May 29, 2020 Revised

The Yamuna Syndicate Limited: Ratings upgraded

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade follows in the change in rating approach recognising TYSL's status as the principal promoter shareholder of ISGEC Heavy Engineering Limited (IHEL, rated [ICRA]AA(Stable)/[ICRA]A1[1]), an established an engineering, procurement and construction (EPC) company and a fabricator for equipment/machinery in the capital goods sector. In ICRA's assessment, being IHEL's principal shareholding with a large part of TYSL's capital employed towards the investment in IHEL, TYSL's credit profile is more aligned with IHEL which is its key investee. TYSL company enjoys financial flexibility on account of 44.95% stake in IHEL with market value at around Rs. 700crore (as on May 22, 2020). TYSL's financial profile draws support from steady dividend income from IHEL, albeit modest, its zero debt position as on Mar 31, 2020 and healthy liquidity profile as evidenced in free cash levels of ~Rs 23 crore and unutilised bank limits. However, the rating is 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 even as they improved in FY2020. Thus, TYSL's revenues and credit metrics remain linked to the financial performance and plans of IHEL and its ability to declare healthy dividends. Moreover, low liquidity of IHEL's stock apart from market risks arising from volatility in share price movement constrains TYSL's financial flexibility to an extent. This apart, the rating is also 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.

Key rating drivers and their description

Credit strengths

Principal promoter shareholder of IHEL–TYSL holds 44.95% stake in IHEL (increased from 44.80% as on March 31, 2019) out of the 65% promoter holding of IHEL, which 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 trading company, the dividend income from IHEL historically contributed to majority of its operating profits and cash accruals, thus

[1]Please find latest rating rationale here.

evidencing strong linkages to investee company's financial profile. Further, 61% of TYSL's capital employed is towards its investment in IHEL.

Financial flexibility emanating from holding IHEL's shares -The market value of TYSL's investment is around Rs. 700crore (as on May 22, 2020). With its stake being entirely unencumbered, TYSL has a healthy financial flexibility as indicated by Total Debt/Market value of unencumbered assets ratio of less than 10% as on May 22, 2020.

Healthy profitability and debt coverage metrics- TYSL's profitability and debt coverage metrics are healthy supported by dividend income and limited funding requirements in its operating business. Consequently, TYSL's debt levels have remained meagre resulting in healthy debt coverage metrics. As on Mar 31, 2020, the company did not have any debt outstanding. Further, the company had free cash balances of ~Rs 23 crore (including commitments for dividends announced in March 2020?) and unutilised bank lines of Rs 4.5 crore which point to an adequate liquidity position.

Credit challenges

Investment concentration in IHEL– TYSL's financial performance is strongly linked to the performance of IHEL, which remains the only investee, indicating high dependence on dividend flows from latter. The risk of lower than usual dividends remains, as was witnessed in FY2019 wherein TYSL's dividend income was only Rs 1.6 crore as compared to Rs 10.2 crore in the previous fiscal and Rs 11.5 crore in FY2020. Thus, TYSL reported a significant decline in cash accruals in FY2019. Further in FY2020, while dividend inflows have been healthy, impact of the Covid outbreak on the company's trading segments in the last quarter is expected to keep overall revenues and cash accruals at muted levels as compared to previous fiscal. Going forward also the possibility of lower dividend inflows as well as trading income, given the challenging economic scenario in the near to medium term cannot be ruled out.

Vulnerability to market risks- TYSL's financing ability is vulnerable to share price performance of IHEL and thus remains exposed to market risks. Further, the low liquidity of IHEL's shares constrains TYSL's financial flexibility to an extent.

Small operating scale of trading operations–TYSL's trading operations are small in size even though spread across various segments. Over the years, the company has also discontinued a few segments as well. While the trading operations have low margins, revenues for segments like pesticide trading and petrol pump are supported by businesses of group companies to a large extent.

Liquidity position: Adequate

Apart from holding shares in IHEL, the company has trading operations in Yamunanagar, nearby regions of Haryana and in Mandi, Himachal Pradesh. The working capital requirements of the trading business are minimal with limited debtors in its petrol pump retailing segment (which formed 44% of the revenues in 9MFY2020). The company had cash and liquid investment of around Rs. 23.98 crores as on March 31, 2020. Further it also had unutilized fund based limits of Rs. 4.5 crore. With no term debt repayment obligations and minimal additional working capital as well as investments requirements, the company's liquidity profile is adequate.

Rating sensitivities

Positive triggers –The ratings could be upgraded in case of increased dividend income from IHEL and improvement in scale and strengthening of credit profile of IHEL.

Negative triggers–Pressure on rating 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 capitalization of IHEL. The rating could also be revised downwards if TYSL's liquidity profile and debt service metrics weaken or in case of any debt funded large capex/ diversification or investment plans which leads to the same.

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

YSL operates as the principal shareholder of IHEL with 44.95% stake (promoter holding of 65%) besides managing trading operations. The company's trading business entails retailing of HPCL petroleum products, Amron Batteries, other agricultural tools and pesticides, electrical equipments, etc. The major contributor to the trading and retailing business has been batteries segment that contributed around 50 per cent of the company's revenues in FY2019. Even as trading business dominates the revenue mix of the company, it has negligible contribution to profits that results in the profitability metrics susceptible to trend in dividends from IHEL.

In FY2019, the company reported a net profit of Rs. 3.48 crore on an operating income (OI) of Rs. 67.89 crore compared with a net profit of Rs. 10.93 crore on an OI of Rs. 66.22 crore in the previous year. For the nine months ended Dec 31, 2019, the company reported an OI of Rs. 46.20 crore with a net profit of Rs 6.88 crore.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. Crore)	66.22	67.89
PAT (Rs. Crore)	10.93	3.48
OPBDIT/OI (%)	17.43%	4.98%
RoCE (%)	144.04%	38.02%
Total Outside Liabilities/Tangible Net Worth (times)	0.08	0.08
Total Debt/OPBDIT (times)	0.28	0.66
Interest coverage (times)	24.86	9.99

Source: TYSL's annual reports, ICRA research

Amounts 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 (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date &Rating 29-May 2020	Chronology of Rating History for the Past 3 Years Date & Rating in FY2019 12-Nov 2018	Date & Rating in FY2018 08-Sep 2017	Date & Rating in FY2017 17-Jun 2016
1	Working Capital – CC	Long Term	4.50	-	[ICRA]A-(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Unallocated	Long Term/ Short Term	5.70	-	[ICRA]A- (Stable)/A2+	[ICRA]BBB (Stable)/A2	[ICRA]BBB (Stable)/A2	

Amount in Rs. crore

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 click here

Annexure-1: Instrument details

ISIN	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]A-(Stable)
NA	Unallocated	-	-	-	5.70	[ICRA]A-(Stable)/A2+

Source: TYSL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Corrigendum

Document dated May 29, 2020 has been revised as below:

Page 7 – Relationship contact has been changed from Jayanta Chatterjee to L Shivakumar, along with the contact details.

Page 3 - OPBDIT/OI and ROCE have been corrected in the Key financial indicators (Audited) section.

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