March 25, 2021

Sanghvi Movers Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT - Fund based -Term Loan	286.47	187.22	[ICRA]A- reaffirmed; outlook revised to stable from negative
LT - Fund based- Working Capital Facilities	65.00	65.00	[ICRA]A- reaffirmed; outlook revised to stable from negative
ST - Non-fund based-Working Capital Facilities	5.00	5.00	[ICRA]A2+ reaffirmed
LT/ST Unallocated	175.08	274.33	[ICRA]A-/[ICRA]A2+ reaffirmed; outlook revised to stable from negative
	531.55	**531.55**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook to Stable from Negative reflects the improvement in Sanghvi Movers Limited's (SML) credit profile, driven by healthy order book leading to sequential improvement in revenues over the quarters post the impact of the Covid19 pandemic and timely materialisation of its asset monetisation plans enabling prepayment of debt, while ensuring adequate liquidity. The company has also received payments from sticky debtors, which further adds to the liquidity. SML refinanced part of its debt at lower interest rates and prepaid a part of the debt, reducing the principal repayment burden for FY2022 to less than Rs.50 crore as against expected cash profits of over Rs 85 crore. Moreover, the company doesn't have any major debt funded capex or investment plans, and hence overall credit profile is likely to further strengthen over the medium term with scheduled maturity of debt.

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. Moreover, because of low asset turnover, company's return indicators continue to remain supressed and sub-par as compared to other entities in the similar rating level. Going forward, 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 384 cranes, is the largest crane rental operator in Asia. In 2020, the International Cranes Magazine ranked it fifth 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 36% of its revenues from the wind sector in 9mFY2021. 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 36% in FY2021. 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 330 crore and debt levels are expected to reduce further in the coming years. Going forward, with improvement in demand, yield and capacity utilization, return indicators are expected to improve but they are still likely to remain muted as compared to other players at the similar rating level.

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 80 crore which along with undrawn bank lines of Rs 50 crore on consistent basis should be adequate to service principal repayment of about Rs 45-50 crore in FY2022. Given cyclicality in the end user industries, ICRA expects company to maintain adequate liquidity buffer to tide over any short term financial exigencies.

Rating sensitivities

Positive factors – Improvement in capacity utilisation and/or yield leading to improvement in profitability indicators; DSCR of over 2.0 times and reduction in total-debt/OPBIDTA below 2.0 times on a sustained basis.

Negative factors – Sustained slowdown in end user industries thereby exerting pressure on profitability and liquidity position. Deterioration in credit profile with DSCR less than 1.2 times could result in downward rating pressure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
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 engaged in providing medium to heavy duty cranes on rental basis to various private and public-sector undertakings. As of December 31, 2020, SML had a total fleet size of 384 cranes having a cumulative lifting capacity of 75,930 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. 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.

According to International Cranes and Specialized Transport, in 2020, SML is the largest crane hiring company in India, largest in Asia and the 5th largest in the world. The company claims to have over 50 per cent of the market share in the overall domestic crane hiring market, and as high as around 80-90 per cent market allocation in the high-end crane market.

Key financial indicators (audited)

SML	FY2019	FY2020
Operating Income (Rs. crore)	282.4	322.9
PAT (Rs. crore)	-58.1	-6.6
OPBDIT/OI (%)	31.6%	48.5%
PAT/OI (%)	-20.6%	-2.0%
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

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 (FY2021)					Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 24, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019			Date & Rating in FY2018		
					Mar 25, 2021	July 24,2020	Mar 30,2020	Mar 26,2019	Jul 16,2018	Jun 28,2018	Nov 20, 2017	Aug 17,2017	Jul 06,2017
1	Term Loans	Long Term	187.22	175.7	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA] A- (stable)	[ICRA] A (Negative)	[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+ (Negative)	[ICRA] A+ (Stable)
3	Cash Credit	Long Term	65.00		[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA] A- (stable)	[ICRA] A (Negative)	[ICRA] A (Negative)	[ICRA] A (Negative)	[ICRA] A+ (Negative)	[ICRA] A+ (Stable)
4	Fund based	Short Term	-		-	-	[ICRA]A2+	[ICRA] A2+	[ICRA] A1	[ICRA] A1	[ICRA] A1	[ICRA] A1+	[ICRA] A1+
5	NFB Working Capital Facilities	Short Term	5.00		[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA] A2+	[ICRA] A1	[ICRA] A1	[ICRA] A1	[ICRA] A1+	[ICRA] A1+
6	Proposed	Long term/Short term	274.33		[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Negative)/[ICRA]A2+	[ICRA]A- (Negative)/[ICRA]A2+						
7	Interchangeable Limits	Short Term	-								[ICRA] A1	[ICRA] A1+	[ICRA] A1+
8	Commercial Paper									**[ICRA] A1 withdrawn**	[ICRA] A1	[ICRA] A1+	[ICRA] A1+

&= Under watch with developing implications

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	Cash Credit	NA	NA	NA	65.00	[ICRA]A- (Stable)
NA	NFB Working Capital	NA	NA	-	5.00	[ICRA]A2+
NA	Proposed	NA	NA	-	274.33	[ICRA]A-(Stable)/[ICRA]A2+
NA	Term loans*	01-Oct-2012		31-Mar- 2027	187.22	[ICRA]A- (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis-NA

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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.

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