June 30, 2023

Sanghvi Movers Limited: Long-term rating upgraded to [ICRA]A+ (Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loan	249.67	315.02	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Fund-based – Cash credit	65.00	65.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Non-fund based	124.50	90.75	[ICRA]A1 reaffirmed
Unallocated limits	92.38	60.78	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)/[ICRA]A1 reaffirmed
Total	**531.55**	**531.55**	

Instrument details are provided in Annexure-I

Rationale

The ratings upgrade factors in the healthy recovery in operating as well as financial performance of Sanghvi Movers Limited's (SML) in FY2023 and the expectation that the company will be able to sustain the same over the medium term. The capacity utilisation and rental yields for SML improved to 83% (76% in FY2022) and 1.97% (1.71% in FY2022), respectively, which resulted in 36% YoY growth in revenues to Rs. 456 crore in FY2023. Consequently, SML's operating margins improved to 56.4% in FY2023 from 41.1% in FY2022. The revenues are expected to improve in FY2024 on the back of a strong order book position (~Rs. 300 crore as of May 2023) and likely sustenance of demand in wind energy (key end-user segment) and other core infrastructure sectors (e.g. cement, steel, oil refineries, etc). Further, with healthy cash accruals and recovery from sticky receivables (which were earlier written off completely), the company pre-paid sizeable debt, leading to improvement in its debt coverage metrics and liquidity position. The ratings continue to note SML's established position as the largest crane rental operator in Asia and its reputed client base, which supports a steady order flow. Its diverse fleet of cranes and good supporting infrastructure (consisting of a wide network of depots) also strengthens its business risk profile.

ICRA, however, notes the sizeable debt-funded capex planned in FY2024. While the same may lead to some moderation in the coverage indicators, the DSCR is expected to remain comfortable at above 2.5 times in the medium term. Owing to the capital-intensive nature of operations, the return indicators (RoCE) continue to remain modest despite substantial improvement from FY2022 levels. While SML has been diversifying its end-user industry over the past few years, its operations remains exposed to cyclicality in the investment activities of the end-user industries, especially the wind sector, which contributed around 45% of the company's revenues in FY2023. The segment's share is likely to increase further in FY2024, albeit a stable demand outlook for the wind sector provides some comfort. Notwithstanding its large scale of operations, SML continues to face competition from other smaller and mid-size players, which constrains its pricing flexibility.

ICRA considers the contingent liabilities of ~Rs. 871 crore as on March 31, 2023 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 credit negative.

The Stable outlook on [ICRA]A+ rating reflects SML's established positioning in the crane rental business, favourable demand outlook in its key end-user industries, along with its 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[1] in Asia with a fleet of 394 cranes as on March 31, 2023. The company has a large fleet of high-capacity cranes, which are required for critical infrastructure projects and has made it a preferred partner for heavy haulage requirements in various industries, especially infrastructure and wind power. 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 0.2 times as on March 31, 2023. Further, with improvement in scale and profitability in FY2023, its coverage indicators have improved, as evidenced by interest cover of 15.0 times, Total Debt/OPBDITA of 0.7 times and DSCR of 4.4 times as on March 31, 2023. ICRA notes that there has been a considerable reduction in debt levels over the past five years. However, with sizeable debt-funded capex plans (~Rs. 265 crore) in FY2024, the debt levels are expected to increase to over Rs. 250 crore by FY2024-end. Consequently, the leverage and coverage indicators are likely to moderate from FY2023 levels, albeit would continue to remain strong with DSCR of over 2.5 times.

Favourable domestic demand prospects given the government's focus on infrastructure development – With the continued government focus on infrastructure development, demand for cranes has increased and is expected to remain buoyant over the medium term. Wind sector is the major contributor to SML's revenue, where the actual execution is lower than renewable purchase obligation (RPO) targets set by the government. ICRA expects the execution to ramp-up to 2.5 GW-3.0 GW annual installations in the medium term. Apart from the wind sector, it has presence across various other industries such as steel, cement, refinery, etc, which are looking at the significant capacity addition in medium to long term, which augurs well for SML's growth potential.

Credit challenges

Susceptibility to investment cycle in key end user industries like wind etc – 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 impact on operating profits, which partially mitigates the risk. Hence, keeping debt levels (fixed obligations) under control along with maintaining sufficient liquidity remains a key monitorable from the credit perspective.

Exposed to sizeable sales tax related contingent liability – SML had disputed VAT and CST (contingent) liability worth Rs. 870.8 crore as on March 31, 2023, primarily regarding transfer of right to use the goods. It had appealed against the demand raised before the Maharashtra Sales Tax Tribunal and had received a favourable order for FY2009 assessment. The matter is currently pending resolution with the Maharashtra High Court. Any adverse ruling leading to material cash outflows would be a credit negative for the company.

[1] *The International Cranes Magazine ranked SML as largest crane rental operator in Asia and sixth largest in the world based on lifting capacity in June 2023.*

Liquidity position: Adequate

SML's liquidity position is likely to remain adequate with annual cash accruals likely over Rs. 200 crore vis-à-vis expected debt repayments of ~Rs. 85-90 crore in FY2024. The company has planned capex of ~Rs. 265 crore, of which ~Rs. 170 crore is anticipated to be funded through long-term debt. SML had free cash and liquid investments worth ~Rs. 73 crore as on March 31, 2023, in addition to undrawn working capital limits of Rs. 65 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.

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

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 394 cranes having a cumulative lifting capacity of 81,006 MT as on March 31, 2023. SML's 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 from 20 MT to 1000 MT. SML's client base consists of several well-known Indian corporates.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income (Rs. crore)	335.3	455.8
PAT (Rs. crore)	29.4	112.0
OPBDIT/OI (%)	41.1%	56.4%
PAT/OI (%)	8.8%	24.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	1.2	0.7
Interest coverage (times)	8.0	15.4

Source: ICRA Research; 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 (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2023 (Rs. crore)	Date & Rating on	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Jun 30, 2023	Aug 30, 2022	Aug 23, 2021	Mar 25, 2021	Jul 24, 2020
1	**Fund-based – Term loan**	Long-term	315.02	115.38	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
2	**Fund-based – Cash credit**	Long-term	65.00	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
3	**Non-fund-based limits**	Short-term	90.75	77.94	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+
4	**Unallocated limits**	Long-term/ Short-term	60.78	NA	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Negative)/ [ICRA]A2+

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan I	FY2023	-	FY2027	8.56	[ICRA]A+ (Stable)
NA	Term loan-II	FY2023	-	FY2028	9.70	[ICRA]A+ (Stable)
NA	Term loan-III	FY2023	-	FY2028	40.50	[ICRA]A+ (Stable)
NA	Term loan-IV	FY2024	-	FY2028	32.73	[ICRA]A+ (Stable)
NA	Term loan V	FY2023	-	FY2028	13.49	[ICRA]A+ (Stable)
NA	Term loan-VI	FY2024	-	FY2028	35.00	[ICRA]A+ (Stable)
NA	Term loan-VII	FY2024	-	FY2028	35.00	[ICRA]A+ (Stable)
NA	Term loan-VIII	FY2023	-	FY2027	13.68	[ICRA]A+ (Stable)
NA	Term loan-IX	FY2023	-	FY2028	40.00	[ICRA]A+ (Stable)
NA	Term loan X	FY2023	-	FY2028	18.27	[ICRA]A+ (Stable)
NA	Term loan-XI	FY2023	-	FY2027	6.50	[ICRA]A+ (Stable)
NA	Term loan-XII	FY2024	-	FY2028	4.00	[ICRA]A+ (Stable)
NA	Term loan-XIII	FY2023	-	FY2027	45.19	[ICRA]A+ (Stable)
NA	Term loan-XIV	FY2024	-	FY2028	12.40	[ICRA]A+ (Stable)
NA	Fund-based - Cash credit	FY2023	-	-	65.00	[ICRA]A+ (Stable)
NA	Non-fund-based facilities - Bank guarantee	FY2023	-	-	20.00	[ICRA]A1
NA	Non-fund-based facilities - Letter of credit	-	-	-	70.75	[ICRA]A1
NA	Unallocated limits	NA	NA	NA	60.78	[ICRA]A+ (Stable)/[ICRA]A1

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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Ritu Goswami
+91 124 4545826
ritu.goswami@icraindia.com

Ritik Sundarka
+91 20 6606 9911
ritik.sundarka@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches