

July 24, 2020

## Sanghvi Movers Limited: Update

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT - Fund based -Term Loan	286.47	286.47	[ICRA]A-(Negative); outstanding
LT - Fund based- Working Capital Facilities	65.00	65.00	[ICRA]A-(Negative); outstanding
ST - Fund based	7.50	0.00	-
ST - Non-fund based-Working Capital Facilities	5.00	5.00	[ICRA]A2+; outstanding
LT/ST Unallocated	167.58	175.08	[ICRA]A-(Negative)/ [ICRA]A2+; outstanding
<b>Total</b>	<b>531.55</b>	<b>531.55</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has a negative outlook on the ratings of Sanghvi Movers Limited (SML), considering the ongoing headwinds in the end user industries due to Covid-19 related lockdown restrictions and its consequent impact on SML's revenues and profit margins in FY2021. ICRA notes that the company's asset monetisation plans have materialised in time and the sale proceeds were used to meet the repayment obligations due in H1FY2021. Moreover, there is sufficient buffer of Rs 40-50 crore in SML's working capital lines to meet any short-term exigencies. The company's cranes have been operational for a large part of the current fiscal, despite the regional lock-down measures imposed across the country. At present, the company has an order book of over Rs.100 crore and an enquiry pipeline of over Rs.200 crore to be executed in FY2021 lending sufficient revenue visibility. Considering the prevailing uncertainty, the company has employed cost-cutting measures to augment cashflows and is looking at refinancing part of its term loans to further ease repayment obligations. The management's thrust on asset monetisation and recovery from sticky debtors, if any, will augment cash flows further. With cashflows from operations, income through asset monetisation and available buffer in working capital lines, the company can comfortably meet its operational expenses and remaining repayment obligations due in FY2021.

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. 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, the 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 389 cranes, is the largest crane rental operator in Asia. In 2019, the International Cranes Magazine ranked it sixth in the world based on lifting capacity. 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.

### Credit challenges

**High concentration towards wind power sector**– SML derived 46% of its revenues from the wind sector in FY2020. New capacity addition in the sector was considerably impacted in the past few years by the 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 46% in FY2020. Nevertheless, the dependency on wind sector is likely to remain high in the medium term.

**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. While the company has been registering net losses in the past few years due to sharp decline in revenue, pressure on yields and high depreciation expenses; the cash profits are adequate to meet its debt repayment obligations and capital expenditure. Over the last three years, the company has reduced its debt level by over Rs 225 crore and debt levels are also expected to reduce by Rs 75-85 crore in FY2021. Nevertheless, owing to lower yields and expected net losses, its overall return indicators are likely to remain weak in the next 12-18 months.

**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

Despite the uncertainty in revenues due to the impact of Covid-19, ICRA expects SML's liquidity profile to remain adequate to meet repayment obligations and operational expenses, characterised by undrawn working capital lines of over Rs.40 crore on a consistent basis and expected annual cash accrual of over Rs.70 crore. Apart from this, the company's asset monetisation and refinancing plans will further support its liquidity position.

## Rating sensitivities

**Positive triggers** – The outlook can be revised to Stable if the company's asset monetisation plans proceed as scheduled and if 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 March 31, 2020, SML had a total fleet size of 389 cranes with a cumulative lifting capacity of 76,516 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.

## Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	282.4	322.9
PAT (Rs. crore)	-58.1	-6.6
OPBDIT/OI (%)	31.6%	48.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.5
Total Debt/OPBDIT (times)	5.0	2.0
Interest Coverage (times)	1.9	3.8

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**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 24-July 2020	Date and rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018			
						26-Mar 2019	16-Jul/28-Jun 2018	Nov 2017	30-Mar 2020	26-Mar 2019	
1	Term Loans	Long Term	286.47	282.2	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)
2	Fund Based/Non Fund Based	Long Term	-	-			-	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)
3	Cash Credit	Long Term	65.00	9.5	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)
4	Fund based	Short Term	0.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
5	NFB Working Capital Facilities	Short Term	5.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
6	Proposed	Long term/Short term	175.08	-	[ICRA]A-(Negative)/[ICRA]A2+	[ICRA]A-(Negative)/[ICRA]A2+					
6	Interchangeable Limits	Short Term	-	-			-	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
7	Commercial Paper	Short Term	-	-			-	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+

\*As of March 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	-	175.08	[ICRA]A- (Negative)/[ICRA]A2+
NA	Term loans*	01-Oct-2012		31-Mar-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

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