

August 23, 2021

Sanghvi Movers Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based - Term Loan	187.22	165.80	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Long-term Fund-based - Working Capital facilities	65.00	65.00	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Short-term Non-Fund-based - Working Capital facilities	05.00	32.30	[ICRA]A1; upgraded from [ICRA]A2+
Long-term / Short-term - Unallocated	274.33	268.45	[ICRA]A(Stable)/[ICRA]A1; upgraded from [ICRA]A-(Stable)/[ICRA]A2+
Total	531.55	531.55	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in ratings take into account the improvement in Sanghvi Movers Limited's (SML) credit profile, driven by healthy recovery in demand, improvement in receivables and timely materialisation of its asset monetisation plans, enabling prepayment of debt in FY2021 and Q1FY2022 while ensuring adequate liquidity. The company has achieved an operating income of Rs. 76.5 crore in Q1FY2022 and the revenues are expected to improve in FY2022 over FY2021 on the back of strong order book position and buoyed demand from construction, mining and infrastructure segments. SML refinanced part of its debt at lower interest rates and prepaid a part of the debt, reducing the principal repayment burden for FY2022 to less than Rs.50 crore as against expected cash profits of over Rs 100 crore. Moreover, the company doesn't have any major debt funded capex or investment plans and hence, overall credit profile is likely to further strengthen over the medium term with scheduled maturity of debt.

The ratings continue to derive comfort from SML's large scale of operations, established client base and high market share. Further, its diverse fleet of cranes and good supporting infrastructure consisting of a wide network of depots, strengthens the business risk profile of the company. The capital structure of the company has remained comfortable on the back of healthy cash accruals and the gearing stood at 0.3 time as on March 31, 2021. However, these strengths are partially offset by the company's modest return indicators because of low asset turnover. The business remains exposed to cyclicity in the investment activities, which company is trying to partially offset by diversifying across various segments. ICRA also takes note of the contingent liabilities of Rs. 525.0 crore 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 favorable order for FY2009 from Maharashtra Sales Tax Tribunal.

Key rating drivers and their description

Credit strengths

Large scale of operations and established client base – SML is the largest crane rental operator in Asia with a fleet of 377 cranes as on June 30, 2021. 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 turbine.

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 the company 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 – During FY2018 to FY2021, the company has reduced its debt level by over Rs 340 crore and debt levels are expected to reduce further in the near-term with scheduled repayments. The total debt of the company has reduced from Rs. 196.9 crore as on March 31, 2021 to Rs. 182.2 crore as on June 30, 2021 due to scheduled term loan repayments. Reduction in debt levels along with healthy cash accruals has resulted in a gearing of 0.26 times as on June 30, 2021.

Credit challenges

Modest return indicators- The return on capital employed has remained modest over the past owing to low asset turnover. Going forward, with improvement in demand, yield and capacity utilization; return indicators are expected to improve but they are still likely to remain muted as 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, the company has prudently pruned redundant capacities to maximise capacity utilisation and minimise impact on operating profits, partially mitigating the risk.

Sales tax related contingent liability, if materialise could materially impact credit profile- SML has contingent liabilities of Rs. 527.2 crore as on March 31, 2021, which primarily consist of Rs. 525.0-crore VAT and CST liabilities regarding transfer of right to use the goods. In the past, the company received notice of demand in respect of order of assessment for FY2008-FY2015. It has also appealed against the demand raised before the Maharashtra Sales Tax Tribunal, and the matter is pending resolution. Any adverse ruling leading to material cash outflows would be a rating concern. However, ICRA notes that the company has received a favorable order for FY2009 from Maharashtra Sales Tax Tribunal.

Liquidity position: Adequate

The company’s liquidity position remains adequate with annual cash accruals of over Rs 100 crore which along with undrawn bank lines of Rs 60 crore on consistent basis should be adequate to service principal repayment of about Rs 45-70 crore in FY2022 and FY2023 respectively. ICRA notes that the company has already repaid Rs. 28 crore in 4MFY2022 and the balance repayment stands at ~Rs. 16 crore for the remaining 8 months of FY2022. Given cyclicity in the end user industries, ICRA expects company to maintain adequate liquidity buffer to tide over any short-term financial exigencies.

Rating sensitivities

Positive factors – ICRA may upgrade SML’s ratings if it achieves healthy scale up of revenue while maintaining the profitability indicators. 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 thereby exerting pressure on profitability and liquidity position. Deterioration in credit profile with DSCR less than 1.8 times could result in downward rating pressure.

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 standalone financial profile of the company.

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. SML had a total fleet size of 377 cranes having a cumulative lifting capacity of 75,024 MT as on June 30, 2021. 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. 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.

According to International Cranes and Specialized Transport, SML is the largest crane hiring company in India, largest in Asia and the 5th 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 (audited)

MHEL	FY2020	FY2021
Operating Income (Rs. crore)	322.9	223.9
PAT (Rs. crore)	-6.6	-22.4
OPBDIT/OI (%)	48.5%	41.3%
PAT/OI (%)	-2.0%	-10.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4
Total Debt/OPBDIT (times)	2.0	2.1
Interest Coverage (times)	3.8	3.5

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

Sl. No.	Instrument	Current Rating (FY2022)				Rating History					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
						23-Aug-21	25-Mar-21	July 24,2020	Mar 30,2020	Mar 26,2019	Jul 16,2018
1	Term Loans	Long-Term	165.80	158.10	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(stable)	[ICRA]A (Negative)	[ICRA]A (Negative)
2	Fund Based/Non Fund Based	Long-Term	-	-	-	-	-	-	-	[ICRA]A (Negative)	[ICRA]A (Negative)
3	Cash Credit	Long-Term	65.00	-	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(stable)	[ICRA]A (Negative)	[ICRA]A (Negative)
4	Fund based	Short-Term	-	-	-	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
5	Non-fund based working capital facilities	Short-Term	32.30	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
6	Unallocated	Long-term/Short-term	268.45	-	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Negative)/[ICRA]A2+	[ICRA]A-(Negative)/[ICRA]A2+	-	-	-
7	Commercial Paper	Short-Term	-	-	-	-	-	-	-	-	[ICRA]A1 withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based - Term Loan	Simple
Long-term Fund-based -Working Capital facilities	Simple
Short-term Non-Fund-based -Working Capital facilities	Very Simple
Long-term / Short-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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
Saraswat Bank	Term Loan I	February, 2017	-	June,2025	78.46	[ICRA]A(Stable)
State Bank of India	Term Loan II	January, 2018	-	July,2026	47.37	[ICRA]A(Stable)
Bank of Baroda	Term Loan III	May, 2015	-	Dec, 2022	06.78	[ICRA]A(Stable)
HDFC Bank	Term Loan IV	Feb, 2020	-	Feb, 2023	5.59	[ICRA]A(Stable)
HDFC Bank	Term Loan V	Dec, 2020	-	Jan,2025	16.09	
NA	Term Loan V (Unallocated)	-	-	-	11.52	[ICRA]A(Stable)
NA	Cash credit	-	-	-	65.00	[ICRA]A(Stable)
NA	Non-fund based working capital limits	-	-	-	32.30	[ICRA]A1
NA	Unallocated amount	-	-	-	268.45	[ICRA]A(Stable)/[ICRA]A1

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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