

Press Release

Sattva Logistics Private Limited

January 03, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) to the Rs.10.00 crore bank facilities of SATTVA LOGISTICS PRIVATE LIMITED. The outlook is '**Stable**'.

Incorporated in 1995, SLPL 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.

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 (85) over 39 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, Acuite 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 set of promoters and have 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 five decades of experience in transportation, logistics, and shipping. Prior to this, Mr. Santhanam had a long-standing career at Sanco Trans Limited at various senior-positions and was the key force behind launch of Sanco CFS, the first private CFS in India, in 1986. 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, and Doosan Bobcat India Private Limited among others to ensure a steady flow of services and large offtake. Acuite 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

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 Trailors, Tippers, Dumpers, Loaders, Reach Staker, Empty Contain Handler, Procliners, Cranes, and Forklifts etc. Acuite 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.

• **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.82.62 crore as on March 31, 2019. The net worth has grown gradually from Rs.67.73 crore as on March 31, 2017. 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 0.73 times and 0.97 times as on March 31, 2018. The leverage level continues to remain healthy with gearing of 0.55 times and TOL/TNW of 0.73 times as on March 31, 2019. The total debt of the group stood at Rs.45.36 crore as on March 31, 2019. The gearing is expected to be in the around 0.20 to 0.35 times over the medium term.

Sattva group has moderate profitability margin in the range of 9-10 percent over the last three year ended FY2019. The moderate profitably levels vis-à-vis lower debt level has resulted in above average debt protection metrics. The interest coverage ratio stood (ICR) and debt service coverage ratio (DSCR) stood at 8.15 and 1.80 times respectively for FY2019.

Acuite 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

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

The port operations business is vulnerable to economic cyclical in the economy. Any uncertainty in the economy, such as decrease in cargo handling, can substantially impact the revenues and profitability. With revenue of Rs.113.61 crore in FY2019, 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.

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.

Material Covenants

None

Liquidity: Adequate

Sattva Group has adequate liquidity with respect to its net cash accruals against the repayment obligations. Net cash accruals are further expected at Rs.20.00-25.00 crore per annum in fiscals 2020-2022, against limited long-term debt obligations of ~Rs.2.34 crore Rs.9.02 crore per annum over the same period, thus provide higher cushion for working capital requirement. Apart from that, the Group has an unencumbered cash and bank balance of Rs.10.12 crore as on March 31, 2019. The bank funds are also used judiciously with utilisation levels below 50 percent for a period through ten month ending October 2019. Current ratio stood comfortable at 2.44 times as on March 31, 2019. With no major debt-based capex plans going forward, liquidity likely to remain adequate to support its incremental working capital requirement.

Outlook: Stable

Acuite believes that Sattva Group 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 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

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	113.61	101.67

PAT	Rs. Cr.	11.11	11.16
PAT Margin	(%)	9.78	10.98
Total Debt/Tangible Net Worth	Times	0.55	0.73
PBDIT/Interest	Times	8.15	7.16

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>
- 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/criteria-complexity-levels.htm>

Rating History

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable

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About Acuité Ratings & Research:

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