

March 30, 2020

## Sanghvi Movers Limited: Ratings reaffirmed; outlook revised to Negative from Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT - Fund based -Term Loan	441.55	286.47	[ICRA]A-; reaffirmed and outlook revised to Negative from stable
LT - Fund based- Working Capital Facilities	75.00	65.00	[ICRA]A-; reaffirmed and outlook revised to Negative from stable
ST - Fund based	7.50	7.50	[ICRA]A2+; reaffirmed
ST - Non-fund based-Working Capital Facilities	7.50	5.00	[ICRA]A2+; reaffirmed
LT/ST Unallocated	0.00	167.58	[ICRA]A-/ [ICRA]A2+; reaffirmed and outlook revised to Negative from stable
<b>Total</b>	<b>531.55</b>	<b>531.55</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The outlook revision reflects the ongoing headwinds in the wind power sector towards which Sanghvi Movers Limited (SML) has high exposure, and the consequent impact on SML's revenue as well as profitability. ICRA notes the management's efforts towards refinancing and prepaying a sizeable share of principal due for repayment in FY2021, due to which overall principal repayment obligation has reduced from more than Rs. 150 crore earlier to under Rs. 100 crore at present, thereby sustaining debt servicing coverage ratio (DSCR) at 1.3x in 9M FY2020. The management's thrust on asset monetisation and recovery from sticky receivable, if any, will further augment cash flows. Further, ICRA expects the impact of the COVID-19 pandemic to play out in Q1 FY2021 resulting in reduced industrial activity, thereby impacting SML's revenues. SML's repayment obligations during the period is minimal at less than Rs.10 crore, which ICRA expects the company to service comfortably, since the company expects its asset monetisation plans to materialise during the period and maintains sufficient buffer in its working capital lines for short-term exigencies.

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, 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. SML has taken conscious steps to diversify its presence by adding new clients from other industries; however, its dependency on the wind energy sector will continue to remain high over the medium term.

In the near term, company's asset monetisation plans and impact of Covid-19 on its execution capabilities remain a key monitorable. Over the medium term, SML's ability to maintain an adequate combination of capacity utilisation and yields will remain a key rating sensitivity. Furthermore, revenue diversification from streams other than the wind power sector would remain crucial for the company to stabilise its overall cash flows.

## Key rating drivers and their description

### Credit strengths

**Large scale of operations and established client base** – SML, with a fleet of 391 cranes, is the largest crane rental operator in Asia. It was ranked sixth in the world based on lifting capacity by the International Cranes Magazine in 2019. 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** – 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.

### Credit challenges

**High concentration towards wind power sector**– SML derived 48% of its revenues from the wind sector in FY2019. New capacity addition in the sector was considerably impacted in FY2018 and FY2019 due to transition from feed-in based tariffs to competitively bid tariffs, which had a significant impact on the financial risk profile of the company. The diversification efforts of the management garnered clients in the oil and gas industry, power, cement and steel industries; and the management is actively trying to reduce its exposure to the wind power sector. This is evident from the gradual reduction in the contribution of the wind power sector to the company's revenues, from 70% in FY2018 to 48% in FY2019.

**Financial profile characterised by net losses and negative return indicators; high capital intensity and high operating leverage** – The company's cost structure has high operating leverage and profitability gets considerably impacted by revenue decline. Due to substantial decline in revenues in FY2018 (over 50%) and inadequate ramp up in FY2019, the company registered a net loss and negative return indicators in those years. Though operating profits improved with revenue growth in FY2019, the company registered a net loss due to high depreciation expense. However, SML has always generated adequate cash profits to meet its debt repayment obligations and capital expenditure. ICRA expects near term pressures to persist on return indicators.

**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. 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.

### 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. 30-40 crore on a consistent basis should be adequate to service its principal repayment obligation of about Rs. 100 crore annually. Apart from this, the company is looking at selling two land parcels, which could generate funds to the tune of Rs. 22 crore in FY2021.

## Rating sensitivities

**Positive triggers** – The outlook can be revised to Stable if the company’s asset monetisation plans proceed as scheduled and improved traction in the end-user industries result in better capacity utilisation and cash accruals.

**Negative triggers** – Sustained slowdown in end-user industries exerting pressure on profitability and liquidity position could trigger a rating downgrade. Deterioration in credit profile with DSCR of less than 1.1 times or utilisation of working capital facilities above 80% will exert downward rating pressure.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

## About the company

SML was incorporated on November 03, 1989 as a private limited company. It is primarily provides medium to heavy duty cranes on rental basis to various private and public-sector undertakings (PSUs). As of December 31, 2019, SML had a total fleet size of 391 cranes with a cumulative lifting capacity of 76,621 MT. SML’s crane fleet of medium to large sized hydraulic truck mounted telescopic and lattice boom cranes as well as crawler lattice boom cranes have a lifting capacity of 20 MT to 800 MT. Almost all its cranes are imported from Germany, USA, the 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 in 2019, SML was the largest crane hiring company in India, largest in Asia and the sixth largest in the world. The company claims to have over 50% of the market share in the overall domestic crane hiring market, and as high as around 80-90% market allocation in the high-end crane market.

In FY2019, the company reported a net loss of Rs. 58.1 crore on an operating income of Rs. 282.4 crore compared to a net loss of Rs. 57.5 crore on an operating income of Rs. 228.4 crore in the previous year.

## Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	228.4	282.4
PAT (Rs. crore)	-57.5	-58.1
OPBDIT/OI (%)	36.6%	31.6%
RoCE (%)	-2.3%	-3.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.7
Total Debt/OPBDIT (times)	6.5	5.0
Interest Coverage (times)	1.5	1.9
DSCR	1.0	1.1

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years					
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date and Rating 30-March2020	Date & Rating in FY2019		Date & Rating in FY2018			Date & Rating in FY2017
					26-Mar 2019	16-Jul/28-Jun 2018	20-Nov 2017	17-Aug 2017	06-Jul 2017	05-Jul 2016
1	Term Loans	286.47	285.0	[ICRA]A-(Negative)	[ICRA]A-(stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund Based/Non Fund Based	-	-		-	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Cash Credit	65.00	20.2	[ICRA]A-(Negative)	[ICRA]A-(stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Fund based	7.50	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	NFB Working Capital Facilities	5.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Proposed	167.58	-	[ICRA]A-(Negative)/[ICRA]A2+						
6	Interchangeable Limits	-	-		-	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Commercial Paper	-	-		-	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	-

\*- as of January 31, 2020

## 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](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	65.00	[ICRA]A- (Negative)
NA	NFB Working Capital	NA	NA	-	5.00	[ICRA]A2+
NA	Proposed	NA	NA	-	167.58	[ICRA]A- (Negative)/[ICRA]A2+
NA	Short-term fund based	NA	NA	-	7.50	[ICRA]A2+
NA	Term loans*	Oct-2012		March 2027	286.47	[ICRA]A- (Negative)

Source: Company; Note \*- the company has 21 term loans outstanding with varying maturity. Repayment obligations of the latest loan ends in March 2027

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

## Analyst Contacts

### Subrata Ray

+91 22 6114 3408

[subrata@icraindia.com](mailto:subrata@icraindia.com)

### Ashish Modani

+91 20 6606 9912

[ashish.modani@icraindia.com](mailto:ashish.modani@icraindia.com)

### Gayathri Ramesh

+91 20 6606 9911

[Gayathri.ramesh@icraindia.com](mailto:Gayathri.ramesh@icraindia.com)

## Relationship Contact

### Jayanta Chatterjee

+91 80 4332 6401

[jyantac@icraindia.com](mailto:jyantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

### Ms. Naznin Prodhani

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

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

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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