

Skyways Air Services Private Limited

April 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	83.00	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Assigned
Short-term Bank Facilities	2.00	CARE A2 [A Two]	Assigned
Total facilities	85.00 (Rs. Eighty Five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Skyways Air services Private Limited (Skyways) derives strength from its experienced and qualified promoters, established position in Air Freight Forwarding Space in India and diversified client base. The ratings further factors in benefits derived from its long standing relationship with Airline Carriers. The ratings also factor in consistent growth in its scale of operations and sound liquidity position characterized by healthy cash and bank balance.

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.

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. Further, any significant debt funded capex which may adversely impact the capital structure of the company will also be critical for its credit risk profile and is a key rating factor.

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

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

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 forwarding services to its customers for both import logistics and export logistics through its 26 branches spread across India. Export logistics caters to around 75% of its business revenue and import logistics caters around 25% of its business revenue. Further, Skyways had received accreditation from International Air Transport Association (IATA) in 1987 and further Ministry of Finance, Govt 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 10.44% of the total income of the company in FY18 (PY: 9.90%).

Around 65% of total revenue of Skyways is derived from Sub Agency Business. In Sub Agency Business company is procuring business from other small freight forwarding agency on account of better prices offered to them by Skyways as it receives better rates, volume discounts and preference in available space owing to its long standing relationship with Airlines Carrier and high volumes provided to them. Around 25% of revenue is from direct customers and remaining revenue of around 10% is from franchise business. In franchise business, Skyways catered to the business of tier 2 and tier 3 cities through agents, where credit risk is generally high and profits are shared between franchise agents and Skyways as per the agreed contracts between them.

Growing scale of operations

The total operating income of Skyways grew at a healthy rate of 51.30% on y-o-y basis from Rs. 341.74 crore in FY17 to Rs. 517.06 crore in FY18 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 9MFY19, company has achieved a total operating income of Rs. 475.31 crore.

Moderate Capital Structure

Skyways relies on external borrowing for the working capital limits to support its increasing scale of operations. Total Debt of the company which stood at Rs. 42.81 crore as on March 31, 2018 comprised of working capital borrowing of Rs. 41.51 crore and term loan of Rs. 1.30 crore (total debt of 49.98 crore as on Sep 30, 2018 comprised of working capital borrowing of Rs. 48.90 crore and term loan of Rs. 1.08 crore). Tangible Networth of the company remains moderate at Rs. 26.61 crore as on March 31, 2018 though increased from Rs. 18.57 crore as on March 31, 2017 and further increased to Rs. 31.59 crore as on Sep 30, 2018 owing to accretion of profits into the reserves. As a result, Overall Gearing of the company has improved from 2.18x as on March 31, 2017 to 1.61x as on March 31, 2018 and further to 1.47x as on Dec 31, 2018.

Debt Coverage Indicators of the company, Total Debt to GCA improved from 6.73x as on March 31, 2017 to 4.30x as on March 31, 2018 and Interest Coverage Ratio of the company also improved from 4.57 times in FY17 to 5.06 times in FY18 owing to better profitability.

Sound Liquidity Position

Skyways is having a comfortable liquidity profile marked by healthy cash and bank balance. Skyways had a cash and cash equivalents of Rs. 28.28 crore as on December 31, 2018 (Rs. 19.19 crore as on March 31, 2018 and Rs. 19.74 crore as on March 31, 2017). Further, the average month end utilization of the fund based limits remains comfortable at 46.63% for the past 11 months ending Nov. 30, 2018.

Current Ratio of Skyways also remains moderately comfortable at 1.23 times as on March 31, 2018 (1.23 times as on March 31, 2017) on account of high trade receivables amounting Rs. 77.55 crore as on March 31, 2018 and healthy cash and Bank balance.

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 declined from 9.59% in FY17 to 8.82% in FY18 as the company's focus was to gain more business by offering better rates to its clients. Further, despite of decline in Gross Margin, PBILDT Margin of the company has slightly improved from 3.14% in FY17 to 3.37% in FY18 with increase in scale of operations and with expense overhead remained almost same. PAT of the company has also improved from Rs. 5.15 crore in FY17 to Rs. 8.65 crore in FY18.

During 9MFY19, company has achieved a PBILDT Margin of 3.40% and PAT of Rs. 7.97 crore.

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 assess 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 (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 around 24 days for FY18.

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.

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. 35.69 crore of revenue was booked by the company in foreign currency, which is around 7% of its total operating income in FY18.

However, Skyways also has 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. 20.64 crore of expenses was incurred by Skyways in foreign currency during FY18 (which is around 4% of cost of sales in FY18). Further, the company hedges the fluctuation risk by entering into forward contracts (almost 100% of remaining foreign currency exposure is hedged by the company in general), which mitigates the risk to some extent.

Analytical approach: Standalone

Applicable Criteria

[CARE's criteria on assigning outlook to credit ratings](#)

[CARE's policy on Default recognition](#)

[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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	341.74	517.06
PBILDT	10.74	17.45
PAT	5.15	8.65
Overall gearing (times)	2.18	1.61
Interest coverage (times)	4.57	5.06

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	83.00	CARE BBB+; Stable
Non-fund-based-Short Term	-	-	-	2.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term	LT	83.00	CARE BBB+; Stable	-	-	-	-
2.	Non-fund-based-Short Term	ST	2.00	CARE A2	-	-	-	-

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