

July 12, 2024

## Sanghvi Movers Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	315.02	511.28	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced amount
Long-term – Fund-based – Cash credit	65.00	100.00	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced amount
Short-term – Non-fund based limits	90.75	45.00	[ICRA]A1; Reaffirmed
Long-term/Short-term – Unallocated limits	60.78	0.00	-
<b>Total</b>	<b>531.55</b>	<b>656.28</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating action factors in Sanghvi Movers Limited's (SML) established position as the largest crane rental operator in Asia<sup>1</sup> and its reputed client base, reflected in steady order inflow over the years. The ratings consider its comfortable financial position with low leverage (TOL/TNW of 0.4 times as of March 2024) and healthy coverage metrics (DSCR of over 3.0 times). ICRA takes note of the improvement in coverage metrics and return metrics (RoCE of ~23% in FY2024) on the back of improved capacity utilisation and rental yields, which increased to 84% (83% in FY2023) and 2.20% (1.97% in FY2023), respectively, translating to 36% YoY growth in FY2024 revenues to Rs. 618.5 crore. The revenues are expected to improve in FY2025, led by a strong order book position (Rs. 426 crore as of April 2024) and likely sustenance of demand in wind energy (key end-user segment) and other core infrastructure sectors (e.g., cement, steel, etc). ICRA takes note of the diverse fleet of cranes and good supporting infrastructure (consisting of a wide network of depots), which aids its operations across various end-user industries in multiple states in India.

ICRA, however, notes the sizeable debt-funded capex planned by the management in FY2025. While the same may lead to moderation in coverage indicators, the DSCR is expected to remain comfortable in the medium term. Over the medium term, the company has organic/inorganic plans to support its revenue growth, which will be funded by a mix of internal accruals, surplus liquidity and incremental borrowings, if any. However, the impact of any such investments on the credit profile would be evaluated by ICRA on a case-by-case basis. This, coupled with the routine business capex, would result in increase in debt levels in the coming year. While SML has been diversifying its end-user industry over the past few years, its operations remain exposed to the cyclicity in the investment activities of the end-user industries, especially the wind sector, which contributed to around 52% of the company's revenues in FY2024 (FY2023: 45%). The wind segment's share is likely to rise further in FY2025, which accentuates the segment concentration risk. The rating factors in the expected moderation in the operating margins in the medium term on account of increased revenue share from the low margin engineering, procurement and construction (EPC) business in the wind sector.

ICRA notes that for the contingent liabilities of ~Rs. 871 crore outstanding as on March 31, 2023, towards VAT/CST dues, SML has received a favourable ruling for FY2008-09 amounting to Rs. 120.3 crore by the Bombay High Court. While the cases for other years are still pending, the risk of materialisation of the contingent liabilities is mitigated to a large extent, and hence

<sup>1</sup> According to International Cranes and Specialised Transport, SML was the largest crane rental company in India, largest in Asia and the 4th largest in the world in June 2024.

the same is not classified as contingent liability by the statutory auditor in the annual report of FY2024. That said, ICRA will continue to monitor the development in this matter.

The Stable outlook reflects that SML will witness sustained growth in operating income, supported by the favourable demand outlook in its key end-user industries. Further, the outlook underlines ICRA's expectation of sustenance of comfortable capital structure and coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Large fleet of operations and established client base** – SML is the largest crane rental operator<sup>2</sup> in Asia with a fleet of 346 cranes as on March 31, 2024. The company has a large fleet of high-capacity cranes, which are required for infrastructure projects and has made it a preferred partner for heavy haulage requirements in various industries, especially civil construction and wind power segment. High capital cost required for higher capacity cranes is an entry barrier for smaller players and hence, the company enjoys a dominant position in the segment. Further, SML has a well-equipped workforce of trained crane operators and has set up 17 depots across the country (13 operational), which helps to reduce the time taken to mobilise cranes at project sites leading to better fleet utilisation and optimisation of transportation cost. With its geographical presence in the country, it is well placed to provide timely services in a cost-efficient manner.

**Comfortable capital structure and coverage indicators** – The company's capital structure remains comfortable with a gearing of 0.3 times as on March 31, 2024. With sizeable debt-funded capex in FY2024, its coverage indicators though moderated, continue to remain comfortable, as evidenced by interest cover of 15.3 times, and DSCR of 3.1 times as on March 31, 2024. Further, with substantial debt-funded capex plans (~Rs. 321 crore) in FY2025, the debt levels are expected to increase to over Rs. 500 crore by FY2025-end. Consequently, the leverage and coverage indicators are likely to moderate from FY2024 levels. However, the same would remain comfortable.

**Favourable domestic demand prospects due to Government's focus on infrastructure development** – With continued Government focus on infrastructure development, demand for cranes has increased and is expected to remain buoyant over the medium term. The wind sector is the major contributor to SML's revenue and ICRA expects around 4.0-GW wind capacity addition in FY2024. Apart from the wind sector, SML has presence across various other industries such as steel, cement, etc, which are looking at healthy capacity addition in the near to medium term, which augurs well for its growth potential.

### Credit challenges

**Susceptibility to investment cycle in key end user industries** – A large fleet with high-capacity cranes typically finds application in large-sized infrastructure projects. In case of an economic slowdown, when investments in infrastructure tend to decline, the capacity utilisation of the company's fleet might come under pressure. However, under such conditions, SML has a demonstrated record of prudently trimming its redundant capacities, reduce expenses and minimise the impact on operating profits, which partially mitigates the risk. Hence, keeping debt levels (fixed obligations) under control and maintaining sufficient liquidity remain a key monitorable from the credit perspective.

**High concentration towards wind power sector** – SML's revenue contribution from wind power sector witnessed significant rise during the last four years to 50% in FY2024 from 36% in FY2021 and it is expected to increase further in FY2025. While it still remains lower than highs of 70% in FY2017, increasing share of the revenue from wind sector makes SML more susceptible to the cyclicity of the wind sector. Further, the operating margins are expected to moderate in the medium term on account of increased revenue share from low margin wind EPC business.

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<sup>2</sup> According to International Cranes and Specialised Transport, SML was the largest crane rental company in India, largest in Asia and the 4th largest in the world in June 2024.

## Liquidity position: Adequate

SML's liquidity position is adequate with annual cash accruals likely over Rs. 300 crore vis-à-vis expected debt repayments of ~Rs. 60.8 crore in FY2024. It had free cash and liquid investments worth ~Rs. 130 crore as on March 31, 2024, in addition to undrawn working capital limits of Rs. 100 crore, which supports its liquidity position.

## Rating sensitivities

**Positive factors** – ICRA may upgrade SML's ratings in case of a significant and sustained improvement in revenues and profitability. Specific credit metrics that may lead to a rating upgrade include core ROCE above 20% and DSCR above 3.0 times on a sustained basis.

**Negative factors** – Sustained slowdown in end-user industries exerting pressure on revenue or profitability, or any crystallisation of the contingent liability or higher-than-anticipated debt-funded capex, which impacts the liquidity position could put pressure on the company's ratings. Specific credit metric for a rating downgrade could be DSCR less than 2.25 times on a sustained basis.

## Environmental and Social Risks

**Environmental considerations** – Given the service-oriented business, SML's direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. However, the business has high dependence on fuels such as diesel and remains exposed to the requirements to comply with pollution norms. In situations where SML is required to deploy additional/ specific equipment to contain environmental harm that increases its operating costs, it has the flexibility to seek compensation from its customers.

**Social considerations** – Given the inherent nature of business, the social risk in the crane rental industry is modest. The company faces some risk arising from the health and safety hazards that its operations could create for the community that might result in a backlash. However, SML has been providing regular safety and skill upgradation training to the employees.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financials.

## About the company

Incorporated in November 1989, SML primarily provides medium to heavy duty cranes on rental basis to various private and public sector undertakings. The company had a total fleet size of 346 cranes having a cumulative lifting capacity of 81,288 MT as on March 31, 2024. SML's crane fleet consists of medium to large size hydraulic truck mounted telescopic and lattice boom cranes and crawler lattice boom cranes having lifting capacity from 20 MT to 1,000 MT. Almost all the cranes are imported from Germany, USA, UK, Japan, China, and Singapore. Its client list consists of several well-known Indian corporates. According to International Cranes and Specialised Transport, SML was the largest crane rental company in India, largest in Asia and the 4th largest in the world in June 2024.

## Key financial indicators (audited)

SML Standalone	FY2023	FY2024
Operating income (OI, Rs. crore)	455.8	618.5
PAT (Rs. crore)	112.0	187.9
OPBDIT/OI (%)	56.4%	61.6%
PAT/OI (%)	24.6%	30.4%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	0.7	0.8
Interest coverage (times)	15.4	15.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## 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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			July 12, 2024	June 30, 2023	August 30, 2022	August 23, 2021
1 Fund-based – Term loan	Long term	511.28	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Fund-based – Cash credit	Long term	100.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3 Non-fund based limits	Short term	45.00	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4 Unallocated limits	Long term/ Short term	-	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Fund-based – Cash credit	Simple
Short-term – Non-fund based limits	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	Fund-based – Term loan – I	FY2023- FY2025	NA	FY2027- FY2030	145.57	[ICRA]A+ (Stable)
NA	Fund-based – Term loan – II		NA		28.69	[ICRA]A+ (Stable)
NA	Fund-based – Term loan – III		NA		56.34	[ICRA]A+ (Stable)
NA	Fund-based – Term loan – VI		NA		19.58	[ICRA]A+ (Stable)
NA	Fund-based – Term loan – V		NA		65.00	[ICRA]A+ (Stable)
NA	Fund-based – Term loan – VI		NA		62.68	[ICRA]A+ (Stable)
NA	Fund-based – Term loan – VII*		NA		81.21	[ICRA]A+ (Stable)
NA	Fund-based – Term loan – VIII*		NA		34.29	[ICRA]A+ (Stable)
NA	Fund-based – Term loan – IX*		NA		17.92	[ICRA]A+ (Stable)
NA	Fund-based – Cash credit	NA	NA	NA	100.00	[ICRA]A+ (Stable)
NA	Non-fund based limits	NA	NA	NA	45.00	[ICRA]A1

Source: Company; \*Letter of Credits (LC) are backed by term loan and will be repaid by proceeds of term loan on LC maturity date.

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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