

April 18, 2024

SKH Metals 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 loans	165.55	261.37	[ICRA]A-(Stable); reaffirmed/assigned for enhanced amount
Long-term/ Short-term – Fund-based – Working capital facilities	215.00	260.00	[ICRA]A-(Stable)/[ICRA]A2+ reaffirmed/assigned for enhanced amount
Short-term – Non-fund based	10.00	10.00	[ICRA]A2+ reaffirmed
Total	390.55	531.37	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings of SKH Metals Limited (SKH Metals/the company) continues to favourably factor in the healthy share of business enjoyed by the company for select sheet metal-based components with Maruti Suzuki India Limited (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. The ratings also consider the strong parentage of the company, with MSIL holding 37.03% stake and the Krishna Group (a leading auto component supplier group) holding 62.97%. This strong parentage and healthy share of business are expected to continue to aid the revenue growth prospects of the company, thereby helping it generate healthy cash flows.

The company saw healthy improvement in scale of operations in FY2023 aided by a swift recovery in the PV segment, healthy demand for MSIL's vehicles and introduction of new models by the OEM. The company achieved revenue of Rs. 1,128.2 crore in FY2023 with healthy YoY growth of 18% over FY2022. The revenues are expected to remain flat in FY2024 as indicated by revenues of ~Rs. 816.9 crore in 9M FY2024. The EBITDA margins, however, moderated to 7.7% in FY2023 (8.4% in FY2022) impacted by steel price hikes and inflationary pressure on costs, and are expected to remain at similar level in FY2024 as well. As the company's ability to improve profitability in a challenging macro-economic environment remains a monitorable, an easing in steel prices and improved operating leverage are likely to aid a gradual improvement in margins over the near term.

ICRA notes that MSIL's gradual replacement of metal fuel tanks with plastic ones, to light-weight 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 body-in-white (BIW) parts for MSIL's various models, thereby mitigating the overall impact on revenues. Additionally, to support its growth prospects, the company is setting up a plant in Kharkhoda, Haryana (in MSIL's vendor park), at an estimated capex of Rs. 325-330 crore spread over FY2024-FY2026, which would likely support the scale of operations, going forward. The said capex is expected to substantially drive the revenue growth from FY2026 and aid in improved profitability with higher content per vehicle and cost control measures at the new plant.

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 cyclicity 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 rating reflects ICRA's expectation that despite a moderation in the credit metrics in the near term, owing to the entity's material capex plans to enhance capacity, the metrics are likely to gradually improve over the medium term and remain at levels commensurate to the rating level.

Key rating drivers and their description

Credit strengths

Access to financial and operational support 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 the interiors division. The company benefits from the Group's established relationships with various automotive original equipment manufacturers (OEMs) as well as derives certain operational efficiencies, such as centralised procurement for certain raw materials. Krishna Maruti Limited (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, providing comfort regarding SKH Metals' ability of 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 for BIW parts. Further, the average content per vehicle for BIW parts is expected to increase owing to an increase in the number of parts supplied, improved tensile strength, and the company's enhanced technological capabilities, 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 with 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 1.9 times (PY: 2.2 times), Debt/OPBDITA of 4.2 times (PY: 4.3 times) and interest coverage of 3.9 times (PY: 3.6 times) in FY2023. The company had also extended a loan to one of its group companies in FY2019 (outstanding of Rs. 16.5 crore as on March 31, 2023, and further of Rs. 14.0 crore in FY2024), which led to increased external financing for SKH Metals. In addition, the company has availed additional term debt for its ongoing capex, which are expected to moderate the capital structure and coverage indicators to an extent in the near term. Timely commission of the plant and incremental revenue and profitability will be key monitorables, going forward.

High client concentration risk with MSIL; however, OEM's market leadership mitigates risk to an extent – SKH Metals' business is predominantly driven by 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, this is largely mitigated by 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. 44.0 crore in FY2023 and Rs. 41.5 crore in 9M FY2024. Despite the same, ICRA expects SKH Metals' concentration on MSIL to remain high over the medium term. Hence, the company's growth prospects would primarily depend on its ability to generate greater business from MSIL.

Substantial capex plans likely to constrain any improvement in capital structure – The company is setting up a new manufacturing facility at MSIL's vendor park in Kharkhoda. The company will incur about Rs. 325-330 crore towards the same across FY2024–FY2026 for the same. The plant is expected to serve new upcoming models of MSIL in FY2025 as well as some

existing models. The same is expected to be funded in a debt-to-equity mix of 3:1 and, thus, in the near term the capital structure and coverage indicators are expected to moderate to an extent. However, incremental revenue and profitability will support the capital structure and coverage indicators once the plant is commissioned. Completion of the capex in a timely manner and within the stipulated budget will be key monitorables, going forward.

Liquidity position: Adequate

SKH Metals' liquidity is expected to remain adequate with expected retained cash flows of ~Rs. 40-50 crore in FY2025 and moderately high fund-based working capital utilisation with buffer of ~Rs. 8.2 crore as on January 31, 2024, against drawing power (however, an additional Rs. 40 crore of working capital limits sanctioned in FY2024 remain unutilised as on date, providing additional buffer for liquidity). The company has ~Rs. 42-44 crore of repayment obligations in FY2025 and estimated capex plans of Rs. 250-280 crore over the next 12 months. It has already been sanctioned ~Rs. 140 crore of fresh debt in the current fiscal, of which ~Rs. 35.5 crore of term debt has been availed till February 2024. Moreover, the company enjoys healthy financial flexibility as a part of the Krishna Group, which is expected to aid timely raising of debt to fund the capex plans. KML, the Group's flagship entity, has also extended corporate guarantee (CG) for about 50% of SKH Metals' outstanding 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 Auto components
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 Limited. As on March 31, 2023, the company had two joint ventures and one associate company, which are enlisted in Annexure-II. 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 at 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)

SKH Metals Consolidated	FY2022	FY2023
Operating income	955.7	1,128.2
PAT	18.3	21.3
OPBDIT/OI	8.4%	7.7%
PAT/OI	1.9%	1.9%
Total outside liabilities/Tangible net worth (times)	3.0	2.7
Total debt/OPBDIT (times)	4.3	4.2
Interest coverage (times)	3.6	3.9

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 (FY2025)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount o/s as of Feb 29, 2024 (Rs. crore)	Date & rating in FY2025	FY2024	FY2023		FY2022	
						Jan 06, 2023	Dec 05, 2022	Apr 11, 2022	Sep 16, 2021
1 Term loans	Long term	261.67	258.62	[ICRA]A-(Stable)	--	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2 Term loans (CE)	Long term	--	--	--	--	--	[ICRA]AA-(CE) (Stable) withdrawn; [ICRA]A-(stable) assigned simultaneously	[ICRA]AA-(CE) (Stable)	[ICRA]AA-(CE) (Stable)
3 Non fund based limits	Short term	10.00	--	[ICRA]A2+	--	[ICRA]A2+	[ICRA]A1+ (Stable) withdrawn; [ICRA]A2+ assigned simultaneously	[ICRA]A1+(CE)	[ICRA]A1+(CE)
4 Fund-based – Working capital facilities	Long term /short term	260.00	--	[ICRA]A-(Stable)/[ICRA]A2+	--	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+
5 Fund-based bank facilities (CE)	Long term /short term	--	--	--	--	--	[ICRA]AA-(CE) (Stable)/[ICRA]A1+ withdrawn; [ICRA]A-(stable)/[ICRA]A2+ assigned simultaneously	[ICRA]AA-(CE) (Stable)/[ICRA]A1+	[ICRA]AA-(CE) (Stable)/[ICRA]A1+
6 Fund-based bank facilities (CE)	Long term /short term	--	--	--	--	--	[ICRA]AA-(CE) (Stable)/[ICRA]A1+ withdrawn; [ICRA]A-(stable)/[ICRA]A2+ assigned simultaneously	[ICRA]AA-(CE) (Stable)/[ICRA]A1+	[ICRA]A-(Stable)/[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loans	Simple
Long-term/ Short -term – Fund-based – Working capital facilities	Simple
Short term – Non fund based	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 Rate (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2015	NA	FY2031	261.37	[ICRA]A-(Stable)
NA	Working capital facilities	NA	NA	NA	260.00	[ICRA]A-(Stable)/[ICRA]A2+
NA	Non fund based	NA	NA	NA	10.00	[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 Metals Ownership	Consolidation approach
SKH Metals Limited	100.00% (rated entity)	Full Consolidation
SKH Marelli Exhaust Systems Private Limited	50.00%	Equity method
SKH Sila India Pvt. Ltd.	13.85%	Equity method
SKH Cabs Manufacturing Pvt. Ltd.	50.00%	Equity method

Source: SKH Metals Limited annual report FY2023

Note: ICRA has considered consolidated financials of the parent (SKH Metals), its joint ventures and associates while assigning the ratings.

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