

April 04, 2022

## SKS Fasteners Limited: Ratings Upgraded; Outlook Stable

### 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	20.50	[ICRA]BBB+ (Stable) upgraded from [ICRA]BBB (Stable)
Long-term, Fund-based – Term Loan	10.90	10.90	[ICRA]BBB+ (Stable) upgraded from [ICRA]BBB (Stable)
Short Term, Non-fund Based Facilities	24.50	24.50	[ICRA]A2 upgraded from [ICRA]A3+
<b>Total</b>	<b>55.90</b>	<b>55.90</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings upgrade reflects the significant growth in the operating income and profitability of SKS Fasteners Limited (SKS) driven by a high share of exports in operating income, acquisition of new customers along with favourable rate negotiations with existing customers. SKS is expected to register revenue growth of ~60% in FY2022 over FY2021. The ratings continue to take comfort from the established track record of the promoters for over two decades in the auto-ancillary industry, its 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 from the highly fragmented nature of the industry, which limits the pricing flexibility of industry players. SKS also remains exposed to the inherent cyclicality in the M&HCV segment, given its high share of revenue from the sector and exposure to raw material price fluctuation risk. However, the latter is mitigated to some extent by the price reimbursement agreement with its customers. SKS' profitability also remains exposed to foreign exchange (forex) volatility in the absence of a defined hedging mechanism amid a growing exports revenue share, which stood at 20% as of 9M FY2022.

### 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 and Ms. Meenal Bindal, who have been with the company for over 10 years.

**Diversified and established customer base with presence across automobile segments** – The company has a diversified presence across multiple automotive segments like two-wheelers (2Ws), passenger and commercial vehicles (PVs and CVs), construction equipment vehicles and electrical goods suppliers. SKS has a long association with established players in the industry and has been present near the key automotive hubs of its clients (to enable faster servicing) across northern, western and southern India. In the non-automotive segment, SKS caters to customers who manufacture transformers, switchboards and gear boxes for the power transmission industry. SKS also has established relationships with major OEMs like Mahindra & Mahindra Limited, Tata Motors Limited and Ashok Leyland Limited, who drive a substantial share of its revenues. The company is gradually scaling up exports to further diversify its customer profile.

**Improvement in financial profile due to higher share of exports and product diversification towards higher margin product portfolio** – The revenues and OPM was higher in FY2021 and 9M FY2022 due to higher sales of specialised fasteners in the product mix, which commands higher margins, increase in share of exports from 6% in FY2020 to ~21% in 9M FY2022, acquisition of new customers and favourable rate negotiations with existing customers. The revenues in 9M FY2022 have already surpassed FY2021 levels and is expected to report growth of ~60% YoY in FY2022. In terms of coverage metrics too, the same remained comfortable, with interest coverage of 5.26x as of FY2021 and 7.38x times as of H1 FY2022 and TD/EBIDTA at 1.21x in FY2021 against 0.81x times as of H1 FY2022.

## Credit challenges

**Intense competition from organised and unorganised players in the industry limits pricing flexibility** – SKS faces competition from well-established as well as unorganised players, thereby limiting its pricing power. The same is partially mitigated by manufacturing customised fasteners, which require rigorous specifications and precision machinery, making it a capital-intensive business that acts as an entry barrier.

**Exposed to raw material price fluctuation risk, which is mitigated to some extent by price reimbursement agreement with customers** – The total raw material cost constitutes ~45% of operating income for the company. The prices of steel, which is the key raw material, move in tandem with the commodity cycle and, hence, are subject to fluctuations. SKS has price reimbursement agreements with its key customers, which enables it to pass on price fluctuations to its end-customers. Though the company has achieved favourable rate negotiations in the past, its ability to manage such negotiations to protect margins in future will remain a key monitorable.

**Exposed to inherent cyclicity in the automobile industry** – SKS generates more than 60% of its revenues from the automobile segment. As a result, its operations are exposed to the inherent cyclicity in the automobile industry. Given such dependence, the company posted sharp decline in revenues in FY2020 and modest growth in FY2021, amid the slowdown in the auto sector.

**Profitability exposed to forex volatility in absence of defined hedging policy** – The company's share of export sales has increased from 1% in FY2019 to ~21% in 9M FY2022. There is no formal hedging policy in place, which exposes SKS' profitability to adverse movement in forex rates, given its rising focus on exports, going forward.

## Liquidity position: Adequate

SKS' liquidity is **adequate** owing to healthy cash accruals, which are sufficient to cover its debt repayment obligations in the near to medium term. The company's fund flow from operations have remained positive over the last five years. Though the company's fund-based and non-fund based utilisation has remained on a higher side at ~86% over the seven-month period ending February 2022, given the rise in sales, it has unencumbered cash and investment balance of ~Rs. 7 crore (as on December 31, 2021), which supports its liquidity position.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if SKS' scale continues to improve while maintaining profitability and improvement in 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 3.5 times on a sustained basis could also exert downgrade pressure.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Manufacturers</a>
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 a variety of fasteners, such as screws, bolts, nuts and socket heads. It currently caters to the automotive segment and construction equipment manufacturers in the non-automotive segment. SKS has a manufacturing facility in Chakan, Pune (Maharashtra) with an installed production capacity of 33,976 MTPA.

## Key financial indicators (audited)

SKS	FY2020 Audited	FY2021 Audited
Operating Income (Rs. crore)	131.29	139.91
PAT (Rs. crore)	0.34	9.55
OPBDIT/OI (%)	10.50%	17.63%
PAT/OI (%)	0.26%	6.83%
Total Outside Liabilities/Tangible Net Worth (times)	1.72	1.76
Total Debt/OPBDIT (times)	2.64	1.21
Interest Coverage (times)	2.50	5.26

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 (FY2022)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sept 30, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				04-Apr-2022	23-Aug-21	07-Apr-20	-	22-Jan-19	
1	Cash Credit	Long-term	20.5	--	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)
2	Term Loan	Long-term	10.9	8.96	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)
3	Non-fund based	Short-term	24.5	--	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	-	[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, is available on ICRA's website: [www.icra.in](http://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	Cash Credit	NA	NA	NA	20.50	[ICRA]BBB+ (Stable)
NA	Term Loan	FY2016	NA	FY2025	10.90	[ICRA]BBB+ (Stable)
NA	Non-fund based	NA	NA	NA	24.50	[ICRA]A2

*Source: Sanction letter and company data*

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

## ANALYST CONTACTS

**Shamsher Dewan**  
+91 124 4545328  
[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Kinjal Shah**  
+91 22 6114 3442  
[Kinjal.shah@icraindia.com](mailto:Kinjal.shah@icraindia.com)

**Suprio Banerjee**  
+91 22 6114 3443  
[supriob@icraindia.com](mailto:supriob@icraindia.com)

**Trisha Agarwal**  
+91 22 6114 3457  
[trisha.agarwal@icraindia.com](mailto:trisha.agarwal@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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