

Skyways Air Services (P) Limited

March 20, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	80.00 (reduced from Rs. 83.00 crore)	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Reaffirmed
Long/Short term Bank Facilities	2.10 (enhanced from Rs. 2.00 crore)	CARE A2 [A Two]	Reaffirmed
Total Facilities	82.10 (Rs. Eighty Two crore and Ten lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Skyways Air services (P) Limited (Skyways) continue to derives strength from its experienced and qualified promoters, its established position in Air Freight Forwarding Space in India and benefits derived from its long standing relationship with Airline Carriers. The ratings also factor in its diversified client base, consistent growth in its scale of operations and its moderate capital structure with strong debt service coverage indicators. These rating strengths, however, are partially offset by its thin profitability margins, exposure of business prospects of Skyways to variation in global economic cycle, movement of crude oil prices & foreign currency fluctuation risk, high receivables days and highly fragmented & competitive nature of the freight industry.

Rating Sensitivities

Going forward, the ability of the company to sustain its growing scale of operations with effective management of its working capital requirement, improvement in its profitability margins and continuation of its relationship with its clients and airlines would be the key rating sensitivities.

Positives

- Increase in TOI by more than 20% in the projected years and improvement in its PBILDT Margins from the current levels on a sustained basis.
- Diversification of its clientele in different geographies and effective management of forex exposure
- Ability of the company to manage its working capital requirements and to maintain its capital structure with increase in scale of operations

Negatives

- Impact on the income and profitability of the company owing to variation in global economic cycle
- Weakening of its Capital Structure with overall gearing of more than 1.60x in the projected period.
- Any impact on its relationships with airlines and clients

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

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. He also held the position of Member of the Executive Committee of Federation of Freight Forwarders' Association in India and Vice President of Delhi Customs Clearing Agents Association. Mr. Yashpal Sharma (Director), who has completed his graduation from University of Delhi and an executive course in Strategic IQ from the Harvard Business School, Boston, USA, has more than 2 decades of experience in the logistics field. Mr. Rohit Sehgal (Executive director) heads the day-to-day operations of the company and Mr. Himanshu Chhabra (Executive director), (AICWA, CS and MBA from MDI Gurgaon), handles the operations of financial planning and funds management of the company. Further, directors are assisted by a team of qualified professionals who have substantial experience in the logistics domain.

Established Presence in Air Freight Forwarding Space in India

Skyways has a long and established presence in the air freight industry for more than 3 decades. Over the years, company has positioned itself as a leading service provider in the air freight industry originating from India. Skyways provides freight

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

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.

Long Standing Relationships with Airlines

Skyways has maintained good relationship with airlines carriers driven by large volumes. Skyways has various Annual price and Service level agreements in place with majority of airlines including Ethiad Airways, Emirates, British Airways, Lufthansa, Singapore Airlines, Jet Airways, Qatar Airways and KLM. Skyways business of supplying the cargo through air channel is time sensitive and prices offered by airlines carriers to Skyways is also dependent on time and demand-supply scenario for the airlines. However, due to its long standing relationships with airline carriers, Skyways gets preference from these airlines carriers in terms of space availability and it also gets benefitted in terms of offering of special pricing and Performance Linked Bonus by airlines on account of supplying of large volume cargos. Further, the airlines are also offering credit term of 30-45 days to Skyways for clearing its outstanding dues.

Diversified Client Base

Skyways provides international and domestic air freight services to its broad and diversified customer base in the verticals of Automotive Industry, Pharmaceuticals and Healthcare Industry, Industrial companies (in the sub sector of Energy and Power, Aviation, Mining and Construction, Automation, General Industrial goods, Rail Vehicles and Transportation Paper and Fiber) and retail sector. It is also evident by the top 4 customers forming only 10.57% of the total income of the company in FY19 (PY: 10.44%).

Growing scale of operations

The total operating income of Skyways grew at a healthy rate of 23.74% on y-o-y basis from Rs. 517.06 crore in FY18 to Rs. 639.81 crore in FY19 owing to higher demands from both import logistics and export logistics. Several Government Initiatives like Make in India, Skill India, Digital India and Start Up India etc had resulted in big boost to E-Commerce and manufacturing sector in India, which derived the demand in logistics sector in past few years.

Further, during 9MFY20, company has achieved a total operating income of Rs. 481.68 crore as against Rs. 475.31 crore in 9MFY19.

Moderate Capital Structure and Strong Debt Service Coverage Indicators

Skyways relies on external borrowing for the working capital limits to support its increasing scale of operations. Total Debt of the company stood at Rs. 48.99 crore as on March 31, 2019 comprised of working capital borrowing of Rs. 48.07 crore and term loan of Rs. 0.92 crore (total debt of 42.81 crore as on Mar 31, 2018 comprised of working capital borrowing of Rs. 41.51 crore and term loan of Rs. 1.30 crore). Tangible Networth of the company remains moderate at Rs. 35.27 crore as on March 31, 2019 though increased from Rs. 26.61 crore as on March 31, 2018 owing to accretion of profits into the reserves. As a result, Overall Gearing of the company has improved from 1.61x as on March 31, 2018 to 1.39x as on March 31, 2019 (1.26x as on Dec 31, 2019).

The company is availing working capital borrowings in the form of OD against margin money. FDR of the company stood at Rs. 18.85 crore as on March 31, 2018, Rs. 29.00 crore as on March 31, 2019 and Rs. 35.36 crore as on Dec 31, 2019. Overall Gearing on Net Debt (after subtracting the FDR against working capital borrowings from total debt) had improved from 0.90x as on March 31, 2018 to 0.57x as on March 31, 2019 and further to 0.37x as on Dec 31, 2019.

Debt Coverage Indicators of the company also remains comfortable. Total Debt to GCA stood at 4.38x as on March 31, 2019 (4.30x as on March 31, 2018) and Interest Coverage Ratio of the company stood at 5.78 times in FY19 (5.06 times in FY18).

Liquidity: Adequate

The liquidity position of the company remains adequate as company doesn't have any significant long term debt repayment obligations in the future years and company is generating healthy cash accruals for meeting the needs of general capex. Current Ratio of the company remains comfortable and stood at 1.25x as on March 31, 2019 (1.23x as on March 31, 2018) on account of health cash and bank balance and high trade receivables due to allowing of healthy credit terms to its customers. Skyways had a cash and cash equivalents of Rs. 29.28 crore as on March 31, 2019 (Rs. 19.09 crore as on March 31, 2018) majority of which held as Fixed deposit for availing CC/ OD limits. Average Month end utilization for the past 9 Months ending Dec 31, 2019 stood at 92.83%. Company is availing CC/ OD against margin money, which provides some liquidity cushion to the company.

Key Rating Weaknesses

Thin Profitability Margins

Profitability margins of Skyways remains on lower side due to competitive and fragmented nature of the industry, low capital requirement and as most of the customers of Skyways are further sub agencies, so company has to offer better rates for

acquiring business from them. Further, Gross Margin of the company has slightly declined from 9.59% in FY17 to 8.82% in FY18 and further to 8.71 % in FY19 as the company's focus was to gain more business by offering better rates. Also, due to decline in Gross Margin, PBILDT Margin of the company has declined from 3.37% in FY18 to 3.12% in FY19. Further, during 9MFY20, company has registered a PBILDT Margin of 2.28% and PAT of Rs. 4.60 crore as against PBILDT Margin of 3.40% and PAT of Rs. 7.97 crore in 9MFY19. The decline in PBILDT Margin is on account of slow down in the global economy. Company is getting significant portion of its revenue from Garments and Auto sector and slowdown in the industries had impacted the margins of the company in 9MFY20.

High Receivables Days

Skyways has a well-diversified but small clientele across various industries. So, the average collection period of Skyways remains elongated due to extended credit provided to customers to remain competitive and to acquire new customers. However, Skyways has a proper structured credit department in place which goes through various checks and internal due diligence to access the credibility of customer before giving them credit terms. Further, as the company is engaged in deliveries across the country, the delivery time also adds to the receivable cycle of the company. Average Collection Period of Skyways remains at around 50 days (47 days for FY19 and 51 days for FY18). Airlines Carriers provides credit term of 30-45 days to Skyways. Credit due from airlines between first half of month has to be settled by 15th of next month by Skyways. Average Creditor Days of Skyways stood at 31 days for FY19.

Time gap in collection of receivables and also company has to incur some upfront operational expenses for security check and for advance payments, which results in large working capital requirements for Skyways.

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 leads 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. The freight movement and earnings of the logistic industry is primarily 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. Slowdown in the global economy in had impacted the profitability of the company in 9MFY20 and muted global economies amid COVID-19 can impact the operations of the company. Going forward, any significant impact of the same on the financial risk profile of the company is the key rating sensitivity.

Further, business of Skyways is also closely linked with the movement of prices of crude oil as the rates offered by airlines to Skyways depends on the prices of crude oil and any adverse movement in crude oil prices can have an impact on Skyways.

Exposure to foreign currency fluctuation risk

Skyways is exposed to foreign currency fluctuation risk as the company derives significant portion of its revenue in foreign currency corresponding to import logistics services provided by the company for its foreign clients. Rs. 67.97 crore of revenue was booked by the company in foreign currency, which is around 10.62% of its total operating income in FY19.

However, Skyways also have to incur expenses in foreign currency for the custom clearance and logistic charges to third parties in destination country of cargo supplied by Skyways. So, Natural Hedging works well for the company to cover some part of its foreign currency fluctuation risk. Rs. 29.27 crore of expenses was incurred by Skyways in foreign currency during FY19, which was around 4.72% of cost of sales in FY19.

The net foreign currency exchange rate gain of the company in FY19 stood at Rs. 0.30 crore (Rs. 0.81 crore of net foreign currency gain in FY18).

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](#)

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 has various Annual price and Service level agreements in place with majority of airlines including Ethiad Airways, Emirates, British Airways, Lufthansa, Singapore Airlines, Jet Airways, Qatar Airways and KLM. Skyways has a diverse customer base in the verticals of Automotive Industry, Pharmaceuticals and Healthcare Industry, Industrial companies (in the sub sector of Energy and Power, Aviation, Mining and Construction, Automation, General Industrial goods, Rail Vehicles and Transportation Paper and Fiber) and retail sector. 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. The company is also providing logistics services through its subsidiaries i.e. Skyways SLS Logistik GmbH, Surgeport Logistics Pvt. Ltd., Phantom Express pvt. Ltd. and freight services through oceanway channel through its group company i.e. Forin Container Line.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	517.06	639.81
PBILDT	17.45	19.95
PAT	8.65	9.50
Overall gearing (times)	1.61	1.39
Interest coverage (times)	5.06	5.78

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

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	-	-	-	80.00	CARE BBB+; Stable
Non-fund-based-Short Term	-	-	-	2.10	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 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	80.00	CARE BBB+; Stable	1)CARE BBB+; Stable (04-Apr-19)	-	-	-
2.	Non-fund-based-Short Term	ST	2.10	CARE A2	1)CARE A2 (04-Apr-19)	-	-	-

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

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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