

Shree Vasu Logistics Limited

February 10, 2020

Ratings

Facility/Instrument	Amount (Rs. crore)	Rating	Rating Action
Long-term Bank Facilities	19.31(enhanced from Rs 14.66 crore)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	4.00(enhanced from Rs 3.00 crore)	CARE A4+ (A Four Plus)	Reaffirmed
Total facilities	23.31 (Rs. Twenty Three Crore Thirty One Lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key rating Drivers

The ratings assigned to the bank facilities of Shree Vasu Logistics Limited (SVLL) are continue to remain constrained on account of its modest scale of operations in the highly competitive nature of the transportation and logistics business. The ratings, further, constrained on account of project implementation risk associated with it.

The ratings, however, continues to derive strength from experienced management with established customer base, diversified revenue stream and moderate profitability margins. The ratings, further, derive strength from moderate solvency position and adequate liquidity position.

Rating Sensitivities

Positive Factors

- Sustained increase in scale of operations of the company more than Rs.70.00 crore while maintaining of profitability margins.
- Timely completion of its debt funded project
- Sustained increase in PBILDT margin with PBILDT margin more than 20%.

Negative factors

- Deterioration of capital structure beyond 1.00 times owing to any debt funded CAPEX
- Any deterioration in PBILDT margin less than 12%.
- Deterioration of liquidity position with operating cycle more than 100 days.

Detailed description of the key rating drivers

Key Rating Weakness

Decline in profitability margins although stood moderate

Profitability of the company stood moderate marked by PBILTD and PAT margin of 15.34% and 4.67% respectively in FY19 as against 21.80% and 7.18% respectively in FY18. PBILTD margin of the company has declined by 645 bps over FY18 mainly on account of increase in employee cost, godown rent and hire charges paid. Decline in PBILDT margin and increase in depreciation cost has led to decline in PAT margin by 375 bps over FY18, although lower in quantum as against decrease in PBILDT margin owing to low interest cost. The GCA of the company has also declined and stood at Rs.3.64 crore in FY19.

In H1FY20, it has registered PBILDT and PAT margin of 15.17% and 7.15% respectively

Modest scale of operations although diversified revenue stream

Due to repeated orders from the existing clients as well as association of new client with the company attributes to continuous growth in Total Operating Income (TOI). The scale of operations of SVLL as indicated by TOI has exhibited increasing trend during the last three financials years (FY17-FY19) and grew at a compounded Annual Growth Rate (CAGR) of 6.90% in same time period. During FY19, TOI of the company has grown by 14.33% over FY18 and stood at Rs.35.89 crore in FY19. TOI consist of 72.40% of transportation services and 27.60% of warehousing services. Till September 30, 2019 the company achieved TOI of Rs 32.65 crore. Despite continuous growth in TOI, the scale of operations of the company stood at modest level.

Highly competitive nature of transportation and logistics business

The business of the company is a highly competitive business on account of high degree of fragmentation in the industry with presence of a large number of small players having limited fleet size, both in organized and unorganized sectors. The warehousing market in India is highly fragmented with most warehouses having an area of less than 10,000 sq.ft. Approximately 90% of the warehousing space in the country is controlled by unorganized players with smaller sized warehouses which have limited mechanization. Fragmented warehousing footprint results in higher average inventory holding, in addition to resulting in higher storage and handling losses, driven by lower level of mechanization.

Project implementation risk

The company is increasing its scale of operation by addition of new warehouses on rental basis as well as owned warehouses. The company is expanding its business in major parts of eastern and southern India and, it has plans to increase its warehouse storage capacity. During FY20, it undertook a project for construction of warehouse at Raipur and has envisaged project cost of Rs.6.67 crore to be funded through term loan of Rs.5 crore and remaining through internal accruals. Till September 30, 2019, it has incurred total cost of Rs.1.71 crore towards the project. The project will be completed in first half of FY21.

After completion of this project, it will take further project for capacity expansion. It has envisaged project cost of Rs.11.56 crore to be funded through term loan of Rs.9.25 crore and remaining through internal accruals. It already achieved financial closure for entire project.

Key Rating Strengths**Experienced management with established customer base**

Mr. Bhushan Garg, founder promoter, is Chairman of the company and has more than three decades of experience in the industry. He is assisted by his son, Mr. Atul Garg, Managing Director, who has experience of more than a decade in the industry. Mrs. Preeti Garg has joined SVLL in 2017 and has vast experience in developing financial strategy. Further, the directors are assisted by second tier management who has vast experience in their respective fields.

Being present in the industry since long, the company has established relations with various large corporates and the same is reflected from the repeated orders from them. The company caters its services to various sectors such as agriculture, petroleum, food and food products, FMCG, Medicine, cosmetics, paints and adhesives and wires and cables and hence, Total Operating Income (TOI) is not concentrated on any one sector.

Moderate solvency position

The solvency position of the company stood comfortable marked by overall gearing of 0.59 times as on March 31, 2019, improved from 2.38 times as on March 31, 2018 mainly on account of increase in share capital through IPO and accretion of profit to reserves as well as repayment of unsecured loans, scheduled repayment of term loan and low working capital bank borrowings. The debt service coverage indicators of the company stood moderate marked by total debt to GCA of 3.07 times as on March 31, 2019, improved from 4.70 times as on March 31, 2018 owing to higher decrease in total debt as against decrease in GCA level. Further, interest coverage ratio of the company stood moderate at 3.95 times as on March 31, 2019, improved from 3.59 times as on March 31, 2018 mainly on account of low interest and finance cost.

Healthy demand outlook of the sector

The domestic logistics market is expected to grow at a CAGR of approximately 10%. Indian logistics market is expected to be driven by the growth in the manufacturing, retail, FMCG and e-commerce sectors. Development of logistics-related infrastructure such as dedicated freight corridors, logistics parks, free trade warehousing zones, and container freight stations are expected to improve efficiency. The industry is dominated by transportation, which accounts for over 85% of total value, and its share is expected to remain high over the next few years.

Liquidity: Adequate

Liquidity position of the company stood adequate marked by the average utilization of fund based limit of around 48.21% during the last twelve months ended December 31, 2019. The operating cycle of the company stood at 63 days in FY19, improved from 68 days in FY18 owing to increase in creditors days. SVLL pay creditors consisting of rental business within 30 days and transportation business within 30 days. The debtors of the company stood high on account of its presence in warehousing and renting activities and it has low bargaining power with its customers. Due to low inventory and high working capital bank borrowings, the current ratio and quick ratio of the company stood below unity at 0.75 times and 0.74 times respectively as on March 31, 2019. The cash and bank balance of the company stood at Rs.2.04 crore as on March 31, 2019. Further, cash flow from operating activities stood at Rs 5.50 crore as on March 31, 2019. The GCA of the company stood at Rs 6.86 crore against repayment of Rs 3.20 crore in FY20.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Service Sector Companies](#)

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

About the Company

Raipur (Chhattisgarh) based SVLL was initially incorporated in 2007 as a private limited company by Garg family with a takeover of four proprietorship concerns (which was belonged to Garg family). Subsequently, in 2018, the constitution of the company was changed to Public Limited Company and assumed current name. Further, in June 4, 2018, the shares of the company were listed on National Stock Exchange of India (NSE) SME platform.

SVLL is engaged in logistic services which include warehousing, carrying and forwarding agent (C&F), transportation, inventory management, and product handling. The company provides C&F services in Chhattisgarh, Orissa, West Bengal, Assam and some parts of Madhya Pradesh and Maharashtra. The company has total warehousing capacity of 20 lakh square feet as on March 31, 2019 and provides its services to major large corporate clients. It has in house online ERP software for logistic management. It has more than 30 transport vehicles for providing transportation and distribution services. Further, the company is expanding its business in major parts of Eastern and Southern India.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	31.39	35.89
PBILTD	6.84	5.50
PAT	2.22	1.51
Overall gearing (times)	2.38	0.59
Interest coverage (times)	3.59	3.95

(A; Audited)

Status of non-cooperation with previous CRA: None

Any other information: None

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

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-Term Loan	-	-	July 2024	10.81	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	7.50	CARE BB+; Stable
Fund-based - LT-Bank Overdraft	-	-	-	1.00	CARE BB+; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	1.00	CARE A4+
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A4+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	10.81	CARE BB+; Stable	-	1)CARE BB+; Stable (19-Mar-19)	-	-
2.	Fund-based - LT-Cash Credit	LT	7.50	CARE BB+; Stable	-	1)CARE BB+; Stable (19-Mar-19)	-	-
3.	Fund-based - LT-Bank Overdraft	LT	1.00	CARE BB+; Stable	-	1)CARE BB+; Stable (19-Mar-19)	-	-
4.	Fund-based - ST-Working Capital Demand loan	ST	1.00	CARE A4+	-	1)CARE A4+ (19-Mar-19)	-	-
5.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A4+	-	1)CARE A4+ (19-Mar-19)	-	-

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

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