

## Sanco Trans Limited

January 13, 2021

### Ratings

Facility	Amount (Rs. crore)	Rating <sup>[1]</sup>	Rating Action
Long-term Bank Facilities	18.85	<b>CARE BB+; Stable</b> <b>(Double B Plus; Outlook: Stable)</b>	<b>Assigned</b>
<b>Total facilities</b>	<b>18.85</b> <b>(Rs. Eighteen crore and Eighty Five lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sanco Trans Limited (STL) are constrained by moderate scale of operation, relatively low profitability, 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, individually or collectively, lead to positive rating action/upgrade

- Improvement in total income to above Rs.150 crore on a sustained basis
- Improvement in PBILDT margin to above 11% along with improvement in ROCE on a sustained basis.

#### Negative Factors - Factors that could, individually or collectively, 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 10.0x on a sustained basis

### Detailed description of the key rating drivers

#### Key Rating Weakness

##### **Moderate scale of operation**

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.98 crore in FY20 as against Rs.107 crore in FY19 (PY: Rs.90 crore) with the majority of its operations concentrated within Tamil Nadu.

##### **Relatively moderate profitability**

Profitability of STL has remained moderate with company reporting PBILDT margin in the range of 6.14% to 7.97% for the past three years ended March 31, 2020. PAT during FY20 stood at Rs.0.1 crore as against after tax loss of Rs.0.4 crore during FY19. During H1FY21, PBILDT margin witnessed improvement and stood at 10.60% as against 8.53% in H1FY20 on account of i) Increase in revenue from warehouse earnings and ii) Income from new contracts which has relatively better margins.

##### **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.

##### **Impact of COVID-19**

Operations of the company during April 2020 were continuing with intermittent disruption due to the COVID-19 as the port services being an essential service. Business volume started picking up from the month of May 2020. Many of the customers (manufacturing companies) of STL were under lockdown during Q1FY21 with major disruptions in their regular operations. On account of the same, import/export activity during Q1FY21 were relatively low. At the same time, warehousing/storage income witnessed good improvement during Q1FY21. Demand from other revenue streams started improving from Q2FY21 onwards post lifting of lockdown and consequent improvement in the economic activity.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

## 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 September 30, 2020 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 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	FY18	FY19	FY20
Handling	46.2	53.1	44.7
Equipment and fleet hire	27.8	41.1	38.3
Warehouse earnings	2.8	7.5	8.8
Agency and other earnings	3.2	3.9	4.3
<b>Total</b>	<b>80.0</b>	<b>105.7</b>	<b>96.1</b>

### ***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, 2020. 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 0.28x as on March 31, 2020 (PY: 0.29x). Interest coverage ratio during FY20 stood at 2.72x (PY: 2.86) and total debt to GCA stood at 5.64x as on March 31, 2020 (PY: 4.43x).

### **Liquidity: Stretched**

Liquidity is marked by tightly matched accruals to repayment obligations. The term loan repayment for FY21 is around Rs. 6.09 crore as against GCA of Rs.4.6 crore in FY20 and Rs.3.2 crore achieved in H1FY21. Of the scheduled repayment, around Rs. 4.60 crore has been repaid till November 30, 2020. STL's average working capital utilization stood at 50% for the past 12 months ended November 2020 and cash and bank balance (including margin money) stood at Rs. 6.32 crore as on September 30, 2020. It is to be noted that STL has availed moratorium for the interest component of Cash Credit facility pertaining to the period March 2020 to August 2020.

### **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 FY20, income from handling accounted for 47% of the total income followed by equipment and fleet hire (40%), warehousing (9%) and others (4%).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	107.4	97.8
PBILDT	6.6	7.8
PAT	(0.4)	0.1
Overall gearing (times)	0.29	0.28
Interest coverage (times)	2.44	2.69

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	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	4.85	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	14.00	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 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-Term Loan	LT	4.85	CARE BB+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	14.00	CARE BB+; Stable	-	-	-	-

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

Name of the Instrument	Detailed explanation
A. Non-Financial covenants	
i) Company should not indulge in further investments in subsidiaries/associate concerns without prior consent	-

**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](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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