

December 31, 2020

SM Electronic Technologies Pvt. Ltd.: Ratings reaffirmed at [ICRA]BBB- (Stable)/A3

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based - Cash Credit	12.00	10.00	[ICRA]BBB- (Stable); reaffirmed
Long-term - Fund Based - Term Loan	1.58	1.58	[ICRA]BBB- (Stable); reaffirmed
Long-term / Short-term – Unallocated	0.07	2.07	[ICRA]BBB- (Stable)/A3; reaffirmed
Total	13.65	13.65	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings takes into account SM Electronic Technologies Pvt. Ltd's (SMET) vast track record in the electronic component industry and the technical and domain expertise of the promoters. The ratings also factor in the diversified customer base consisting of reputed customers across industry segments and SMET's established relationships with its principals. Moreover, the ratings also positively factor the company's healthy capital structure and coverage indicators.

The ratings, however, remain constrained by the moderate scale of operations coupled with the impact of the pandemic in the last quarter of FY2020 which led to lower than expected revenues and profits. The rating is further constrained by the company's exposure to foreign exchange fluctuations owing to its high proportion of imports and the stiff competition in the electronic distribution industry from several large players.

The Stable outlook reflects ICRA's expectation that SMET will continue to benefit from the extensive experience of its promoters, the established relationship with their suppliers and diverse customer base.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters and the management team in the industry - SMET has been involved in the development, trading and distribution of a wide range of electronic components since 1990. The management possesses over 25 years of experience in this industry with technical background and domain experience, which has helped the company to establish its position in the market and cater to reputed players. Over the years, the promoters have established strong relationship with its principals which gives easy access to a wide range of components. The company has been active developing new product prototypes; the recent ones include BLDC motor for noise reduction, solutions for automotive industry, etc

Long-term association with large customer base and established relationship with the suppliers - The company has a client base of more than 3,000 customers. The revenues are fairly diversified with the top ten customers contributing to ~30% of the total sales in FY2020. Further, SMET's products find application in various industries and it caters to customers from different sectors like energy, automotive, defence aerospace, industrial segments. This safeguards it from demand volatility in any particular sector. On the supply side, SMET's are located in countries such as China, the US and Japan and it has been able to establish strong relationships with suppliers.

Conservative capital structure and healthy coverage indicators - The company has had low dependence on debt given the low capex intensity and modest working capital cycle as reflected in gearing of 0.1 times as on Mar 31, 2020. The coverage indicators also remained comfortable despite reduction in operating profits in FY2020 mainly owing to low debt. The interest coverage improved to 11.7 times from 8.7 times, NCA/Total Debt improved to 149.2% from 87.1% and Total Debt/OPBITDA improved to 0.5 times from 0.8 times between FY2019 and FY2020.

Credit challenges

Moderate scale of operations - The scale of operations remained modest with an operating income (OI) of Rs. 121.9 crore in FY2020 which declined from Rs. 137.3 crore in FY2020 led by supply side disruptions from China amid outbreak of covid-19 in the last quarter of FY2020. Further SMET's net worth is also modest at Rs 26.4 crore in FY2020. The company's profits also declined in FY2020 owing to high fixed costs mainly in the form of employee expenses owing a large marketing and R&D team and certain onetime provisions. In FY2021, after a slow Q1, the company has recorded revenues of Rs 78.9 crore till November 30, 2020 and expects to achieve modest growth backed from continued orders from its established clientele.

Stiff competition in the industry from several large players and other traders - The company operates in an intensely competitive industry, characterised by the presence of a large number of multinational corporations like Avenet Inc., Arrow Electronics and other small-scale distributors and traders. The stiff competition restricts the pricing flexibility and bargaining power with customers, thereby limiting its revenue and margins.

Exposed to foreign exchange fluctuations owing to high proportion of import - The company is exposed to foreign currency fluctuations with ~90% of the products being imported from the principals outside India. However, the overseas commission income and available forex bank limits provide a natural hedge for the forex risks to some extent.

Liquidity: Adequate

The average utilisation of CC facilities for the period of Jan 2020 to Nov 2020 stood at 8% and reduced from 56% of the sanctioned limits for period of July 2018 to March 2019. The cash credit facilities were reduced to Rs. 10.00 crore in December 2019 from Rs. 12.00 crore earlier. Moreover, the company had unencumbered cash balances of Rs 1.20 crore as on December 30, 2020 and has low debt repayments in FY2021 and FY2022. The healthy fund flow from operations and low working capital requirements have resulted in **adequate** liquidity position for the company.

Rating sensitivities

Positive triggers – The ratings maybe upgraded if there is improvement in revenues along with improvement in profitability on a sustained basis.

Negative triggers – The ratings could be downgraded if there is substantial decline in revenues and profits. The ratings could also be downgraded if there is any elongation in the working capital cycle leading to weakening of the liquidity position. Specific metric that could lead to a downgrade would be ROCE less than 15% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone financial statements of the issuer.

About the company

SMET was started by Mr. Manjunath in 1990 as a partnership firm and was converted into a private limited company in 2004. It is involved in trading, distribution and supply chain management of a wide range of electronic components such as active components, passive components, radio frequency (RF)/ microwave components, displays, radio frequency identification (RFID) tags and readers, connectors, Wi-Fi and bluetooth components. In addition, the company offers designing solutions for electronic components and has designed over 50 ready solutions. The ready solutions aid in bringing additional component orders, supporting the revenues of components trading and distribution business. At present, it has seven branches across India in Bangalore, New Delhi, Pune, Chennai, Hyderabad, Ahmedabad and Mumbai. SMET has association with over 50 suppliers including Renesas, Tianma, Fujitsu, Seiko, Epson, Rohm Semiconductor etc.

In FY2020, the company reported a net profit of Rs. 3.9 crore on an OI of Rs. 121.9 crore compared to a net profit of Rs. 6.9 crore on an OI of Rs. 137.3 crore in FY2019.

Key financial indicators (Audited)

	FY2019	FY2020
Operating Income (Rs. crore)	137.3	121.9
PAT (Rs. crore)	6.9	3.9
OPBDITA/OI (%)	8.7%	5.3%
RoCE (%)	36.4%	17.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.0
Total Debt/OPBDITA (times)	0.8	0.5
Interest Coverage (times)	8.7	11.7
DSCR	4.3	3.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2021)		Date & Rating 31-Dec-2020	Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding as on 31-March 2020 (Rs. crore)		Date & Rating in FY2020 13-Jun-2019	Date & Rating in FY2019 05-Oct-2018	Date & Rating in FY2018 31-Aug 2017
1 Cash Credit	Long-Term	10.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Positive)	[ICRA]BB+(Stable)
2 Term Loan	Long-Term	1.58	0.34	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Positive)	[ICRA]BB+(Stable)
3 Unallocated	Long-term/Short-Term	2.07	-	[ICRA]BBB-(Stable)/A3	[ICRA]BBB-(Stable)/A3	[ICRA]BB+(Positive)/A4+	[ICRA]BB+(Stable)/A4+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	10.00	[ICRA]BBB- (Stable)
NA	Term Loan	FY2016	-	FY2024	1.58	[ICRA]BBB- (Stable)
NA	Unallocated	-	-	-	2.07	[ICRA]BBB- (Stable)/A3

Source: SM Electronic Technologies Pvt. Ltd.

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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