

## Skyways Air Services Private Limited

January 07, 2022

### Ratings

| Facilities/Instruments       | Amount (Rs. crore)                                            | Rating <sup>1</sup>                                  | Rating Action |
|------------------------------|---------------------------------------------------------------|------------------------------------------------------|---------------|
| Long Term Bank Facilities    | 209.00<br>(Enhanced from 185.00)                              | CARE A-; Stable<br>(Single A Minus; Outlook: Stable) | Reaffirmed    |
| Short Term Bank Facilities   | 4.00<br>(Reduced from 4.10)                                   | CARE A2+<br>(A Two Plus)                             | Reaffirmed    |
| <b>Total Bank Facilities</b> | <b>213.00</b><br><b>(Rs. Two Hundred Thirteen Crore Only)</b> |                                                      |               |

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Skyways Air Services Private Limited (Skyways) continue to derive strength from its experienced promoters and established position of the company in the air freight forwarding industry. The ratings also continue to favourably factor in long-standing relationship with airline carriers, its diversified customer base and healthy debt coverage indicators. The ratings takes cognizance of growth in scale of operations backed by healthy realizations during FY21 (refers to the period from April 01 to March 31) and H1FY22 (refers to the period April 01 to September 30).

These strengths are however, partly offset by thin profitability margins and moderate capital structure of the company marked by high working capital utilization on account of elevated receivables. Further, the ratings also continue to remain constrained by the 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 improvement in PBILDT margins above 4.5% along with growth in operating income by more than 25%.
- 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 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
- Significant increase in working capital requirements and resultant weakening of liquidity position

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Growing scale of operations albeit thin profitability margins

The total operating income of Skyways grew at a rate of 49% on y-o-y basis from Rs. 645.85 crores in FY20 to Rs. 978.81 crores in FY21 owing to higher demand from both import and export logistics. Due to the COVID-19 pandemic situation leading to lockdowns and border closures that restricted the movement of goods and increased demand of air freight for essential services has resulted in higher prices of air freight which has benefitted the company during FY21 and H1FY22. Though the volumes declined from 47,662 ton in FY20 to 30,296 ton in FY21, the growth was backed by increase in average realization to Rs. 334.78 per kg in FY21 from Rs. 136.66 per kg in FY20. The PBILDT margin of the company has also improved to 3.77% in FY21 from 2.44% in FY20 though continued to remain low. 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. Going forward, ability of the company to improve the profitability margins shall remain key from credit perspective.

During H1FY22, the company has recorded a total operating income of Rs. 611.21 crore with a stable PBILDT margin of 3.77%.

### 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

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 16.22% of the total income of the company during FY21 (PY: 9.71%). 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**

#### **Moderate capital structure marked by high working capital to support elevated receivables**

As on March 31, 2021 the total debt of the company stood at Rs. 94.87 (PY: Rs. 62.63 crore) crore largely comprising of working capital utilization of Rs. 93.46 crore (Rs. 61.73 crore). The overall gearing of the company, however remained stable at 1.54x as on March 31, 2021 (PY: 1.50x) on account of accretion of profits. The high working capital requirements are driven by increase in debtors from Rs. 94.19 crore as on March 31, 2020 to Rs. 140.05 crore as on March 31, 2021. The average collection period of Skyways remains elongated due to extended credit provided to customers to remain competitive and to acquire new customers. Nonetheless, the collection period improved to 43 days in FY21 from 51 days in FY20 on account of averaging effect on a higher base of revenue.

#### **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 is adequate as the company does not have any long-term loans except small amount of vehicle loan as against projected gross cash accruals of around Rs. 32 crore. Current Ratio of the company remains moderate at 1.15x as on March 31, 2021. The average working capital utilization of the company for the fund-based limits stood at ~70% for the past 11 months ending November 2021. As on November 30, 2021, the company has cash and bank balance of Rs. 7.96 crore and FDs of Rs. 92 crore out of which unencumbered FD amounts to Rs. 27.89 crore.

#### **Analytical approach: Standalone**

#### **Applicable Criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Rating methodology - Service Sector Companies](#)

#### **About the Company**

Skyways Air Services Pvt Ltd (Skyways) was founded on August 08, 1983 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) | 31-03-2020 (A) | 31-03-2021 (Prov.) | H1FY22(UA) |
|------------------------------|----------------|--------------------|------------|
| Total operating income       | 654.85         | 978.81             | 611.21     |
| PBILDT                       | 16.01          | 36.90              | 23.03      |
| PAT                          | 7.62           | 22.32              | 13.73      |
| Overall gearing (times)      | 1.50           | 1.54               | 1.37       |
| Interest coverage (times)    | 3.92           | 8.30               | 7.48       |

A: Audited; Prov.: Provisional; UA: Unaudited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

#### Annexure-1: Details of Instruments / Facilities

| Name of the Instrument                 | ISIN | 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 |      | -                | -           | -             | 209.00                        | CARE A-; Stable                           |
| Non-fund-based-Short Term              |      | -                | -           | -             | 4.00                          | 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 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020                          | Date(s) & Rating(s) assigned in 2018-2019 |
| 1       | Fund-based - LT-Working Capital Limits | LT              | 209.00                         | CARE A-; Stable | 1)CARE A-; Stable (06-Apr-21)             | -                                         | 1)CARE BBB+; Stable (20-Mar-20)<br>2)CARE BBB+; Stable (04-Apr-19) | -                                         |
| 2       | Non-fund-based-Short Term              | ST              | 4.00                           | CARE A2+        | 1)CARE A2+ (06-Apr-21)                    | -                                         | 1)CARE A2 (20-Mar-20)<br>2)CARE A2 (04-Apr-19)                     | -                                         |

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

#### Annexure 4: Complexity level of various instruments rated for this company

| Sr. No | Name of instrument                     | Complexity level |
|--------|----------------------------------------|------------------|
| 1      | Fund-based - LT-Working Capital Limits | Simple           |
| 2      | Non-fund-based-Short Term              | Simple           |

#### Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### About CARE Ratings Limited:

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