

## Orissa Bengal Carrier Limited

December 23, 2022

### Ratings

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	21.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	7.00	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Assigned
Short Term Bank Facilities	2.00	CARE A3+ (A Three Plus)	Assigned
<b>Total Bank Facilities</b>	<b>30.00</b> <b>(₹ Thirty Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed 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 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 moderation in financial performance coupled with low operating margins over the last few years, highly fragmented and competitive industry, vulnerability of profitability margins to trade cycle and competition, working capital intensive nature of operation.

### Rating sensitivities

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

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

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

- 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

### Detailed description of the key rating drivers

#### Key rating 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. There has been change in Promoters shareholding pattern after the demise of Promoter Ratan Kumar Agarwal. Ravi Agarwal is holding 39.08% of total shares as on September 30, 2022.

##### 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.

The company is maintaining its own fleet of 117 vehicles as on March 31 2022 & the same has been reduced to 112 vehicles in Q1FY23, commercial vehicles which includes truck & trailers of 12/14/16 wheels. Further, company has a linkage with 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 gross block of Trucks & trailers is only around Rs.6.41 crore which was used to be around Rs.12.03 crore in FY20. In FY22 itself company has disposed off Trucks & Trailers worth of Rs.5.39 crore.

<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

In FY22, 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 2022.

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

The company's overall gearing stood at 0.11x as on Mar 31, 2022 as compared to 0.96x as on Mar 31, 2018 due to repayment of term loan and the company's focus on asset light model. TOL/TNW improved from 2.06x in FY18 to 0.25x in FY22.

The company's debt service indicators like TD/GCA and interest coverage ratio has also improved from 2.99x and 4.87x in FY18 to 0.89x and 6.76x in FY22 respectively. As on Mar 31, 2022, the company had o/s term loan of Rs.4.19 crore out of which Rs.3.20 crore is repayable in FY23 and rest in FY24. As a result, DSCR remains comfortable at 3.21x in FY23.

### **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 rating weaknesses**

#### **Moderation in financial performance coupled with low operating margins over the last few years**

OBCL's Income from operations has shown a decline at a CAGR of ~6% during FY18 to FY22, which was Rs.385.17 crore in FY18 as compared to Rs.303.34 crore in FY22. During FY20, TOI declined due to overall slowdown in the economy coupled with sudden hit by Covid-19 which impacted company's operation in March 2020. Income from operations declined in FY21 and FY22 owing to impact of lockdown and slowdown in the overall economy.

PBILDT margins remained in the range of 4-5% during FY18-FY20. However, PBIDT margins declined to below 3.87% in FY21 & 3.88% in FY22 due to impact of Covid 19 leading to under absorption of fixed overheads.

In H1FY23, income from operations improved Rs.193.72 crore as compared to Rs.147.20 crore in H1FY22 due to re-opening of economy post-Covid 19.

#### **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 been in the range of 60 to 80 days, with debtors' collection ranging between 60-90 days and creditors day ranging from 18-25 days.

#### **Liquidity: Adequate**

The liquidity profile of OBCL is adequate with current ratio of 4.41x (PY: 2.39x) and cash and cash equivalents of Rs.10.43 crore as on March 31, 2022. The operations of the company remain 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 75 days in FY22 as against 79 days in FY21. The working capital-intensive operations of the company are funded largely through working capital facilities. 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 ~65% (Axis Bank) & ~44% (HDFC Bank) for the 7 months ending October 2022. Further, the GCA of the company going ahead is expected to be sufficient to meet the debt repayment obligations which majorly pertain to vehicle loan.

**Analytical approach:** Standalone

**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**

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, 2022, the company has a fleet of 112 owned trucks. The day-to-day operation of the company is managed by Mr. Ravi Agarwal (son of Late Rata Kumar Agarwal).xxx

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (U/A)
Total operating income	339.50	303.34	193.72
PBILDT	13.13	11.76	10.34
PAT	5.80	7.83	6.37
Overall gearing (times)	0.38	0.11	0.21
Interest coverage (times)	5.76	6.76	12.45

A: Audited; U/A: Unaudited

**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 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 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	Fund-based - LT-Cash Credit	LT	21.00	CARE BBB; Stable				
2	Non-fund-based - LT/ST-Bank Guarantee	LT/ST*	7.00	CARE BBB; Stable / CARE A3+				
3	Fund-based - ST-Working Capital Demand loan	ST	2.00	CARE A3+				

\*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	Fund-based - ST-Working Capital Demand loan	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 for any clarifications.

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### About us:

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