April 25, 2024

SIAC SKH India Cabs Manufacturing Private Limited: Ratings upgraded to [ICRA]BBB(Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	23.65	12.23	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Long-term – Fund-based – Working capital	90.00	90.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Short term – Interchangeable limits	(15.00)	(15.00)	[ICRA]A3+; upgraded from [ICRA]A3
Long-term/ Short-term – Unallocated	2.15	0.00	-
Total	**115.80**	**102.23**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings of SIAC SKH India Cabs Manufacturing Private Limited (SIAC SKH) factors in an expectation of a sustained improvement in the company's operational and financial performance, while continuing to enjoy a leading supplier status for cabins to JCB India Limited (JCB), the market leader in the domestic backhoe loader segment. The company's revenues have improved at a healthy pace over the past two years to ~Rs. 887.0 crore in FY2024 (from Rs. 645.5 crore in FY2022), owing to healthy demand in infrastructure development and construction activities. A continuation of steady end-user demand, coupled with expectation of ramp up in supplies for new businesses gained is expected to help the company generate steady cash accruals, leading to an improvement in its credit metrics.

The ratings 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.

Despite the upscale in operations in the past two years, the EBIDTA margin for the company has remained muted at 4.4% in FY2023 and 3.2% in 9M FY2024, with SIAC SKH continuing to shell out a material portion of its profits as royalty to SIAC S.p.A. and management fee to the promoter entity. Going forward, even as the scale of operations of the entity might be impacted to an extent in H1 FY2025 with impact of the General Elections in Q1 FY2025 (which might lead to moderation in construction activities and infrastructure spending by the Government), the revenues are expected to remain at similar levels as FY2024, aided by commencement of supplies for new customers. A substantial reduction in term debt over the past two years and reduction in working capital limits utilisation has improved the capital structure and coverage metrics of the company, which are expected to further strengthen in the near future as the company does not plan to incur any material capex plans.

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 its dependence on JCB over the last two years by increasing its 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 limited, 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 as well as a healthy 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 (SOB) 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 JCB's export requirements; its strong business position provides healthy revenue visibility.

Credit challenges

High client concentration risk; JCB's market leadership status mitigates risk – Around 87% of SIAC SKH's revenues in 11M FY2024 (86% in FY2023) 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 (~80% market share in India in FY2024) and SIAC SKH's healthy SOB 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 segments) 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 FY2023. This had a bearing on the volumes of SIAC SKH as well and impacted its operational performance. Further, factors such as the General Elections in H1 FY2025 are also expected to partially impact the performance of the company over the near term.

Liquidity position: Adequate

SIAC SKH's liquidity profile remains adequate, supported by availability of undrawn working capital limits (average of Rs. 44 crore, as on February 2024, against its drawing power) as well as expectation of steady cash accruals (~Rs. 10-15 crore per annum). Against this, the company has repayment obligations of Rs. 9-9.5 crore for FY2025 and limited maintenance capex plans. Going forward, SIAC SKH is expected to largely meet its fund requirements over the near term from internal accruals. 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 there is sustained improvement in scale of operations, 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.

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 include debt/OPBDIT exceeding 2.8 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto components
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

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)

Standalone	FY2022	FY2023	9M FY2024*
Operating income	645.5	752.5	624.9
PAT	3.0	8.9	-
OPBDIT/OI	4.1%	4.4%	3.2%
PAT/OI	0.5%	1.2%	-
Total outside liabilities/Tangible net worth (times)	3.3	2.4	-
Total debt/OPBDIT (times)	4.8	2.4	-
Interest coverage (times)	3.3	4.0	5.6

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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 (FY2025)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. Crore)	Amount Outstanding as of Mar 31, 2024 (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
					Apr 25, 2024	-	Jan 30, 2023	Jun 06, 2022	Apr 30, 2021
1	**Term loans**	Long-term	12.23	12.23	[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)
3	**Interchangeable***	Short-term	(15.00)	-	[ICRA]A3+	-	[ICRA]A3	[ICRA]A3	[ICRA]A3+
4	**Unallocated Limits**	Long term and short term	-	-	-	-	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-

**As sub-limit of Cash credit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Term Loans	Simple
Long Term– Fund based working capital	Simple
Short Term – Interchangeable limits	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 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 Loans	FY2019-FY2021	NA	FY2025-FY2027	12.23	[ICRA]BBB (Stable)
NA	Fund-based working capital	NA	NA	NA	90.00	[ICRA]BBB (Stable)
NA	Interchangeable limits	NA	NA	NA	(15.00)	[ICRA]A3+

Source: Company

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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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