

August 16, 2023

Surat Goods Transport Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	76.00	76.00	[ICRA]A- (Stable); Reaffirmed and Outlook revised to Stable from Negative
Long-term/Short-term – Non-fund Based – Bank Guarantee	33.50	33.50	[ICRA]A- (Stable)/[ICRA]A2+; Reaffirmed; Outlook revised to Stable from Negative
Total	109.50	109.50	

*Instrument details are provided in Annexure-I

Rationale

To arrive at the ratings, ICRA has consolidated the business and financial risk profiles of Surat Goods Transport Private Limited (SGTPL or the company) and its subsidiaries—Sehore Agri Services Private Limited (SASPL), Total Agri Services Ahmedabad Private Limited (TASPL) and Jind Agri Services Private Limited (JASPL).

The reaffirmation of the ratings along with change in outlook to Stable factors in the expected improvement in debt protection metrics and coverage indicators (against the earlier expectations) amid cancellation of two Special Purpose Vehicles (SPV's) (Dankuni Agri Services Private Limited or DASPL, and Durgapur Logistics Private Limited or DLPL) for silo projects due to land acquisition issues. Stable performance of SGTPL coupled with improved operational performance of its newly commissioned silo subsidiaries, TASPL and JASPL, is expected to support its earnings and cash flows. On a consolidated basis, there was an improvement in the debt protection metrics in FY2023 with interest coverage improving from 4.6x to 4.8x and TD/OPBIDTA from 2.3x to 2.0x over the previous fiscal. With no major debt-funded capex plans, the debt protection metrics is expected to improve, going forward. The ratings continue to also factor in the comfort drawn from the extensive experience of SGTPL's promoters spanning over five decades in the logistics industry, the company's well-entrenched network coupled with its reputed client profile, which has entailed repeat business. The ratings remain supported by the asset-light model of the company, which has facilitated fast-paced expansion and lower idle capacity during downturns, along with SGTPL's steady accruals from its road logistics business.

The ratings, however, continue to remain constrained by the exposure of the road logistics business to various externalities, such as increase in fuel costs and labour expenses, which the company may not be able to entirely pass on to its customers, could have an adverse impact on SGTPL's profit margins, going forward. The price escalation clause in its contracts, however, partly offsets the risk. The ratings remain constrained by the high working capital intensity of SGTPL's operations given its elongated receivable cycle alongside limited credit period from suppliers entailing high working capital requirements. In addition, the fragmented nature of the road logistics business results in stiff competition, which restricts margin expansion. Also, the revenues and earnings in the road logistics business remain vulnerable to slowdown in economic activity and goods movement of various industries. Although partly mitigated by a diversified client base and revenue diversification across various industries, the company's dependence on business from any single industry is limited.

ICRA also notes the corporate guarantee of ~Rs. 23.4 crore (outstanding Rs. 12.23 crore as of FY2022) extended by SGTPL to its related entity, Total Shipping and Logistics Private Limited (TSLPL) (not covered under consolidated financials). Further, any liabilities devolving on SGTPL on account of such corporate guarantee, which materially impacts its own cash flows, will be a rating monitorable.

ICRA also notes that two of SGTPL's SPVs (TASPL and JASPL), which have a long-term concession agreement with Food Corporation of India (FCI) for leasing out its silos are fully operational and stabilised. It is expected to generate revenues in the

range of Rs. 5-7 crore each in the near to medium term and the SPVs will be able to cover its debt obligation without any parent support. Any further addition of such silo projects, which are debt-funded in nature, will remain a key rating monitorable, given its impact on the overall consolidated profile in the initial years of construction as well as stabilisation.

The Stable outlook reflects ICRA's opinion that the company will benefit from its established track record in the road logistics business coupled with its asset-light model. The overall financial risk profile of the company is also likely to remain healthy.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record of SGTPL spanning over five decades in the logistics business

– SGTPL has a track record of over five decades in the domestic road freight transportation business. Mr. Vishal Gupta is third generation who is running the business and has extensive experience in the logistics industry. SGTPL is a part of the Total Group, which is a leading integrated logistics player in India providing support in transportation, custom clearance, freight forwarding, warehousing and distribution. SGTPL offers customised logistical solutions to its customers with the help of technology, which along with an experienced workforce enables the company to maintain an edge over its competitors.

Strong financial risk profile – SGTPL has reported healthy YoY revenue growth of 18% in FY2023 driven by increased fleet movement due revival in demand seen in key sectors and the stabilisation of the two SPVs (JASPL and TASPL). The financial risk profile of SGTPL is strong and characterised by comfortable capital structure and coverage metrics in FY2023 as indicated by gearing of 0.4 time as on March 31, 2023 (0.5 time as on March 31, 2022), Total Debt/ OPBDITA of 2.0 times (2.3 times in FY2022) and interest coverage of 4.8 times (4.6 times in FY2022) in FY2023, on a provisional basis. The financial risk profile is expected to remain comfortable in the near to medium term, owing to absence of any additional debt-funded capex plans.

Well entrenched network coupled with diversified client profile of reputed entities – SGTPL has a pan India network with 150 offices and elaborate ground infrastructure for undertaking multiple logistics-related operations throughout the country. SGTPL's established relationships with reputed companies reduce the counterparty credit risks and provide stability to its revenues. It caters to various sectors such as FMCG, heavy machinery, automobiles and media, which reduces the industry concentration risk. Its customer concentration risk remained moderate with its top 10 clients accounting for 34% of its revenues in FY2023.

Asset-light model facilitates fast paced expansion and lower idle capacity during downturns – SGTPL operates a leased fleet of trailers, trucks, cranes and forklifts. The company has its own fleet of 36 trucks, acquired over a period. It has a daily requirement of ~550-600 trucks with each having a turnaround time of around four to five days. The entire requirement is met through the strong network of truck operators. The asset-light model reduces the idle capacity during downturns. Additionally, faster expansion is also possible because of this model.

Credit challenges

Working capital intensive nature of operations due to elongated receivable cycle – In the road logistics business, SGTPL has to pay 70% as advance to truck operators at the start of their journey and the balance 30% after unloading at the destination, while payments from customers are realised in 60-90 days, resulting in high working capital requirements.

Impact of externalities – The company may not be able to entirely pass on the direct impact of externalities, such as increase in fuel costs, labour expenses, bridge and toll charges, to its customers. Although the presence of fuel price escalation clause in its contracts partly offsets the risk.

Intense competition limits pricing flexibility; exposure to cyclicalities in economy owing to direct linkage to business growth of industries – The trucking industry in India is largely fragmented, given the low entry barriers and domination by small transport operators with fleet sizes of a maximum of five trucks, which limits pricing flexibility and exerts pressure on margins. Nonetheless, SGTPL enjoys established relationships with its customers, translating into repeat orders, which mitigates the

competition risk to an extent. Also, the revenues and earnings in the road logistics business remain vulnerable to slowdown in economic activity and goods movement of various industries. Although this is partly mitigated by a diversified client base and revenue diversification across industries, the company's dependence on business from any single industry is limited.

Liquidity position: Adequate

The liquidity position of SGTPL is adequate, supported by moderate working capital utilisation at ~65% of the sanctioned fund-based limits for the 12-month period ended in April 2023. The company had an undrawn cushion available in working capital limits of ~Rs. 64 crore as on April 30, 2023 along with sufficient drawing power. Steady cash flow generation in the logistics business at a standalone entity level and stabilisation of operations of the two recent silo projects (under its subsidiaries) is expected to support SGTPL's liquidity profile at a consolidated level.

Rating Sensitivities

Positive factors – The ratings can be upgraded if there is better than expected ramp-up in operations along with sustained improvement in profitability, leading to an improvement in credit metrics and liquidity at the consolidated level. Specific credit metrics, which may lead to a rating upgrade will be interest coverage more than 5.5 times on a sustained basis.

Negative factors – Negative pressure on SGTPL's rating could arise if there is decline in revenues or moderation in profitability leading to stretch in coverage metrics. Any additional debt-funded capex impacting the debt coverage metrics, will be a negative rating trigger. Specific credit metrics, which may lead to a downgrade, will include DSCR less than 2.0 times at a consolidated level, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on consolidated financial statements of SGTPL, SASPL, TASPL, JASPL.

About the company

Incorporated in 1963 by Mr. Rajendra Prasad Gupta and subsequently converted to a private limited company in 1977, Surat Goods Transport Private Limited is involved in the domestic road freight transportation business. At present, the company is managed by the founder's son, Mr. Vijay Gupta, along with his grandsons, Mr. Vishal Gupta and Mr. Vivek Gupta. It is a part of the Total Group, which has operations in freight forwarding, warehousing and air freight.

In 1998, the Group formed Total Shipping and Logistics Pvt. Ltd. (TSLPL) to specialise as solutions providers for integrated logistics solutions. TSLPL is engaged in international freight forwarding, custom clearance, warehousing and distribution at 45 locations across India. The company also has accredited bonded warehouses at Mumbai and Delhi. The Total Group acquired Interfreight Forwarders Pvt. Ltd. (IFPL) in 2007, which was established in 1978 and accredited by the International Air Transport Association (IATA). IFPL specialises in air cargo handling.

Key Financial Indicators (Audited)

SGTPL Consolidated	FY2022	FY2023*
Operating income	914.9	1,079.5
PAT	18.1	22.5
OPBDIT/OI	5.5%	5.1%
PAT/OI	2.0%	2.1%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	2.3	2.0
Interest coverage (times)	4.6	4.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * Provisional Numbers, All ratios as per ICRA calculations

SGTPL Standalone	FY2022	FY2023*
Operating income	898.4	1,060.8
PAT	23.9	25.5
OPBDIT/OI	4.3%	3.9%
PAT/OI	2.7%	2.4%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	1.4	1.3
Interest coverage (times)	7.2	6.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * Provisional Numbers, All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Crisil has kept the ratings under ISSUER NOT COOPERATING category at CRISIL B+/Stable/A4 via press release dated June 28, 2022.

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 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 16, 2023	Jun 08, 2022	-	Mar 02, 2021
1 Fund Based – Cash Credit	Long term	76.00	-	[ICRA]A- (Stable)	[ICRA]A-(Negative)	-	[ICRA]A-(Stable)
2 Non-Fund Based – Bank Guarantee	Long term and short term	33.50	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A-(Negative)/ [ICRA]A2+	-	[ICRA]A-(Stable)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Cash Credit	Simple
Long Term/Short Term – Non-Fund Based – Bank Guarantee	Very 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	Cash Credit	-	-	-	76.00	[ICRA]A- (Stable)
NA	Bank Guarantee	-	-	-	33.50	[ICRA]A- (Stable)/[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	SGTPL Ownership	Consolidation Approach
Surat Goods Transport Private Limited	100%	Full Consolidation
Sehore Agri Services Private Limited	51%	Full Consolidation
Jind Agri Services Private Limited	51%	Full Consolidation
Total Agri Services Ahmedabad Private Limited	51%	Full Consolidation

Source: Company; Annual Reports

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