August 03, 2021

The Yamuna Syndicate Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	4.50	4.50	[ICRA]A- (Stable); reaffirmed
Long Term / Short Term - Unallocated	5.70	5.70	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed
Total	**10.20**	**10.20**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation for the debt programmes of The Yamuna Syndicate Limited (TYSL) factors its status as the principal shareholder (45% stake) in ISGEC Heavy Engineering Limited (IHEL, rated [ICRA]AA(Negative)/[ICRA]A1+[1]), an established engineering, procurement and construction (EPC) company and a fabricator for equipment/machinery in the capital goods sector. Further, the company enjoys financial flexibility with the market value of its investment in IHEL of around Rs. 2,615 crore (as on July 20, 2021), along with nil debt as on March 31, 2021. TYSL's financial profile draws support from the steady dividend income from IHEL, albeit modest, and its debt-free status. The ratings also factor in its healthy liquidity profile as evidenced by free cash and cash equivalents of ~Rs. 22 crore as on March 31, 2021 and unutilised bank limits.

However, the ratings are constrained by TYSL's concentrated investment portfolio with its profitability metrics vulnerable to dividend flows from its only investee company, IHEL. The same has been demonstrated by lower-than-usual dividends in FY2019, however, the same improved in FY2020 and FY2021. 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, low liquidity of IHEL's stock given more than 60% shareholding is held by promoters, apart from market risks arising from volatility in share price movement, constrains TYSL's financial flexibility to an extent. This apart, the ratings are constrained by TYSL's small operating scale with trading operations across various product segments, many of which are dependent on Group entities for sustaining 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 thus lumpy in nature.

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

Key rating drivers and their description

Credit strengths

Principal promoter shareholder of IHEL – TYSL held 45.00% stake in IHEL as on March 31, 2021 (increased from 44.93% as on March 31, 2020), out of the total 62.43% promoter holding of IHEL. 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

[1] *Please find latest rating rationale here.*

trading company, the dividend income from IHEL historically contributed to majority of its operating profits and cash accruals, thus evidencing strong linkages to the investee company's financial profile. Further, around 59% of TYSL's capital employed as on March 31, 2021 is towards its investment in IHEL.

Financial flexibility emanating from holding IHEL's shares – The market value of TYSL's investment is around Rs. 2,615 crore (as on July 20, 2021). 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. Further, the fund-based working capital utilisation has remained nil for April 2020-June 2021 against the sanctioned limit of Rs. 4.5 crore and an average drawing power (DP) during the same period of around Rs. 4 crore. The said cushion in working capital limits, in addition to free cash balance of around Rs. 22 crore as on March 31, 2021, given the nil debt repayments and minimal capex requirements in the near term, indicates the company's healthy liquidity position.

Credit challenges

Investment concentration in IHEL – TYSL's financial performance is strongly linked to IHEL's performance, which remains the only investee, indicating high dependence on dividend flows from 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 and Rs. 6.6 crore in FY2021. Though TYSL's dividend income was lower in FY2021, the company has witnessed a growth of 7% YoY in its trading business at Rs. 54.6 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 backdrop of the ongoing pandemic, 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 also discontinued a few segments. Also, the trading operations have low margins and revenues for segments such as pesticide trading and petrol pump, which are supported by businesses from the Group companies to a large extent.

Liquidity position: Adequate

The company's liquidity position remains **adequate** with cash balance of around Rs. 22 crore as on March 31, 2021. In addition, the fund-based working capital utilisation was nil for April 2020-June 2021 against the sanctioned limit of Rs. 4.5 crore and average DP of around Rs. 4 crore. Further, it has nil term debt repayments along with limited requirement for working capital and capex in the near term.

Rating sensitivities

Positive factors – The ratings could be upgraded if dividend income increases substantially on a sustained basis and/or substantial improvement in scale and profitability while maintaining strong credit metrics and liquidity profile. Additionally, strengthening of credit profile of IHEL could also result in a favourable rating movement.

Negative factors – Pressure on the ratings could arise if there is deterioration in credit profile of IHEL and/or weakening of linkages with IHEL and/or there is reduction in financial flexibility on account of substantial decline in market capitalisation of IHEL. The ratings could also be revised downwards if TYSL's liquidity profile and debt service metrics weaken, on 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 Rating methodology for holding companies
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

TYSL, incorporated in 1954, is a key holding company that has 45% stake in IHEL, which is the flagship company of the ISGEC Group. The company is also involved is a 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 50% of FY2021 trading revenues and 48% of FY2020 trading revenues. While the trading business dominates the company's revenue mix (89% in FY2021 and 82% in FY2020), 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	FY2020	FY2021
Operating Income (Rs. crore)	62.7	61.3
PAT (Rs. crore)	13.3	8.8
OPBDIT/OI (%)	20.6%	13.9%
PAT/OI (%)	21.3%	14.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	59.7	387.6

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 (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Aug 03, 2021	May 29, 2020	NA	Nov 12, 2018	Sep 08, 2017
1	Fund-based facilities	Long-term	4.50	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Unallocated	Long-term/ short term	5.70	--	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]BBB (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based facilities	Simple
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, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based facilities	-	-	-	4.50	[ICRA]A-(Stable)
NA	Unallocated	-	-	-	5.70	[ICRA]A-(Stable)/ [ICRA]A2+

Source: *Company*

Annexure-2: 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.

For more information, visit www.icra.in

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