August 25, 2022

SJS Enterprises 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	28.00	28.00	[ICRA]A+(Stable); reaffirmed
Long-term Unallocated	9.00	-	-
Total	**37.00**	**28.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors SJS Enterprises Private Limited's (SJSEL) extensive experience in manufacturing self-adhesive labels and its established relationships with its 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 expects the company financial profile to remain healthy going forward as well. The ratings also consider the company's diversified product profile with SJSEL supplying automotive dials, overlays, exterior decals, logos, and badges for the various OEMs and tier-1 suppliers in the auto and white goods sectors. ICRA also notes the company's efforts in expanding its product portfolio through in-house product development, which resulted in enhanced product diversification in the recent years. Also, the addition of chrome plating business from Exotech Plastics Private Limited (EPPL) acquisition, which resulted in further diversification of products. The company's effort in expanding its chrome plating division capacity is expected to support the revenues further.

The rating is, however, constrained by the company's moderate scale of operations with high concentration of revenues from the two-wheeler (2W) segment, which drove 41.5% of its overall revenues in FY2022. Nonetheless, the company was able to diversify its presence through the acquisition of EPPL, which has a dominant presence in the passenger vehicle (PV) and farm equipment segments. ICRA notes that the revenue from the auto segment is vulnerable to cyclicality in the automobile industry owing to variations in demand from end-users. The vendor switch-over cost for OEMs in SJSEL's product segment remains low. However, its established relationship with large and reputed clientele, along with healthy wallet share in their overall requirement, provides comfort. Further, with the significant capex being undertaken for expansion of its chrome plating division, timely commencement and ramp up of operations at the new plant without any material time and cost overruns would be a key credit monitorable.

Key rating drivers and their description

Credit strengths

Extensive experience in manufacturing self-adhesive labels; established relationship with reputed clients – SJSEL was established in 1987 and has more than three decades of experience in manufacturing self-adhesive labels. Over the years, the company has established relationships with its customers and suppliers, which has supported growth over the years. The company benefits from its relationships with tier-1 automotive suppliers and auto OEMs in 2W and PV segments such as TVS Motor Company Limited (TVS), Bajaj Auto Limited (Bajaj), and Honda Motorcycle & Scooter India Private Limited (HMSI), among others. Further, it serves reputed brands such as Whirlpool, Samsung, and Electrolux, among others, in the white goods segments. It has been associated with its top customers for more than two decades and receives incremental orders from them annually. With the acquisition of EPPL, SJSEL also added four-wheeler (4W) brands such as Mahindra & Mahindra and John Deere India to its customer base.

Comfortable financial profile with healthy profitability and return indicators – SJSEL's financial profile remains comfortable, marked by healthy profitability and capital structure. ICRA note the company's comfortable healthy operating margin and RoCE at 25.5% and 21.2% in FY2022, respectively. However, the operating margin declined to 25.5% in FY2022 from 30.8% in FY2021 on account of consolidation of the lower operating margin (~12–13%) chrome plating division of EPPL. ICRA expects its margins to remain stable in the near term. Going forward, with expectation of moderate dividend pay-out, ICRA expects the company's capital structure and debt protection metrics to remain robust supported by healthy accruals. However, with the significant capex being undertaken, timely commencement and ramp up of operations at the new plant without any material time and cost overruns would be a key credit monitorable.

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 OEMs and tier-1 suppliers in the automobile and white goods sectors. During FY2022, its top product (Decal) contributed 32% to its revenue and its top three products accounted for around 69% of its revenue. SJSEL has been undertaking efforts in expanding its product portfolio through in-house product development, which resulted in product diversification in recent years. In FY2022, 10–15% of its revenue was derived from these new products, such as aluminium badges and In-mould Decorative. Further, the recent acquisition of EPPL for its chrome plating division will help the company to further strengthen its product and customer diversification exercise, while improving the value proposition of its existing products.

Credit challenges

Moderate scale of operations – The company's moderate scale of operations with high concentration of revenues from the 2W segment remains a credit challenge. With modest content per vehicle on its products and presence mainly in the 2W segment, SJSEL's revenue was around Rs. 369.9 crore in FY2022. Despite its 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 41% of its revenues from the 2W segment, 30% from PVs and the remaining from the white goods and farm equipment segments. Going forward, introduction of new products and acquisition of new customers are expected to drive revenue growth.

Exposed to inherent cyclicality in automotive industry – With SJSEL deriving a major portion of its revenues from the 2W and 4W 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. However, the company's revenues gradually improved in FY2021 and FY2022 on the back of revival in demand. The cyclicality is partly mitigated, to an extent, as the white goods and farm equipment segments account for around 20% of its revenues.

Significant capex being undertaken – The company is planning to set up a new plant for its chrome plating business at a total cost of ~Rs. 100.0 crore. Of the total capex, the company is expected to incur ~Rs. 40.0 crore in FY2023, funded by internal accrual and cash reserves. In FY2024, the company will opt for a mix of internal accruals and debt funding for the balance capex. Also, it is expected to incur a maintenance capex of ~Rs. 16.0 crore in FY2023. The timely commencement and ramp up of operations at the new plant without any material time and cost overruns would be a key credit monitorable.

Liquidity position: Strong

SJSEL'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. With minimal utilisation of its limits and cash balance and liquid investments of around Rs. 95.8 crore as on March 31, 2022, its liquidity continues to remain strong. ICRA notes that the company had declared dividend of Rs. 11.1 crore in the previous year and expects similar dividend pay-out levels, going forward.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to scale up its operations, while its 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 a weak demand scenario can result in a rating downgrade. Further, weakening in the liquidity position or debt protection metrics due to any large capex/ further inorganic expansion could also result in a 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 Suppliers
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the company's consolidated financial profile.

About the company

SJSEL 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 the Singapore-based private equity firm, Everstone Capital, acquired majority stake in SJSEL through secondary purchase. Evergraph acquired the 26% stake owned by Serigraph Inc., USA, a 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.

SJSEL is involved in manufacturing automotive dials (automotive dashboard interior), overlays, exterior decals (2Ws and 4Ws), badges and logos for the automotive, electronics and appliance industries with the auto industry driving a major portion of its revenues. The company has recently expanded its product portfolio to include in-mould decorating and aluminium badges. Further, In April 2021, it included a chrome plating division in its portfolio with the acquisition of EPPL. The total investment for the acquisition was around Rs. 64.00 crore, which was undertaken through internal accruals. With this acquisition, SJSEL diversified into the chrome plating business and the acquisition of new customers in the 4W segment. In November 2022, the company was listed on the NSE and BSE.

Key financial indicators (audited)

SJSL Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	251.6	369.9
PAT (Rs. crore)	47.8	55.0
OPBDIT/OI (%)	30.8%	25.5%
RoCE (%)	21.1%	21.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.3
Total Debt/OPBDIT (times)	0.1	0.3
Interest Coverage (times)	61.0	31.2
DSCR (times)	45.9	25.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Total debt includes lease liability.; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Aug 25, 2022	Jun 14, 2021	-	Mar 31, 2020
1	Working Capital - Fund-based	Long term	28.00	-	**[ICRA]A+(Stable)**	**[ICRA]A+(Stable)**	-	**[ICRA]A+(Stable)**
2	Unallocated	Long term	-	-	-	**[ICRA]A+(Stable)**	-	**[ICRA]A+(Stable)**

Source: Company

Complexity level of the rated instrument

Instrument	Complexity Indicator
Working Capital - Fund-based Facilities	Simple

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 I: 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	NA	NA	NA	28.00	[ICRA]A+(Stable)

Source: Company,

Annexure II: List of entities considered for consolidated analysis

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

Source: Company

Note: ICRA has taken a consolidated view of the parent (SJSEL), its subsidiaries and associates while assigning the ratings.,

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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.

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