April 29, 2024

Sugam Parivahan Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term-fund based/cash credit	10.00	10.00	[ICRA]BBB+ (Stable); Reaffirmed
Long-term-fund based term loan	0.08	0.08	[ICRA]BBB+ (Stable); Reaffirmed
Short-term – non-fund based	1.00	1.00	[ICRA]A2; Reaffirmed
Long-term – unallocated	8.92	8.92	[ICRA]BBB+ (Stable); Reaffirmed
Total	**20.00**	**20.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation reflects ICRA's opinion that Sugam Parivahan Private Limited's (SPPL) credit metrics will continue to remain comfortable in the medium term, supported by low dependence on debt and adequate liquidity. The ratings factor in the established track record of the company's operations, its widespread network and the promoters' extensive experience in the road logistics industry. ICRA also notes the company's established relationships with customers and its efforts to expand its geographical presence and diversify further with its warehousing business. Further, given its asset-light model of operations, the company mainly relies on the fleet hired from the spot market and attached business vendors. This provides some flexibility to manage its fleet requirements and profitability during downturns.

The ratings remain constrained by its modest scale of operations, although there has been growth in FY2024 owing to improvement in domestic demand. The ratings continue to be constrained by the pressure on SPPL's profitability and revenues due to intense competition, freight rates and high overheads. While ICRA notes the company's long relationships with its clients, the absence of higher share of long-term contractual business remains a concern. As a result, the risk of order volatility remains high as companies tend to engage with multiple transporters and orders are received after competitive bidding. In addition, increase in fuel prices, toll taxes and other unrecoverable costs, which the company may not be able to pass on to end-customers, remain credit challenges.

The Stable outlook on the long-term rating reflects ICRA's opinion that SPPL's scale and cash accruals will benefit from its expansion in new territories. Moreover, limited dependence on debt is expected to keep its coverage metrics at comfortable levels.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and a diversified customer base – The company benefits from the extensive experience of its promoters in the road logistics industry and its long relationships with its clients. It derives revenues from a diversified customer base across various industry segments, mitigating revenue decline due to any industry-specific downturn. Further, the company has maintained healthy relations with other small fleet owners as well, which is a very important part of the company's business model as most of the trucks plying on the road are hired from the spot market.

Asset-light model of operations – The company has an asset-light business model with an in-house fleet of 11 trucks, out of total 200-250 vehicles plying on the road. A large part of the requirement is met through a fleet hired from the spot market. The asset-light model helps SPPL in saving on fixed costs (related to fleet) and reduces the idle capacity during business downturns. The company is also planning to foray into the warehousing business, which may lead to a higher margin and stable business.

Low indebtedness and adequate liquidity – The company's dependence on debt is limited as the term debt is nominal, which mainly includes unsecured loans from the promoters (Rs. 3.8 crore as of December 2023). Besides, the company has a small limit of working capital limits, utilisation levels of which are generally low. SPPL's capital structure and debt coverage metrics are comfortable and are expected to remain healthy in the near-to-medium term, in the absence of any major debt-raising plans. The company has also maintained adequate liquidity with free cash levels of ~Rs. 22.0 crore as on March 31, 2024. The liquidity is further supported by largely under-utilised working capital limits of Rs. 4.7 crore. ICRA notes that the company also has an investment book consisting of debt mutual funds of Rs. 11.0 crore.

Expanding geographical presence – The company is trying to expand its presence with planned foray into Bangladesh, where certain test deliveries have already been executed. From the next year, the company is expected to commence full-fledged operations in Bangladesh, which would provide additional source of revenue. At present, the arrangement is on a profit-sharing pattern with an established logistics player from Bangladesh. The company's existing area of operations include Indian territory with focus on the north-eastern region and Nepal.

Credit challenges

Moderate scale of operations and low margins – The company continues to operate on a moderate scale with consolidated revenues of Rs. 225.3 crore in FY2024 on a provisional basis, which grew by ~13% from Rs. 199.8 crore in FY2023. Moreover, SPPL's revenue in FY2023 has dropped, largely owing to weak volumes from Nepal. There was an import ban imposed by Nepal on luxury and non-essential goods from February 2022. However, the ban was lifted in January 2023 and normal business operations have resumed. Healthy demand from the industry players has been noticed and SPPL is expected to reap the benefits from FY2025, with resumption in the Nepal business and full-fledged commencement of Bangladesh operations.

The company also operates at relatively lower margins, given its higher fixed overhead expenses related to operations in tough terrains like the north-eastern states and low bargaining power compared to its competition. While the asset-light model results in low capital requirements, the margins are impacted by varying spot hire rates.

Very competitive and fragmented market – The road logistics sector is highly fragmented with the unorganised segment generating the maximum business. While there is significant opportunity for organised players to scale up their businesses, the fragmented nature of the industry results in stiff competition, exerting pressure on the profit margins during renewal of contracts. Only a limited portion of SPPL's business is on a long-term contract basis, which can lead to revenue volatility as companies tend to engage with multiple transporters and orders are based on competitive bidding.

Business operations remain vulnerable to economic downturns – The company remains vulnerable to economic downturns as the same adversely impact the movement of goods owing to dent in consumption levels. The company is further exposed to significant fluctuations in hire charges for market vehicles as the rates are primarily dependent on the demand–supply dynamics. It is also vulnerable to the volatility in fuel prices. Its ability to limit delays in pass-through of large variations in fuel prices remains critical for maintaining its profit margins.

Liquidity position: Adequate

SPPL's liquidity position remains adequate with healthy free cash reserves of Rs. 22.0 crore as of March 31, 2024. The company does not have any repayment obligation, going forward. This apart, the company has a cushion of Rs. 1.8 crore of overdraft limits, the utilisation of which generally stays at ~70%. There are no major capex plans.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company demonstrates a significant improvement in its scale and net cash accruals, while maintaining strong debt metrics.

Negative factors – Pressure on the ratings could arise if an increase in the working capital intensity results in a deterioration in the company's liquidity position and debt coverage metrics. Additionally, any further investment in non-return generating entities, debt-funded capex or a sizeable dividend payout, impacting the company's credit metrics, will be negative triggers. A specific credit metric for ratings downgrade includes Debt/OPBDITA of more than 2.3 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company.

About the company

Sugam Parivahan Private Limited (SPPL) was founded by Late K. V. Mittal and his son, Late Naveen Mittal, in 1987. At present, the company is managed by Mr. Kaustubh Mittal, the son of Late Naveen Mittal. SPPL provides logistics solutions through road transport for various entities in the fast-moving consumer goods (FMCG) and steel sectors. The company is present across India, Nepal, Bhutan and Bangladesh. It has more than 200 offices and a pan-India network with 650 employees. The company owns a fleet of 11 vehicles and more than a million square feet of warehousing facilities.

Key financial indicators (audited)

Sugam Parivahan Private Limitred (Consolidated)*	FY2022	FY2023
Operating income	220.2	199.8
PAT	4.7	3.1
OPBDIT/OI	3.0%	2.2%
PAT/OI	2.1%	1.6%
Total outside liabilities/Tangible net worth (times)	0.5x	0.5x
Total debt/OPBDIT (times)	0.6x	1.5x
Interest coverage (times)	5.9x	8.7x

*Source: Company, *consolidation done by ICRA*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					Apr 29, 2024	-	Feb 27, 2023	Feb 02, 2022
1	Fund Based/Cash Credit	Long Term	10.00	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Fund Based/Term Loans	Long Term	0.08	0.00	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Non-Fund Based	Short Term	1.00	-	[ICRA]A2	-	[ICRA]A2	[ICRA]A2
4	Unallocated	Long term	8.92	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

*Source: Company, *outstanding as on December 31, 2023*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Cash Credit	Simple
Long Term – Term Loan	Simple
Short Term – Non-Fund Based	Very simple
Long Term – Unallocated	Not applicable

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**	NA	NA	NA	10.00	[ICRA]BBB+ (Stable)
NA	**Term Loans**	FY2016	NA	FY2023	0.08	[ICRA]BBB+ (Stable)
NA	**Non-Fund Based**	NA	NA	NA	1.00	[ICRA]A2
NA	**Unallocated**	NA	NA	NA	8.92	[ICRA]BBB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sugam Parivahan Private Limited*	-	Full consolidation
Sugam Express Private Limited	99.99%	Full consolidation
Sugam Supply Chain Private Limited	100%	Full consolidation
Sugam Logistic Nepal Private Limited	100%	Full consolidation

*Source: Company; *Parent company*

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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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