

SKS Fasteners Limited Revised

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based – Term Loan	12.88	[ICRA]BBB- (Stable); Assigned
Long-term: Fund-based – Cash Credit	10.50	[ICRA]BBB- (Stable); Assigned
Short-term: Non-fund based – Letter of Credit	14.50	[ICRA]A3; Assigned
Short-term: Non-fund based	0.75	[ICRA]A3; Assigned
Total	38.63	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 12.88-crore¹ term loan facility and Rs. 10.50-crore cash credit facilities of SKS Fasteners Limited ('SKS' or 'the company')². ICRA has also assigned a short-term rating of [ICRA]A3 (pronounced ICRA A three) for the Rs. 15.25-crore non-fund based limits of SKS. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings take into account the healthy financial profile of the company as characterised by consistent growth in operating revenues coupled with reasonable profitability margins, its comfortable capital structure and debt coverage indicators. The ratings further derive comfort from the established track record of the promoters spanning over two decades in the auto-ancillary industry, reputed customer base which includes major original equipment manufacturers (OEMs) like Mahindra & Mahindra, Tata Motors Limited and Ashok Leyland. The diversified presence of the company across multiple automobile segments like two-wheelers, passenger, commercial vehicles and construction equipment vehicles provide support to its credit profile.

The ratings, however, are constrained by its high customer concentration with the top-five customers constituting about ~80% of the company's total sales in FY2017, its stretched liquidity position as reflected by almost full utilisation of working capital limits and intense competition from well established players in the industry. The ratings are further constrained by the exposure of the company's profitability to adverse fluctuations in prices of key raw material and foreign exchange. The risk is, however, mitigated to some extent due to retrospective price reimbursement agreement with some of its customers.

Going forward, successful commissioning of the new plant, thereby leading to an improvement in the scale of operations while maintaining its profitability at the current levels, and efficient management of its working capital will remain the key rating sensitivities and shall be monitored.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Established track record of promoters spanning over two decades in the auto-ancillary business** - SKS Fasteners Limited was established in the year 1996 by Mr. Sushil Bindal who is the Managing Director of the company. He was instrumental in setting up of Jay Bharat Maruti Limited, a diversified company having business interests across textiles, chemicals, engineering, and sheet metal component businesses. Mr. S. K. Bindal has also been conferred with awards like “Udyog Rattan” in 1988 by Institute of Economic Studies, India and “Vikas Ratna” in 1993 by All-India Business Development Association.
- **Established and reputed customer base comprising major OEMs; diversified presence across multiple automotive segments** - The company has established relationships with its key customers which are reputed OEMs like Mahindra & Mahindra, Tata Motors Limited and Ashok Leyland. SKS has been in business with these customers for more than a decade. It is also able to garner substantial repeat orders from these customers. The company has diversified presence across multiple automotive segments like two-wheelers, passenger, commercial vehicles, construction equipment vehicles and electrical goods suppliers like LG and Siemens, amongst others.
- **Healthy financial profile** - The company’s operating revenues have grown at a CAGR of ~11.7% over the period FY2014-FY2017. The revenues demonstrated a healthy YoY growth of ~20% to Rs. 114.0 crore in FY2017 over Rs. 94.4 crore in FY2016 supported by strong demand prospects. The operating margins have been stable in the range of 11-13% over the last three years. The capital structure of SKS is comfortable with a gearing of 1.09 times as on March 31, 2017 and 0.8 times as on September 30, 2017 (provisional); while the debt coverage indicators are robust as reflected by the interest cover of 4.08 times in FY2017 (PY – 3.89) and NCA / Debt of 39% as on March 31, 2017 (PY – 34%).

Credit Challenges

- **Stretched liquidity as reflected by almost full utilisation of working capital limits** - The company’s liquidity remains stretched as reflected by full utilisation of fund-based and non-fund based limits over the period from September, 2016 to September, 2017. ICRA expects the revenue growth to remain contingent on timely enhancement of its working capital limits, going forward.
- **High customer concentration risk** - The top-five customers constituted ~80% of the company’s total sales in FY2017, reflecting a high customer concentration risk. SKS plans to diversify its customer base with addition of new clients like Wurth Industrie Service GmbH & Co. KG.
- **Vulnerability of profitability to adverse fluctuations in prices of key raw material and foreign exchange** - The total raw material cost constitutes ~50% of the total output 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. Although SKS has price variation clauses in some of its contracts, the ability of the company to pass on any price increase to its customers remains limited, given the high bargaining power of its customers, thus exposing it to adverse variations in raw material prices. Further, with no formal hedging policy in place, the profitability remains exposed to adverse fluctuations in foreign currency.
- **Intense competition from well established players in the industry** - SKS faces competition from well established players like Sundaram Fasteners Limited and Sterling Tools Limited, thereby limiting its pricing power. Due to small size and rigorous specifications of the fasteners, a large number of machines are required in the manufacturing process. High capital intensive nature of the business makes it a high margin and competitive industry.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto Component Manufacturers](#)

About the company:

Established in 1996, SKS Fasteners Limited manufactures high tensile fasteners, catering mainly to the automotive sector. The company manufactures a variety of fasteners like screws, bolts, nuts and socket heads. At present, SKS caters to the automotive segment and construction equipment manufacturers in the non-automotive segment. It is also a distributor for Durasok socket heads, a brand of China-based Shanghai Autocraft Company Limited. SKS has a manufacturing facility at Chakan in Pune (Maharashtra) with an installed capacity of 13,000 MTPA.

Key financial indicators (Audited)

	FY2015	FY2016	FY2017
Operating Income (Rs. crore)	77.6	94.4	114.0
PAT (Rs. crore)	1.64	3.86	5.98
OPBDIT/ OI (%)	11.25%	11.91%	13.85%
RoCE (%)	13.80%	25.15%	31.08%
Total Debt/ TNW (times)	1.42	1.23	1.09
Total Debt/ OPBDIT (times)	2.05	1.79	1.52
Interest Coverage (times)	3.72	3.89	4.08
NWC/ OI (%)	16.22%	14.79%	11.51%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				December 2017	-	-	-
1	Term Loan	Long Term	12.88	[ICRA]BBB-(Stable)	-	-	-
2	Cash Credit	Long Term	10.50	[ICRA]BBB-(Stable)	-	-	-
3	Letter of Credit	Short Term	14.50	[ICRA]A3	-	-	-
4	Non-fund Based	Short Term	0.75	[ICRA]A3	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No.	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Term Loan	FY2017	-	FY2022	12.88	[ICRA]BBB- (Stable)
	Cash Credit	-	-	-	10.50	[ICRA]BBB- (Stable)
	Letter of Credit	-	-	-	14.50	[ICRA]A3
	Non-fund Based	-	-	-	0.75	[ICRA]A3

Source: SKS

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