March 28, 2025

SM Electronic Technologies Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	20.00	20.00	[ICRA]BBB (Stable); reaffirmed
Long-term – Fund-based – Term loan	1.58	1.58	[ICRA]BBB (Stable); reaffirmed
Long-term / Short-term – Unallocated	2.07	2.07	[ICRA]BBB (Stable)/ [ICRA]A3+; reaffirmed
Total	**23.65**	**23.65**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation for SM Electronic Technologies Pvt. Ltd. (SMET) factors in the healthy increase in its scale of operations, with consolidated revenues growing by ~146% in FY2024 to Rs. 1,033.8 crore and further by 47% to Rs. 778.0 crore (provisional data) in H1 FY2025, largely in line with expectations. ICRA expects the consolidated revenues to touch Rs. 1,300 crore in FY2025 and grow steadily thereafter, driven by the favourable business outlook for key customer industries viz. energy metering, automotive and defence. The company is engaged in trading, distribution and supply chain management of a wide range of electronic components and the recent growth is primarily driven by ramp-up of the same business under its wholly-owned subsidiary, SMET Singapore, which was acquired near the end of FY2023. The ratings continue to derive comfort from SMET's strong parentage – viz. Satori Electric Co. Ltd. (SECL) – a Japan-based multinational company involved in the same line of business. ICRA notes that SECL raised its stake in SMET to 75.0% in January 2025 (up from 50.1% in FY2024) indicating the latter's increasing strategic importance for SECL. Over the medium term, the association is expected to provide SMET access to SECL's customers, suppliers as well as its distribution networks, thereby strengthening its product/service delivery and R&D capabilities. SECL has infused unsecured interest-free convertible loans of US$ 15 million into SMET Singapore in January 2025, which will support the latter's liquidity and working capital requirements.

Despite a decline in the company's operating margins (OPM) in FY2024 to 3.3% (from 4.6% in FY2023) and coverage metrics (interest cover moderated to 2.4 times in FY2024 from 10.6 times in FY2023) owing to low margins and higher working capital debt in SMET Singapore, a gradual recovery is expected starting FY2025. Further, the ratings derive comfort from the established track record of SMET's management in developing, trading and distributing a wide range of electronic components for customers spanning across energy, automotive, defence and aerospace, mobility, and industrial segments. The ratings also factor in the company's technical knowhow and domain experience in the electronics component industry, which aids in developing new solutions and getting repeat orders from its established clientele.

The ratings, however, remain constrained by the company's continued reliance on external borrowings due to thin margins and elongated working capital cycle in SMET Singapore, increasing its vulnerability during a sustained downturn in the industry, if the scenario arises. The ratings consider the elevated competition prevailing in the industry owing to limited entry barriers and low capital intensity. Intense competition coupled with low bargaining power with much larger customers limits the scope for expansion in margins. ICRA also notes that the company is also exposed to high foreign currency fluctuation risks on account of significant dependence on imports, which remain largely unhedged. Nevertheless, the company's ability to pass on the rising input costs to its established and reputed customers mitigates this risk to a certain extent.

The Stable outlook on the long-term rating reflects ICRA's expectation that a favourable operating environment, supported by the traction in order inflow from the EV and consumer durable segments, will support sustained revenue growth and gradual improvement in OPM, in turn its debt protection metrics.

Key rating drivers and their description

Credit strengths

Parentage of SECL expected to strengthen product/service delivery capabilities and aid in increasing scale of operations – In February 2023, SECL had increased its shareholding in SMET to 50.1%, making SMET a partly owned subsidiary of the Japanese parent. In January 2025, SECL raised its stake to 75.0% through a direct share purchase from the promoters. The benefits of this acquisition will flow both ways, with the parentage of SECL providing SMET access to SECL's customers, suppliers as well as its distribution networks strengthening SMET's product /service delivery capabilities and could open up new growth avenues, in turn, supporting a significant scale-up in turnover over the medium term (consolidated revenues already grew by ~146% in FY2024 to Rs. 1,033.8 crore and further by 47% to Rs. 778.0 crore in H1 FY2025, as per provisional data) and on the other hand, SECL will receive access to SMET's design labs and its customer solutions offerings for its own customers.

Long association with a large customer base and established relationship with suppliers – The company has more than 3,000 customers. SMET's products find application in various industries and cater to customers from different sectors like energy, automotive, defence aerospace, mobility, and industrial segments, partly mitigating the risk of a sharp earnings volatility emanating from lower demand from any particular sector. SMET's suppliers are spread across various countries such as China, the US and Japan, and it has been able to establish strong relationships with its suppliers over the years.

Extensive experience of promoters and management team in industry – SMET has been involved in development, trading and distribution of a wide range of electronic components since 1990. The management has over 30 years of experience in this industry. Leveraging on the management's technical knowhow and domain experience, the company has been able to establish its position in the market and cater to the requirements of reputed customers. The promoters have established relationship with its electronic component supplier over the years, which gives it easy access to a wide range of components.

Credit challenges

Elevated leverage and moderate coverage metrics due to high debt in SMET Singapore – With the acquisition of SMET Singapore in February 2023, revenues exceeded Rs. 1,000 crore in FY2024. However, the low margin (operating margin of 1.8% in FY2024) and elongated cash conversion cycle in SMET Singapore resulted in greater dependence on working capital borrowings leading to elevated leverage and modest coverage metrics. The TOL/TNW increased to 4.2 times in FY2024 from 1.4 times in FY2023, driven by the increase in short-term working capital borrowings in SMET Singapore. However, in January 2025, SECL provided funding support in the form of interest-free, convertible USLs amounting to USD 15.0 million, which will support cash flows and reduce reliance on external borrowings. Consequently, an improvement in leverage and coverage metrics is expected forward, though margin expansion and efficient working capital management will remain crucial in this regard.

Subdued operating margins, with the Singapore subsidiary remaining a drag on consolidated profitability – Prior to the acquisition, the SMET Singapore (on a standalone basis) generated revenues of ~Rs. 125 crore/ ~Rs. 188 crore in FY2022/FY2023 respectively. However, operations were not profitable, with OPBDITA being close to breakeven in both fiscals. In FY2024, SMET Singapore's performance witnessed a turnaround under SMET, with revenues of Rs. 693.2 crore and OPBDITA margin of 1.8%. Despite this, the profitability is still lower than standalone India operations, viz. 5-7%, leading to moderation in margins on a consolidated basis. Given the trading nature of business, the company's operating margins remain thin and its ability to ramp-up the margins in its domestic operations and overseas subsidiaries remains a key monitorable.

High competitive intensity in trading industry; exposure to foreign exchange fluctuation due to high imports – The company operates in an intensely competitive industry, characterised by the presence of many multinational corporations like Avenet Inc., Arrow Electronics and other small-scale distributors and traders. Intense competition restricts the pricing flexibility and bargaining power with customers, constraining its profit margins. Additionally, it is exposed to foreign currency fluctuations as ~80-90% of the products are imported. However, the company's practice of marking up its quoted contract prices by ~3% helps in partly compensating for any adverse movement in foreign currency fluctuations.

Liquidity position: Adequate

The company's liquidity is expected to remain adequate, given the minimal debt repayment obligations viz. Rs. 0.4 crore in FY2026 and limited capex requirement. It had free cash balances of Rs. 24.6 crore as on March 31, 2024, and buffer in WC lines, with average fund-based limit utilisation of 47% (on a standalone basis/India operations) for the trailing twelve months as of October 2024. In addition, the working capital facilities of $30 million (~Rs. 258 crore) in SMET Singapore provide further cushion to the overall consolidated liquidity. In January 2025, SECL infused $15 million (~Rs. 129 crore) in SMET Singapore in the form of interest-free, convertible USLs, which are expected to support the latter's cash flows in the near to medium term.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a healthy growth in profits and net worth, on a sustained basis, while strengthening its leverage and coverage metrices.

Negative factors – The ratings could be downgraded if there is a sharp decline in revenues, along with a significant decline in profitability, or any large debt-funded capex, leading to a deterioration in credit metrics or an elongation in the working capital cycle, weakening the liquidity position. The ratings could come under pressure in case there is a deterioration in the parent company's credit risk profile or any weakening in SMET's linkages with its parent company. Specific metric which could lead to a ratings downgrade is interest cover declining below 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	The ratings for SMET factor in the reasonable likelihood of its parent, Satori Electric Co., Ltd. (having ~75% shareholding in SMET), extending financial support to it due to the close business linkages between them and given the strategic importance that SMET holds for Satori for meeting its diversification objectives.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SMET. The list of companies consolidated is shared in Annexure-II.

About the company

Established in 1990 as a partnership firm by Mr. Manjunath, SMET was converted into a private limited in 2004. It is involved in the 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 the components trading and distribution business. At present, it has seven branches across India in Bangalore, New Delhi, Pune, Chennai, Hyderabad, Ahmedabad and Mumbai and an overseas subsidiary (SMET Singapore). SMET has an association with over 50 foreign suppliers of electronic components and a domestic client base of over 3,000 customers.

Towards the end of FY2023, Satori through the increase in its shareholding to 50.1% became the parent company of SMET. As a consideration, Satori offered its Singapore subsidiary to SMET, making SMET Singapore a wholly owned subsidiary of SMET. SMET Singapore is also involved in trading, distribution and supply chain management of electronic components and is presently serving its existing clientele as well as SMET India's customer base. In January 2025, Satori increased its shareholding in SMET to 75%.

Key financial indicators (audited)

SMET Consolidated	FY2023	FY2024
Operating income (Rs. Crore)	420.8	1,033.8
PAT (Rs. Crore)	10.3	14.6
OPBDIT/OI (%)	4.6%	3.3%
PAT/OI (%)	2.5%	1.4%
Total outside liabilities/Tangible net worth (times)	1.4	4.2
Total debt/OPBDIT (times)	2.3	7.0
Interest coverage (times)	10.6	2.4

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

<table>
<tr><th colspan="4">Current (FY2025)</th><th colspan="6">Chronology of rating history for the past 3 years</th></tr>
<tr><th colspan="4"></th><th colspan="2">FY2024</th><th colspan="2">FY2023</th><th colspan="2">FY2022</th></tr>
<tr><th>Instrument</th><th>Type</th><th>Amount rated (Rs. crore)</th><th>Mar 28, 2025</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th></tr>
<tr><td rowspan="2">Long-term fund-based – Cash credit</td><td rowspan="2">Long Term</td><td rowspan="2">20.00</td><td>[ICRA]BBB (Stable)</td><td>Dec-28-23</td><td>[ICRA]BBB (Stable)</td><td>Sep-08-22</td><td>[ICRA]BBB (Stable)</td><td>Feb-21-22</td><td>[ICRA]BBB- (Positive)</td></tr>
<tr><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>Feb-10-22</td><td>[ICRA]BBB- (Positive)</td></tr>
<tr><td rowspan="2">Long-term fund-based – Term loan</td><td rowspan="2">Long Term</td><td rowspan="2">1.58</td><td>[ICRA]BBB (Stable)</td><td>Dec-28-23</td><td>[ICRA]BBB (Stable)</td><td>Sep-08-22</td><td>[ICRA]BBB (Stable)</td><td>Feb-21-22</td><td>[ICRA]BBB- (Positive)</td></tr>
<tr><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>Feb-10-22</td><td>[ICRA]BBB- (Positive)</td></tr>
<tr><td rowspan="2">Long-term / Short-term – Unallocated</td><td rowspan="2">Long Term / Short Term</td><td rowspan="2">2.07</td><td>[ICRA]BBB (Stable)/ [ICRA]A3+</td><td>Dec-28-23</td><td>[ICRA]BBB (Stable)/ [ICRA]A3+</td><td>Sep-08-22</td><td>[ICRA]BBB (Stable)/ [ICRA]A3+</td><td>Feb-21-22</td><td>[ICRA]BBB- (Positive)/ [ICRA]A3</td></tr>
<tr><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>Feb-10-22</td><td>[ICRA]BBB- (Positive)/ [ICRA]A3</td></tr>
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Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund-based – Cash credit	Simple
Long-term fund-based – Term loan	Simple
Long-term / Short-term – Unallocated	NA

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	**Long-term – Fund-based – Cash credit**	NA	NA	NA	20.00	[ICRA]BBB (Stable)
NA	**Long-term – Fund-based - Term loan**	FY2016	NA	FY2027	1.58	[ICRA]BBB (Stable)
NA	**Long-term / Short-term – Unallocated**	NA	NA	NA	2.07	[ICRA]BBB (Stable) / [ICRA]A3+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SMET Singapore Pte. Ltd.	100.00%	Full consolidation

Source: Company data as on March 31, 2024

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