

## Press Release

### Sattva CFS and Logistics Private Limited

April 05, 2021



### Rating Reaffirmed & Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 20.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB+/ Outlook: Stable (Reaffirmed & Assigned)
<b>Short Term Rating</b>	ACUITE A2+ (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed and assigned 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 CFS AND Logistics Private Limited (SCLPL; part of Sattva Group). The outlook is '**Stable**'.

The rating is reaffirmed taking cognizance of company's healthy business risk profile supported by its established market position, experienced management, presence as end-to-end logistic service provider with strong infrastructure and manpower, moderate scale of operations and EBITDA margins; no significant impact of Covid-19. The rating is constrained by moderate geographical and customer concentration risk in its revenue profile, exposure to volatility in EXIM (export-import) volume traded, other industry-related risks in the competitive and fragmented logistics industry.

### About the Company & the Group

Incorporated in 2005, SCLPL 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 27 acre (freehold) at Vichoor village, 15Km from Chennai, Ennore and Kattupalli ports with handling capacity of 100,000 TEUs pa. SCLPL has developed a second facility, a 6.4 acre CFS outside Bangalore with land allotted on 99 year lease by Karnataka Government, handling capacity of 18,000 TEUs per annum. The unit is expected to start generating revenues from FY2022.

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

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. Extent of Consolidation: Full.

### 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, 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. The Group is having its own fleet of vehicles and handling equipment & Transport fleet of vehicles, like Trailers, Tippers, Dumpers, Loaders, Reach Staker, Empty Container Handler, Proliners, 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.

- **Moderate scale and EBITDA margins; no significant impact of Covid-19**

Group has moderate scale of operations as reflected in its total operating income of Rs.109.34 Cr in FY2020. The EBITDA margins have been moderate in the range of 15-22 percent over the last 3 years ending FY2020. The EBITDA margin declined in FY2020 to 15.47 percent due to bad debt written off to an extent of Rs.2.93 Cr from one of its customers (one-off instance). Adjusted EBITDA margins excluding bad debt was at 18 percent. The group recorded year-to-date revenue of Rs.92.29 Cr on provisional basis until January 31, 2021 of FY2021 against Rs.95.14 Cr for the same period of last FY. This depicts a Y-o-Y de-growth of around 3 percent due to impact of Covid-19. With lower year-to-date revenue, the overall FY2021 revenue is expected to remain flat or show minuscule Y-o-Y growth of 1-3 percent. Acuité believes that group's revenue will show modest Y-o-Y growth over the medium term backed by stable utilization levels across CFS and additional revenue from its new CFS in Bangalore.

- **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.103.55 Cr as on March 31, 2020 against Rs.96.92 Cr as on March 31, 2019. The growth in net worth is fueled by healthy accretion to reserves. The company has followed conservative leverage policy, reflected through its peak gearing and Total outside Liabilities to Tangible net worth (TOL/TNW) level of 0.62 times and 0.82 times as on March 31, 2018. The leverage level continues to remain healthy with gearing of 0.43 times and TOL/TNW of 0.54 times as on March 31, 2020. The total debt (including unsecured loans) of the group stood at Rs.44.40 Cr as on March 31, 2020. Sattva group has moderate profitability margin in the range of 6-11 percent over the last three years ended FY2020. The moderate profitably levels vis-à-vis lower debt level has resulted in healthy debt protection metrics. The interest coverage ratio stood (ICR) and debt service coverage ratio (DSCR) stood at 6.86 and 1.31 times respectively for FY2020 vis-à-vis 8.15 times and 1.80 times over the same period last FY. 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

- **Moderate geographical and customer concentration in revenue profile**

Sattva group has CFS across Vizag, Chennai and Bangalore thereby, leading to moderate geographical concentration risk. Sattva groups' top 10 customers contribute nearly 41 percent to the total revenue, thereby, leading to moderate customer concentration risk in its revenue profile. Acuite believes that the group will remain geographically and customer-wise concentrated on moderate basis until diversified to new geography and addition of new clientele.

• **Exposure to volatility in EXIM Trade**

The logistic business is directly linked to global EXIM trade, and hence, a steep fall in it could weaken the business by constraining profitability. The CFS business, which is directly linked to the Indian trade, is exposed to risks arising from variations in EXIM trade, and customs policies. Sluggishness in Indian EXIM trade, in case of a steep fall in global trade could impact utilisation levels and profitability. Furthermore, low entry barriers have encouraged implementation of new CFS facilities by new and existing players, leading to build-up of surplus facilities; this will intensify price-based competition in the long term, thereby restricting profitability.

• **Exposure to intense competition and susceptibility of revenue to cyclical in the economy**

The port operations business is vulnerable to economic cyclical. Any uncertainty in the economy, such as decrease in cargo handling, can substantially impact the revenues and profitability. With revenue of Rs.109.34 Cr in FY2020, scale remains moderate in the highly fragmented logistics industry that is dominated by a few large players. Also, since commoditized services lead to limited differentiation, entry barriers are low and moderate players find it easy to enter the segment leading to pricing pressure.

**Liquidity Position: Adequate**

Sattva Group has adequate liquidity marked by healthy net cash accruals against the repayment obligations, low reliance on fund-based short term debt, moderate levels of unencumbered cash and balance maintained, healthy current ratio and promoter's fund support in the form of unsecured loans. The group generated net cash accruals of Rs.12.84 Cr against its debt obligation of Rs.9.20 Cr in FY2020. Net cash accruals are further expected in the range of Rs.14.00-20.00 Cr per annum in fiscals 2021-2023, against long-term debt obligations in the range of Rs.6-9 Cr per annum over the same period. The Group maintains moderate levels of unencumbered cash and bank balance in the range of Rs.10-11 Cr over the past 3 years ending March 31, 2020. The unencumbered cash and bank balance was Rs.10.41 Cr as on March 31, 2020. The bank funds are also used judiciously utilised below 20-30 percent for a period through 12 month ending January 2021. Current ratio stood healthy at 2.39 times as on March 31, 2020. Further, aiding to the liquidity position is the promoter fund support in the form of unsecured loans of Rs.12.02 Cr as on March 31, 2020 which are expected to remain in the business over the longer run. With no major debt-based capex plans going forward, liquidity likely to remain adequate to support its incremental working capital requirement over the medium term.

**Rating Sensitivities**

- Sustainability of growth in terms of revenue as well as margins with growth in business
- Any stretch in liquidity owing to stretch in working capital operations and lower than expected cash accruals.

**Outlook: Stable**

Acuité believes that the Sattva group will continue to benefit over the medium term due to its experienced management and established track record. The outlook may be revised to 'Positive' in case of significant increase in scale of operations, while diversifying its operations, revenue concentration and sustaining the profitability margins. The outlook may be revised to 'Negative' in case of deterioration in liquidity, driven by lower than expected cash accruals, or larger-than-expected debt-funded capital expenditure.

**About the Rated Entity - Key Financials (Consolidated)**

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	109.34	113.61
PAT	Rs. Cr.	6.64	11.11
PAT Margin	(%)	6.07	9.78
Total Debt/Tangible Net Worth	Times	0.43	0.47
PBDIT/Interest	Times	6.86	8.15

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

None

**Any other information**

None

### Material Covenants

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Service Entities – <https://www.acuite.in/view-rating-criteria-50.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
03-Jan-2020	Term Loan I	Long Term	2.88	ACUITE BBB+/Stable (Assigned)
	Term Loan II	Long Term	6.97	ACUITE BBB+/Stable (Assigned)
	Term Loan III	Long Term	2.48	ACUITE BBB+/Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A2+ (Assigned)
	Proposed Facility	Long Term	4.67	ACUITE BBB+/Stable (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan I	March 2017	10.85%	March 2027	2.69	ACUITE BBB+/ Stable (Reaffirmed)
Term Loan II	July 2016	10.85%	July 2026	6.27	ACUITE BBB+/ Stable (Reaffirmed)
Term Loan III	March 2017	10.85%	May 2021	1.38	ACUITE BBB+/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A2+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.74	ACUITE BBB+/ Stable (Reaffirmed)
Working Capital term Loan*	July 2020	7.80%	May 2024	1.92	ACUITE BBB+/ Stable (Assigned)

\* Covid-related Loan (Guaranteed Emergency Credit Line)

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Neha Agarwal Analyst - Rating Operations Tel: 040-4004 2327 <a href="mailto:neha.agarwal@acuite.in">neha.agarwal@acuite.in</a>	

### About Acuité Ratings & Research:

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