



**Press Release**  
**SKP MERCHANTS PRIVATE LIMITED**  
**March 11, 2024**  
**Rating Assigned**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	ACUITE BBB-   Stable   Assigned	-
Bank Loan Ratings	20.00	-	ACUITE A3   Assigned
<b>Total Outstanding Quantum (Rs. Cr)</b>	35.00	-	-

**Rating Rationale**

Acuite has assigned its 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**) on the Rs. 35.00 crore bank facilities of SKP Merchants Private Limited (SKP). The outlook is '**Stable**'.

**Rationale for Rating**

The rating assigned takes into cognizance the stable business and financial risk profile of the company driven by stable revenues, profitability margins and an efficient working capital cycle. The rating considers the steady scale of operations of the company along with an enhancing geographical presence in the domestic markets. The rating also factors in the improvement in the financial risk profile marked by an improved adjusted gearing of 0.33 times in FY2023 as against a gearing of 0.52 times in FY2022, and healthy debt protection metrics. Although the ICR and DSCR have declined from previous years, it remains healthy at 9.03 times and 6.03 times respectively in FY23 as against 37.79 times and 21.08 times respectively in FY22. The adequate liquidity position as reflected in the steady accruals and an increasing current ratio is sufficient to meet its debt repayments over the short to medium term. The bank lines have also been moderately utilised with fund-based bank limits at ~15.70 percent and non-fund-based limit at ~88.19 percent for the 9-month period ended Dec '23. The rating assigned also factors in the long operational track record of the company and the experience of the promoters in the trading of metals.

However, the rating is constrained by declining profitability margins and further susceptibility of profitability to fluctuations in raw material prices.

**About the Company**

SKP Merchants Private Limited, initially operated as an LLP, started its journey in 2015. Later, it underwent conversion to a Private Limited company on February 11, 2022. SKP Merchants is actively involved in both domestic and international trade, dealing with Ferro Alloys, Minerals, and Metals. Their product range includes Ferro Silicon, Ferro Manganese, Silico Manganese, Nobel Alloys, coal, coke, and related items. Notably, they serve as the exclusive selling agent for Bhutan Ferro Alloys Limited's Ferro Silicon in the entire Indian market. Mrs. Neha Patni and Mrs. Naina Patni are the promoters of the company and have an experience of around a decade in managing the operations of the company.

**Unsupported Rating**

Not Applicable

## **Analytical Approach**

Acuité has considered the standalone business and financial risk profile of SKP while arriving at

the rating.

## Key Rating Drivers

### Strengths

#### **Long operational track record of the company and a steady business risk profile buoyed by a healthy order book**

The company is promoted by Mrs. Neha Patni and Mrs. Naina Patni who hold an experience of around 9 years in this business. The experience of the promoters helped them to build strong relationships with their customers and suppliers. The company has been able to grow their revenues from around 236 crores in FY21 to around 660 crores in FY23. Mrs. Neha Patni looks after Marketing & Administration while Mrs. Naina Patni is engaged in Procurement & Finance. Acuité believes that the long operational track record and experience of the management shall support the business risk profile to an extent.

The company has an order book of Rs 34 crores as on 19th Jan 2024 and is confident of completing the entire order book during this financial year. The company is the sole agent of Bhutan Ferro Alloys Limited's Ferro Silicon in the entire Indian market. It even has agreements in place with the company to keep their license intact. Although, the company has seen a dip in revenues in FY23, this dip is primarily due to the decline in steel prices in FY23 when compared to FY22. The revenue of the company declined to 659.37 crores in FY23 from 767.21 crores in FY22.

Acuité believes that the company will continue to sustain its order book position and maintain its business risk profile over the medium term. Nonetheless, the smooth execution of the orders in hand without any delays will be a key monitorable.

### Efficient Working Capital Cycle

The company has an efficient working capital operations reflected by WC cycle and GCA days of 37 days and 53 days respectively in FY 2023. The GCA days have increased to 53 days in FY23 from 38 days in FY22, it is still efficient. One of the reasons for this increase is the increase in debtor days to 25 days in FY23 from 18 days in FY22. During FY22, there was a major increase in demands of Ferro Silicon, Ferro Manganese and Silico Manganese along with an increase in prices in the steel industry. This had resulted in earlier payments from debtors and thus lesser debtor days. After stabilization in the prices of these minerals, SKP expects the debtor days to stabilize to current levels. The inventory days has remained stable over a period of 18 days in FY23 owing to its efficient operations and good customer and supplier relations. SKP Merchants has also been able to increase its creditor days to 6 days in FY23 as against a creditor day of 2 days in FY22 owing to good relations with its suppliers. Also, the company enjoys a credit period of 3 weeks for its purchases from Bhutan Ferro Alloys Ltd.

Acuite believes that SKP's ability to manage its working capital efficiently in medium term is a key rating monitorable.

### Healthy financial risk profile

The Company's financial risk profile is healthy marked by moderate net worth, low gearing, and healthy debt protection metrics. The tangible adjusted net worth of the company has increased and stood at Rs.61.13 Cr in FY23 as against Rs. 47.68 Cr in FY2022, increase in net worth is majorly due to accretion of profits to reserves. Acuite has treated unsecured loans of Rs. 38 Cr as quasi equity since these are subordinated to bank loans. The company follows a conservative financial risk policy reflected through its peak gearing(debt/equity) of 0.76 times as on 31<sup>st</sup> March 2021. The gearing of the company stood low at 0.33 times as on 31<sup>st</sup> March 2023 as against 0.52 times as on 31<sup>st</sup> March 2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) has also improved to 0.77 times as on 31st March 2023 as against 1.28 times as on 31st March 2022. SKP's Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) has although declined to 9.03 times and 6.03 times in FY23 from 37.79 times and 21.08 times in FY22 respectively but is still at adequate levels to service its interest and principal obligations.

Acuite believes that financial risk profile of the company is likely to remain healthy over the

medium term with no major debt funded capex plan and steady cash accruals.

## **Weaknesses**

### **Declining Profits margins**

The PAT and EBITDA margins of the company have declined to 2.04% in FY23 from 3.96% in FY22 and to 3.27% in FY23 from 6.21% in FY22 respectively. The reason for the declining margins has been the softening of prices of the goods on a global level post touching historical highs in FY22 and slightly higher purchase prices which could not be passed on to its customers. The prices of the company's products are volatile in nature, and it directly impacts profitability. The products the company deals in is sensitive to trends of various industries, such as automotive, construction, infrastructure, and consumer durables.

### **Compressed profitability margin given the trading nature of business and exposure to forex risks**

The profitability margin of the company stays compressed due to the trading nature of the business where the profit margins are susceptible to prices of the raw materials and the highly competitive nature of industry. The EBITDA and the PAT margin are expected to remain at current levels going forward.

With close to 45% of its raw material imported, the company's exposure to foreign currency is quite high, exposing it to the changes in foreign exchange rates. The imports from Bhutan account for close to 35% of the total purchase and is done in Indian rupees, hence the forex exposure is mitigated for these imports. However, for the rest import and export, the company hedges the foreign exchange risk through forwards contracts.

## **Rating Sensitivities**

- Growth in revenue along with improvement in profitability margins
- Elongation in working capital cycle

## **Liquidity Position**

### **Adequate**

The company's liquidity is adequate marked by sufficient net cash accruals to pay its maturing debt obligation. The net cash accruals stood at Rs. 14.20 Cr. in FY2023 as against long term debt repayment of Rs.0.33 Cr. over the same period. The current ratio is healthy at 2.42 times as on March 31, 2023, as against a ratio of 1.92 times as on March 31, 2022, thus signifying improving fundamentals to repay the amounts due within a year. The fund-based bank limit remained utilised at 15.70 per cent and the non-fund-based facility remained utilised at 88.19 per cent for the last nine months ended December 2023 thus reflecting the company's ability to operate efficiently without relying heavily on short term bank financing. Moreover, the company has no major term loans thereby reducing risks of any defaults or unforeseen financial challenges.

Acuité believes that the liquidity position of the company is likely to remain adequate backed by the steady accruals, absence of capex plans and a healthy current ratio over the medium term.

## **Outlook: Stable**

Acuité believes that the outlook on SKP's rated facilities will remain 'Stable' over the medium term on account of experienced management, steady flow of revenues from the business coupled with improving gearing ratios and efficient working capital management. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while sustaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case of higher than expected stretch in the working capital cycle or deterioration in the financial risk profile of the company.

## **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	659.37	767.21
PAT	Rs. Cr.	13.45	30.37
PAT Margin	(%)	2.04	3.96
Total Debt/Tangible Net Worth	Times	0.33	0.52
PBDIT/Interest	Times	9.03	37.79

### 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>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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](http://www.acuite.in).

### Rating History :

Not Applicable

**Annexure - Details of instruments rated**

<b>Lender's Name</b>	<b>ISIN</b>	<b>Facilities</b>	<b>Date Of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Complexity Level</b>	<b>Quantum (Rs. Cr.)</b>	<b>Rating</b>
City Union Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE BBB-   Stable   Assigned
City Union Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A3   Assigned

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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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