

Press Release

SKH Sheet Metals Components Private Limited

December 31, 2021

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings Loan	111.00		ACUITE A3+ Reaffirmed
Bank Ratings Loan	182.17	ACUITE BBB- Stable Reaffirmed	
Total	293.17	-	-

Rating Rationale

Acuite has reaffirmed 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'

About the Company

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.

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 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.

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.

Key Rating Drivers

Strengths

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

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. 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 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 BIW, seat structures, fuel tanks mufflers and other components. Its operations are headed by Mr. Sunandan Kapur, son of founder Mr. Ashok Kapur. 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. Acuité believes that the entity will continue to benefit from its experienced management and its strong linkages with MSIL.

> Moderate Financial Risk Profile

SKHG's financial risk profile has remained moderate marked by tangible net worth of Rs. 526.77 crore as on 31 March 2021 against Rs. 488.35 crore as on 31 March 2020. The total debt stood at Rs. 878.69 crores as on 31 March, 2021 as against Rs. 837.62 crore as on March 31, 2020. This includes Rs. 294.56 crores working capital loans, Rs. 425.24 crores of term loans, Unsecured loans from directors of Rs. 35.09 Cr and current portion of long term debt of Rs. 123.80 Cr. The gearing stood high at 1.67 times as on March 31, 2021 against 1.72 times as on March 31, 2020. This is on account of the capital intensive nature of industry. However, interest coverage ratio (ICR) stood comfortable at 3.27 times in FY2021 as against 3.37 times in FY2019. The ICR has deteriorated on account of decrease in profitability in FY2021. The TOL/TNW stood at 2.79 times as on March 31, 2021 as against 2.75 times as on March 31, 2020.

Weaknesses

> Strong dependence and linkages with financial and operational risk profile of MSIL

MSIL is a leading player in the automotive segment in India with market share of ~50 percent. Its revenues and EBITDA stood at Rs. 73,477.30 crore and Rs. 8,456.90 crore respectively in FY2021. The revenues and operating profit have declined 7.12 percent and 21.44 percent respectively as compared to FY2020. SKH Group is primarily engaged in supplying sheet metal components for various models of MSIL. Around 70 percent of the group's revenue comes from MSIL. Therefore, the financial and operating risk profile of MSIL can have a significant impact on SKH Group and will be a key monitoring factor.

> Cyclicity 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. Acuité 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.

ESG Factors Relevant for Rating

For Other automobile ancillary industry environmental factors are highly material as the industry is marked with high energy intensity and correspondingly high GHG emissions. Development of green products which are fuel efficient through innovation is also crucial for ascertaining environmental performance. Since the industry is also resource intensive, efficient use of water and materials is also a significant key issue. Further, for any automobile ancillary it is important that the companies regard business values highly and have a strong regard for fundamental business ethics. As for social factors, safety of employees as well as customers is integral to the automobile industry. Some of the key material issues include labor practices revolving around employee health & safety and employment quality.

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 bank borrowing will be a key rating sensitivity.

Material covenants

None

Liquidity Position: Adequate

SKHG generated net cash accruals of Rs. 128.04 crore for period FY2021 as against repayment obligations of Rs. 123.80 for the same period. The company's operations are moderately working capital intensive marked by GCA of 150 days in FY2021 and 122 days in FY2020. This makes the company dependent on bank borrowing to fund its working capital requirement. The average bank limit utilization stood at ~91 percent for the six month period ended October 2021. The group has maintained cash & bank balance of Rs. 25.82 crore in FY2021. 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.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	2378.62	2364.40
PAT	Rs. Cr.	36.10	35.35
PAT Margin	(%)	1.52	1.50
Total Debt/Tangible Net Worth	Times	1.67	1.72
PBDIT/Interest	Times	3.27	3.37

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Sep 2020	Letter of Credit	Short Term	16.00	ACUITE A3+ (Assigned)
	Working Capital Term Loan	Long Term	27.50	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	60.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	13.20	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.60	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	21.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	14.00	ACUITE A3+ (Assigned)
	Term Loan	Long Term	12.87	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A3+ (Assigned)
	Packing Credit	Short Term	40.00	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE A3+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB- Stable Reaffirmed
RBL Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A3+ Reaffirmed
Yes Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3+ Reaffirmed
State Bank of Mauritius Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3+ Reaffirmed
Yes Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3+ Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	13.20	ACUITE BBB- Stable Reaffirmed
RBL Bank	Not Applicable	Term Loan	Not available	Not available	Not available	3.60	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	60.00	ACUITE BBB- Stable Reaffirmed
Bajaj Finance Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	12.87	ACUITE BBB- Stable Reaffirmed
Bajaj Finance Ltd.	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	15.00	ACUITE BBB- Stable Reaffirmed
Kotak Mahindra Prime Limited	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	27.50	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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