

April 27, 2023

## SKH Y-Tec India Private Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	71.25	138.94	[ICRA]BBB (Stable); Reaffirmed /Assigned for enhanced amount
Long-term Fund based – Working capital	20.00	40.00	[ICRA]BBB (Stable); Reaffirmed /Assigned for enhanced amount
Short-term non fund based – Working capital	20.00	10.00	[ICRA]A3+; Reaffirmed
<b>Total</b>	<b>111.25</b>	<b>188.94</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of ratings considers the continued steady operational performance of SKH Y-Tec India Private Limited (SKH Y-Tec), benefitting from its established business relationship with Suzuki Motor Gujarat Private Limited (SMG, SKH Y-Tec's key customer). SKH Y-Tec was established as a joint venture (JV) between the Krishna Group and Y-Tec Corporation, Japan, to cater to the high tensile sheet metal requirements of SMG, which has a contract manufacturing agreement for supplying vehicles to Maruti Suzuki India Limited (MSIL), the market leader in the domestic passenger vehicle (PV) industry. The equity participation of Y-Tec Corporation has aided in SKH Y-Tec receiving Technological support from the former; this support underpins SKH Y-Tec's abilities to adapt to SMG's changing Technological requirements, thus allowing the company to maintain a healthy share of business (SOB) in sheet metal supplies to the original equipment manufacturer (OEM).

The company's revenues are in line with the ramp up in SMG's production. With continued increment in overall capacity and production levels (from 2.5 lakh units in FY2017 to 7.5 lakh units in FY2023) at its manufacturing plant, SKH Y-Tec has witnessed a healthy ramp up in its scale of operations. The company's revenues and coverage metrics witnessed a healthy improvement over the past two fiscals, after a decline in FY2021 due to Covid-19 induced disruptions. These are expected to be further enhanced over the medium term with business awarded for some new models including for electric vehicles (EV). While the company's operating margins remained slightly impacted in FY2023 on account of the inflationary measures along with some pricing reduction by SMG in a phased manner (over the years); they are likely to remain at similar levels as of FY2023, going forward. With the company having significant debt-funded capex plans of ~Rs 200 crore towards capacity expansion over FY2024-FY2025, the coverage metrics are likely to be adversely impacted over the near term; however, the same are expected to improve over the medium term aided by incremental cash flows generated from new business.

The rating, however, remains constrained by the segment concentration risk for the company, with the PV segment being its only end-user sector. While the offtake in the PV industry remained healthy in FY2023 with an expectation of continued YoY growth in FY2024, the availability of semiconductor chips to support the desired production levels of the OEMs remains monitorable. The company also faces high client concentration risk, with revenues generated from a single customer, SMG. ICRA notes that the client concentration risk is mitigated to some extent by MSIL's market leadership in the PV segment as well as SKH Y-Tec's position as a leading supplier of high value sheet metal components to SMG.

The Stable outlook on the long-term rating reflects ICRA's view that SKH Y-Tec is likely to maintain healthy credit profile, benefitting from its healthy share of business with SMG. Moreover, MSIL's plans to enhance production in Gujarat is expected to support the company's growth prospects and financial profile over the medium term.

## Key rating drivers and their description

### Credit strengths

**Strong position as leading supplier of sheet metal components to SMG** – SKH Y-Tec is a leading supplier of sheet metal assemblies to SMG, which has a contract manufacturing agreement with MSIL, the market leader in the domestic PV industry. The company is the sole supplier of select body-in-white (BIW) sheet metal components, such as suspension frames, control arms etc for SMG. It has gained business for supplying high tensile steel-based sheet metal assemblies to the OEM and has benefitted from some of its peers not setting up their manufacturing units in Gujarat, thereby leading to higher content per vehicle and share of business.

**Technological support from JV partner aids design and development capabilities** – SKH Y-Tec enjoys Technological support from its JV partner, Y-Tec Corporation, a leading Japanese supplier of high-tensile chassis, body, function, transmission and engine components, etc, to various global OEMs. In its collaboration with SKH Metals Limited, Y-Tec Corporation has been instrumental in developing high-tensile BIW parts for some of the MSIL's models. The Technological support from Y-Tec Corporation is likely to help SKH Y-Tec adapt to SMG's changing Technological requirements and support its business prospects.

**Incremental production through SMG aids medium term revenue growth prospects** – SKH Y-Tec has manufacturing capacity to cater to up to 7.5 lakh vehicles in FY2023 in line with SMG. As and when the latter further increases the production capacity at its plant in Gujarat, SKH Y-Tec plans to follow the same and maintain its capacity linked with the OEM. Over the near to medium term, any incremental demand for MSIL's vehicles is likely to be met mainly through the vehicles manufactured in Gujarat. With SKH Y-Tec being a leading supplier of sheet metal assemblies for SMG's requirements, its revenue growth prospects remain healthy.

### Credit challenges

**High client concentration risk; however, MSIL's market leadership partly mitigates same** – SKH Y-Tec's business is mainly derived from a single customer, SMG. Thus, the company's performance and prospects are closely linked to that of SMG, and in turn, MSIL. Although this results in high client concentration risk, the same is mitigated to a large extent by MSIL's market leadership in the PV segment and SKH Y-Tec's strong SOB with SMG. ICRA expects the company's concentration on MSIL to remain high over the medium term, in the absence of any material customer diversification plans. Its growth prospects will also remain linked to that of SMG.

**High segment concentration on PVs** – Catering solely to MSIL's models, SKH Y-Tec's revenue is dependent on the domestic PV volumes, which exposes the company to the risk of PV volume contraction. Further, at present, its supplies are limited to only four models, thereby exposing the company to model-specific demand. Even as the supply for a new model is likely to start around Q4 FY2024 and for EV vehicles around Q3 FY2025, ICRA expects the model as well as the segment concentration risks to remain high over the medium term.

**Capital expenditure plans over the next two fiscals to lead to moderation in debt coverage indicators** – The company has sizeable investment plans of ~Rs 200 crore over FY2024-FY2025 towards capacity expansion for the EV component business, primarily to be funded by debt. The facility is to be set up in the SMG vendor park and the capex will be incurred towards construction of plant and machinery, to set up press lines of varying capacities and some welding lines. The company is yet to achieve financial closure for this project; it has already been sanctioned Rs 75 crore of term loan and is in process to obtain sanction for another ~Rs 150 crore of loan. Accordingly, the debt coverage indicators are likely to remain constrained in the near term, however, a ramp up in revenue generation from this new project will support improvement in the metrics over the medium term.

### Liquidity position: Adequate

SKH Y-Tec's liquidity is expected to remain adequate, with estimated net cash accruals of ~Rs 45-50 crore in FY2024 and working capital buffer of Rs. 4 crore as on March 31, 2023. The company is expected to incur a capex of ~Rs. 200 crore over

FY2024-FY2025 and has long-term debt repayment obligations of ~Rs. 39 crore in FY2024 and ~Rs. 23 crore in FY2025. SKH Y-Tec is expected to meet its capex requirements primarily from external debt and is in advanced discussions with lenders to tie up the same. The company is also expecting state goods and services tax (SGST) reimbursements from the Government of Gujarat under its incentive scheme, which when received, will support the company's liquidity position.

### Rating sensitivities

**Positive factors** – A ramp-up in revenues while maintaining profitability indicators, resulting in improved cash flows and a consequent improvement in the financial risk profile, could lead to a positive rating action. Moreover, receipt of Government incentives leading to a material improvement in the financial profile could also result in a positive rating action. Specific metrics such as RoCE above 15% and Net Debt/OPBDITA below 2.5 times, on a sustained basis, may trigger a rating upgrade.

**Negative factors** – A sizeable debt-funded capex not accompanied by ramp-up in revenue leading to a deterioration in the financial risk profile would remain a key monitorable. Material outflow of funds through dividend/loans and advances to Group companies, which has a material impact on the credit profile, may also lead to a negative rating action. Specific metrics such as RoCE below 13% and Net Debt/OPBDITA above 3.0 times, on a sustained basis, may trigger a rating downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Manufacturers</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SKH Y-Tec.

### About the company

Incorporated in 2016, SYIPL is a JV between SKH Sheet Metal Components Pvt. Ltd. (51%, a holding company for the metal division of the Krishna Group, a leading automotive supplier with presence in real estate, media and travel sectors) and Y-Tec Corporation (49%, a leading Japanese automotive supplier of high-tensile parts). The company manufactures automotive components (including welded sheet metal parts and assemblies) for Suzuki Motor Gujarat Private Limited (SMG) from its plants in Hansalpur (Gujarat). The plant became fully operational in November 2017 and is equipped with a capacity to cater to ~7.5 lakh cars per year.

### Key financial indicators (audited)

	FY2021	FY2022
Operating income	369.1	554.6
PAT	10.8	15.5
OPBDIT/OI	10.5%	9.7%
PAT/OI	2.9%	2.8%
Total outside liabilities/Tangible net worth (times)	1.7	1.5
Total debt/OPBDIT (times)	3.3	2.1
Interest coverage (times)	5.0	5.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Apr 27, 2023	-	Feb 14, 2022	Jan 29, 2021	
1	Term loans	Long term	138.94	67.00	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund-based	Long term	40.00	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non-fund based	Short term	10.00	-	[ICRA]A3+	-	[ICRA]A3+	[ICRA]A3+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term Fund based – Working capital	Simple
Short-term non fund based – Working capital	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 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	FY2020	NA	FY2025	43.94	[ICRA]BBB (Stable)
NA	Term Loan-II	FY2023	NA	FY2028	20.00	[ICRA]BBB (Stable)
NA	Term Loan-III	Yet to be drawn			75.00	[ICRA]BBB (Stable)
NA	Fund Based	NA	NA	NA	40.00	[ICRA]BBB (Stable)
NA	Non-fund Based	NA	NA	NA	10.00	[ICRA]A3+

Source: Company

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

## ANALYST CONTACTS

**Shamsher Dewan**  
+91 12 4454 5328  
[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Srikumar Krishnamurthy**  
+91 44 4596 4318  
[srikumar.k@icraindia.com](mailto:srikumar.k@icraindia.com)

**Rohan Kanwar Gupta**  
+91 124 4545 808  
[rohan.kanwar@icraindia.com](mailto:rohan.kanwar@icraindia.com)

**Astha Bansal**  
+91 124 4545 342  
[astha.bansal@icraindia.com](mailto:astha.bansal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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