

June 11, 2019

## Shekar Logistics Pvt Ltd: Ratings assigned at [ICRA]B+(Stable)/[ICRA]A4

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term: Fund-based -Term Loan	8.00	[ICRA]B+ (Stable); Assigned
Long term: Fund-based - Working Capital Facilities	14.00	[ICRA]B+ (Stable); Assigned
Short term: Non-fund Based- Bank Guarantee	3.00	[ICRA]A4; Assigned
<b>Total</b>	<b>25.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned ratings factors in the extensive experience of Shekar Logistics Pvt Ltd's (SLPL) promoters in the logistics sector, and the company's long-term relationship with its key customer, Tata Steel Limited (TSL). The ratings also favourably factor in the presence of long-term contracts with TSL for both transportation and handling of materials, and the company's service reliability as nearly two-third of its service requirements are met from its own fleet of vehicles, which also aids in achieving higher operating profit margins.

The ratings, however, are constrained by the company's modest scale of operations. Besides, the company has high customer and industry concentration risk as it derives almost its entire revenues from TSL by handling and transporting its steel products. The company's revenues declined in FY2018 and FY2019 due to reduction in its share of operations in TSL's stockyard following entry of a new logistics service provider. The ratings are also constrained by the company's weak debt service coverage ratio in FY2019 due to high term loan repayment obligation in FY2020. Also, the high working capital intensity due to the company's elongated receivables and short payables impact its liquidity as evident from the full utilisation of its working capital limits.

### Outlook: Stable

ICRA expects SLPL will continue to benefit from the extensive experience of its promoters in the logistics sector and from its established relationship with TSL. The outlook may be revised to Positive if a substantial growth in revenue and profitability, and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if any decline in revenues or profitability results in lower-than-expected cash accruals or if any deterioration in the working capital cycle weakens its liquidity position.

### Key rating drivers

#### Credit strengths

**Established track record of promoters in the logistics sector** – Mr. Vishwanatha Iyer is the promoter of the company and has two decades of experience in the logistics business. Based on the track record of the company, TSL gradually expanded SLPL's operations in its stockyards across South India.

**Established relationship with TSL**– The company has been catering to TSL’s logistics requirements since its incorporation and has established relationship with the steel major, which is reflected from its increased areas of operations across South India over the years. SLPL handles and distributes TSL’s steel products from stockyards in Vijayawada, Chennai, Bangalore, Hubli and Hyderabad.

**Presence of long-term contracts** – The company has long-term contracts with TSL for both transporting and handling of steel products. The contracts are re-negotiated and renewed once in every three years, providing revenue visibility.

**Operates majorly by its own fleet of vehicles** – The company meets around two-third of its service requirements by its own fleet of vehicles. This increases its service reliability on timely supply of materials along with aiding in achieving higher operating profits.

## Credit challenges

**Modest scale of operations** – The company has a modest scale of operations, restricting economies of scale. Its revenues declined in FY2018 and FY2019 due to addition of a new logistics player in its area of operations, resulting in reduction of its business.

**High customer and industry concentration risks** – The company generates almost its entire revenues from TSL and is thus exposed to high customer concentration risk. While its operations are diversified geographically across South India, dependence on a single customer and presence only in the steel sector increase the risk of order volatility, as witnessed in FY2018 and FY2019.

**Weak debt coverage indicators** – The total debt of the company stood at Rs. 44.12 crore as on March 31, 2019, mainly comprising term loan of Rs. 29.38 crore from banks and financial institutions. The company has a high interest and debt repayment obligation in FY2020, which impacted its debt service coverage ratio in FY2019.

## Liquidity position

The company’s liquidity position is stretched as its working capital limits have been fully utilised during the last 17 months (from September 2017 to January 2019) on the back of stretched receivables from TSL. The company also has bulk term loan repayment obligation of Rs. 11.34 crore in FY2020, which results in a tight liquidity position.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on standalone financial statements

## About the company

Incorporated in 2001, Shekar Logistics Private Limited (SLPL) is a logistics service provider for Tata Steel Limited (TSL) and its services include transportation and handling of various materials like steel coils, rods, sheets, TMT bars etc. SLPL handles TSL’s materials from stock yards to the latter’s customer destinations. It handles distribution of TSL’s steel products across South India from the steel major’s stock yards in Vijayawada, Chennai, Bangalore, Hubli and Hyderabad and owns a fleet of 136 vehicles. SLPL is an ISO 9001-2008 certified company by QMS Certification Services.

In FY2019, on a provisional basis, the company reported a net profit of Rs. 2.19 crore on an operating income of Rs. 65.86 crore compared to a net profit of Rs. 2.26 crore on an operating income of Rs. 79.6 crore in the previous year.

## Key financial indicators

	FY 2018	FY 2019
Operating Income (Rs. crore)	79.6	66.0
PAT (Rs. crore)	2.3	2.2
OPBDIT/ OI (%)	24.8%	23.9%
RoCE (%)	12.6%	8.6%
Total Debt/ TNW (times)	1.4	1.1
Total Debt/ OPBDIT (times)	2.6	2.8
Interest coverage (times)	2.3	2.6

## Status of non-cooperation with previous CRA:

CRISIL B/Stable/CRISIL A4 Issuer not cooperating dated June 11, 2019

## Any other information: None

## Rating history

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Fund-based facilities (TL)	Long Term	8.00	6.84	June 2019 [ICRA]B+ (Stable)	-	-	-
2 Fund-based facilities (CC)	Long Term	14.00	-	[ICRA]B+ (Stable)	-	-	-
3 Non-fund based facilities (BG)	Short Term	3.00	-	[ICRA]A4	-	-	-

## 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 No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan- ABL 1	March 3, 2018	NA	May 2024	5.00	[ICRA]B+ (Stable)
NA	Term Loan- ABL 2	March 3, 2018	NA	May 2026	3.00	[ICRA]B+ (Stable)
NA	Cash Credit		NA	NA	14.00	[ICRA]B+ (Stable)
NA	Bank Guarantee		NA	-	3.00	[ICRA]A4

Source: SLPL

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