

Press Release

SKH Sheet Metals Components Private Limited

September 30, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 293.17 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 293.17 crore bank facilities of SKH Sheet Metals Components Private Limited (SSMC). The outlook is '**Stable**'.

SSMC was established in 2005, as a holding company for the SKHG. It holds a stake in SML, SYPL, SSICMPL, MMSKH and JHE. It is also engaged in manufacturing sheet metal components. It has manufacturing facilities located in Gurgaon for Maruti Suzuki India Limited (MSIL) and MSIL tier 1 ancillary supplier and in Pune and Chennai for other OEMs such as Volkswagen, Nissan and Renault amongst others. Its products include a body in white (BIW), seat structures, fuel tanks mufflers and other components.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of SKH Metals Limited (SML), SKH Sheet Metals Components Private Limited (SSMC), SKH Y-Tec India Private Limited (SYPL), SIAC SKH India Cab Manufacturing Private Limited (SSICMPL), SKH Magneti Marelli Exhaust Systems Private Limited (SKHMM), Magneti Marelli SKH Exhaust Systems Private Limited (MMSKH) and Jai Hanuman Enterprises (JHE) together referred to as the 'SKH Group' (SKHG). The consolidation is in view of the common management, strong operational & financial linkages between the entities. Extent of Consolidation: Full.

About the Group

Krishna Maruti Group (KMG), operates in the Indian automotive component industry and has been in operations since 1994. It was founded by Mr. Ashok Kapur. KMG manufactures and supplies various automotive components to Indian and global OEMs. SKHG consists of the metal forming companies in the larger KMG. SML - the flagship company, is a joint venture between MSIL and SKHG. It supplies a variety of sheet metal components to MSIL for all models. SSMC primarily acts as a holding company for the SKHG and also has a sheet metal component manufacturing business. Its products include BIW, seat structures, fuel tanks mufflers and other components. It primarily supplies to MSIL and also to other OEMs such as Volkswagen, Renault and Nissan amongst others. SYPL is a JV between SSMC and Y-Tec, Japan. The company is engaged in manufacturing of high tensile sheet metal components for Suzuki Motors Gujarat Private Limited (SMG) with a manufacturing facility in SMG's plant in Gujarat. SSICMPL is a JV between SSMC and SIAC (Italy). The company is engaged in manufacturing of driver cabins for heavy machinery manufacturers like JCB and Caterpillar. ~85 percent revenue is derived from JCB. SKHMM is a JV between SML and Magneti Marelli (Italy). The company is engaged in manufacturing of exhaust systems for MSIL. Its ~85 percent revenue comes from MSIL. MMSKH is a JV between SSMC and Magneti Marelli (Italy). The company is engaged in manufacturing of exhaust systems for automobile manufacturers like Piaggio, Renault, Nissan, Daimler, Eicher, Polaris and Tata Motors. JHE is a small trading firm.

Key Rating Drivers

Strengths

- **Extensive experience of promoters in the industry, established track record of operations and presence in the industry**

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SML – is the flagship company, is a joint venture between MSIL and SKHG. It supplies a variety of sheet metal components to MSIL for all models. For some parts such as metal fuel tanks and front engine frame, they are the sole suppliers of MSIL. The day to day operations of the SML is headed by Mr. Sunandan Kapur. SML has strong operational linkages with MSIL. MSIL also has representation in the Board of Directors of SML. It caters to around 25 per cent of MSIL's demand for sheet metal components and ~80 per cent of its revenue depends on MSIL.

Acuite believes that the entity will continue to benefit from its experienced management and its strong linkages with MSIL.

- **Moderate financial risk profile**

SKHG has moderate financial risk profile marked by tangible net worth of Rs. 373.15 crore as on 31 March 2020 (Provisional) against Rs. 320.70 crore as on 31 March 2019. The total debt stood at Rs. 777.38 crores as on 31 March, 2020 (Provisional) against Rs. 822.20 crore as on March 31, 2019. This includes Rs. 322.71 crores working capital loans and Rs. 296.64 crores of term loans. The gearing stood high at 2.08 times as on March 31, 2020 (Provisional) against 2.56 times as on March 31, 2019. This is on account of the capital intensive nature of the industry. Manufacturing process requires heavy machinery which primarily funded by debt. However, interest coverage ratio (ICR) stood comfortable at 3.72 times in FY2020 (Provisional) as against 4.08 times in FY2019. The TOL/TNW stood at 3.36 times as on March 31, 2020 (Provisional) against 3.89 times as on March 31, 2019.

Acuite believes SKHG's financial risk profile will remain stable in the absence of any major debt-funded capex.

- **Comfortable working capital management**

SKHG primarily caters to MSIL. They work based on production schedules provided by MSIL on a monthly and a quarterly basis. This has helped them in their inventory management. The inventory holding period for SKHG stood at 41 days in FY2020, 33 days in FY2019 and 35 days in FY2018. The counterparty risk is also mitigated to some extent due to the presence of a well-established counterparty like MSIL. The receivable days have stood at 45 days in FY2020, 54 days in FY2019 and 64 days in FY2018. The working capital cycle stood at 20 days in FY2020 and 28 days in FY2019. SKHG maintained comfortable GCA of 109 days in FY2020 against 104 days in FY2019.

Weaknesses

- **Heavy dependence on MSIL's operational and financial position.**

MSIL is a leading player in the automotive segment in India with a market share of ~50 percent. Its revenues and operating profit stood at Rs. 71690.40 crore and Rs. 3776.90 crore respectively in FY2020. The revenues and operating profit have declined 16.1 percent and 52.7 percent, respectively as compared to FY2019. SKH Group is primarily engaged in supplying sheet metal components for various models of MSIL. Around 80 percent of the group's revenue comes from MSIL. Therefore, the financial and operating risk profile of MSIL can have a significant impact on SKHG and will be a key monitoring factor.

Acuite believes any adverse movement in MSIL's operational and financial position will be a key rating monitorable.

• Cyclical and competition associated with automotive component industry

The auto component industry is highly competitive due to competition from organized and unorganized players. It is also highly cyclical in nature with growth linked to overall growth in the economy and consumption. Acuite expects SKHG's revenues to be exposed and tied to cyclical demand prospects of the automobile industry mainly four-wheeler and the presence of other players which lead to increased competition.

Liquidity Position: Adequate

SKHG's net cash accruals are expected to be in the range of ~Rs. 101.00-140.00 crore for period FY2021-2023 against repayment obligations in the range of Rs. 100.51 to 100.00 crore for the same period. The company's operations are moderately working capital intensive marked by GCA of 109 days in FY2020 (Provisional) and 104 days in FY2019. This makes the company dependent on bank borrowing to fund its working capital requirement. However, the average bank limit utilization stood comfortable at ~75 percent for the six month period ended in July 2020. The group has maintained cash & bank balance of Rs. 26.97 crore in FY2020 (Provisional) and Rs. 22.54 crore in FY2019. SKHG's liquidity profile is expected to remain adequate over the medium term on account of its adequate cash accruals against repayment obligations and adequate cash and bank balance.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability will be a key rating sensitivity
- Any elongation of the working capital cycle, leading to increased dependence on banking borrowing will be a key rating sensitivity.

Material Covenants

None

Outlook: Stable

Acuite believes SKHG will maintain 'Stable' business risk profile in the medium term on the back of established operational track record, long-standing experience of the promoters in the business and established relations with its customers. The outlook may be revised to 'Positive' in case of improvement in operating risk profile and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its operating risk profile due to lower than expected growth in revenues or decline in profitability.

About the Group – Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	2,356.14	2,510.09
Profit after Tax (PAT)	Rs. Cr.	52.70	45.77
PAT Margin	(%)	2.24	1.82
Total Debt/Tangible Net Worth	Times	2.08	2.56
PBDIT/Interest	Times	3.72	4.08

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

None

Any other information

None

Standalone – Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	421.85	455.97
Profit after Tax (PAT)	Rs. Cr.	11.13	11.09
PAT Margin	(%)	2.64	2.43
Total Debt/Tangible Net Worth	Times	1.99	2.27
PBDIT/Interest	Times	2.56	2.82

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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	10.00	ACUITE BBB-/Stable (Assigned)
Term Loan	May 30, 2018	Not Available	August 30, 2025	60.00	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB-/Stable (Assigned)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	27.50	ACUITE BBB-/Stable (Assigned)
Term Loan	January 01, 2018	Not Available	December 31, 2021	13.20	ACUITE BBB-/Stable (Assigned)
PCFC	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3+ (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Assigned)
Term Loan	July 19, 2017	Not Available	October 19, 2020	3.60	ACUITE BBB-/Stable (Assigned)
WCDL	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Assigned)
Term Loan	January 05, 2017	Not Available	July 07, 2023	12.87	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A3+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3+ (Assigned)
Letter of Credit*	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE A3+ (Assigned)

*Fully interchangeable with Bank Guarantee

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About Acuité Ratings & Research:

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