

July 15, 2019

SKH Y-Tec India Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Term Loans	95.0	95.0	[ICRA]BBB-(Stable); reaffirmed
Long term – Fund based/ Cash credit	0.0	20.0	[ICRA]BBB-(Stable); assigned
Short term – Non-fund based	0.0	20.0	[ICRA]BBB-(Stable); assigned
Long term – Unallocated	5.0	0.0	-
Total	100.0	135.0	

*Instrument details are provided in Annexure-1

Rationale

The rating action factors in the strong share of business enjoyed by SKH Y-Tec India Private Limited (SYIPL) for supplies of various sheet metal assemblies to Suzuki Motor Gujarat Private Limited (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. At present, SMG has two manufacturing facilities, each with a capacity of 2.5 lakh vehicles/annum. The original equipment manufacturer's (OEM's) second facility became operational in January 2019 and the third one is expected by FY2021. With any incremental volume demand for MSIL's vehicles expected to be handled by SMG, SYIPL's revenue growth prospects remain healthy. The rating also favourably takes into account the technological support enjoyed by SYIPL from its joint venture (JV) partner, Y-Tec Corporation. Benefitting from this support, SYIPL has gained business for supplying high-value and technologically-superior sheet metal assemblies to SMG. This support from Y-Tec Corporation underpins SYIPL'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 OEM. ICRA also continues to take comfort from the long experience of the promoters, the Krishna Group, a leading automotive component supplier with presence across various product segments.

Notwithstanding a strong ramp-up in revenues and profits in FY2019, the rating remains constrained by SYIPL's moderate financial risk profile with a debt of Rs. 166.3 crore on its book in FY2019 as well as moderately high debt repayments over the next four-five years. Additionally, the company remains exposed to high client concentration risk, with revenues generated by a single customer - SMG. MSIL's market leadership status in the PV segment, however, mitigates the risk to an extent. Despite an expected incremental volume ramp-up to SMG on a currently low base, weakness in the PV demand in the near term could result in a moderation in SYIPL's return profile, given the sizeable investments in capacity expansion.

Going forward, the volume growth is expected to remain healthy till FY2021, with FY2020 likely to be the first complete year for SMG's second plant and FY2021 likely to see a ramp-up on account of SMG's third plant becoming operational. Post that, a further ramp-up would be linked to scale-up in SMG's production. A healthy revenue growth and consequent cash accruals, along with scheduled debt repayments, are likely to lead to an improvement in the company's debt coverage indicators. This improvement could further accelerate if the company timely secures eligibility certificate under the Gujarat government's scheme for incentive to industries, whereby it would be entitled to net State Goods and Services Tax (SGST) reimbursement over the next 10 years (subject to a ceiling).

Outlook: Stable

The Stable outlook reflects ICRA's expectation that SYIPL would further ramp up its scale of operations over the next two years, benefitting from its healthy share of business for various sheet metal assemblies to SMG, resulting in an improvement in its financial risk profile. The company's net profit margins over the medium term are also expected to be supported by incentives from the Gujarat government. The outlook may be revised to Positive if the ramp-up in revenues is accompanied by higher-than-expected cash accruals, thereby strengthening its 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 the working capital cycle, thereby impacting the financial risk profile.

Key rating drivers

Credit strengths

Technological support from JV partner aids design and development capabilities - SYIPL 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 Private Limited, a Krishna Group company supplying sheet metal assemblies to MSIL in Manesar and Gurgaon (Haryana), 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 Corporation is likely to help SYIPL adapt to SMG's changing technological requirements, thus helping it maintain a healthy share of business in sheet metal supplies to the OEM.

Strong position as sole supplier of sheet metal assemblies to 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 PV industry. The company 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 gained business for supplying high-value and technologically-superior sheet metal assemblies to SMG, which were not handled by the Krishna Group earlier.

Incremental volume demand for MSIL to lead to healthy revenue growth over medium term - SMG has already committed to increasing its production capacity in Gujarat to ~7.5 lakh vehicles/annum by the beginning of FY2021 from ~5.0 lakh vehicles/annum currently. Though there has been a downturn in demand in the PV industry over the recent past, any incremental demand for MSIL's vehicles over the medium term is likely to be met mainly through the vehicles manufactured in Gujarat. With SYIPL being a leading supplier of sheet metal assemblies for SMG's requirements, its revenue growth prospects remain healthy.

Credit challenges

High client concentration on SMG; however, MSIL's market leadership partly mitigates risk - SYIPL's business is solely derived from a single customer, SMG. Thus, the company's performance and prospects are closely linked to that of SMG, and in turn, MSIL (SMG has a contract manufacturing agreement with MSIL). Though the heavy dependence 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 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. Its growth prospects will also remain linked to that of MSIL.

Moderate financial risk profile - The total debt on the company's books as on March 31, 2019 was Rs. 166.3 crore, consisting of external commercial borrowing (ECB) from Hiroshima Bank (~Rs. 71.3 crore) and term loan from HDFC Bank (~Rs. 95.0 crore).¹ As a result, SYIPL had moderate capitalisation indicators, with gearing of 1.4 times and Total Debt/OPBDITA of 5.2 times in FY2019. However, with expected ramp-up in revenues and scheduled debt repayments, these indicators are likely to improve, going forward. Gearing and Total Debt/OPBDITA are expected to moderate to the levels of 0.4-0.7 time and 1.5-2.5 times, respectively, by FY2022.

Weakness in PV demand could result in average return profile in near term - The domestic PV industry witnessed a volume growth of 2.7% in FY2019 with a degrowth witnessed in H2 FY2019. There was a further decline of 18.8% in volumes in 2M FY2020. With the near-term PV growth likely to remain moderate, SYIPL's volume ramp-up could be impacted, which could adversely affect its return profile.

Liquidity position

SYIPL's cash flow from operations was Rs. 55.1 crore in FY2019 on account of scale-up in operations and lower working capital requirement as debtor days reduced significantly. Going forward, the working capital requirement is likely to increase as the company moves towards lowering its creditor days. This, along with moderately high debt repayments over the next four-five years, can exert some pressure on the company's cash flows. However, the availability of cash balances (Rs. 23.2 crore in FY2019) and undrawn working capital limits of Rs. 20 crore provides comfort. An expectation of net SGST reimbursement from FY2021 from the Gujarat government under its industry incentive scheme is also expected to boost the company's liquidity profile.

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	The rating is based on the standalone financial profile of the company.

About the company

Incorporated in 2016, SYIPL 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 SMG from its two plants in Hansalpur (Gujarat). It commenced commercial production at its Plant I in December 2017, post which it commenced operations at its Plant II.

¹SYIPL had a term loan of Rs. 95.0 crore from Yes Bank, which was transferred to HDFC Bank in April 2019 as the latter was offering lower interest rates.

Key financial indicators (audited)

	FY2017	FY2018	FY2019 (Provisional)
Operating Income (Rs. crore)	5.2	141.4	245.1
PAT (Rs. crore)	-1.0	-2.6	18.9
OPBDIT/OI (%)	-25.9%	2.5%	13.1%
RoCE (%)	-3.4%	1.0%	9.1%
Total Debt/TNW (times)	0.0	1.7	1.4
Total Debt/OPBDIT (times)	0.0	46.2	5.2
Interest Coverage (times)	-66.3	0.7	9.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Term Loans	95.0	95.0	July 2019 [ICRA]BBB- (Stable)	-	March 2018 [ICRA]BBB- (Stable)	-
2	Fund based/ Cash credit	20.0		[ICRA]BBB- (Stable)	-	-	-
3	Non-fund based	20.0		[ICRA]A3	-	-	-
4	Unallocated Limits	0.0		-	-	[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	Long term – Term Loans	Apr-2019	8.95%	Dec-2024	95.0	[ICRA]BBB-(Stable)
NA	Long term – Fund based/ Cash credit	NA	NA	NA	20.0	[ICRA]BBB-(Stable)
NA	Short term – Non-fund based	NA	NA	NA	20.0	[ICRA]A3

Source: SYIPL

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

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