November 27, 2023

SJS Enterprises Limited: Rating reaffirmed; outlook revised to 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]A+(Positive) reaffirmed; Outlook revised to Positive from Stable
Total	**28.00**	**28.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation and the revision in outlook on the long-term rating of SJS Enterprises Limited (SJS or the company) to Positive reflects the expectation of further strengthening of the company's business profile with a sustained improvement in its scale of operations, as well as the diversification of its product portfolio and customer base. The company's revenues have expanded at a CAGR of 11% over the past six years. Going forward, the robust revenue growth momentum for the company is expected to continue, supported by the healthy demand from its existing customers and the acquisition of new customers, as the company seeks both organic and inorganic growth. Concurrently, SJS is expected to maintain its strong financial profile characterised by healthy profitability, comfortable capital structure and coverage indicators.

The rating also considers SJS' extensive experience in the manufacturing of self-adhesive labels and the established relationships it enjoys with its reputed clientele [original equipment manufacturers (OEMs) and tier-1 suppliers]. The company has a diversified product profile with SJS supplying automotive dials, overlays, exterior decals, logos, and badges for several OEMs and tier-1 suppliers in the automotive and white goods sectors. Its in-house product development initiatives, as well as the addition of the chrome plating business and the manufacturing of high-value-added functional decorative parts from the acquisition of Exotech Plastics Private Limited (EPPL) and Walter Pack India Private Limited (WPI) acquisitions respectively, have resulted in further diversification of products. Going forward, SJS' effort in expanding its chrome plating division capacity through planned capacity addition is expected to further support its revenue growth and diversification. However, with the significant capex lined up over FY2024-FY2025, timely commencement and ramp up of operations at the new plant without any material time and cost overruns would be a key credit monitorable.

The rating is, however, constrained by the company's moderate scale of operations with dependence on the two-wheeler (2W) segment, which drove 45% of its overall revenues in FY2023. However, through the acquisition of WPI and EPPL, both of which exhibit a higher dependence on the passenger vehicle (PV) segment, the company has been able to reduce its dependence at present on the 2W segment to ~35-40% from ~55-60% in FY2020, thereby strengthening its business profile. Nonetheless, ICRA notes that the revenue contribution from the automotive segment remains high at ~70%, which is vulnerable to cyclicality in demand. In this respect, the company has also been focussing on increasing revenues from other segments such as farm equipment and white goods to mitigate the cyclicality of demand in the automotive segment.

Key rating drivers and their description

Credit strengths

Extensive experience in manufacturing self-adhesive labels; established relationship with reputed clients – SJS was established in 1987 and has more than three decades of experience in the manufacturing of self-adhesive labels. The company has forged strong relationships with its customers and suppliers, 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. With the acquisition of EPPL and WPI, SJS also added four-wheeler (4W) brands such as Mahindra & Mahindra Limited (rated [ICRA] AAA (Stable)/[ICRA] A1+), Tata Motors Limited (rated [ICRA] AA (Stable)/[ICRA] A1+), Maruti Suzuki India Limited and John Deere India to its customer base.

Comfortable financial profile with healthy profitability and return indicators – SJS' financial risk profile remains comfortable, characterised by healthy profitability and a strong capital structure. Although the operating profit margin (OPM) declined in recent years from the peaks of 30.8% in FY2021, on account of consolidation of the lower-margin chrome plating division of EPPL and sales disruption reported by WPI in Q2 FY2024 due to a model changeover in its key customer, the consolidated operating profit margin and RoCE continues to remain healthy at 22.9% and 19.2% in H1 FY2024, respectively. ICRA expects the company to continue to report healthy double-digit margins over the near-to-medium-term. Further, despite capex plans lined up over the near-to-medium term, ICRA expects the company's capital structure and debt protection metrics to remain robust supported by healthy accruals. However, 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 acquisitions – The company's product profile is moderately diversified as it supplies automotive dials, overlays, exterior decals, logos, and badges for several OEMs and tier-1 suppliers in the automobile and white goods sectors. SJS has been undertaking efforts to expand its product portfolio through in-house product development, as well as inorganic investments. In this regard, the recent acquisition of WPI 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 will help the company to further strengthen its product and customer profile, and diversify its offerings.

Credit challenges

Moderate scale of operations – Although SJS' revenues have grown at a healthy CAGR of 11% over the past six years, driven by both organic and inorganic growth, its scale of operations continues to remain moderate. With modest content per vehicle on its products, SJS's revenue was Rs. 433.1 crore in FY2023 and Rs. 280.4 crore in H1 FY2024. However, 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 2W segment, followed by PVs 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, 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 onwards 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 21% of its revenues in FY2023.

Significant capex being undertaken – The company is planning to set up a new plant under its subsidiary Exotech, which would help expand the manufacturing capacity of both Exotech and WPI, at a total cost of ~Rs. 130-150 crore over FY2024-FY2025. Of the total capex, the company is expected to incur Rs. 50.0-60.0 crore in FY2024, and the rest in FY2025, with the funding expected to be met largely by internal accruals. 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.

Environment and Social Risks

Environmental considerations: The company 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 is key. 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, as part of the green energy initiative, the company's Bengaluru facility is LEED gold certified by the U.S. Green Building Council and generates renewable solar energy of approximately 2 megawatts (MW) in its effort towards renewable alternatives. Further, the company has undertaken various initiatives on energy efficiency, renewable energy and water conservation through rainwater harvesting to reduce its carbon footprint.

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. SJS aims to provide a safe and transparent working environment to its employees, ensuring gender equality. It has also laid down policies on diversity and inclusion at the workplace. Another social risk that component suppliers face pertains to product quality, wherein instances of low quality and standards and high warranty costs may not only lead to a financial implication but could also harm the reputation and create a more long-lasting adverse impact on demand.

Liquidity position: Adequate

SJS' liquidity position is adequate, supported by healthy cash balances of Rs. 20.8 crore and undrawn limits available of more than Rs. 80 crore as on September 30, 2023. ICRA expects the company's cash flow from operations to remain robust at Rs. 100-130 crore annually on a consolidated basis, driven by healthy profitability and stable working capital intensity. As against this, the company plans to incur capex of Rs. 50-60 crore in the current fiscal and has repayment obligations to the tune of ~Rs. 15 crore, which is expected to be comfortably serviced through the existing sources of liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if SJS' scale continues to improve while maintaining profitability and with improvement in liquidity on a sustained basis. In addition, SJS' ability to integrate and scale up the operations of entities acquired over the recent past and realise operational synergies while maintaining its business position in its key product segments would remain critical for a rating upgrade.

Negative factors – ICRA may revise the outlook to Stable in case the company reports any significant weakening in its operating performance, earnings or liquidity position on a sustained basis. 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 of 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 Supplier
Parent/Group support	Not applicable.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SJS.

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 subsequently 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, USA, an American specialty printing company, and the remaining from the promoters of the company. From 2021 to 2023, following the company's IPO, Evergraph has been diluting its stake in the entity as part of its exit strategy and as on September 30, 2023, it owns a 4.63% stake in the company. At present, Mr. K. A. Joseph is the Managing Director. In November 2021, the company was listed on the NSE and the BSE stock exchanges.

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 to a major portion of its revenues. The company has also been engaging in inorganic growth to expand its product portfolio and clientele base. In April 2021, it acquired Exotech Plastics Private Limited 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 Walter Pack Automotive Products India Private Limited (WPI) at a consideration of Rs. 238.6 crore, for expanding its presence in the in-mold decoration (IMD), in-mold labeling (IML), in-mold electronics (IME) and in-mold forming (IMF) components.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	H1 FY2024
Operating income	370.2	433.1	280.4
PAT	55.0	67.3	37.3
OPBDIT/OI	25.8%	25.0%	22.9%
PAT/OI	14.9%	15.5%	13.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	0.4
Total debt/OPBDIT (times)	0.3	0.3	0.8
Interest coverage (times)	27.7	42.7	16.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; 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 (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sept 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 27, 2023	May 10, 2023	Aug 25, 2022	Jun 14, 2021	-
1	Fund based - Working capital	Long term	28.00	-	[ICRA] A+ (Positive)	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	-
2	Unallocated	Long term	-	-	-	-	-	[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]A+ (Positive)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	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 FY2024 Results; *wholly owned subsidiary of WPI ^with effect from July 04, 2023

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About ICRA Limited:

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