K M Trans Logistics Private Limited

April 08, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	43.00	CARE BB; Stable (Double B; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed
Short Term Bank Facilities	6.80	CARE A4 (A Four)	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed
Total Bank Facilities	**49.80 (Rs. Forty-Nine Crore and Eighty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of K M Trans Logistics Private Limited (KMT) continue to remain constrained on account of high leverage on account of regular predominantly debt funded capex towards addition of trailers, moderate debt coverage indicators, stretched liquidity and highly competitive nature of transportation and logistics business. The ratings also factor in decline in its scale of operations and reporting of losses at net level in FY20 (refers to the period April 01 to March 31).

The above constraints are partially offset by vast experience of the promoters in logistics business, established track record of operations and its long association with reputed clientele.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained increase in scale of operations with improvement in PBILDT margin above 19% on sustained basis
- Sustained improvement in capital structure and debt coverage indicators

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant decline in total operating income on sustained basis
- Significant deterioration in capital structure and debt coverage indicators on sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in total operating income with losses reported at net level in FY20: KMT's total operating income (TOI) declined by around 17.75% on y-o-y basis to Rs.404.63 crore in FY20 on account of decline in freight income in the year due to slowdown in automobile sector which impacted the company's revenue. PBILDT margin declined by 299 bps on y-o-y basis to 13.82% in FY20 on account of proportionately higher operating expenses. Further, on account of high depreciation and finance cost, the company reported net loss of Rs.9.48 crore in FY20; as against PAT of Rs.4.11 crore reported in FY19. Due to this reason, GCA declined by 34.09% to Rs.42.19 crore in FY20.However, during 10MFY21, the company has reported TOI of Rs.407.02 crore with PBILDT of Rs.64.02 crore (PBILDT margin: 15.73%), net loss of Rs.2.40 crore and GCA of Rs.42.67 crore.

Deterioration in capital structure and debt coverage indicators in FY20: Overall gearing of the company deteriorated from 6.02 times as on March 31, 2019 to 14.16 times as on March 31, 2020 on account of increase in debt level since the company availed loans for purchase of new commercial vehicles in FY20. As per sanctioned conditions of one of the lenders, unsecured loans of Rs.9.60 crore are sub-ordinate to bank borrowings and hence the same has been considered as quasi equity. Debt coverage indicators deteriorated with PBILDT interest coverage of 3.43 times in FY20; moderated from 4.55 times in FY19 due to decline in operating profitability and total debt to GCA of 7.44 times (3.01 times as on March 31, 2019) as on March 31, 2020; moderated on account of decline in cash accruals. Furthermore, PBILDT interest coverage stood at 3 times during 10MFY21.

Highly competitive nature of transportation and logistics business: Transportation and logistics business is a highly competitive business on account of high degree of fragmentation in the industry with presence of a large number of small players having limited fleet size, both in organized and unorganized sectors. The prospects for KMT would be largely governed by performance of the passenger vehicle, construction equipment and steel sectors which in turn is directly linked to overall economic growth of the country. Further, the players with superior quality of service and presence in different locations across

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

country and clientele across various industries would enjoy competitive edge and would be able to garner more business and long-term contracts.

Impact of Covid-19 pandemic: The logistics operations remained hampered between April 2020 and May 2020 due to nation-wide lockdown announced by Govt. of India to contain spread of COVID-19 pandemic. The transportation activities returned to normalcy from June, 2020 post which the company reported improvement in revenue. The company's revenue was impacted during Q1FY21 (Prov.) and resultantly, the company reported net sales of around Rs.47.32 crore only during Q1FY21 as against around Rs.103.32 crore in Q1FY20. Furthermore, the company has reported TOI of Rs.407.02 crore, net loss of Rs.2.40 crore and GCA of Rs.42.67 crore in 10MFY21. As articulated by the management, the company undertook some cost cutting measures such as salary cuts of drivers during lockdown period which helped the company in controlling its cost. The same along with improvement in operating efficiency post resumption of activities resulted to increase in PBILDT margin in 10MFY21. The company had availed moratorium on repayment of commercial vehicle loans from its lenders. Resultantly, term loan instalments were deferred for the said period and the repayment schedules were readjusted accordingly by the respective lenders. Furthermore, the company has availed Covid-19 loan of around Rs.13.70 crore from three of its lenders.

Key Rating Strengths

Experienced promoters: Both the directors, Mr. Kamal Kumar Chandwar and Mr. Prabha Chand Chandwar have experience of more than three decades in the field of transportation business. Though the management board consists of Chandwar family members only, the management follows professional approach in their business decisions and has in place a professionally qualified team to look after operations of the company. Furthermore, the fleet of the company is equipped with system that provides real time updates on location of vehicles, speed and other journey details thus enabling the company in efficient tracking of its vehicles. The promoter family also manages KM Logistics Private Limited, a company engaged in the business of body building of trailers used for in-house transport business and Kundanmal Mukanmal & Sons, a partnership firm engaged in the trading of various commodities.

Established operations in road transportation: KMT started with the business of transporting LPG Bulk and it further ventured in the business of transporting LPG Packed Cylinders in 1990. During 1995, the company entered into automobile transportation and in 2006, entered in transportation of steel and other metals. As on March 15, 2021, KMT owns a fleet of around 1693 vehicles which consists of 520 car carrier trailers, 870 flat bed/ sidewall trailers, 190 chassis carriers, 83 tractor carriers and 30 container carriers with average age ranging being low between 1 year to 4.70 years. The income from owned-fleet segment constituted around 91.26% of TOI in FY20 (90.05% in FY19) and remaining 8.74% (9.95% in FY19) was constituted by the hired-fleet segment. The company has branch offices at 33 locations and 90 supporting solutions covering 16 states in the country to facilitate quick service to the clients.

Reputed clientele with high dependence on automobile sector: Being present in the industry since 1988, KMT has developed long standing relationship with majority of clients which helps in generating repeat business. KMT has been dealing with all major automobile manufacturers in India including Maruti Suzuki India Limited, Tata Motors Limited, Mahindra Logistics Limited, Hyundai Motor India Limited, Ford India Private Limited, Renault Nissan Motor India Private Limited and steel manufacturers like JSW Steel Limited, Jindal Steel and Power Limited and TATA Steel Limited. The revenue concentration is highly skewed towards the automobile sector which constituted around 59.34% of TOI in FY20 though the same declined from around 80.86% in FY19 whereas revenue from steel sector increased to around 17.88% in FY20 from 6.90% in FY19. Over the last 3 years, the company has increased fleet size of flat-bed carrier while it has reduced car carrier as well as chassis carrier fleet which has resulted to moderation in revenue from automobile segment with an increase in revenue from steel/chemical transportation segment. KMT's top ten clients constituted around 69.17% of TOI during FY20 as against 86.38% in FY19 depicting reduction in customer concentration risk after the company started diversifying its clientele by increasing revenue from steel manufacturers.

Liquidity- Stretched: Liquidity remained stretched due to tightly matched cash accruals vis-à-vis debt repayments envisaged over the projected period. However, the company gets support from unutilized bank limits as the average utilization of fund based working capital limit stood around 50-60% during past 12 months ended February 2021 as confirmed by the lenders. The current ratio remained at unity as on March 31, 2020 due to high loan instalment due for payment. However, the operating cash flow of KMT declined to Rs.43.36 crore in FY20 as against Rs.63.92 crore in FY19 due to decline in profitability. Furthermore, operating cycle elongated to 30 days in FY20 from 21 days in FY19 due to decline in creditors' period from 19 days in FY19 to 13 days in FY20 with a decline in scale of operations. Cash and bank balance stood at 0.57 crore as on March 31, 2020 and Rs.0.86 crore (incl. liquid investments) as on January 31, 2021.

Industry Outlook: Currently, the Indian logistics industry is highly fragmented and unorganized. Owing to the presence of numerous unorganized players in the industry, it remains fragmented with the organized players accounting for approximately 10% of the total market share. The sector is marred by various challenges, including under-developed material handling infrastructure, fragmented warehousing, multiple regulatory/ policy-making bodies, lack of seamless movement of goods across modes, minimal integrated IT infrastructure, etc., which have contributed to the increased cost and lower operating efficiency. While the government has been taking corrective steps to improve the efficiency of the sector, the implementation of Good and Service Tax (GST) has been a major step forward in the direction. Other aspects that need to be focused upon include integration of operations with advanced technological platform, improved investment scenario, skill development, improved intermodal transportation, automation, single window clearances, and simplification of the process. Supply chain realignment and check post discontinuation has led to a reduction in the travel time as well as fuel cost. With the onset of COVID-19 pandemic which led to lockdowns and border closures that restricted the movement of goods and additional protocols (such as social distancing at warehouses) were introduced to ensure the safety of workers contributed to bottlenecks for freight. Operational constraints led to delivery delays, congestion, shortage of truck drivers and higher freight rates. The government responded to the crisis by designating ports, shipping, and trucking services as essential—and thereby exempt from lockdown measures. However, labour shortages, cargo capacity challenges, a manufacturing slowdown, order delays and stuck shipments, demand and supply shocks created a challenging environment for the industry especially during Q1FY21. However, with the gradual relaxation in the lockdown restrictions and the subsequent revival in the consumption demand with strong e-commerce growth and inventory rebuilding, the lead indicators for Q3FY21 have pointed towards a strong pick-up in the logistics sector.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology- Service Sector Companies
Financial ratios – Non-Financial Sector
Liquidity analysis of non-financial sector entities

About the Company
KMT (erstwhile Kundanmal Mukanmal Traders Private Limited) was promoted by Jaipur based brothers, Mr. Kamal Kumar Chandwar and Mr. Prabha Chand Chandwar in 1988. The name of the company was changed to its current form w.e.f. April 3, 2012. KMT offers logistics services to all major automobile manufacturers in India including Maruti Suzuki India Limited, Tata Motors Limited, Mahindra Logistics Limited, Hyundai Motor India Limited, Ford India Private Limited, Renault Nissan Motor India Private Limited and steel manufacturers like JSW Steel Limited and Posco group. As on March 15, 2021, KMT owns a fleet of around 1693 vehicles which consists of 520 car carrier trailers, 870 bed/ sidewall trailers, 190 chassis carriers, 83 tractor carriers and 30 container carriers.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	491.96	404.63
PBILDT	82.71	55.92
PAT	4.11	-9.48
Overall gearing (times)	6.02	14.16
Interest coverage (times)	4.55	3.43

A: Audited
As per provisional results for 10MFY21, KMT has reported TOI of Rs.407.02 crore with net loss of Rs.2.40 crore.

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

Covenants of rated instrument / facility: *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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	34.10	CARE BB; Stable
Non-fund-based - ST-BG/LC	-	-	-	2.00	CARE A4
Fund-based - ST-Bank Overdraft	-	-	-	4.80	CARE A4
Fund-based - LT-Working capital Term Loan	-	-	May 2025	8.90	CARE BB; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	34.10	CARE BB; Stable	1)CARE BB; Stable; ISSUER NOT COOPERATING* (03-Apr-20)	-	1)CARE BB+; Stable (29-Mar-19)	1)CARE BB+; Stable (15-Mar-18)
2.	Non-fund-based - ST-BG/LC	ST	2.00	CARE A4	1)CARE A4; ISSUER NOT COOPERATING* (03-Apr-20)	-	1)CARE A4+ (29-Mar-19)	1)CARE A4+ (15-Mar-18)
3.	Fund-based - ST-Bank Overdraft	ST	4.80	CARE A4	1)CARE A4; ISSUER NOT COOPERATING* (03-Apr-20)	-	1)CARE A4+ (29-Mar-19)	1)CARE A4+ (15-Mar-18)
4.	Fund-based - LT-Working capital Term Loan	LT	8.90	CARE BB; Stable	1)CARE BB; Stable; ISSUER NOT COOPERATING* (03-Apr-20)	-	1)CARE BB+; Stable (29-Mar-19)	1)CARE BB+; Stable (15-Mar-18)

**Issuer did not cooperate; Based on best available information*

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

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Working capital Term Loan	Simple
3.	Fund-based - ST-Bank Overdraft	Simple
4.	Non-fund-based - ST-BG/LC	Simple

***Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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