June 14, 2021

SJS Enterprises Private Limited: Rating Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-based Working Capital	31.50	28.0	[ICRA]A+(Stable); Reaffirmed
Long-Term Unallocated	5.50	9.0	[ICRA]A+(Stable); Reaffirmed
Total	**37.00**	**37.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors SJS Enterprises Private Limited's (SJSPL) extensive track record in the self-adhesive labels industry and its established relationship with reputed clientele (OEMs and tier-1 suppliers). The rating derives strength from the company's strong financial profile characterised by its healthy profitability, comfortable capital structure and coverage indicators, along with strong liquidity position. ICRA also notes the company's diversified product profile with SJSPL supplying automotive dials, overlays, exterior decals, logos, and badges for the various OEMs and tier-1 suppliers in the auto and white goods sectors. It has been undertaking efforts in expanding its product portfolio through in-house product development. The same resulted in improved product diversification in the recent years with 10-15% of the revenue being derived from these products in FY2020 and FY2021. ICRA notes that the recent acquisition of an entity – Exotech Plastics Private Limited (EPPL) will help the company to further strengthen the product and customer diversification, while enhancing value proposition of its existing products.

The rating is, however, constrained by the company's moderate scale of operations with high concentration of revenues from the two-wheeler segment. With relatively modest content per vehicle provided by its products and presence majorly in the two-wheeler segment, SJSPL's scale of operations continues to remain moderate with revenue of around Rs. 252 crore in FY2021. The vendor switch-over cost for OEMs in SJSPL's product segment remain low. However, its resilient business ties with the large and reputed customers, along with healthy wallet share in their overall requirement, provides comfort. ICRA notes that the revenue from the auto segment is vulnerable to cyclicality in the automobile industry owing to variations in demand from the end-users.

Key rating drivers and their description

Credit strengths

Extensive experience in manufacturing of self-adhesive labels; established relationship with reputed clients – SJSPL was established in 1987 and has more than three decades of experience in manufacturing self-adhesive labels. Over the years, the company has established relationship with its customers and suppliers, which supported growth over the years. The company benefits from its relationship with tier-I automotive suppliers and auto OEMs in two-wheeler and passenger vehicle segments such as TVS Motor Company Limited (TVS), Bajaj Auto Limited (Bajaj) and Honda Motorcycle & Scooter India Private Limited (HMSI) among others in its clienteles. Further, in the white goods segments, it serves to reputed brands such such as Whirlpool, Samsung, Electrolux, among others. It has been associated with its top customers for more than two decades and receives incremental orders from them annually.

Comfortable financial profile – SJSPL's financial profile remains comfortable, marked by healthy profitability and capital structure. Its subsidiary also reported a healthy capital structure and debt protections metrics at the standalone level. Going forward, with no major capex plans and moderate dividend payout expectation, ICRA expects the company's capital structure and debt protection metrics to remain robust.

Healthy profitability and return indicators – ICRA notes the company's comfortable operating margins and return indicators with its operating margin and RoCE remaining healthy at 30.2% and 27.2% in 9M FY2021, respectively, compared to 29.5% and 21.2% in FY2020, respectively. ICRA expects its standalone margin to remain stable in the near term, albeit with marginal decline. The consolidated margin is likely to dip by around 300bps on account of acquisition of EPPL, whose profitability is expected to be around 10-12%.

Diversified product profile supported by acquisition of an entity with chrome plating business – The company's product profile is moderately diversified as it supplies automotive dials, overlays, exterior decals, logos, and badges for the various OEM's and tier-1 suppliers in the automobile and white goods sectors. During 9M FY2021, its top product contributed to 34% of its revenue and the top three products accounted for around 70% of its revenue. SJSPL has been undertaking efforts in expanding its product portfolio through in-house product development, which resulted in products diversification in the recent years. In FY2020 and FY2021, 10-15% of its revenue was derived from these new products such as aluminium badges, in-mould decorative, etc. Further, the recent acquisition of EPPL will help the company to further strengthen its product and customer diversification, while improving the value proposition of the existing products.

Credit challenges

Modest scale of operations limits operational flexibility; established relationship with customers provides comforts – The company's moderate scale of operations with high concentration of revenues from the two-wheeler segment remain a credit challenge. With relatively modest content per vehicle on its products and presence majorly in the two-wheeler segment, SJSPL's revenue was around Rs. 252.0 crore in FY2021. Going forward, introduction of new products and acquisition of new customers through Exotech is expected to drive the revenue growth.

Despite moderate scale, ICRA notes that the company's operating margin and return indicators continue to remain healthy indicating its strong operational profile. In terms of segment diversification, it derives around 60% of revenues from the two-wheeler segment and the remaining from the four-wheeler and white goods segments.

Exposed to inherent cyclicality in automotive industry – With SJSPL deriving a major portion of its revenues from the two-wheeler and four-wheeler segments, its operating income remains vulnerable to the cyclicality in these segments. Its revenue growth in FY2019 and FY2020 was impacted by the demand slowdown in these sectors. The company's revenue is expected to be affected in Q1 FY2021 on account of the operational disruptions faced by the OEMs due to the Covid-19 pandemic. Nonetheless, ICRA expects the growth in two-wheeler segment to be around 10-12% and the PV segment to grow by around 17-20%. The cyclicality is partly mitigated, to an extent, as the white goods segment accounts for around 20% of its revenue.

Liquidity position: Strong

SJSPL's liquidity position continues to remain **strong**, supported by healthy cash balances and undrawn limits available. ICRA expects the company's cash flow from operations to remain robust, driven by healthy profitability and stable working capital intensity. Apart from the recent acquisition for Exotech, the company is not expected to go for any major capex plan or any inorganic expansion in the near term. With minimal utilisation of its limits and cash balance of around Rs. 59 crore of liquid investments, its liquidity continues to remain strong. ICRA notes that the company had declared dividend of Rs. 12 crore in the previous year and interim dividend of Rs. 6 crore in the current year and expects a similar dividend payout levels going forward.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to scale up its operations through a sustainable diversification of its product segment and customer profile, while maintaining profitability indicators, credit metrics and liquidity profile at the current healthy levels.

Negative factors – Any significant contraction in the company's scale of operations and cash accruals on account of weak demand scenario, reduction in market share, lower offtake from customers can result in a rating downgrade pressure. Further, weakening in the liquidity position or debt protection metrics due to any large capex/ further inorganic expansion could also result in rating downgrade. Specific credit metrics that could result in a downgrade would include Debt/OPBDITA greater than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the company's consolidated financial profile. From FY2022 31, 2020, SJSPL will be having a subsidiary – Exotech Plastics Private Limited.

About the company

SJSPL was established in 1987 by Mr. V. Srinivasan, Mr. K. A. Joseph and Mr. Sivakumar as a partnership concern, which was subsequently converted into a private limited company in June 2005. During September 2015, Evergraph Holdings Pte Ltd, a subsidiary of Singapore-based private equity firm Everstone Capital, acquired majority stake in SJSPL through secondary purchase. Evergraph acquired the 26% stake owned by Serigraph Inc, US, an American speciality printing company and the remaining from the promoters of the company. At present, Mr. K. A. Joseph is the Managing Director of the company. Evergraph had appointed Mr. Kazi Arif Uz Zaman, Mr. Sanjay Thapar and Mr. Vishal Sharma as its representatives on SJSPL's board.

SJSPL is involved in manufacturing of automotive dials (automotive dashboard interior), overlays, exterior decals (two and four wheelers), badges and logos for the automotive, electronics and appliance industries with the auto industry contributing to a major portion of its revenues. The company has recently expanded its product portfolio to include in-mould decorating and aluminium badges.

In April 2021, SJSPL has acquired Exotech Plastics Private Limited and Exotech will be a 100% subsidiary of SJSPL. The total amount of investment for acquisition was around Rs. 64.00 crore and the same was done through internal accruals. With this acquisition, SJSPL diversified into chrome plating business and acquiring new customers as well. Exotech had a revenue of Rs. 74.3 crore and PAT of Rs. 4.1 crore in FY2020.

Key financial indicators (audited)

SJSPL	FY2019	FY2020	9M FY2021(Prov)
Operating Income (Rs. crore)	237.26	215.94	177.94
PAT (Rs. crore)	36.49	38.77	30.71
OPBDIT/OI (%)	27.61%	29.53%	30.18%
RoCE (%)	28.36%	21.07%	27.22%
Total Outside Liabilities/Tangible Net Worth (times)	0.24	0.17	0.17
Total Debt/OPBDIT (times)	0.36	0.10	0.14
Interest Coverage (times)	48.89	48.71	154.80
DSCR (times)	36.93	40.33	81.14

Source: *Company*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					June 14, 2021	-	Mar 31, 2020	Feb 01, 2019	Aug 02, 2018
1	Working Capital - FB	Short term	28.00	-	**[ICRA]A+(Stable)**	-	**[ICRA]A+(Stable)**	**[ICRA]A+(Stable)**	**[ICRA]A+(Stable)**
2	Unallocated	Long term	9.00	-	**[ICRA]A+(Stable)**	-	**[ICRA]A+(Stable)**	**[ICRA]A+(Stable)**	**[ICRA]A+(Stable)**

Source: *Company*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Working Capital - Fund-based Facilities	Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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	Working Capital	-	-	-	28.00	[ICRA]A+(Stable)
NA	Unallocated	-	-	-	9.00	[ICRA]A+(Stable)

Source: *Company,*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Exotech Plastics Private Limited	100%	Full Consolidation

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsher.dewan@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Rathina Pradeep
+91 44 4596 4307
rathina.pradeep@icraindia.com

Ashish Modani
+91 44 206606 9912
ashish.modani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches