November 05, 2021

Sahyadri Industries Limited: Ratings upgraded to [ICRA]A- (Stable) and [ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund Based/Cash credit	66.15	74.55	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+(Stable)
Short term - Non-fund based Limits	-	36.95	[ICRA]A2+; Upgraded from [ICRA]A2
Long term/Short term – Unallocated	48.00	-	-
Total	**114.15**	**111.50**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade factors in the continued improvement in Sahyadri Industries Limited's (SIL's) revenues in FY2022 while sustaining healthy operating margins and debt coverage metrics. SIL's revenues increased by 66% in FY2021, driven by strong rural demand on the back of good monsoons. Its operating margins improved by 330 bps to 19.6% in FY2021 driven by an increase in the net sales realisations and better absorption of fixed overheads. This along with a favourable capital structure with low indebtedness resulted in healthy debt coverage indicators, as reflected by an interest coverage and Total Debt / OPBDITA of 19.0 times (previous year [PY]: 8.5 times) and 0.5 times (PY: 1.3 times), respectively in FY2021. In H1 FY2022, SIL reported an increase in revenues by 24.2% and operating margins of 22.4% (PY: 23.1%). SIL's revenues are expected to grow by 11% to around Rs. 520.0 crore in FY2022 while largely sustaining the operating margins at around 19.0%. While the company has capex plans of around Rs. 150.0 crore during FY2022-FY2023 in Tamil Nadu and Odisha, of which 55% is likely to be debt-funded, the leverage and debt coverage metrics are likely to remain healthy.

The rating continues to favourably consider the long track record of operations of over three decades in the roofing sheets (asbestos cement sheets – AC sheets) segment, a strong distribution network comprising over 3,000 dealers and distributors and an established market position in the western region, mainly in Maharashtra and Gujarat, with three plants located in the same region and resulting in low freight expenses. Further, the company has plans to diversify across other geographies with deeper penetration in the southern region, where it has some presence and entry into the eastern region.

The ratings, however, remain constrained by the vulnerability of SIL's revenues and margins to the regulatory risks associated with the threat of ban on use or manufacture of asbestos-related products as well as on the mining of asbestos in asbestos producing countries. The revenues from asbestos-related products account for 88% of total revenues in FY2021. However, the company expects to improve the share of non-asbestos products in the medium term, which will mitigate the regulatory risks. SIL's working capital intensity remains moderate due to high inventory levels during the year-end (for meeting the peak season demand of Q1). 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 ratings also factor in the vulnerability of margins to any adverse fluctuation in raw material prices, as well as exposure to fluctuation in foreign exchange rates, given the considerable imports of asbestos fibre and the absence of any formal hedging policy.

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 the western India, planned geographical diversification, which is expected to boost the overall revenues over the medium term along with sustenance of healthy operating margins and strong debt coverage metrics.

Key rating drivers and their description

Credit strengths

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.

Established market position of the company in the roofing segment; wide distribution network – SIL has a strong distribution network comprising over 3,000 dealers and distributors. SIL has an established market position in the western region, mainly in Maharashtra and Gujarat, with three plants located in the same region, thus resulting in low freight costs. Further, the company has plans to diversify across other geographies with deeper penetration in the southern region, where it has some presence and entry into the eastern region. Consequently, the company has undertaken capex plans in Tamil Nadu and in Odisha, which are expected to be operational by Q4 FY2022 and Q3 FY2023 respectively.

Improvement in the financial risk profile in FY2021; growth expected to continue in FY2022 – SIL's revenue witnessed a 66% YoY growth in FY2021, driven by strong rural demand on the back of good monsoons. The operating margins improved by 330 bps to 19.6% in FY2021 driven by an increase in net sales realisations and better absorption of fixed overheads. This along with favorable capital structure with low indebtedness resulted in healthy debt coverage indicators as reflected from an interest coverage and Total Debt/OPBIDTA of 19.0 times (PY: 8.5 times) and 0.5 times (PY: 1.3 times) respectively in FY2021. In H1 FY2022, SIL reported an increase in revenues by 24.2% and operating margins of 22.4% (PY: 23.1%). SIL's revenues are expected to report a growth of 11% to around Rs. 520.0 crore in FY2022 while largely sustaining the operating margins at around 19%. While the company has capex plans of around Rs. 150.0 crore during FY2022-FY2023 in Tamil Nadu and Odisha, of which 54% is likely to be debt-funded, the leverage and debt coverage metrics are likely to remain healthy.

Credit challenges

Vulnerability of demand to cyclicality in the rural markets – Given the nature of the product offerings by SIL, the rural markets are the key consumers for asbestos sheets manufactured by the company. As a result, the business operations of SIL remain exposed to demand conditions of the rural economy, which in turn is dependent on monsoons, MSP movement and farm productivity. Any adverse movement in the demand for SIL's products from the rural markets could impact the revenue base and thus profitability of the company.

Operations remain exposed to regulatory risks– With asbestos-based products dominating SIL's product profile (~91% asbestos-based products in FY2021, quantity wise), its revenues and margins are vulnerable to the regulatory risks associated with the threat of ban on use or manufacture of asbestos-related products as well as on the mining of asbestos in asbestos producing countries. However, the company is expecting to improve the share of non-asbestos products in the medium term, which will act as a mitigant to the regulatory risks.

Working capital intensive nature of operations due to high inventory levels; margins exposed to fluctuations in raw material prices and foreign exchange rates – SIL's working capital intensity remains moderate due to high level of inventory in the year end to cater to the peak season of Q1. Besides, the margins remain susceptible to adverse fluctuations in the costs of key raw materials such as asbestos, cement and fly ash. SIL's margins also stand exposed to fluctuations in the foreign exchange rates, given the company's considerable imports in the form of asbestos fibre and absence of any formal hedging policy. Its exports, though moderate, provide natural hedging against the imports to an extent. The company's ability to pass on the increased cost to the customers amid intense competition from other players will therefore remain a key determinant of the company's profitability, going forward.

Liquidity position: Adequate

SIL's liquidity position remains adequate on the back of healthy cash and liquid investments of Rs. 51.80 crore as on March 31, 2021 and low utilisation of fund-based limits (~2%) during the last 15 months ending June 2021, resulting in an average cushion of Rs. 73.1 crore. Further, the company plans to undertake capex of Rs. 150 crore in FY2022-FY2023, which are expected to be funded by 55% debt and the remaining through internal accruals. The company has debt repayments of around Rs. 38.68 crore in FY2022, which can be comfortably met from cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade SIL's ratings if there is a significant growth in revenues while maintaining its profitability, capital structure and debt coverage metrics on a sustained basis.

Negative factors – The ratings could be downgraded if the entity shows a 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 cash flow mismatch, 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 rating is 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 located 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. The company also operates nine windmills in Maharashtra and Rajasthan with incremental revenue contribution from the power generation division, providing stable source of revenue generation to the company. Further, the company has plans for merging the business undertaking of Poonam Roofing Products Pvt. Ltd. (PRPPL)[1]. The merger is pending for NCLT approval at present.

[1] PRPPL has been doing job works for SIL as the company was held by the same promoter group. Also, it owns Swastik brand, for which the SIL has paying royalty so far. On merger, the company benefits by acquiring the Swastik brand, existing land, plant and machinery as well as the skilled labour of PRPPL.

Key financial indicators (audited)

SIL	FY2020	FY2021
Operating Income (Rs. crore)	284.1	472.0
PAT (Rs. crore)	26.6	61.7
OPBDIT/OI (%)	16.3%	19.6%
PAT/OI (%)	9.4%	13.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.5
Total Debt/OPBDIT (times)	1.3	0.5
Interest Coverage (times)	8.5	19.0

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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 05, 2021	Nov 17, 2020	-	-
1	Fund based - Cash credit	Long-term	74.55	-	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	-	-
2	Non-Fund based limits	Short term	36.95	--	**[ICRA]A2+**	-	-	-
3	Unallocated limits	Long term/ Short term	-	--	-	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash Credit	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 analyzing 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: Click Here

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Cash credit	-	-	-	74.55	[ICRA]A-(Stable)
-	Non-fund Based limits	-	-	-	36.95	[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.

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