

August 30, 2022

Sanghvi Movers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term loan	165.80	249.67	[ICRA]A (Stable) reaffirmed
Fund-based - Cash credit	65.00	65.00	[ICRA]A (Stable) reaffirmed
Non-fund based	32.30	124.50	[ICRA]A1 reaffirmed
Unallocated limits	268.45	92.38	[ICRA]A (Stable)/[ICRA]A1 reaffirmed
Total	531.55	531.55	

*Instrument details are provided in Annexure I

Rationale

The ratings reaffirmation factors in the established positioning of Sanghvi Movers Limited (SML) as the largest crane rental operator in India and its reputed client base, which results in steady order flow for the company. Its diverse fleet of cranes and good supporting infrastructure consisting of a wide network of depots, strengthens its business risk profile. The ratings consider the improvement in its financial risk profile, driven by the healthy recovery in demand and significant reduction in debt levels over the past few years in the backdrop of healthy cash accruals and asset monetisation in the recent past. The company has achieved an operating income of Rs. 335 crore in FY2022 (+50% YoY) and Rs. 97 crore in Q1 FY2023 (+27% YoY). Its revenues are expected to improve on the back of strong order book position and buoyed demand from wind and infrastructure segments.

ICRA, however, notes the sizeable debt-funded capex planned during FY2022 and FY2023, which is likely to result in an increase in debt levels, thus resulting in a moderation of capital structure and coverage indicators. The ratings factor in the modest return indicators owing to high capital-intensive nature of the operations and low asset turnover. While SML has been diversifying its end-user industry over the past few years, its operations remains exposed to cyclicity in the investment activities of the end-user industry, especially the wind sector, which contributed around 40% of the company's revenues in FY2022 and Q1 FY2023. ICRA considers the contingent liabilities of Rs. 871 crore as on March 31, 2022 (increasing from Rs. 525 crore as on March 31, 2021) towards VAT/CST dues, which are currently under appeal with the Maharashtra Sales Tax Tribunal. Any adverse ruling leading to material cash outflows would be a rating concern. However, ICRA notes that the company has received a favourable order for FY2009 from the Maharashtra Sales Tax Tribunal.

The Stable outlook on [ICRA]A rating reflects SML's established positioning in the crane rental business, which is expected to result in steady order flow.

Key rating drivers and their description

Credit strengths

Large scale of operations and established client base - SML is the largest crane rental operator in India with a fleet of 388 cranes as on June 30, 2022. The International Cranes Magazine ranked it fifth in the world based on lifting capacity in 2021. The company's large scale and established presence has made it a preferred partner for heavy haulage requirements in various industries, especially infrastructure and wind power.

Balanced mix of crane fleet with a greater concentration in high-capacity cranes and a well-equipped workforce - SML has a large fleet of high-capacity cranes, which are required for critical infrastructure projects. 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, crane rental services in India are typically provided with crane operators and it has a well-equipped workforce of trained crane operators.

Wide network of depots and presence of large fleet of trailers - SML's geographically diversified presence is an essential factor for better fleet utilisation and optimisation of transportation cost. With its presence across all regions in the country, SML is well placed to provide timely services in a cost-efficient manner.

Comfortable capital structure and coverage indicators - The company's capital structure remained comfortable with a gearing of 0.2 times as on March 31, 2022. Further, with improvement in scale and profitability in FY2022, its coverage indicators have improved (interest cover of 8.0 times, Total Debt/OPBDITA of 1.2 times and DSCR of 2.7 times as on March 31, 2022). ICRA notes that there has been a considerable reduction in debt levels over the past five years. However, with sizeable debt-funded capex plans (over Rs. 250 crore) in FY2022-23, the debt levels are expected to increase to over Rs. 250 crore in FY2023-end. Consequently, the leverage and coverage indicators are likely to moderate from FY2022 levels.

Credit challenges

Modest return indicators - The return on capital employed has remained modest over the past owing to low asset turnover. SML's return indicators are expected to improve going forward, with improvement in demand, yield and capacity utilisation. However, the same are still likely to remain modest compared to other players at the similar rating level.

Susceptibility to investment cycle in large infrastructure projects - 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 prudently pruned redundant capacities to maximise capacity utilisation and minimise impact on operating profits, partially mitigating the risk.

Sales tax related contingent liability may impact credit profile - SML has disputed VAT and CST (contingent) liability worth Rs. 870.8 crore as on March 31, 2022 (increased from Rs. 525.0 crore as on March 31, 2021), primarily regarding transfer of right to use the goods. The company has appealed against the demand raised before the Maharashtra Sales Tax Tribunal and it has received a favourable order for FY2009 from Maharashtra Sales Tax Tribunal, and the matter is pending resolution with the Maharashtra High Court. Any adverse ruling leading to material cash outflows would be a rating concern.

Liquidity position: Adequate

SML's liquidity position remains adequate with annual cash accruals expected to remain over Rs. 120 crore, compared to impending debt repayments of Rs. 50-70 crore in FY2023 and FY2024. The company reported free cash and liquid investments worth Rs. 37.5 crore as on March 31, 2022. It also had sanctioned working capital limits of Rs. 65 crore, which has remained largely unutilised, thus strengthening its liquidity position.

Rating sensitivities

Positive factors - ICRA may upgrade SML's ratings in case of a significant improvement in revenues and profitability. Specific credit metric that may lead to a rating upgrade includes DSCR above 2.5 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 metrics for a rating downgrade could be DSCR less than 1.8 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 company's standalone financials

About the company

Sanghvi Movers Limited (SML) was incorporated on November 3, 1989 as a private limited company. It provides medium-to-heavy duty cranes, on a rental basis, to various private and public sector undertakings. SML had a total fleet size of 387 cranes having a cumulative lifting capacity of 76,434 MT as on March 31, 2022. Its crane fleet consists of medium-to-large-size hydraulic truck mounted telescopic and lattice boom cranes and crawler lattice boom cranes having a lifting capacity of 20-800 MT. Majority cranes are imported from Germany, USA, UK, Japan, China and Singapore. SML's client list consists of several well-known Indian corporates.

According to International Cranes and Specialised Transport, SML is the largest crane hiring company in India as well as in Asia, and the fifth largest in the world in 2021. The company claims to have over 40-45% of the market share in the overall domestic crane hiring market, and as high as around 60-65% per cent market allocation in the high-end crane market.

Key financial indicators

Standalone	FY2021	FY2022	Q1 FY2023*
Operating income (Rs. crore)	223.7	335.3	97.2
PAT (Rs. crore)	(22.4)	29.4	14.5
OPBDIT/OI (%)	41.3%	41.1%	49.3%
PAT/OI (%)	-10.0%	8.8%	14.9%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	NK
Total debt/OPBDIT (times)	2.1	1.2	1.3
Interest coverage (times)	3.5	8.0	14.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * Based on limited review financials; NK – Not Known

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years				
		Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating on Aug 30, 2022	Date & Rating in FY2022 Aug 23, 2021	Date & Rating in FY2021		Date & Rating in FY2020 Mar 30, 2020	
						Mar 25, 2021	Jul 24, 2020		
1 Fund based - Term loan	Long-term	249.67	153.77	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	
2 Fund based - Cash credit	Long-term	65.00	NA	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	
3 Fund based	Short-term	-	NA	-	-	-	-	[ICRA]A2+	
4 Non-fund based Limits	Short-term	124.50	NA	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
5 Unallocated limits	Long-term/Short-term	92.38	NA	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Negative)/[ICRA]A2+	[ICRA]A-(Negative)/[ICRA]A2+	

Amount in Rs. crore

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 Facilities	Very Simple
Long-term/Short-term - Unallocated limits	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based - Term loan I	FY2017	9.15-10.25%	FY2026	130.33	[ICRA]A (Stable)
NA	Fund-based - Term loan II	FY2022	8.25-8.30%	FY2026	29.50	[ICRA]A (Stable)
NA	Fund-based - Term loan III	FY2021	8.25-9.03%	FY2025	14.94	[ICRA]A (Stable)
NA	Fund-based - Term loan IV	FY2023	NA	FY2028	20.00	[ICRA]A (Stable)
NA	Fund-based - Term loan V	FY2023	NA	FY2028	27.00	[ICRA]A (Stable)
NA	Fund-based - Term loan VI	FY2023	NA	FY2028	27.90	[ICRA]A (Stable)
NA	Fund-based - Cash credit	NA	NA	NA	65.00	[ICRA]A (Stable)
NA	Non-fund based Facilities - Bank guarantee	NA	NA	NA	5.00	[ICRA]A1
NA	Non-fund based Facilities - Letter of credit	NA	NA	NA	119.50	[ICRA]A1
NA	Unallocated limits	NA	NA	NA	92.38	[ICRA]A (Stable)/[ICRA]A1

Source: Sanghvi Movers Limited

[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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