

SKH Y-Tec India Private Limited

March 28, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	95.0	[ICRA]BBB- (Stable); Assigned
Unallocated Limits	5.0	[ICRA]BBB- (Stable); Assigned
Total	100.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 100.0-crore¹ bank facilities of SKH Y-Tec India Private Limited (SYIPL). The outlook on the long-term rating is Stable².

Rationale

The assigned rating factors in the sole supplier status enjoyed by SYIPL for supplying various sheet metal assemblies to the Suzuki Motor Gujarat Private Limited (SMG) plant³, which has a contract manufacturing agreement for supplying vehicles to Maruti Suzuki India Limited (MSIL), the market leader in the domestic passenger vehicle industry. With SYIPL enjoying sole supplier status for sheet metal assemblies with SMG, its revenues are expected to remain primarily linked to the production performance of the latter. The Phase I of SMG's manufacturing facility in Gujarat was commissioned in February 2017 with a capacity of 2.5 Lakh vehicles/annum. The Original Equipment Manufacturer (OEM) has already committed to increasing its production capacity in Gujarat from the current capacity of ~2.5 lakh vehicles/annum to ~7.5 lakh vehicles/annum by FY2020, with any incremental volume demand for MSIL vehicles to be handled at SMG's manufacturing facility. Consequently, the revenue growth prospects for SYIPL remain healthy with the scale expected to grow to ~Rs. 300-350 crore by FY2020, with a further ramp up linked to the scale up in production of SMG.

The rating assigned also favourably takes into account the technological support enjoyed by SYIPL from its parent company, Y-Tec Corporation, a leading Japanese supplier of high tensile chassis, body, function, transmission and engine components to various global OEMs. Benefitting from the technological support, SYIPL has been able to gain business for supplying high value and technologically superior sheet metal assemblies to SMG. The technological support from Y-Tec Corporation underpins SYIPL's abilities to adapt to changing technological requirements of SMG, thus allowing the company to maintain a healthy share of business in sheet metal assemblies with the OEM.

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

³ SMG is the 100% owned subsidiary of Suzuki Motor Corporation (Japan, SMC), which is the largest shareholder in Maruti Suzuki India Limited (shareholding of 56.21% as of December 31, 2017).

The rating is, however, constrained by a lack of track record of stable operations of the company, with the Phase I of its plant commercialised in as late as December 2017. Nevertheless, ICRA takes comfort from the long experience of its promoters, Krishna Group, a leading automotive component supplier with presence across various product segments, and Y-Tec Corporation, in the auto ancillary sector. This extensive experience of its promoters is expected to help stabilise the company's operations in a timely manner. Additionally, although SYIPL remains exposed to high client concentration risk, with revenues expected to be largely generated by a single customer, the risk is mitigated to a large extent due to the market leadership status of MSIL in the passenger vehicle segment.

The total project cost for the company's manufacturing facility is ~Rs. 265.3 crore, which has been funded through a mix of debt and equity in the ratio 1.6:1, with the manufacturing unit be completed in two phases. While Phase I became commercialised in December 2017, Phase II is expected to become commercialised in September 2018. While the company's return and debt coverage indicators are expected to remain weak till FY2019, a scale up in operations and consequent cash accruals is expected to help meet its debt repayment obligations comfortably and report moderate return and debt coverage indicators from FY2020 onwards.

Outlook: Stable

ICRA believes that SYIPL would ramp up its scale of operations over the next two years (revenues of ~Rs. 300-350 crore by FY2020), benefitting from its sole supplier status for various sheet metal assemblies to SMG and an expectation of continuation of healthy volume growth of MSIL. While the operating profitability would remain under pressure till FY2019, a scale up in operations is likely to help the company report healthy double digit operating margins by FY2020. The net profit margins of the company over the medium term are also expected to be supported by incentives available from the Gujarat government. The outlook may be revised to Positive if the ramp up in revenues is accompanied by higher than expected expansion in profitability and consequent cash accruals, thereby strengthening the company's financial risk profile. The outlook may be revised to Negative in case of a slower than expected ramp up in revenues, or if the revenue ramp up is accompanied by an elongation of working capital cycle, thereby impacting the company's financial risk profile.

Key rating drivers

Credit strengths

Technological support from parent entity aids design and development capabilities – SYIPL enjoys access to technological support from its parent company, 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 Private Limited, a Krishna Group company that supplies sheet metal assemblies to MSIL in Manesar and Gurgaon, Y-Tec Corporation has been instrumental in developing high tensile body-in-white (BIW) parts for some of MSIL's recent models. The technological support from Y-Tec is likely to help SYIPL adapt to changing technological requirements of SMG, thus helping it maintain a healthy share of business in sheet metal supplies to the OEM.

Strong business position, being the sole supplier for sheet metal assemblies of SMG – SYIPL is a leading supplier of sheet metal assemblies to SMG, which has a contract manufacturing agreement with MSIL, the market leader in the domestic passenger vehicle industry. SYIPL is the sole supplier of suspension frames, control arms and other BIW parts for SMG's production requirements, with strong content/vehicle for the vehicles manufactured by SMG. The company has been able to gain business for supplying high value and technologically superior sheet metal assemblies to SMG, which were not handled by the Krishna Group earlier. It also has a highly automated manufacturing plant, which is likely to result in healthy yields.

Incremental volume demand for MSIL likely to be met through capacity expansion in Gujarat; revenue growth opportunities thus remain healthy - MSIL has already committed to increasing its production capacity in Gujarat from the current capacity of ~2.5 lakh vehicles/annum to ~7.5 lakh vehicles/annum by FY2020. The OEM is also considering setting up further capacity in Gujarat, which would take the total capacity to 10.0 lakh vehicles/annum. Any incremental demand for MSIL vehicles is likely to be met through vehicles manufactured in Gujarat. Since SYIPL is a leading supplier of sheet metal assemblies for the OEM's requirements, the revenue growth prospects of SYIPL will remain healthy.

Credit challenges

Start-up nature of operations – SYIPL's plant was ready for commercial production in December 2017; till such time, the supplies for SMG's production were sourced from an associate company, SKH Metals Limited, at Manesar (Haryana). While the rating remains constrained by the start-up nature of operations at the company's manufacturing facility, the long experience of its promoters, the Krishna Group and Y-Tec Corporation, in the auto ancillary industry provides comfort.

High client concentration risk with operations dependent on a single customer, MSIL; market leadership status of MSIL, however, mitigates the risk to an extent – SYIPL's business is solely derived from a single customer, SMG. As SMG remains the primary contributor to SYIPL's revenues, the latter's performance and prospects are closely linked to that of MSIL. Although a heavy dependence on MSIL results in high client concentration risk, the risk is mitigated to a large extent by MSIL's market leadership in the passenger vehicle segment and SYIPL's strong share of business with SMG. ICRA expects SYIPL's concentration on MSIL to remain high over the medium term, in the absence of any customer diversification plans. The growth prospects of the company will continue to be linked to MSIL's growth prospects.

Return and debt coverage indicators to remain suppressed over the near term – The total debt on the company's books as of February 28, 2018 was ~Rs. 164 crore, consisting of term loans sanctioned by Hiroshima Bank (~Rs. 69.0 crore) and Yes Bank (~Rs. 95.0 crore). With the company expected to record a net loss/marginal net profit in FY2018, the return and debt coverage indicators are expected to remain weak over the short-term. The repayment of the term loans on SYIPL's books, however, have a total tenure of 6-7 years (moratorium of 1.5 years). A scale up in operations and consequent cash accruals is expected to help the company meet its debt servicing obligations comfortably and report moderate return and debt coverage indicators from FY2020 onwards.

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:

Incorporated in 2016, SYIPL is a joint venture (JV) between SKH Sheet Metal Components Private Ltd. (51%, a holding company for the metal division of Krishna Group, a leading automotive supplier with presence in various sectors) and Y-Tec Corporation (49%), a leading Japanese automotive supplier of high tensile parts. The company is engaged in manufacturing automotive components and assemblies for Suzuki Motor Corporation (Gujarat) from its plant in Hansalpur (Gujarat). The company commenced commercial production for the Phase I for its plant in December 2017; Phase II is expected to be ready for commercial production by September 2018.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	-	5.2
PAT (Rs. crore)	-	-1.0
OPBDIT/OI (%)	-	-26.0%
RoCE (%)	-	-14.9%
	-	-
Total Debt/TNW (times)	-	0.0
Total Debt/OPBDIT (times)	-	0.0
Interest Coverage (times)	-	-
NWC/OI (%)	-	21.2%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1	Term Loans	Long Term	95.0	95.0	March 2018 [ICRA]BBB-(stable)	-	-
2	Unallocated Limits	Long Term	5.0	-	[ICRA]BBB-(stable)	-	-

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Aug 2017	-	Sep 2024	95.0	[ICRA]BBB- (stable)
NA	Unallocated Limits	NA	NA	NA	5.0	[ICRA]BBB- (stable)

Source: SKH Y-Tec India Private Limited

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