

January 11, 2017

## Karnataka Roadlines Private Limited

Instrument*	Rated Amount	Rating Action
	(in crore)	
Fund Based Cash Credit	50.0	[ICRA]BB+ / Reaffirmed Outlook revised to positive
Non- Fund Based Bank Guarantee	0.50	[ICRA] A4+ / Reaffirmed
<b>Total</b>	<b>50.50</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has reaffirmed the long-term rating of **[ICRA]BB+** (pronounced ICRA double B plus)<sup>1</sup> assigned to the Rs. 50.0 crore cash credit of Karnataka Roadlines Private Limited (KRPL/ the company). ICRA has also reaffirmed the short-term rating of **[ICRA]A4+** (pronounced ICRA A four plus) assigned to the Rs. 0.50 crore non-fund based bank guarantee facilities of KRPL. The outlook on the long-term rating has been revised from 'Stable' to '**Positive**'.

### Rationale

The revision in outlook takes into account the KR group's healthy revenue growth of witnessed in 8M FY2017, the recent improvement in the liquidity profile and addition of sizable own fleet in FY2016 resulting in better operational leverage.

The ratings continue to derive comfort from the long experience of the promoters in the transport industry with reputed client base which mitigates counter party risk to certain extent and lends stability to volumes. The ratings also benefit from the asset light business model of the company which entails low capital expenditure and provides scope for expansion of the business. The ratings also incorporate pan India presence of the company which facilitates access to a large market and optimum fleet utilization ensuring adequate return load and satisfactory asset turnover. The ratings also factor in significant proportion of revenues derived from the breweries and pharmaceuticals industries, which are relatively more resilient to economic downturns.

However, the ratings is constrained by the highly competitive and fragmented nature of the trucking industry which limits the bargaining power of the company, resulting in modest operating margins. The ratings also factor in modest net margins on account of high interest payments on working capital borrowings. Traditionally, the company has witnessed high working capital intensity on account of elongated payment realization resulting in high debtor days. The ratings also incorporate the increase in gearing and weakening of debt coverage indicators resulted from increase in vehicle loan availed by the company to expand its fleet size and reduce dependence on hires vehicles. The ratings also factor in susceptibility of the business to hike in diesel prices and toll charges which keep profitability metrics under pressure, although the same can be passed on to the customers to some extent. The ratings also consider high customer concentration risk, however; long term relationship with most of the customers provides comfort. The ratings are also constrained by high dependence on other transport operators/agents, whose rates are driven by market demand and supply scenario. ICRA also takes note of low entry barriers to the trucking business which fosters entry of new players in the industry.

ICRA believes that KR group will continue to benefit, over the medium term, from its integrated operations and its own fleet strength. The outlook may be revised to 'Stable' if the group's revenue and profitability growth as well as improvement in liquidity profile and coverage indicators, is not in line with ICRA's expectations.

<sup>1</sup> For a complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications.

## Key rating drivers

### Credit Strengths

- » Long experience of the promoters in the transport industry with reputed client base which mitigates counter party risk to certain extent and lends stability to volumes
- » Asset light business model of the company which entails low capital expenditure and provides scope for expansion of the business
- » Pan India presence of the group which facilitates access to a large market and optimum fleet utilization ensuring adequate return load and satisfactory asset turnover
- » Significant proportion of revenues derived from the breweries and pharmaceuticals industries, which are relatively more resilient to economic downturns
- » KR group's healthy revenue growth of witnessed in 8M FY2017, the recent improvement in the liquidity profile
- » Addition of sizable own fleet in FY2016 resulting in better operational leverage

### Credit Weakness

- » Highly competitive and fragmented nature of the trucking industry which limits the bargaining power of the company, resulting in modest operating margins
- » Modest net margins on account of high interest payments on working capital borrowings
- » High working capital intensity on account of elongated payment realization resulting in high debtor days
- » Increase in gearing and weakening of debt coverage indicators resulted from increase in vehicle loan availed by the company to expand its fleet size and reduce dependence on hires vehicles
- » Susceptibility of the business to hike in diesel prices and toll charges which keep profitability metrics under pressure; although the same can be passed on to the customers to some extent
- » High customer concentration risk however; long term relationship with most of the customers provides comfort
- » High dependence on other transport operators/agents, whose rates are driven by market demand and supply scenario
- » Low entry barriers to the trucking business which fosters entry of new players in the industry.

### Description of key rating drivers highlighted above:

The revenues of the group have grown at a CAGR of 14% over the last 4 years. However during FY2016, the revenue has witnessed marginal decline by 2.3% owing to decrease in average freight rate, but the sales volume has witnessed a growth of 14% during FY2016. During 8M FY2017 the group has clocked in revenues of Rs. 250.1 crore, recording a 22% growth as compared to 8M FY2016 revenues of Rs. 205.5 crore. The promoters of the group have long experience in the transport industry, and the group over the years has build reputed client base which mitigates counter party risk to certain extent and lends stability to volumes. However, the group remains exposed to high customer concentration exposes to risk of revenue volatility, however, long term relationship provides comfort. The group has added sizable on fleet in Q4 FY2016 resulting in operational leverage, this capex was funded through ~80% debt, which has resulted in increase in debt levels. The liquidity position was stretched during FY2016 on the back of increase in debtor days owing to elongated payment realization cycle from the customers.

### Analytical approach:

For arriving at the ratings, ICRA has combined the business risk and the financial risk profiles of Karnataka Road Lines Private Limited (KRPL) and Mahendra Road Lines Private Limited (MRPL). This is because the two companies, together referred as the KR group are in the same line of business; under the same management team and have significant operational and financial synergies.

### Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

### About the Company:

Karnataka Roadlines Private Limited, founded in 1981, is a family-run company engaged in the business of providing transportation of freight for companies (road transportation by trucks). It caters majorly to the food and beverages, pharmaceutical, glass and paint Industries. It has a sister concern named Mahendra Roadlines Pvt. Ltd. Both the companies form the KR group. The KR group has its footprint across India through its 32



branches across 18 states. It has 12 warehouses out of which 8 are rented and 4 are owned. The group has a 112 truck in-house fleet (76 owned under KRL and 36 owned under MRL) to support its operations.

The group reported a net profit of Rs. 3.01 crore on an operating income of Rs. 365.39 crore for the year ending March 31, 2016.

On a standalone basis, KRPL reported a net profit of Rs. 2.08 crore on an operating income of Rs. 270.35 crore for the year ending March 31, 2016.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

	Name of Instrument	Current Rating			Chronology of Rating History for Past 3 years		
		Type	Rated Amount (Rs. crore)	FY2017	FY2016	FY2015	FY2014
		January 2017			July 2015	-	-
1	Cash Credit	Long Term	50.0	[ICRA] BB+ (Positive)	[ICRA] BB+ (Stable)	-	-
2	Bank Guarantee	Short Term	0.50	[ICRA] A4+	[ICRA] A4+	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1

#### Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	50.0	[ICRA]BB+ (Positive)
Bank guarantee	-	-	-	0.50	[ICRA]A4+

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#### About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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