

Skyways Air Services Private Limited

April 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	185.00 (Enhanced from 80.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short Term Bank Facilities	4.10 (Enhanced from 2.10)	CARE A2+ (A Two Plus)	Revised from CARE A2 (A Two)
Total Bank Facilities	189.10 (Rs. One Hundred Eighty-Nine Crore and Ten Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings for the bank facilities of Skyways Air Services Private Limited (Skyways) factors in the sustained growth in volumes over the past three years ending FY20 (refers to the period April 01 to March 31) leading to consistent growth in revenues. Although the volumes moderated during 9MFY21 (refers to the period April 01 to December 31) on account of restrictions imposed by the government during pandemic situation, however, robust realizations resulted in healthy growth in total operating income. The company also reported improvement in profitability, cash accruals and debt coverage indicators during 9MFY21.

The ratings continue to derive strength from its experienced promoters, its established position in the air freight forwarding industry and benefits derived from its long-standing relationship with airline carriers. The ratings also continue to take comfort from its diversified customers base, sustained growth in its scale of operations and healthy debt coverage indicators. However, the ratings continue to remain constrained by Skyways thin profitability margins, exposure of business prospects to variation in global economic cycle and highly fragmented & competitive nature of the freight industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained growth in operating income by more than 20% along with improvement in its PBILDT margins above 4.5%.
- Timely realization of receivables resulting in collection period below 40 days on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in its capital structure with overall gearing of more than 1.60x in the projected period on a sustained basis.
- Decline in PBILDT margins below 2.50% on a sustained basis.
- Delay in realization of receivables resulting in collection period above 60 days on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Sustained growth in volumes over past three years resulting in improvement in financial risk profile

Skyways has demonstrated consistent growth in revenues from ~Rs. 517 crore as on March 31, 2018 to ~Rs. 655 crore as on March 31, 2020. The same has been on account of sustained growth in volumes from 35,052 MT in FY18 to 47,662 MT in FY20. Despite some moderation in volumes during 9MFY21 due to the restrictions imposed by the government in coronavirus pandemic, the company reported healthy growth of ~47% during 9MFY21 with a total operating income of Rs.706.62 crore as compared to similar period previous year with a PBILDT margin of 3.77% (PY 2.28%) largely on account of increase in freight rate realized by the company due to limited cargo availability. The total debt of the company majorly constitutes working capital borrowings against which the company has fixed deposits. The total debt levels of the company reduced from Rs. 62.63 crore as on March 31, 2020 to Rs. 30.70 crore as on December 31, 2020. Adjusting for the fixed deposits, the net debt levels stood low leading to comfortable overall gearing levels. The debt coverage indicators of the company remain comfortable with interest coverage ratio of 3.92x as on March 31, 2020 which improved to 8.92x as on December 31, 2020.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Experienced promoters and established position in air freight forwarding industry

Skyways is promoted by Mr. S.L. Sharma, who has a vast experience of more than 5 decades in the logistics business. He was the President of the "Air Cargo Agents Association of India" (ACAAI) from 2013 to 2015 and is presently the Member, Board of Advisors, ACAAI. Further, the promoters are assisted by a team of qualified professionals who have substantial experience in the logistics domain. Skyways has a long and established presence in the air freight industry for more than 3 decades. Skyways provides freight forwarding services to its customers for both import logistics and export logistics through its 26 branches spread across India. Further, Skyways had received accreditation from International Air Transport Association (IATA) in 1987 and further Ministry of Finance, GoI has provided Authorized Economic Operator- LO (AEO) Certificate to the company, which is valid till July 29, 2023. The company is also certified under the World Health Organization Good Distribution Practices (GDP) valid up to December 31, 2023.

Diversified customer base and long-standing relationship with airline carriers

Skyways provides international and domestic air freight services to its broad and diversified customer base in the verticals of automotive, pharmaceuticals and medical suppliers etc. It is also evident by the top 5 customers forming only 9.71% of the total income of the company during FY20 (PY: 12.34%). Skyways receives better rates, performance linked incentives with volume discounts and preference in available space owing to long-standing relationship with airlines carriers. Skyways has various annual price and service level agreements in place with majority of airlines including Qatar Airways, Emirates and Lufthansa etc.

Key Rating Weaknesses***Thin Profitability Margins with high receivable period***

Profitability margins of Skyways remains on lower side due to competitive and fragmented nature of the industry. Skyways operates on sub-agency model where in for the shipment of goods for its customers, the company has to enter into contracts with airline carriers. The company has to offer competitive rates to these customers to acquire business which leads to low profitability margins. Although, the PBILDT margins moderated from 3.12% as on March 31, 2019 to 2.44% as on March 31, 2020 largely on account of increased employee expenses during the fiscal FY20. However, the PBILDT margins improved during 9MY21 and stood at 3.77% (PY: 2.28%). The improvement was due increasing topline of the company coupled with lower expenses. Going forward, ability of the company to sustain the profitability margins shall remain key from credit perspective. Further, the average collection period of Skyways remains elongated due to extended credit provided to customers to remain competitive and to acquire new customers. The company has average collection period of 51 days as on March 31, 2020. Although, the working capital requirement is expected to increase with growing turnover, but any higher than envisaged increase in receivables shall remain key monitorable going forward.

Highly fragmented and competitive industry

The air freight forwarding industry is highly fragmented with large number of operators owing to low entry barriers. Presence of various players results in intense competition within the industry. High fragmentation and intense competition lead to unhealthy price wars and discounts resulting in pressure on margins and depressed freight rates. However, Skyways with superior quality of service and presence in different locations across country and diversified clientele across various industries with well-established global networks enjoys competitive edge.

Exposure to variation in global economic cycles

The prospects of shipping & logistics industry are closely linked to the global economy and the industries in which its customers operate. The freight movement and earnings of the logistic industry is primary function of demand and supply for industrial raw materials in the global market. The global economic slowdown can result in muted business for the logistics industry. Furthermore, government policies like import/export ban, restrictions in import volume, increase in customs duty etc. can also impact the business of freight forwarding companies. Going forward, any significant impact of the same on the financial risk profile of the company shall remain a key monitorable.

Liquidity: Adequate

The liquidity position of the company remains adequate as company doesn't have any significant long-term debt repayment obligations except small amount of vehicle loans. Skyways has cash and cash equivalents of ~Rs. 77 crore as on March 19, 2021 out of which majority is lien marked as fixed deposits for availing CC/OD limits and the remaining ~Rs. 20 crore is free cash. The average fund-based utilization out of the sanctioned limits of Rs. 80.00 crore for the past 12 Months ending October 2020 stood at ~62% on a drawing power ~Rs. 59 crores. As per the RBI circular dated March 27, 2020 and May 23, 2020, companies can opt for moratorium on their payment obligations for a period of 6 months from March 2020 to August 2020. The company applied for moratorium for the month of March-May 2020 with Axis Bank and Yes Bank and the same was approved by the bankers.

Analytical approach: Standalone

Applicable Criteria

[CARE's criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE's policy on Default recognition](#)

[Criteria for Short Term Instruments](#)

[Financial Ratios-Non-Financial sector](#)

[CARE's methodology for Service sector companies](#)

[Liquidity Analysis of Non-Financial Sector](#)

About the Company

Skyways Air Services Pvt Ltd (Skyways) was founded on August 08, 1983 to by Mr. S.L. Sharma (Chairman, Managing Director and founder). Company provides international and domestic freight services through airway channel (Air Freight Forwarding services). As a forwarding agent, Skyways main activity is to contract with air carriers for shipment of goods for its customers and Customs clearance and other related documentation are also performed by Skyways. Skyways provides services to its customers spanning not only key international airfreight routes but also individual transportation solutions to the more remote parts of the globe. Company is having 26 offices in India and 3 overseas offices.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	639.81	654.85
PBILDT	19.95	16.01
PAT	9.50	7.62
Overall gearing (times)	1.39	1.50
Interest coverage (times)	5.78	3.92

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	185.00	CARE A-; Stable
Non-fund-based-Short Term	-	-	-	4.10	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Working Capital Limits	LT	185.00	CARE A-; Stable	-	1)CARE BBB+; Stable (20-Mar-20) 2)CARE BBB+; Stable (04-Apr-19)	-	-
2.	Non-fund-based-Short Term	ST	4.10	CARE A2+	-	1)CARE A2 (20-Mar-20) 2)CARE A2 (04-Apr-19)	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Working Capital Limits	Simple
2.	Non-fund-based-Short Term	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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