January 21, 2025

SJS Enterprises Limited: Ratings upgraded; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based limits – Working Capital	28.00	28.00	[ICRA]AA-; upgraded from [ICRA]A+; outlook revised to stable from positive
Total	**28.00**	**28.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the long-term rating of SJS Enterprises Limited (SJS) referred to as the Group or the company, reflects its strengthened business profile and increased scale of operations, which are expected to sustain, going forward. The ratings also factor in the improved diversification of its product portfolio, with the addition of several technologically advanced products like In-Mold Decoration (IMD), In-Mold Labelling (IML), In-Mold Electronics (IME) and In-Mold Forming (IMF) as well as its expanded customer base, largely driven by the ramp-up in its acquired businesses of Exotech Plastics Private Limited (Exotech) and Walter Pack Automotive Products India Private Limited (WPI). Its financial profile and liquidity position also remain strong, underpinned by healthy profitability, comfortable capital structure and robust debt coverage indicators.

SJS' revenues have expanded at a healthy compounded annual growth rate (CAGR) of 36% over the past four years with total consolidated revenues of Rs. 628.0 crore in FY2024, aided by increase in its content per vehicle. Revenues grew further by 18% on a YoY basis in H1 FY2025 as SJS has successfully ramped up the operations of its recently acquired businesses. Moreover, the operating profit margins remained healthy at 26% in H1 FY2025, with increasing share of technologically advanced products. With growing demand for premium aesthetics in the automotive segment, SJS is expected to sustain the revenue momentum, going forward, supported by the increasing share of business from existing as well as new customers, growth from new product launches and entry into new geographies, driven by the acquired businesses. Concurrently, SJS is expected to maintain its strong financial profile. The rating also considers SJS' extensive experience in the manufacturing of self-adhesive labels and the established relationship it enjoys with its reputed clientele [original equipment manufacturers (OEMs) and tier-1 suppliers].

ICRA however notes the company's moderate, albeit improving, scale of operations. Notwithstanding the healthy growth in revenues, ICRA notes that the scale of operations of SJS remains moderate vis-à-vis other entities in the similar rating category. Further, around ~70% of its consolidated revenues is derived from the automotive segment, which is vulnerable to cyclicality in demand. The cyclicality is partly mitigated, to an extent, as the white goods and farm equipment segments accounted for around 30% of its revenues in FY2024. SJS' customer concentration remains moderately high, with the top five customers accounting for 52% of the consolidated revenues in FY2024, nonetheless the same is expected to reduce with addition of new customers.

The Stable outlook on the long-term rating reflects ICRA's expectation that SJS' credit profile will continue to remain adequately supported by the steady increase in revenues and healthy profit margins. This will limit its dependence on debt and lead to continued healthy debt coverage indicators.

Key rating drivers and their description

Credit strengths

Extensive experience in manufacturing self-adhesive labels; improved product diversification supported by acquisitions – SJS was established in 1987 and has more than three decades of experience in the manufacturing of self-adhesive labels. The company has four manufacturing units – one in Bengaluru (Karnataka), two in Pune (Maharashtra) and one in Manesar (Haryana). SJS has long relationships with its suppliers and equipment vendors, resulting in a constant and uninterrupted supply of raw materials. With established supply chain, manufacturing capabilities and delivery mechanism in place, the company supplied over 169 million parts to more than 180 customer locations across 22 countries in FY2024.

Its product offerings include decals and body graphics, 2D appliques and dials, 3D appliques and dials, 3D lux badges, domes, overlays, aluminium badges. SJS has also been undertaking efforts to further expand its product portfolio through in-house product development, as well as inorganic investments. In this regard, its recent acquisitions of WPI and Exotech for its high-value decorative parts such as in-mold decoration (IMD), in-mold labelling (IML), in-mold electronics (IME) and in-mold forming (IMF) components. This has helped the company further strengthen its product and customer profile and diversify its offerings.

Established relationship with reputed clients – The company has forged strong relationships with its customers, supporting its growth over the years. The company benefits from its relationships with tier-1 automotive suppliers and automotive OEMs, especially in the 2W segment 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 key customers for more than two decades and receives incremental orders from them for their new models and requirements. Moreover, with the acquisition of Exotech and WPI, SJS added four-wheeler (4W) brands such as Mahindra & Mahindra Limited, John Deere India Private Limited, Tata Motors Limited, Maruti Suzuki India Limited, Autoliv Inc., Novateur Electrical & Digital Systems Private Limited and Toyota Tsusho India Private Limited to its customer base. ICRA notes that the recent acquisition of Exotech and WPI are synergistic to SJS' business and provides it with opportunities to cross sell its products across a diversified customer base and strengthen its order book.

Increasing scale of operations, comfortable financial profile with healthy profitability and return indicators – SJS' revenues have expanded at a healthy CAGR of 36% over the past four years with total revenues of Rs. 628.0 crore in FY2024, aided by an increase in its content per vehicle. Revenues grew further by 18% on a YoY basis in H1 FY2025 as SJS successfully ramped up the operations of its recently acquired businesses. With growing demand for premium aesthetics in the automotive segment, SJS is expected to sustain the revenue momentum, going forward, supported by the increasing share of business from existing as well as new customers, growth from new products launches and entry into new geographies. Driven by the acquired businesses, SJS' financial risk profile remains comfortable, characterised by healthy profitability and a strong capital structure. Established supply chain, manufacturing capabilities along with continuous development of technologically advanced products have led to a healthy gross margin of over 50% during the last three years. At the consolidated level, the OPM improved to 26% in H1 FY2025, led by higher sales and enhanced operational efficiencies. In H1 FY2025, SJS fully repaid the term loan, making the company long-term debt free. This resulted in a healthy capital structure with an overall gearing of 0.04 times as on September 30,2024. The debt coverage indicators also stood robust with total debt vis-à-vis the operating profit of 0.1 times and an interest cover of 24.7 times in H1 FY2025.

Credit challenges

Moderate, albeit growing scale of operations – Although SJS' revenues have grown at a healthy rate, it continues to remain moderate relative to other entities in the rating category. With modest content per vehicle on its products, SJS's revenue stood at Rs. 628.5 crore in FY2024 and Rs. 381.4 crore in H1 FY2025. 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 a large part of its revenues from the passenger vehicle segment, followed by two wheelers

(2W) and the remaining from the white goods and farm equipment segments. Going forward, the introduction of new products and acquisition of new customers are expected to drive revenue growth organically, helping it expand its scale of operations and mitigate this risk.

Exposed to inherent cyclicality in the automotive industry – With SJS deriving a major portion of its revenues from the 2W and 4W segments, which together accounted for 73% of revenues in FY2024, 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 from FY2021 on the back of revival in demand. The cyclicality is partly mitigated, to an extent, as the white goods and farm equipment segments accounted for around 20% of its revenues in FY2024. Subsequently, in H1 FY2025, despite the slowdown in the industry (especially in the PV segment), the company outperformed the industry volumes, led by the ramp-up in acquired business as well as growth in export markets. However, in case of the 2W segment, the growth was lower than the industry level.

Moderately high customer concentration – Moreover, at a consolidated level, customer concentration remains moderately high with top five customers accounting for 52% of its revenues in FY2024. Nonetheless, ICRA derives comfort from SJS' established relationships and high share of business enjoyed with these customers, especially in the product segments catered to by WPI and Exotech. Further with the addition of new customers, the same is expected to reduce.

Environment and Social Risks

Environmental considerations: SJS is not directly exposed to climate transition risks emanating from the likelihood of tightening emission control requirements, with the bulk of its products used across different fuel powertrains, but its automotive manufacturing customers remain highly exposed to the same. Accordingly, SJS' prospects remain linked to the ability of its customers to meet tightening emission control requirements. The company also uses raw materials such as plastic, polyethene terephthalate, copper, nickel, aluminium, paints, metallised polyester, polyvinyl chloride (PVC), polycarbonate, inks, chemicals and adhesives which, if improperly stored or disposed of, may result in severe environmental damage. Thus, the handling of raw materials and waste management are important. The company has a structured process to ensure the proper storage of raw materials and recycling of waste generated during the manufacturing process. The manufacturing facilities of the company are compliant with the environment, health and safety management systems. Moreover, SJS Bengaluru plant is certified as LEED(Leadership in energy & environmental Design) Gold by the US Green Building council and verified by Green Business certification Inc.

Social considerations: The company is exposed to social risks such as worker shortages and changing consumer preferences. The company has taken initiatives for employee empowerment, diversity in the workplace, and employee development and healthcare. Another social risk that component suppliers face pertains to product quality, wherein instances of low quality and standards and high warranty costs may lead to financial implication and harm the reputation and create a more long-lasting adverse impact on demand.

Liquidity position: Strong

SJS' liquidity position is strong, supported by healthy cash accruals and undrawn limits available of more than Rs. 80 crore as on September 30, 2024. ICRA expects the company's cash flow from operations to remain robust, driven by healthy profitability, led by growing demand and increasing share of business with OEMs. Moreover, the company fully repaid its term loan in H1 FY2025 and has no plans to avail debt in the near term. Against this, the company plans to incur capex of Rs.100 crore in the next two years, which will be funded through internal accruals. Out of the total capex, Rs. 80 crore pertains to capacity expansion in Exotech, and the balance relates to maintenance capex.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if SJS is able to demonstrate a significant increase in its revenues while maintaining healthy profitability and satisfactory debt coverage indicators and liquidity position on a sustained basis.

Negative factors – ICRA may downgrade the rating if the company reports any significant weakening in its operating performance and/or earnings, which adversely impacts its debt coverage indicators and/or the liquidity position on a sustained basis. Specific credit metrics that could result in a rating downgrade would include total debt vis-à-vis OPBDITA increasing to more than 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component
Parent/Group support	Not applicable.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SJS. As on September 30, 2024, SJS has three subsidiaries that has been enlisted in Annexure-II

About the company

SJS was established in 1987 by Mr. V. Srinivasan, Mr. K.A. Joseph and Mr. Sivakumar as a partnership concern, which was converted into a private limited company in June 2005. In September 2015, Evergraph Holdings Pte Ltd, a subsidiary of Singapore-based private equity firm, Everstone Capital, acquired a majority stake in SJS through the secondary purchase. Evergraph had acquired the 26% stake owned by Serigraph Inc, US, an American specialty printing company, and the remaining from the promoters of the company. From 2021 to 2024, following the company's IPO, Evergraph has been diluting its stake in the entity as a part of its exit strategy and as on May 24,2024 , it completely diluted its stake in the company. Post exit of Evergraph, Mr. K. A. Joseph, Managing Director, holds 21.55% stake in the company as on September-2024. In November 2021, the company was listed on NSE and BSE.

SJS manufactures self-adhesive labels such as automotive dials (automotive dashboard interior), overlays, exterior decals (two and four wheelers), badges and logos for the automotive, electronics and appliance industries, with the automotive industry contributing a major portion to its revenues. The company has also been engaging in inorganic growth to expand its product portfolio and clientele. In April 2021, it acquired Exotech at a consideration of around Rs. 64 crore to expand its presence in the chrome plating business. Further, in April 2023, it acquired a 90.1% stake in WPI at a consideration of Rs. 238.6 crore, for expanding its presence in the IMD, IML, IME and IMF components.

Key financial indicators (audited)

Consolidated	FY2023	FY2024	H1FY2025*
Operating income	433.1	628.5	381.4
PAT	67.3	85.4	57.4
OPBDIT/OI	25.0%	24.8%	26.0%
PAT/OI	15.5%	13.6%	15.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.4	0.3
Total debt/OPBDIT (times)	0.3	0.5	0.1
Interest coverage (times)	42.7	17.7	24.7

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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 (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Jan 21, 2025	Date	Rating	Date	Rating	Date	Rating
Fund based - Working capital	Long term	28.00	**[ICRA]AA- (Stable)**	27-Nov-23	[ICRA]A+ (Positive)	25-Aug-22	[ICRA]A+ (Stable)	14-Jun-21	[ICRA]A+ (Stable)
				10-May-23	[ICRA]A+ (Stable)	-	-	-	-
Unallocated	Long term	-	-	-	-	-	-	14-Jun-21	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limits –Working Capital	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	Fund-based limits – Working Capital	NA	NA	NA	28.00	[ICRA]AA- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	SJS Ownership	Consolidation Approach
Exotech Plastics Private Limited	100.0%	Full Consolidation
Walter Pack Automotive India Private Limited	90.1%	Full Consolidation
Plastoranger Advanced Technologies Private Limited*	100.0%	Full Consolidation

*Source: H1 FY2025 Results; *wholly-owned subsidiary of WPI*

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