

Press Release

SKH Sheet Metals Components Private Limited

March 30, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	147.17	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	146.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	293.17	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating to '**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**'

Rationale for Reaffirmation

The rating on SSMC takes into account the growth expected in the operating income and stability in operating margins over the medium term. The rating is supported by the experienced management, long track record of operations and above average financial risk profile. These strengths are, however, partly offset by decline in Profitability margin, customer centric risk, Cyclical and competition associated with automotive component industry.

About 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. SKHMM is a JV between SML and Magneti Marelli (Italy). The company is engaged in manufacturing of exhaust systems for 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

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité 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.

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.

Business risk profile - Improvement

SKH Group's operations improved as reflected by improvement in revenue from operations which stood at Rs. 3300.62 crore in FY2022 as against Rs 2378.62 crore for FY2021. Revenue improved by ~39 percent in FY 22.

The operating profit margin of the group witnessed moderation of 0.67% and stood at 6.94% in FY2022 as against 7.61% in FY2021. Operating Profit margin moderated by 153 bps over the period of last three years. Furthermore, the net profit margin of the company improved by 41 bps and stood at 1.93 percent in FY2022 as against 1.52 percent in FY2021.

ROCE of the SKH Group stood at 11.88% in FY2022. Group is targeting revenue of Rs ~5000 Crore for FY 23

Financial risk profile-Moderate

Group's financial risk profile is moderate marked by healthy net worth of Rs. 437.97 crore as on 31 March 2022 as against Rs.377.63 crore as on 31 March, 2021. The improvement is majorly on account of accretion of profits. Company has moderate leverage policy. The gearing (debt-equity) stood at 2.00 times as on 31 March, 2022 as against 2.25 times as on 31 March, 2021. The total debt outstanding of the company is Rs. 876.00 crore as on 31 March, 2022 which consists of long term bank borrowings of Rs.304.45 crore and short term working capital limit of Rs. 420.61 crore with current maturities of long term debt of Rs 144.36 crore.

The interest coverage ratio stood comfortable at 4.46 times for FY2022 as against 3.27 times for FY2021. The DSCR stood at 1.20 times for FY2022 as compared to 1.16 times for FY2021. The Net Cash Accruals to Total debt stood at 0.18 times for FY2022 as against 0.15 times for FY2021. The Total outside liabilities to Tangible net worth (TOL/TNW) stood at 3.70 times in FY2022 as against 3.72 times for FY2021.

Working capital management- Moderate

Working capital operations of the company are moderate in nature as reflected by its gross current asset (GCA) days of 130 days as on March 31, 2022 as against 140 days as on March 31, 2021 which is on account of higher inventory and Debtors days. Inventory days remained constant and stood at 48 days as on March 31 FY2022 and March 31 FY2021. Debtor days improved to 57 days as on March 31 FY2022 as against 63 days as on March 21 FY2021. The creditor days remained constant and stood at 75 days as on March 31 FY2022 and March 31 FY2021. Working capital days of group stood at 30 days for FY 22 as against 37 days in FY 21.

Weaknesses

Strong dependence on Maruti Suzuki India Limited

MSIL is a leading player in the automotive segment in India with market share of ~43 percent. Its revenues and PAT stood at Rs. 88330 crore and Rs. 3880 crore respectively in FY2022. The revenues improved by ~25% in comparison to FY 21 and PAT Margins declined by 1.80% percent in FY 22 in comparison to FY 21. (4.4 percent in FY 22 and 6.2 percent in FY 21). Liquidity profile of MSIL is superior with healthy cash flow and liquid surplus of over Rs 42000 crore. SKH Group is primarily engaged in supplying sheet metal components for various models of MSIL. Majority 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.

Cyclicality 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.

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

Liquidity profile of the group remained adequate marked by adequate net cash accruals against its maturing debt obligations. Group generated cash accruals of Rs.160.53 Cr in FY2022 as against its maturing debt obligation of 123.80 Cr in the same period.

Group has unencumbered cash and bank balances of Rs. 59.40 crore as on March 31, 2022. The current ratio of the group stood at 0.94 times as on March 31, 2022 as against 0.99 times as on March 31, 2021.

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 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	3300.62	2378.62
PAT	Rs. Cr.	63.61	36.10
PAT Margin	(%)	1.93	1.52
Total Debt/Tangible Net Worth	Times	2.00	2.25
PBDIT/Interest	Times	4.46	3.27

Key Financials

PS: Financials for FY 22 and 21 adjusted for interparty transaction

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

ICRA vide its press release dated 28 February 2023, has mentioned the rating of SSMC to '[ICRA]B+/Stable/A4' Issuer Not Cooperating as on 28 February 2023.

Any Other Information

None

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	14.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	16.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	21.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A3+ (Reaffirmed)

31 Dec 2021	Packing Credit	Short Term	40.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	13.20	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	12.87	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	60.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.60	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	27.50	ACUITE BBB- Stable (Reaffirmed)
30 Sep 2020	Letter of Credit	Short Term	16.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	14.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	21.00	ACUITE A3+ (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	12.87	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.60	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	60.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	13.20	ACUITE BBB- Stable (Assigned)
		Short		
	Packing Credit	Term	40.00	ACUITE A3+ (Assigned)
	Working Capital Term Loan	Long Term	27.50	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A3+ Reaffirmed
SBM Bank (India) Ltd.	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Stable Reaffirmed
RBL Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.00	ACUITE A3+ Reaffirmed
SBM Bank (India) Ltd.	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3+ Reaffirmed
HDFC Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A3+ Reaffirmed
Yes Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A3+ Reaffirmed
Kotak Mahindra Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	45.00	ACUITE A3+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.26	ACUITE BBB- Stable Reaffirmed
Bajaj Finance Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.05	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	60.00	ACUITE BBB- Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.20	ACUITE BBB- Stable Reaffirmed
RBL Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.60	ACUITE BBB- Stable Reaffirmed
Bajaj Finance	Not Applicable	Working Capital Demand	Not available	Not available	Not available	Simple	15.00	ACUITE BBB- Stable

Ltd.		Loan (WCDL)						Reaffirmed
Kotak Mahindra Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	27.06	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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