

## Karam Chand Thapar & Bros (Coal Sales) Limited

January 05, 2023

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	150.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long-term/Short-term bank facilities	560.00	CARE A+; Stable /CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
<b>Total bank facilities</b>	<b>710.00</b> <b>(₹ Seven hundred ten crore only)</b>		

*Details of instruments/facilities in Annexure-1.*

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Karam Chand Thapar & Bros. (Coal Sales) Limited (KCTBL) continue to derive strength from the established presence of KCTBL in the coal logistics and services sector with proven track record and expertise, revenue visibility arising from the current order book, long-standing relationship with its customers and stable demand outlook. Furthermore, the ratings also continue to derive significant strength from the financial flexibility KCTBL derives by virtue of being a part of the resourceful Karam Chand Thapar (KCT) group, which has significant free treasury investments at group level and a demonstrated track record of support extended by KCT Financial & Management Services Private Limited (KCTFMSPL) to KCTBL in line with its stated stance.

The ratings continue to remain constrained by the subdued operating profitability and moderate debt coverage indicators, though it witnessed marginal improvement in H1FY23 (refers to the period April 1 to September 30) after declining significantly in FY22 (refers to the period April 1 to March 31). The ratings also take note of the increase in working capital borrowings in FY22 and the current fiscal to fund the increase in receivables including contractually reimbursable expenses from one of its customers. Nevertheless, the capital structure continues to remain comfortable with a large part of the borrowings comprising unsecured loans from KCTFMSPL.

Going forward, with increase in volume of coal handled and better margin in the newer contracts, the profitability margin and debt coverage indicators are expected to improve.

The ratings continue to remain tempered by the volatile profitability margins, working capital-intensive nature of business with exposure to counter-parties with moderate credit profile, client concentration risk, and tender-based nature of operations in a fragmented industry.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Substantial increase in the scale of operations with increase in the volume of coal transported and diversification in client base
- Sustenance of overall gearing ratio below 0.25x and improvement in Total Debt/PBILDT below 2x
- Significant improvement in its PBILDT margin along with earning return on capital employed (ROCE) of more than 20% on sustained basis
- Significant decrease in the average collection period (including contractually reimbursable expenses) on a sustained basis

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Substantial decrease in the scale of operations with inability to garner new contracts/renewal of contracts
- Operating profitability (PBILDT) margin remaining below 5% on a sustained basis
- Increase in overall gearing beyond unity on sustained basis
- Significant elongation of average collection period (including contractually reimbursable expenses) on a sustained basis
- Substantial decline in free liquid investments available at the group level

### Detailed description of the key rating drivers

#### Key rating strengths

#### Established presence of KCTBL in the coal logistics and services sector

The KCT group has emerged from the erstwhile Thapar group of companies, originally promoted by Late Mr Karam Chand

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

Thapar in 1929. The faction to which KCTBL belongs is currently headed by Mr Vikramaditya Mohan Thapar and his son Mr Varun Aditya Thapar, who possess significant experience in the coal logistics business. The group has presence in several sectors including coal logistics, real estate, aquaculture and treasury with coal logistics being the oldest business of the group. KCTBL has grown considerably over the years to become an established player in its core business area, i.e., coal logistics and services, in terms of volume of coal handled. The company's strong infrastructural network across the country in terms of dispatch centres located near all the major coalfields and coal handling ports and office network of around 30 branches located pan-India provides KCTBL a competitive edge, even though its entire fleet is on hire basis. The major logistical models provided by KCTBL are All Rail (AR), Rail-cum-Sea (RS) and rail-cum-sea-cum-rail (RSR).

#### **Presence of significant amount of treasury investments at group level with demonstrated support to KCTBL**

The KCT group has low reliance on debt and the value of free liquid investments at the group holding level stood at about ₹ 440 crore as on September 30, 2022 (₹ 674 crore as on March 31, 2022). Furthermore, the group has significant investment in properties.

After demerger of treasury division of KCTBL into KCTFMSPL few years back, KCTFMSPL had strongly articulated its stance to provide liquidity support to KCTBL to timely meet its obligations in case of requirement which provides significant financial flexibility to it. The same has also been abundantly demonstrated through inter-corporate deposits being availed by KCTBL from KCTFMSPL as and when required for meeting higher volume of business during the year. Further, liquid investments of around ₹75 crore of KCTFMSPL remain pledged for working capital limits availed by KCTBL. Continued support from the group and availability of significant liquid investments within the group are key rating monitorable.

#### **Revenue visibility with current order book**

KCTBL has established long-standing relations with reputed clientele, both in the public and private sectors, comprising leading players of coal, power, cement and steel sectors. The clientele includes large thermal power generating units across the country.

KCTBL had un-executed contracts of ₹833 crore as on December 16, 2022, which are slated to be executed over the next two years, thereby providing good revenue visibility.

#### **Stable demand outlook**

Long-term growth prospects for coal demand and consequently coal logistics continue to remain stable. The demand is driven by increase in thermal power demand on the back of increase in economic activities and government's thrust on infrastructure leading to stable growth prospects in user industries like power generation, cement, and steel.

#### **Liquidity: Strong**

The liquidity profile of the company is strong with average month-end utilisation of about 27% of the fund-based working capital limits during the last 12 months ended September 2022 and low term debt repayment obligation pertaining to vehicle loans. Furthermore, the KCT group, as on September 30, 2022, had significant free liquid investments of about ₹ 440 crore in Vikramaditya Mohan Thapar Family Trust (VMTFT) and KCTFMSPL with stated and demonstrated support to KCTBL. The company does not have any major capex plans in the medium term. Besides, the company enjoys financial flexibility by virtue of being part of the KCT group.

#### **Key rating weaknesses**

##### **Subdued profitability, albeit expected to improve going forward**

The TOI of the company, excluding retention money accounted for on cash receipt basis, increased to ₹361.45 crore in FY22 (audited) on account of higher volume of coal transported after having dipped to ₹283.93 crore during FY21. Due to the spurt in sea freight rates arising out of shortage of shipping containers and bottlenecks at ports, the profitability earned on its logistics contracts involving sea route was adversely impacted during FY22 with absence of escalation clause. Furthermore, the contribution of the new contracts received at higher rates during the year was not significant in its TOI and profitability during FY22 due to delay in start of such contracts and initial teething trouble faced in such contracts, which led to KCTBL earning significantly lower operating profit for the year FY22.

In H1FY23, the PBILDT margin continued to remain subdued, though it improved to about 7% from 5.84% in FY22. Going forward, with the recent contracts entered by the company being at competitive rates, the profitability is expected to improve. However, it remains exposed to the volatility in sea freight rates as well as intense competition.

##### **High working capital requirement with exposure to counterparties having moderate credit profile**

KCTBL's operations are inherently working capital intensive due to billing cycle ranging from 2-4 months and certification process involved in billing to government entities (mainly State Discoms with moderate credit profile). Furthermore, KCTBL

incurs significant logistics costs on behalf of one of its customers which it receives as a reimbursement. Hence, the operations of the company are working capital intensive in nature. The aggregate of outstanding receivables and contractually reimbursable expenses as per provisional figures stood high at about ₹650 crore as on September 30, 2022 (₹506 crore as on March 31, 2022). However, reliance on bank debt to fund this is relatively low for KCTBL as part of it is funded through unsecured loan infused in the company by the group holding companies.

#### **Moderate debt coverage indicators, though capital structure remains comfortable**

Debt coverage indicators of KCTBL moderated in FY22 on account of reduced operating profitability. Interest coverage ratio in FY22 stood at 1.28x against 1.57x in FY21. Total debt/PBILDT deteriorated substantially to 14.68x as on March 31, 2022, as against 3.34x as on March 31, 2021. The total debt of the company increased from ₹ 90.33 crore as on March 31, 2021, to ₹ 331.31 crore as on March 31, 2022, due to higher working capital borrowings for funding the higher level of outstanding receivables and contractually reimbursable expenses as at end-FY22. However, out of the outstanding debt as on March 31, 2022, ₹ 120.51 crore was backed by 100% cash collateral and another ₹ 120 crore comprised of unsecured loans from KCTFMSPL. Furthermore, the capital structure of KCTBL continues to remain comfortable due to its healthy net worth. Going forward as well, the debt levels are expected to remain low and comprise only working capital borrowings.

However, non-operating income of around ₹54.96 crore during FY22, mainly in the form of treasury income, income from sale of assets and claims received and profit from a joint venture supported its overall profitability to an extent.

As on September 30, 2022, debt level increased to ₹475 crore mainly comprising of working capital bank borrowings and unsecured loans.

#### **Customer concentration risk**

The customer base of the company is significantly skewed towards thermal power sector with orders from the power sector comprising more than 80% of its outstanding order book as on December 16, 2022. Significant dependence on a single commodity and user industry exposes KCTBL to any volatility in the commodity and user industry demand which may impact the performance of the company. However, given the favourable prospects of coal mining and thermal power generation in India supported by KCTBL's proven track record in the field of coal logistics, the concentration risk is mitigated to a certain extent.

#### **Tender-based nature of operations in a fragmented industry**

There are numerous unorganized and small players in the coal logistics industry which makes the industry highly fragmented. Furthermore, the contracts are generally renewed on a tender basis keeping the margins in check. In addition to the above, for the coal handled through the sea route, chartering of the vessel/cargo ships is done by the company. The ocean freight tenders are fixed-price contracts which restricts the ability of the company to pass on any increase in the input costs.

**Analytical approach:** Standalone while factoring linkages with the KCT group.

#### **Applicable Criteria**

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

#### **About the company**

KCTBL, the flagship company of the KCT group of Kolkata, is one of the largest and oldest coal logistics and services companies of India. It manages the entire set of logistical operations involved in the movement of huge volumes of coal through All Rail (AR) and Rail-cum-Sea (RS) logistical models. Currently, the company is being managed by Mr Varun Aditya Thapar and he is supported by a team of experienced management personnel.

As part of corporate restructuring at the group level, the treasury, real estate and shared services businesses of the company were demerged with effect from October 21, 2017. After the restructuring in the group, KCTBL was engaged in the business of coal logistics and manufacturing of specialized containers. However, the container business has also been sold in October 2018, and the company is now managing its core business of coal logistics in which it has proven expertise.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	296.90	386.71	407.55
- Retention money accounted on cash basis included above	12.97	25.26	-
PBILDT	27.06	22.57	28.47
PAT	19.88	49.54	NA
Overall gearing (times)	0.20	0.67	NA
Interest coverage (times)	1.57	1.28	1.81

A: Audited; UA: Unaudited; NA: Not Available; Financials are reclassified as per CARE Ratings' standards

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	150.00	CARE A+; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	360.00	CARE A+; Stable / CARE A1+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	200.00	CARE A+; Stable / CARE A1+

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	1)Withdrawn (16-Dec-20)	1)CARE AA-; Stable (20-Sep-19)
2	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	-	1)Withdrawn (20-Sep-19)
3	Non-fund-based - LT/ST-Bank Guarantee	LT/ST*	200.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (24-May-22)	1)CARE AA-; Negative / CARE A1+ (30-Dec-21)	1)CARE AA-; Stable / CARE A1+ (16-Dec-20)	1)CARE AA-; Stable / CARE A1+ (20-Sep-19)
4	Fund-based - LT-Cash Credit	LT	150.00	CARE A+; Stable	1)CARE A+; Stable (24-May-22)	1)CARE AA-; Negative (30-Dec-21)	1)CARE AA-; Stable (16-Dec-20)	1)CARE AA-; Stable (20-Sep-19)
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	360.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (24-May-22)	1)CARE AA-; Negative / CARE A1+ (30-Dec-21)	1)CARE AA-; Stable / CARE A1+ (16-Dec-20)	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not Applicable

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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