Rating Rationale 27 Feb 2020

Anand Transport Private Limited

Brickwork Ratings revises the ratings with revision of outlook for the Bank Loan Facilities of Rs.109.57 Crores of Anand Transport Pvt Ltd ('ATPL' or the 'Company')

Particulars

Facility**	Amount (Rs Cr)		Tenure	Rating*	
	Previous (Rs. Crs)	Present (Rs. Crs)		Previous	Present
Fund Based					
Cash Credit	35.00	5.00	Long Term	**BWR BBB/Stable**	**BWR BBB-/Negative Downgraded**
Non Fund Based			Short Term	**BWR A3+**	**BWR A3 Downgraded**
Bank Guarantee	75.00	66.57			
Proposed Bank Guarantee	35.00	38.00			
Total	**145.00**	**109.57**	**INR One Hundred And Nine Crores And Fifty Seven Lakhs Only**		

*Please refer to BWR website www.brickworkratings.com for definition of the ratings ; ** Details of Bank facilities are provided in Annexure I;

Rating Action/Outlook

The revision of ratings reflects the lower than expected performance with non achievement of projected operations for two consecutive years, lack of revenue visibility and stretched liquidity with elongated receivables. The ratings remain constrained by susceptibility to risks inherent in tender based business and highly competitive nature of the industry and modest scale of operations. The ratings however, continue to draw strength from the promoters' extensive industry experience, support from Chennai based MGM group and the moderate financial risk profile.

The outlook revision reflects BWR's concerns over the possibility of further erosion in the company's revenue and earnings amid pressure from the decline in its core businesses and the expectation that the continuing declining trend and inability to procure large tenders could weaken the business risk and credit risk profile of the company over the near to medium term. The outlook may be revised to Stable in case of a substantial growth in revenue, improvement in profitability, substantial recovery of receivables and contraction of its working capital cycle. BWR notes that as on March 31, 2019, ATPL has contingent liabilities aggregating to Rs.58.03Crores on account of legal disputes with its customers and Income Tax department.

Key Rating Drivers

Credit Strengths:

Experienced management and established track record

Anand Transport Private Limited has a long operational track record in the stevedoring and coal logistics/shipment industry. The management has three decades of experience in the same line of industry. ATPL is part of Chennai based MGM group which has its presence in various industries such as logistics, entertainment, liquor industry etc. The company benefits from the promoters' understanding of the industry dynamics and established relationships with customers and suppliers. ATPL has established long standing relationships with some reputed clients viz Global Coal Mining Pvt Ltd, Maheshwari Brothers Coal Ltd, Andhra Pradesh Power Generation Corporation, Karnataka Power Corporation Limited etc.

Moderate Financial Risk Profile

ATPL's financial risk profile is moderate with modest revenue, moderate gearing and debt protection metrics. Operating income improved to Rs.107.63 Crs for FY19 as against Rs. 99.80 Crs in FY18. PAT declined to Rs. 4.84 Crs in FY19 from Rs. 6.49Crs during FY 18. Interest coverage was moderate at 2.30 times as in FY19 (3.42 times in FY18). Tangible Net Worth was Rs. 137.06 Crs as on March 31, 2019. The company does not have any long term debt. Gearing was comfortable at 0.19 times as on 31 Mar 2019.

Credit Challenges:

Declining operations and profitability

The company did not achieve its projected FY18 & FY19 performance on account of preclosure of some government contracts, lack of fresh contracts and higher than expected operating expenses. During 6MFY20, the company reported total revenue of around Rs.75 Crs. The company has not signed any new orders subsequently. BWR notes that in the absence of firm contracts, the revenue visibility for FY20 is low with FY20 performance expected to be lower than FY19. Going forward also, unless some orders/tenders are won, FY21 prospects appear quite subdued.

Working Capital intensive operations

The Company's operations remain working capital intensive on account of the nature of operations and elongated receivables with high receivable days at 644 days in FY18 and 468 days in FY19, mainly due to the ongoing legal disputes with various customers which majorly includes government enterprises. This has resulted in elongation of the working capital cycle. Timely collection/realization of receivables and early and amicable settlement of legal disputes will be the key rating sensitivity factors

Susceptibility to risks inherent in tender based business

Since the majority of the revenue is tender based, the business is dependent on the ability to bid for tenders successfully. Also,since the majority of clients of ATPL are from government departments, there is high dependence on timely clearances of tenders and payments. Revenue and profitability are expected to remain susceptible to risks inherent in tender based operations, including limited pricing flexibility

Highly competitive nature of the stevedoring and coal logistics industry and modest scale of operations

The company operates in a highly competitive business environment, facing stiff competition from both organised and unorganised players. The intense competition in the industry continues to limit its bargaining power/ pricing ability, thereby constraining its margins. Further, the scale of operations of the company is comparatively modest.

Analytical Approach and Applicable Rating Criteria

BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). The company does not have any subsidiaries.

Rating Sensitivities

The company's ability to increase its scale of operations by acquiring additional contracts, improve profitability and strengthen liquidity through early realization of receivables would be the key rating sensitivities. ATPL has contingent liabilities aggregating to Rs.58.03Crores on account of litigations with Karnataka Power Corporation Ltd (Rs.41.57Crs), Jaldhi Overseas PTE Ltd (Rs.14.91Crs) and Income Tax department (Rs.1.55Crs). Contingent liabilities,if crystallised, may have an adverse impact on the credit risk profile of the company and is a key rating sensitivity.

Positive:

- Sustained and significant growth in revenue and improvement in profitability, leading to substantial cash accruals
- Prudent management of working capital through timely realization of receivables, resulting in better liquidity

Negative :

- Deterioration of financial risk profile due to further stretch in working capital cycle or large debt funded capital expenditure
- Further elongation in receivable days. Early realization of receivables is a key rating sensitivity factor
- Any adverse outcome of the ongoing legal dispute with Karnataka Power Corporation Limited and Jaldhi Overseas PTE Ltd, which may impact the credit risk profile

Liquidity Position: Adequate

Although the company has been sanctioned working capital limit from Axis bank, there has been negligible utilisation of the same. Current ratio was moderate at 3.34 times as on 31 Mar 2019 as against 2.08 times as on 31 Mar 2018. Net cash accruals were modest at Rs. 7.37 Crs in FY19 and Rs. 7.71 crs in FY18. Cash and cash equivalents were at Rs.24.70Crs as on March 31, 2019 and Rs.42.18Crs as on September 30, 2019. The liquidity profile of the company will be adversely impacted in the event of crystallisation of the contingent liabilities.

About the Company

Anand Transport Pvt Ltd was initially established as a partnership firm - M/s Anand Transport in 1994. It was later reconstituted as Anand Transport Pvt Ltd in 2010. ATPL is part of Chennai based MGM group which has presence in various industries such as logistics, entertainment, liquor industry etc. The company is engaged in transportation/shipment of coal at major ports such as Paradip, Krishnapatnam, Kakinada, Tuticorin, Ennore and Chennai. ATPL also carries out stevedoring, ship chartering etc. The core activity of the company involves shipment of coal within the country. Over the years ATPL has handled shipment/transportation of various items such as iron ore, non coking coal, coking coal, pig iron, steam coal, washed thermal coal and steam coal.

Mr. M.G Muthu is the Chairman and Mr. Nesamani Maran and Mr. M.Joseph Anand are the directors.

Financial performance

Key Parameters	**Units**	**2018**	**2019**
Result Type		**Audited**	**Audited**
Revenue from Operations	Rs. Cr	99.80	107.63
EBIDTA	Rs. Cr	14.55	7.59
PAT	Rs. Cr	6.49	4.84
Tangible Net Worth	Rs. Cr	132.22	137.06
Total Debt/Tangible Net Worth	Times	0.03	0.19
Current Ratio	Times	2.08	3.34

On a provisional basis, the company reported total operating income of ~Rs.76.00 Crores for 10MFY20.

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - NA

Rating History for the last three years

Facility	Current Rating (Feb 2020)			Rating History		
	Type	Amount (Rs. Crs)	Rating	30 Sep 2019	2018	2017
Fund Based						
Cash Credit	Long Term	5.00	**BWR BBB-/Negative**	**Rating Not Reviewed**	**28 Jun 2018** **BWR BBB/Stable**	**NA**
					31 Mar 2018 **BWR BBB-/Stable**	
Non Fund Based						
Bank Guarantee	Short Term	66.57	**BWR A3**	**Rating Not Reviewed**	**28 Jun 2018** **BWR A3+**	**NA**
Proposed Bank Guarantee		38.00			**31 Mar 2018** **BWR A3**	
Total		**109.57**	**Rupees One Hundred And Nine Crores And Fifty Seven Lakhs Only**			

Note: Initial rating of BWR BBB-/Stable/A3 was assigned on 05 Oct 2012

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Services Sector**
- **Short Term Debt**

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Anand Transport Private Limited
Annexure I
Details of Bank Facilities rated

Sl No.	Name of the bank	Facility	Long Term (Rs Crs)	Short Term (Rs Crs)	Total (Rs Crs)
1	Axis Bank	Cash Credit	5.00	-	5.00
		Bank Guarantee	-	25.00	25.00
2	State Bank Of India	Bank Guarantee	-	41.57	41.57
3	Proposed	Proposed BG	-	38.00	38.00
	Total : Rupees One Hundred And Nine Crores And Fifty Seven Lakhs Only				**109.57**

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