

## Press Release

### Srivalli Shipping and Transport Private Limited

October 08, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs.86.95 crore
<b>Long Term Rating</b>	ACUITE BBB-/ Stable (Assigned)
<b>Short Term Rating</b>	ACUITE A3 (Assigned)

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B Minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A Three**) on the Rs.86.95 crore bank facilities of Srivalli Shipping and Transport Private Limited (SSTPL). The outlook is 'Stable'.

Incorporated in 1994 as a partnership firm and later reconstituted as private limited company in 2011, SSTPL provides various end-to-end logistic services like custom house for clearing and forwarding, stevedoring, material handling, warehousing, transporting, freight forwarding services; and dealing with all clearances of import and export consignments of various clients. SSTPL is promoted and managed by Mr. P Babu Rao. The Company operates through Visakhapatnam, Kakinada, Gangavaram, Krishnapatnam, Chennai, and Mumbai ports.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SSTPL to arrive at this rating.

### Key Rating Drivers

#### Strengths:

- Extensive experience of the promoters in the logistics industry**

SSTPL is promoted by Mr. P Babu Rao, who has been in the business of logistics and shipping service since 1980. Promoter's experience has helped SSTPL achieve key milestones like being recognised as 'Best and Top custom house agent' from Visakhapatnam Port, handling and achieving record unloading/loading of alumina/chrome ore/steel coils/steel pipes a day. The promoter's experience in logistic industry has helped the company build healthy relationship with the port trusts/various associations along with its reputed customers like Vedanta Limited, Rastriya Ispat Nigam Limited (RINL), Parry Sugars Refinery India Pvt Ltd, Hindalco Ltd, Jindal Saw Ltd among others to ensure a steady flow of services and large offtake. Acuité believes that promoter's extensive experience in shipping services would aid the business risk profile of the company over the medium term.

- Presence as end-to-end logistic service provider with strong infrastructure and manpower**

SSTPL is an end-to-end logistic service provider. It provides services like C&F, Stevedoring, Steamer Agency, Customs' documentation, Handling, Warehousing, Freight Forwarding, Empty Container Depot Operations, CFS Operations and Transportation. The Company operates through Visakhapatnam, Kakinada, Gangavaram, Krishnapatnam, Chennai, and Mumbai ports. SSTPL is having its own fleet of vehicles of more than 250 No's of handling equipment & Transport fleet of vehicles, like Trailors, Tippers, Dumpers, Loaders, Reach Staker, Empty Contain Handler, Proclainers, Cranes, Forklifts etc. In addition to the above, it regularly hires around 400 Vehicles from outside on need basis. It has around 1500 employees consisting of Professionals, Executives such as Port,

Customs, Finance, Accounts, Logistics etc. Acuite believes that SSTPL's presence in end-to-end logistic services with strong infrastructure and manpower would aid its business risk profile over the medium term.

- **Reputed clientele; strong order book with long term contracts ensuring assured offtake**

SSTPL derived 80 per cent of its revenue from its top 10 customers in FY18. It has elite clientele include RINL, Vedanta Ltd, ONGC, Gujarat State Petroleum Corporation Ltd, Cairn Energy India Pvt Ltd, SAIL, Bhushan steels, Hindalco, Jindal Saw Ltd, GMR, Coromandel Agro, Aurobindo Pharma, ACC Ltd among others; spread across various end user industries like oil & gas, steel pipes, ferro industry, paper, agri, cement, Jute, etc. SSTPL has been associated with the above mentioned clientele for more than a decade. SSTPL enters into a contract for 3 years with majority of its repeat clients. The contract would contain export/import of minimum guaranteed quantity (MGQ) each year with an average rate decided per tonne basis every year. SSTPL has unexecuted order book of Rs.447.87 crores as on August 31, 2018. It has contracts worth Rs.662.00 crores which have been renewed in 2017 and 2018. Acuite believes that long term contract supported by strong order book position of 2X times of FY2018 revenues, provides adequate revenue visibility over the medium term.

- **Moderate scale of operations and EBITDA margins**

SSTPL's revenue is moderate at Rs.179.61 crores in FY18 on provisional basis. It dipped from Rs.242.66 crores in FY17 due to change in accounting treatment post GST implementation. However, on retrospective effect of accounting treatment for GST over FY2017 revenues, it would be at about Rs.156.87 crores in FY17; showing a y-o-y growth of 15 per cent. EBITDA margins have remained moderate at 14.48 per cent vis-à-vis 15.76 per cent of FY2017 adjusted to GST changes. SSTPL has generated revenue of Rs.91.62 crores and EBITDA margin of 13 per cent till August, 2018. Acuite believes that despite the accounting changes, the revenue growth has continued to show positive traction and with EBITDA margins being range bound.

- **Moderate financial risk profile**

SSTPL's gearing has been improving from 2.73 times as on March, 2016 to 2.31 times as on March, 2018. Gearing was high until FY17 due to high debt and moderate networth. However, with no debt funded capex plans and repayments over the medium term, the gearing is expected to improve over the medium term. Networth is moderate at Rs.39.15 crores as on March, 2018 against Rs.33.50 crores as on March, 2017 vis-à-vis debt of Rs.90.33 crores as on March, 2018 against Rs.91.37 crores as on March, 2017. SSTPL's moderate net cash accruals and high debt has led to moderate NCA/TD and interest coverage of 0.14 times and 2.29 times in FY18 vis-à-vis 0.13 times and 2.27 times in FY17. SSTPL's cash accruals are expected in the range of Rs.15 – 23 crores, against which its repayment obligations are about Rs.11 crores provides adequate cushion. Acuite believes that financial risk profile would improve over the medium term backed by absence of significant capex plans, term loan repayments and higher accretion to reserves.

### **Weaknesses:**

- **Working capital intensive operations**

SSTPL's operations are moderately working capital intensive with Gross Current Assets (GCA) of about 149 days in FY2018 on provisional basis. This is marked by high debtor days of 107 days and WIP of 49 days. SSTPL use to raise bill on monthly and milestone basis. However, post GST implementation; it has started raising bills post completion of the entire contract which usually has a gestation period of minimum 15 days and maximum 45 days depending on the products, quantity, etc it handles for the clients. It usually receives payments within 60-90 days from the date of bill

raised. Debtor days have increased from 79 days as on March, 2017 to about 107 days, due to higher billing in Q4FY18. Moderate working capital cycle backed by high debtors has led to high bank line utilization of about 93 per cent over the last six months ending August, 2018. Acuite believes that working capital cycle would remain at similar levels over the medium term.

- **Exposure to intense competition and Susceptibility of revenue to cyclicity in the economy**

The port operations business is vulnerable to economic cyclicity. Any uncertainty in the economy, such as decrease in cargo handling, can substantially impact the revenues and profitability. With revenue of Rs.179.61 crore in FY18, scale remains moderate in the highly fragmented logistics industry that is dominated by a few large players. Also, since commoditised services lead to limited differentiation, entry barriers are low and moderate players find it easy to enter the segment leading to pricing pressure.

- **Product and customer concentration in revenue profile**

SSTPL deals in export and import of mostly Alumina powder, ingots and other steel products due to its selected clientele with whom it is dealing with for more than a decade. Alumina powder, steel products accounted for more than 70 per cent of its revenue in FY18 with top ten customer contributing 80 per cent to revenue. However, Top 3 customers contributed around 50 per cent to revenue in FY18 leading to moderate product and customer concentration in revenue profile which is a key rating sensitivity factor.

#### Outlook:

Acuite believes that SSTPL will continue to benefit over the medium term from the extensive industry experience of its promoters. The outlook may be revised to 'Positive' in case of significant increase in scale of operations, while diversifying its revenue concentration and sustaining the profitability margins. The outlook may be revised to 'Negative' in case of deterioration in liquidity, driven by lower cash accrual, delay in receivables realization, or larger-than-expected debt-funded capital expenditure.

#### About the Rated Entity Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	179.61	242.66	177.12
EBITDA	Rs. Cr.	26.01	24.72	19.54
PAT	Rs. Cr.	12.73	11.80	13.12
EBITDA Margin	(%)	14.48	10.19	11.03
PAT Margin	(%)	3.29	2.32	4.22
ROCE	(%)	15.61	16.74	33.86
Total Debt/Tangible Net Worth	Times	1.95	2.73	2.73
PBDIT/Interest	Times	2.29	2.27	2.43
Total Debt/PBDIT	Times	3.20	3.60	3.82
Gross Current Assets (Days)	Days	149	95	106

**Status of non-cooperation with previous CRA: Not Available**

**Any other information: Not Available**

#### Applicable Criteria

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Services Entities: <https://www.acuite.in/view-rating-criteria-8.htm>

- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

#### Note on complexity levels of the rated instrument

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

#### Rating History (Upto last three years)

**Not Applicable**

#### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB-/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	21.95	ACUITE BBB-/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3 (Assigned)

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#### About Acuité Ratings & Research:

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