

## Orissa Bengal Carrier Limited

July 7, 2023

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	21.00	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	7.00	CARE BBB; Stable / CARE A3+	Reaffirmed
Short Term Bank Facilities	2.00	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Orissa Bengal Carrier Limited (OBCL) derives comfort from long and established track record of the company in the road transport industry, established long term relationship with reputed customers in diverse industries, financial risk profile marked by comfortable capital structure and debt coverage indicators and locational advantage. However, the aforesaid strengths are partially offset by moderate financial performance coupled with dip in operating margins in FY23 due to onetime accounting of provisions for fraud of Rs.5.41 crore detected during FY21, highly fragmented and competitive industry, vulnerability of profitability margins to trade cycle and competition, working capital intensive nature of operation.

### Rating sensitivities: Factors likely to lead to rating actions.

#### Positive factors

- Sustained growth in Revenues with a turnover above Rs.600 crore and gross margins sustaining above 5%

#### Negative factors

- Steep fall in business or decline in the operating profitability below 3% on a sustained basis.
- Stretch in the working capital cycle weakening the financial risk profile.

#### Analytical approach: Standalone.

#### Outlook: Stable

Stable outlook reflects the ability of the company to improve its scale of operations while sustaining margins on the back of orders from reputed clientele and comfortable financial risk profile.

### Detailed description of the key rating drivers:

#### Key strengths

##### Long and established track record in the road transport industry

Incorporated in 1994, the company is engaged in the business of Transport and Logistics for more than 25 years which gives them advantage of developing a presence, relationship with its customers, and cordial relationship with drivers and other employees. After the demise of Late Ratan Kumar Agarwal, Ravi Agarwal (son of Ratan Kumar Agarwal) has taken over the management of the company in 2021. Ravi Agarwal is holding 39.08% of total shares as on March 31, 2023.

##### Established long term relationship with reputed customers in diverse industries

The company serve customers across several industry sectors viz. Metal, Steel, coal, aluminium, cement, petrochemicals, paper, marble, tiles, infra, textile, FMCG etc. Most of the clients are the leading companies in their respective sectors with strong credit profile, hence counterparty risk is also low. Some of the clients of the company are Vedanta Limited, Jindal Steel & Power, A PL Apollo Tubes Ltd, Ambuja Cement, Reliance Industries Ltd, Tata Steel Ltd, SAIL, Shree cement, Dabur, Godrej. etc.

OBCL is engaged in providing a wide range of services including transportation services, third party logistics, warehousing etc. Company has a pan-India surface logistics distribution network having forty branches spread in various parts of India. It enables the company to cater to a diverse mix of customers including corporate, small and other enterprises, distributors and traders.

The company is maintaining its own fleet of 69 vehicles as on March 31 2023, commercial vehicles which includes truck & trailers of 12/14/16 wheels. Further, company has a linkage with around 5000 vehicles from the local market on hire basis. The specification of vehicle depends on the type of service required by the customer. The fleet operates across the country ensuring nation-wide services to corporate and government customers. Truck load delivery services operate through a hub-and-spoke model which enables the company to transport goods and provide customers access to multiple destinations for booking and delivery of goods.

The company has bought some trucks and trailers from Central Transport Services (proprietorship firm) amounting to Rs.4.44 crore.

The company has started using software Lozics, an integrated software which helps company in better understanding the business and the routes which are profitable. Hence, the company has optimized its branches from 55 in 2018 to 40 in 2023.

##### Financial risk profile marked by comfortable capital structure and debt coverage indicators

The company's overall gearing stood at 0.02x as on Mar 31, 2023 as compared to 0.11x as on Mar 31, 2022 due to repayment of term loan and lower utilisation of fund-based facilities during the year. TOL/TNW improved from 0.25x in FY22 to 0.05x in

<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

FY23. The company's debt service indicators like TD/GCA and Interest coverage ratio remained comfortable and stood at 0.17x and 5.44x in FY23 (P.Y.: 0.89x and 6.76x).

As on Mar 31, 2022, the company had o/s term loan of Rs.1.88 crore out of which Rs.1.07 crore is repayable in FY24 and rest in FY25. As a result, DSCR remains comfortable at 5.62x in FY22.

### **Locational advantage**

The company is headquartered in Raipur, Chhattisgarh which has many steel and cement industry in the belt providing a benefit to easily cater the services they need to transport goods to other required location. Companies' large geographic coverage and operational network enable it to further integrate operations, increase cost efficiencies and increase freight volumes.

### **Key weaknesses**

#### **Moderate financial performance coupled with low operating margins**

Income from operations has grown by ~21% from Rs.303.34 crore in FY22 to Rs.367.10 crore in FY23 due to healthy order book execution. However, PBILDT margins have dipped from 3.88% in FY22 to 2.05% in FY23 due to onetime accounting of provisions for fraud of Rs.5.41 crore detected during FY21.

The statutory auditors of the company in their report for FY22 made an observation that a provision should be made for an amount of Rs. 5.41 Crores for the fraud committed by three employees of the Jharsuguda Branch of the company which was detected in FY21. The fraud was committed by showing higher than actual lorry Hire charges in the system. As a result, in FY23 the company had written off the amount in FY23.

#### **Highly fragmented and competitive industry**

The goods transportation industry is unorganized, competitive and highly fragmented in India. The principal competitive factors include service quality, reliability, price and the availability and configuration of vehicles that can comprehensively address varying requirements of different customer segments and specific customer needs. The logistics industry faces intense competition and weak margins due to low entry barriers. High fragmentation and intense competition lead to unhealthy price wars and discounts resulting in pressure on margins and depressed freight rates.

Being IBA Approved, the company gets an edge over other unorganized and Non IBA Approved transporters. The company is competing with a variety of local, regional, and national goods transportation service providers of varying sizes and operations and, to a lesser extent, with railroads carriers.

#### **Vulnerability of profitability margins to trade cycle and competition**

Logistics operations are dependent on the overall economic condition of the country. Higher economic activity translates into higher freight movement which drives demand for road freight transport industry. OBCL remains exposed to significant fluctuation in hire charges for market vehicles as the rates are primarily dependent on the demand-supply dynamics. It is also vulnerable to the volatility in fuel prices, and its ability to tackle a timely pass-through of any variation in fuel prices remains critical in maintaining its profitability margins.

#### **Working capital intensive nature of operation**

The operations of the company are working capital intensive on account of negligible credit period being extended by the creditors and higher credit period offered to its clients. OBCL derives majority of its revenue from corporate clients thus leading to low bargaining power. The company provides a credit period of around 60-90 days from the delivery of consignment after which the sale is booked. In addition to this, the business of the company is working capital intensive on account of upfront expenses like fuel expense incurred in conducting operations through own fleet of vehicles as well as hired vehicles. The time gap in collection of receivables and upfront outflow of expenses results in large working capital requirement. The working cycle of the company has improved from 75 days in FY22 to 53 days in FY23 due to improvement in collection period from 93 days to 62 days. The working capital-intensive operations of the company are funded largely through working capital facilities.

#### **Liquidity: Adequate**

The liquidity profile of OBCL is adequate with current ratio of 6.88x (PY: 4.41x) and cash and cash equivalents of Rs.2.34 crore as on March 31, 2023. In FY23, the company's debt repayment obligation stood at Rs.3.20 crore against GCA of Rs.11.80 crore. The liquidity is expected to be adequate to meet the company's debt repayment obligation of Rs.1.07 crore in FY24. OBCL has the sanctioned working capital limits of Rs.35.00 crore (including CC limits of Rs.23.00 crore, WCDL limits of Rs.2.00 crore and non-fund based limits of Rs. 10.00 crore) for the business operations. The average fund based working capital utilization of the company stood at ~45% (for Axis Bank: Rs.14 crore limits) for the 9 months ending March 2023 & negligible (for HDFC Bank: Rs.11 crore including WCDL) as articulated by management.

#### **Environment, social, and governance (ESG) risks: Not Applicable.**

#### **Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

[Policy on Withdrawal of Ratings](#)

## About the company and industry

### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Services	Road Transport

Orissa Bengal Carrier Limited (OBCL) was founded by Late Ratan Kumar Agarwal in 1994. The company is a IBA (Indian Banking Association) approved transporter having ISO 9001:2015 certified for provision of Quality management System Services. The company is a third-party logistics service provider, providing full truck load (FTL), Parcel and part truck load services, less than Truck load (LTL). The company operates in large integrated Hub and spoke model. The company has a distribution network having forty branches spread across various parts of India. The company caters to a wide range of industries across metal, steel, coal, aluminium, cement, petrochemicals, paper, marble, tiles, infra, textile, FMCG. As on March 31, 2023, the company has a fleet of 69 owned trucks. The day-to-day operation of the company is managed by Mr. Ravi Agarwal (son of Late Rata Kumar Agarwal).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (U/A)
Total operating income	303.34	367.10
PBILDT	11.76	7.54
PAT	7.83	3.67
Overall gearing (times)	0.11	0.02
Interest coverage (times)	6.76	5.44

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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

**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:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of facilities

Name of the Facilities	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	21.00	CARE BBB; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	-	2.00	CARE A3+
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	7.00	CARE BBB; Stable / CARE A3+

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

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	21.00	CARE BBB; Stable	-	1)CARE BBB; Stable (23-Dec-22)	-	-
2	Non-fund-based - LT/ST-Bank Guarantee	LT/ST*	7.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (23-Dec-22)	-	-
3	Fund-based - ST-Working Capital Demand loan	ST	2.00	CARE A3+	-	1)CARE A3+ (23-Dec-22)	-	-

\*Long term/Short term.

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

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Working Capital Demand loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

**Annexure-5: Lender details**

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

**Note on the 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 for any clarifications.

### Contact us

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