

January 09, 2017

SM Electronic Technologies Private Limited

Instrument	Amount (Rs. crores ¹)	Rating Action
Fund based Limits	6.79	[ICRA]BB (Positive); Reaffirmed, Outlook revised to 'Positive' from 'Stable'
Unallocated	0.36	[ICRA]BB (Positive)/A4+ reaffirmed, Outlook revised to 'Positive' from 'Stable'
Total	7.15	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has re-affirmed the long term rating at [ICRA]BB (pronounced ICRA double B)² and the short term rating at [ICRA]A4+ (pronounced as ICRA A four plus) for Rs. 7.15 crore bank line facilities of SM Electronic Technologies Private Limited (SMET/ the company). ICRA has revised its outlook for the long term rating of bank line facilities of the company from 'Stable' to 'Positive'.

Rationale

The outlook revision is driven by the significant financial support demonstrated by SMET's promoters through proposed infusion of capital in form of equity as well as unsecured loans in the current fiscal, which will result in an improved gearing. The outlook revision also reflects the healthy revenue growth registered by the company over the past few years.

The reaffirmation of the rating continues to take into account the track record of the company in the electronic component industry, the technical and domain expertise of the promoters and the y-o-y healthy revenue growth in the past few years. ICRA factors in the diversified customer base and association with reputed customers across different segments like automotive, aerospace, defence, industrial etc. ICRA also notes the long relationships with the principals overseas, the qualified human resource base, good distribution network with offices in major cities and back to back contracts with the suppliers for confirmed orders. The rating reaffirmation derives comfort from the adequate debt coverage indicators with interest coverage ratio of 4.17x and Net Cash Accruals/Total Debt of 20.67% during FY 2016 and low working capital intensity of operations.

The rating reaffirmation is, however, constrained by the moderate scale of operations restricting the financial and operational flexibility to an extent and the financial profile characterised by the low net worth and thin operating margins owing to low value addition as the company is mainly engaged in the distribution of electronic components. The reaffirmation, however, factors in the technical expertise and the R&D initiatives of the company with the ready solutions in their portfolio. ICRA also notes the company's exposure to foreign exchange fluctuations with most of the products being imported; however, the risk is mitigated with the company hedging 25% of its imports and overseas commission income providing a natural hedge to an extent.

Going forward the ability of the company to sustain the growth rate, improve its margins and capital structure would be the key rating sensitivities.

Key rating drivers

Credit Strengths

- Track record of over 25 years in the industry; experienced management with technical background and domain experience
- Wide product portfolio and good distribution network with offices in the major cities
- Long-term association with large customer base and established relationship with the suppliers

¹ 100 lakhs = 1 crore = 10 millions

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

- Sector diversification with presence in automotive, defense, aerospace and industrial segments

Credit Weakness

- Thin margins owing to the trading nature of operations with limited value addition by the company
- Exposed to foreign exchange fluctuations in its import and re-sale business; it is partly mitigated by the overseas commission income which acts as a natural hedge and the hedging of 25% of the imports
- Modest capital structure owing to low net worth

Description of key rating drivers highlighted above

SMET has been engaged in trading and distribution of wide range of electronic components since 1990 and the management has over 30 years of experience in this industry. Apart from the sale of components, the company also has designed over 50 solutions and has a research & development team with qualified engineers. The company provides the design, prototype development and technical support to the customers. Due to presence in the sector for over 25 years, it has established relationships with reputed suppliers and has a clientele base of more than 3000 customers. The company has wide product portfolio and caters to customers in various segments like power, energy, industrial, automotive, instrumentation and defence sectors. The company is headquartered in Bangalore and also has 6 other branches all over India which helps in providing timely service to their customers.

The company is mainly engaged in the distribution of electronic components and therefore has thin operating margins owing to low value addition. SMET imports around 95% of its products from suppliers outside India and sales are mainly domestic exposing it to foreign exchange fluctuations risk. However, the risk is partly mitigated through hedging of 25% of the imports. For FY 2016, the net worth of the company stood at Rs. 6.19 crore as on 31st March, 2016; due to increase in debt levels, the company's gearing increased from 0.96x as on 31st March, 2015 to 1.46x as on 31st March, 2016.

Links to applicable Criteria

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

About the company

SM Electronic Technologies Private Limited was started by Mr. Manjunath in 1990 as a partnership firm which was later converted to a private limited company in 2004. The company is engaged in the trading of wide range of electronic components - active components, passive components, Radio Frequency(RF)/microwave components, displays, Radio Frequency Identification (RFID) tags and readers, connectors, Wi-Fi, Bluetooth components and ready referral solution boards. Currently, it has 7 branches across India in Bangalore, Delhi, Pune, Chennai, Hyderabad, Ahmedabad and Mumbai. The company has association with over 50 suppliers including Renesas, Tianma, Fujitsu, Seiko, Epson, Rohm Semiconductor etc. It has a client base of over 2000 customers including ISRO, Fiem Industries, Triphase Technologies, L&T Ltd among others.

For FY 2016, the company reported a net profit of Rs. 1.39 crore on an operating income of Rs. 63.09 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	February 2016	-	-
1	Cash Credit	Long Term	5.00	[ICRA]BB (Positive)	[ICRA]BB (Stable)/	-	-
2	Term Loans	Long Term	1.79	[ICRA]BB (Positive)	[ICRA]BB (Stable)/	-	-
3	Unallocated	Long Term/ Short Term	0.36	[ICRA]BB (Positive)/ [ICRA]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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	5.00	[ICRA]BB (Positive)
Term Loan	2016		2020	1.79	[ICRA]BB (Positive)
Unallocated Amount	-	-	-	0.36	[ICRA]BB(Positive)/ [ICRA]A4+



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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. For more information, visit www.icra.in

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