**Press Release**

**Smart Card IT Solutions Limited**

**January 16, 2019**

**Ratings**

| Sl. No. | Instrument/Facility | Amount (Rs. Crore) | Rating Assigned |
|---|---|---|---|
| 1. | Long Term Fund Based Limits | 47.35 (including proposed limit of Rs.10 crore) | IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook) |
| 2. | Long Term Debt-Term Loan | 30.79 | IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook) |
| 3. | Short Term Non-Fund Based Facilities | 11.30 | IVR A3+ (IVR A Three Plus) |
| | **Total** | **89.44** | |

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The rating derives strength from the established and resourceful promoters, regular infusion funds by way of equity/unsecured loans by promoters and promoters group, presence in niche market, established relationship with clients, improvement in scale of operations, healthy profitability margins, improving capital structure and debt coverage indicators. The rating however is tempered by volatility in raw materials prices, working capital intensive operation, exposure to foreign exchange fluctuations and vulnerability to change in regulations in smart card industry. Input price volatility and consequential profitability and working capital management are the key rating sensitivities.

**Detailed Description of Key Rating Drivers**

**Key Rating Strengths**

**Established and resourceful promoters**

The company is promoted by Mr. Jitendra Mehta and his son Mr. Deven Mehta. Mr. Deven Mehta is the CEO of the company and his wife, Dr. Usha Mehta is a Whole Time Director in the company. Mr. Deven Mehta has over three decades of experience in various businesses including investments in real estate and capital markets.

**Regular infusion of funds by promoters**

Promoters and related groups have infused capital in the business at regular intervals. The promoters have infused equity aggregating to Rs.20 crore during the last three years.

**Presence in niche segment**

SCIT manufactures smart cards & SIM cards for reputed clients in telecom, banking and government identification segments. The company ventured into manufacturing cards for the banking segment in FY16 and over the years the business from this segment has increased considerably.

**Established relationship with clients**

In telecom segment, the company supplies Subscriber Identification Module (SIM) cards to domestic and international operators. In identification segment, SCIT supplies various types of cards (electronic tool cards, govt. and private ID cards) to reputed clients.

**Improvement in scale of operations**

SCIT reported a CAGR of 26.50% in total operating income in the past three years (FY16-FY18) which is primarily attributed to card manufacturing for telecom segment. Further, the company reported significant increase in revenue from execution of orders in banking segment in FY18.

**Healthy profitability margins**

The EBITDA margin and PAT margin of the company are healthy at around 11.5%-12.50% and 3%-4% respectively.

**Improving capital structure and debt coverage indicators**

Equity infusion coupled with repayment of debt has helped the company to improve its overall gearing ratio. The long term debt to equity ratio was comfortable at 0.95x as on March 31, 2018. The interest coverage ratio stood at 3.39x in FY18.

**Key Rating Weakness**

**Volatility in raw material prices**

Primary raw material for manufacturing of smart cards is module, PVC and inks. Any fluctuation in prices of raw material is directly passed on to the clients. Since the fluctuation happens with some time lag and this would impact operation of the company to a certain extent. However, the company purchases raw material in bulk quantities in advance in order to mitigate the raw material price volatility to some extent.

**Working capital intensive operation**

The inventory holding period is generally high at around 80-100 days over the last three years. This is so consciously in order to keep its ultimate turnaround time low (since the company manufactures a wide variety of products and the strategy is well reflected in its low average finished goods holding period). The debtor collection days are 75 days in FY18. The operating cycle of the company stood at 70 days in FY18.

**Exposure to foreign exchange fluctuations**

In FY18, exports accounted for about 7%-8% of the total sales and approximately 70% of the raw material purchased were imported. The company generally does not hedge its forex exposures. Thus, the company is exposed to volatility in foreign exchange.

**Vulnerability to change in regulations in smart card industry**

SCIT supplies cards to various entities in the public as well as private sector. There are certain set of accreditations and certifications which are required to be eligible for bidding. Complying with the modification in these regulations/norms (if any), would be critical for the company.

**Analytical Approach & Applicable Criteria:**

Standalone

Rating Methodology for Manufacturing companies

Financial Ratios & Interpretation (Non-Financial Sector)

**Liquidity**

The company is earning a modest level GCA and the same is expected to increase gradually with increase in scale of operation and level of margin, while the long term debt is likely to reduce indicating lower debt servicing obligations. Promoters have financially supported the operation of the business as and when required and the same is expected going forward and a part of which is reflected in increase in net worth on this score. All these factors indicate a moderate degree of liquidity support to the company in meeting its debt obligations.

**About the Company**

Smart Card IT Solutions Limited (SCIT) is a leading manufacturer of smart cards in India. The company commenced operation in 2012. The company is primarily engaged in the manufacturing of smart cards for the telecom, banking and identity verticals. Of late, the company has also started exporting its products to Middle East and South East Asian countries. SCIT is promoted by Mr. Jitendra Mehta, Mr. Deven Mehta (son of Mr. Jitendra Mehta) & other family members. Mr. Deven Mehta is the CEO of the company and his wife, Dr. Usha Mehta is a Whole Time Director in the company. SCIT has its corporate office in Mumbai, and two manufacturing facilities at Sanaswadi, Pune (both the facilities are situated close to each other). Both the facilities are ISO 9001: 2008 certified. The combined annual installed production capacity of both the manufacturing facilities together is ~462 million cards.

**Financials (Standalone Basis)** **(Rs. crores)**

| **For the year ended* / As On** | **31-03-2017 (Audited)** | **31-03-2018 (Audited)** |
|---|---|---|
| Total Operating Income | 251.16 | 280.16 |
| EBITDA | 30.16 | 34.86 |
| PAT | 13.19 | 11.56 |
| Total Debt | 106.23 | 116.76 |
| Tangible Networth | 82.34 | 99.45 |
| EBITDA Margin (%) | 12.01 | 12.44 |
| PAT Margin (%) | 5.17 | 4.08 |
| Overall Gearing Ratio (x) | 1.29 | 1.17 |

* Classification as per Infomerics' standards

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

**Any other information: N.A**

**Rating History for last three years:**

| Sl. No. | Name of Instrument/ Facilities | Current Rating (Year 2018-19) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2017-18 | Date(s) & Rating(s) assigned in 2016-17 | Date(s) & Rating(s) assigned in 2015-16 |
| 1. | Fund Based Facilities | Long Term | 47.35 (including proposed limit of Rs.10 crore) | IVR BBB /Stable Outlook | -- | -- | -- |
| 2. | Term Loan | Long Term | 30.79 | IVR BBB /Stable Outlook | -- | -- | -- |
| 3. | Non-Fund Based Facilities | Short Term | 11.30 | IVR A3+ | | | |

**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.

**Name and Contact Details of the Rating Analyst:**

Name: Mr. Abhilash Dash

Tel: (022) 40036966

Email: abdash@infomerics.com

**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

**Annexure 1: Details of Facilities**

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|---|---|---|---|---|---|
| Long Term Fund Based Limits | -- | -- | -- | 47.35 (including proposed limit of Rs.10 crore) | IVR BBB/Stable Outlook |
| Long Term Debt-Term Loan | -- | -- | Feb 2022 | 30.79 | IVR BBB/Stable Outlook |
| Short Term Non-Fund Based Facilities | -- | -- | -- | 11.30 | IVR A3+ |