



Press Release
Satya Sai Transport
October 20, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-

Rating Rationale

Acuite has reaffirmed the 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**.'

Rationale for rating reaffirmation

The rating reaffirmation of SST takes into account improvement in the firm's operating performance in FY2023 (Provisional). It also draws comfort from the experienced management of the firm with an established track record of operations. The rating is however constrained by the firm's below average financial risk profile, working capital intensive nature of operations, customer concentration risk and presence in a highly competitive and fragmented industry. Going forward, ability of the firm to maintain its scale of operations while maintaining the profitability margins along with ability to improve its financial risk profile as well as expand its customer base to mitigate the revenue concentration risk and to improve and maintain an efficient working capital cycle will remain a key rating sensitivity factor.

About the Company

SST is a Vishakapatnam based 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, amongst others.

Standalone (Unsupported) Rating

None

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established track record of operations

Mr. G. Uma Sai Prasad, proprietor of SST, has nearly three decades of experience in the transport, warehousing and manpower supply services. The proprietor's vast experience has enabled the firm to expand the scope of operations over the years. SST's operations are spread across 130 locations in 11 states with total employee strength of around 6500. The firm also has its 8 offices one each at Hyderabad, Chennai, Bengaluru, Bhubaneswar, Kolkata, Guwahati, 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 firm's established track record has helped to build strong

relationship with its clients comprising of reputed names like Reliance Group, Spencer Retail, More Retail (erstwhile Aditya Birla Retail), amongst others. The firm has a track record of ~80 to ~90 percent renewal rate for the contracts.

Acuité believes that going ahead SST's ability to build customer relations (given its robust contract renewal rate) along with proprietors' vast experience will benefit the firm to generate healthy revenues.

Improved operating performance

The revenue of SST stood increased at Rs.110 Cr for FY2023 (Provisional) as against Rs.104 Cr for FY2022. Although the total number of employees stood lower at 6500 during FY2023 as against 7450 during FY2022, the revenue per employee thus stood increased at Rs.1.69 lakhs during FY2023 (Provisional) as against Rs.1.39 lakhs during FY2022.

The operating and net profit margin of the firm stood improved at 6.20 percent and 2.62 percent for FY2023 (Provisional) as against 5.20 percent and 2.08 percent for FY2022. For the current year as on Q2 FY2024, the firm has achieved revenue of Rs.52 Cr as against the similar levels of Q2 FY2023.

Acuité believes that ability of SST to maintain its scale of operations and profitability margins will remain a key rating sensitivity factor.

Weaknesses

Below average financial risk profile

Financial risk profile of SST is below average by modest network, high gearing and moderate debt protection metrics. The tangible network of the firm though improved, it remained modest at Rs.12 Cr as on 31 March, 2023 (Provisional) as against Rs.10 Cr as on 31 March, 2022. The gearing (debt-equity) stood high at 2.74 times as on 31 March, 2023 (Provisional) as against 2.78 times as on 31 March, 2022 due to its increased debt profile of Rs.32 Cr in FY2023 (Provisional) as against Rs.27 Cr in FY2022. The increase in the firm's debt profile is towards the working capital requirement for which the firm has availed term loans from various NBFCs of Rs.5 Cr, short term bank borrowings of Rs.24 Cr and unsecured loans from related parties of Rs.3 Cr. The gearing of the firm is however expected to improve over the medium term in the absence of any significant debt-funded capex plan.

The interest coverage ratio though moderated, it remained comfortable at 1.70 times for FY2023 (Provisional) as against 1.76 times for FY2022 whereas the DSCR stood improved at 1.22 times for FY2023 (Provisional) as against 1.10 times for FY2022. The Net Cash Accruals to Total debt stood at similar level of 0.09 times for FY2023 (Provisional) and for FY2022. The Total outside liabilities to Tangible net worth stood marginally increased at 3.64 times for FY2023 (Provisional) as against 3.58 times for FY2022. The Debt-EBITDA ratio stood improved albeit remained high at 4.63 times for FY2023 (Provisional) as against 4.98 times for FY2022.

Acuité believes that ability of SST to improve its financial risk profile over the medium term will remain a key rating sensitivity factor.

Working capital intensive nature of operations

The working capital operations of SST are intensive marked by its Gross Current Assets (GCA) of 134 days for FY2023 (Provisional) as against 110 days for FY2022. This is primarily on account of increase in the debtor days and other current assets. The firm generally books its revenues after providing the services and payment is received against the pending bills which are raised by them monthly. Hence, the services provided by SST for which bills are due to be raised are reflected in the other current assets. Such bills pending to be raised amounted to ~Rs.15 Cr in FY2023 (Provisional) as against ~Rs.9 Cr in FY2022. SST bills its clients monthly based on attendance of its employees at the sight. Such attendance of the employees and the bills raised get approved by its clients, after which the payments are received. Debtor days therefore stood increased at 60 days in FY2023 (Provisional) as against 49 days in FY2022. Subsequently, the creditor days stood increased at 119 days in FY2023 (Provisional) as against

28 days in FY2022. This makes the company dependent on bank borrowings for its working capital requirement. The average bank limit utilization for 6 months' period ended August 2023 stood high at ~95 percent.

Acuité believes that the ability of SST to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

Customer concentration risk

SST caters to reputed clientele comprising players like Reliance Group, Mobis India, More Retail (erstwhile Aditya Birla Retail), Spencers Retail, amongst others. However, Reliance Group and Mobis India accounted for over 80 percent of SST's total revenue.

Acuité believes that the ability of SST to expand its customer base in order to mitigate the revenue concentration risk will remain a key rating sensitivity factor.

Highly competitive and fragmented industry

SST operates in a highly competitive and fragmented industry marked by the presence of large number of organized and unorganized players because of low entry barriers and moderate capital requirements which restricts pricing power of players like SST.

Rating Sensitivities

- Ability to maintain scale of operations and profitability margins
- Ability to improve financial risk profile
- Ability to improve and maintain an efficient working capital cycle
- Ability to expand customer base in order to mitigate the revenue concentration risk

All Covenants

Not applicable

Liquidity position - Adequate

SST has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The firm generated cash accruals of ~Rs.3 Cr during FY2021 to FY2023 (Provisional) against its debt repayment obligation of ~Rs.2 Cr during the same period. Going forward, the NCA are expected in the range of Rs.3 Cr to Rs.4 Cr for the period FY2024-FY2025 against its debt repayment obligation of ~Rs.2 Cr during the same period. The working capital operations of the firm are intensive marked by its gross current asset (GCA) days of 134 days for FY2023 (Provisional). This makes the company dependent on bank borrowings for its working capital requirement. The average bank limit utilization for 6 months' period ended August 2023 stood high at ~95 percent. Current ratio stands at 1.18 times as on 31 March 2023 (Provisional). The firm has maintained cash & bank balance of Rs.5 Cr in FY2023 (Provisional).

Acuité believes that liquidity of SST is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that SST will maintain 'Stable' outlook over the medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	109.63	103.67
PAT	Rs. Cr.	2.87	2.16
PAT Margin	(%)	2.62	2.08
Total Debt/Tangible Net Worth	Times	2.74	2.78
PBDIT/Interest	Times	1.70	1.76

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

Not applicable

Any other information

None

Applicable Criteria

- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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
25 Jul 2022	Cash Credit	Long Term	10.00	ACUITE BB+ Stable (Reaffirmed)
07 Apr 2021	Cash Credit	Long Term	10.00	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB+ Stable Reaffirmed

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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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