SKP Bearing Industries

March 30, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	4.81	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	Reaffirmed
Long-term Bank Facilities/ Short-term Bank Facilities	4.00	**CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable/A Three)**	Reaffirmed
Short-term Bank Facilities	1.00	**CARE A3 (A Three)**	Reaffirmed
Total Facilities	**9.81 (Rupees Nine crore and Eighty One lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SKP Bearing Industries (SKP) continue to derive strength from increase in scale of operations, healthy profitability, comfortable capital structure and debt coverage indicators during FY16 (refers to the period April 1 to March 31). The ratings further continue to derive strength from wide experience of the partners in the bearing industry coupled with its established business operations as well as association with reputed customers. The ratings however, continue to remain constrained on account of partnership nature of constitution, small scale of operations coupled with susceptibility of margins to fluctuations in raw material prices and its presence in the highly competitive bearing industry. The ability of SKP to increase its scale of operations along with further improvement in profit margins, capital structure while managing its working capital requirements efficiently are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Marginal growth in turnover: During FY16, SKP reported 11.58% y-o-y growth in TOI and stood at Rs.19.95 crore as against TOI of Rs.17.88 crore during FY15 on account of gradual increase in demand from its existing customers along with the addition of few new customers. Furthermore, TOI of SKP has witnessed a high Compounded Annual Growth rate (CAGR) of 19.66% during FY13-FY16.

Improvement in profitability: During FY16, PBILDT margin of SKP increased significantly by 698 bps to 34.42% as compared to 27.44% during FY15 on account of decrease in raw material cost and selling expense as a % of total operating income. The products of the firm are customized and technical in nature as per client's unique requirements, with less competition, therefore operating margins are high. Consequently, the PAT margin improved by 1105 bps to 19.00% during FY16 as compared to 7.95% during FY15 on account of higher PBILDT and lower depreciation cost.

Comfortable capital structure and debt coverage indicators: Capital structure of SKP although deteriorated, stood comfortable marked by debt to equity ratio of 0.93 times (0.34 times as on March 31, 2015) and overall gearing of 0.93 times as on March 31, 2016 (0.54 times as on March 31, 2015). The debt coverage indicators of SKP also remained comfortable marked by total debt to GCA of 1.85 years (FY15: 0.77 years) and interest coverage ratio of 8.90 times (7.62 times during FY15) during FY16 owing to comfortable gearing and profitability.

Moderate liquidity position: Liquidity position of SKP improved and remained moderate marked by current ratio of 1.99 times as on March 31, 2016 (1.50 times as on March 31, 2015). Working capital cycle elongated to 96 days during FY16 as compared to 77 days during FY15 on account of increase in collection period.

Key Rating Weaknesses

Susceptible to volatility in raw material prices: The main raw material used by the firm is bearing steel and rolled steel (hot rolled and cold rolled). All these components are made up of high grade steel or alloy steel. This exposes them to the volatility in the global steel price movement. However, SKP has relatively better pricing flexibility due to technological

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

knowhow and in a relatively better competitive position to pass on the increase in raw material prices to their customers with some time lag.

Presence in the cyclical bearings segment: The demand for bearings is dependent on the industrial activity in the country, mainly automobile industry. During the last few years, the industrial activity has been subdued in the country which has affected the demand for industrial bearings. However, increasing automation in manufacturing units, thrust by Government's 'Make in India' program, spending towards railways and metros will support growth of the industrial and manufacturing sector which will support the bearings industry.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Criteria for Short Term Instruments]

About the Company
Surendranagar-based (Gujarat) SKP Bearing Industries (SKP) was established during March, 1992 as a partnership firm by Mr Shrinand Palshikar, Mrs Sangita Palshikar and Mrs Urmila Bhonde. SKP is engaged in the business of manufacturing of needle rollers, cylindrical rollers and specialized pins which finds application in manufacturing of bearings used for diverse industries such as automotive, textiles, and other industrial sectors. SKP is also running 3 wind mill units (One each in Gujarat, Madhya Pradesh and Maharashtra), out of whose total generation, partial generation of Gujarat unit is used for captive consumption and remaining portion is sold to respective states' discoms. SKP has various certifications such as ISO 9001:2008 and ISO/TS 16949:2009. The installed capacity of the plant is 84 crore pieces per annum as on March 31, 2016. The plant capacity utilization stood at 53% during FY16. As per the audited results for FY16, SKP reported a PAT of Rs.3.79 crore on a total operating income of Rs.19.95 crore as against a PAT of Rs.1.42 crore on a total operating income of Rs.17.88 crore in FY15. During 9MFY17, HVPL reported total operating income of Rs.18.19 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July 31, 2023	4.81	CARE BBB-; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	4.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	1.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	4.81	CARE BBB-; Stable	-	1)CARE BBB- (02-Mar-16)	1)CARE BB+ (11-Nov-14)	-
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	4.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB- / CARE A3 (02-Mar-16)	1)CARE BB+ / CARE A4 (11-Nov-14)	-
3.	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A3	-	1)CARE A3 (02-Mar-16)	-	-

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