September 06, 2024

SJK Innovations Private Limited: [ICRA]BB (Stable)/[ICRA]A4+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	23.00	[ICRA]BB (Stable); assigned
Short-term – Non - fund based – Bank guarantee	7.00	[ICRA]A4+; assigned
Total	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings for SJK Innovations Private Limited (SJKIPL) consider the reasonable presence of the entity in offering automatic conveyers and material handling equipment to airports, land ports and warehouses. The ratings also consider an expected improvement in the company's operational and financial performances, backed by its healthy order book position. SJKIPL's revenues increased by 97.4% on a year-on-year (YoY) basis to Rs. 38.7 crore in FY2024 (provisional) and its operating margins stood healthy at 36.7% in FY2024. The company's net worth has gone negative because of losses from FY2020 to FY2022, caused by the pandemic. However, redeemable preference share capital of Rs. 9.6 crore infused in FY2022 supported its liquidity. Further, over the last two fiscals, healthy margins and an increase in retained earnings led to its net worth improving to Rs. 8.5 crore (excluding the preference share capital) in FY2024 and the same is expected to improve further over the medium term. SJKIPL's credit metrics have also witnessed a gradual improvement in FY2024 with the total debt to operating profit and interest coverage ratio improving to 1.5 times and 9.0 times, compared to 3.5 times and 5.8 times in FY2023, respectively. ICRA also takes comfort from SJKIPL being part of the Kirtilals Group, with common directors.

The ratings are, however, constrained by SJKIPL's moderate scale of operations, intense competition in the conveyor belt industry and its low net worth. The company's profits remain susceptible to the volatility in the prices of its key raw materials, with sharp fluctuations impacting its performance. The ratings are also constrained by the working capital-intensive nature of operations with extended receivable days, which results in reliance on external borrowings to meet its working capital requirements. SJKIPL also faces competition from other players in the industry which could impact its operating performance.

The Stable outlook on the long-term rating reflects ICRA's expectations that SJKIPL is likely to improve its revenues and operating profitability with its healthy order book position. Further, the outlook underlines that the entity's incremental capex, if any, to further increase the capacity, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Favourable demand outlook with healthy order book position – SJKIPL's revenues have increased at a CAGR of 74.6% over past four years ending FY2024, backed by favourable demand and rise in number of orders from the airports segment. SJKIPL's reasonable presence, reputed clientele, and healthy order book position are expected to lead to its revenue growth, going forward. The company had a pending order book position of ~Rs. 45 crore as on July 31, 2024, which will be executed in the current fiscal year.

Healthy operating profitability – The company derives a large portion of its revenues from supply of automatic conveyers and material handling equipment. SJKIPL's focus on higher value-added products and increase in scale of operations led to improvement in operating margin to 36.7% in FY2024 (provisional) compared to operating losses in FY2022, aided by increase in revenues to Rs. 38.7 crore in FY2024. Improving profitability and expanding scale of operations would support its accruals over the medium term.

Credit challenges

Moderate scale of operations, high working capital intensity and low net worth - Despite an improvement in FY2023, SJKIPL's scale of operations remained lower with revenues of Rs. 38.7 crore in FY2024, which limits its economies of scale. The company's operations are working capital intensive with elongated receivable days, resulting in high working capital intensity of 61.3% in FY2024. As on March 31, 2024, SJKIPL had more than six months' receivables of Rs. 6.4 crore, of which it had received ~Rs. 4 crore till August 2024. Further, losses during FY2020 to FY2022 and operations being impacted by the pandemic, the net worth base was low, which resulted in moderate leverage indicators. Nevertheless, with an expected improvement in revenues and earnings, supported by its healthy order book position, SJKIPL's net worth is likely to improve over the medium term.

Susceptibility of profits to volatility in prices of input materials – SJKIPL remains exposed to the risk of volatility in its key raw material. The company runs an advance order book and protects the expected margin on sales through prudent buying of raw materials, thereby mitigating some impact of raw material price volatility. Procuring through domestic as well as overseas suppliers, based on the prevailing market conditions, provides some comfort to the input cost management. Nevertheless, SJKPL's ability to safeguard its margins amid elevated input costs remains a key rating monitorable.

Liquidity position: Adequate

SJKIPL's liquidity position is expected to be adequate, supported by steady earnings and unutilised lines of credit. It has buffer available in the working capital limits of Rs. 3.3 crore and free cash and liquid investment of Rs. 4.0 crore as on March 31, 2024. Against these cash sources, the company has repayment obligations of Rs. 0.11 crore in FY2025. The average fund-based utilisation over the last 12 months ending in July 2024 stood at ~85% of its sanctioned limit of Rs. 15 crore. Cash flows from operations are expected to be sufficient towards meeting its debt repayment obligations. The entity has no major capital expansion plans or loan repayment obligations and need-based support extended by the promoters in past provides some comfort.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings, if there is any significant increase in revenues and profitability, leading to a strengthened net worth position and improvement in SJKIPL's liquidity position on a sustained basis.

Negative factors – The ratings could be downgraded, if there is a sustained pressure on the company's operating performance or any further elongation of the working capital cycle, which would adversely impact the liquidity position and debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

About the company

SJK Innovations Private Limited was incorporated in 2010 as SJK Industries Private Limited before its name was changed in 2018. It is involved in procuring, assembling and installing automatic tray retrieval systems and automated material handling equipment, mainly catering to the requirements of airports and land port authorities. SJKIPL also provides machines for post-harvest activities and conveyer solutions for warehouses. The company has manufacturing/assembling unit spread across 14,250 sq. ft. at Coimbatore, Tamil Nadu. SJKIPL is managed by Mr. Suraj Shanthakumar and Mr. Paras Paresh Mehta who are also the common directors of Kirtilals Business Group.

Key financial indicators (audited)

SJKIPL	FY2023	FY2024*
Operating income	19.6	38.7
PAT	4.1	9.4
OPBDIT/OI	35.8%	36.7%
PAT/OI	21.1%	24.2%
Total outside liabilities/Tangible net worth (times)	-27.6	2.7
Total debt/OPBDIT (times)	3.5	1.5
Interest coverage (times)	5.8	9.0

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Sept 06, 2024	-	-	-
1	**Cash credit**	Long Term	23.00	**[ICRA]BB (Stable)**	-	-	-
2	**Bank guarantee**	Short Term	7.00	**[ICRA]A4+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-Based – Cash credit	Simple
Short-term – Non-fund based – Bank guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	23.00	[ICRA]BB (Stable)
NA	Bank guarantee	-	-	-	7.00	[ICRA]A4+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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