

Yamuna Syndicate Limited

November 12, 2018

Summary of rated instruments

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

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 4.50-crore¹ fund based limits of Yamuna Syndicate Limited (YSL). ICRA has also reaffirmed the rating of [ICRA]BBB on the long-term scale and [ICRA]A2 (pronounced ICRA A two) on the short-term scale for Rs. 5.70-crore unallocated limits of YSL². The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation factors in YSL's established presence in certain districts of Punjab and Haryana across a number of products such as lubricants, electrical goods, batteries (including scrap), pesticides, fertilizers, UPS etc. It is an exclusive distributor for a number of these products and has a strong distribution network in the region. Further, YSL is backed by a strong associate, ISGEC Heavy Engineering Ltd. (IHEL), which is a diversified industrial group with interests in engineering, procurement and construction (EPC) of industrial boilers, sugar machinery, air pollution equipment etc. and fabrication of capital goods such as mechanical and hydraulic presses, steel casting, process equipment etc. YSL holds 44.83% in IHEL and benefits from the dividend stream of IHEL. The rating also factors in the strong liquidity position as reflected by the largely unutilized bank lines and moderate gearing of 0.06 times as on March 31, 2018.

The ratings are, however, constrained by the decline in turnover over the last few years as a result of weakness in the tractor dealership business which culminated in the surrendering of the tractor dealership of New Holland Fiat India Ltd (NHFL) in FY2016 for which YSL was the exclusive distributor in certain regions of Punjab and Haryana. That said, ICRA acknowledges the company's efforts to ramp up sales in other segments such as batteries and battery scrap which resulted in a 18% increase in revenue in FY2018 over last year. The ratings also continue to factor in the moderate size of operations and inherently low margin nature of the trading business.

Going forward, the dividend stream from IHEL and further growth plans of YSL will remain key rating sensitivities.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes YSL will continue to benefit from substantial ownership of equity stake in IHEL and the dividend income it receives. The outlook may be revised to Positive if dividend income improves further or if revenue and operating margins expand. The outlook may be revised to 'Negative' if in case the financial profile or liquidity of the company deteriorates or if there is a change in dividend policy of IHEL.

Key rating drivers

Credit strengths

Shareholding of 44.83% in IHEL and the consistent dividend income it receives – YSL holds 44.83% of equity stake in IHEL which is rated [ICRA]AA(Stable)/[ICRA]A1+. Consistent dividend from IHEL over the years have provided comfort to the debt servicing ability of the company and strengthened its cash flows and liquidity. Any adverse impact on IHEL or change in dividend policy will, however, remain a key rating sensitivity.

Moderate gearing of 0.06 times as on March 31, 2018 and unutilized bank lines provide comfort – The debt levels have been decreasing over time and the existing long term debt profile largely consists of promoter loan only. Retiring of term loan in FY2016 and improvement in cash accruals has led to a decline in the gearing ratio from 0.39x as on March 31, 2015 to 0.06x as on March 31, 2018. Apart from the dividend income stream, liquidity is also supported by unutilized bank lines.

Diversified stream of products reduces dependence – YSL is involved in the retailing and distribution for products such as lubricants, seeds, fertilizers, pesticides, batteries (including scrap), UPS etc. The same provides benefit of diversification.

Credit challenges

Turnover has declined substantially in the past though it has again picked up in FY2018 – Although YSL has various business segments which offer benefit of diversification, the surrendering of NHFL dealership led to a decline in revenue over the last few years. That said, ICRA acknowledges the company's efforts to ramp up sales in other segments such as batteries as seen by consistent annual increase in its sales. ICRA also notes that YSL has forayed into trading of battery scrap business as well which is expected to lead a growth in top line in the near future.

Moderate scale and low profitability of the business – YSL has a moderate scale of operation and largely caters to the industrial town of Yamunanagar and certain nearby areas. The operating profitability of the company is also low which is inherent in the trading nature of business. The same has constrained the entity's rating.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

YSL, incorporated in 1954, is a trading and retailing company and deals in a wide variety of product segments like HPCL fuel retailing, IOCL industrial lubricants, Gulf automotive lubricants, Amaraja batteries, electrical goods, pesticides, fertilizers etc. It is an ISGEC group company and has 44.83% share in IHEL which is the flagship company of the ISGEC group.

IHEL, a publicly listed company under the ISGEC Group, is engaged in the EPC of industrial boilers, sugar machinery, power plants, material handling projects, air pollution equipment etc. It also has the capability to fabricate capital goods such as mechanical and hydraulic presses, process equipment, heat exchanges, castings etc. It has five manufacturing facilities in India, two of which are located in Haryana and one each in Gujarat, Uttar Pradesh and New Delhi. EPC business comprises 80- 85% of the IHEL's current order book with fabrication accounting for the rest.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	47.40	56.00
PAT (Rs. crore)	8.70	10.93
OPBDIT/OI (%)	2.0%	2.4%
RoCE (%)	19.8%	21.4%
Total Debt/TNW (times)	0.1	0.1
Total Debt/OPBDIT (times)	4.0	2.5
Interest coverage (times)	1.8	2.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Nov 2018	Date & Rating in FY2018 Sep 2017	Date & Rating in FY2017 Jun 2016	Date & Rating in FY2015 Feb 2015
1 Working Capital – CC	Long Term	4.50		[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 BG	Short term					[ICRA]A2	[ICRA]A2
3 Unallocated	Long Term/ Short Term	5.70		[ICRA]BBB (Stable)/A2	[ICRA]BBB (Stable)/A2		

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working capital / CC	-	-	-	4.50	[ICRA]BBB(Stable)
NA	Unallocated	-	-	-	5.70	[ICRA]BBB(Stable)/A2

Source: YSL

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