

Press Release

S K M Industries

August 13, 2019

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 double B 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 (SKMI). The outlook is '**Stable**'.

Mumbai-based, 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) with installed capacity of 500 Tons per month.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and establish track record**

SKMI, established in 2006, has established presence in domestic as well as international market. The partners are actively involved in steel industry having over a decade experience. SKMI is engaged in manufacturing, designing and supplying of Steel Cable Drum, Slotted Angles System, Steel, Pallets, Heavy Duty Pallet Racks, Perforated Cable Trays, and Compactor System & Strut Channels and varied industrial storage requirement. The firm is also well supported by second line of management and has established relationships with its customers and suppliers.

- **Geographically well diversified and reputed clientele**

The firm caters to reputed clients in domestic as well as international market. The domestic market contributes around 67.69 per cent and rest of 32.31 per cent of the revenue is generated through exports in FY2019 (Provisional). The firm has established relationships of over a decade with reputed clients like Poly Cab Wires, Saudi Modern Co. and Indian Railways to name few. Acuite believes that the firm will be benefited by the experienced management over the medium term.

Weaknesses

- **Declining scale of operations and working capital intensive nature of operations**

The operating income of the firm has declined during the period FY2017 to FY2019 under the study. The operating income stood at Rs.24.34 crore in FY2019 (Provisional) as against Rs.27.11 crore in FY2018 and Rs.28.43 crore in FY2017. The reason for revenues to decline in FY2019 (Provisional) over FY2018 is on account of delay in order delivery (especially railway), decline in global demand, intense competition and impact of GST. Further, the firm has working capital intensive nature of operations marked by Gross Current Assets (GCA) days of 280 in FY2019(Provisional) as against 213 days in FY2018. The increase in GCA is marked by increase in inventory and receivable days to 229 and 52 days in FY2019 (Provisional) as against 179 days and 36 days in FY2018. The elongation is due to delayed payments and order execution for Government contract undertaken resulting in high dependence on working capital limits. The working capital limits stood utilised at 96.67 percent for last six month ending June 2019.

• Average financial risk profile

The financial risk profile of SKMI has remained average marked by tangible net worth of Rs. 5.36 crore as on 31 March, 2019 (Provisional) as against Rs. 5.25 crore as on 31 March, 2018. The gearing stood at 2.45 times as on 31 March, 2019 (Provisional) as against 1.88 times as on 31 March, 2018. The reason for gearing to increase is on account of unsecured loans taken from financial institutes of Rs.2.41 crore and Rs.0.44 crore from relatives in FY2019 (Provisional). The total debt of Rs. 13.11 crore outstanding as on 31 March, 2019 (Provisional) comprises Rs.1.05 crore as long term loans, Rs.0.44 crore from the relatives, Rs.2.41 from financial institutes and Rs.9.20 crore as working capital limits from the bank. The interest coverage ratio stood at 1.48 times in FY2019 (Provisional) as against 1.84 times in FY2018. The net cash accruals stood at Rs.0.73 crore in FY2019 (Provisional) as against Rs.0.78 crore in FY2018. The debt service coverage ratio stood at 1.25 times in FY2019 (Provisional) as against 1.59 times in FY2018.

Liquidity Position:

SKMI liquidity profile stood adequate during the period FY2017 to FY2019 under the study. The net cash accruals stood at Rs.0.73 crore in FY2019 (Provisional) as against repayment obligation of Rs.0.35 to 0.40 crores. The current ratio stood at 1.53 times in FY2019 (Provisional). The operations of firm is marked by working capital intensive nature of operations marked by Gross Current Assets (GCA) days of 280 in FY2019(Provisional) as against 213 days in FY2018. The working capital limits stood utilised at 96.67 percent for last six month ending June 2019. The net cash accruals to total debt ratio stood low at 0.06 times in FY2019 (Provisional). Acuite expects liquidity to remain adequate over near to medium term.

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 there is further decline in revenues having adverse impact on overall financial position of the firm or any further stretch in its working capital cycle weakening its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	24.34	27.11	28.43
EBITDA	Rs. Cr.	2.19	1.55	1.75
PAT	Rs. Cr.	0.43	0.47	0.59
EBITDA Margin	(%)	8.98	5.71	6.17
PAT Margin	(%)	1.78	1.75	2.06
ROCE	(%)	11.54	10.83	14.44
Total Debt/Tangible Net Worth	Times	2.45	1.88	1.25
PBDIT/Interest	Times	1.48	1.84	1.95
Total Debt/PBDIT	Times	5.88	5.78	3.32
Gross Current Assets (Days)	Days	280	213	185

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
14-Aug-2018	Cash Credit	Long Term	1.25	ACUITE BB- / Stable (Reaffirmed)
	Packing Credit	Short Term	2.25	ACUITE A4 (Reaffirmed)
	Post Shipment Credit	Short Term	3.00	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
29-Jun-2018	Packing Credit	Short Term	2.25	ACUITE A4 Issuer not cooperating*
	Bank Guarantee	Short Term	0.50	ACUITE A4 Issuer not cooperating*
	Cash Credit	Long Term	1.25	ACUITE BB- Issuer not cooperating*
	Post Shipment Credit	Short Term	3.00	ACUITE A4 Issuer not cooperating*
	Letter of Credit	Short Term	6.00	ACUITE A4 Issuer not cooperating*
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)

*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	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 Reaffirmed)

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About Acuité Ratings & Research:

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