August 27, 2024

SKS Fasteners Limited: Ratings upgraded to [ICRA]A-(Stable)/[ICRA]A2+; outlook on long-term rating revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	20.50	21.96	Upgraded to [ICRA]A- from [ICRA]BBB+; Outlook revised to Stable from Positive
Long-term Fund-based – Term loan	10.90	9.44	Upgraded to [ICRA]A- from [ICRA]BBB+; Outlook revised to Stable from Positive
Short-term Non-fund based – Letter of credit	24.50	24.50	Upgraded to [ICRA]A2+ from [ICRA]A2
Total	**55.90**	**55.90**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade of the ratings of SKS Fasteners Limited (SKS) reflects a sustained improvement in revenues and margins over the past years. In addition, ICRA expects the company's growth to remain healthy in FY2025, supported by strong demand from its existing customers as well as acquisition of new customers. The company has been reporting a healthy YoY growth of 38% and 21% in its revenues during FY2023 and FY2024 (Provisional), respectively, while maintaining a healthy profitability profile. This trend is expected to sustain going forward as well, given the stable demand environment as reflected in Q1 FY2025 revenue growth which was ~10% on YoY basis.

The ratings continue to factor in SKS' established position as a key supplier of fasteners in the domestic automotive sectors, and its promoter's extensive experience in the business. The ratings continue to take comfort from SKS' reputed customer base, which includes major original equipment manufacturers (OEMs) from the medium and heavy commercial vehicle (M&HCV) segment and its healthy capitalisation and coverage metrics.

The ratings, however, remain constrained by the intense competition faced by the company on account of the highly fragmented nature of the industry, which limits its pricing flexibility. SKS also remains exposed to the inherent cyclicality in the commercial vehicle (CV) segment, given its high share of revenue from the sector (~70% in FY2024) and exposure to raw material price fluctuation risk. However, the latter is mitigated to some extent by the price reimbursement agreements in place with its customers. SKS' profitability also remains exposed to foreign exchange (forex) rate volatility in the absence of a defined hedging mechanism amid its growing revenue share from exports, which stood at ~18% in FY2024.

The Stable outlook for the long-term rating considers long relationships with the customers, and an improving product profile, which will help the company maintain its financial and business position.

Key rating drivers and their description

Credit strengths

Established track record of over 20 years of the promoters in the auto ancillary business – SKS was established in 1996 and is promoted by Mr. Sushil Kumar Bindal, who is also the Managing Director of the company. The company is also managed by Mr. Sudhanshu Bindal, who has been with the company for over 10 years.

Diversified customer base with presence across automobile segments – The company has a diversified presence across multiple automotive segments like two-wheelers (2Ws), passenger vehicles (PVs) and CVs, construction equipment vehicles and electrical goods suppliers, with the largest segment (CV) generating approximately 60-70% of its revenues in FY2024. SKS has a long association with established players in the industry, such as Mahindra & Mahindra Limited, Tata Motors Limited and Ashok Leyland Limited, which drive a substantial share of its revenues. SKS has also been present near the key automotive hubs of its clients across the country. In the non-automotive segment, SKS caters to customers, which manufacture transformers, switchboards and gear boxes for the power transmission industry. The company is gradually scaling up exports to further diversify its customer profile (exports revenue rose 31% on a YoY basis to Rs. 66 crore in FY2024).

Healthy margin profile and comfortable capital structure and debt protection metrics – SKS' operating margins improved in FY2024 (provisional) to 16.3% against 14.9% in FY2023 due to healthy demand and thus increased volumes, which in turn improved operating economics. SKS' capital structure also remains comfortable with a gearing of 0.5 times as on March 31, 2024, Total debt/OPBITDA of 1.0 times and an interest coverage ratio of 7.0 times in FY2024 (as per provisional financials). Despite some funding requirements for planned capex over the near term, SKS is expected to continue to report healthy credit metrics, supported by its stable performance.

Credit challenges

Intense competition from organised and unorganised players in the industry limits pricing flexibility – SKS faces competition from organised as well as unorganised players in the domestic fastener industry, thereby limiting its pricing power. The same is partially mitigated by manufacturing customised fasteners, which require rigorous specifications and precision machinery, that help SKS in getting repeat orders from the customers and act as an entry barrier for new entrants.

Exposed to raw material price fluctuation risk – Raw material costs constitute 50-55% of the company's operating costs, with steel being the key raw material. The prices of steel move in tandem with the commodity cycle and, hence, are subject to fluctuations. While SKS has price reimbursement agreements with its key customers, which enable it to pass on price fluctuations to its end customers to a large extent, its ability to negotiate prices with large customers to protect its margins in the future, will remain a key monitorable.

Exposed to inherent cyclicality in the automobile industry – SKS generates more than 65% of its revenues from the automotive segment, which exposes its revenues to the inherent cyclicality in the industry. Given such dependence, the company posted a sharp decline in revenues in FY2020 and a modest growth in FY2021, amid the slowdown in the sector. However, with strong demand from the industry, the company reported a healthy revenue growth of 21% in FY2024 (provisional).

Profitability exposed to forex volatility in absence of defined hedging policy – The company's share of export sales increased to more than 15% in FY2024 from 1% in FY2019. This exposes SKS' profitability to adverse movement in forex rates, given its rising dependence on exports. However, the company hedges the same using forward contracts, which mitigates the risk to some extent.

Liquidity position: Adequate

SKS' liquidity is adequate, owing to healthy cash accruals of more than Rs. 30 crore, which are sufficient to cover its debt repayment obligations of Rs. 4.0-6.0 crore annually in the near-to-medium term. The company also maintains a buffer from unutilised working capital limits (~Rs. 15 crore as on March 31, 2024) and has unencumbered cash and investment balance of ~Rs. 29 crore (as on March 31, 2024), which further supports its liquidity position. Though capex is planned in FY2025, it is expected to be funded 50% through internal accruals. The liquidity profile is expected to remain comfortable over the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if SKS' scale and net worth improves significantly while maintaining profitability and current healthy liquidity on a sustained basis.

Negative factors – Sharp decline in operating profitability, pressurising the liquidity position of the company, or a weakening in debt coverage indicators, will exert downgrade pressure. Interest cover below 4.0 times on a sustained basis could also exert downgrade pressure.

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

SKS Fasteners Limited was established in 1996 to manufacture high tensile fasteners for the automotive sector. The company manufactures various fasteners like screws, bolts, nuts and socket heads. It caters to the automotive segment as well as construction equipment manufacturers. It is also a distributor for Durasok Socket Heads, a brand of Shanghai Autocraft Company Limited, China. SKS has a manufacturing facility at Chakan, Pune.

Key financial indicators

	FY2023	FY2024 (Provisional)
Operating income	306.4	369.8
PAT	23.6	31.5
OPBDIT/OI	14.9%	16.3%
PAT/OI	7.7%	8.5%
Total outside liabilities/Tangible net worth (times)	1.3	1.1
Total debt/OPBDIT (times)	1.0	1.0
Interest coverage (times)	7.2	7.0

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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Aug 27, 2024	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	21.96	[ICRA]A- (Stable)	26-Jun-23	[ICRA]BBB+ (Positive)	04-Apr-22	[ICRA]BBB+ (Stable)	23-Aug-21	[ICRA]BBB (Stable)
Term Loan	Long Term	9.44	[ICRA]A- (Stable)	26-Jun-23	[ICRA]BBB+ (Positive)	04-Apr-22	[ICRA]BBB+ (Stable)	23-Aug-21	[ICRA]BBB (Stable)
Non-fund based	Short Term	24.50	[ICRA]A2+	26-Jun-23	[ICRA]A2	04-Apr-22	[ICRA]A2	23-Aug-21	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Term Loan	Simple
Short -term – Non-Fund-based Letter of credit	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	**Cash Credit**	NA	NA	NA	21.96	[ICRA]A- (Stable)
NA	**Term Loan**	FY2016	NA	FY2029	9.44	[ICRA]A- (Stable)
NA	**Non-fund based**	NA	NA	NA	24.50	[ICRA]A2+

Source: Company

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
Kinjal.shah@icraindia.com

Sahil Jogesh Udani
+91 22 6114 3469
sahil.udani@icraindia.com

Trisha Agarwal
+91 22 6114 3457
trisha.agarwal@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