

July 15, 2024

SKH M India Private Limited: [ICRA]BBB+(Stable)/[ICRA]A2 assigned;

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	325.00	[ICRA]BBB+(Stable); assigned
Long-term/ Short-term – Fund-based working capital	175.00	[ICRA]BBB+(Stable)/[ICRA]A2; assigned
Total	500.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned ratings factor in the healthy market position of SKH M India Private Limited (SKH M) as a supplier of sheet metal components to leading passenger vehicle (PV) original equipment manufacturers (OEMs), which provides healthy earning visibility for the company. SKH M has acquired the chassis and body parts manufacturing segment (Cosma) of Magna Automotive India Private Limited (Magna) w.e.f. July 1, 2024, and is a subsidiary of SKH Sheet Metals Components Private Limited (SKH SMC), the flagship company of the SKH Group (metals arm of the Krishna Group, which is headed by Krishna Maruti Limited, rated [ICRA]AA(Stable)/[ICRA]A1+). Even as the SKH Group has acquired an 85% stake in the Cosma division, Magna continues to hold a 15% stake; accordingly, SKH M would continue to have access to technological support from Magna’s engineering centre, which would aid its product development capabilities, and provides comfort. The ratings also favourably factor in the established presence of the SKH Group, aided by the experience of its promoters and management in the auto components industry. SKH M is likely to benefit from some synergies as a part of the SKH Group, which should support its earnings over the medium term.

The Cosma division has a healthy scale of operations (~Rs. 1,800 crore for FY2024), which has grown exponentially in the past three years with substantial business additions from several major automobile manufacturers in the Indian market. The segment serves multiple major OEMs like Tata Motors Limited (TML), Mahindra & Mahindra Limited (M&M), Hyundai Motors India Limited (HMIL), Kia Motors India (Kia) and Skoda Volkswagen (S-VW). Although the revenues are mainly generated (~75-80%) by TML and M&M, the company enjoys a healthy share of business in supplies of various sheet metal parts (chassis and BIW parts), which mitigates the risk to an extent.

The SKH Group (SKH SMC and its group firm, SKH Strategic Management Services LLP, or SKH LLP) has acquired 85% stake in SKH M at an estimated consideration of Rs. 648 crore, which was paid to Magna on July 1, 2024. Magna continues to hold a 15% stake in the form of optionally convertible redeemable debentures (OCRD) for a minimum of three years. Events related to Magna’s eventual decision (three years down the line) to take an exit from the entity and the funding mix for any such transaction would remain monitorable. Despite the same, ICRA takes comfort from the strong credit profile of the Krishna Group, which is expected to lend healthy financial flexibility to SKH M.

The ratings are, however, constrained by the leveraged capital structure, characterised by external debt of about Rs. 500 crore and a loan of about Rs. 170 crore from SKH LLP (in the form of OCRD; subordinated to bank debt). The company would have substantial repayment obligations from FY2026, after completion of the moratorium period of one year. Even as the OCRDs extended by the parent entity entail an interest coupon of 10%, ICRA takes comfort from the stated management guidance of interest being accrued for the first three years, and flexibility to pay the interest thereon, based on the company’s cash flows. The company is expected to maintain a steady operating margin of 9-10%, which should help it maintain moderate debt coverage indicators (DSCR likely to range at 1.4-1.7 times over the medium term).

The Stable outlook on the long-term rating reflects ICRA's opinion that SKH M will benefit from synergies as a part of the Krishna Group and its access to Magna's technological capabilities, helping it maintain a healthy share of business with its key customers and generate healthy accruals.

Key rating drivers and their description

Credit strengths

Strong position as a supplier of sheet metal components to leading PV OEMs – SKH M is a supplier of chassis parts and other body-in-white (BIW) parts to various major automobile OEMs like M&M, TML, HMIL, Kia, and others. Over the years, the Cosma division (now acquired by SKH M) has gained a healthy share of business (SOB) for the supply of sheet metal assemblies to these OEMs. The company is expected to continue to maintain a healthy SOB with these OEMs, going forward, which provides healthy revenue/earning visibility.

Technological support from Magna aids design and development capabilities – Magna International Inc. (parent of Magna India) is a leading BIW and chassis parts manufacturer globally. Magna India has retained a 15% stake in SKH M (through OCRDs with minimal coupon rate), who would continue to access the engineering design centre of Magna over the next 3-5 years. This would aid product development efforts and help in maintaining its SOB with existing customers.

Synergies arising from being a part of the Krishna Group – SKH M will derive various synergistic benefits (technology and raw material procurement) as part of the Krishna Group. The company would also have 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 M adapt to the changing technological requirements of its OEM clients, thus helping it maintain a healthy SOB with them, going forward.

Credit challenges

High client concentration risk, but healthy SOB and established market position of client OEMs partly mitigate the same – Despite the company's supplies to multiple OEMs, its revenues have been primarily driven by TML and M&M (~75-80%) over the past three years. Although a heavy dependence on M&M and TML results in client concentration risk, this is mitigated to an extent by a strong business share of the company's supplies for various models for M&M and TML and the improved market share of these OEMs in the PV industry.

High segment concentration on PVs – The company generates nearly all its revenues from PVs (dominated by utility vehicles, or UVs). This high dependence on the PV industry exposes the company to any demand downturn in the sector.

Modest financial risk profile characterised by leveraged capital structure – The financial risk profile of SKH M is expected to remain modest over the near term, characterised by a stretched capital structure and modest debt coverage indicators. The company has a total debt of ~Rs. 779.0 crore on its books (including OCRDs issued by SKH LLP with a coupon rate of ~10% and OCRDs held by Magna with a nominal interest rate) against the marginal net worth position. The debt coverage indicators are expected to remain modest, with the company expected to have interest cover of 2.5-3.5 times and total debt/OPBDITA of 4.0-5.0 times for the near term. ICRA, however, takes comfort that about Rs. 284 crore of the overall debt come from the promoter entities, which are subordinated to the term debt. Additionally, the interest on the OCRDs issued by the parent company is expected to be accrued for the first three years of operations. With the company expected to generate healthy profitability, the coverage indicators are likely to gradually improve.

Liquidity position: Adequate

SKH M's liquidity is expected to remain **adequate**, characterised by cash flow from operations of Rs. 80-100 crore per annum. The company does not have debt repayments in FY2025, with repayments expected to commence from July 2025. It is likely to incur a capex of Rs. 30-40 crore per annum, to be funded from internal accruals.

Rating sensitivities

Positive factors – The rating could be upgraded in case of sustained improvement in the scale of operations with a material improvement in profitability, leading to improvement in the financial risk profile. Specific credit metrics that could lead to an upgrade in the rating include a DSCR of more than 1.8 times on a sustained basis.

Negative factors – The rating could witness a downward revision in case of any adverse impact on the earnings of the company leading to material deterioration in debt protection metrics. Further, higher working capital requirements leading to an adverse impact on the liquidity position of the company could also trigger a downward rating revision. A weakness in the credit profile of the parent entity, SKH SMC, or any material weakening of the linkages with SKH SMC could also trigger a rating review.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto components
Parent/Group support	The assigned rating factors in the very high likelihood of its parent entity, SKH SMC (rated [ICRA]BBB+(Stable)/[ICRA]A2)), extending financial support to it because of the close business linkages between them. ICRA also expects SKH SMC to be willing to extend financial support to SKH M out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

SKH M was incorporated in FY2024 as a subsidiary of SKH SMC, for housing the stamping business of Magna India. The stamping business of Magna was acquired by the SKH Group (the metals division of the Krishna Group headed by Mr. Ashok Kapur and Mr. Sunandan Kapur) for 85% stake at a consideration of ~Rs. 648.0 crore. The transaction was concluded on July 01, 2024.

The company manufactures and supplies chassis parts and BIW parts for various automobile manufacturers in the domestic market. Its plants are in Pune, Chennai, and Sanand with an overall capacity of about 25 lakh strokes per annum. While the Krishna Group of companies predominantly supplies to Maruti Suzuki India Limited (MSIL), SKH M will be catering to other major OEMs like TML, M&M, HMIL, Kia, and other players, which will help diversify the presence of the group on an overall basis.

Key financial indicators: Not applicable since the operations have barely started from FY2025.

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Jul 15, 2024	-	-	-
1 Term loans	Long term	325.00	[ICRA]BBB+(Stable)	-	-	-
2 Working capital term loan	Long term and short term	175.00	[ICRA]BBB+(Stable) / [ICRA]A2	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term/ Short -term – Fund-based working capital	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 Loans	FY2024	NA	FY2031	325.00	[ICRA]BBB+(Stable)
NA	Working capital term loan	FY2024	NA	FY2025*	175.00	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company; To be converted into working capital facilities after a period of six months

[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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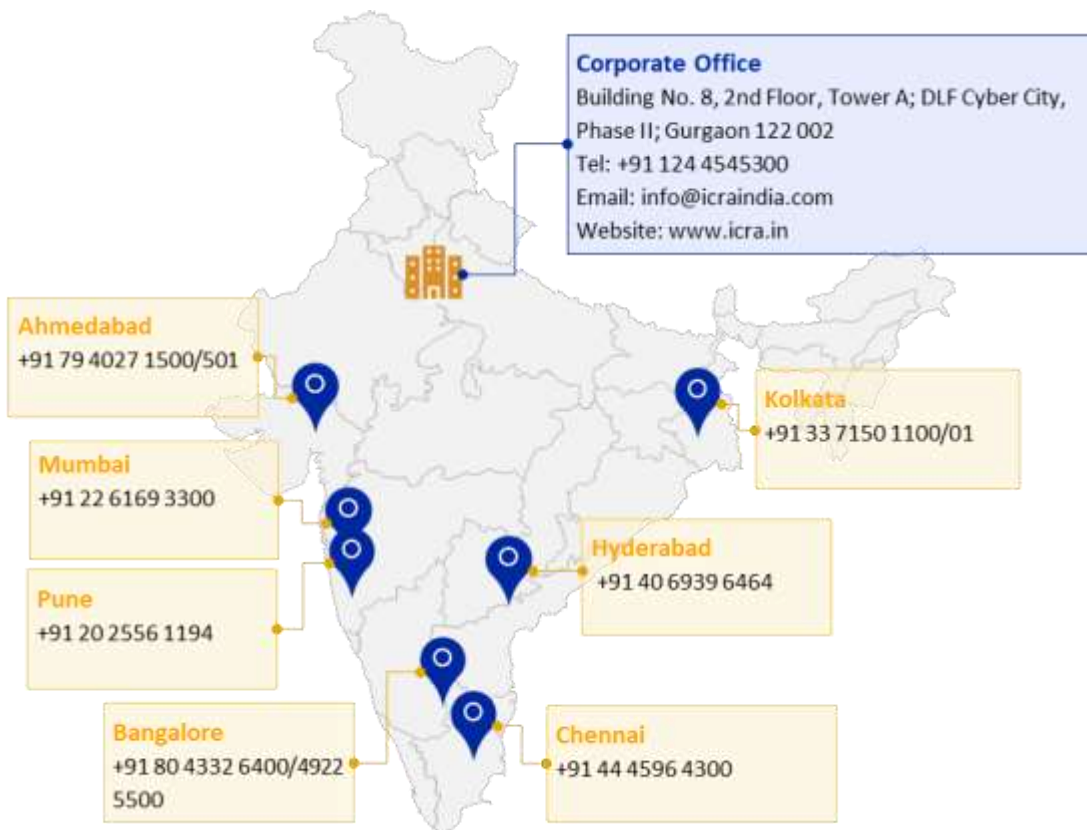
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