

Press Release
SKH Management Strategy Services India LLP
April 04, 2024



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BB+ Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B Minus**) to **ACUITE BB+** (read as **ACUITE double B plus**) to the Rs. 10.00 crore bank facilities of SKH Management Strategy Services India LLP (SMSSIL). The outlook is '**Stable**'.

Rationale for downgrade

Earlier Acuite had taken Parent support and Notch up from SKH Group. As financials for FY23 of SKH Group was not available hence parent notch up is not considered for the rating exercise this time. The rating however factors in the improvement in business and financial risk profile of the SKH Services Group. The rating is constrained by intensive working capital cycle and high exposure to group companies.

About Company

SKH Management Strategy Services India LLP (SMLP), a limited liability partnership firm, headquartered in Delhi was incorporated in 2014. SMLP is mainly in providing business and consultancy services from more than a decade to its group companies namely for 'SKH group'. The partnership firm is promoted by directors Mr. Sunandan Kapur, and Mrs. Supriya Kapur.

About the Group

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).

SKH Management Services Limited (SMSL) and SKH Management Strategy Services India LLP (SMLP) together referred as 'SKH Service 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 Maruti Suzuki India Limited (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

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite has consolidated the business and financial risk profiles of SKH Management Services Limited (SMSL) and SKH Management Strategy Services India LLP (SMLP) together referred as 'SKH Service Group'. The consolidation is in view of the common management, strong operational and financial linkages between the entities.

Key Rating Drivers

Strengths

Strong Parentage and experienced management

SKH Management Services Limited (SMSL) and SKH Management Strategy Services India LLP (SMLP) provides business and consultancy services to its group companies of SKH group. The services include five verticals Marketing, Finance, Industrial Relationships, Human Resources and Purchases. Also, there are significant investments and financial synergies with SKH Group companies. The promoters Mr. Sunandan Kapur, Mrs. Shruti Kapur Malhotra and Mrs. Supriya Kapur possess over a decade experience in this field. The group is also supported by second line of management.

The 'SKH Service group' is wholly owned by SKH group and dependent on them for revenues. The SKH group has established presence in automotive component industry since 1986. The group is promoted by Krishna Maruti Group (KMG), operates in the Indian automotive component industry and has been in operations since 1994. Acuite believes that the entity will continue to benefit from its experienced management and its strong operational and financial linkages with SKH group.

Revenue and profitability

SKH Service Group reported operating income of Rs. 78.92 Cr. in FY 2023 as against Rs. 48.34 Cr. in FY2022. The revenues have increased due to higher services contract executed for group companies in FY2023. EBITDA margin stood at 82.18% in FY23 in comparison to 72.57% in FY22. Further, Net Profit margin stood at 59.92% in FY2023 as against 48.00% in FY 2022. The group is expecting to book revenues of Rs.90 to Rs.100 crores in FY2024 & FY2025 and margins are likely to remain in same range.

Financial Risk Profile

Group has above average financial risk profile marked by strong net worth and strong debt protection metrics. Group's net worth stood at Rs. 147.90 Cr. as on 31st March 2023 as against Rs. 109.11 Cr. as on 31st March 2022. Gearing levels (debt-to-equity) stood at 0.09 times as on March 31, 2023 as against 0.24 times in FY 2022 and Total outside liabilities to total net worth (TOL/TNW) stood at 0.18 times as on March 31, 2023 vis-à-vis 0.35 times as on March 31, 2022. Further, Debt-EBITA improved and stood at 0.18 times as on 31st March 2023 as against

0.69 times as on 31st March 2022. The coverage indicators of the company stood strong as is apparent from the interest coverage ratio which stood strong at 28.60 times for FY2023 as against 18.54 times in FY2022 and Debt service coverage ratio stood at 7.19 times in FY2023 as compared to 2.74 times in FY2022.

Weaknesses

Dependence on SKH group and higher exposure to group companies

SKH Service group derives ~ 95 percent of revenues through services provided to SKH group companies. All the group companies are operating in automotive industry which is highly cyclical in nature with growth linked to overall growth in the economy and consumption. The group's revenues to remain exposed to performance and requirement of SKH group. Further, the group has exposure to other group companies in form of loans and advances, investments. The group has availed External Commercial Borrowing (ECB) loan of USD 2.60 Mn for a restaurant venture in Japan for ASMA Ventures Co. Ltd. (Wholly own Subsidiary). However, the venture has been impacted by the pandemic and has not given any returns for the group. However, ECB loan is covered by 1.00x cover in form of Mutual Funds, to be maintained during the tenure of loan.

Working capital operations

Group has Intensive working capital requirements as evident from gross current assets (GCA) of 427 days in FY2022 as compared to 561 days in FY2021. Debtor days have decreased to 268 days in FY2022 as against 282 days in FY2021. The group does not avail any working capital limits, however, ECB loan availed is being serviced in timely manner. The working capital cycle is likely to be intensive as receivables cycle to remain high due to different payment terms which includes monthly, quarterly, half yearly and annually.

Rating Sensitivities

Higher-than-expected growth in revenues and profitability
Change in support and ownership of SKH group
Any deterioration in financial risk profile and liquidity profile

Liquidity Position

Adequate

Group has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. Group generated cash accruals of Rs. 48.44 crore for FY2023 as against Rs. 4.61 crore of repayment obligations for the same period. Current Ratio stood at 4.41 times as on 31 March 2023 as against 3.99 times in the previous year. Therefore, firm has adequate liquidity to meet its requirements.

Outlook: Stable

Acuité believes the group will maintain 'Stable' business risk profile in the medium term on the back of strong parentage and experienced management. The outlook may be revised to 'Positive' in case of significant 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	78.92	48.34
PAT	Rs. Cr.	47.29	23.21
PAT Margin	(%)	59.92	48.00
Total Debt/Tangible Net Worth	Times	0.09	0.24
PBDIT/Interest	Times	28.60	18.54

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

Not Applicable

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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
05 Jan 2023	Proposed Long Term Bank Facility	Long Term	10.00	ACUITE BBB- Stable (Upgraded from ACUITE BB Stable)
27 Oct 2022	Proposed Long Term Bank Facility	Long Term	10.00	ACUITE BB Stable (Downgraded from ACUITE BBB- Stable)
02 Aug 2021	Proposed Long Term Bank Facility	Long Term	10.00	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
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

1. SKH MANAGEMENT SERVICES LIMITED
2. SKH MANAGEMENT STRATEGY SERVICES INDIA LLP

Contacts

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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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