June 28, 2024

SMPP Private Limited: Ratings upgraded to [ICRA]A+ (Stable)/ [ICRA]A1+; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based – Cash credit	5.00	5.00	[ICRA]A+ upgraded from [ICRA]A; outlook revised to Stable from Positive
Short term - Non-fund based – Bank guarantee/Letter of credit	117.12	117.12	[ICRA]A1+; upgraded from [ICRA]A1
Long term/Short term - Unallocated limits	127.88	127.88	[ICRA]A+/ [ICRA]A1+; upgraded from [ICRA]A(Positive) /[ICRA]A1; outlook revised to Stable from Positive
Total	**250.00**	**250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade for SMPP Private Limited (SMPP/the company) factors in the expected growth in its scale of operations and profitability, driven by a healthy order inflow from the domestic as well as export markets. The company's domestic order book has swelled to ~Rs. 572 crore as on March 31, 2024. The outlook for the demand for bullet proof jackets (BPJs), the key product manufactured by the company, remains positive as there has been a healthy uptick in defence spending across the globe. The robust cash generation from operations, going forward, is expected to strengthen the company's credit profile.

SMPP had completed a multi-year supply order worth Rs. 639 crore for BPJs from the Ministry of Defence (MoD) in November 2021, well ahead of schedule. This has established SMPP's capability to deliver large-sized orders, aiding incremental order inflow over the course of FY2023 and FY2024 from the domestic and export markets. SMPP's current order book provides a robust revenue visibility for the near to medium term and the company's consistent track record to win tenders in the domestic market indicates a favourable long-term outlook.

The company is focusing on the export market and has over the last couple of years supplied bullet proof jackets/vests overseas, establishing its status as a reliable supplier abroad. ICRA notes that the order inflow can be lumpy because of the tender-based business in the domestic market, which may result in a variation in the revenue going forward, and will remain a key monitorable. With improvement in the scale of operations, strong order book position and low fixed cost base, the cash generation for the company is expected to remain healthy going forward. ICRA expects SMPP's liquidity position to remain strong on expectation of healthy cash generation and nil debt on the company's books.

The ratings continue to factor in the established presence of the company and the extensive experience of the promoters in the ballistic equipment industry, the ability of the company to meet the stringent quality tests and specifications which remain a major entry barrier for the industry.

ICRA notes that SMPP had planned to make sizeable investment in its newly formed subsidiary, SMPP Ammunitions Private Limited. The ownership of the entity, however, has been transferred to the promoters of SMPP Private Limited to separate the two businesses. However, given that SMPP remains the main cash generating entity of the SMPP Group (including all the entities owned by the promoters of SMPP), any material fund outflow from the company to SMPP Ammunitions Private Limited in the form of loans and advances in the future will remain a key monitorable.

Further, the profitability remains susceptible to commodity and forex risks. While the contracts have a fixed price, the raw material is largely imported which exposes SMPP to risks related to volatility in commodity prices and forex rates as the company does not hedge its foreign exchange exposure. It manages the commodity price risk by negotiating with the suppliers and placing large-sized orders for procurement, while part of the forex risk gets naturally hedged with the increase in export orders. SMPP's operations also remain vulnerable to the strict quality standards and tender specifications of the orders. Inability to meet the quality specified in the tender can result in financial implications as well as reputational risk.

The Stable outlook on the long-term rating reflects ICRA's expectation that the credit profile will remain stable with a strong orderbook position and the company's proven track record of execution.

Key rating drivers and their description

Credit strengths

Established presence in ballistic equipment industry, supported by extensive experience of promoters - SMPP's promoters have more than three decades of experience in the ballistic protection equipment industry. It has an established track record of executing many orders for various defence forces in the domestic and export markets. This, along with the technical expertise and in-house product development, has enabled the company to receive repeat orders from its major customers and has also helped it secure a significant order from the MoD.

Stringent quality specifications and time taken for approvals result in high entry barriers - In the domestic market, the consumers of defence products are mostly Government agencies that have strict quality specifications. The quality and testing requirements for the bullet proof jackets remain stringent owing to the criticality of the product. As the products undergo stringent testing before a supplier is selected, the approval time can be long. The licensing required to supply to these Government agencies acts as an additional entry barrier. While stringent quality inspections remain a key entry hurdle, it can result in financial loss too if the company itself fails to meet the requirements of an order. SMPP has been able to mitigate the risk by building in factors of safety over and above the requirements, leading to low probability of the company being unable to meet the quality norms.

Strong financial risk profile - SMPP's credit profile is characterised by debt-free operations with large unencumbered cash balances. The company's profitability has been on an uptrend for the last couple of years with the increase in the scale of operations, supported by a good order inflow. Going forward, expectation of a robust order inflow both in the domestic and the export markets should keep the profitability healthy and support the overall financial risk profile.

Credit challenges

Customer concentration risk along with lumpiness in order receipt due to tender based business - The top five customers accounted for 84% of SMPP's revenues in FY2024, exposing the company to high customer concentration risk. Nonetheless, majority of the customers are reputed Government entities which reduces the counterparty risk. The future revenue growth also hinges on incremental order inflow from Government agencies, which remains lumpy due to the tendering nature of the business. However, the focus of the GoI on increasing the share of domestic sourcing in the defence segment should provide support to the order inflow.

Susceptibility of profit margins to fluctuations in raw material prices and foreign exchange rates - The company's contracts are fixed price in nature and, thus, remain exposed to the fluctuation in commodity prices and forex rates as the raw material is largely imported. While the company does not have a hedging policy for forex risk, majority of the orders are short-term contracts and thus the company so far has not witnessed any significant impact on this front. For the long tenor orders, like that of the Ministry of Defence that spanned three years, the contract had built-in protections against foreign exchange fluctuations. There's a natural hedge for the export orders as the realisations are dollar-denominated.

Liquidity position: Strong

SMPPs liquidity is strong characterised by nil working capital utilisation and significant unencumbered cash balances. With expected growth in scale of operations, moderate working capital intensity, debt free operations and no major capex plans, the liquidity position is expected to remain strong.

Rating sensitivities

Positive factors – The ratings may be upgraded if the entity is able improve on its product diversification while maintaining a healthy scale of operations and profitability.

Negative factors – Material decline in the orderbook position leading to weakening of the revenue and profit visibility of the company resulting in moderation in the leverage and coverage metrics may lead to a rating downgrade. Materially large debt funded capex and/or materially large cash outflow to any group companies resulting in weakening of the liquidity profile of the company may lead to a rating downgrade. Specific credit metrics that may result in a downgrade include TOL/TNW of more than 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings ICRA has considered the standalone financials of SMPP Private Limited

About the company

SM Pulp Packaging Private Limited (SMPP Private Limited), established in 1985 by Mr. S.C. Kansal, manufactures ballistic protection equipment like bullet proof jackets, helmets, bullet proof shields etc., and combustible cartridge cases (CCC). It is the first entity in India that started manufacturing CCCs indigenously. The company has also supplied kits for the A400 Airbus armouring programme. The company's manufacturing unit is at Palwal (Haryana) with its major clients being the Indian Army, the Ministry of Defence (MoD), paramilitary forces, the state police and other Government departments. SMPP also exports boron carbide ceramic plates and hard armour plates, which is a critical raw material required for light weight bullet proof jackets, to countries, such as France, Saudi Arabia, Israel, Australia, Korea etc.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	366.9	353.6
PAT	87.7	93.0
OPBDIT/OI	30.0%	32.9%
PAT/OI	23.9%	26.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	97.9	305.8

Source: Company, ICRA Research; 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 rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 28, 2024	-	Mar 31, 2023	Dec 21, 2021
1	**Cash credit**	Long term	5.00	-	[ICRA]A+ (Stable)	-	[ICRA]A (Positive)	[ICRA]A (Stable)
2	**Non-fund based**	short term	117.12	-	[ICRA]A1+	-	[ICRA]A1	[ICRA]A1
3	**Unallocated**	Long term/ short term	127.88	-	[ICRA]A+ (Stable)/ [ICRA]A1+	-	[ICRA]A (Positive)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based – Cash credit	Simple
Short term - Non-fund based – Bank guarantee/Letter of credit	Very Simple
Long term/Short term - Unallocated limits	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	5.00	[ICRA]A+ (Stable)
NA	**Non-fund based**	NA	NA	NA	117.12	[ICRA]A1+
NA	**Unallocated**	NA	NA	NA	127.88	[ICRA]A+ (Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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