Press Release

Satya Sai Transport

April 07, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB+**' **(read as ACUITE double B Plus)** on the Rs.10.00 crore bank facilities of Satya Sai Transport. The outlook is **'Stable.'**

The rating assigned to SST takes into account established track record of operations, experienced management, improved operating performance, moderate financial risk profile and moderate working capital intensity. However, the rating is constrained on account of high client concentration and high competitive intensity, partly limiting the strengths.

About the company

Vishakapatnam-based Satya Sai Transport (SST), is a proprietorship firm started by Mr. G. Uma Sai Prasad in 2005. The firm provides manpower, logistics, and transport services to corporate across the sectors such as retail, food and grocery, pharmaceutical and consumer goods, among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SST to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**
  Mr. G. Uma Sai Prasad, proprietor of SST, has around 27 years of experience in the transport, warehousing and manpower supply services. The proprietor's vast experience has enabled the firm to expand the scope of the operations over the years. With total employee strength of around 6075 (75 own staff and 6000 on-payroll labours, who are deployed to clients' locations), SST's operations are spread across 130 locations in 11 states. The firm also has its 8 offices one each at Hyderabad, Chennai, Bengaluru, Bhubaneshwar, Kolkatta, Guhawati, Delhi and Cochin.

  Initially, the firm was majorly providing transportation and warehousing services. However, from 2009 onwards, the firm also started catering to manpower service requirement of corporate clients on a contractual basis. The manpower services segment accounted for over 85 per cent of SST's revenue in FY2020 and FY2019. The firm's established track record has helped build strong relationship with its clients comprising few reputed names like Reliance Group, Spencer Retail, More Retail (erstwhile Aditya Birla Retail), among other. The firm has a track record of ~80-90 per cent renewal rate for the contracts.

  Acuité believes, going ahead, the firm's strong ability to renew its contract along with promoter's experience will continue to benefit the firm generate healthy revenues.

- **Improving operating performance**
  SST has reported a strong improvement in its operating performance over last three years ending FY2020. The firm's operating income surged at a CAGR of over 60 per cent during FY18-FY20 (Provisional). In FY20 (Provisional), the firm's revenue stood at Rs.98.99 crore compared to Rs.77.58 crore in FY19. SST's EBITDA margin too expanded sharply to 6.56per cent in FY20 (Provisional) from 3.35per cent in FY18. Besides higher work orders/contracts, SST's increasing focus on high-margin activity-based manpower supply led to the significant jump in EBITDA margin. Improved operating

performance has led to better financial risk profile of the firm over the years. Activity-based manpower services are provided for specialized activities or processes, where specialized skills are required.

Acuite believes that higher work orders/contracts, would provide good impetus to SST's operating performance over a medium with its revenue growing at a CAGR of around 18-20 per cent during FY21-FY23 and EBITDA margin reaching to around 8 per cent level by FY23. In FY21, the firm has received Rs.150 crore (approx.) of work orders/contracts, compared to around Rs.100 crore (approx.) in the previous year.

- **Moderate financial risk profile**
  The financial risk profile of SST is moderate marked by modest net worth, improving gearing level and strong debt-protection matrix. The net worth has improved to Rs.10.54 crore as on March 31, 2020 (Provisional) from Rs.6 crore as on March 31, 2019.

  The gearing (debt-equity) position of the firm has improved in FY20 (Provisional) despite a rise in debt levels. SST's debt-equity ratio improved to 1.55 times as on March 31, 2020 (Provisional) from 2.00 times a year back. The firm's total debt level stood at Rs.16.37 crore in FY20 (Provisional), consisting of short-term debt of Rs.10.59 crore, long-term debt of Rs.1.79 crore and Rs.4 crore unsecured loans from related parties. The coverage indicators are moderated marked by Interest coverage ratio (ICR) has been in the range of 3-4 times in the last three years. In FY20 (Provisional), ICR moderated marginally to 3.51 times from 3.66 times in FY19 amid higher interest expenses. DSCR stood at 1.14 times in FY20 (Provisional). TOL/TNW also improved to 2.35 times in FY20 (Provisional) from 3.88 times in FY19.

  Acuité believes financial risk of SST will remain moderate on account of modest cash accruals and in absence of any major debt-funded capex.

- **Moderate working capital intensity**
  SST has moderate working capital intensity. Given the nature of services SST renders, its working capital cycle is entirely driven by receivables days, which stood at 72 days in FY20 (Provisional) compared to 81 days in FY19. GCA days too improved to 111 days in FY20 (Provisional) from 114 days in FY19. However, working capital limit utilization has been around 98-99per cent in the last 12 months through October 2020. Going ahead, with higher revenue and rising scale of business, Acuite expects, SST's receivables days would increase but would remain in the moderate range of 81-86 days during FY21-FY23.

Weaknesses

- **High Client Concentration although reputed clientele**
  SST caters to reputed clientele comprising players like Reliance Group, More Retail (erstwhile Aditya Birla Retail), Spencers Retail, among others. However, Reliance and More Retail accounted for over 90per cent of SST's total revenue in FY2020 (Provisional) compared to around 87 per cent in FY19.

  Acuite believes client concentration risk would continue to remain on a higher side over a medium term. Thus, lower-than-expected work orders from the top few clients would have sharp impact on the overall operating performance of the firm.

- **High competitive intensity**
  SST operates in a highly fragmented and competitive industry. Presence of large number of organized and unorganized players restricts pricing power of players like SST. However, introduction of GST, which has pushed many unorganized players out of business, has mitigated the risk to some extent.

Rating Sensitivities

- Lower work orders would impact the overall operating performance
- Elongation in working capital

Material Covenants

No major covenants

Liquidity Position – Adequate

SST's liquidity position is adequate marked by higher net cash accruals (NCA) to its term-debt repayment and improving current ratio. In FY20 (Provisional), SST's NCA rose to Rs.3.58 crore from Rs.2.65 crore in FY19. Term-debt repayment was Rs. 2.91 crore for FY20 (Provisional). Going ahead, the firm's NCA are expected to be in the range of Rs.5-8 crore during FY21-FY23 and its term-debt obligations would range from Rs.0.31 crore to Rs.1.79 crore.

The current ratio of the firm has also improved in the last three years. In FY20 (Provisional) current ratio stood at 1.45 times vis-à-vis 1.09 times in FY18. Acuite believes current ratio would continue to improve to around 2.5 times over a medium term. However, working capital limit utilization has been around 98-99per cent in the last 12 months through October 2020. Moreover, in some months, the firm had also taken ad-hoc or temporary overdraft over and above the sanctioned limit. Going ahead, Acuite believes that the firm would need more funds to manage its working capital as the scale of operation is expected to increase.

Outlook: Stable

Acuite believes that SST will maintain 'Stable' outlook with healthy order book led by strong rapport with reputed clients, and experienced management. The outlook may be revised to 'Positive' in case the firm reports higher-than-expected growth in revenue and improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the firm's operating performance, thereby deteriorating financial risk profile and liquidity of the firm.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	98.99	77.58
PAT	Rs. Cr.	3.39	2.44
PAT Margin	(%)	3.42	3.15
Total Debt/Tangible Net Worth	Times	1.55	2.00
PBDIT/Interest	Times	3.51	3.66

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

None

Any other information

Not applicable

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-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+/ Stable (Assigned)

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About Acuité Ratings & Research:
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