

November 17, 2020

Sahyadri Industries Limited: [ICRA]BBB+(Stable)/[ICRA]A2 assigned

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|--|
| Long-term, fund based – Cash Credit | - | 66.15 | [ICRA]BBB+(Stable); Assigned |
| Long-term / short term, Unallocated Amount | - | 48.00 | [ICRA]BBB+(Stable) / [ICRA]A2; Assigned |
| Total | - | 114.15 | |

*: Instrument details are provided in Annexure-1

Rationale

The assigned ratings factor in the long-standing track record of the promoters of Sahyadri Industries Limited (SIL or the company) in the building material sector (roofing sheets) and its wide distribution network comprising over 3,000 distributors, which has ensured strong brand presence especially in the western and southern markets of India. The ratings also take into account SIL's financial profile characterized by healthy profitability, comfortable capital structure and strong coverage indicators. The company's profitability is also aided by the power generation division, which provides cushion to the overall profitability metrics of the company.

The ratings, however, remain constrained by SIL's moderate scale of operations coupled with high product concentration risk exhibited by the company over the years. The company deals majorly in asbestos roofing sheet, the demand for which remains seasonal and is also linked to vagaries of the rural markets. Furthermore, SIL's business operations also remain exposed to the regulatory risks concerning industrial usage of asbestos fiber. The company's operations remain working capital intensive in nature, given its high inventory level requirements, arising from seasonality in business. The ratings also factor in the vulnerability of margins to any adverse fluctuation in raw material prices, as well as exposure to fluctuation in foreign exchange rates, given the entire asbestos fiber requirement is imported.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's expectations that SIL will continue to benefit from the well-established track record of its promoters in the building material sector and SIL's strong presence in the western India. The company has also undertaken additional efforts to increase its revenue base in the southern markets, which is expected to boost overall revenues over the medium term.

Key rating drivers and their description

Credit strengths

Long-standing track record and credibility of promoters in the building material sector – The promoters of SIL – Mr. Jayesh Patel and Mr. Satyen Patel have over two decades of experience in the building material sector, particularly in the roofing sheets (asbestos cement sheets – AC sheets) segment. The vast experience of promoters has helped the company in establishing its brand presence in the domestic market over the years.

Wide distributor network – SIL has a strong distributorship network across India, comprising over 3,000 dealers and distributors having strong operational presence in the western and southern markets of India. Wide distributor network helps the company in establishing its brand presence and also offers revenue visibility from the domestic market. The company sells building material products and accessories under the brand names Swastik, Cemply and Ecopro, amongst others.

Financial profile characterized by healthy profitability, comfortable capital structure and strong coverage indicators –

The financial profile of SIL is characterized by healthy profitability over the years coupled with comfortable capital structure and strong coverage indicators. The company has exhibited healthy operating margins over the years on account of significant value addition in its product offerings. It reported an operating margin of 16.1% and a net margin of 9.2% in FY2020. The capital structure remains comfortable as evident from the gearing level of 0.3 times as on March 31, 2020 due to healthy accruals and low debt levels. Healthy profitability and low debt levels have resulted in strong coverage indicators as reflected from interest coverage and Total Debt / OPBDITA of 8.0 times and 1.3 times respectively in FY2020.

Profitability aided by the power generation division – The company operates nine windmills in Maharashtra and Rajasthan. The power generated from these windmills is sold to the State Electricity Boards as well as partially used for captive consumption. The power generation division of SIL has provided modest but consistent revenue for the company over the years. This division typically carries higher margins as compared to the building material division and thus, provides cushion to the overall profitability metrics of the company.

Credit challenges

Moderate scale of operations with product concentration risk – With an operating income of ~Rs. 290.1 crore in FY2020, SIL exhibits a moderate scale of operations. ICRA notes that the company has achieved an operating income of Rs. 238.6 crore in H1FY2021 on the back of efforts taken by the management to improve production levels coupled with favourable uptick in demand. Consequently, the company's scale of operations is expected to improve in FY2021. SIL also remains exposed to product concentration risk with asbestos-based roofing products dominating its product portfolio. Nevertheless, the company is looking to gradually reduce its dependence on asbestos-based products in the medium term and will be a key credit monitorable going forward.

Vulnerability of demand linked to vagaries of the rural markets – Given the nature of the product offerings by SIL, the rural markets are the key consumers for asbestos sheets manufactured by the company. As a result, the business operations of SIL remains exposed to demand conditions of the rural economy, which in turn is dependent on Minimum Support Price (MSP) movement, fair wage rate payment, farm productivity and monsoon conditions. Any adverse movement in the demand for SIL's products from the rural markets could therefore impact the revenue base and thus profitability of the company. The company's presence in the semi-urban and urban regions, however, provides some comfort against the said risk.

Business operations stand exposed to regulatory risks concerning industrial usage of asbestos fiber – Brown and blue asbestos are hazardous to health and are banned globally, while white asbestos has been banned in some countries. However, it continues to be used in India, which is one of the largest importers of the material. With asbestos-based products dominating SIL's product profile (~87% asbestos-based products in FY2020, quantity wise), its business operations stand exposed to regulatory risks concerning industrial usage of asbestos fiber as well as restrictions on mining of asbestos in the asbestos-producing countries. ICRA notes company's plans to reduce its dependence on the asbestos-based products and will continue to be a key rating sensitivity.

Working capital intensive nature of operations due to high inventory levels; margins exposed to fluctuations in raw material prices and foreign exchange rates – SIL's operations remain working capital intensive due to historically high levels of inventory, in line with the nature of business the company is engaged in. Furthermore, manufacturing of AC sheets is raw material intensive in nature; therefore, the margins remain susceptible to adverse fluctuations in the costs of key raw materials such as asbestos, cement and fly ash. SIL's margins also stand exposed to fluctuations in the foreign exchange rates, given the company's considerable imports in the form of asbestos fiber and absence of any formal hedging policy. Its exports, though moderate, provide natural hedging against the imports to an extent. The company's ability to pass on the increased cost to the customers amidst intense competition from other players will therefore remain a key determinant of the company's profitability going forward.

Liquidity position: Adequate

The company's liquidity position remains **adequate** on the back of healthy cash and liquid investments of ~Rs. 33.7 crore as on March 31, 2020 and Rs. 64.4 crore as on September 30, 2020 and low utilisation of fund-based limits at ~12% during the 16 months period ending July 2020. Moreover, the external long-term debt repayment remains minimal for FY2021 and FY2022.; However, the company may look at repaying its unsecured debt from promoters over the near to medium term, provided sufficient buffer in liquidity is available. The company plans to undertake capex of ~Rs. 82.0 crore during FY2021 to FY2023, which will be funded through a mixture of internal accruals and term loans.

Rating sensitivities

Positive triggers – The rating could be upgraded if the entity shows 1) higher product diversification by increasing the share of non-asbestos products 2) exhibits significant growth in its revenue base and profitability on a sustained basis

Negative triggers – The rating could be downgraded if the entity shows significant de-growth in revenue base or deterioration in profitability leading to stress on liquidity position of the company. Any larger than anticipated debt-funded capex leading to cashflow mismatch could also warrant a rating downgrade

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology |
| Parent/Group Support | Not applicable |
| Consolidation / Standalone | The rating is based on the standalone financial statements of Sahyadri Industries Limited |

About the company

Established in 1947, SIL is engaged in providing building material products for interior and exterior building systems and roofing solutions. SIL got listed on the stock exchange in year 2006-07. It operates through five manufacturing plants located across four states – Maharashtra, Gujarat, Tamil Nadu and Andhra Pradesh, and sells its products under the brand names - Swastik, Cemply and Ecopro through a network comprising over 3,000 distributors. The company also operates nine windmills in Maharashtra and Rajasthan with incremental revenue contribution from the power generation division, providing stable source of revenue generation to the company.

Key financial indicators

| | FY2019 | FY2020 |
|---|----------------|----------------|
| | Audited | Audited |
| Operating Income (Rs. crore) | 296.62 | 290.14 |
| PAT (Rs. crore) | 31.90 | 26.57 |
| OPBDIT/ OI (%) | 22.54% | 16.14% |
| PAT/OI (%) | 10.75% | 9.16% |
| Total Outside Liability/ Tangible Net Worth (times) | 0.69 | 0.66 |
| Total Debt/ OPBDIT (times) | 0.71 | 1.27 |
| Interest Coverage (times) | 10.09 | 8.04 |

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years

| Instrument | Type | Current Rating (FY2021) | | | Chronology of Rating History for the past 3 years | | |
|----------------------|--------------------------|--------------------------|--|--------------------------------|---|-------------------------|-------------------------|
| | | Amount Rated (Rs. crore) | Amount Outstanding (Rs crore) as on March 2020 | Date & Rating 17-Nov-2020 | Date & Rating in FY2020 | Date & Rating in FY2019 | Date & Rating in FY2018 |
| 1 Cash Credit | Long-Term | 66.15 | NA | [ICRA]BBB+ (Stable) | - | - | - |
| 2 Unallocated Amount | Long- term / Short- term | 48.00 | - | [ICRA]BBB+ (Stable) / [ICRA]A2 | - | - | - |

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|--------------------|-----------------------------|-------------|---------------|--------------------------|--------------------------------|
| NA | Cash Credit | NA | NA | NA | 66.15 | [ICRA]BBB+ (Stable) |
| NA | Unallocated Amount | NA | NA | NA | 48.00 | [ICRA]BBB+ (Stable) / [ICRA]A2 |

Source: Sahyadri Industries Limited

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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