



## Press Release

### SKP Merchants Private Limited

April 12, 2023

#### Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities	7.00	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	20.00	IVR A3 (IVR A three)	Assigned	Simple
Total	<b>27.00</b> (INR Twenty seven crore only)			

**Details of Facilities are in Annexure 1**

#### Detailed Rationale

The ratings assigned to the bank facilities of SKP Merchants Private Limited (SMPL) derives strength from experienced promoters with established track record in business in trading of ferro alloys and minerals, steady increase in the scale of operations with improvement in profitability indicators. The rating also favourably factors in the conservative capital structure with comfortable debt protection metrics and efficient working capital management with improvement in operating cycle. However, these rating strengths are constrained due to thin profitability margin given the trading nature of business, exposure to forex risks, presence in a highly fragmented and competitive industry, price volatility due to risks related to cyclicity in the metal industry.

#### Key Rating Sensitivities:

##### Upward Factors

- Substantial and sustained growth in operating income and profitability.
- Improvement in the capital structure, debt protection metrics and liquidity.

##### Downward Factors

- Moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators.



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- 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 the trading of ferro alloys and minerals**

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 ferro alloys and minerals 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 while Ms. Naina Patni looks after the procurement and finance of the company.

##### **Steady increase in the scale of operations with improvement in profitability indicators**

Total Operating Income of the company increased at a CAGR of 96% since the last three financial years. TOI increased to Rs.768.83 crore in FY22 from Rs.199.43 in FY20 (235.68 crore in FY21). The y-o-y growth is 226% due to increase in sales realisation. The profitability margins also doubled during the last the three fiscal years given the economies of scale. EBIDTA margin improved to 6.24% in FY22 and improved from 3.25% in FY20 (6.47% in FY21) due to the positive stock movement. PAT margin improved significantly to 4.01% in FY22 from 1.63% in FY20 (3.79% in FY21) because of the rise in topline and interest expenses remaining at almost same level.

##### **Conservative capital structure with comfortable debt protection metrics**

The capital structure remains conservative marked by an overall gearing at 0.52x as on March 31, 2022 and improved from 1.47x as on March 31, 2020 due to introduction of unsecured loans from the promoters amounting to Rs.38.00 crore considered as quasi equity (0.77x as on March 31, 2021). TOL/TNW comfortable at 1.14x as on March 31, 2022 and improved from 3.44x as on March 31, 2020 (1.42x as on March 31, 2022) due to accretion of profit to network. However, considering the unsecured loans from the body corporates to the tune of Rs.5.50 crore the Adjusted TOL/TNW stood at 1.03x as on March 31, 2022. Debt protection metrics of the company stood healthy marked by interest coverage ratio at 37.59x and Total Debt/GCA



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2.00 years in FY22. DSCR stood satisfactory at 23.82x in FY22 due to minimum repayment liability.

### **Efficient working capital management with improvement in operating cycle**

SMPL manages its working capital efficiently. The operating cycle of the company remains comfortable at 23 days in FY22 and improved from 37 days in FY21 (30 days in FY20) led by the comfortable average collection period at 14 days in FY22 and improved from 27 days in FY21 as some of the amount of debtors got stuck due to the impact of Covid 19. The suppliers payment is mostly made in advance hence the average creditors period is 3 days in FY22.

### **Key Rating Weaknesses**

#### **Thin profitability margin given trading nature of business**

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

#### **Exposure to forex risks**

With more than 50% of its raw material 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.

#### **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 cyclical nature in the metal industry**



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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 allow company to get cushion against the risk to some extent.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Trading Companies](#)

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

[Criteria for assigning rating outlook](#)

### **Liquidity –Adequate**

The liquidity position of the company is expected to remain adequate as the company is expected to generate steady cash accruals as against its scheduled debt repayment obligation during FY23-25. The company earned a Gross Cash Accruals (GCA) of Rs.31.34 crore in FY22 as against its repayment obligation of Rs. 0.33 crore. Also, the gross Cash Accruals remain adequate given the minimum repayment obligation. The fund based working capital limits of the company remains underutilised as the company's money remains deposited in the account indicating high liquidity buffer. The Non-Fund based working capital limits remained moderately stretched as the utilisation stood at 77% during the past twelve months ended December 2022. Further, absence of any capex plans provides further cushion to the liquidity position.

### **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



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Alloys Limited for entire Indian Market. The company has 7 depots in 7 states of India along with exporting goods outside India.

### Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31.03.2021	31.03.2022
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	235.68	768.83
EBIDTA	15.25	47.96
PAT	8.95	30.82
Total Debt	13.50	24.79
Tangible Net Worth	17.46	47.47
Adjusted Tangible Net Worth	26.27	52.68
EBDITA Margin (%)	6.47	6.24
PAT Margin (%)	3.79	4.01
Overall Gearing Ratio (x)	0.77	0.52

\*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	7.00	IVR BBB-/ Stable	-	-	-
2.	Packing Credit	Short Term	10.00	IVR A3	-	-	-
3.	Foreign Letter of Credit	Short Term	10.00	IVR A3	-	-	-

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### About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

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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
Packing Credit	-	-	-	10.00	IVR A3
Foreign Letter of Credit	-	-	-	10.00	IVR A3



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

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/Len-SKPMerchants-apr23.pdf>

**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](http://www.infomerics.com).

