



Press Release

SKP Merchants Private Limited

May 30, 2024

Ratings

Instrument/ Facility	Amount (INR crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities	7.00	IVR BBB-/ Stable (IVR triple B minus with Stable outlook) withdrawn	Rating reaffirmed and withdrawn	Simple
Short Term Bank Facilities	20.00	IVR A3 (IVR A three) withdrawn	Rating reaffirmed and withdrawn	Simple
Total	27.00 (INR Twenty-seven crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has reaffirmed and withdrawn the outstanding long-term rating of 'IVR BBB-/ Stable (IVR triple B minus with Stable outlook) and short-term rating of 'IVR A3 (IVR A three) assigned to the bank facilities of SKP Merchants Private Limited (SMPL) with immediate effect. The reaffirmation of the ratings assigned to the bank facilities of SMPL considers the experienced promoters with established track record in business, growth in the scale of operations with moderation in profitability indicators, comfortable capital structure with debt protection metrics, efficient working capital management with improvement in operating cycle and efficient working capital management with improvement in operating cycle. These strengths are offset by thin profitability margin given trading nature of business, exposure to forex risks and presence in a highly fragmented and competitive industry. The withdrawal has been taken at the request of SKP Merchants Private Limited and 'No Objection Certificate' received from City Union Bank Limited that have extended the facilities rated by Infomerics. The ratings are withdrawn in accordance with Infomerics' policy on withdrawal. Link to the withdrawal policy is provided below.



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Key Rating Sensitivities:

- **Upward Factors**

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Sustained improvement in capital structure and debt coverage indicators

- **Downward Factors**

- Moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators
- Withdrawal of subordinated unsecured loans and/or moderation in the capital structure with deterioration in overall gearing to over 1 time

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with established track record in business

The company is promoted by Ms. Naina Patni and Ms. Neha Patni. They have around a decade of experience in the trading of ferro alloys which helps in making established relationship with the customers resulting in repeat orders. Ms. Neha Patni handles the marketing and the administration of the company. Ms. Naina Patni handles the procurement and Finance of the company.

Growth in scale of operations with moderation in profitability indicators

The total operating income of the company witnessed a y-o-y growth of ~17.55%, from Rs. 659.36 Cr in FY2023 to Rs. 775.07 Cr in FY24(Prov.) due to increase in sales realisation. While in FY23 TOI has decline ~14% to Rs. 659.36 Cr from Rs.768.83 Cr in FY2022 on account of dip in the ferro alloy industry and downturn in the steel industry. The EBIDTA margin of the firm remained thin primarily attributable to low value additive trading nature of the business. Furthermore, the EBITDA margin has declined from ~3.27% in FY2023 to ~2.30% in FY2024(Prov.) mainly due to lower average sales realisation which was driven by a sharp fall in the prices of steel. PAT margin has decline to 1.25% in FY24(Prov.) from 2.04% in FY23.



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Comfortable capital structure with debt protection metrics

The capital structure of the company remained comfortable with its satisfactory net worth base. The company adjusted tangible net worth witnessing steady growth on the back of increasing profit and healthy accretion of reserves and stood at Rs.70.56 crore as on March 31, 2024 (Prov.), as compared to Rs. 60.87 crore as on March 31, 2023. The unsecured loan of Rs.38.00 Cr has been considered as quasi equity as the same has been subordinated to bank's exposure. Gearing of the company stood moderate at 0.50x times as on March 31, 2024(Prov.), as against 0.33x as on March 31, 2023 due to increase in bank borrowings. The Adjusted Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.88x as on March 31, 2024(Prov.), as against 0.78x as on March 31, 2023

Efficient working capital management with improvement in operating cycle

SKPMPL manages its working capital efficiently. The operating cycle of the company remains comfortable at 35 days in FY24(Prov.) and improved from 37 days in FY23 led by the comfortable average collection period at 26 days in FY24(Prov.), Average Inventory Period at 16 days in FY24 (Prov.). The supplier's payment is mostly made in advance hence the average creditors period is 6 days in FY24(Prov.).

Key Rating Weaknesses

Thin profitability margin given trading nature of business

The profitability margin of the company remains thin due to trading nature of the business where the profit margins are susceptible to raw material prices and highly competitive nature of industry. The EBIDTA and the PAT margin are expected to remain rangebound going forward.

Exposure to forex risks

With more than 50% of its raw material is imported, the company's exposure to foreign currency has remained high over the years, exposing it to the vagaries of currency markets. However, The imports from Bhutan account for 50% of the total purchase and is done in Indian rupees, hence the forex exposure is mitigated. However, for the rest import and export the company hedges the foreign exchange risk through forwards contracts.



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Presence in a highly fragmented and competitive industry

The ferrous and non ferrous alloy trading business is highly fragmented and characterized by the presence of many organized and unorganized players due to less product differentiation and low entry barriers, which leads to intense competition. The industry also faces constraints with high cost of raw materials, low value addition along with low product differentiation, thus leading to low pricing power.

Price volatility due to risks related to cyclicity in the metal industry

The operating margins of the company are affected by fluctuation in prices of Raw materials. The company faces price volatility both in the international market (on procurements) and domestic market (on sales). Any adverse movement in the price of raw materials can have a negative impact on the company's margins. However, the company's withstanding relationship with its suppliers allows company to get cushion against the risk to some extent.

Analytical Approach: Standalone

Applicable Criteria:

[Policy on Withdrawal of ratings](#)

[Rating Methodology for Trading Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

[Policy on default recognition](#)

Liquidity – Adequate

The company has earned a gross cash accrual of ~Rs.11.02 crore in FY24(Prov.). Further the company is expected to earn a gross cash accrual in the range of ~Rs.12-15 crore as against its debt repayment obligations around ~Rs.0.15-0.68 crore per year during FY25-27. The cash and bank balances of the company stood at Rs.4.54 Cr as on March 31, 2024. The Current



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Ratio stood comfortable at 2.00x as on March 31, 2024(Prov.). Going forward, the company is likely to maintain adequate liquidity position supported by steady accruals.

About the Company

SKP Merchants was initially incorporated as LLP on January 20, 2015 and commenced its operations in 2015. It later got converted to Private Limited on February 11, 2022. SKPMPL is engaged in both the domestic and international trade of Ferro alloys, minerals and metals including Ferro Silicon, Ferro Manganese, Silico Manganese, Nobel Alloys, coal, coke and related products. The company is sole selling agent of Ferro Silicon produced by Bhutan Ferro Alloys Limited for entire Indian Market. The company has 7 depots in 7 states of India along with exporting goods outside India.

Financials: Standalone

For the year ended* / As On	(INR crore)	
	31.03.2022	31.03.2023
	Audited	Audited
Total Operating Income	768.83	659.37
EBITDA	47.96	21.59
PAT	30.82	13.45
Total Debt	24.79	20.06
Adjusted Tangible Net worth	47.47	60.87
EBITDA Margin (%)	6.24	3.27
PAT Margin (%)	4.01	2.04
Overall Gearing Ratio (x)	0.52	0.33

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: NA

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (April 12, 2023)	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Cash Credit	Long Term	7.00	IVR BBB-/ Stable Withdrawn	IVR BBB-/ Stable	-	-
2.	Packing Credit	Short Term	10.00	IVR A3 Withdrawn	IVR A3	-	-
3	Foreign Letter of Credit	Short Term	10.00	IVR A3 Withdrawn	IVR A3	-	-

Name and Contact Details of the Rating Analyst:

Name: Sandeep Khaitan

Tel: (033) 48033621

Email: sandeep.khaitan@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.



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For more information visit www.infomerics.com

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	7.00	IVR BBB-/ Stable Withdrawn
Packing Credit	-	-	-	10.00	IVR A3 Withdrawn
Foreign Letter of Credit	-	-	-	10.00	IVR A3 Withdrawn

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.