Press Release

Sar Transport Systems Private Limited

April 04, 2023

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	28.40	ACUITE A- | Stable | Assigned	-
Bank Loan Ratings	4.60	-	ACUITE A1 | Assigned
Total Outstanding Quantum (Rs. Cr)	33.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of **'ACUITE A-' (read as ACUITE A minus)** and short-term rating of **'ACUITE A1' (read as ACUITE A one)** on Rs. 33.00 Crore bank facilities of SAR Transport Systems Private Limited (STSPL). The outlook is **'Stable'**.

Rationale for rating assigned
The rating assigned takes into consideration the established market position of the group in the shipping and logistics industry. The ratings also draws comfort from long and extensive experience of the promoters along with sustained growth in operating performance over the last three years. The operating income of the group has recorded a CAGR growth of 58.20 percent through FY22 in its operating income. The total operating income of the group improved at Rs. 1,904.10 Cr in FY22 as against Rs. 732.85 crore in FY21 and Rs. 480.96 crore in FY20. Further, the business risk profile of the group is expected to be strengthened on account of additional capital expenditure of ~Rs. 100 crore on purchase of land and construction of warehouses. The rating also factors the healthy financial risk profile and adequate liquidity position of the group reflected by efficient working capital management and low reliance on bank limits. However, such strengths are partially offset by the groups exposure to cyclicality and volatility of freight rates and highly fragmented and competitive industry.

About Company

Incorporated in 2005, SAR Transport Systems Pvt Ltd. (STSPL) is a Maharashtra based company engaged in providing supply chain and logistics solutions across the globe. The company has eight major revenue segments namely Ocean freight, Air freight, Trucking services, Clearing house Agent, Custom Broking, warehousing, 3PL and ISO Tank services. The major source of revenue of the company is from ocean freight. The company has its presence majorly in India, USA, Indonesia and Singapore through its subsidiaries. STSPL is promoted by Mr. Anil Kaul, Mr. Jaiprakash Singh and Mr. Mithlesh Kumar.

About the Group

Incorporated in 2005, SAR group (SG) is engaged in providing supply chain and logistics solutions across the globe through its flagship company SAR Transport Systems Pvt Ltd (STSPL) and its four subsidiaries (mentioned in Annexure 2). SG is promoted by Mr. Anil Kaul, Mr. Jaiprakash Singh and Mr. Mithlesh Kumar.

Analytical Approach

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite has consolidated the business and financial risk profiles of STSPL and its four subsidiaries (given in the Annexure 2), as all the entities have common shareholding, common line of business and have significant operational linkages. The group is herein referred to as SAR Group (SG).

Key Rating Drivers

Strengths

Established t rack record of operations and extensive experience of promoters and management

Incorporated in 2005, SAR Group (SG) is promoted by Mr. Anil Kaul, Mr. Jaiprakash Singh and Mr. Mithlesh Kumar who collectively have over two decades of experience in the shipping and logistics industry. The group provides a wide range of logistic services namely Ocean Freight, Air Freight, Trucking Services, Clearing House Agent, Custom Broking, Warehousing, 3PL and ISO Tank Services and has expanded its presence in the United States of America, Indonesia and Singapore over the years.

The operations of the group are managed by its promoters who are ably supported by a qualified and well experienced senior management team. The extensive experience of the promoters and management has helped the group to establish long and healthy relationship with reputed customers and suppliers including reputed shipping clients over the years. At the back of the stable and repeat orders by the key customers, the revenues have seen a compounded annual growth rate (CAGR) of about 58 per cent over the past three years through FY2022.

Acuité believes that the group will sustain its existing business profile over the medium term on the back of an established track record of operations and its experienced management.

Augmentation in operating performance and business risk profile albeit moderation in revenue

The operating performance of the group has recorded a heathy growth over the last three years with a CAGR growth of 58.20 percent through FY22 led by growth in the increase in demand along with increase in freight prices over the last two years. The total operating income of the group stood at Rs. 1,904.10 Cr in FY22 as against Rs. 732.85 crore in FY21 and Rs. 480.96 crore in FY20. STSPL derives more than 80 percent of the income from ocean freight. Ocean freight has seen a Y-o-Y declined of 30% in FY23 on account of tepid demand in the economy, ease of traffic and surplus of containers. STSPL has recorded Rs. 1,679 crore for 9MFY23 on a consolidated basis. The revenue growth in the current year has been muted on account of the decline in ocean freight. The management however plans to strengthen its business risk profile by expanding its warehousing operations, air freight and ISO tank services. Currently, SG has 2 lakh sq. feet of warehouse that it operates on rent. In the current financial year the group has purchased 7.38 lakh sq. feet of land in Bhiwandi and Talegaon to construct warehouses.

The operating margins of the group have improved gradually over the last three years. Operating margin stood at 4.63 percent in FY22 as against 4.28 percent in FY21 and 3.16 percent in FY20. Such improvement is led by the increase in scale of operations. The PAT margins of the group also saw a subsequent improvement at 3.03 percent in FY22 as against 2.82 percent in FY21 and 2.11 percent as on FY20.

Acuitè believes that the operating performance of the group is likely to remain muted in the near to medium term on account of likely decline in freight rates.

Above average financial risk profile

The financial risk profile of the group is above average marked by healthy networth, low gearing and above average debt protection metrics. The tangible networth of the group stood at Rs. 109.07 crore as on March 31, 2022 as against 50.04 crore as on March 31, 2021 and Rs. 27.96 crore as on March 31, 2021. The Networth has strengthened over the years led by increased accretion of profits to reserves. The management follows a conservative financial policy reflected by its peak gearing levels of 1.18 times as on March 31, 2020. The gearing (Debt/Equity) has improved from its peak level at 0.89 times as on March 31, 2021 and 0.41 times as on March 31, 2022. Such improvement in the gearing is driven by improvement in the net worth of the group coupled with repayment of term loans. Further, the group is expected to avail additional debt for construction of warehouse in the near term. The group acquired land for construction of warehouses at ~Rs. 40 crore through internal accruals and will incur additional Rs. 40-60 crore for construction of warehouse on such land. SG plans to incur 50% of such capital expenditure through bank loans. Despite the addition to the debt in the gearing of the group is expected to remain low. The TOL/TNW (Total outside liabilities/Tangible Networth) of the group has seen a consistent decline at 1.91 times as on March 31, 2022 as against 2.13 times as on March 31, 2021 and 2.31 crore March 31, 2020. The debt protection metrics of the group are above average marked by DSCR of 11.86 times in FY22 as against 5.91 times in FY21 and 4.06 times in FY20. Interest coverage ratio stood at 19.18 times in FY22 as against 8.40 times in FY21 and 4.31 times in FY20.

Acuitè believes the financial risk profile of the group is likely to remain above average on account of increase in accretion to reserves.

Efficiently managed working capital operations

The working capital operations of the group are efficiently managed marked by GCA days of 54 days in FY22 as against 65 days in FY21 and 54 days in FY20. The GCA days are majorly driven by debtor collection period. SG provides varied credit period to its customers between 30-90 days depending on the location of the shipment. The debtor collection of the group is efficient marked by debtor days of 45 days in FY22 as against 55 days in FY21 and 46 days in FY20. SG does not own its own fleet of ships or trucks. Ships and Trucks required by the group are taken on rent. The creditor days of the group stood at 20 days for FY22 as against 27 days for FY21 and 24 days for FY20. The working capital management of the group is further strengthened reflected by SG's low reliance on bank limits. The fund based bank limit utilization stood at 50 percent for 9MFY23.

Acuité believes that the working capital management of the group will continue to remain a key rating sensitivity going ahead.

Weaknesses

Exposure to risks related to cyclical and fragmented industry

Approximately 80 percent of SG's revenue is generated from ocean freight. SG's operating performance is exposed to the inherent cyclicality of the ocean freight rates. The demand for goods saw an unprecedented surged during the Covid-19 induced lockdown driven by work from home, increased online shopping and the lockdown restrictions. Such unprecedented demand coupled with supply side constrains like container shortages, labour shortages and restrictions at ports led to demand supply mismatch and record high freight rates in FY22. Such high prices have seen a Y-o-Y declined of 30% in FY23 on account of tepid demand in the economy, ease of traffic and surplus of containers. The freight rates are expected to further decline in the near term on account of Russia-Ukraine war and rising inflation and interest rates. Such decline in the freight rates are likely to impact the profitability of the shipping companies in the industry. Further, the industry is marked by presence of large number of organized and unorganized players in the industry. The industry is intensely competitive and fragmented industry because of low entry barriers and moderate capital requirements. The high competitive intensity limits the pricing flexibility and exerts pressures on the margins of all participants.

Rating Sensitivities

- Significant deterioration in scale of operations or profitability
- Any elongation in working capital cycle leading to increased dependence on bank limits and stretch in liquidity

Material convenants
None

Liquidity Position
Adequate

The liquidity of SG is adequate marked by adequate net cash accruals to met its debt service obligations. The net cash accruals of the group stood at Rs. 59.85 crore in FY22 as against debt service obligation of Rs. 0.84 crore during the same period. The group is expected to generate adequate net cash accruals to meet its debt service obligation in the near to medium term. The liquidity of the group is further strengthened by the group's low reliance on bank limits and efficient working capital operations. The average fund-based bank limit utilisation stood at ~50 percent for 9MFY23. The group also maintains unencumbered cash balance of Rs. 32.78 crore as on March 31, 2022 as against 6.29 crore as on March 31, 2021.
Acuitè believes that the liquidity of the group is likely to remain adequate on account of adequate net cash accruals to meet its debt service obligations and low reliance on bank limits.

Outlook: Stable

Acuité believes that SG will maintain a 'Stable' outlook over the medium term at the back of established operational track record, long standing experience of the promoter. The outlook may be revised to 'Positive' if there is a substantial and sustained improvement in SG's operating income or profitability while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of a deterioration in scale of operations or financial risk profile.

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1904.10	732.85
PAT	Rs. Cr.	57.63	20.64
PAT Margin	(%)	3.03	2.82
Total Debt/Tangible Net Worth	Times	0.41	0.89
PBDIT/Interest	Times	19.18	8.40

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
• 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. 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

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Standard Chartered Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.05	ACUITE A1 | Assigned
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A1 | Assigned
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.00	ACUITE A- | Stable | Assigned
Standard Chartered Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.30	ACUITE A- | Stable | Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.10	ACUITE A- | Stable | Assigned
Standard Chartered Bank	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.55	ACUITE A1 | Assigned

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

Company	Country	Relationship
RTW Global PTE Ltd	Singapore	Wholly owned subsidiary
RTW Global INC	United States of America	Wholly owned subsidiary
Pt RTW Global Pte	Indonesia	Wholly owned subsidiary of RTW Global Pte Ltd
SAR Supply Chain Solutions Pvt Ltd	India	Wholly owned subsidiary

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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.