January 30, 2023

SIAC SKH India Cabs Manufacturing Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	30.25	23.65	[ICRA] BBB- (Stable); Reaffirmed
Long-term – Fund-based working capital	70.00	90.00	[ICRA] BBB- (Stable); Reaffirmed/Assigned
Short-term – Interchangeable**	(15.00)	(15.00)	[ICRA] A3; Reaffirmed
Unallocated	-	2.15	[ICRA] BBB- (Stable)/ [ICRA] A3; Assigned
Total	**100.25**	**115.80**	

**Instrument details are provided in Annexure-I **As sub-limit of fund-based working capital*

Rationale

The rating reaffirmation factors in the stable operational performance of SIAC SKH India Cabs Manufacturing Private Limited (SIAC SKH), with the entity continuing to enjoy a leading supplier status for supplying cabins to JCB India Limited (JCB), the market leader in the domestic backhoe loader segment. The ratings also continue to favourably factor in the technological support enjoyed by SIAC SKH from its parent company, SIAC S.p.A, a leading European designer and manufacturer of cabins for off-highway applications to various global original equipment manufacturers (OEMs). SIAC SKH, benefitting from the technological support, has gained business for various vehicle segments of JCB and Caterpillar India Private Limited (Caterpillar) over the years. The technological support from SIAC S.p.A. underpins the company's abilities to adapt to the changing technological requirements of the OEMs for different types of construction equipment.

The company's revenue growth prospects have remained impacted over the recent past, on account of a weakness in demand in the construction equipment segment amid price hikes mandated by the emission norm transition and inflationary pressures. The company reported revenues of Rs. 645.5 crore in FY2022 (only 4% growth over FY2021) and Rs. 511.0 crore during 9M FY2023 (modest growth over previous corresponding period of previous fiscal). The EBIDTA margin for the company has remained muted at 4.1% in FY2022 and 3% in 9M FY2023. The company commenced operations at its Jaipur plant from FY2022, which led to additional fixed costs for the company; however, the scale of operations of the entity remained at stagnant levels. This led to a negative operating leverage and impacted the profitability and return metrics for the company. Going forward, an uptick in the construction activities and higher infrastructure spending by the Government prior to elections in 2024 are likely to support the company's revenue prospects. However, as it would take some time for the company to increase its scale of operations, the margins are expected to remain muted in the near term; thus, the return and debt coverage metrics of SIAC SKH are expected to show a gradual improvement.

The ratings continue to be constrained by the inherent cyclical nature of the mining and construction equipment (MCE) industry, which exposes the company to periods of downturns in demand. SIAC SKH also remains exposed to client concentration risk, with ~85% of its revenues generated by a single customer, JCB. The risk is, however, mitigated to an extent by the market leadership status of JCB in the backhoe loader segment and its strong share of business. Further, the company has reduced the dependence on JCB over the last two years by increasing the revenues from Caterpillar and supplying cabins (although in small quantities) to other customers, viz., Tadano Ltd., Manitou Group and Escorts Kubota Ltd. etc.

The company has also onboarded a few new customers in the current fiscal with supplies likely to begin from the next fiscal. However, as the scale of these supplies is currently insignificant, the company's growth prospects would continue to be primarily linked to JCB India's growth prospects in the near-to-medium term.

The Stable outlook on the long-term rating reflects ICRA's opinion that SIAC SKH will continue to benefit from its strong technological capabilities, helping it maintain a healthy share of business with JCB, while also aiding in the commencement of business with new customers, which will help SIAC SKH maintain its current credit profile.

Key rating drivers and their description

Credit strengths

Technological support from parent entity aids design and development capabilities; synergistic benefits as part of the Krishna Group – SIAC SKH enjoys access to technological support from its parent company, SIAC S.P.A, a leading European designer and manufacturer of cabins for agricultural machinery, dozers, excavators, forklifts, backhoe loaders and other mining and construction equipment, for various global OEMs. The technological support from SIAC S.P.A aids the company in adapting to JCB's changing technological requirements, thus helping it maintain a healthy share of business in cabin supplies. The company also derives various synergistic benefits (like raw material procurement) as a part of the Krishna Group, a leading automotive component supplier in the domestic market.

Strong business position as sole supplier for cabins to JCB – SIAC SKH is a leading supplier of cabins to JCB, the market leader in the domestic backhoe vehicle segment. The company enjoys a 100% share of business in the backhoe segment for JCB's Ballabhgarh (Haryana) and Jaipur (Rajasthan) plants. Apart from supplies to JCB for the domestic market, SIAC SKH also supplies cabins for export requirements of JCB; its strong business position provides healthy revenue visibility.

Credit challenges

Moderate financial risk profile led by debt-funded capex – SIAC SKH's financial risk profile remains moderate, characterised by low operating margins and moderate debt levels. While the low operating margins are, in part, a result of the royalty paid to SIAC S.p.A. and corporate management fees paid to the SKH Group, the debt levels of the entity had increased during FY2020-FY2021 owing to the capex incurred towards setting up the Jaipur plant. The company reported a gearing of 1.6 times, debt/OPBITDA of 4.8 times and interest cover of 3.3 times in FY2022. The company's Jaipur plant commenced operations from FY2022, which led to additional fixed cost for the company as revenues remained largely stagnant, leading to a negative operating leverage. The same impacted the operating margins and coverage metrics. Going forward, the coverage indicators are expected to gradually improve with the scheduled repayment of debt and an expectation of improvement in margins, aided by an increase in volumes and operating leverage.

High client concentration risk; JCB's market leadership status mitigates risk – Around 84% of SIAC SKH's revenues in 6M FY2023 (86% in FY2022) came from a single customer, JCB. Although a heavy dependence on JCB results in a high client concentration risk, it is mitigated to a large extent by JCB's market leadership in the backhoe segment and SIAC SKH's healthy share of business with JCB. ICRA expects the company's concentration on JCB to remain high over the near to medium term, even as it continues to focus on attaining business from new clients (in construction equipment as well as tractor segment) to diversify its customer base.

Inherent cyclicality of MCE industry – The performance of the MCE industry is strongly linked to the underlying performance of the Indian economy and the pace of infrastructure investments, which leads to cyclicality in the industry. The company's ability to successfully navigate through these cycles remains critical. The increase in input prices owing to the change in emission norms and hardening input costs, along with extended monsoons and muted rentals, impacted the volume growth in FY2022 and H1-FY2023. This had a bearing on the volumes of SIAC SKH as well and impacted its operational performance.

Liquidity position: Adequate

SIAC SKH's liquidity profile remains **adequate** supported by availability of undrawn working capital limits (average of Rs. 21 crore for past 12 months ended October 2022) as well as expectation of cash accruals (~Rs. 15 crore per annum). Against this, the company has repayment obligations of Rs. 9-9.5 crore per annum from FY2023-FY2025 and no major capex plans. Going forward, SIAC SKH is expected to meet its fund requirements over the near term from internal accruals and external debt, as and when required. Moreover, the company continues to enjoy healthy financial flexibility, as a part of the Krishna Group.

Rating sensitivities

Positive factors – A rating upgrade could be triggered if the company is able to scale-up its revenues, leading to improvement in return and debt coverage indicators. The company's ability to achieve material diversification in its customer profile, aided by enhanced supplies to new customers, would also be factored in favourably for a rating upgrade. A specific credit metric for an upgrade would be debt/OPBDIT below 2.8 times, on a sustained basis.

Negative factors – A rating downgrade could be triggered if there is a sizeable drop in the scale of operations, due to headwinds in the MCE industry, which weakens the company's financial risk profile. Further, a significant drop in the company's share of business with JCB could also impact the ratings negatively. A specific credit metric for a downgrade is debt/OPBDIT exceeding 4.0 times, on a sustained basis.

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

SIAC SKH, incorporated in 2009, is a joint venture between SKH Sheet Metal Components Pvt. Ltd. (50%; a holding company for the metal division of the Krishna Group, a leading automotive supplier present in various other sectors, such as real estate, media and travel) and SIAC S.p.A. (50%), a leading European cabin manufacturer for mining, construction equipment and agricultural machinery. The company is involved in the fabrication of cabins for construction equipment makers such as JCB and Caterpillar with presence across different product segments, viz., backhoe loaders, wheeled loaders, skid steer loaders, etc. It has three plants, one each at Prithla (Harayana; supporting JCB's Ballabhgarh plant), Jaipur (supporting JCB's Jaipur plant) and Pune (Maharashtra; supplying to Caterpillar's plant). SIAC SKH has a combined annual production capacity of ~91,400 cabins.

Key financial indicators (audited)

SIAC SKH standalone	FY2021	FY2022	6M-FY2023 (Prov.)
Operating income	621.8	645.5	334.0
PAT	13.1	3.0	1.6
OPBDIT/OI	5.0%	4.1%	3.1%
PAT/OI	2.1%	0.5%	0.5%
Total outside liabilities/Tangible net worth (times)	3.2	3.3	-
Total debt/OPBDIT (times)	3.6	4.8	-
Interest coverage (times)	6.4	3.3	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Balance sheet figures not available for H1 FY2023

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & Rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Jan 30, 2023	Jun 6, 2022	Apr 30, 2021	-	Jan 03, 2020	Oct 31, 2019
1	**Term loan**	Long Term	23.65	23.57	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB (Stable)**	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
2	**Fund-based working capital**	Long Term	90.00	--	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB (Stable)**	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
3	**Interchangeable ***	Short Term	15.00	--	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3+**	-	**[ICRA]A3+**	-
4	**Non-fund based**	Short-term	-	--	-	-	-	-	-	**[ICRA]A3+**
5	**Unallocated**	Long term/ short term	2.15	--	**[ICRA]BBB- (Stable)/ [ICRA]A3**	-	-	-	-	**[ICRA]BBB(Stable) / [ICRA]A3+**

**As sub-limit of CC; An update on reason for delay in surveillance was published on July 25, 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 Interchangeable	Simple
Unallocated	Not applicable

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	FY2019-FY2021	NA	FY2025-FY2026	23.65	[ICRA]BBB- (Stable)
NA	**Fund-based working capital**	NA	NA	NA	90.00	[ICRA]BBB- (Stable)
NA	**Interchangeable***	NA	NA	NA	15.00	[ICRA]A3
NA	**Unallocated**	-	-	-	2.15	[ICRA]BBB- (Stable)/ [ICRA]A3

*Source: Company *As sub-limit of fund based working capital*

[Please click here to view details of lender-wise facilities rated by ICRA]()

Annexure II: List of entities considered for consolidated analysis – Not applicable

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