May 10, 2023

SJS Enterprises Limited: Update on Material Event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-term Fund-based Working Capital	28.00	28.00	[ICRA]A+ (Stable)
Total	**28.00**	**28.00**	

**Instrument details are provided in Annexure-I*

Material Event

On April 28, 2023, SJS Enterprises Limited (SJSEL) announced its plans of acquiring a 90.1% stake in Walter Pack Automotive Products India Private Limited (WPI), a subsidiary of Walter Pack Spain, a leader in the design and development of value-added functional decorative parts in the Indian market, for a consideration of Rs. 239.3 crore. The transaction is expected to be completed over the next five to six weeks.

Impact of Material Event

With presence in technologies such as in-mould decoration (IMD), in-mould labelling (IML), in-mould electronics (IME) and in-mould forming (IMF), and catering to the passenger vehicles (PVs) and consumer durables segments, WPI is expected to support SJSEL's product portfolio expansion, diversification of revenues and customers and overall revenue growth prospects. Furthermore, with the robust margin profile indicated for the WPI business (~30% operating profit margin or OPM in FY2023), the acquisition is likely to support SJSEL's earnings potential. Additional synergies are expected through cross-selling opportunities and reduction of common overheads, as well as the agreements with Walter Pack Spain and its shareholder, Antolin, for the ongoing exchange of technical know-how.

While the funding for the acquisition (Rs. 75 crore of term loan, Rs. 30 crore of preferential share allotment and Rs. 134.3 crore of existing cash and liquid investments) would result in an increase in debt levels and moderation in liquidity profile, this is likely to be largely temporary in nature. Moreover, the healthy cash generation by SJSEL and the additional sanctioned limits tied up for meeting its working capital requirements are expected to lend support to the liquidity profile even after the acquisition. Overall, despite the partially debt-funded acquisition and the short-term impact of increased net debt levels, given SJSEL's strong margin profile and healthy cash accruals from the operations, ICRA does not expect any material deterioration in SJSEL's credit profile on a sustained basis. Accordingly, the ratings remain unchanged at [ICRA]A+ (Stable).

Rationale

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, the liquidity position, rating sensitivities: Click here.

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	The rating is based on the company's consolidated financial profile. The company's subsidiaries are enlisted in Annexure-2.

About the company

SJSEL was established in 1987 by Mr. V Srinivasan, Mr. KA Joseph and Mr. Sivakumar as a partnership concern, which was subsequently converted into a private limited company in June 2005. During September 2015, Evergraph Holdings Pte Ltd., a subsidiary of Singapore-based private equity firm, Everstone Capital, acquired a majority stake in SJSEL through secondary purchase. Evergraph had acquired the 26% stake owned by Serigraph Inc., USA, a speciality printing company and remaining stake from the promoters of the company. At present, Mr. KA Joseph is the Managing Director of the company. Mr. Kazi Arif Uz Zaman, Mr. Sanjay Thapar and Mr. Vishal Sharma are Evergraph's representatives on SJSEL's board.

SJSEL manufactures self-adhesive labels like automotive dials (automotive dashboard interior), overlays, exterior decals for two and four-wheelers, badges and logos for the automotive, electronics and appliance industries, with the auto industry driving a major share of its revenues. The company expanded its product portfolio to include in-mould decorating and aluminium badges. Further in April 2021, it acquired Exotech Plastics Private Limited at a consideration of ~Rs. 64 crore. In November 2021, the company was listed on the stock exchanges.

Key financial indicators (Audited)

SJS– Consolidated (Amount in Rs. crore)	FY2021	FY2022	9M FY2023
Operating income	251.6	370.2	326.5
PAT	47.8	55.0	51.9
OPBDIT/OI	30.8%	25.8%	25.3%
PAT/OI	19.0%	14.9%	15.9%
Total outside liabilities/Tangible net worth (times)	0.2	0.3	NA
Total debt/OPBDIT (times)	0.1	0.3	NA
Interest coverage (times)	61.0	27.7	44.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation *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 (FY2024)			Chronology of Rating History for the past 3 years		
	Type	Amount Rated	Amount Outstanding as of Mar 31, 2023	Date & Rating on	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
		(Rs. crore)	(Rs. crore)	10-May-23	25-Aug-22	14-Jun-21	-
Working Capital 1 - Fund-based Facilities	Long-term	28.00	--	**[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
Working Capital Fund-based Facilities	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, is available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Fund-based Working Capital Facilitis**	NA	NA	NA	28.0	[ICRA]A+ (Stable)

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 Products India Private Limited	90.1%*	Full Consolidation

Source: Company; ^As on March 31, 2023; proposed acquisition

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