September 29, 2023

# The Yamuna Syndicate Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long term/Short term - Unallocated | 10.20 | 10.20 | [ICRA]A- (Stable)/A2+; reaffirmed |
| **Total** | **10.20** | **10.20** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating reaffirmation for the debt programmes of The Yamuna Syndicate Limited (TYSL) factors in its status as the principal shareholder (45% stake) in ISGEC Heavy Engineering Limited (IHEL, rated [ICRA]AA(Stable)/[ICRA]A1+), an established engineering, procurement, and construction (EPC) company and a fabricator for equipment/machinery in the capital goods sector. The company also has financial flexibility with the market value of its investment in IHEL at Rs. 2,434.95 crore (as on September 17, 2023), along with nil debt as on March 31, 2023. TYSL's financial profile draws support from the steady dividend income from IHEL, albeit modest, and its debt-free status. The ratings also take in to account its healthy liquidity profile, evident from the free cash and cash equivalents of ~Rs. 26.83 crore as on March 31, 2023.

However, the ratings are constrained by TYSL's concentrated investment portfolio with its profitability metrics vulnerable to the dividend flows from its only investee company, IHEL. Thus, TYSL's revenues and credit metrics remain linked to the financial performance and plans of IHEL, along with its ability to declare healthy dividends. Moreover, the low liquidity of IHEL's stock with the promoters having more than 60% shareholding, apart from the market risks arising from the volatility in share price movement constrains TYSL's financial flexibility to an extent. The ratings are also constrained by TYSL's small operating scale with trading operations across various product segments, many of which are dependent on Group entities for sustaining the business. Further, TYSL's operating margin in its trading segments is weak, considering the minimal value-added nature of these segments. Therefore, a predominant share of the company's operating profits is driven by dividend income from IHEL and is thus lumpy in nature.

The Stable outlook factors in ICRA's expectations of TYSL preserving its stable revenues and profitability, which are largely dependent on the dividends declared by IHEL.

## Key rating drivers and their description

### Credit strengths

**Principal promoter shareholder of IHEL** – TYSL held a 45% stake in IHEL as on March 31, 2023, out of the total 62.43% promoter holding. The key investee company - IHEL - has an established market position in the EPC space and as a fabricator for equipment/machinery in the capital goods sector. IHEL's position is aided by its long-term technical tie-ups/alliances with several recognised global heavy engineering companies as well as its in-house design and manufacturing capability. TYSL has been receiving steady dividend income from IHEL over the years. Even though TYSL also operates as a trading company, the dividend income from IHEL historically contributed to majority of its operating profits and cash accruals, indicating its strong linkages to the investee company's financial profile.

**Financial flexibility emanating from holding IHEL's shares** – The market value of TYSL's investment is around Rs. 2,434.95 crore (as on September 17, 2023). With its stake being entirely unencumbered, the company has a healthy financial flexibility.

**Healthy profitability, debt coverage metrics and liquidity –** TYSL's profitability and debt coverage metrics are healthy, supported by dividend income and limited funding requirements in its operating business. TYSL had free cash balance of around Rs. ~26.83 crore as on March 31, 2023. Given the nil debt repayments and minimal capex requirements in the near term, TYSL has a healthy liquidity position.

## Credit challenges

**Investment concentration in IHEL –** TYSL's financial performance (standalone) is strongly linked to IHEL's performance, which remains the only investee, indicating high dependence on dividend flows from the latter. The risk of lower-than-usual dividends remains, as witnessed in FY2019, wherein TYSL's dividend income was only Rs. 1.6 crore compared to Rs. 11.5 crore in FY2020, Rs. 6.6 crore in FY2021, Rs 3.3 crore in FY2022 and Rs. 6.6 crore again in FY2023. While TYSL's dividend income was higher YoY in FY2023, the company also witnessed a 9% YoY growth in its trading business at Rs. 68.4 crore. Going forward, the possibility of lower dividend inflows as well as trading income cannot be ruled out, given the uncertainties around economic activity in the near to medium term.

**Vulnerability to market risks –** TYSL's financing ability is vulnerable to the share price performance of IHEL and thus remains exposed to market risks. Further, the low liquidity of IHEL's shares, with its promoters having more than 60% shareholding, constrains TYSL's financial flexibility to an extent.

**Small operating scale of trading operations –** TYSL's trading operations are small in scale, despite being spread across various segments. Over the years, the company has ceased operations in certain segments. Also, the trading operations have low margins as also the revenues from segments such as pesticide trading and petrol pumps, which are backed by the group companies.

## Liquidity position: Adequate

The company's liquidity position remains adequate with cash balance of around Rs. 26.83 crore as on March 31, 2023. In addition, it had nil working capital borrowings during the entire FY2023. Further, it has nil term debt repayments along with minimal requirement for working capital or capex in the near term.

## Rating sensitivities

**Positive factors –** The ratings could be upgraded if the dividend income increases substantially on a sustained basis, and/or there is a substantial improvement in the scale and profitability amid strong credit metrics and liquidity profile. The ratings may also be upgraded if the credit profile of IHEL strengthens.

**Negative factors –** Pressure on the ratings could arise if the credit profile of IHEL deteriorates, and/or linkages with IHEL weaken, and/or the financial flexibility reduces on account of a substantial decline in the market capitalisation of IHEL. The ratings could also be revised downwards if TYSL's liquidity profile and debt service metrics weaken, on a sustainable basis, or in case of any debt-funded large capex/ diversification/investment.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating methodology for holding companies |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the standalone financials of TYSL |

## About the company

TYSL, incorporated in 1954, is a key holding company that has a 45% stake in IHEL, which is the flagship company of the ISGEC Group. The company is also involved in the trading and retailing of a wide variety of products. The company's trading business entails retailing of HPCL's petroleum products, industrial lubricants, automotive lubricants, Amaron batteries, agricultural tools and pesticides, electrical equipment, etc. The oil and lubricants segment remains the major contributor, accounting for around 47% of FY2023 trading revenues and 48% of FY2022 trading revenues. While the trading business dominates the company's revenue mix (91% in FY2023 and 95% in FY2022), it has negligible contribution to profits, which renders the profitability metrics susceptible to the trend in dividends from IHEL.

### Key financial indicators (audited)

| TYSL Standalone | FY2022 | FY2023 |
|---|---|---|
| **Operating income (Rs. crore)** | 65.9 | 75.0 |
| **PAT (Rs. crore)** | 6.0 | 8.9 |
| **OPBDIT/OI (%)** | 8.2% | 11.2% |
| **PAT/OI (%)** | 9.2% | 11.8% |
| **Total outside liabilities/Tangible net worth (times)** | 0.0 | 0.0 |
| **Total debt/OPBDIT (times)** | 0.0 | 0.0 |
| **Interest coverage (times)** | 311.9 | 540.1 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*
*Source: Company, ICRA Research*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Mar 31, 2023 (Rs. crore) | Date & rating in Sep 29, 2023 | Date & rating in FY2023 Oct 28, 2022 | Date & rating in FY2022 Aug 03, 2021 | Date & rating in FY2021 May 29, 2020 |
| 1 | **Fund-based facilities** | Long-term | - | - | - | - | [ICRA]A-(Stable) | [ICRA]A-(Stable) |
| 2 | **Unallocated** | Long-term/ short term | 10.2 | - | [ICRA]A-(Stable)/A2+ | [ICRA]A-(Stable)/A2+ | [ICRA]A-(Stable)/A2+ | [ICRA]A-(Stable)/A2+ |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term/Short-term Unallocated** | Not Applicable |

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 are available on ICRA's website: Click Here

## Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | **Unallocated** | - | - | - | 10.20 | [ICRA]A-(Stable)/A2+ |

***Source:*** *Company*

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

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## About ICRA Limited:

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### Branches




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