June 28, 2024

SKH Y-Tec India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term loans	138.94	97.47	[ICRA]BBB(Stable); reaffirmed
Long term – Fund based – Working capital	40.00	40.00	[ICRA]BBB(Stable); reaffirmed
Short term – Non fund based – Working capital	10.00	10.00	[ICRA]A3+; reaffirmed
Short term – Interchangeable limits	--	(10.00)	[ICRA]A3+; reaffirmed
Total	**188.94**	**147.47**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in the continued steady operational performance of SKH Y-Tec India Private Limited (SYIPL), benefitting from its established business relationship with Maruti Suzuki India Limited (MSIL, SYIPL's key customer and the market leader in the domestic passenger vehicle [PV] industry). SYIPL 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 MSIL's Gujarat plant. The equity participation of Y-Tec Corporation has aided SYIPL in receiving technological support from the former. This support underpins the company's ability to adapt to MSIL's changing technological requirements, thus allowing it to maintain a healthy share of business (SOB) in sheet metal supplies to the original equipment manufacturer (OEM).

With the continued increase in annual capacity (from 2.5 lakh units in FY2017 to 7.5 lakh units in FY2024) and production levels at its manufacturing plant, the company has witnessed a healthy ramp-up in its scale of operations. The company's revenue growth prospects are expected to remain healthy over the medium term, with business gained for some new models, including electric vehicles (EV). While the company's operating margins were impacted in FY2023 on account of the increase in raw material prices along with some pricing reduction by MSIL, the same improved in FY2024 (aided by the operating leverage benefits) and are likely to remain stable in the near future. The company has significant debt-funded capex plans of Rs. 250-260 crore towards capacity expansion over FY2024 and FY2025. Thus, the coverage metrics are likely to moderate over the near term, however, the same are expected to improve thereafter, aided by incremental cash flows generated from new businesses.

The ratings, however, remain constrained by the segmental concentration risk for the company, with the PV segment being its only end-user sector. The company faces high client concentration risk, with revenues generated from a single customer, MSIL. ICRA notes that the client concentration risk is mitigated to some extent by MSIL's market leadership in the PV segment as well as SYIPL's position as a leading supplier of high-value sheet metal components to MSIL.

The Stable outlook on the long-term rating reflects ICRA's expectation that despite the moderation in the credit metrics in the near term on account of the entity's material capex plans to enhance capacity, the same are likely to gradually improve over the medium term and revert to levels commensurate with the rating category.

Key rating drivers and their description

Credit strengths

Strong position as a leading supplier of sheet metal components to MSIL's Gujarat plant – SYIPL is a leading supplier of sheet metal assemblies to MSIL, the market leader in the domestic PV industry. The company is the sole supplier of select body-inwhite (BIW) sheet metal components, such as suspension frames, control arms, etc. for MSIL. It has gained business for supplying high tensile steel-based sheet metal assemblies to the OEM and has benefitted because some of its peers did not set up their manufacturing units in Gujarat, leading to higher content per vehicle and share of business.

The company has a manufacturing capacity to cater to up to 7.5 lakh vehicles in FY2024, in line with MSIL's Gujarat plant. It 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 by the vehicles manufactured in SYIPL's Gujarat plant only. As SKH Y-Tec is a leading supplier of sheet metal assemblies for MSIL's requirements, its revenue growth prospects remain healthy.

Technological support from JV partner aids design and development capabilities – SYIPL enjoys technological support from its JV partner, Y-Tec Corporation, a leading Japanese supplier of high-tensile chassis, body, function, transmission, and engine components 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 MSIL's models. Technological support from Y-Tec Corporation is likely to help SYIPL adapt to MSIL's changing requirements and aid its business prospects.

Credit challenges

High client concentration risk, however, MSIL's market leadership partly mitigates the same – SYIPL's business is mainly derived from a single customer, MSIL. Thus, the company's performance and prospects are closely linked to that of MSIL. Although this results in high client concentration risk, the same is mitigated largely by MSIL's market leadership in the PV segment (~41.7% market share in FY2024) and SYIPL's strong SOB (40-50%) with MSIL. ICRA expects the company's business concentration on MSIL to remain high over the medium term, in the absence of any material customer diversification plan. Its growth prospects will also remain linked to that of MSIL.

High segmental concentration on PVs – Catering solely to MSIL's models, the company's revenues depend on the domestic PV volumes. At present, its supplies are limited to only four models, exposing the company to model-specific demand as well. Even though the supply for a new model is likely to start in Q2 FY2025 and for EV vehicles in Q4 FY2025, ICRA expects the model as well as the segment concentration risk to remain high over the medium term.

Ongoing capital expenditure plans would moderate capital structure and debt coverage indicators –The company is incurring a sizeable investment of ~Rs. 250 crore over FY2024-FY2025 towards capacity expansion for the EV component business, primarily funded by debt. The facility will be established in the MSIL vendor park and the capex will be incurred towards construction of the plant and machinery, to set up press lines of varying capacities and some welding lines. The capex is being funded primarily through term loans of Rs. 195.0 crore. Accordingly, the capital structure and debt coverage indicators are likely to remain constrained in the near term. However, a ramp-up in revenue generation from this new project will improve the metrics over the medium term.

Liquidity position: Adequate

SYIPL's liquidity is expected to remain adequate, with estimated net cash accruals of Rs. 45-50 crore in FY2025 and working capital buffer of ~Rs. 20 crore as of May 31, 2024. The company is expected to incur a capex of Rs. 110-120 crore over FY2025 and has long-term debt repayment obligations of Rs. 26-27 crore in FY2025 and Rs. 45.7 crore in FY2026. SKH Y-Tec is expected to meet its capex requirements primarily from the external term debt of Rs. 195 crore (Rs. 119.7 crore drawn down till March 2024). 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 material ramp-up in revenues and rising profitability indicators, resulting in higher cash flows and a consequent improvement in the financial risk profile, could lead to a positive rating action. Specific metrics, such as Total debt/OPBDITA, remaining below 2.5 times on a sustained basis, may trigger ratings upgrade.

Negative factors – A sizeable debt-funded capex, not accompanied by a ramp-up in revenue, and leading to a deterioration in the financial risk profile may increase pressure on the ratings. Material outflow of funds through dividends/loans and advances to Group companies, materially impacting the credit profile, may also lead to a negative rating action. Specific metrics, such as Total debt/OPBDITA, remaining above 3.0 times on a sustained basis, may trigger ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto components
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2016, SYIPL is a JV between SKH Sheet Metal Components Private Limited (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 MSIL from its plant 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

SYIPL (Standalone)	FY2022	FY2023	FY2024*
Operating income	554.6	656.4	737.7
PAT	15.5	10.3	23.8
OPBDIT/OI	9.7%	7.1%	8.1%
PAT/OI	2.8%	1.6%	3.2%
Total outside liabilities/Tangible net worth (times)	1.5	1.3	-
Total debt/OPBDIT (times)	2.1	2.0	2.9
Interest coverage (times)	5.8	5.7	8.5

*Source: Company, ICRA Research; * Provisional numbers; 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	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 28, 2024	Apr 27, 2023	-	Feb 14, 2022
1	**Term Loans**	Long term	97.47	97.47	**[ICRA]BBB (Stable)**	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
2	**Working Capital**	Long term	40.00	--	**[ICRA]BBB (Stable)**	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
3	**Working Capital**	Short term	10.00		**[ICRA]A3+**	[ICRA]A3+	-	[ICRA]A3+
4	**Interchangeable**	Short term	(10.00)		**[ICRA]A3+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Term Loans	Simple
Long Term – Fund Based – Working Capital	Simple
Short Term – Non-Fund Based – Working Capital	Very Simple
Short term – Interchangeable limits	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 Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2020	NA	FY2025	13.77	[ICRA]BBB(Stable)
NA	Term Loan-II	FY2023	NA	FY2028	8.70	[ICRA]BBB(Stable)
NA	Term Loan-III	FY2024	NA	FY2032	75.00	[ICRA]BBB(Stable)
NA	Working capital	NA	NA	NA	40.00	[ICRA]BBB(Stable)
NA	Non fund based	NA	NA	NA	10.00	[ICRA]A3+
NA	Interchangeable	NA	NA	NA	(10.00)	[ICRA]A3+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis: Not applicable

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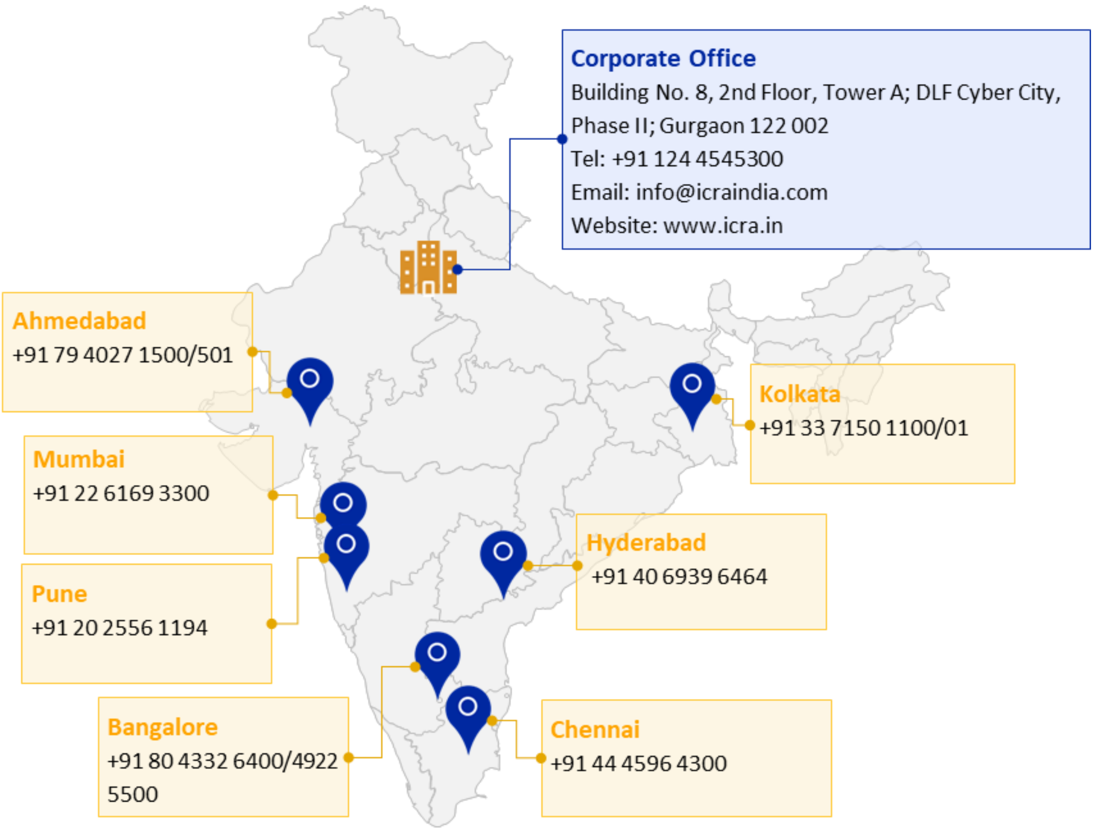

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