

December 18, 2023

Tara Chand Infralogistic Solutions Limited: [ICRA]BB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	[ICRA]BB+ (Stable); assigned
Total	-	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to Tara Chand Infralogistic Solution Limited (TCISL) factors in its established track record in logistics, warehousing and equipment rental businesses, extensive experience of its promoters in the industry, healthy geographical presence, and long-standing relationship with reputed customers. ICRA expects the company's revenues to witness a YoY growth of ~20% with healthy operating margins (~25-30%) in FY2024. TCISL's ability to ensure a healthy capacity utilisation of its equipment fleet (it has been expanding the same over the past few years) and renewal of contracts in the warehousing business will be the key rating monitorable from the credit perspective.

The rating is, however, constrained by TCISL's modest scale, which coupled with the fragmented industry structure (across its business verticals) limits its pricing flexibility. Further, the company has high working capital requirements due to elongated receivable period (NWC/OI was 31% as on March 31, 2023) and needs to undertake consistent debt-funded capex to expand/update its equipment fleet. Owing to the capital-intensive nature of operations, the return indicators (RoCE) remain modest. Its ability to improve the asset turnover remains important for an overall improvement in the return metrics. Also, given the high annual debt repayment obligations (Rs. 30 crore or above) over the medium term, the company's debt coverage indicators are expected to remain muted (DSCR < 1.4 times), even as infusion of equity funds by the promoters (and other investors) and steady cash accruals would support its leverage in FY2024. TCISL also remains susceptible to the investment cycle in key end-user industries.

The Stable outlook reflects ICRA's opinion that TCISL will continue to benefit from its extensive track record of operations, which will help it get consistent business.

Key rating drivers and their description

Credit strengths

Long track record of promoters in logistic industry; diversification into equipment rental business – TCISL's key promoters, Mr. Vinay Kumar, and his brother Mr. Ajay Kumar, have over four decades of experience in the domestic logistics industry and managing client relationships. The company has a track record of over 35 years of successful execution of projects across various industries such as power, oil and gas, steel, cement, renewable energy, and urban and rural infrastructure development, thereby resulting in repeat orders and long-term contracts providing medium-term revenue visibility. In terms of the revenue mix, the warehousing and transport segment and equipment rental business occupied equal and sizeable revenue share (45% from each segment), followed by the steel processing segment.

Established and geographically diversified client base – TCISL operates across 21 states (albeit higher concentration in western states of Gujarat and Maharashtra). The company has an established customer base of reputed players, including Rashtriya Ispat Nigam Limited, Steel Authority of India Ltd, Ultratech Limited, BHEL, etc, which results in low counterparty credit risk.

Credit challenges

Modest scale of operations and debt coverage indicators – The company's scale of operation remains modest, with revenues remaining range bound within Rs. 110-140 crore over the last four years. Its profitability margins have remained over 24%, given the large debt-funded capex undertaken (~Rs. 108 crore during FY2021 to H1 FY2024). The resultant high repayment obligations have kept its DSCR muted at near 1.0 times over the last three years. With fund infusion from the promoters (in FY2023 and FY2024) and expectation of steady improvement in cash flows, the DSCR is likely to improve over the medium term (albeit gradually). TCISL is expected to keep undertaking debt-funded capex. Any major addition impacting its coverage metrics further would be a key monitorable.

High working capital intensity – TCISL has a long working capital cycle due to elongated payment period offered to its customers – mainly pertaining to logistic and warehousing business. Its receivable stood at 139 days as on March 31, 2023 and 117 days as on September 30, 2023. However, the extended credit period from vendors/suppliers supported the working capital cycle. While the company's working capital intensity declined on a YoY basis to 31% as on March 31, 2023 from 41% as on March 31, 2022, the same is expected to remain high (above 30%) over the medium term, given the nature of the industry and intense competition. In YTD FY2024, it has realised Rs. 5.1 crore of stuck receivables, which supported the cash flows. The company's ability to prudently manage its WC cycle will remain a key rating sensitivity.

Sizeable and consistent capex requirement in the business keep overall asset turnover low; Susceptibility to investment cycle in key end-user industries – The company primarily operates through a fleet of owned vehicles – in both logistics and equipment rental business. Both the businesses are highly capital intensive, with continued investments required for fleet expansion to compete in the market. TCISL has incurred Rs. 190 crore of capex over the last 5 years and is expected to incur an annual capex of over Rs. 25 crore over the medium term. Efficient fleet utilisation remains crucial for generating commensurate returns on investment. The equipment rental business is sensitive to utilisation rates. Its performance is closely linked to investments in the end-user industries, such as wind energy, power, oil and gas, and infrastructure. Any slowdown in the industry may affect the company's deployment levels, revenue and operating margin.

Liquidity position: Adequate

The company's liquidity position is expected to remain adequate, supported by healthy cash flows from operations and buffer available in working capital limits (Rs. 4.2 crore as on September 30, 2023). TCISL has high working capital requirement, sizeable capex plans (~Rs. 40 crore in FY2024) and debt repayment obligations worth Rs. 30 crore in FY2024. However, the net accruals, coupled with fund infusion from promoters (~Rs. 10 crore in FY2024) and realisation of long pending receivables (~Rs. 5 crore in YTD FY2024) are likely to be adequate to meet the same. The FB bank limit utilisation was at 70% in the 12 months that ended in September 2023.

Rating sensitivities

Positive factors – ICRA could upgrade TCISL's rating if there is sustained and substantial growth in scale of operations along with improvement in its liquidity profile. Specific triggers for a rating upgrade include DSCR increasing above 1.4 times on a prolonged basis.

Negative factors – Negative pressure on TCISL's rating could arise if there is a significant decline in revenues or any substantial debtor write off or deterioration in WC cycle or a larger debt-funded capex leading to weakening in liquidity and debt coverage metrics. Specific credit metrics that could trigger a rating downgrade include DSCR falling below 1.1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Tara Chand Infralogistic Solutions Limited (TCISL), formerly known as Tara Chand Logistic Solutions Limited, is an IBA-approved transporter and is approved by IATA for air cargo logistics. It generates revenues through three verticals - a) construction equipment rental; b) cargo handling and logistic services, such as warehousing and transportation, mainly for steel and c) steel processing. TCISL offers its fleet of equipment across sectors, such as power, oil and gas, steel, cement, renewable energy, and urban and rural infrastructure development such as roads, bridges, highways, airports, metros, irrigation projects, and water pipelines.

TCISL was incorporated in 2012 to acquire the proprietary traditional business of M/s Tara Chand and Sons, which was set up in 1989. Mr. Vinay Kumar and his brother Mr. Ajay Kumar are the promoters of the company. Its head office is in Chandigarh. The company got listed on the National Stock Exchange in March 2018.

Key financial indicators (audited)

	FY2022	FY2023	H1 FY2024*
Operating income (Rs. crore)	128.5	141.1	81.2
PAT (Rs. crore)	2.8	9.4	6.5
OPBDIT/OI (%)	24.1%	27.3%	30.6%
PAT/OI (%)	2.1%	6.7%	8.0%
Total outside liabilities/Tangible net worth (times)	2.5	2.1	1.9
Total debt/OPBDIT (times)	3.0	2.3	1.8
Interest coverage (times)	3.3	5.0	6.9

Source: Company data, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *-Provisional

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
Brickwork Ratings	BWR B-/Stable/A4; ISSUER NOT COOPERATING*	April 6, 2023

*Company was formerly known as Tara Chand Logistic Solutions Ltd.

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Aug 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 18, 2023	-	-	-
1 Issuer rating	Long-term	-	-	[ICRA]BB+(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#).

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	-	-	-	-	[ICRA]BB+(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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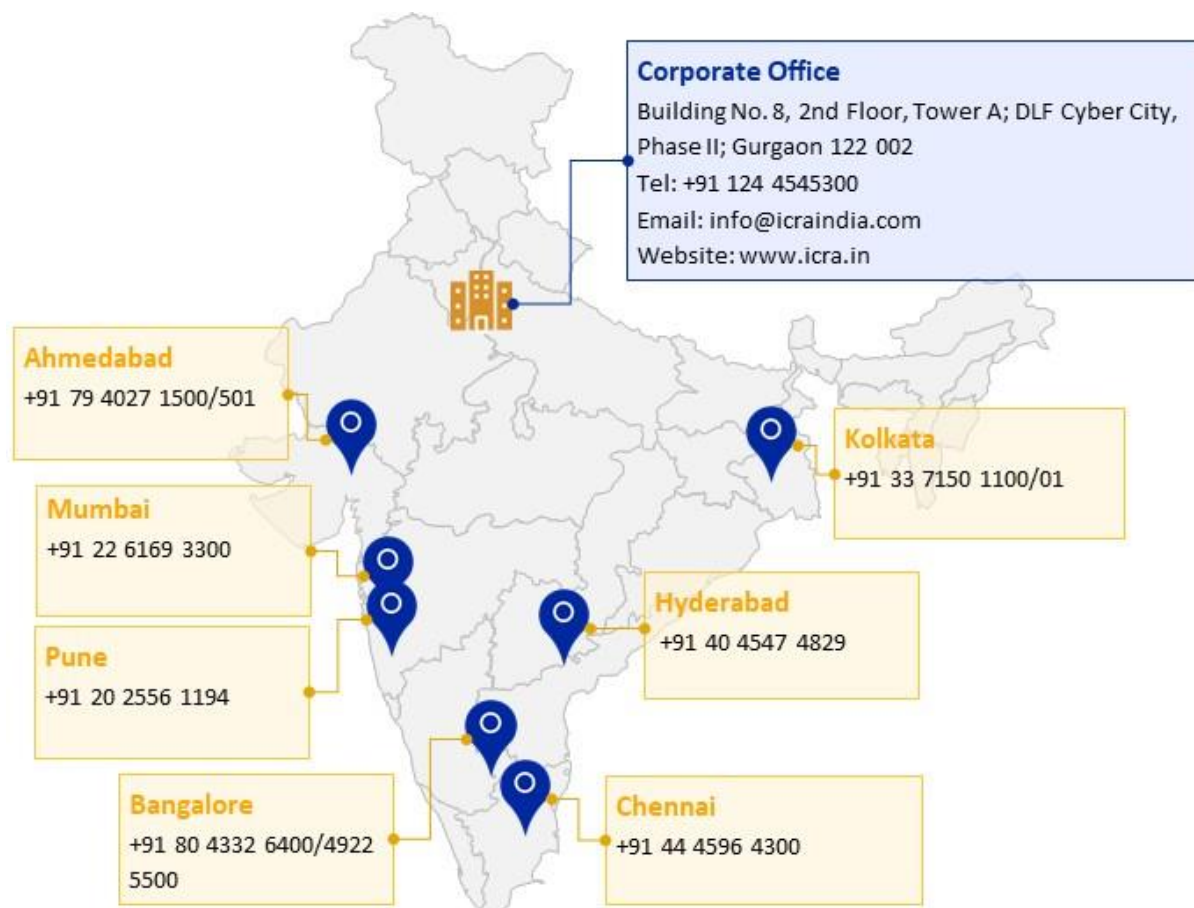


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