

Press Release

S K M Industries

August 14, 2018

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

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

S.K.M. Industries (SKMI) 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. SKMI has its manufacturing facility at Valsad (Gujarat).

Key Rating Drivers

Strengths

- **Experienced management**

SKMI incorporated in 2006. The partners are actively involved in steel industry over a decade. SKMI is engaged in manufacturing, designing and supplying of Steel Cable Drum, Slotted Angles System, Steel, Pallets, Heavy Duty Pallet Racks, Perforated Cable Trays, Compactor System & Strut Channels and other varied Industrial Storage Requirement. Around 21.68 percent of the revenues are generated through exports and remaining through domestic market. Acuite believes that the firm will be benefited by the experienced management over the medium term.

Weaknesses

- **Declining scale of operations and uneven profitability margins**

The operating income of the firm has declined during the period FY2016 to FY2018 under the study. The reason for revenues to decline in FY2018 over FY2017 is on account of fewer orders executed in FY2018 due to intense competition and impact of GST. The operating income stood at Rs.28.03 crore in FY2018 (Provisional) as against Rs.28.43 crore in FY2017 and Rs.35.17 crore in FY2016. The profitability margins have remained uneven during the period FY2016 to FY2018. The operating margin stood at 5.95 percent in FY2018 (Provisional) as against 6.17 percent in FY2017 and 5.53 percent in FY2016. The reason for operating margin to decrease is on account of increase in manufacturing cost (job work charges) in FY2018 over FY2017. The net profitability margins stood at 1.87 percent in FY2018 (Provisional) as against 2.06 percent in FY2017 and 1.44 percent in FY2016.

- **Working capital intensive operations**

The operations of SKMI have remained working capital intensive marked by Gross Current Asset (GCA) days of 206 in FY2018 (Provisional) as against 185 days in FY2017. The reason for GCA days to increase is on account of increase in inventory holding period to 173 days in FY2018 (Provisional) as against 138 days in FY2017 because one of the order got booked in the month of April 2018. The order book usually gets spill over in two financial years. The receivable days stood at 36 in FY2018 (Provisional) as against 40 days in FY2017. The average bank limit utilisation stood at 90 percent for the last six months ended May 2018. Acuite believes that being into manufacturing of storage systems the operations of SKMI will remain working capital intensive.

• Average financial risk profile

The financial risk profile of SKMI has remained average marked by tangible net worth of Rs.4.44 crore as on 31 March, 2018 (Provisional) as against Rs.4.76 crore as on 31 March, 2017. The gearing stood at 2.40 times as on 31 March, 2018 (Provisional) 1.25 times as on 31 March, 2017. The reason for gearing to increase is on account of unsecured loans taken from financial institutes of Rs.1.58 crore and Rs.0.81 crore from relatives in FY2018. The total debt of Rs.10.67 crore outstanding as on 31 March, 2018 (Provisional) comprises Rs.0.42 crore as vehicle loans, Rs.0.81 crore from the relatives, Rs.1.58 from financial institutes and Rs.7.85 crore as working capital limits from the bank. The interest coverage ratio stood at 1.87 times in FY2018 (Provisional) as against 1.95 times in FY2017. The net cash accruals stood at Rs.0.83 crore in FY2018 (Provisional) as against Rs.0.88 crore in FY2017.

Analytical Approach

Acuite has considered standalone business and financial risk profile of SKMI to arrive at the rating.

Outlook: Stable

Acuite believes that the outlook on SKMI will remain 'Stable' over the medium term on the back of the extensive experience of its promoter. The outlook may be revised to 'Positive' if the firm registers substantial growth in revenues and profitability while improving the financial risk profile. The outlook may be revised to 'Negative' if the cash accruals are lower than expected, or any stretch in its working capital cycle weakening its liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	28.03	28.43	35.17
EBITDA	Rs. Cr.	1.67	1.75	1.95
PAT	Rs. Cr.	0.52	0.59	0.51
EBITDA Margin	(%)	5.95	6.17	5.53
PAT Margin	(%)	1.87	2.06	1.44
ROCE	(%)	11.79	14.44	13.09
Total Debt/Tangible Net Worth	Times	2.39	1.25	1.42
PBDIT/Interest	Times	1.87	1.95	1.67
Total Debt/PBDIT	Times	5.94	3.32	2.99
Gross Current Assets (Days)	Days	206	185	183

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

None

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-Jun-2018	Packing Credit	Short Term	2.25	ACUITE A4 Issuer not co-operating*
	Bank Guarantee	Short Term	0.50	ACUITE A4 Issuer not co-operating*
	Cash Credit	Long Term	1.25	ACUITE BB- Issuer not co-operating*
	Post Shipment Credit	Short Term	3.00	ACUITE A4 Issuer not co-operating*
	Letter of Credit	Short Term	6.00	ACUITE A4 Issuer not co-operating*
19-May-2017	Cash Credit	Long Term	1.25	ACUITE BB- / Stable (Assigned)
	Packing Credit	Short Term	2.25	ACUITE A4 (Assigned)
	Post Shipment Credit	Short Term	3.00	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Assigned)

* Issuer not co-operating based on best available information

*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	ACUITE BB- / Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A4 (Reaffirmed)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 (Reaffirmed)

Contacts

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About Acuite Ratings & Research:

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