

## SMPP Private Limited

July 20, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit Limits	5.00	5.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Non-fund Based Limits	10.00	152.56	[ICRA]A2; upgraded from [ICRA]A3+
Long /Short term - unallocated	30.00	2.44	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB(Stable)/[ICRA]A3+
<b>Total</b>	<b>45.00</b>	<b>160.00</b>	

### Rating action

ICRA has upgraded the long-term rating to [ICRA]BBB+ (pronounced ICRA triple B plus) from [ICRA]BBB (pronounced ICRA triple B) to the Rs. 5.00-crore<sup>1</sup> fund-based limits and short-term rating to [ICRA]A2 (pronounced ICRA A two) from [ICRA]A3+ (pronounced ICRA A three plus) to the Rs. 152.56 crore non-fund-based limits of SMPP Private Limited (SMPP)<sup>2</sup>. ICRA has also revised the long-term/short-term rating to [ICRA]BBB+/[ICRA]A2 on the Rs. 2.44 crore unallocated limits of SMPP. The outlook on the long-term rating is 'Stable'.

### Rationale

The rating revision takes into account the growth of ~15% in operating income in FY 2018 which coupled with improved operating margins has resulted in improved cash accruals and return indicators. The company's growth has been supported by healthy liquidity as evidenced by the nil utilization of working capital limits and its healthy cash and bank balances. Moreover, the operating income is expected to show healthy improvement in FY 2019 as company's order book stands healthy at Rs 710 crores which mainly consists of Rs 638 crore order from Ministry of Defence for supplying 1.86 lac bullet proof jackets(BPJ's) to Indian Army. ICRA's ratings positively take into account the low competition faced by SMPP in ballistic protection products and positive outlook for the defence industry, given the Government's focus on this segment. Further, the ratings derive comfort from the company's experienced management with a long track record of operations in the industry, its established relations with customers and a healthy financial profile characterised by strong net worth as well as robust debt-coverage indicators. ICRA also notes that the company has received two awards from MoD for indigenization of Combustible cartridge cases and BPJ's in the past.

However, the ratings continue to be constrained by the vulnerability of SMPP's operating margins to fluctuations in raw material prices and tender-driven nature of business, which have kept its operating profitability fluctuating in the past. The ratings also continue to factor in company's profitability vulnerable to adverse fluctuations in foreign exchange rates, given that it only partially hedges its receivables. ICRA also notes that the revenues of the company are highly dependent on Government spending in the defence sector. However, the diversification of operations to the export market, where the order inflow is more regular, helped mitigate this risk to some extent. ICRA also notes that the execution risk exists in new BPJ order as capability of company to execute large projects is yet to be seen.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

Going forward, SMPP's ability to sustain the revenue growth and improve profitability through timely execution of the order book, keep gearing and working capital intensity at optimal levels and meet quality commitments of customers to enhance long term business prospects would be the key rating sensitivity.

## Outlook: Stable

ICRA believes that SMPP will continue to benefit from the extensive experience of its promoters in the ballistic equipment industry and limited competition in the domestic market. The outlook may be revised to Positive if healthy scale-up in revenues is achieved with healthy profitability. The outlook may be revised to Negative if cash accruals are lower than expected, or if any major capital expenditure or stretch in the working capital cycle, weaken the liquidity position

## Key rating drivers

### Credit strengths

**Established presence in the ballistic equipment industry supported by longstanding experience of promoters** –SMPP is promoted by Dr. SC Kansal and Mr. Ashish Kansal, who have experience of more than a decade in the ballistic equipment industry. They have exhibited an excellent track record of executing a large number of orders for various defence forces and in the export markets. The company has already supplied the largest quantity of body armour to the Indian Airforce and with the order from the Indian Army the company has further strengthened its position as one of the major supplier to the armed forces.

**Stringent quality specifications provides high entry barriers** - The industry is highly regulated (in product quality specification) considering the safety aspects. Hence, it is imperative that high quality is maintained to ensure safety and effectiveness. Further, the company has to pass very stringent quality checks to ensure that the order is approved. Moreover, the quality specification and regulatory norms are relatively higher in case of combustible cartridges, dissuading players from entering this industry.

**Healthy order book position provides near-term revenue visibility** - The company currently has a total order book of ~Rs. 710 crore and is in the process of bidding for more tenders to grow its topline. Based on the healthy order book and open tenders as on date, the company expects a healthy revenue growth in FY2019.

**Strong financial profile** - The financial profile of the company continued to remain healthy in FY2018. With increased cash accruals, the company's capitalization and debt coverage indicators further strengthened and stood robust. As on March 31, 2018, the company had negligible gearing level while interest coverage increased to 76.47 times (Previous year-37.54 times). The company's liquidity position too remained comfortable with healthy cash and liquid investments of Rs. 30.17 crore and adequate undrawn working capital limits of Rs. 4.70 crore as of March 31, 2018.

### Credit challenges

**Execution capability of large projects** – The company was recently awarded single large order to supply 1.86 lac BPJ's from Mod (over a period of 3 years). Although, the order has been a major breakthrough for SMPP, execution of the same is yet to be seen.

**Export exposure makes company vulnerable to foreign exchange risk** - The company has significant import exposure and some export exposure and hence the payable and receivable exposure acts as a natural hedge to some extent. Additionally, the company hedges the forex risk through letter of credit facility. Despite these, the risk of currency fluctuation on forex exposure cannot be ruled out completely.

**Regulatory and stringent norms in defense sector remains key risk** - The defense equipment industry is highly regulated due to the rigorous checks in the sector coupled with stringent and ambiguous policy framework, irregular grant of orders.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company

Established in 1985 by Dr. S.C. Kansal, SMPP manufactures ballistic protection equipments like bullet-proof jackets, helmets etc., and combustible cartridge cases. The company's manufacturing unit is situated at Palwal, Haryana with major clients as Indian Army, Paramilitary forces, State Police and other government departments. The company 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 like France, Saudi Arabia, Israel, Australia, Korea etc.

On a provisional basis, SMPP reported a net profit of Rs. 11.54 crore on operating income (OI) of Rs. 105.01 crore in FY2018 compared with a net profit of Rs. 8.47 crore on OI of Rs. 91.03 crore in the previous year.

## Key financial indicators (Audited)

	<b>FY2016</b>	<b>FY2017</b>
Operating Income (Rs. crore)	43.89	91.03
PAT (Rs. crore)	3.01	8.47
OPBDIT/OI (%)	12.20%	14.02%
RoCE (%)	9.56%	24.41%
Total Debt/TNW (times)	0.09	0.00
Total Debt/OPBDIT (times)	0.75	0.00
Interest Coverage (times)	14.82	37.54

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years

Current Rating (FY2018)					Chronology of Rating History for the past 3 years			
					Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	July 2018	July 2017	June 2016	August 2015	
1	Cash Credit	Long Term	5.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
2	Non-fund Based limits	Short Term	152.56	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	[ICRA]A4+
3	Unallocated	Long /Short Term	2.44	-	[ICRA]BBB+/ [ICRA]A2	[ICRA]BBB/ [ICRA]A3+	[ICRA]BBB- /[ICRA]A3	[ICRA]BB+/ [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](http://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	-	-	-	5.00	[ICRA]BBB+(Stable)
NA	Non - fund based limits	-	-	-	152.56	[ICRA]A2
NA	Unallocated	-	-	-	2.44	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: SMPP

## ANALYST CONTACTS

**K. Ravichandran**

+91 44 45964301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Shubham Gupta**

+91 124 4545823  
[shubham.gupta@icraindia.com](mailto:shubham.gupta@icraindia.com)

**Manish Ballabh**

+91 124 4545812  
[manish.ballabh@icraindia.com](mailto:manish.ballabh@icraindia.com)

**Gaurav Singla**

+91 124 4545366  
[gaurav.singla@icraindia.com](mailto:gaurav.singla@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 6606 9999

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