

January 19, 2024

SKH Sheet Metals Components Private Limited: [ICRA]BBB+(Stable)/[ICRA]A2 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based facilities	170.00	[ICRA]BBB+ (Stable); Assigned
Long-term – Fund-based – Term loan	45.68	[ICRA]BBB+ (Stable); Assigned
Short-term – Non-fund-based facilities	16.00	[ICRA]A2; Assigned
Long-term/ Short-term – Interchangeable	(60.00)	[ICRA]BBB+ (Stable)/[ICRA]A2; Assigned
Long-term/ Short-term – Unallocated limits	5.10	[ICRA]BBB+ (Stable)/[ICRA]A2; Assigned
Total	236.78	

*Instrument details are provided in Annexure-I

Rationale

The ratings assigned take into account the strong operational profile of SKH Sheet Metals Components Private Limited (SKH SMC), with the company having established relations with original equipment manufacturers (OEM) as a sheet metal component supplier. ICRA also favourably factors in the financial flexibility available to the company as a part of the Krishna Group, a leading automotive component supplier in the Indian market.

As part of the Krishna Group, SKH SMC benefits from Group's association with OEMs, which has allowed steady award of business over the years. At a standalone level, in addition to supplies to Group entities (end-customers being entities like Maruti Suzuki India Limited, or MSIL), the company has an established relationship for supplying sheet metal components to the Volkswagen (VW) Group (both domestic and export supplies) with whom it has maintained a steady share of business over the years. While SKH SMC has already attained healthy business in the export markets, it continues to gain incremental content per vehicle for supplies to Volkswagen India Private Limited. Its established relationship with the VW Group and healthy share of business provide comfort and mitigate the client concentration risk faced by the company to an extent. Although it does not have technical collaboration agreements, it continues to avail access to technological know-how from Group entities, which has aided SKH SMC in adapting to the technological requirements of its customers.

Apart from its standalone operations, SKH SMC is also a holding company for entities operating in the metal business. The key investee companies in SKH SMC's portfolio have an established presence in the sheet metal forming business. Moreover, there are no significant incremental investments planned in the investee companies, with most of them remaining self-sufficient to help meet their debt servicing obligations.

The ratings assigned remain constrained by moderate financial risk profile (at a consolidated level), characterised by modest coverage metrics and gearing indicators. Further, the Group is expected to incur a capex of Rs. 300-400 crore over FY2024-FY2025, primarily to set up new plants under its subsidiaries, which is expected to be funded through a mix of debt and internal accruals. The same will constrain a material improvement in the credit metrics over the near to medium term.

ICRA notes that SKH SMC is currently in the process of acquiring an entity, which is expected to help diversify its customer profile and materially improve its scale of operations at a group level. The ongoing acquisition is expected to be primarily funded through external debt; the management has indicated the expected cost of acquisition and the indicative funding mix. While the overall debt on the consolidated entity's books would increase materially after the acquisition, steady year-on-year incremental accruals (aided by organic growth and planned acquisition) are expected to support the credit metrics and debt

repayment capability of the company. ICRA will continue to closely monitor the acquisition progress and any deviations in the expected funding mix vis-à-vis current expectations will remain a rating sensitivity.

The Stable outlook on SKH SMC's rating reflects ICRA's opinion that the company will continue to benefit from its established relationships with its customers and record moderate revenue growth over the medium term, while gradually improving its credit metrics.

Key rating drivers and their description

Credit strengths

Strong business position for supplying sheet metal components – SKH SMC is a supplier of fuel tanks, axle housings, seat frame components, and other body-in-white (BIW) parts to various OEMs. Over the years, it has maintained a steady share of business for these parts. On a consolidated level, SKH SMC's key customer is MSIL (through supplies from subsidiaries). Apart from MSIL, the company derives most of its revenues from the VW Group (both domestic and export supplies). The company is a supplier of various BIW parts for the Group and has maintained a steady share of business over the years. Going forward, the company's customer profile is expected to further improve with the addition of new business from the ongoing acquisition plans.

Holding company for various Krishna Group entities in the sheet metal segment, with strong share of business in supplies to OEMs – Apart from its standalone operations, SKH SMC also acts as a holding entity for the metal business of the Krishna Group. There are no significant incremental investments planned for the Group companies, going forward, with most investee companies remaining self-sufficient to help meet their debt servicing obligations. Even as the dividend receipts from the investee companies have remained minimal so far, their established presence as tier-I suppliers with leading automotive OEMs in the domestic market could provide healthy cash flows in the form of dividend income for SKH SMC, going forward.

Synergistic benefits as part of the Krishna Group – SKH SMC derives various synergistic benefits (technology and raw material procurement, for example) as part of the Krishna Group. Even as SKH SMC does not have technical collaboration agreements at a standalone level, it continues to avail access to technological know-how from its Group entities, who have entered into technical collaboration agreements to further their businesses. The technological know-how from Group entities is likely to help SKH SMC adapt to changing technological requirements of OEMs, thus helping it maintain a healthy share of business.

Credit challenges

Modest financial risk profile characterised by modest leverage and debt coverage indicators – At a consolidated level, SKH SMC has a modest financial risk profile with modest capital structure and debt coverage indicators. As of March 31, 2023, the company had a total debt of ~Rs. 708.4 crore on its books (at a consolidated level), resulting in a gearing of 1.4 times. The debt coverage indicators remained modest, with the company having a Total debt/OPBDITA of 3.3 times and Total outside liabilities/Total debt of 2.3 times for FY2023. The capital structure is expected to remain modest in the near term, with debt addition expected from the ongoing capex for the new plants under the subsidiaries, as well as the planned acquisition. However, steady year-on-year incremental accruals (aided by organic growth and planned acquisition) are expected to support the credit metrics and debt repayment capability of the company.

High client concentration risk; expected to moderate with ongoing acquisition – Barring supplies to Group entities (Binola plant, constituting ~30-35% of the company's revenues), SKH SMC's business at a standalone level is predominantly derived from the VW Group. While business growth for Group entities remains largely linked to the growth prospects of MSIL, the market leader in the domestic passenger vehicle industry, SKH SMC's performance and prospects remain closely linked to its ability to gain incremental business from the VW Group in domestic and overseas markets. Although a heavy dependence on the VW Group results in moderate client concentration risk, this is mitigated to an extent by the global presence of the strong business share of the company's supplies to the OEM. The completion of the ongoing acquisition is expected to reduce client concentration risk and aid in diversifying its business risk profile.

Substantial capex plans over next two years at a Group level – On a consolidated basis, SKH SMC will incur capex of ~Rs. 300-400 crore over FY2024-FY2025, primarily to set up new plants under its subsidiaries. The capex is expected to be funded through a mix of term loans and internal accruals. Additionally, the company is at advanced stages of completing an acquisition, which will also be funded primarily through debt. The addition of debt for the planned capex/acquisition is likely to constrain a material improvement in the credit metrics over the near to medium term.

Liquidity position: Adequate

The liquidity is expected to remain **adequate** for the company, aided by expectation of healthy retained cash flows (~Rs. 120-130 crore per annum), available cash and liquid investments of ~Rs. 20-25 crore and average buffer of ~Rs. 30 crore against drawing power in working capital facilities. The company has repayment obligations of ~Rs. 130 crore over the next 12 months along with material capex requirements, which are expected to be funded through a mix of internal accruals and term loans.

Rating sensitivities

Positive factors – The rating could be upgraded in case of sustained improvement in scale of operations and profitability of the company, along with diversification in its geographic and customer profile on a sustained basis. Specific credit metrics that could lead to an upgrade include Total debt/OPBITDA of less than 2.3 times on a sustained basis.

Negative factors – The rating could witness a downward revision in case of any adverse impact on the revenue/ profitability of the company, leading to deterioration in debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology – Auto component suppliers
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SKH Sheet Metals Components Private Limited. As on March 31, 2023, the company had four subsidiaries, three associates and two joint ventures, which are all enlisted in Annexure-II.

About the company

SKH SMC is the holding entity for a majority of SKH Group (metal business of the Krishna Group) entities. SKH SMC also has three manufacturing facilities at Binola (Delhi NCR), Ranjangaon (near Pune) and Chennai. The company has been the growth centre for SKH Group’s exports to global OEMs as well as its vehicle for expanding across all major automotive hubs of India. Its key products include seat structures, metal fuel tanks (Passenger Vehicles and two-wheelers), bumper brackets, ISOFIX assemblies, and various sheet metal components and assemblies (low and high tensile) for several Indian and global OEMs.

SKH SMC is held by Mr. Sunandan Kapur who holds 66.6% stake in it. The company also holds stakes in sister concerns like SKH Metals Limited, SKH Y TEC Pvt. Ltd. and other holding entities.

Key financial indicators (audited)

SKH SMC Consolidated	FY2022	FY2023
Operating income	2,117.6	2,383.2
PAT	57.1	75.6
OPBDIT/OI	8.5%	9.0%
PAT/OI	2.7%	3.2%
Total outside liabilities/Tangible net worth (times)	2.6	2.3
Total debt/OPBDIT (times)	4.1	3.3
Interest coverage (times)	3.6	4.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount 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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount o/s as of Aug 31, 2023 (Rs. crore)	Date & rating in FY2024		FY2023	FY2022	FY2021
				Jan 19, 2024	Aug 29, 2023			
1 Term loans	Long term	45.68	45.68	[ICRA]BBB+ (Stable)	[ICRA]B+(Stable) ISSUER NOT COOPERATING; withdrawn	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]BB+(Stable) ISSUER NOT COOPERATING
2 Fund-based facilities	Long term	170.00	-	[ICRA]BBB+ (Stable)	-	-	-	-
3 Non Fund Based Facilities	Short term	16.00	-	[ICRA]A2	-	-	-	-
4 Interchangeable Limits	Long term/ Short term	(60.00)	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-	-
5 Unallocated limits	Long term / Short term	5.10	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-	-
6 Unallocated limits	Long term	-	-	-	[ICRA]B+(Stable) ISSUER NOT COOPERATING; withdrawn	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]BB+(Stable) ISSUER NOT COOPERATING
7 Cash credit	Long term / Short term	-	-	-	[ICRA]B+(Stable)/ [ICRA]A4 ISSUER NOT COOPERATING; withdrawn	[ICRA]B+(Stable)/ [ICRA]A4 ISSUER NOT COOPERATING	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]BB+(Stable)/ [ICRA]A4+ ISSUER NOT COOPERATING

8 Non fund based	Long term / Short term	-	-	-	[ICRA]B+(Stable)/[ICRA]A4 ISSUER NOT COOPERATING; withdrawn	[ICRA]B+(Stable)/[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]B+(Stable)/[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]BB+(Stable)/[ICRA]A4+ ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based Facilities	Simple
Long Term-Fund Based-Term Loan	Simple
Short Term-Non Fund Based Facilities	Very simple
Long term / Short term –Interchangeable	Very simple
Long term / Short term – Unallocated limits	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	Term Loan	Sep 2020	NA	May 2025	8.00	[ICRA]BBB+(Stable)
NA	Term Loan	Sep 2021	NA	June 2026	9.61	[ICRA]BBB+(Stable)
NA	Term Loan	March 2021	NA	May 2026	6.89	[ICRA]BBB+(Stable)
NA	Term Loan	Sep 2021	NA	June 2026	2.44	[ICRA]BBB+(Stable)
NA	Term Loan	December 2020	NA	December 2025	5.74	[ICRA]BBB+(Stable)
NA	Term Loan	December 2022	NA	June 2024	13.00	[ICRA]BBB+(Stable)
NA	Cash credit	NA	NA	NA	170.00	[ICRA]BBB+(Stable)
NA	Bank guarantee/ Letter of credit	NA	NA	NA	16.00	[ICRA]A2
NA	Interchangeable Limits	NA	NA	NA	(60.00)	[ICRA]BBB+(Stable)/[ICRA]A2
NA	Unallocated Limits	NA	NA	NA	5.10	[ICRA]BBB+(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	SKH SMC Ownership	Consolidation Approach
SKH Sheet Metals Components Private Limited	100.00% (rated entity)	Full Consolidation
SKH SMC GmbH	100.00%	Full Consolidation
SKh Y-Tec India Private Limited	51.00%	Full Consolidation
Jai Hanuman Enterprises	98.02%	Full Consolidation
SKH Metals Limited	60.13%	Full Consolidation
Comfort Bus Seats Pvt. Ltd.	49.00%	Equity method
Uranus Auto Seat Trims Pvt. Ltd.	26.00%	Equity method
SKH Sila India Pvt. Ltd.	26.15%	Equity method
Magnetti Marelli SKH Exhaust Systems Pvt. Ltd.	50.00%	Equity method
SIAC SKH India Cabs Manufacturing Pvt. Ltd.	50.00%	Equity method

Source: SKH SMC annual report FY2023

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545808
rohan.kanwar@icraindia.com

Akshay Dangi
+91 124 4545396
akshay.dangi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



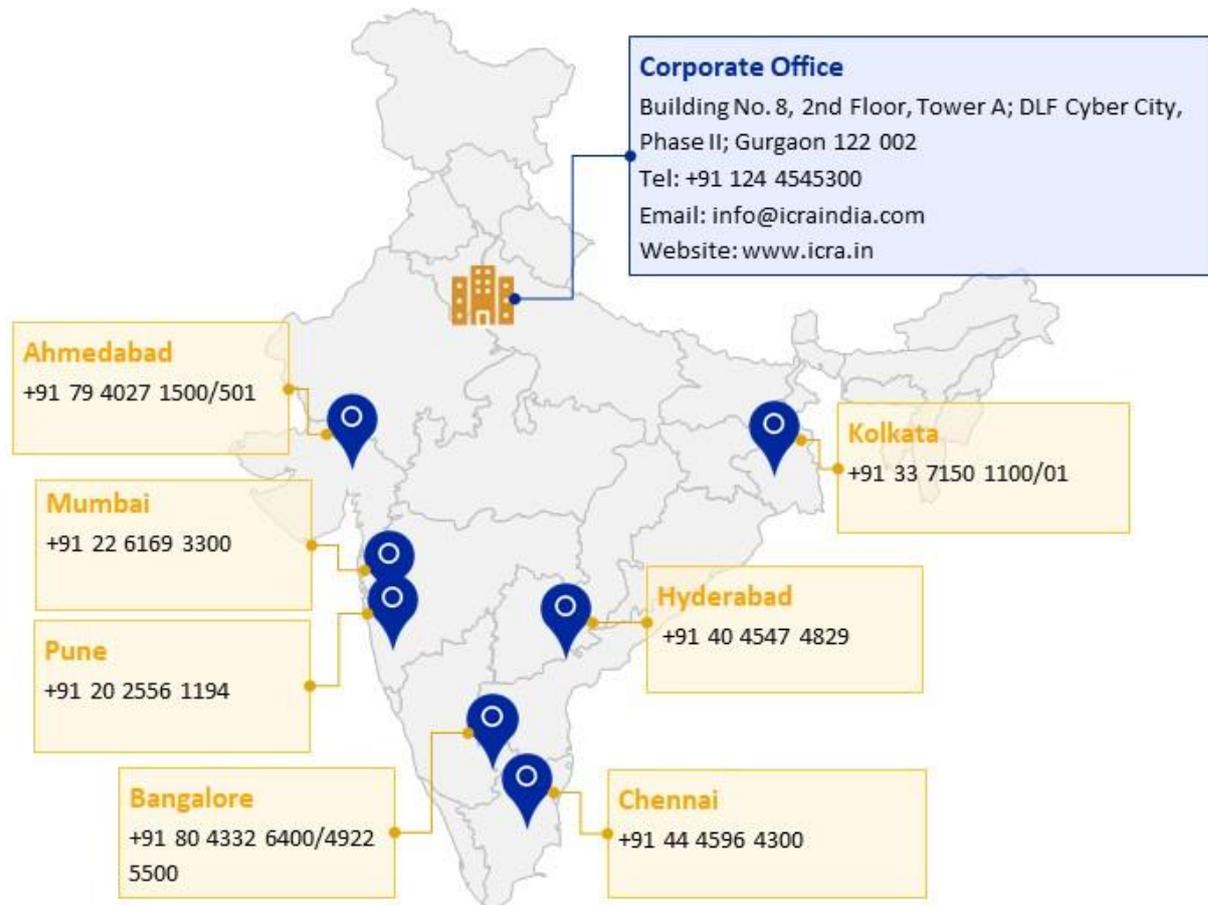
Registered Office

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

Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.