

Sanghvi Movers Limited

June 28, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	25.00	0.00	[ICRA]A1; Withdrawn
LT – Fund Based – Term Loan	645.44	336.90	[ICRA]A (Negative); Reaffirmed
LT – Fund Based/Non Fund Based – Term Loan/Buyer’s Credit/Capex LC	98.44	84.50	[ICRA]A (Negative); Reaffirmed
LT - Fund-based - Working Capital Facilities	100.00	75.00	[ICRA]A (Negative); Reaffirmed
ST - Fund Based-Working Capital Facilities	7.50	7.50	[ICRA]A1; Reaffirmed
ST – Non Fund Based – Working Capital Facilities	7.50	7.50	[ICRA]A1; Reaffirmed
ST – Interchangeable	350.00 [#]	0.00	-
Total	883.88	511.40	

*Instrument details are provided in Annexure-1; # - Sublimit to the term loan facility

Rating action

ICRA has withdrawn the short-term rating of [ICRA]A1 assigned to the Rs. 25.00 crore¹ Commercial Paper programme of Sanghvi Movers Limited (SML or the company)².

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) to the Rs. 336.90 crore (reduced from Rs. 645.44 crore) term loans, Rs. 84.50 crore (reduced from Rs. 98.44 crore) long term fund based/non fund based facilities and Rs. 75.00 crore (reduced from Rs. 100.00 crore) working capital facilities of SML. ICRA has also reaffirmed the short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 7.50 crore fund based facilities and Rs. 7.50 crore non fund based facilities of SML. The outlook on the long-term rating is Negative.

Rationale

The rating for the commercial paper programme is withdrawn in accordance with ICRA's policy on withdrawal and suspension at the request from the company as there is no amount outstanding.

The rating reaffirmation for the bank facilities takes into consideration improvement in outlook of capacity addition in the wind power sector which will support revenue and profitability performance of SML in FY2019. The company has high concentration in the wind power sector and hence fleet utilisation has sizeable dependence on capacity addition in the sector. The ratings continue to derive comfort from large scale of operations, established client base and high market share of the company. Further, diverse fleet of cranes and good supporting infrastructure consisting of a wide network of depots strengthen the business risk profile of the company. SML has refinanced its debt facilities in FY2018 which has resulted in reduction in repayment obligations in FY2019 as well as lowered the interest cost, supporting debt servicing

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

ability of the company. ICRA continues to draw comfort from SML's historical track record of pre-payment of future debt obligations and the company has announced its plans to pre-pay debt of ~Rs. 50 crore in FY2019 as well.

The rating is, however, constrained due to sizeable losses reported by the company in FY2018 and resultant moderation in the financial risk profile of the company as reflected in deterioration in profitability and coverage indicators. The company reported net losses of Rs. 57.5 crore in FY2018 against profits of Rs. 109.2 crore in FY2017. Other coverage indicators like TD/OPBDITA and interest coverage declined to 6.5x and 1.5x in FY2018 from 1.5x and 5.7x in FY2017 respectively. The liquidity profile of SML has weakened due to elongated receivables which can be attributed to weak financial position of some of the counterparties. The company had to make sizeable provisions (Rs. 21.2 crore) for doubtful debt in FY2018 and possibility of additional provisions in FY2019 might impact profitability to some extent. ICRA expects improvement in the financial risk profile of the company, which will be supported by improvement fleet utilisation (from ~41% in FY2018 to above 60% in FY2019) as the wind power sector is expected to generate new orders. However, material improvement in the financial risk profile will be witnessed in H2 FY2019. Additionally, prevailing low tariffs in the wind power sector will keep the rental yields of SML moderate, thus restricting upside in profitability.

ICRA also notes that though awarding of orders in the wind power sector has grown considerably, adequacy of transmission infrastructure remains a key monitorable for the projects to be completed in a timely manner.

SML's ability to maintain adequate combination of capacity utilisation and yields will remain a key rating sensitivity, going forward. Furthermore, revenue diversification from streams other than the wind power sector would remain essential for the company.

Outlook: Negative

The outlook remains negative on account of moderation in the liquidity profile of the company as reflected in elongated debtors. Further, the revenue and profitability performance, though expected to improve, will remain modest in H1 FY2019. The outlook may be revised to Stable if the company can improve the revenue and profitability performance faster than estimated. Improvement in the working capital position will also remain critical for making the outlook Stable.

Key rating drivers

Credit strengths

Improvement in order book driven by improved capacity addition in wind power sector – SML has seen an improvement in the order book in the current year supported by improved capacity addition in the wind power sector. The capacity addition in the sector is estimated to improve to 3-3.5 GW (as per ICRA research) in FY2019 against that of 1.8 GW in FY2018. The same is likely to support the financial risk profile of the company going forward.

Large scale of operations and established client base – SML, with fleet of 413 cranes, is the largest crane rental operator in India. It is also ranked sixth in the world based on lifting capacity. The scale provides bargaining power to SML with customers as well as suppliers. The company has been supplying cranes to large public and private sector clients over the years and it generates repeat business from them.

Balanced mix of crane fleet with a greater concentration in high capacity cranes (exceeding 100 MT) 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 the company has a well-equipped workforce of crane operators.

Wide network of depots and presence of large fleet of trailers – 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.

Longstanding relationship with crane manufacturers – Relationships with various crane manufacturers provide the company with flexibility in altering its capex plans in case of a slowdown. The same is reflected in the cancellation of capex plan by the company in FY2018 without any financial impact.

Credit challenges

High concentration in the wind power sector, slowdown in other key user industries – The company has high concentration on the wind power sector and hence susceptible to downturns in the sector. The wind power sector contributed to more than 50% revenue of SML over the last four years. New capacity addition in the wind power sector was considerably impacted in FY2018 due to transition from feed-in based tariffs to competitively bid tariffs and the same had a significant impact on financial risk profile of the company as reflected in sizeable revenue de-growth and losses. Other key industries like thermal power, steel, and cement also reported muted capacity addition and hence the impact on performance of the company was high in FY2018.

Susceptibility to investments 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.

Maintaining optimal utilisation of fleet and ensuring minimal idle time between contracts – Crane rental players typically face issues related to availability of adequate combination of crane capacities across geographies. Further, transporting the required cranes involves considerable time and cost. Such availability related issues might result in sub-optimal capacity utilisation.

High capital intensity and hence high operating leverage – The cost structure of the company has high operating leverage and the profitability gets considerably impacted in case of revenue decline. The same has been witnessed in SML's performance over the years.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[ICRA Policy on Withdrawal and Suspension of Credit Ratings](#)

About the company:

SML was incorporated on November 03, 1989 as a private limited company. It is primarily engaged in providing medium to heavy duty cranes on rental basis to various private and public sector undertakings.

As of March 31, 2018, SML has a total fleet size of 413 cranes having a cumulative lifting capacity of 79,212 MT. 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 800 MT, out of which 286 are second hand and 127 are brand new cranes. Almost all the cranes are imported from Germany, USA, UK, Japan, China and Singapore. SML's client list consists of several well-known Indian corporates.

As per a survey by the International Cranes Magazine, SML is the largest crane hiring company in India, largest in Asia and the sixth largest in the world.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	553.1	228.4
PAT (Rs. crore)	109.2	-57.5
OPBDIT/OI (%)	66.3%	36.6%
RoCE (%)	15.7%	-2.3%
Total Debt/TNW (times)	0.6	0.7
Total Debt/OPBDIT (times)	1.5	6.5
Interest coverage (times)	5.7	1.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years						
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018				Date & Rating in FY2017	Date & Rating in FY2016
					June 2018	Nov 2017	Aug 2017	Jul 2017		
1	Term Loans	Long	336.90	336.90	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Term Loans/Buyers Credit/Capex LC	Long	84.50	84.50	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Cash Credit	Long	75.00	-	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	FB Working Capital Facilities	Short	7.50	-	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
5	NFB Working Capital Facilities	Short	7.50	-	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
6	Interchangeable Limits	Short	0.00	-	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
7	Commercial Paper	Short	25.00	-	[ICRA]A1 Withdrawn	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1-22	Oct-2012	NA	Mar-2023	336.90	[ICRA]A (Negative)
NA	TL/BC/LC 1-3	Feb-2015	NA	Jun-2021	84.50	[ICRA]A (Negative)
NA	Cash Credit	NA	NA	NA	75.00	[ICRA]A (Negative)
NA	FB Working Capital	NA	NA	-	7.50	[ICRA]A1
NA	NFB Working Capital	NA	NA	-	7.50	[ICRA]A1
NA	Commercial Paper	NA	NA	NA	25.00	[ICRA]A1 Withdrawn

Source: Sanghvi Movers Limited

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