

Sanghvi Movers Limited

March 26, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT – Fund Based – Term Loan	357.05	441.55	Revised from [ICRA]A (Negative) to [ICRA]A- (Stable)
LT – Fund Based/Non Fund Based	84.50	-	-
LT - Fund-based - Working Capital Facilities	75.00	75.00	Revised from [ICRA]A (Negative) to [ICRA]A- (Stable)
ST - Fund Based-Working Capital Facilities	7.50	7.50	Revised from [ICRA]A1 to [ICRA]A2+
ST – Non Fund Based – Working Capital Facilities	7.50	7.50	Revised from [ICRA]A1 to [ICRA]A2+
Total	531.55	531.55	

*Instrument details are provided in Annexure-1

Rationale

The ratings revision factors in the weaker than expected recovery in operations due to ongoing headwinds in the wind power sector towards which Sanghvi Movers Limited (SML) has high exposure, and consequent impact on revenue as well as profitability; modest coverage indicators with TD/OPBIDTA and interest coverage of 4.7x and 2.1x, respectively during 9m FY2019; and increased competitive intensity in the crane rental industry which has pressurized rental yield. ICRA takes note of management's efforts towards refinancing and prepaying a sizeable share of principal due for repayment in FY2020, wherein overall principal repayment obligation has reduced from Rs 160+ crore earlier to under Rs 100 crore at present, thereby sustaining debt servicing coverage ratio (DSCR) at 1.2x. Moreover, management's thrust on asset monetization and recovery from sticky receivable, if any, will further augment cash flows.

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. ICRA 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. SECI and other state utilities have awarded orders more than 10,000 MW over last one and a half year, but the execution pace has remained muted due to delay in land acquisition and financial closure by IPPs. SML has taken conscious steps to diversify its presence by adding new clientele in other industries; however, its dependency on wind sector will continue remain high over the medium term.

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: Stable

ICRA expects SML's credit profile to remain stable, supported by improved revenue visibility from other sectors and refinancing of debt thereby reducing debt repayment burden over the medium term. Moreover, management's thrust on asset monetization and recovery from sticky receivable, if any, will further augment cash flows. Improvement in the working capital position will also remain critical for sustain the stable outlook. The outlook can be revised to positive in

case of substantial improvement in rental yield and capacity utilization, thereby materially improving revenue visibility and profitability. The outlook can be revised to negative, if capacity utilization and rental yields continue to remain under pressure, with further weakening in rental yield from current level.

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 FY2020 against that of 1.8-2.0 GW annually during FY2018 and FY2019e. 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 407 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 material impact on financial.

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 over last two years 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. Company has witnessed improved traction in oil & gas refinery segment, which provided some support during FY2019e. However, overall capacity utilization remains below 60% level thereby suppressing return indicators. Moreover, demand supply mismatch and competition from other smaller players has pressurized yields, which is currently at lowest level in the last five years.

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.

Liquidity Position:

The liquidity profile of SML has weakened over the last two years due to elongated receivables which can be attributed to weak financial position of some of the counterparties. The company had already make sizeable provisions (Rs. 22.7 crore) for doubtful debt. Nevertheless, undrawn bank lines of over Rs 50 crore (as on Feb 2019) provides adequate liquidity buffer.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Equipment Manufacturers
Parent/Group Support	Not Applicable
Consolidation / Standalone	Standalone Financials

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 December 31, 2018, SML has a total fleet size of 407 cranes having a cumulative lifting capacity of 78,922 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 281 are second hand and 126 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 Mar 2019	Date & Rating Jul/Jun 2018	Date & Rating in FY2018			Date & Rating in FY2017	Date & Rating in FY2016	
						Nov 2017	Aug 2017	Jul 2017	Jul 2016	Jan 2016	
1 Term Loans	Long Term	441.55	434.72	[ICRA]A-(stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2 Fund Based/Non Fund Based	Long Term	-	-	-	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
3 Cash Credit	Long Term	75.00	21.69	[ICRA]A-(stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
4 FB Working Capital Facilities	Short Term	7.50	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	
5 NFB Working Capital Facilities	Short Term	7.50	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	
6 Interchangeable Limits	Short Term	0.00	-	-	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	
7 Commercial Paper	Short Term	0.00	-	-	-	[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	357.05	[ICRA]A- (Stable)
NA	Term Loan 1-3	Feb-2015	NA	Jun-2021	84.50	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	75.00	[ICRA]A- (Stable)
NA	FB Working Capital	NA	NA	-	7.50	[ICRA]A2+
NA	NFB Working Capital	NA	NA	-	7.50	[ICRA]A2+

Source: Sanghvi Movers Limited

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