January 06, 2023

SKH Metals Limited: Ratings re-affirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loan	170.05	165.55	[ICRA]A- (stable); Reaffirmed
Short-term non-fund based – Working capital facilities	10.00	10.00	[ICRA]A2+; Reaffirmed
Fund-based – Working capital facilities	172.50	215.00	[ICRA]A- (stable)/ [ICRA]A2+; Reaffirmed/Assigned
Total	**352.55**	**390.55**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation favourably factors in the strong parentage of the company, with Maruti Suzuki India Limited (MSIL) holding a 37.03% stake and Krishna Group holding 62.97%. The company maintain a healthy share of business for select sheet metal-based components with MSIL, the leading passenger vehicle (PV) manufacturer in the Indian market. The company remains the sole supplier for metal fuel tanks and front suspension frame to MSIL across various models. While, during H1 FY2022, operations had been impacted by localised lockdowns, non-availability of oxygen for commercial use and semiconductor shortage, the company's performance recovered well in H2 FY2022, aided by a swift recovery in the PV segment, rising demand for MSIL's vehicles and introduction of new models by the OEM. The company achieved revenue of Rs. 955.7 crore in FY2022 with robust YoY growth of 30% and recorded revenues of ~Rs. 545 crore (provisional) in H1 FY2023. The EBIDTA margins at 8.3% in FY2022 (8.5% in FY2021) remained impacted by steel price hikes and inflationary pressure on costs. Even as the company's ability to improve profitability in the challenging macro-economic environment would remain a monitorable, an easing in steel prices and improved operating leverage is likely to aid a gradual improvement in the margins over the near term.

ICRA also notes that MSIL's gradual replacement of metal fuel tanks with plastic fuel tanks, with a view of light-weighting its newer models, is likely to adversely impact the company's revenue prospects over the next few years. However, SKH Metals has started supplying fuel tanks to Suzuki Motorcycle India Private Limited, and is the sole supplier for Suzuki scooters, at present. Further, SKH Metals has been able to gain incremental business for BIW parts for MSIL's various models, thereby mitigating the overall impact on the revenues. Additionally, to support its growth prospects, the company also plans to set up a plant in Kharkhoda, Haryana (in MSIL's vendor park), at an estimated capex of Rs. 150-200 crore spread over FY2024-FY2025; however, the plans for the same are yet to be firmed up.

The ratings remain constrained by SKH Metals' moderate financial risk profile and high client concentration risk, with the revenues predominantly derived from a single customer. Given the same, the company remains exposed to cyclicality in the domestic automobile market. Any economic uncertainty or monetary tightening measures could adversely impact demand for vehicles. However, its strong share of business with MSIL and favourable ownership pattern along with MSIL's status as the largest domestic PV manufacturer, mitigates the risk to an extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that SKH Metals will continue to benefit from its strong parentage and would continue to earn steady business from its customers, given the established relationships. The company is expected to gradually improve its debt coverage metrics, aided by healthy growth trends in the underlying PV industry.

Key rating drivers and their description

Credit strengths

Strong parentage as part of the Krishna Group – The company is a part of Krishna Group (promoted by Mr. Ashok Kapur), a leading automotive component supplier in the Indian market. The automotive business of the Group is split into two verticals, the metal division (SKH Metals being the flagship concern) and interiors division. The company benefits from the Group's established relationship with various automotive OEMs as well as derives certain operational efficiencies, such as centralised procurement for certain raw materials. KML has also provided irrevocable and unconditional guarantee for a majority of SKH Metals' debt. The same has helped the company secure lower interest rates from the banks and provides greater comfort regarding the ability of SKH Metals to meet its debt servicing obligations in a timely manner.

Strong business position in the sheet metal segment with MSIL – SKH Metals is a leading supplier of fuel tanks and sheet metal assemblies to MSIL, the market leader in the domestic PV industry. The products supplied by SKH Metals include metal fuel tanks, suspension frames/control arms, and other BIW parts. Over the years, SKH Metals has maintained a healthy share of business for the supply of these products with MSIL. The company remains the sole supplier to the OEM (Haryana plant) for metal fuel tanks and has gradually increased its share of business under BIW parts. Further, the average content per vehicle for BIW parts is expected to increase going forward owing to an increase in the number of parts supplied, improved tensile strength, and enhanced technological capabilities by the company, thereby providing adequate revenue visibility for the company.

Technical collaborations support product development capabilities –- SKH Metals has entered into technical collaboration agreements with various players to gain access to technology. The company's various technological collaborations include a collaboration with Okamoto, Japan, a leading global fuel tank manufacturer (for new product design and validation of fuel tanks), Bentler AG (for new product design and validation of frame suspensions) and Y-Tec Corporation (for the design and validation of BIW parts manufactured using high tensile steel). The technological support from the various leading players is likely to help SKH Metals adapt to MSIL's changing technological requirements, thus helping it maintain a healthy share of business in sheet metal supplies to the OEM.

Credit challenges

Moderate financial risk profile – SKH Metals continues to maintain a moderate financial risk profile, characterised by moderate gearing and debt coverage indicators. The company reported gearing of 2.2 times (PY: 2.6 times), Debt/OPBDITA of 4.4 times (PY: 5.9 times) and interest coverage of 3.6 times (PY: 2.1 times) in FY2022. The company had also extended a loan to one of its group companies in FY2019 (outstanding Rs 22.5 crore as on March 31, 2022), which led to increased external financing for SKH Metals. However, aided by an improvement in operating performance, consequent cash accruals and scheduled repayment of term debt, the company's credit metrics are likely to improve over the near to medium term.

High client concentration risk with MSIL; however, OEM's market leadership mitigates risk to an extent – SKH Metals' business is predominantly derived from a single customer, MSIL; thus, the ancillary's performance and prospects are closely linked to that of the OEM. Although the same results in a high client concentration risk, the risk is mitigated to a large extent due to MSIL's market leadership in the PV segment, favourable ownership pattern (a 37.03% stake held by MSIL), and strong business share. SKH metals also started supplying metal fuel tanks to Suzuki and is the sole supplier for its scooters with sales of ~Rs. 40 crore in FY2022. Notwithstanding the same, ICRA expects SKH Metal's concentration on MSIL to remain high over the medium term. As such, the company's growth prospects would primarily depend on its ability to generate greater business from MSIL.

Liquidity position: Adequate

SKH Metals' liquidity profile is **adequate**, characterized by estimated net cash accruals of ~Rs. 60-70 crore in FY2023 and moderately high fund-based working capital utilisation with buffer of ~Rs. 4 crore as on September 30, 2022. With material repayment obligations (~Rs. 47 crore in FY2023) and estimated capex plans of ~Rs. 30-40 crore in the current fiscal, the company might need to rely on external borrowings to meet its cash flow requirements. It has already been sanctioned ~Rs. 50 crore of fresh debt in the current fiscal, of which ~Rs. 6 crore of term debt has been availed till November 2022. Moreover, the company enjoys healthy financial flexibility as a part of the Krishna Group. KML, the Group's flagship entity, has also extended CG for majority of SKH Metals' debt.

Rating sensitivities

Positive factors: A material scale up in operations while improving profitability indicators and debt coverage indicators would be critical for a rating upgrade. Specific credit indicators that could lead to upward revision in ratings include Total Debt/OPBITDA below 2.5x on a sustained basis.

Negative factors: The ratings may be downgraded in case of a material deterioration in the profitability indicators and credit metrics of the company because of higher-than-expected debt-funded capex or weakness in demand in the PV industry. A deterioration in KML's (group company who has guaranteed a material percentage of the overall debt) credit profile or weakening of the company's linkages with KML could also trigger a rating review.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit Parent or Group Support Rating Methodology for Auto Component Suppliers
Parent/Group support	The ratings assigned factor in the high likelihood of its group company, KML, extending financial support to SKH Metals out of the need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SKH Metals. As on March 31, 2022, the company had two joint ventures and one associate company, which are enlisted in Annexure-2. The scale of operations of the consolidated entity are not material, and the standalone credit profile remains the primary rating driver.

About the company

SKH Metals, a JV between MSIL (37.03% stake) and the Krishna Group (62.97%), manufactures automotive components, including welded sheet metal parts, and assemblies in its Haryana plants. The company is one of the leading suppliers to MSIL in four product categories—fuel tanks, suspension frames/control arms, BIW parts and axle housings.

The company was incorporated in 1986 as Mark Auto Industries Limited (MAIL) as a JV between MSIL (a 48.7% equity stake) and other Indian promoters (with a combined equity stake of 51.3%). In 2005, the Krishna Group, led by its chairman, Mr. Ashok Kapur, bought out the 51.3% equity stake held by the initial promoters, with MSIL holding the balance stake. The company's shareholding further changed after the equity infusion by the Krishna Group of companies, with the Group holding 62.97% shares as on date.

Key financial indicators (audited)

	FY2021	FY2022	6M FY2023 (Prov.)
Operating income	731.3	955.7	544.8
PAT	2.4	17.8	14.4
OPBDIT/OI	8.5%	8.3%	8.7%
PAT/OI	0.3%	1.9%	2.6%
Total outside liabilities/Tangible net worth (times)	3.5	3.2	-
Total debt/OPBDIT (times)	5.9	4.4	-
Interest coverage (times)	2.1	3.6	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; balance sheet figures not available for H1 FY2023

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)						Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2022 (Rs. crore)	Date & Rating in			Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jan 06, 2023	Dec 05, 2022	Apr 11, 2022	Sep 16, 2021	Aug 31, 2020*	-
1	**Term Loan**	Long-term	165.55	135.55	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB- (Negative)**	-
2	**Term Loan**	Long-term	-	-	-	**[ICRA]AA-(CE) (Stable) withdrawn; [ICRA]A- (stable) Assigned Simultaneously**	**[ICRA]AA-(CE) (Stable)**	**[ICRA]AA-(CE) (Stable)**	-	-
3	**Non-fund Based - Working Capital**	Short-term	-	-		-	-	-	**[ICRA]A3**	-
4	**Non-fund Based - Working Capital Facilities**	Short-term	10.00	-	**[ICRA]A2+**	**[ICRA]A1+(CE) withdrawn; [ICRA]A2+ Assigned Simultaneously**	**[ICRA]A1+ (CE)**	**[ICRA]A1+ (CE)**	-	
5	**Fund-based - Working Capital Facilities**	Long-term/ Short term	215.00	-	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]BBB- (Negative)/ [ICRA]A3**	-
6	**Fund-based - Working**	Long-term/	-	-	-	**[ICRA]AA-(CE) (Stable)/**	**[ICRA]AA-(CE) (Stable)/ [ICRA]A1+**	**[ICRA]AA-(CE)**	-	

	Instrument	Current rating (FY2023): Type	Current rating (FY2023): Amount Rated (Rs. crore)	Current rating (FY2023): Amount Outstanding as of Sep 30, 2022 (Rs. crore)	Current rating (FY2023): Date & Rating in: Jan 06, 2023	Current rating (FY2023): Date & Rating in: Dec 05, 2022	Current rating (FY2023): Date & Rating in: Apr 11, 2022	Chronology of rating history for the past 3 years: Date & Rating in FY2022: Sep 16, 2021	Chronology of rating history for the past 3 years: Date & Rating in FY2021: Aug 31, 2020*	Chronology of rating history for the past 3 years: Date & Rating in FY2020: -
	Capital Facilities	Short term				[ICRA]A1+(CE) withdrawn; [ICRA]A-(stable)/ [ICRA]A2+ Assigned Simultaneously	(CE)	(Stable)/ [ICRA]A1+ (CE)		
7	Fund-based - Working Capital Facilities	Long-term/ Short term	-	-	-	[ICRA]AA-(CE) (Stable)/ [ICRA]A1+(CE) withdrawn; [ICRA]A-(stable)/ [ICRA]A2+ Assigned Simultaneously	[ICRA]AA-(CE) (Stable)/ [ICRA]A1+ (CE)	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB-(Negative)/ [ICRA]A3	-
8	Unallocated Limits	Long-term	-	-	-	-	-	-	[ICRA]BBB-(Negative)/ [ICRA]A3	-

**An update on reason for delay in periodic surveillance was published on April 23, 2020*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Short -term – Non-fund Based - Working Capital Facilities	Very Simple
Long-term/ Short -term – Fund -based - Working Capital Facilities	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	**Term Loan-I**	FY2015-FY2021	NA	FY2023-FY2028	56.87	[ICRA]A-(Stable)
NA	**Term Loan-II**	FY2015-FY2021	NA	FY2023-FY2028	78.68	[ICRA]A-(Stable)
NA	**Term Loan-III**	FY2023	NA	FY2028	30.00	[ICRA]A-(Stable)
NA	**Non-fund Based Working Capital Facilities**	NA	NA	NA	10.00	[ICRA]A2+
NA	**Fund-based - Working Capital Facilities**	NA	NA	NA	215.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
SKH Magneti Marelli Exhaust Systems Pvt. Ltd.	50.00%	Equity Method
SKH Sila India Pvt. Ltd.	30.43%	Equity Method
SKH Cabs Manufacturing Pvt. Ltd.	50.00%	Equity Method

Source: company

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