



## Press Release

### SM Networks and Solutions Private Limited

November 11, 2024

#### Ratings

Instrument Facility /	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities- Fund based	5.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	-	Assigned	Simple
Short Term Bank Facilities- Non-Fund based	14.00	IVR A3 (IVR A Three)	-	Assigned	Simple
<b>Total</b>	<b>19.00</b> <b>(Rupees Nineteen crore only)</b>				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

#### Detailed Rationale

Infomerics Ratings has assigned its rating of IVR BBB-/Stable and IVR A3 to the long-term and short-term bank facilities of SM Networks and Solutions Private Limited (SMNSPL). The ratings derive strength from long and successful track record, satisfactory capital structure and comfortable debt protection metrics, and satisfactory order book position indicating healthy revenue visibility. However, the rating strengths are partially offset by small scale of operations, competition from major players in the industry, working capital intensive nature of operations and high receivables. cyclical in the IT industry coupled with technology obsolescence risk are other risk factors constraining the ratings.

The 'Stable' outlook reflects Infomerics' expectation that the company will demonstrate steady revenue growth and stable profitability margins, supported by its large order book of Rs.262cr as on 30 September 2024. The company's debt service coverage ratio is expected to be maintained at comfortable levels over the medium term on account of low debt levels vis-à-vis the scale of operations.



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### Key Rating Sensitivities:

#### Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals.
- Substantial increase in order book size together with diversification of its client base to include prime corporates and PSUs.
- Sustenance of the capital structure with improvement in debt protection metrics.

#### Downward Factors

- More than expected dip in operating income and/ or moderation in profitability impacting the debt coverage indicators.
- Elongation in receivable period and/or increase in working capital intensity impacting the liquidity.

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

- **Long and successful track record**

The company started its business operation from 2007 in Mumbai, thus, enjoying over 17 years of successful operational track record. During this long tenure, the company gradually diversified its service portfolio in IT field and has established alliances with reputed brands like HP, Cisco, Veritas, Fortinet, D-Link, etc.

- **Satisfactory capital structure and comfortable debt protection metrics**

Financial risk profile of the company continued to remain satisfactory marked by its comfortable capital structure, satisfactory debt coverage indicators and minimal near to medium term debt repayment obligations. With minimal long-term debt in the capital structure, the debt equity ratio remained comfortable at 0.04x as on March 31, 2024. The overall gearing ratio remained comfortable at 0.12x as on March 31, 2024. However, total indebtedness of the company marked by TOL/TNW remained high at 3.49x as on March



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31, 2024, as a result of provisions that relate to post-sales client support that is applicable for long-term contracts. The debt protection parameters of the company, marked by interest coverage ratio and DSCR although weakened, continued to remain comfortable, at 7.04x and 4.57x respectively in FY24

- **Satisfactory order book position indicating healthy revenue visibility**

The company has an order book amounting to ~Rs.262. crore as on September 30,2024 of which ~Rs.123 crore is expected to be realized in FY25 showing revenue visibility in the near future. SMNSPL has achieved a turnover of ~Rs. 63 crore for the period April'24 to Sept'24, but still expects to achieve revenues of over Rs.200cr for FY25, due to spillover of unexecuted orders of FY24 which are being executed in the current year, as well as robust order pipeline. Additionally, most of the orders are typically executed in Q4FY25.

### Key Rating Weaknesses

- **Small scale of operation**

The size of a player's operation in the IT services industry directly impact economies of scale benefits and its ability to sustain headwinds in terms of pricing pressure, attrition of workforce and loss of key clients. SMNSPL is relatively a small player in IT service business with a total operating income of ~Rs.127 crore in FY24(A) and ~Rs.63 crore in 6MFY25. However, being in service sector the company has satisfactory profit margin over the past three fiscals

- **Competition from major players in the industry.**

IT/ITES industry is very competitive and mostly organized in India. SMNSPL faces direct competition from many organized and established players in the domestic market. There are various players catering to the same market which limits the bargaining power of the company and consequently results in pressure on its margins. Though the company is empaneled for various Government agencies for IT needs, but the orders are majorly awarded through the tender-based system. Any changes in the government policy and spending on projects are likely to affect the revenues of the company.



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- **Working capital intensive nature of operations and high receivables**

The operation of the company is working capital intensive. The company receives stage wise payments in a typical works contract, whereby initial 30% is received against delivery, additional 40% against installation and balance usually in 3-4 months after installation. Due to this, the debtor days is generally high, although backed by 60-90 days of creditor days. Working capital requirements can increase significantly in instances where any delays by suppliers can lead to delay in the execution of orders, as was the case in FY24. Average collection days at end FY24(A) stood at 206 vis-à-vis creditor days of 129. The company's client base is majorly government entities, where in the payments at times are elongated owing to procedural delays.

- **Cyclical nature in the IT industry coupled with technology obsolescence risk**

IT industry is cyclical in nature which leads to fluctuation in demand. This apart, the industry is highly technology oriented with continuous innovations and technology upgradations. Thus, the company has to keep abreast of evolving trends in technology and invest in upgrading the skills of its workforce on continuous basis in order to command a market presence in the industry

### **Analytical Approach:** Standalone

List of companies considered for consolidation/combined analysis is given at Annexure 4.

### **Applicable Criteria:**

[Rating Methodology for Service Sector Companies](#)

[Criteria on assigning rating outlook](#)

[Policy on Default Recognition and Post-Default Curing Period](#)

[Complexity Level of Rated Instruments/Facilities](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\).](#)

### **Liquidity – Adequate**

The company's liquidity is adequate marked by ~50% average utilization of fund-based working capital limits for last 12 months ended September 2024. It expects moderate cushion in cash accrual against its scheduled debt repayment obligation. The current ratio and quick



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ratio of the company stood at 1.56x and 1.44x respectively as on March 31, 2024. The unencumbered cash and bank balance as on September 30, 2024, is Rs.8.86 crore. The gross cash accruals over FY25-FY27 are expected to be significantly higher than the annual repayment obligation of ~Rs. 1.5-2 crores and will provide a comfortable cushion to the liquidity of the company.

### **About the Company**

Incorporated in 2007 and located in Mumbai. SMNSPL is an IT infrastructure and security consultancy with over 16+ years of experience. The company offers a variety of services, including cybersecurity, backup solutions, and SaaS (Software as a Service), tailored to meet the unique needs of organizations of all sizes. Additionally, SMNSPL supplies a range of laptops, desktops, printers, and IT peripherals, ensuring reliable delivery of all products. Day-to-day affairs of the company are looked after by the directors- Mr. Sunil Sharma and Mr. Manmohan Sharma.

### **Financials (Standalone):**

	<b>(Rs. crore)</b>	
<b>For the year ended/ As on*</b>	<b>31-03-2023</b>	<b>31-03-2024</b>
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	118.80	127.07
EBITDA	17.86	9.96
PAT	12.44	6.03
Total Debt	4.93	5.99
Tangible Net Worth	18.33	24.36
EBITDA Margin (%)	15.04	7.84
PAT Margin (%)	10.46	4.71
Overall Gearing Ratio (x)	0.27	0.25
Interest Coverage (x)	23.29	7.04

*\* Classification as per Infomerics' standards.*

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

**Any other information: None**

**Rating History for last three years:**





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Sr. No.	Name of Security/Facilities	Current Ratings (Year T)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in T-1	Date(s) & Rating(s) assigned in T-2	Date(s) & Rating(s) assigned in T-3
					Date (Month XX, 20XX)	Date (Month XX, 20XX)	Date (Month XX, 20XX)
1.	Cash Credit	Long Term	5.00	IVR BBB-/Stable	-	-	-
2.	Bank Guarantee	Short Term	14.00	IVR A3	-	-	-

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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI). Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit [www.infomerics.com](http://www.infomerics.com).

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### Annexure 1: Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	-	5.00	IVR BBB-/Stable
Bank Guarantee	-	-	-	-	14.00	IVR A3

### Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-SMNetworks-nov24.pdf>

**Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable**

**Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable**

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).