

Press Release

SATTVA HI-TECH AND CONWARE PRIVATE LIMITED

October 25, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	15.00	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	5.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	20.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of 'ACUITE BBB+' (read as ACUITE Triple B Plus) and short term rating of 'ACUITE A2+' (read as ACUITE A Two Plus) on the Rs. 20.00 Cr bank facilities of Sattva Hitech and Conware Private Limited (SHCPL; part of Sattva Group). The outlook is 'Stable'.

Rationale for rating reaffirmation:

The rating reaffirmation considers Sattva group's stable operating performance marked by range bound operating income and improving operating margins and healthy financial risk profile. During FY23, the group recorded revenue of Rs.101.86Cr which was declined by 11 percent compared to revenue of Rs.114.08Cr of previous year's. The operating margins remained healthy around 14.89 percent, primarily supported by efficient handling and better pricing strategies. The rating also draws comfort from the strong net worth position and healthy financial risk profile of the group. Going forward, Sattva group's ability in improving its scale of operations while sustaining the operating margins in similar levels will be a key monitorable

About Company

Incorporated in 1999, SHCPL offers port services, container freight stations, inland container depots, warehousing with container yards, bonded and general warehousing, reefer storage, shipping and other related activities, import and export of cargo, logistics management and port management as well as stevedoring and shipping agency services. The CFS is spread over 18 acre (leased) at Ponneri High Road, 12Km from Chennai, Ennore and Kattupalli ports, with a total handling capacity of 120,000 TEUs (Twenty-foot equivalent Units) per annum.

About the Group

Sattva Group is a prominent industrial group based out of Chennai with presence in logistics, engineering and construction, IT & Software and agricultural products sectors. The Group was founded by Mr. S. Santhanam (86) over 40 years ago in 1980 and is currently managed by his four sons - the logistics business is primarily managed by Mr. Narasimhan and Mr. Padmanabhan, while Mr. Govindan manages the cashew exports business and Mr. Seshadri manages the construction and real estate business.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

For arriving at the rating, Acuité has consolidated the business and financial risk profiles of Sattva Hi-tech and Conware Private Limited (SHCPL), Sattva Logistics Private Limited (SLPL) and Sattva CFS and Logistics Private Limited (SCLPL) collectively referred to as Sattva Group, as all the entities have common management, brand name and significant operational and financial linkages.

Key Rating Drivers

Strengths

Extensive experience of the promoters in the logistics industry

Sattva Group was founded by Mr. S. Santhanam who brings over 5 decades of experience in transportation, logistics, and shipping. Prior to this, Mr. Santhanam had a long-standing career in Sanco Trans Limited at various senior-positions and was the key force behind launch of Sanco CFS in 1986, the first private CFS in India. Mr. Santhanam has held senior positions at various trade bodies including President of Trailer Owners Association Madras, Vice President of the Madras Port Stevedores Association, Chairman of the Customs Sub Committee, President of Tamil Chamber of Commerce and Chairman of the Consultative Committee of City Chamber of Commerce. Currently, the business is looked after by his four sons; the logistics business is looked after by Mr. Narasimhan and Mr. Padmanabhan while Mr. Govindan manages cashew export business and Mr. Seshadri manages the construction and real estate business. 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 Ford India Private Limited, Hyundai Motor India Limited, JSW Steel Limited and Doosan Bobcat India Private Limited among others to ensure a steady flow of services and large offtake. Acuité believes that promoter's extensive experience in logistic 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

Sattva Group is an end-to-end logistic service provider. It provides services like stevedoring, Customs' documentation handling, warehousing and storage, freight forwarding, empty container depot operations, inland container depots, steamer agent activities, Container Freight Station (CFS) Operations and transportation and also consulting activities. The Group operates through ports in Chennai, Ennore, Kattupalli, Ponneri, Visakhapatnam, Gangavaram, Krishnapatnam. The Group also has come into joint ventures with several investment partners in locations like Visakhapatnam, Bangalore for cargo centers and warehousing activities where in the group is providing only technical support to the partners. The Group is having its own fleet of vehicles and handling equipment & Transport fleet of vehicles, like Trailors, Tippers, Dumpers, Loaders, Reach Staker, Empty Contain Handler, Procliners, Cranes, and Forklifts etc. Acuité believes that the group's presence in end-to-end logistic services with strong infrastructure and manpower would aid its business risk profile over the medium term.

Stable operating performance:

The group revenue was ranging between Rs.100Cr to Rs.115Cr during past 3 years. The group has reported consolidated revenue of Rs.101.86Cr during FY23 (Prov.) which was declined from Rs.114.10Cr revenue of previous year. Handling segment is the major contributor for the revenue of the group over the years, In FY23 handling segment has contributed more than 70 percent of the group's revenue. The sales are primarily impacted by the trade volumes and global economic performance. However, the group has been reporting growth in EBITDA Y-oY over the past 3 years. During FY23 the group's EBITDA margin stood at 14.89 percent against 14.50 percent of previous years. The improvement in margins is on account of efficient

use of container handling infrastructure and better pricing strategy. Going forward, any changes in the pricing and tariffs in handling segment will impact the operating margins of the group significantly.

Healthy financial risk profile:

The group's financial risk profile is healthy, marked by healthy net worth, low gearing and healthy debt protection metrics. The tangible net worth stood healthy at Rs.122.06 Cr as on March 31, 2023 (prov.) against Rs.117.08 Cr as on March 31, 2022. The growth in net worth is on account of addition of profits to reserves. The company has followed conservative leverage policy, reflected through its Gearing and Total Outside Liabilities to Tangible net worth (TOL/TNW) level of 0.38 times and 0.53 times respectively as on March 31, 2023 (provisional) vis-à-vis 0.42 and 0.74 times respectively as on March 31, 2022. The Group's debt protection metrics are healthy marked by its interest coverage ratio stood (ICR) 5.70 times and NCA / TD 0.23 times respectively for FY2023 vis-à-vis 6.78 times and 0.26 times in FY2022. The slight deterioration in interest coverage ratio (ICR) and NCA/TD is on account of decrease in absolute EBITDA during FY23. The total debt as on March 31, 2023 stood at Rs.45.98 Cr which constituted of long term debt, finance lease obligations and unsecured loans from promoters. CPLTD includes financial lease obligations of Rs.3.35Cr, on adjusting for the same, the adjusted gearing and adjusted debt service coverage ratio stood at 0.27 times and 3.14 times respectively as on March 31, 2023 (prov).

Acuité expects the financial risk profile to remain healthy over the medium term on account of healthy accretion to reserves, absence of significantly debt funded capex and moderate profitability margins.

Weaknesses

Moderately Intensive working capital operations:

The group's working capital operations are moderately intensive as marked by Gross Current Asset (GCA) days ranging between 210- 201 days over the past three years. The high GCA days are on account of prolonged debtors cycle and other current assets portion in form of advance tax amount which further takes it into elongated levels. The debtor days stood at 133 days during FY23 against 112 days of previous year. Generally, the group allows 60-90 days' credit period to its customers. However, due to economic slowdown during FY23 the group has offered extended credit period to its customers in order to promote sales which has led to increased dependency on its working capital facilities. The fund based working capital facilities were utilized at an average of 71 percent during the past 12 months ending September 2023. Acuite believes that working capital operations of the group will remain moderately intensive on account of prolonged debtor days.

Susceptibility to economic slowdown and government regulations:

The Group's revenue growth remains susceptible to the global economic slowdown and the changes in the government's policies on export-import trade. The variations in exim trade volumes also impact the overall sales. However, the favourable long-term prospects for container traffic and the Group's established relationships with all the major shipping lines along with its integrated presence in the logistic chain and port operations mitigate the risk to an extent.

Rating Sensitivities

- Improvement in scale of operating while maintaining its operating margins
- Stretched working capital cycle or any large, debt-funded capex weakening the financial risk profile and liquidity

All Covenants

None

Liquidity Position: Adequate

Sattva has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.10 to 13 Cr during the last three years ending 2023, while its maturing debt obligations were in the range of Rs.6 to 8 Cr over the same period. The cash accruals of the group are estimated to remain around Rs.13 to 15 Cr during 2024-26 while its repayment obligation are estimated to be around Rs. 6.50 to 5.50 Cr. The group has unencumbered cash and bank balances of Rs.4.42 Cr as on March 31, 2023 (Prov.) which provides additional comfort towards liquidity. The group's working capital operations are moderately intensive as marked by gross current asset (GCA) days of 242 in FY23 (Prov.) against 223 days in previous year. This has led to higher reliance on working capital borrowings, the cash credit limit of the group has remained utilized at 71 percent during the last 12 months' period ended September, 2023. The current ratio of the group stands healthy at 2.13 times as on March 31, 2023. Further, aiding to the liquidity position is the promoter fund support in the form of unsecured loans of Rs.18.95 Cr as on March 31, 2023 (Prov.) which are expected to remain in the business over the longer run. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of adequate cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuite believes that group will continue to benefit over the medium term due to its experienced promoters, established relations with its customers and healthy financial risk profile. The outlook may be revised to "Positive", if the group demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if company generates lower-than-anticipated cash accruals on account of sharp decline in operating margins, or further stretch in its working capital cycle, or larger-than expected debt-funded capex.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	101.86	114.10
PAT	Rs. Cr.	4.98	6.76
PAT Margin	(%)	4.89	5.92
Total Debt/Tangible Net Worth	Times	0.38	0.42
PBDIT/Interest	Times	5.70	6.78

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Jul 2022	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Proposed Bank Facility	Long Term	4.12	ACUITE BBB+ Stable (Reaffirmed)
	Secured Overdraft	Long Term	5.00	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	5.88	ACUITE BBB+ Stable (Reaffirmed)
05 Apr 2021	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	7.08	ACUITE BBB+ Stable (Reaffirmed)
	Secured Overdraft	Long Term	5.00	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.92	ACUITE BBB+ Stable (Reaffirmed)
03 Jan 2020	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	8.90	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.10	ACUITE BBB+ Stable (Reaffirmed)
	Secured Overdraft	Long Term	5.00	ACUITE BBB+ Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.15	ACUITE BBB+ Stable Reaffirmed
Union Bank of India	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.85	ACUITE BBB+ Stable Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

- Sattva CFS and Logistics Private Limited
- Sattva HI-Tech and Conware Private Limited.
- Sattva Logistics Private Limited.

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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