

October 06, 2023

SKM Steels Limited: Ratings reaffirmed at [ICRA]A- (Stable)/[ICRA]A2+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Cash Credit	330.0	345.0	[ICRA]A- (Stable); Reaffirmed; Assigned for enhanced amount
Short Term – Fund Based	95.0	150.0	[ICRA] A2+; Reaffirmed; Assigned for enhanced amount
Short Term – Non-fund based	5.0	5.0	[ICRA] A2+; Reaffirmed
Long Term / Short Term – Unallocated	-	100.0	[ICRA]A- (Stable) /[ICRA]A2+; Assigned
Total	430.0	600.0	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the rating, ICRA has considered the consolidated financials of SKM Steels Limited (SKM) along with its two subsidiaries and one associate, together referred to as the SKM Group.

The reaffirmation of the ratings factors in the extensive experience of the promoters of the SKM Group in the iron and steel industry and its established relationship with Tata Steel Limited (Tata Steel) as an authorised distributor of its products in Maharashtra, Gujarat, Madhya Pradesh and Goa. The ratings also favourably factor in the diversified customer base of the company with only 16% of the revenues derived from the top five customers. Besides, the company has diversified operations with presence in trading and processing of flat and long products, which in turn reduces its dependence on a single sector.

The ratings favourably factor in the improving product mix with increasing share of value-added and specialised steel products such as boiler quality (BQ) plates, galvanised plain (GP) coils and stainless-steel products, resulting in higher blended realisations in FY2023. This translated into a healthy YoY revenue growth of 20% in FY2023 at Rs. 3,005.3 crore (at the standalone level), driven by a 15% YoY growth in blended realisation and a modest 4% YoY growth in sales volumes. Notwithstanding the expected moderation in steel prices in FY2024, ICRA notes that SKM's focus on specialised steel products is likely to result in higher blended realisations, given the lower price volatility witnessed in these product segments compared to ordinary hot-rolled and cold-rolled coils. Along with improved volume offtake due to healthy steel demand, this would lend adequate support to its revenues and thus, the financial profile over the near-to-medium term. The ratings also factor in the SKM Group's improvement in the working capital cycle, led by timely collections and controlled inventory holding period. The liquidity position of the company also remains adequate, supported by unutilised bank lines of Rs. 211.7 crore (fund-based limits and channel financing facility) as on June 30, 2023.

The ratings, however, are constrained by the SKM Group's thin profitability. The Group's operations are also working capital intensive in nature, largely driven by SKM's requirement to make immediate payments to Tata Steel while it extends a credit period of 30-45 days to its customers. The Group also remains exposed to the cyclicity associated with the steel industry, which is likely to keep its cash flows volatile. ICRA also notes SKM's investments in various business ventures (including some unrelated ones) over the last two to three years and the management's plan to enter new business segments over the medium term. The overall quantum of investments in these ventures, along with their profitable ramp-up in operations and the extent of funding support provided by SKM would be key monitorables.

The Stable outlook on the [ICRA]A- rating reflects ICRA's expectations that the SKM Group would continue to benefit from its increasing focus on specialised products, its association with Tata Steel and from the extensive experience of the promoters in the iron and steel industry.

Key rating drivers and their description

Credit strengths

Diversified operations, increasing focus on specialised products – SKM’s portfolio includes cold-rolled close annealed sheets, GP coils, hot-rolled coils, stainless steel bars, BQ plates and thermo-mechanically treated (TMT) bars. The company caters to automotive, white goods, construction, engineering, and capital goods industries. The wide product range offered by the company reduces its dependence on a single sector. Over the last three years, the company has increased its focus on specialised products, the share of which has improved to 18% of revenues in FY2023 from 5% in FY2019. This results in higher blended realisation and helps reduce volatility in OPMs. Additionally, SKM entered into several new categories in FY2023 (like colour coated specialised steel, among others) which is expected to fetch better margin in the medium term. Going forward, the company is expected to continue focusing on increasing the share of value-added products in its sales mix.

Satisfactory financial profile – SKM reported healthy 20% YoY growth in the operating income to Rs. 3,005.3 crore (at the standalone level, which accounts for 98% of revenues at the consolidated level) in FY2023 against Rs. 2,511.3 crore in FY2022. This in turn is aided by a 15% YoY growth in sales realisation and a 4% YoY growth in sales volume. Its financial profile also remains satisfactory with an interest cover of 4.3 times at the standalone level and 3.9 times at the consolidated level. The overall capital structure also remains comfortable with a gearing of 0.5 times and total outside liabilities vis-à-vis the tangible net worth of 1.4 times as on March 31, 2023. Notwithstanding the expected moderation in steel prices in FY2024, ICRA notes that SKM’s focus on specialised steel products is likely to result in higher blended realisations, given the lower price volatility witnessed in these product segments compared to ordinary hot-rolled and cold-rolled coils. Along with improved volume offtake due to healthy steel demand, this would lend adequate support to its revenues and thus, financial profile over the near-to-medium term. ICRA also notes SKM’s investments in various business ventures (including some unrelated ones) over the last two to three years and the management’s plan to enter new business segments over the medium term. The overall quantum of investments in these ventures, along with their profitable ramp-up in operations and the extent of funding support provided by SKM would be key monitorables.

Experience of promoters and long association with Tata Steel Limited – SKM commenced steel processing operations in 1994. The company’s promoters have around 50 years of experience in the iron and steel industry. SKM is one of the 26 authorised distributors of Tata Steel in Maharashtra, Madhya Pradesh, Gujarat, and Goa, and has a long business association of about 25 years. The long relationship with Tata Steel ensures a steady supply of flat and long steel products at competitive rates. In FY2023, Tata Steel accounted for 60% of the total procurement by SKM. Tata Steel’s products are processed at SKM’s Taloja service centre as per the customers’ requirements. As SKM is recognised as Tata Steel’s external processing unit (EPU), the company is authorised to bid for processing contracts from various Tata Steel clients.

Credit challenges

Thin profit margins – The SKM Group’s operating profit margin (OPM) remains modest due to limited value addition and the intensely competitive nature of the business. Despite some moderation in FY2023 due to hardening of input costs, the operating margin is expected to remain in the range of 4-5% in the near-to-medium term.

Working capital intensive nature of operations – The SKM Group’s operations are working capital intensive in nature, demonstrated by the net working capital-to-operating income of 16-23% over the last three fiscals. SKM is required to make immediate payments to Tata Steel while a credit period of 60 to 90 days is offered to its customers. The company holds an inventory of around one month.

Vulnerability of cash flows in steel sector – SKM is exposed to price risks, given the inherent cyclicity in the steel industry. The price risks are accentuated by the largely freehold nature of the inventory maintained by the company. However, ICRA notes that the inventory level maintained by SKM remains low at an absolute level.

Liquidity position: Adequate

The liquidity position of the SKM Group is adequate with undrawn fund-based limits of Rs. 195.01 crore vis-à-vis the available drawing power and unutilised channel finance limits (for procurement from Tata Steel) of Rs. 16.7 crore as on June 30, 2023. Additionally, the SKM Group had unencumbered fixed deposits of Rs. 17.0 crore as on March 31, 2023. The Group is expected to generate retained cash flows of Rs. 17.0 crore in FY2024. Against this, the Group has annual repayment obligations of Rs. 2.0 crore between FY2024 and FY2026, has planned capital expenditure (capex) of ~Rs. 20 crore in FY2025 and FY2026 each and investments towards new ventures of Rs. 15-20 crore per annum over the next two years.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company can significantly increase its operations and profitability, leading to improved liquidity and credit metrics. Specific triggers which may lead to ratings upgrade include the interest cover at the consolidated level improving to above 5 times on a sustained basis.

Negative factors – Pressure on the ratings could arise in case of weakening in the revenues and profit margins and thus credit metrics of SKM, leading to a sustained deterioration in the interest cover (at consolidated level) to below 3.5 times. Any significant elongation in the receivable cycle/or any major write-off in receivables, resulting in deterioration in the company's liquidity position, would also be negative factors.

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 consolidated financial profile of SKM Steels Limited. As on March 31, 2023, SKM had two subsidiaries and one associate company, which have been enlisted in Annexure-II. SKM has extended corporate guarantee for external loans taken by its associate entity-Vero Stella Jewels LLP.

About the company

Incorporated in 1994, SKM Steels Limited (SKM) is promoted by Mr. Kirtilal Shah and his family and is engaged in the trading and processing of stainless-steel products. The company was initially set up as a partnership firm in 1972, and was incorporated as a public limited company in 1994. SKM is an authorised distributor of Tata Steel Limited in Maharashtra, Gujarat, Madhya Pradesh, and Goa. SKM's products find usage in industries such as automobile, white goods, construction, among others. The processing facilities of SKM are in Taloja, Maharashtra and Indore, Madhya Pradesh.

Mahima Infrastructure Private Limited is a wholly-owned subsidiary. It is involved in real estate development and had purchased land in Indore and has developed Mahima Smart City.

Shaswat Vivan Infratech Private Limited (SVIPL) is a subsidiary (51%) of SKM Steels Limited. It trades in paints and chemicals.

Vero Stella Jewels LLP is an associate entity (42%) of SKM Steels Limited. It manufactures diamond studded jewellery.

Key financial indicators (consolidated)

SKM Consolidated	FY2022 (Audited)	FY2023 (Provisional)
Operating income	2,546.2	3,058.1
PAT	82.5	62.0
OPBDIT/OI	5.6%	3.9%
PAT/OI	3.2%	2.0%
Total outside liabilities/Tangible net worth (times)	1.4	1.4
Total debt/OPBDIT (times)	1.6	1.6
Interest coverage (times)	4.5	3.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Consolidation done by ICRA, SKM does not prepare consolidated financial statements

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 of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022			Date & rating in FY2021
				Oct 06, 2023	Jul 06, 2022	Jan 21, 2022	Jan 06, 2022	Apr 01, 2021	Aug 21, 2020
1 Fund based Limits	Long term	345.0	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
2 Fund based, unallocated	Long term	-	-	-	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
3 Fund based limits	Short term	150.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4 Non Fund Based Limits	Short term	5.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
5 Long-term/Short-term Unallocated Limits	Long term and short term	100.0	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Cash Credit	Simple
Short Term – Fund Based	Simple
Short Term – Non-fund based	Very Simple
Long Term / Short Term – Unallocated	Not Applicable

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	NA	NA	NA	345.00	[ICRA]A- (Stable)
NA	Channel Financing	NA	NA	NA	150.0	[ICRA]A2+
NA	Letter of Credit	NA	NA	NA	5.0	[ICRA]A2+
NA	Untied Limits	NA	NA	NA	100.0	[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	Ownership	Consolidation Approach
SKM Steels Limited	Rated Entity	Full Consolidation
Mahima Infrastructure Private Limited	Wholly owned Subsidiary	Full Consolidation
Shaswat Vivan Infratech Private Limited	Subsidiary	Full Consolidation
Vero Stella Jewels LLP	Associate	Equity method

Source: Company data

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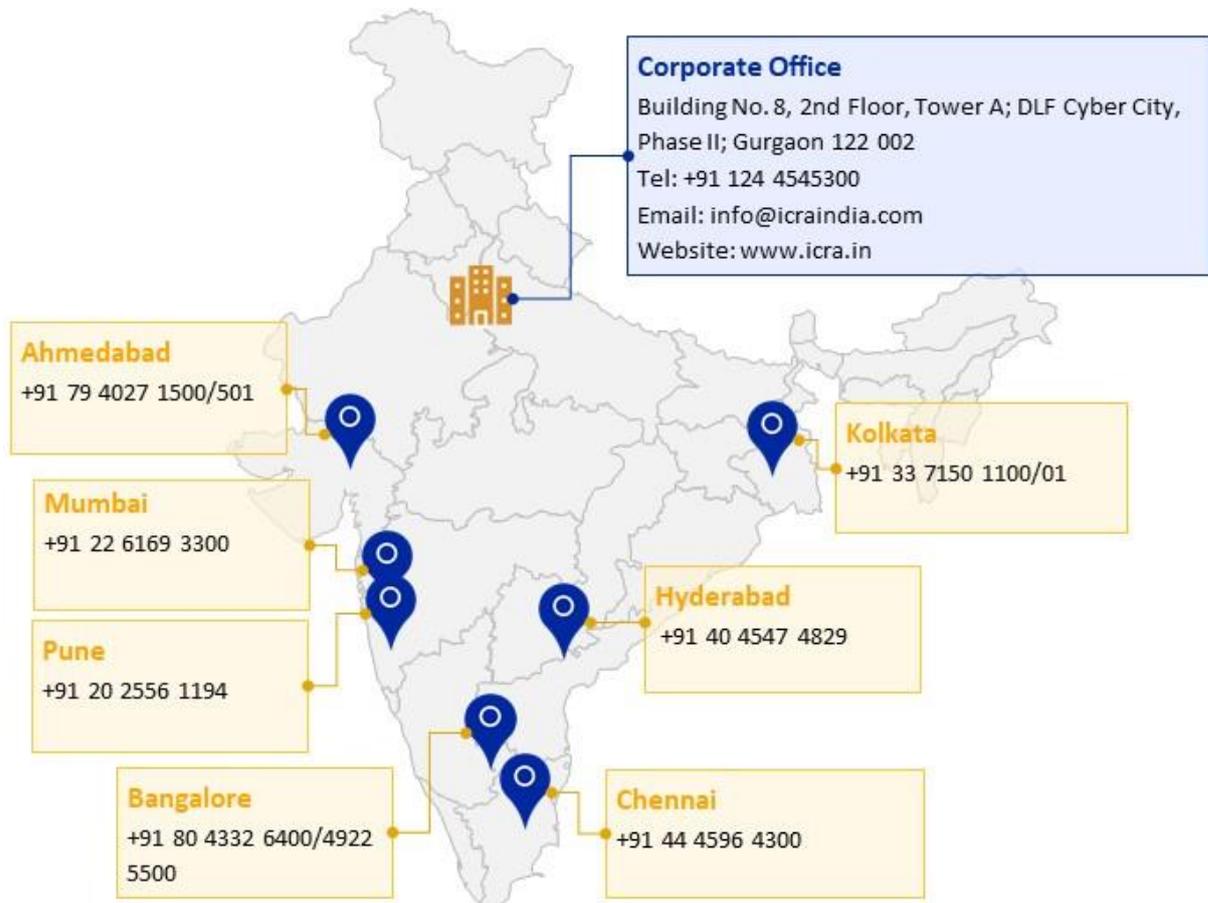
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