May 21, 2024

Sahyadri Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Cash credit	190.00	186.43^	[ICRA]A- (Stable); reaffirmed
Term loans	120.00	120.00	[ICRA]A- (Stable); reaffirmed
Short-term – Non-fund based limits	5.30	8.87	[ICRA]A2+; Reaffirmed
Total	**315.30**	**315.30**	

**Instrument details are provided in Annexure-I; ^ including proposed limits of Rs. 30 crore (PY: Rs. 95 crore)*

Rationale

The ratings reaffirmation of Sahyadri Industries Limited (SIL) factors in the comfortable debt coverage and adequate leverage metrics in FY2024 and FY2025 supported by moderate debt levels and low debt repayments. SIL's operating income (OI) grew by 9% YOY in FY 2023 and achieved Rs. 480 crore in 9M FY2024 backed by higher capacity utilisation of the installed capacity as well as better realisations. In FY2024 and FY2025, ICRA estimates largely similar growth on a YoY basis. The company's total debt stood at around Rs. 141 crore as of December 2023. Despite its debt funded capex plans, the debt is likely to remain at moderate levels in medium term. The leverage and coverage indicators are expected to remain comfortable as reflected by estimated total debt/OPBIDTA of 1.5-1.8 times as of March 2024 and March 2025 (PY: 1.5 times) and debt service coverage ratio (DSCR) projected to be around 4.5-4.8 times in FY2024 (PY: 7.2 times) and around 3.2-3.5 times in FY2025. The ratings note the company's long operational track record of over three decades in the roofing sheets (asbestos cement sheets – AC sheets) segment, a strong network of over 3,000 dealers and distributors and an established market position in AC sheets in the western region, mainly Maharashtra and Gujarat. The company is also diversifying across other geographies with deeper penetration in the southern region.

The ratings, however, remain constrained by the vulnerability of SIL's revenues and pressure on the margins due to limited ability to pass on the increase in input costs to its customers as well as the regulatory risks associated with the threat of ban on use or manufacture of asbestos-related products and the mining of asbestos in asbestos producing countries. The company deals primarily in asbestos roofing sheet, demand for which remains exposed to demand conditions in the rural economy, which in turn is dependent on monsoons, minimum support price (MSP) movement and farm productivity. The volumes from asbestos-related products accounted for 86% of total volumes in H1FY2024. However, the company expects to improve the share of non-asbestos products over the medium term, which will partially mitigate the regulatory risks. The company is also exposed to inherent project implementation risks for the ongoing (non-asbestos capacity of 72,000 MTPA at Wada, Maharashtra with expected CoD of Q4 FY2026) and proposed capex (asbestos corrugated sheets with capacity of 120,000 MTPA at Orissa with expected CoD in FY2028) as well as post-implementation risk related to ramp-up and stabilisation of new plants. The total capex cost for both plants together is ~Rs. 200 crore and is planned to be funded in debt to equity mix of 75:25. The ratings also factor in the vulnerability of margins to any adverse fluctuations in raw material prices as well as exposure to fluctuations in foreign exchange rates, given considerable imports of asbestos fibre and the absence of any formal hedging policy. The company's operating profit margins (OPM) are estimated to moderate to around 10.5%-11% in FY2024 (13.6% in FY2023 and 18.5% in FY2022) due to increase in prices of key raw material. Nonetheless, the operating margins are expected to marginally improve in FY2025 with likely moderation in raw material prices. The ratings also take into account the working capital-intensive nature of SIL's operations given the high inventory requirements.

The Stable outlook on the rating reflects ICRA's expectations that SIL will continue to benefit from the established market position in the AC sheet industry in western India supporting its revenues and the company is likely to sustain comfortable debt coverage metrics.

Key rating drivers and their description

Credit strengths

Comfortable debt coverage and adequate leverage metrics – The company's total debt stood at around Rs. 141 crore as of December 2023. Despite its debt funded capex plans, the debt is likely to remain at moderate levels in medium term. The leverage and coverage indicators are expected to remain comfortable as reflected by estimated total debt/OPBIDTA of 1.5-1.8 times as of March 2024 and March 2025 (PY: 1.5 times) and DSCR of around 4.5-4.8 times in FY2024 (PY: 7.2 times) and around 3.2-3.5 times in FY2025.

Established market position in roofing segment; wide distribution network – SIL has a strong network comprising over 3,000 dealers and distributors. It has an established market position in AC sheets in the western region, mainly Maharashtra and Gujarat, with three plants located in the same region. Further, the company has plans to diversify across other geographies with deeper penetration in the southern region, where it has some presence.

Long track record of operations – SIL has a track record of over three decades in the roofing sheets (asbestos cement sheets – AC sheets) segment. The company sells building material products and accessories under the brands 'Swastik', 'Cemply' and 'Ecopro', among others.

Credit challenges

Operations remain exposed to regulatory risks – The ratings remain constrained by the vulnerability of SIL's revenues and pressure on the margins due to limited ability to pass on the increase in input costs to its customers as well as the regulatory risks associated with the threat of ban on use or manufacture of asbestos-related products and the mining of asbestos in asbestos-producing countries. The revenues from asbestos-related products accounted for 86% of its total revenues in H1 FY2024. However, the company expects to improve the share of non-asbestos products over the medium term, which will partially mitigate the regulatory risks.

Operating margins exposed to fluctuations in raw material prices and foreign exchange rates; working capital-intensive nature of operations – The ratings also factor in the vulnerability of SIL's margins to any adverse fluctuations in raw material prices as well as exposure to fluctuations in foreign exchange rates, given the considerable imports of asbestos fibre and the absence of any formal hedging policy. Its exports, though moderate, provide natural hedging against the imports to an extent. The company's operating profit margins (OPM) are estimated to moderate to around 10.5%-11% in FY2024 (13.6% in FY2023 and 18.5% in FY2022) due to increase in prices of key raw material prices. Nonetheless, the operating margins are expected to marginally improve in FY2025 with likely moderation in raw material prices. The ratings also take into account the working capital-intensive nature of SIL's operations given the high inventory requirements.

Vulnerability of demand to cyclicality in rural markets – The company deals primarily in asbestos roofing sheet. The demand for the same remains exposed to demand conditions in the rural economy, which in turn is dependent on monsoons, minimum support price (MSP) movement and farm productivity. SIL's operating income (OI) grew by 9% YOY in FY 2023 and achieved Rs. 480 crore in 9M FY2024 backed by higher capacity utilisation of the installed capacity as well as better realisations. In FY2024 and FY2025, ICRA estimates largely similar growth on a YoY basis. The company is also exposed to inherent project implementation risks for the ongoing (non-asbestos capacity of 72,000 MTPA at Wada, Maharashtra with expected CoD of Q4 FY2026) and proposed capex (asbestos corrugated sheets with capacity of 120,000 MTPA at Orissa with expected CoD in FY2028) as well as post-implementation risk related to ramp-up and stabilisation of new plants. Any adverse movements in the demand for SIL's products from the rural markets could impact the revenue base and, thus, its profitability.

Environmental and social risks

While some forms of asbestos fibre pose health risks to individuals who are exposed, asbestos cement manufactured using white chrysotile asbestos is of relatively low risk. All manufacturers are required to follow strict environmental norms to operate. Given the safety and environmental health-related concerns associated with asbestos, the industry may be vulnerable to the risk of tightening regulatory norms. Any ban on the mining of asbestos across countries may expose the company to risk of non-availability of raw material. Any ban on the usage of asbestos due to environmental or health concerns could have a significant impact on the operation of AC Sheets segment, which is one of the major contributors to SIL's operating profits.

Liquidity position: Adequate

SIL's liquidity position remains adequate supported by free cash and liquid investments of Rs. 13.8 crore as on December 31, 2023 and moderate utilisation of fund-based limits (~38% for past 12 months ending December 31, 2023) with an average cushion of ~ Rs. 100 crore. Further, the company plans to undertake capex of ~Rs. 150 crore (towards Wada and Orissa plants) over the next 3 years in FY2025-FY2027, which is expected to be partially funded by debt and the remaining through internal accruals. The debt tie-up for Wada plant is in place. The company has low debt repayments of around Rs. 10.5 crore in FY2025 which can be comfortably met from its cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade SIL's ratings, if there is any significant growth in revenues and profitability, coupled with an improvement in debt coverage metrics and liquidity, on a sustained basis.

Negative factors – The ratings could be downgraded, if the entity shows any significant decline in its revenue base or witnesses a deterioration in profitability, affecting its liquidity position. Any larger-than-anticipated debt-funded capex, leading to Total Debt/OPBDIT of more than 2.3 times, on a sustained basis, could also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of SIL

About the company

Established in 1947, SIL is primarily involved in manufacturing building material products such as asbestos corrugated sheets and boards as well as non-asbestos cement boards. It operates through five manufacturing plants across Maharashtra, Gujarat, Tamil Nadu and Andhra Pradesh, and sells its products under the brands 'Swastik', 'Cemply' and 'Ecopro' through a network comprising over 3,000 distributors. SILs also operates windmills in Maharashtra and Rajasthan with incremental revenue contribution from the power generation division, providing stable source of revenue generation to the company. The total installed capacity was 7,22,000 MTPA as on September 30, 2023.

Key financial indicators

SIL	FY2022 Audited	FY2023 Audited	9MFY2024 Unaudited
Operating income (Rs. crore)	542.5	593.8	480.4
PAT (Rs. crore)	61.8	37.1	22.1
OPBDIT/OI (%)	18.5%	13.6%	10.9%
PAT/OI (%)	11.4%	6.2%	4.6%
Total outside liabilities/Tangible net worth (times)	0.5	0.7	NA
Total debt/OPBDIT (times)	0.8	1.5	2.0
Interest coverage (times)	21.8	9.0	6.3

Source: Company, ICRA research, PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Amount in Rs. Crore; the above financial numbers and ratios reflect the analytical adjustments made by ICRA and may not be comparable with the reported financials; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on December 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
					May 21, 2024	-	Mar 21, 2023	Feb 24, 2023	Nov 05, 2021
1	Fund based – Cash credit	Long-term	186.43^	61.09	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Term loans	Long-term	120.00	43.33	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	-	-
2	Non-fund based limits	Short-term	8.87	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
3	Unallocated limits	Long-term/Short-term	-	-	-	-	-	-	-

^ including proposed limits of Rs. 30 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash credit	Simple
Term loans	Simple
Non - fund based limits	Very 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, 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
NA	Cash credit^	-	-	-	186.43	[ICRA]A-(Stable)
NA	Term loans	Apr-2021	-	Apr-2027	22.50	[ICRA]A-(Stable)
NA	Term loans	May-2021	-	May-2027	22.50	[ICRA]A-(Stable)
NA	Term loans	Feb-2023	-	Feb-2029	75.00	[ICRA]A-(Stable)
NA	Non-fund based limits	-	-	-	8.87	[ICRA]A2+

Source: *Company; ^ including proposed limits of Rs. 30 crore*

Please click here to view details of lender-wise facilities rated by ICRA

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

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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.

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.

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