Smartmeters Technologies Private Limited

September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	68.76 (Reduced from 73.00)	CARE BBB-; Stable	Revised from CARE BBB; Stable
Long Term / Short Term Bank Facilities	7.00	CARE BBB-; Stable / CARE A3	Revised from CARE BBB; Stable / CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Smartmeters Technologies Private Limited (SMTPL) is on the back of its negative sensitivities getting triggered with lower than envisaged total operating income (TOI) reported in FY24, its first year of operations, along with operating loss leading to tightening of its liquidity and weakening of debt coverage indicators.

The ratings, however, continue to derive strength from SMTPL's strong parentage, moderate revenue visibility from its joint venture partner, Adani Total Gas Limited (ATGL, holds 50% stake in SMTPL) for supply of gas meters on an arms-length basis, and stable demand outlook for gas meters. The ratings also factor in stance of promoter for need-based funding support to meet any operational or debt servicing requirement in case of any further delay in ramp up of operations.

The ratings continue to remain constrained by SMTPL's leveraged capital structure and susceptibility of profitability to volatile raw material prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Scaling up of operations with TOI over Rs.125 crore along with healthy profitability
- Improvement in overall gearing below 2x on a sustained basis
- Improvement in debt coverage indicators marked by PBILDT interest coverage above 3x and total debt/ gross cash accruals below 6x on a sustained basis

Negative factors

- Continued subdued performance with TOI below Rs.50 crore and/or continued PAT losses resulting in further depletion of networth and impacting liquidity profile
- Delay in need-based funding support from promoters

Analytical approach: Standalone along with factoring in strong parentage and operational linkage with ATGL. SMTPL would cater to ATGL's part requirement of gas meters.

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') view that SMTPL is likely to have moderate revenue visibility from supply to ATGL, given the increasing demand of gas meters in the industry. Stable outlook also reflects timely receipt of any need-based funding support from SMTPL's promoters, owing to its nascent stage of operations.

Detailed description of key rating drivers:

Key strengths

Experienced and resourceful promoters

Smartmeters Technologies Private Limited (SMTPL) is a 50:50 Joint venture of Adani Total Gas limited (ATGL) and GSEC Limited (GSEC). The experience of promoters of ATGL in energy industry along with its presence in the city gas distribution (CGD) business is expected to augur well for SMTPL. Furthermore, promoters of GSEC have also set up another entity for manufacturing of electric meters which is likely to increase their presence in the energy space. Day to day operations of SMTPL are being managed by GSEC, while ATGL has representation on board and provides strategic insights on the overall operations of the company.

Promoters, via GSEC, have demonstrated their funding support to SMTPL by way of infusion of unsecured loans of around Rs. 18 crore in Q1FY25 to support business operations. As on June 30, 2024, outstanding unsecured loans from promoter stood at Rs.31.44 crore.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Stable demand outlook
With government's thrust on increasing share of natural gas from 6% to 15% by 2030 and increased penetration of CGD business in the country, the demand outlook for gas meters remains stable. Over the next 10 years, more than 7 crore gas meters are likely to be installed in the country with the increasing allocation of geographical areas to CGD players. The demand of gas meters, both for domestic and commercial uses, is driven by increasing gas consumption and government's support. Furthermore, focus on improved resource management and reduction in energy losses is also likely to derive the demand of smart meters in the country.

Key weaknesses

Lower than envisaged scale of operations in FY24 along with operating losses, however moderate revenue visibility
During FY24, SMTPL reported total operating income of Rs.18.69 crore with lower than envisaged tenders floated during the period as well as lower sales of smart meters due to lack of government impetus on the same. With inability to scale up as expected, SMTPL reported operating loss of Rs.0.75 crore and cash loss of Rs.7.05 crore in FY24. Cash loss widened in FY24 due to interest cost incurred post commencement of commercial operations in July 2023 (capitalized till commercialization) as well as availing of working capital limits. The operations were supported by infusion of unsecured loans as well as availment of debt.
In Q1FY25, SMTPL achieved sales of ~Rs. 3.50 crore and as per management, in 5MFY25, SMTPL has achieved sales of ~Rs.8 crore with continued losses. The operations have been supported by infusion of interest-bearing unsecured loans by GSEC limited. Furthermore, SMTPL had orders of around Rs.24 crore as per order booking status of August 2024 and orders worth around Rs. 30 crore are expected to be received as per the open tenders in Industry as on August 2024, indicating moderate revenue visibility going forward.

Leveraged capital structure and poor debt coverage indicators
SMTPL's capital structure remained highly leveraged marked by overall gearing of 5.08x at FY24 end as against 2.89x at FY23 end. The deterioration of capital structure is owing to reduction in networth base to the tune of losses incurred in FY24. Also, SMTPL utilized working capital limits of Rs. 7.38 crore at FY24 end (P.Y: nil), resulting in increase in debt level as on FY24 end. GSEC Limited has infused unsecured loans of ~Rs.18 crore in Q1FY25 to support operations of the company. With operating losses, debt coverage indicators remained weak in FY24.
Capital structure and debt coverage indicators are expected to gradually improve on the back of stabilization of operations and demand off-take by ATGL, along with other CGD players.

Susceptibility to volatility in raw material prices and forex rates
Key raw materials for manufacturing / assembly of gas meters include metals, plastics and semiconductors. Prices of these materials exhibit volatility with linkages to demand supply dynamics in domestic and international markets. Thus, profitability of the company shall remain exposed to volatility in raw material prices, depending upon its ability to pass on such an increase to the end-users who are established players in the energy industry.
Also, imports are expected to constitute 30-40% of raw material cost (including imports of semiconductor chips for smart meters). Thus, company shall also remain exposed to forex fluctuation risk, depending upon the hedging policy adopted by the management.

Liquidity: Adequate

With recent commencement of operations, the topline is expected to scale up gradually. Thus, gross cash accruals in the initial years are expected to be tightly matched against the term loan repayments, with any shortfall expected to be met out of infusion of funds from promoters as articulated by the management. The 50% parentage of ATGL provides comfort from credit perspective, given its adequate financial risk profile. Further, promoters and related parties of GSEC have also supported its investment requirements (including its investment in SMTPL) through unsecured loans, indicating their resourcefulness. Thus, funding shortfall in SMTPL is expected to be met through promoter contribution. Till June 30, 2024, promoters have infused Rs. 31.44 crore in form of unsecured loans.
SMTPL's Operating cycle improved to 58 days in FY24 as against 160 days in FY23, primarily due to improvement in Collection period to 60 days. Going forward, the collection period is expected to remain efficient on the back of its reputed customer base. Also, cash flow from operations remained positive at around Rs. 10 crores.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Factoring Linkages Parent Sub JV Group
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

Smartmeters Technologies Private Limited (SMTPL), incorporated on 7th October 2019, is situated in Ahmedabad. It was set up for the purpose of manufacturing Smart & Mechanical Gas Meters, along with Automatic Meter Reading (AMRs). The company is owned by Adani Total Gas Limited (50%) and GSEC Ltd (50%).
The company has the capacity of manufacturing 0.72 million pieces.

About the promoters
Adani Total Gas Limited, incorporated in 2005, is engaged in the City Gas Distribution (CGD) business, which involves marketing and distribution of natural gas (piped and compressed). It is held 37.4% by Total Energies SA (one of the leading global Liquefied Natural Gas players) and 37.4% by Adani Group; and the balance is held by general public.

GSEC Limited was incorporated in 1965 by the Gujarat government. Post disinvestment by the state government in 2004, GSEC is now owned by Mr Rakesh Shah and his family members. The company provides air cargo services and operates as a cargo custodian at Ahmedabad International Airport. GSEC also has an operations and maintenance contract for the air cargo terminal at the Visakhapatnam airport. The company also trades in commodities such as agricultural commodities, bitumen, and fuel oil.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	8.23	18.69	3.59
PBILDT	-0.72	-0.75	-0.85
PAT	-1.41	-8.70	-3.82
Overall gearing (times)	2.89	5.08	NA
Interest coverage (times)	NM	NM	NM

A: Audited UA: Unaudited; Note: these are latest available financial results, NA: not available; NM: not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	16.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	10-12-2029	52.76	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	7.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	52.76	CARE BBB-; Stable	-	1)CARE BBB; Stable (05-Sep-23)	-	-
2	Fund-based - LT-Cash Credit	LT	16.00	CARE BBB-; Stable	-	1)CARE BBB; Stable (05-Sep-23)	-	-
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	7.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3+ (05-Sep-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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