February 14, 2022

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 Loan	85.50	71.25	[ICRA]BBB (Stable); Reaffirmed
Long-term – Fund Based Working Capital	20.00	20.00	[ICRA]BBB (Stable); Reaffirmed
Short -term – Non-fund Based Working Capital	20.00	20.00	[ICRA]A3+; Reaffirmed
Total	**125.50**	**111.25**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings takes into account the continued steady operating performance of SKH Y-Tec India Private Limited (SKH Ytec), benefitting from its established business relationship with Suzuki Motor Gujarat Private Limited (SMG, SKH Ytec's key customer). SKH Ytec 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 SMG, which has a contract manufacturing agreement for supplying vehicles to Maruti Suzuki India Limited (MSIL), the market leader in the domestic Passenger Vehicle (PV) industry. The equity participation of Y-Tec Corporation has resulted in SKH Ytec receiving technological support from the former. This support underpins SKH Ytec's abilities to adapt to SMG's changing technological requirements, thus allowing the company to maintain a healthy share of business in sheet metal supplies to the original equipment manufacturer (OEM). Additionally, SYIPL has benefitted from some of its peers not setting up manufacturing units in Gujarat, thereby leading to higher content per vehicle and share of business compared to that previously enjoyed by the Krishna Group for sheet metal supplies to MSIL's Manesar (Haryana) plant.

The company's revenues have been ramping up in line with the shift of MSIL models' production base to SMG. With SMG's third manufacturing line becoming operational in Q1 FY2022, the production of another model of MSIL has been shifted to Gujarat, and SKH Ytec is witnessing a significant ramp up in its scale of operations, leading to improved cash flows. While the company's revenues and coverage metrics witnessed a decline in FY2021, due to Covid-19 induced disruptions, the performance has improved in FY2022. Cash and liquid investments of Rs. 22.3 crore and working capital buffer of Rs. 10 crore as on December 31, 2021, provides adequate liquidity buffer and provides comfort.

The rating, however, remains constrained by the high client concentration risk, with revenues generated from a single customer, SMG. The company also faces the risk of segment concentration with the PV segment being its only end-user sector. Even as the demand for the PV industry has remained healthy, the volumes in the industry have been constrained by the semiconductor chip shortage crisis; the shortage is likely to continue to constrain the growth prospects of the industry over the short term. ICRA notes that the client concentration risk for SKH Y-Tec is however mitigated to an extent by MSIL's market leadership in the PV segment as well as SKH Ytec's position as the leading supplier of high value sheet metal components to SMG.

The Stable outlook on the long-term rating reflects ICRA's view that SKH Ytec is likely to maintain healthy credit profile, benefitting from its healthy share of business with SMG. Moreover, MSIL's focus on Gujarat for incremental volumes is expected to support its financial profile over the medium-term.

Key rating drivers and their description

Credit strengths

Strong position as leading supplier of sheet metal components to SMG – SKH Ytec is a leading supplier of sheet metal assemblies to SMG, which has a contract manufacturing agreement with MSIL, the market leader in the domestic PV industry. The company is the sole supplier of select body-in-white (BIW) sheet metal components, such as suspension frames, control arms, etc, for SMG's production requirements. It has gained business for supplying high tensile steel-based sheet metal assemblies to SMG and has benefitted from some of its peers not setting up their manufacturing units in Gujarat, thereby leading to higher content per vehicle and share of business.

Technological support from JV partner aids design and development capabilities – SKH Ytec enjoys technological support from its JV partner, Y-Tec Corporation, a leading Japanese supplier of high-tensile chassis, body, function, transmission and engine components, etc, 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 recent models. The technological support from Y-Tec Corporation is likely to help SKH Ytec adapt to SMG's changing technological requirements, thus helping it maintain a healthy share of business in the sheet metal supplies to the OEM.

Incremental production through SMG to lead to healthy medium term revenue growth – SMG's third manufacturing line, with an annual capacity to produce 2,50,000 vehicles, became operational in Q1 FY2022, following which another MSIL model's production was shifted to Gujarat. SKH Ytec has secured business for supplying certain components for this model, which has led to significant ramp up in the company's revenues in FY2022. Over the medium term, any incremental demand for MSIL's vehicles is likely to be met mainly through the vehicles manufactured in Gujarat. With SKH Ytec being a leading supplier of sheet metal assemblies for SMG's requirements, its revenue growth prospects remain healthy.

Credit challenges

High client concentration risk; however, MSIL's market leadership partly mitigates same – SKH Ytec's business is mainly derived from a single customer, SMG. Thus, the company's performance and prospects are closely linked to that of SMG, and in turn, MSIL. Although high reliance on MSIL results in high client concentration risk, the same is mitigated to a large extent by MSIL's market leadership in the PV segment and SKH Ytec's strong share of business with SMG. ICRA expects SKH Ytec's concentration on MSIL to remain high over the medium term, in the absence of any customer diversification plans. Its growth prospects will also remain linked to that of SMG.

High segment concentration on PVs – Catering solely to MSIL's models, SKH Ytec's revenue is dependent on the domestic PV volumes, which exposes the company to the risk of PV volume contraction. Further, at present, its supplies are limited to only four models, thereby exposing the company to model-specific risk. While the supplies for a new model is likely to start in FY2023, ICRA expects the model as well as the segment concentration risks to remain high over the medium term.

Liquidity position: Adequate

SKH Ytec's liquidity is adequate with cash and liquid investments of Rs. 22.3 crore and working capital buffer of Rs. 10 crore as on December 31, 2021. The company is expected to incur capex of ~Rs. 70 crore in FY2022 and FY2023 and has long-term debt repayment obligations of Rs. 32.1 crore in FY2022 and Rs. 37.8 crore in FY2023. Going forward, SKH Ytec is expected to meet its capex requirements over the near-term from internal accruals and external debt, as and when required. The company is also expecting SGST reimbursements from the State Government of Gujarat under its incentive scheme, which when received, will support the company's liquidity position.

Rating sensitivities

Positive factors – A ramp-up in revenues while maintaining profitability indicators, resulting in improved cash flows and a consequent improvement in the financial risk profile, could lead to a positive rating action. Moreover, receipt of Government incentives leading to a material improvement in financial profile could also result in a positive rating action. Specific metrics such as RoCE above 15% and Net Debt/OPBDITA below 2.5 times, on a sustained basis, may trigger a rating upgrade.

Negative factors – A sizeable debt-funded capex not accompanied by ramp-up in revenue leading to a deterioration in the financial risk profile would remain a key monitorable. Material outflow of funds through dividend/loans and advances to Group companies, which has a material impact on the credit profile, may also lead to a negative rating action. Specific metrics such as RoCE below 13% and Net Debt/OPBDITA above 3.0 times, on a sustained basis, may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SKH Ytec.

About the company

Incorporated in 2016, SKH Ytec is a JV between SKH Sheet Metal Components Pvt. Ltd. (51%, a holding company for the metal division of the Krishna Group, which is 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 Suzuki Motor Gujarat Private Limited from its plants in Hansalpur (Gujarat).

Key financial indicators (audited)

	FY2020	FY2021	H1 FY2022 (Prov.)
Operating Income (Rs. crore)	412.3	369.1	233.1
PAT (Rs. crore)	15.4	10.8	7.4
OPBDIT/OI (%)	12.8%	10.5%	10.0%
PAT/OI (%)	3.7%	2.9%	3.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.7	NA
Total Debt/OPBDIT (times)	3.0	3.3	NA
Interest Coverage (times)	3.9	5.0	5.1

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 (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020*	Date & Rating in FY2019*
					Feb 14, 2022	Jan 29, 2021	Jul 15, 2019	--
1	Term Loans	Long-term	71.25	71.25	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	--
2	Fund Based	Long-term	20.00	--	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	--
3	Non-Fund based	Short-term	20.00	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	--

**= Update on reason for delay in periodic surveillance PR released on Oct 27, 2020 and Jun 28, 2019*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term – Fund Based Working Capital	Simple
Short -term – Non-fund Based Working Capital	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan-I	Apr 2019	7.05%	Oct 2024	71.25	[ICRA]BBB (Stable)
NA	Fund Based	NA	NA	NA	20.00	[ICRA]BBB (Stable)
NA	Non-fund Based	NA	NA	NA	20.00	[ICRA]A3+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis- Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
srikumar.k@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Shivam Nagpal
+91 80 4332 6418
hivam.nagpal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

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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

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