

November 21, 2024

SKM Steels Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Cash credit	345.0	437.00	[ICRA]A- (Stable); reaffirmed
Short term – Fund based	150.0	150.00	[ICRA]A2+; reaffirmed
Short term – Non-fund based	5.0	3.00	[ICRA]A2+; reaffirmed
Long term/Short term – Unallocated	100.0	10.00	[ICRA]A- (Stable)/[ICRA]A2+; reaffirmed
Total	600.0	600.0	

*Instrument details are provided in Annexure-I

Rationale

To arrive at the ratings, ICRA has considered the consolidated financials of SKM Steels Limited (SKM) along with its two subsidiaries and one associate, together referred to as the SKM Group.

The ratings reaffirmation continues to factor in the extensive experience of the promoters of the SKM Group in the iron and steel industry and its established relationship with Tata Steel Limited (Tata Steel) as an authorised distributor of its products in Maharashtra, Gujarat, Madhya Pradesh and Goa. The ratings also favourably factor in the diversified customer base of the company with only 8% of the revenues derived from the top five customers. Besides, the company has diversified operations with presence in the trading and processing of flat and long products, which in turn reduces its dependence on a single sector. While reaffirming the ratings, ICRA takes into account the moderation in the Group's operating profitability because of increased input costs and decline in sales realisation. Further, the net profitability and debt coverage indicators moderated as interest expenses increased owing to the higher utilisation of supply chain financing facilities. ICRA expects the coverage indicators to improve, going forward, with higher profitability and no major capex plans.

The ratings favourably factor in the improving product mix with the increasing share of value-added and specialised steel products such as boiler quality (BQ) plates, galvanised plain (GP) coils and stainless-steel products. This translated into a YoY revenue growth of 14% in FY2024 at Rs. 3,425.1 crore (at the standalone level), driven by a 22% YoY growth in sales volume, although the blended realisation declined 4% YoY with a moderation in steel prices. The company's liquidity position also remains adequate, supported by unutilised bank lines of ~Rs. 243 crore as on September 30, 2024.

The ratings, however, are constrained by the SKM Group's thin profitability. The Group's operations are also working capital intensive in nature, largely driven by SKM's requirement to make immediate payments to Tata Steel while it extends a credit period of 30-45 days to its customers. The Group also remains exposed to the cyclicity associated with the steel industry, which is likely to keep its cash flows volatile. ICRA also notes SKM's investments in various business ventures (including some unrelated ones) over the last two to three years and the management's plan to enter new business segments over the medium term. The overall amount of investment in these ventures, along with a profitable ramp-up in their operations and the extent of the funding support provided by SKM, would be the key monitorables.

The Stable outlook on the [ICRA]A- rating reflects ICRA's expectations that the SKM Group would continue to benefit from its increasing focus on specialised products, its association with Tata Steel and the extensive experience of the promoters in the iron and steel industry.

Key rating drivers and their description

Credit strengths

Diversified operations, increasing focus on specialised products – SKM’s portfolio includes cold-rolled close annealed sheets, GP coils, hot-rolled coils, stainless steel bars, BQ plates and thermo-mechanically treated (TMT) bars. The company caters to the automotive, white goods, construction, engineering, and capital goods industries. The wide product range offered by the company reduces its dependence on a single sector. Over the last three years, the company has increased its focus on specialised products. Additionally, SKM entered into several new categories in FY2023 like colour coated specialised steel. Going forward, the company is expected to continue focusing on increasing the share of value-added products in its sales mix.

Moderate financial risk profile – SKM reported a 14% YoY growth in its operating income to Rs. 3,425.1 crore (at the standalone level, which accounts for 98% of the revenues at the consolidated level) in FY2024 against Rs. 3,005.1 crore in FY2023. This in turn was aided by a 22% YoY growth in sales volume. The overall capital structure remains comfortable with a gearing of 0.5 times and total outside liabilities vis-à-vis the tangible net worth of 1.4 times as on March 31, 2024, at a standalone level. ICRA also notes SKM’s investments in various business ventures (including some unrelated ones) over the last two to three years and the management’s plan to enter new business segments over the medium term. The overall amount of investment in these ventures, along with a profitable ramp-up in their operations and the extent of funding support provided by SKM, would be the key monitorables.

Experience of promoters and long association with Tata Steel Limited – SKM commenced steel processing operations in 1994. The company’s promoters have around 50 years of experience in the iron and steel industry. SKM is one of the 26 authorised distributors of Tata Steel in Maharashtra, Madhya Pradesh, Gujarat, and Goa, and has a long business association of about 26 years. The long relationship with Tata Steel ensures a steady supply of flat and long steel products at competitive rates. In FY2024, Tata Steel accounted for 54% of the total revenues by SKM. Tata Steel’s products are processed at SKM’s Taloja service centre, as per the customers’ requirements. As SKM is recognised as Tata Steel’s external processing unit (EPU), the company is authorised to bid for processing contracts from various Tata Steel clients.

Credit challenges

Thin profit margins – The SKM Group’s operating profit margin (OPM) remains modest due to limited value addition and the intensely competitive nature of the business. Though the OPM moderated in FY2024 due to hardening of input costs, it is expected to remain in the range of 3-4% in the near-to-medium term. Increased interest expense due to high utilisation of the supply chain financing facilities kept SKM’s interest coverage modest at 2.8 times in FY2024. The net margin remained weak at 1.4% in FY2024. In FY2025, the revenues are expected to remain muted and the net margin is expected to stay in the range of 1.5-2%.

Working capital-intensive operations – The SKM Group’s operations are working capital-intensive in nature, demonstrated by a net working capital-to-operating income of 15-20% over the last three fiscals. SKM is required to make immediate payments to Tata Steel, while a credit period of 30 to 45 days is offered to its customers. The company holds an inventory of around one to two months.

Vulnerability of cash flows in steel sector – SKM is exposed to price risks, given the inherent cyclicity in the steel industry. The price risks are accentuated by the largely freehold nature of the inventory maintained by the company. However, ICRA notes that the inventory level maintained by SKM remains low at an absolute level.

Liquidity position: Adequate

The liquidity position of the SKM Group is adequate with sufficient buffer in the undrawn bank limits of ~Rs. 243 crore as on September 30, 2024. The Group is expected to generate retained cash flows of ~Rs. 29 crore in FY2025. Against this, the Group

has annual repayment obligations of Rs. 0.6-0.8 crore per annum and capital expenditure (capex) of ~Rs. 20 crore in FY2025 and FY2026 each.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company can significantly increase its scale of operations and profitability, leading to improved liquidity and credit metrics. Specific triggers for upgrade include the interest cover at the consolidated level improving to above 5 times on a sustained basis.

Negative factors – Pressure on the ratings could arise if the revenues and profit margins weaken as also SKM’s credit metrics, resulting in a sustained deterioration in the interest cover ratio to below 3.5 times (at consolidated level). Any significant elongation in the receivable cycle/or any major write-off in receivables deteriorating the company’s liquidity position would be another negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of SKM Steels Limited. As on March 31, 2024, SKM had two subsidiaries and one associate company, which have been enlisted in Annexure III. SKM has extended corporate guarantee for the external loans taken by its associate entity - Vero Stella Jewels LLP

About the company

SKM Steels Limited (SKM), incorporated in 1994, is promoted by Mr. Kirtilal Shah and his family and is engaged in the trading and processing of stainless steel products. The company was initially set up as a partnership firm in 1972 and was incorporated as a public limited company in 1994. SKM is an authorised distributor of Tata Steel Limited in Maharashtra, Gujarat, Madhya Pradesh and Goa. SKM’s products find use in industries such as automobile, white goods and construction, among others. The processing facilities of SKM are in Taloja in Maharashtra and Indore in Madhya Pradesh.

Mahima Infrastructure Private Limited is a wholly-owned subsidiary. It is involved in real estate development and had purchased land in Indore and has developed the Mahima Smart City.

Shaswat Vivan Infratech Private Limited (SVIPL) is a subsidiary (51%) of SKM Steels Limited. It trades in infrastructure related materials.

Vero Stella Jewels LLP is an associate entity (42%) of SKM Steels Limited. It operates in ornamental jewellery business.

Key financial indicators (audited)

SKM Consolidated	FY2023	FY2024*
Operating income	3057.9	3478.4
PAT	63.7	49.5
OPBDIT/OI	4.2%	3.3%
PAT/OI	2.1%	1.4%
Total outside liabilities/Tangible net worth (times)	1.4	1.5
Total debt/OPBDIT (times)	2.7	2.7
Interest coverage (times)	3.6	2.8

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 (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based limits	Long term	437.00	Nov 21, 2024	[ICRA]A-(Stable)	Oct 06, 2023	[ICRA]A-(Stable)	Jul 06, 2022	[ICRA]A-(Stable)	Apr 01, 2021	[ICRA]BBB+(Stable)
									Jan 06, 2022	[ICRA]BBB+(Positive)
									Jan 21, 2022	[ICRA]BBB+(Positive)
Fund-based, unallocated	Long term	-	Nov 21, 2024	-	Oct 06, 2023	-	Jul 06, 2022	-	Apr 01, 2021	[ICRA]BBB+(Stable)
									Jan 06, 2022	[ICRA]BBB+(Positive)
									Jan 21, 2022	[ICRA]BBB+(Positive)
Fund-based limits	Short term	150.00	Nov 21, 2024	[ICRA]A2+	Oct 06, 2023	[ICRA]A2+	Jul 06, 2022	[ICRA]A2+	Apr 01, 2021	[ICRA]A2
									Jan 06, 2022	[ICRA]A2
									Jan 21, 2022	[ICRA]A2
Non-fund Based Limits	Short term	3.00	Nov 21, 2024	[ICRA]A2+	Oct 06, 2023	[ICRA]A2+	Jul 06, 2022	[ICRA]A2+	Apr 01, 2021	[ICRA]A2
									Jan 06, 2022	[ICRA]A2
									Jan 21, 2022	[ICRA]A2
Unallocated Limits	Long term/Short term	10.00	Nov 21, 2024	[ICRA]A-(stable)/[ICRA]A2+	Oct 06, 2023	[ICRA]A-(stable)/[ICRA]A2+	Jul 06, 2022	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based - Cash credit	Simple
Short term – Fund based	Simple
Short term – Non-fund based	Very Simple
Long term/Short term – 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	Cash credit	NA	NA	NA	437.00	[ICRA]A- (Stable)
NA	Channel financing	NA	NA	NA	150.00	[ICRA]A2+
NA	Letter of credit	NA	NA	NA	3.00	[ICRA]A2+
NA	Unallocated limits	NA	NA	NA	10.00	[ICRA]A- (Stable)/[ICRA]A2+

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SKM Steels Limited	Rated Entity	Full Consolidation
Mahima Infrastructure Private Limited	Wholly owned subsidiary	Full Consolidation
Shaswat Vivan Infratech Private Limited	Subsidiary	Full Consolidation
Vero Stella Jewels LLP	Associate	Equity Method

Source: Company data

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Vikram V

+91 40 6939 6410

Vikram.v@icraindia.com

Sumit Jhunjunwala

+91 33 7150 111

sumit.jhunjunwala@icraindia.com

Prerna Agarwal

+91 124 4545380

prerna.agarwal1@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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