January 31, 2024

Sany Heavy Industry India Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Unallocated	100.00	100.00	[ICRA]BBB+ (Stable); reaffirmed; Outlook revised to Stable from Negative
Short-term - Unallocated	100.00	100.00	[ICRA]A2; reaffirmed
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook for Sany Heavy Industry India Private Limited (SHIL) reflects the improvement in its debtor position, supported by non-recourse discounting of receivables and reduced quantum of deferred sales, improved coverage metrics, driven by recovery in its profitability margins on account of softening of input costs (raw material and freight) and improved working capital cycle leading to reduced reliance on external borrowing. SHIL's scale of operations have improved significantly YoY in FY2023 and 8M FY2024, aided by the improved sales in the hoisting equipment and mining segments and increasing exports sales of telehandlers, a product launched in FY2023, gaining traction in the US market.

The ratings continue to factor in the operational and technological support that SHIL receives from its parent i.e., Sany Heavy Industry Co. Ltd. (SANY), one of the largest mining and construction equipment (MCE) manufacturers globally. SHIL procures significant proportion of its raw material requirements from SANY and its Group companies. Over the years, SHIL has a track record of receiving support in the form of extended credit period from Group entities, which aided the working capital cycle to a large extent. The company benefits from the Group's financial flexibility by raising funds at attractive rates, as few of its lenders (foreign banks) are associated with the parent entity. Senior personnel of the SANY Group, including the Group's Vice Chairman on SHIL's board, indicates its strategic importance for the parent entity. The ratings derive comfort from its diversified product mix and the improving market share of its key products, which has driven revenue growth over the years, despite significant volatility in the end-user industry.

The ratings, however, remain constrained by the elevated leverage (TOL/TNW of 5.9 times as of November 2024), stiff competition in the industry and the competitive pricing strategy adopted by the company leading to moderate operating profitability. Notwithstanding the provision made towards sticky receivables, sizeable exposure to customers with weak credit profile exposes SHIL to the risk of bad debt write-offs, which could further impact its profitability. This apart, its operations have remained working capital-intensive in nature, owing to high inventory levels and elongated receivables, which though improved, remain elongated. While the same is being met largely through extended credit period from its parent, it resulted in elevated leverage and exposes SHIL to fluctuation in input prices and sizeable unhedged foreign currency exposure. Moreover, high reliance on short-term funding (including extended credit period from suppliers) results in asset-liability mismatch. SHIL has capex plans of Rs. 500-600 crore over the medium term, which is expected to be funded through internal accruals and long-term debt in equal proportion. Hence, SHIL's ability to further improve its working capital cycle, while maintaining the profitability, remains a key monitorable from the credit perspective.

ICRA notes that there was an Income Tax search and seizure operation on the company in November 2021. While no significant liability has rose from the same till date, any substantial liability due to the same in future, along with any major write-off from debtors, remains a key monitorable.

Key rating drivers and their description

Credit strengths

Strong sponsor profile; access to Sany's global product portfolio – SHIL is a wholly-owned subsidiary of the China-based SANY, which is a global major in the construction equipment industry. The company benefits from the extensive product portfolio, its global presence and the Group's technological knowledge. SHIL procures significant proportion of its raw material requirements from SANY and its Group companies. It benefits from the financial support in the form of extended credit period by the Group companies. SHIL benefits from the Group's strong financial flexibility, by raising funds at attractive rates, as few of its lenders (foreign banks) are also associated with the parent entity. The involvement of senior personnel from the SANY Group, including the Vice Chairman on SHIL's board, indicates its strategic importance for the parent Group.

Leading player in hoisting equipment segment, excavators and mining dumpers – Hoisting equipment (cranes and piling rigs), SHIL's key product segment, saw a robust growth of 80% accounting for ~45% of the overall revenues in FY2023. In addition, it has seen healthy demand for excavators (accounting for ~33% of the overall revenue) and mining equipment (constituting ~15% of the overall revenue), which has helped to improve its revenues YoY by 53% to Rs. 4,617 crore in FY2023 and by 20% YoY to Rs. 3,704 crore in 8M FY2024. SHIL is focused on increasing exports sales of telehandlers, a product launched in FY2023, gaining traction in the US market, which along with addition of higher margin products in the product portfolio, will support its revenue growth and operating margins, going forward.

Credit challenges

Moderate profitability margins; vulnerability to fluctuations in input prices and forex rates – SHIL's profitability remains vulnerable to fluctuations in input prices and forex rates, amid intense competition. While the company's operating margins improved to 2.7% in 8M FY2024 from -0.7% in FY2022, it is expected to remain muted at around 4-5% in FY2024-FY2025 due to the competitive pricing strategy adopted by the company. Further, being a net importer, it has sizeable unhedged foreign currency exposure exposing SHIL to any adverse movements in forex rates, as seen in the past.

Leveraged capital structure; elongated receivables leading to high reliance on support from parent – SHIL's operations remain working capital-intensive due to the high inventory requirements and stretched receivables, which though improved, remain elongated. However, during the current fiscal, despite ~20% higher turnover, receivables have largely remained same (Rs. 2,672 crore as of November 2023 vs Rs. 2,874 crore as on January 31, 2023), supported by non-recourse receivable discounting, improved realisation and reduced quantum of deferred sales. The company has funded its working capital requirement by getting extended credit period from its parent entity, resulting in an elevated leverage (TOL/TNW of 5.9 times as of November 2024). Despite conscious steps to gradually reduce its creditor outstanding, the overall leverage is likely to remain high in the near to medium term. Given the asset liability mismatch, SHIL's ability to get extended credit period from its supplier remains important to support its liquidity position.

Competitive industry and inherent cyclicality in end-user industry – The industry is intensely competitive across the product segments, limiting its overall pricing power. Further, the mining and construction equipment industry is cyclical in nature with performance dependent on investments in the end-user industry such as infrastructure, mining, and construction. The cyclical nature of the industry leaves SHIL's operating performance vulnerable to demand swings that reflect economic cycles.

Liquidity position: Adequate

SHIL's liquidity position is expected to remain adequate, aided by undrawn working capital lines of over ~Rs. 450 crore and free cash and bank balances of ~Rs. 45 crore (as on December 26, 2023). Its working capital cycle is largely supported by the extended credit period from its Group entities. Any revision in SANY Group's policy towards the extended credit period to SHIL, adversely impacting its liquidity position, remains a key monitorable. Owing to negligible term debt as on date, the company has marginal debt repayment obligations.

Rating sensitivities

Positive factors – The ratings can be upgraded if there is a significant and sustained improvement in profitability and working capital cycle and/or upon long-term fund infusion resulting in an improvement in asset-liability position and liquidity profile on a sustained basis. Specific credit metrics for a rating upgrade could be interest cover above 5.0 times on a sustained basis.

Negative factors – Negative pressure on SHIL's ratings could arise in case of its inability to improve the profit margins and working capital cycle, or if it undertakes any large debt-funded capex, which impacts its coverage metrics and capital structure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction Vehicles
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation – The financials of Sany Heavy Industry Bangladesh Limited are also considered to arrive at the ratings, since SHIL has given a CG in favour of its subsidiary.

About the company

SHIL, incorporated in 2002, was initially set up as a marketing company for the SANY Group's products in India. The Group invested in a manufacturing facility in 2006 and the plant became operational in 2009. The company manufactures and/or assembles excavators, hoisting equipment, mining equipment and concrete equipment such as truck cranes, concrete mixers and batching plants and motor graders in India. It also trades some of the products of its parent company in India. SHIL is present in the export markets (South East Asia, North America and the SAARC nations) and has a subsidiary in Bangladesh. However, at present, its revenue profile is dominated by the domestic market.

Key financial indicators (audited)

SHIL Standalone	FY2022	FY2023	8M FY2024*
Operating income (Rs. Crore)	3009.9	4617.3	3704.9
PAT (Rs. Crore)	(127.2)	114.9	208.4
OPBDIT/OI (%)	-0.7%	2.1%	2.7%
PAT/OI (%)	-4.2%	2.5%	5.6%
Total outside liabilities/Tangible net worth (times)	10.6	9.4	5.9
Total debt/OPBDIT (times)	(19.0)	3.1	1.4
Interest coverage (times)	(0.7)	1.7	3.2

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

SHIL Consolidated	FY2022	FY2023
Operating income (Rs. crore)	3015.1	4631.9
PAT (Rs. crore)	(125.9)	112.2
OPBDIT/OI (%)	-0.7%	2.1%
PAT/OI (%)	-4.2%	2.4%
Total outside liabilities/Tangible net worth (times)	10.6	9.4
Total debt/OPBDIT (times)	(21.2)	3.2
Interest coverage (times)	(0.6)	1.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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 on December 26, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 31, 2024	Mar 13, 2023	Mar 02, 2022	Mar 16, 2021
1	Unallocated limits	Long-term	100.0	NA	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A (Stable)
2	Unallocated limits	Short-term	100.0	NA	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Unallocated limits	Not Applicable
Short-term – Unallocated limits	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Long-term - Unallocated limits**	NA	NA	NA	100.0	[ICRA]BBB+ (Stable)
-	**Short-term - Unallocated limits**	NA	NA	NA	100.0	[ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Relation	Ownership	Consolidation Approach
Sany Heavy Industry Bangladesh Limited	Subsidiary	100.00%	Full Consolidation

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Chinta Lakhani
+91 124 4545826
chintan.lakhani@icraindia.com

Ritik Sundarka
+91 80 4332 6414
ritik.sundarka@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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.

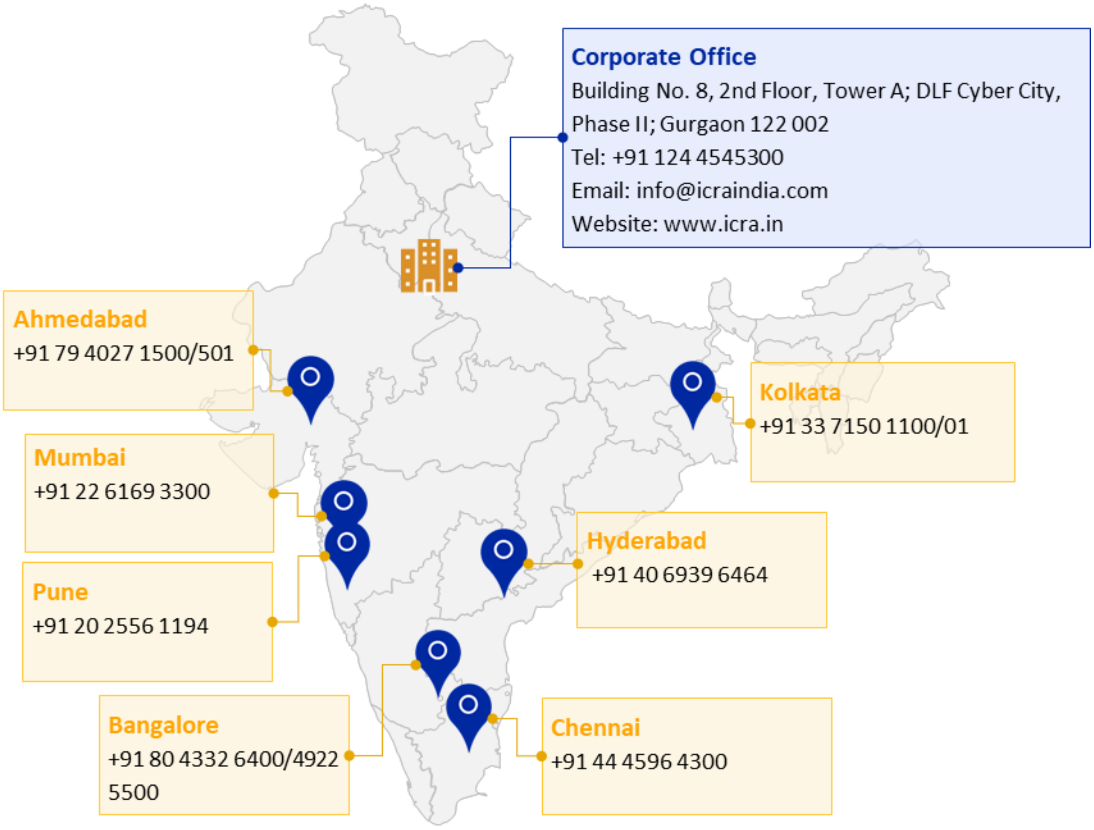
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.