

Sanco Trans Limited

August 12, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	14.68 (Reduced from 18.85)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	14.68 (Rs. Fourteen Crore and Sixty-Eight Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sanco Trans Limited (STL) continue to be constrained by moderate scale of operation, relatively low profitability, moderate capacity utilization of container freight stations, exposure to global economic cycles and highly fragmented & competitive nature of the logistics industry.

The rating, however, derives strength from STL's experienced management with long track record of operation, diversified revenue stream, favorable location of Container Freight Stations with proximity to various ports and financial risk profile characterized by low gearing levels.

Rating Sensitivities

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

- Improvement in total income to above Rs.150 crore on a sustained basis
- Improvement in PBILDT margin along with improvement in ROCE on a sustained basis.

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

- Increase in debt level leading to deterioration in overall gearing levels to above 0.80x and total debt to GCA above 7.0x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Weakness

Moderate scale of operation with relatively low profitability

STL was established in the year 1979 and has been in the logistics business for more than four decades. However, the scale of operations of STL has continued to remain moderate with total income of Rs.103 crore in FY21 as against Rs.98 crore in FY20 (PY: Rs.107 crore) with the most of its operations are concentrated within Tamil Nadu. It is to be noted that utilization of container freight station has also been relatively lower which stood at 68% during FY21 as against 43.11% during FY20. Though, PBILDT margin witnessed improvement during FY21, the same continues to be relatively low at 10.40% as against 7.97% during FY20. This apart, other profitability indicators including ROCE and RONW continues to be low at 8.94% and 5.82% during FY21 as against 4.10% and 0.17% during FY20. Improvement in PBILDT margin during FY21 was on account increase in the warehouse earnings which is a relatively high margin division.

Business prospects closely linked to global economy

The prospects of shipping & logistics industry are closely linked to the global economy. Furthermore, Government policies like import/export ban, restrictions in import volume, increase in customs duty, etc impact the business of logistics companies.

Exposed to intense competition from other players

The industry is highly fragmented, with presence of large number of small time truck operators, warehouse operators, customs brokers, freight forwarders etc. Furthermore, industry faces intense competition due to low entry barriers. It is to be noted that high fragmentation and intense competition leads to unhealthy price wars and discounts resulting in pressure on margins. However, with long track record of operations and established relationships with clientele, STL is better placed to handle the competition.

Key Rating Strengths

Experienced management with long track record of operations in logistics industry

STL incorporated in the year 1979 has a long track record of operations spanning over 4 decades. As on March 31, 2021 around 72.26% of the total stake is held by promoters. Mr. Upendran V is the Chairman & Managing Director of the company and holds around 4.43% of the total shares of the company. He has been the Managing Director of the company since 1986 and has more than four decades of experience in Logistics Industry. He has held important positions in various Chambers of

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

Commerce, as Trustee in Chennai Port Trust and President of The Chennai Customs House Agents' Association and President in National Association of Container Freight Stations. He is ably assisted by a team of experienced professionals who help him in managing the day-to-day affairs of the company

Diversified revenue stream

STL operates container freight station, fleet of transport vehicles & heavy equipment and provides range of services including i) container handling ii) transportation (A.K.A – Equipment and fleet hire service) iii) warehousing and iv) Freight forwarding. Table below provides segment wise breakup of revenue for the past three years.

Particulars	FY19	FY20	FY21
Handling	53.1	44.7	53.2
Equipment and fleet hire	41.1	38.3	28.6
Warehouse earnings	7.5	11.8	19.4
Agency and other earnings	3.9	4.3	4.3
Total	105.7	99.2	105.5

Favorable location of Container Freight Stations with proximity to various ports

STL operates two CFS in Chennai with the combined capacity of 90,000 TEUs as on March 31, 2021. Both the CFS are well connected through roads, located at a distance of around 10 – 20 Km from major ports in Chennai including Chennai Port, Ennore Port and Kattupalli Port.

Financial risk profile characterized by low gearing levels

The company has comfortable capital structure marked by low overall gearing of 0.46x as on March 31, 2021 (PY: 0.57x). Interest coverage ratio during FY21 stood at 4.70x (PY: 2.69) and total debt to GCA stood at 3.09x during FY21 (PY: 5.50x).

Liquidity: Stretched

Liquidity is marked by tightly matched accruals to repayment obligations. The term loan repayment for FY22 is around Rs. 5.26 crore as against GCA of Rs.7.4 crore in FY21. STL's average working capital utilization stood at 49% for the past 6 months ended June 2021 and cash and bank balance (including margin money) stood at Rs. 3.68 crore as on March 31, 2021.

Analytical approach:

Standalone

Applicable Criteria

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology- Service Sector Companies](#)

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

About the Company

Chennai based, Sanco Trans Limited (STL) was incorporated as private limited company in 1979 by Late. Sri K Santhanam Reddiar. In 1986, STL went public and was listed in BSE. STL owns Container Freight Stations (CFS), fleet of transport & heavy equipment and is engaged in the business of providing container handling, transportation (A.K.A – Equipment and fleet hire service), warehousing and freight forwarding services. During FY21, income from handling accounted for 50% of the total income followed by equipment and fleet hire (27%), warehousing (18%) and others (4%).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Abridged)
Total operating income	97.8	103.1
PBILDT	7.8	10.7
PAT	0.1	5.8
Overall gearing (times)	0.57	0.46
Interest coverage (times)	2.69	4.70

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

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 No	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	December 2022	2.68	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	12.00	CARE BB+; Stable

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-Term Loan	LT	2.68	CARE BB+; Stable	-	1)CARE BB+; Stable (13-Jan-21)	-	-
2.	Fund-based - LT-Cash Credit	LT	12.00	CARE BB+; Stable	-	1)CARE BB+; Stable (13-Jan-21)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	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.

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6754 3573

Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name – Jaganathan A

Group Head Contact no.- 044 – 2850 1000

Group Head Email ID- Jaganathan.a@careratings.com

Relationship Contact

Name: Pradeep Kumar V

Contact no. : 044 – 2850 1000

Email ID : Pradeep.kumar@careratings.com

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