

Press Release

Southern Cargo Carriers (India)

February 10, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.14.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.14.00 crore bank facilities of Southern Cargo Carriers (India) (SSCI). The outlook is '**Stable**'.

The ratings continue to draw comfort from established presence of the firm in the logistics industry, moderate financial risk profile and adequate liquidity position. However, these strengths are partially offset by fluctuations in revenues and profitability margins and stiff competition in the logistics industry.

Southern Cargo Carriers (India) (SSCI), established in 1991, is a Bangalore-based partnership firm promoted by Mr. Mahesh Kumar Mittal and family. The firm is engaged in goods transportation services catering to corporate clients. The firm operates a fleet of about 500 trucks of which 79 are owned by the firm and the remaining are taken on lease.

Analytical Approach

Acuité has considered standalone financials and business risk profiles of SSCI to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

SSCI is promoted by Mr. Mahesh Kumar Mittal and family; the partners have been engaged in the same industry for more than two decades and look after the day to day operations of the firm. The senior management team is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The key customers of the firm include reputed names like Hindustan Unilever Limited (HUL), Pepsi India Holdings Private Limited (Pepsi), ITC Limited amongst others.

Acuité believes that the firm will benefit from the experience of the management and long standing relations with the customers over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the firm is moderate marked by moderate net worth, low gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and healthy debt protection metrics. Net worth stood moderate and improved to Rs.19.34 crore as on 31 March, 2019 as against Rs.10.55 crore as on 31 March, 2018 due to accumulated profits. The gearing stood low at 0.71 times as on 31 March, 2019 as against 0.31 times as on 31 March, 2018. TOL/TNW is moderate at 1.98 times on 31 March, 2019 as against 1.96 times as on 31 March, 2018. Of the total debt of Rs.13.65 crore as on 31 March, 2019, long term debt stood at Rs.1.47 crore and short term debt at Rs.12.18 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood healthy at 10.54 times and 0.69 times in FY2019. Debt service coverage ratio is comfortable and stood at 6.80 times in FY2019 as against 2.32 times as in FY2018. Acuité believes that the financial risk profile of the firm expected to be moderate in the absence of major debt funded capital expenditure and regular accretions to reserves.

- **Moderate working capital cycle**

SSCI's working capital is moderate marked by its gross current asset (GCA) days of around 99 days in FY2019 as against 65 days in FY2018. Stretch in GCA days is mainly due to slow down in the FMCG sector as SSCI's generates majority of revenue from the same. Debtors have increased to 86 days in

FY2019 as against 65 days in FY2019. On the other hand, the firm gets 45-60 days credit from its suppliers. As a result, the reliance on working capital limits is moderate, leading to moderate utilisation of its bank lines at an average 60 per cent over the last twelve months through November 2019. Acuite expects the working capital management to remain moderate over the medium term on account of the moderate credit period extended to its customers.

Weaknesses

- **Fluctuation in revenues, profitability margins and exposure to intense competition**

Revenues of the firm are fluctuating and stood at Rs.196.79 crore for FY2019 as against Rs.158.41 crore for FY2018 and Rs.199.35 crore for FY2018. Further, operating margins of the firm were fluctuating in the range of 5-9 percent in the last three years through FY2019. The same is due to fluctuations in the vehicle hire charges as it is the major expenditure which constitutes around 88-90 percent of the total revenue. Further, the domestic road freight transport industry has several large and small players on account of low entry barrier (modest capital and technology requirements, and easy access to finance for vehicles). The firm will be exposed to risk related to intense competition because of fragmented industry, which limits the bargaining power with customer.

- **Risk of capital withdrawal**

The firm is exposed to risk of capital withdrawal considering its partnership constitution. In FY2018 the firm has withdrawn capital of Rs.13.94 crore. Hence, any huge withdrawal of capital will be key rating sensitivity factor over the medium term.

Liquidity position: Adequate

SCCI has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.7 to 9 crore during the last three years through FY2019, while its maturing debt obligations were in the range of Rs.0.20 crore to Rs.0.50 crore over the same period. The cash accruals of the firm are estimated to remain around Rs.10-13 crore during 2020-22 while its repayment obligation are estimated to be around Rs.0.30 crore every year. The firm's working capital cycle is moderate as reflected in gross current asset (GCA) days of 99 in FY2019. This has led to moderate reliance on working capital borrowings at around 60 percent during the last twelve months through November 2019. The firm maintained bank deposits and unencumbered cash and bank balances of Rs.0.81 crore and Rs.1.75 crore respectively as on 31 March, 2019. The current ratio of the firm stands moderate at 1.45 times as on 31 March, 2019. The firm is likely to incur capex of Rs.2-3 crore which is likely to be funded by internal accruals. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term.

Rating Sensitivities

- Stretch in working capital cycle due to stretch in debtors
- Improvement in scale of operations while maintaining stable profitability margins.

Outlook: Stable

Acuite believes that SCCI will continue to benefit over the medium term due to its promoters' industry experience and established relationship with the customers. The outlook may be revised to 'Positive' if the firm demonstrates substantial and sustained growth in its revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in the firm's revenue and profit or any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	196.79	158.41
PAT	Rs. Cr.	8.61	6.75
PAT Margin	(%)	4.37	4.26
Total Debt/Tangible Net Worth	Times	0.71	0.31
PBDIT/Interest	Times	10.54	3.29

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector- <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Nov-2018	Cash Credit	Long Term	14.00	ACUITE BBB (Issuer not co-operating)
16-Oct-2017	Cash Credit	Long Term	14.00	ACUITE BBB / Stable (Upgraded)
20-Jun-2016	Cash Credit	Long Term	14.00	ACUITE BBB- / Stable (Upgraded)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Over Draft	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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