Orissa Bengal Carrier Limited

July 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	21.00	CARE BBB-; Stable	Revised from CARE BBB; Stable
Long Term / Short Term Bank Facilities	7.00	CARE BBB-; Stable / CARE A3	Revised from CARE BBB; Stable / CARE A3+
Short Term Bank Facilities	0.00 (Reduced from 2.00)	CARE A3	Revised from CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Orissa Bengal Carrier Limited (OBCL) takes into account the continued moderation in operating margins and over last 4 years ending FY24 along with moderation in Total operating income (TOI).
The ratings derive 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, comfortable capital structure and debt coverage indicators and locational advantage.
The aforesaid strengths, however, are partially offset by 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 ₹400 crores and gross margins above 4% on a sustained basis.

Negative factors

- Decline in scale of operations below ₹250 crores on a sustained basis.
- Any further substantial increase in the working capital cycle leading to weakening of the financial risk profile.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects the ability of the company to improve its operational risk profile 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 Ratan Kumar Agrawal, Ravi Agrawal (son of Late Ratan Kumar Agrawal) has taken over the management of the company in 2021. Ravi Agrawal is holding 38.13% of total shares as on March 31, 2024.

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, APL 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.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The company is maintaining its own fleet of 90 commercial vehicles as on March 31 2024 which includes truck & trailers of 12/14/16/18 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 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 41 in 2024. The company opened two branches – one in Siliguri and one in Goa in Q4FY24. Further, in Q1FY25, OBCL has opened another branch in Vapi to tap in on the opportunities in the Indian Western Coast.

Comfortable capital structure and debt coverage indicators: The company's overall gearing remained comfortable and stood at 0.15x as on Mar 31, 2024 as compared to 0.02x as on Mar 31, 2023. The slight moderation is due to increase in term loan for funding of purchase of new fleet and higher utilisation of fund-based facilities during the year. TOL/TNW stood at 0.26x in FY24 (PY: 0.14x). Interest coverage ratio remained comfortable and stood at 5.35x in FY24 (PY: 5.44x). However, the TD/GCA moderated to 2.17x in FY24 (PY: 0.31x) owing to the debt funded capex and higher utilisation of working capital limits.

The capital structure of the company is expected to moderate further in the short to mid-term owning to company's debt funded capex plans for replacement of its old feet.

Locational advantage: The company is headquartered in Raipur, Chhattisgarh which contributes approximately 30% to India's steel/sponge iron production, 15% to cement in India's production, so there is a pool of steel and cement industry players in the Chhattisgarh belt providing a leverage to easily cater the services that are needed by these players to transport their goods to other required location. OBCL's large geographic coverage and operational network enable it to further integrate operations, increase cost efficiencies and increase freight volumes.

Key weaknesses

Continuous moderation in operating margins and moderation in TOI in FY24: OBCL's Income from operations has dipped by ~9% from ₹367.10 crores in FY23 to ₹332.85 crores in FY24 on account of selective bidding in H2FY24 for contracts due to the low margins being floated by the orders along with lower absorption of fixed costs. The lower than envisaged revenues led to lower PBILDT margins at 2.09% (PY: 2.05%).

However, the company is expected to benefit from addition of newer trucks in its fleet that will entail OBCL to bag higher margin contracts in the midterm.

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 an IBA (Indian Banking Association) 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 elongated from 53 days in FY23 to 65 days in FY24 due to moderation in collection period from 62 days to 73 days vis-a-vis similar creditor days at 8 days (PY: 9 days). The working capital-intensive operations of the company are funded largely through working capital facilities and are expected to remain at similar levels in the near to mid-term.

Liquidity: Adequate

The liquidity profile of OBCL is adequate with current ratio of 5.24x and cash and cash equivalents of Rs. 1.30 crores as on March 31, 2024. Further the company earned GCA of Rs. 6.30 crores in FY24. Going forward, the company has a debt obligation of Rs. 1.63 crores in FY25 against which it is expected to generate sufficient GCA. The operations of the company remain working capital intensive on account of lower credit period being extended by the creditors due to logistics nature of business and credit period of 60 to 90 days offered to its clients and as a result the operating cycle of the company stood at 65 days in FY24. The working capital-intensive operations of the company are funded largely through working capital facilities, the average utilisation of which has remained at around 30% in the last 12 months.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Short Term Instruments
Service Sector Companies

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 Agrawal in 1994. The company is a IBA 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, 2024, the company has a fleet of 90 owned trucks. The day-to-day operation of the company is managed by Mr. Ravi Agrawal (son of Late Ratan Kumar Agrawal).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Abridged)
Total operating income	367.10	332.85
PBILDT	7.54	6.96
PAT	3.67	3.69
Overall gearing (times)	0.02	0.15
Interest coverage (times)	5.44	5.35

A: Audited; 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 instruments/facilities

Name of the Instrument	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		-	-	-	0.00*	CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	7.00	CARE BBB-; Stable / CARE A3

**As articulated by the management, the facility has been fully repaid. However, CARE Ratings Limited has not received No Dues Certificate (NDC) from the company and has hence rated the facility at 0.0001 crore.*

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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	21.00	CARE BBB-; Stable	-	1)CARE BBB; Stable (07-Jul-23)	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+ (07-Jul-23)	1)CARE BBB; Stable / CARE A3+ (23-Dec-22)	-
3	Fund-based - ST-Working Capital Demand loan	ST	0.00	CARE A3	-	1)CARE A3+ (07-Jul-23)	1)CARE A3+ (23-Dec-22)	-

LT: Long term; ST: Short term; LT/ST: 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.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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