

Press Release

S K M Industries

November 15, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 13.00 crore
Long Term Rating	ACUITE BB-/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and the 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**'.

Rationale for rating reaffirmation

The rating reaffirmation considers the comfort drawn on the long track record of operations, experienced management and reputed clientele base. The rating, however, remains constrained on account of average financial risk profile and working capital intensive nature of operations.

About the Company

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 an installed capacity of 500 Tons per month

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SKM Industries to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management and established track record

SKMI established in 2006, has established a presence in domestic as well as international market. The partners are actively involved in the 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, Compactor System & Strut Channels and other varied Industrial Storage Requirement. The firm is also well supported by the second line of management and has established relationships with its customers and suppliers.

Acuite believes that the firm will continue to benefit from the experienced management.

• Geographically well-diversified and reputed clientele

The firm caters to reputed clients in domestic as well as international market. The domestic market contributes around 60 per cent and rest of 40 per cent of the revenue is generated through exports in FY2020 (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.

Weaknesses

• Average Financial Risk Profile

The financial risk profile of SKMI has remained average marked by tangible net worth of Rs. 6.19 crore as on 31 March, 2021 (Provisional) as against Rs. 6.05 crore as on 31 March, 2020 and Rs. 5.64 crore as on FY2019. The gearing stood at 2.03 times as on 31 March, 2021 (Provisional) as against 1.75 times as on 31 March, 2020 and 2.32 times as on FY2019. The total debt of Rs. 12.53 crore outstanding as on 31 March, 2021 (Provisional) comprises Rs.11.25 crore as long term loans, unsecured loans from directors and promoters of Rs. 0.78 crores and Rs 0.52 crores as short term debt. The interest coverage ratio stood at 1.61 times in FY2021 (Provisional) as against 1.38 times in FY2020 and 1.47 times in FY2019. The net cash accruals stood at Rs.0.51 crore in FY2021 (Provisional) as against Rs.0.61 crore in FY2020 and Rs 0.71 crore in FY2019. The debt service coverage ratio stood at 1.61 times in FY2021 (Provisional) as against 1.13 times in FY2020.

• Working Capital intensive of nature

The firm has working capital intensive operations marked by Gross Current Assets (GCA) of 313 days in FY2021 (Provisional) as against 255 days in FY2020 and 281 days in FY2019. The reason for such high GCA days is majorly on account of high inventory holding period in FY2021 and FY2020. The firm operates in highly competitive industry and provides credit period of 75 days for FY2021 as compared to 61 days for FY2020 to its customers. The firm maintains inventory of 243 days for FY2021 (Provisional) and 227 days for FY2020. The elongation is due to delayed order execution for Government contract undertaken resulting in high dependence on working capital limits and inventory holdings. Acuite believes that the ability of the firm to maintain its working capital operations will be key rating sensitivity.

Rating Sensitivity

- Significant improvement in existing scale of operations and margins
- Stretched working capital cycle and deterioration in liquidity position.
- Any weakening of financial risk profile of the firm.

Material Covenants

None

Liquidity position: Average

The firm has average liquidity marked by net cash accruals of Rs. 0.51 crore. Gross Current Asset (GCA) days stood high at 313 days for FY2021 (Provisional). The firm maintains unencumbered cash and bank balances of Rs. 0.61 crore as on 31 March, 2021. The cash credit limits stood fully utilised for the last seven months ended September 2021. The current ratio stood at 5.01 times as on FY2021. Acuite believes that the liquidity of the firm is likely to remain average over the medium term on account of low profitability.

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 a further decline in revenues having an adverse impact on the 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	23.34	24.36
PAT	Rs. Cr.	0.31	0.35
PAT Margin	(%)	1.34	1.44
Total Debt/Tangible Net Worth	Times	2.03	1.75
PBDIT/Interest	Times	1.61	1.38

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Aug-2020	Cash Credit	Long term	1.00	ACUITE BB-/Stable (Reaffirmed)
	PC/PCFC	Short term	2.00	ACUITE A4 (Reaffirmed)
	Post Shipment Credit	Short term	2.00	ACUITE A4 (Reaffirmed)
	Working Capital Term Loan	Long term	4.50	ACUITE BB-/Stable (Reaffirmed)
	Letter of Credit	Short term	3.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short term	0.50	ACUITE A4 (Reaffirmed)
13-Aug-2019	Packing Credit	Short Term	2.25	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	1.25	ACUITE BB-/ Stable (Reaffirmed)
	Post Shipment Credit	Short Term	3.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Reaffirmed)
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)

***Annexure – Details of instruments rated**

Lenders Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of Maharashtra	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB-/Stable (Reaffirmed)
Bank of Maharashtra	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)
Bank of Maharashtra	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)
Bank of Maharashtra	Working Capital Term Loan	May 2020	Not Applicable	February 2030	4.50	ACUITE BB-/Stable (Reaffirmed)
Bank of Maharashtra	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)
Bank of Maharashtra	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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