

Karam Chand Thapar & Bros. (Coal Sales) Limited

April 5, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	235 (reduced from 453)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE AA (Double A) Removed from credit watch with negative implications
Long-term/Short term Bank Facilities	450 (reduced from 551)	CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/A One Plus)	Revised from CARE AA/CARE A1+ (Double A/A One Plus) Removed from credit watch with negative implications
Total facilities	685 (Rs. Six Hundred and Eighty Five crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has removed the ratings assigned to the bank facilities of Karam Chand Thapar & Bros. (Coal Sales) Ltd. (KCTBL), from 'Credit Watch with Negative Implications' after considering the impact of the corporate restructuring in the group on the credit profile of the company.

As per the scheme of arrangement (effective October 21, 2017), KCTBL continues to operate the coal logistics business and the other businesses comprising treasury, real estate and shared services businesses have been demerged to other group entities.

The revision in the long term rating factors in the demerger of the treasury portfolio from which KCTBL derived significant income. The ratings continue to derive strength from the experience of the promoters, it being the flagship company of the Karam Chand Thapar (KCT) group, presence of significant amount of treasury investments at group level with demonstrated support to KCTBL, comfortable capital structure, established presence in the coal logistics and services sector by virtue of its long track record and long standing relationship with clients.

The ratings also take note of the substantial decline in total operating income in FY17 (refers to the period April 1 to March 31) due to suspension of loss-making imported coal trading operations, improvement in debtors position and reduction in exposure towards the group companies.

The ratings are, however, constrained by the moderate profitability margin on account of losses in container division and imported coal division.

Ability of the company to improve profitability while maintaining capital structure and diversification of operations would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record

The KCT group has emerged from the erstwhile Thapar group of companies, originally promoted by Late Mr Karam Chand Thapar in 1929. The group is currently headed by Mr. Vikramaditya Thapar (Chairman and Managing Director) and his son Mr. Varun Aditya Thapar (Vice Chairman). The group has presence in several sectors including coal logistics, real estate, aquaculture and treasury.

Further, the group has significant free liquid investments in the family trust (~Rs.400 crore) and KCT Management Services Ltd (KCTMS) along with investments in properties. After demerger of treasury division of KCTBL into KCTMS, liquid funds of Rs.107 crore of KCTMS continue to remain pledged for bank facilities of KCTBL, demonstrating support to KCTBL.

Dominant player in the niche segment of coal logistics

KCT has grown considerably over the years in its core business area i.e. coal logistics and services, in terms of volume of coal handled. The entire business is tender based, wherein contracts are entered into with the customers at the quoted

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

tender amount for handling and distribution of per tonne of coal. The major logistical routes are All Rail Route (ARR), Rail-cum-Sea (RS) and rail-cum-sea-cum-rail (RSR) route.

Long standing relationship with reputed client base

KCTBL has established a long-standing relation with well-diversified and reputed client base both in the public and private sector, comprising leading players of coal, power, cement, steel, engineering, construction and paper sector. This has ensured repeat orders, apart from adding a good number of new customers every year resulting in sustainability of revenue.

Substantial decline in total operating income due to suspension of coal trading operations in FY17

The total operating income of the company witnessed a y-o-y decrease of about 46% during FY17 which was primarily on account of suspension of coal trading operations from February 2016. However, the PBILDT margin improved significantly from 5.77% in FY16 to 17.74% in FY17 due to significant amount of retention money for coal logistics division received during the year (accounted on receipt basis) and reduction in losses from coal trading sales. Despite higher PBILDT along with stable capital charges and non-operating income generated from investments/advances, the PBT was lower at Rs.65.81 crore in FY17 vis-à-vis Rs.69.51 crore in FY16 due to exceptional cost of Rs.41.76 crore pertaining to gifting of shares to a group company. The PAT from discontinued operation was Rs.28.17 crore in FY17. Consequently the company reported PAT of Rs.71.98 crore in FY17 vis-à-vis PAT of Rs.59.94 crore in FY16.

During 9MFY18 the company reported net profit of Rs.44.28 crore (incl. PAT of Rs.13.41 crore from discontinued operations) on total operating income of Rs.289.37 crore.

Comfortable capital structure

The total debt of the company decreased to Rs.148.59 crore as on March 31, 2017 as compared to Rs.382.24 crore as on March 31, 2016 due to lower working capital utilisation with recovery in debtors, repayment of debt pertaining to wind energy business on business being sold and suspension of working capital intensive coal trading operations. Consequently, the overall gearing improved to 0.13x as on March 31, 2017 as compared to 0.29x as on March 31, 2016.

The overall gearing continued to remain comfortable at 0.38x as on December 31, 2018 despite reduction in networth on account of demerging of few segments, with debt almost entirely consisting of working capital borrowings. KCTBL's liquid investments stood at ~Rs.110 crore as on December 31, 2017. The net overall gearing (after adjusting investments pledged for borrowings) stood comfortable at 0.13x as on December 31, 2017.

Improvement in debtor position

The operating cycle of the company witnessed deterioration to 116 days in FY17 vis-à-vis 81 days in FY16 due to significant decline in sales. However on an absolute basis, the outstanding debtors of the company stood at Rs.137.15 crore as on March 31, 2017 vis-à-vis Rs.334.06 crore as on March 31, 2016 due to recovery and write-offs of old debtors pertaining to imported coal trading division. Consequently the debtor profile of the company has improved considerably post suspension of imported coal trading division.

Moreover, the liquidity of the company is further supported by the company's accrued retention receivables (~Rs.90 crore) which would be received by the company after the completion of the respective contracts (normally having tenure of 3 years).

Reduction in exposure towards group companies

KCTBL's exposure towards group companies has reduced considerably post restructuring of the operations in the group. KCTBL had an aggregate gross exposure of Rs.205 crore towards its group companies as on March 31, 2017 vis-à-vis Rs.397 crore as on March 31, 2016. KCTBL has also provided various corporate guarantees to banks on behalf of its group companies which stood at Rs.101 crore as on March 31, 2017 vis-à-vis Rs.728 crore as on March 31, 2016. The reduction in corporate guarantee was due to sale renewable energy business and reduction in limits of KCT Global Pte Ltd. (KGPL) which has also suspended its trading operations of supplying coal to Indian customers.

Key Rating Weaknesses

Moderate profitability margins

Pursuant to corporate restructuring the company is now engaged in business of coal logistics and manufacturing of containers (division of IWL). Coal logistics has been the major revenue contributing segment of the company in the past. The other demerged segments did not contribute significantly apart from the treasury division which enabled KCTBL to earn stable treasury income.

The revenue from coal logistics contributed 97% of total operating income in FY17. The operating profitability margin of KCTBL has remained moderate inspite of healthy margin (around 15%) in the coal logistics business due to losses incurred in the container division and infrastructure division, expenses incurred at group corporate level and fixed costs pertaining to imported coal division impacting profitability. Going forward, with complete shut-down in coal trading division, hiving off of corporate services division and proposed sale of container division, the profitability is expected to improve.

Analytical approach: Standalone while factoring linkages with the group

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios - Non Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

About the Company

KCTBL, the flagship company of the KCT Group of Kolkata, is one of the largest 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 Route (ARR), Rail-cum-Sea (RS) and rail-cum-sea-cum-rail (RSR) route. Currently, the company is being managed by Mr. Varun Aditya Thapar (Vice Chairman) and he is supported by a team of experienced management personnel.

As part of corporate restructuring at group level, the treasury, real estate and shared services businesses of the company were demerged with effect from October 21, 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1069.09	573.92
PBILDT	61.65	101.80
PAT	59.94	71.98
Overall gearing (times)	0.29	0.13
Interest coverage (times)	2.35	3.21

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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

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Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	100.00	CARE AA-; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	115.00	CARE AA-; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	20.00	CARE AA-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Letter of credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	450.00	CARE AA-; Stable / CARE A1+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A1+ (Under Credit watch with Negative Implications) (04-May-17)	1)CARE A1+ (31-Jan-17) 2)CARE A1+ (06-Oct-16)	1)CARE A1+ (27-Nov-15)
2.	Non-fund-based - LT-Bank Guarantees	LT	115.00	CARE AA-; Stable	-	1)CARE AA (Under Credit watch with Negative Implications) (04-May-17)	1)CARE AA; Negative (31-Jan-17) 2)CARE AA (06-Oct-16)	1)CARE A1+ (27-Nov-15)
3.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	-	-	-	1)CARE AA / CARE A1+ (Under Credit watch with Negative Implications) (04-May-17)	1)CARE AA; Negative / CARE A1+ (31-Jan-17) 2)CARE AA / CARE A1+ (06-Oct-16)	1)CARE AA / CARE A1+ (27-Nov-15)
4.	Non-fund-based - LT-Bank Guarantees	LT	20.00	CARE AA-; Stable	-	1)CARE AA (Under Credit watch with Negative Implications) (04-May-17)	1)CARE AA; Negative (31-Jan-17) 2)CARE AA (06-Oct-16)	1)CARE AA (27-Nov-15)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	450.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA / CARE A1+ (Under Credit watch with Negative Implications) (04-May-17)	1)CARE AA; Negative / CARE A1+ (31-Jan-17) 2)CARE AA / CARE A1+ (06-Oct-16)	1)CARE AA / CARE A1+ (27-Nov-15)
6.	Term Loan-Long Term	LT	-	-	-	1)CARE AA (Under Credit watch with Negative Implications) (04-May-17)	1)CARE AA; Negative (31-Jan-17) 2)CARE AA (06-Oct-16)	1)CARE AA (27-Nov-15)
7.	Fund-based - LT-Cash Credit	LT	100.00	CARE AA-; Stable	-	1)CARE AA (Under Credit watch with Negative Implications) (04-May-17)	1)CARE AA; Negative (31-Jan-17) 2)CARE AA (06-Oct-16)	1)CARE AA (27-Nov-15)

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