

Press Release

S K M Industries

May 19, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 13.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 13.00 crore bank facilities of S K M Industries. The outlook is '**Stable**'.

S.K.M. Industries (SKM) was established in 2006 as a partnership firm by Mr. Mihir Kikani and Mr. Sukesh Kikani. The firm is engaged in manufacturing of industrial storage systems and steel cable drums. SKM has its manufacturing facility at Valsad, Gujarat.

Key Rating Drivers

Strengths

- **Moderate Financial risk profile**

SKM's financial risk profile is moderate marked by net worth of Rs.4.18 crore as on March 31, 2016 as against Rs.4.17 crore as on March 31, 2015. The firm's gearing stood at 1.42 times as on March 31, 2016 as compared to 2.81 as on March 31, 2015. Firm's coverage indicators are moderate with interest coverage ratio (ICR) of 1.67 times in FY2015-16 as against 2.13 times in FY2014-15.

- **Experienced Management and moderate scale of operations**

SKM benefits from its experienced management. The partners viz. Mr. Mihir Kikani and Mr. Sukesh Kikani have experience of over a decade in this line of business.

Weaknesses

- **Moderate scale of operations**

The scale of operations of SKM is moderate marked by revenue of Rs. 35.17 cr in FY2015-16 as compared to Rs. 38.86 cr in FY2014-15 and Rs. 32.06 cr in FY2013-14.

- **Uneven Profit margins**

The operating margins of SKM have remained uneven during the period under study (FY2013-14 to FY2015-16) on account of volatility in raw material prices viz. steel sheets. Operating margins stood at 5.53 percent in FY2015-16 as compared to 4.98 percent in FY2014-15 and 6.19 per cent in FY2013-14.

- **Working capital intensive nature of operations**

The operations of SKM are working capital intensive with gross current asset (GCA) of 179 days for FY2015-16 as compared to 134 days in FY2014-15. The increase in GCA days is primarily on account of increase in inventory to 147 days in FY2015-16 as compared to 95 days in FY2014-15.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes SKM will maintain a stable business risk profile in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and net cash accruals while improving capital structure. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability, or in case of deterioration in the firm's financial risk profile or higher than expected working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, SKM reported net profit of Rs.0.51 crore on operating income of Rs.35.17 crore as compared with net profit of Rs.0.84 crore on operating income of Rs. 38.86 crore for FY2014-15. The net worth stood at Rs.4.18 cr as on March 31, 2016 as compared to Rs.4.17 cr as on March 31, 2015.

Status of non-cooperation with previous CRA (if applicable)

CRISIL has suspended its ratings on the bank facilities of SKM Industries (SKM) as on September 29, 2016. The suspension of ratings is on account of non-cooperation by SKM with CRISIL's efforts to undertake a review of the ratings outstanding. Despite repeated requests by CRISIL, SKM is yet to provide adequate information to enable CRISIL to assess SKM's ability to service its debt. The suspension reflects CRISIL's inability to maintain a valid rating in the absence of adequate information. CRISIL views information availability risk as a key factor in its assessment of credit risk.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.25	SMERA BB- / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.25	SMERA A4
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A4
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4

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ABOUT SMERA

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