

Rating Rationale
 December 14, 2020 | Mumbai

Sahyadri Industries Limited

Ratings upgraded to 'CRISIL BBB+/Stable/CRISIL A2'

Rating Action

Total Bank Loan Facilities Rated	Rs.114.15 Crore
Long Term Rating	CRISIL BBB+/Stable (Upgraded from 'CRISIL BBB/Positive')
Short Term Rating	CRISIL A2 (Upgraded from 'CRISIL A3+')

 1 crore = 10 million
 Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its ratings on the bank facilities of Sahyadri Industries Limited (SIL) to 'CRISIL BBB+/Stable/CRISIL A2' from 'CRISIL BBB/Positive/CRISIL A3+'.

The upgrade reflects CRISIL expectation that improvement in business risk profile will sustain, backed by steady growth in revenues while maintaining healthy profitability. Revenues is expected to improve in fiscal 2021 supported by higher demand from rural market (which is the key market for SIL) given normal monsoon leading to better crop output and thereby higher disposable rural income. Profitability is also expected to remain healthy for fiscal 2021 despite increase in raw material prices & depreciating rupee due to increase in realizations and increase in overall scale of operations which will lead to better fixed cost absorption. SIL's increasing penetration in southern markets and government thrust on rural housing; will further help to sustain improvement in business risk profile. This coupled with stable working capital cycle will result in stronger financial risk profile.

The lockdown and other measures taken by various central and state governments towards containment of COVID-19, did not have any major impact of the SIL's operations as demand is mainly driven by rural market. SIL reported revenues of Rs 241 crore & profit after tax (PAT) of Rs 35.7 crore in H1FY21 as against revenues of Rs 107 crore & PAT of Rs 11.1 crore in H1FY20.

The ratings continue to reflect established market position in the corrugated asbestos-cement (AC) sheets industry, wide distributor network and strong financial risk profile. These strengths are partially offset by dependence on rural spending, and exposure to intense competition from peers and substitute products and exposure to regulatory threat of ban on manufacture or use of asbestos in end-user markets and in key asbestos-producing nations.

Analytical Approach

Unsecured loans of Rs 38.3 crore as on 31st March 2020 has been treated as debt since they would be paid off in near term.

Key Rating Drivers & Detailed Description
Strengths:

* **Established market position in the corrugated AC sheets industry:** SIL has been manufacturing AC sheets since 1981 under the brand names Swastik, Cemply and Ecopro, amongst others. It is present in Maharashtra, Gujarat, Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana (which accounts for majority of the domestic market for AC sheets). SIL has leadership position in the AC sheets market in Maharashtra, with two manufacturing facilities resulting in savings on logistical costs. The proximity of the manufacturing facilities to its markets gives it an added competitive advantage.

* **Wide distributor network:** SIL has a strong distributorship network across India, comprising over 3,000 dealers and distributors having strong operational presence in the western and southern markets of India. Wide distributor network helps the company in establishing its brand presence and also offers revenue visibility from the domestic market.

* **Strong financial risk profile:** Networth, around Rs 184 crore as on March 31, 2020, should improve over the medium term on the back of healthy accretion and operating margin. Despite debt funded capex of Rs 25 crore; gearing may remain moderate at 0.3-0.4 time (0.32 times as on March 31, 2020). Debt protection metrics are above average: interest coverage and total debt to net cash accrual are at 8.43 times and 0.63 time, respectively, for fiscal 2020.

Weaknesses:

* **Dependence on rural spending, and exposure to intense competition from peers and substitute products:** Demand for AC roofing is derived from rural spending on household construction, as well as investment in industrial construction. This exposes SIL to fluctuations in rural purchasing power, and change in economic cycles. Moreover, the industry is intensely competitive, marked by presence of other strong players. AC roofing players also face stiff competition from manufacturers of galvanised iron (GI) roofing sheets, which have emerged as a viable alternative for AC roofing. Any sharp decline in the price of GI sheets will significantly impact demand for AC sheets. Furthermore, since cost of procuring the major raw material for AC roofing (asbestos fibre) accounts for over 50% of the total production cost and that company doesn't hedge its imports, even a slight variation in rates may drastically impact profitability like seen in fiscal 2020.

* **Exposure to regulatory threat of ban on manufacture or use of asbestos in end-user markets and in key asbestos-producing nations:** SIL remains vulnerable to the risk of a ban on mining and use of asbestos in Kazakhstan or Russia (which are the largest exporters of the mineral). In India too, only white asbestos (known as chrysotile) fibre is used, as blue and brown asbestos have been banned. Furthermore, all forms of asbestos mining is banned in the country. Regulatory changes concerning asbestos mining and usage will remain key rating sensitivity factors. Nevertheless, the company is looking to gradually reduce its dependence on asbestos-based products in the medium term and will be a key credit monitorable going forward.

Liquidity Adequate

Liquidity is adequate with expected accruals of around Rs 36 - 45 crore per annum expected against minor debt obligation of around Rs 23 lakh over medium term. Bank limit utilization is also low at around 12% for past 12 months ending September 2020 thereby providing cushion in bank lines. Liquidity is further supported by liquid investment of over Rs 60 crore as on 30th September 2020 which would be used to pay off unsecured loan of Rs 38 crore. SIL is expected to incur capex of Rs 35 crore over medium term; debt funded to tune of Rs 25 crore; for which it has sufficient headroom. CRISIL believes SIL has sufficient accrual, unutilized working capital bank limits, and cash and cash equivalent to finance its incremental working capital needs and capital expenditure over the medium term.

Outlook: Stable

CRISIL believes SIL will continue to benefit from its established market position.

Rating Sensitivity factors
Upward factor

- * Sustained revenue growth of over 10% per fiscal backed by successful ramp-up of operations from planned capacity expansion & increasing market penetration in southern markets, while maintaining operating margin
- * Sustained improvement in working capital cycle

Downward factor

- * Decline in accrual to below Rs 20 crore due to drop in revenue or operating margin
- * Cost or time overrun in planned capacity expansion
- * Increase in working capital requirement, larger-than-expected, debt-funded capex or acquisition, or substantial dividend payout weakening financial risk profile, especially liquidity

About the Company

Established in 1947, SIL is engaged in providing building material products for interior and exterior building systems and roofing solutions. SIL got listed on the stock exchange in year 2006-07. It operates through five manufacturing plants located across four states - Maharashtra, Gujarat, Tamil Nadu and Andhra Pradesh, and sells its products under the brand names - Swastik, Cemply and Ecopro through a network comprising over 3,000 distributors. The company also operates nine windmills in Maharashtra and Rajasthan.

Key Financial Indicators

Particulars	Unit	2020	2019
Revenue	Rs. Cr.	290.35	295.71

Profit After Tax	Rs. Cr.	26.57	31.9
PAT margin	%	9.15	10.79
Adjusted Debt/Adjusted Net worth	Times	0.32	0.29
Interest coverage	Times	8.43	10.21

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity date	Issue Size (Rs. Cr)	Complexity level	Rating Assigned with Outlook
NA	Bank Guarantee	NA	NA	NA	0.3	NA	CRISIL A2
NA	Cash Credit	NA	NA	NA	66.85	NA	CRISIL BBB+/Stable
NA	Letter of Credit	NA	NA	NA	47	NA	CRISIL A2

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	66.85	CRISIL BBB+/Stable	21-07-20	CRISIL BBB/Positive	02-04-19	CRISIL BBB/Positive	31-01-18	CRISIL BBB+/Positive/CRISIL A3			CRISIL BB/Stable/CRISIL A4+
Non Fund-based Bank Facilities	LT/ST	47.30	CRISIL A2		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	.3	CRISIL A2	Bank Guarantee	.3	CRISIL A3+
Cash Credit	66.85	CRISIL BBB+/Stable	Cash Credit	66.85	CRISIL BBB/Positive
Letter of Credit	47	CRISIL A2	Letter of Credit	47	CRISIL A3+
Total	114.15	--	Total	114.15	--

Links to related criteria

- [CRISILs Approach to Financial Ratios](#)
- [CRISILs Bank Loan Ratings - process, scale and default recognition](#)
- [Rating criteria for manufacturing and service sector companies](#)
- [CRISILs Bank Loan Ratings](#)
- [CRISILs Criteria for rating short term debt](#)
- [The Rating Process](#)

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