

December 30, 2022

## Saizar Enterprise Private Limited: [ICRA]BBB-(Stable)/[ICRA]A3 assigned

### Summary of rating action

| Instrument*                                  | Current Rated Amount<br>(Rs. crore) | Rating Action                |
|--|-------------------------------------|------------------------------|
| Long-term – Fund-based Cash Credit           | 90.00                               | [ICRA]BBB-(Stable); assigned |
| Short-term – Non-fund based – Bank Guarantee | 10.00                               | [ICRA]A3; assigned           |
| <b>Total</b>                                 | <b>100.00</b>                       |                              |

\*Instrument details are provided in Annexure-I

### Rationale

The assigned rating of Saizar Enterprise Private Limited (Saizar) factors in the over four-decade-long track record of the promoters in the road logistics industry and its reputed clientele. The company reported top line growth of 31% in FY2022 reflecting the recovery in demand to pre-Covid levels. The rating also factors in Saizar’s comfortable financial profile characterised by comfortable cash accruals, healthy debt protection metrics and adequate liquidity profile. The company’s debt coverage metrics and interest coverage remain comfortable as reflected by Debt/OPBITDA of 2.1 times and interest coverage of 11.4 times as March 31, 2022.

The ratings, however, are constrained by high operating leverage, given the asset-intensive business model, volatility in margins over the last five fiscals, given limited bargaining power to pass on the full cost rise to final customer and the linkage to general economic environment, given its direct co-relation to trade in general. The company also remains exposed to high customer concentration and stiff competition along with regulatory risks in the goods transport segment. ICRA also notes that there has been significant advances to its group company Ace Logistics (Ace) to, given its sole dependance in Saizar for business. Though these advances have supported the business needs of Saizar, as it provides vehicles for hire to Saizar on dedicated basis, the ability of Saizar to recover advances in a timely manner whenever needed remains critical for the financial flexibility of Saizar.

The Stable outlook reflects ICRA’s opinion that the company will continue to maintain in credit profile, given its promoters’ extensive experience in the road logistics industry as well as its established client base.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoter in the road logistics industry** – Incorporated in 1999, Saizar is engaged in providing logistics services primarily to steel companies, construction equipment and tractor players. The company also transports railway components such as rail wheels and wagons. Saizar’s promoter, Mr Kersoo Jal Indorewalla, has over four decades of experience in road transportation and established relationships with its key customers. Saizar has a fleet of owned vehicles, comprising 811 vehicles (including 143 vehicles of Group entity, Ace Logistics), as of September 30, 2022.

**Reputed customer base** – The firm’s customers include well established brands such as Tata Steel Ltd. (TSL), Jindal Steel & Power Limited (JSPL), JSW Steel Ltd., Jamshedpur Continuous Annealing & Processing Company Private Limited (JCAPCPL), and Amara Raja Batteries Ltd., among others. Established relationships with its customers has ensured repeat business, thereby ensuring steady order inflow for the company.

**Comfortable financial risk profile** – The company has a comfortable financial profile, marked by comfortable profitability indicators, healthy cash accruals and comfortable capital structure as indicated by low gearing of 0.94 time as on March 31, 2022. The Total Debt/OPBITDA remained comfortable at 2.1 times and interest coverage of 11.4 times in FY2022 owing to

healthy profitability. The financial risk profile is expected to remain comfortable despite expected debt-funded capex of ~Rs. 55 crore in FY2023 for addition of new vehicles.

### Credit challenges

**Margins remain vulnerable to fluctuation in hire charges, which are driven by demand–supply dynamics and fuel prices –** Saizar’s revenue growth and margins remain vulnerable to slowdown in economic activity and goods movement. Also, the company’s margin has remained volatile over the last five fiscals, given its limited bargaining power with clients to pass on of any rise in costs. The margin is exposed to demand-supply dynamics as it hires ~40% of its vehicle requirement on spot basis.

**High customer concentration risk and elongated receivable cycle –** The company’s dependence on its top customer, TSL, remains significant despite having reduced in recent years. It derived 61% of its revenue from TSL in FY2018, which gradually reduced to 32% in FY2022. The revenue share from its top five clients stood at ~65% in FY2022. Moreover, Saizar’s receivable days increased to 74 days in FY2022 from 58 days in FY2021 and 34 days in FY2020 as there were changes in contractual terms following the pandemic. This led to rise in working capital intensity to 17% in FY2022 from 6% in FY2020. The ability of the company to realise receivables in a timely manner will remain a key rating sensitivity, going forward.

**Exposure to stiff competition as well as regulatory risks, along with asset intensive business model –** The company primarily operates through a fleet of owned vehicles. This exposes Saizar’s margins to volatility in freight volumes. Also, the company’s asset-intensive model of business results in high operating leverage, which makes profit margins susceptible to any downturn in transportation activity, such as restrictions during the pandemic. The company, by its presence in the goods transport industry, is exposed to high regulatory risks (with respect to licenses and taxation).

**Significant advances to group company, limits financial flexibility at entity level –** Saizar has extended significant advances to its Group entity, Ace Logistics, which stood at Rs. 71.1 crore as on March 31, 2022 over Rs. 66.8 crores as on March 31, 2021. Given the sizeable level of advances, the financial flexibility remains constrained and is dependent on timely recovery of these advances from Ace as and when needed by Saizar. However, some comfort can be drawn as Ace Logistics provides exclusive leasing of vehicles to Saizar, thereby reflecting strong business linkages.

### Liquidity position: Adequate

The liquidity position stood adequate, supported by expected adequate cash flow generation against the annual debt repayment obligations in FY2023. The working capital limits of Rs. 90 crore was utilised on an average of ~65% for the 15-month period ended November 2022. The company had free cash and liquid investment of ~Rs. 11.8 crore as on September 30, 2022.

### Rating sensitivities

**Positive factors** ICRA could upgrade Saizar’s rating if the company demonstrates sustained improvement in top-line and profitability leading to improvement in debt coverage metrics along with strengthening of its liquidity profile.

**Negative factors –** Negative pressure on Saizar’s rating could arise if its financial profile weakens for reasons including lower-than-expected cash accruals or increase in borrowings. Further advances to the Group entity, leading to material weakening of liquidity at the company level, will also be a negative trigger. Specific credit metrics that could exert negative pressure on the company’s ratings include Total Debt/ OPBITDA higher than 2.8 times on a sustained basis.

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a>                                   |
| Parent/Group support            | Not Applicable  |
| Consolidation/Standalone        | For arriving at the ratings, ICRA has considered the standalone financials of Saizar. |

## About the company

Saizar Enterprise Pvt. Ltd. provides transportation services and owns a trailer fleet. The entity has over six decades of road transportation experience, which supports its operational proficiency to transport a multitude of products across the country. SAIZAR is ISO: 9001-2015 certified and is also FSSAI registered.

Saizar inherited its legacy from a partnership business started by the Late Jal Indorewalla in 1956. It developed significantly under the leadership of its current Chairman and Managing Director, Mr. Kersoo Jal Indorewalla. Between 1989-1993, the partnership firm successfully executed numerous Over Dimensional Cargo (ODC) projects, including that of Tata Steel's blast furnace, LD-II, Hot Strip Mill (HSM), etc, from the seaports to its Jamshedpur plant under Mr. Indorewalla's leadership. The company was also awarded the project of distributing finished/ semi-finished steel products from Jamshedpur to various parts of the country. An enhanced fleet strength of vehicles of various payload capacities and models were brought on to the road to execute Tata Steel's outbound movement. In 1999, that business was given a new corporate identity with Saizar as a private limited company.

### Key financial indicators (audited)

| Saizar Enterprise Private Limited                    | FY2021 | FY2022 |
|--|--------|--------|
| Operating income                                     | 348.25 | 457.54 |
| PAT  | 12.98  | 31.04  |
| OPBDIT/OI  | 11.51% | 12.75% |
| PAT/OI   | 3.73%  | 6.78%  |
| Total outside liabilities/Tangible net worth (times) | 1.47   | 1.49   |
| Total debt/OPBDIT (times)                            | 2.18   | 2.14   |
| Interest coverage (times)                            | 6.77   | 11.37  |

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

### 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 of (Rs. crore) | Date & rating in FY2023 | Date & rating in FY2022                           | Date & rating in FY2021 | Date & rating in FY2020 |  |
|            |                |                          |                                      | Dec 30, 2022            |   |                         |                         |  |
| 1          | Cash Credit    | 90.0                     | --                                   | [ICRA]BBB-(Stable)      | -   | -                       | -                       |  |
| 2          | Bank Guarantee | 10.0                     | --                                   | [ICRA]A3                | -   | -                       | -                       |  |

## Complexity level of the rated instruments

| Instrument                                 | Complexity Indicator |
|--|----------------------|
| Long term- fund based Cash Credit          | Simple               |
| 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     | NA               | NA          | NA       | 90.00                    | [ICRA]BBB-(Stable)         |
| NA   | Bank Guarantee  | NA               | NA          | NA       | 10.00                    | [ICRA]A3                   |

Source: Company

[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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