based on the quantity and the point of delivery. Also, CART has 15 owned vehicle to transport the products. Moreover, CART has two branches, one being Tamil Nadu and the other being Kerala operated from its Ernakulam, Kochi branch

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	18.97	26.89
PBILDT	0.98	1.21
PAT	0.28	0.46
Overall gearing (times)	2.63	1.59
Interest coverage (times)	1.41	1.62

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for Last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity.

This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft	-	-	-	4.46	CARE B+; Stable
Fund-based - LT-Bank Overdraft (Proposed)	-	-	-	0.04	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	9.50	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Bank Overdraft	LT	4.46	CARE B+; Stable	-	-	-	-
2.	Fund-based - LT-Bank Overdraft (Proposed)	LT	0.04	CARE B+; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	9.50	CARE A4	-	-	-	-

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