

March 22, 2016

Facility	Amount (Rs. Crore)	Rating
Bank Guarantee (Proposed)	25.00	SMERA A2+ (Assigned)

SMERA has assigned a short term rating of '**SMERA A2+**' (**read as SMERA A two plus**) to the above mentioned bank facility of Smart Chip Private Limited (Smart Chip).

To arrive at the rating, SMERA has consolidated the business and financial risk profiles of four entities viz. Smart Chip, Syscom Corporation Private Limited (Syscom), Inlays India Private Limited (Inlays) and Adhikaar Datapro Systems Private Limited (Adhikaar) collectively referred to as 'Morpho India'. The consolidation is in view of the common ownership apart from the operational and financial linkages within the group.

The rating draws comfort from Morpho India's established market position in the chip card (SIM, smart and bank cards) and biometrics market, healthy financial risk profile with adequate liquidity and support received from its parent i.e. Morpho Cards GmbH (Germany), a wholly owned subsidiary, Morpho S.A. of France. However, the rating remains constrained by the moderately competitive chip card and biometrics industry coupled with risks related to the tender based nature of business.

Morpho India's parent company i.e. Morpho Cards GmbH (Germany) is a wholly owned subsidiary of Morpho S. A., France [Part of Safran S.A. (France)] which has revenues of over €1.5 billion. Further, it operates in nearly 55 countries and is a globally renowned manufacturer for ID documents, biometrics systems and chip cards especially SIM cards.

Morpho India is one of the largest manufacturers of chip cards especially SIM, smart and bank cards in India. Its major revenues are from sale of SIM cards to group companies (exported) and domestic telecom players. Further, its other products such as smart cards, bank cards and biometrics are sold to state transport departments, the defence sector and banks.

The group's healthy financial risk profile, is marked by healthy tangible net worth of Rs.264.58 crore as against total debt of Rs.0.31 crore as on March 31, 2015, interest coverage ratio of 53.33 times and net cash accruals of Rs.91.03 crore for FY 2014-15.

Morpho India receives support from its parent company by way of flexible credit terms on purchases along with the ongoing business support.

Though Morpho India is one of the largest manufacturers of chip cards in India, any change in the customer preferences or regulatory environment or entry of new players in this rapidly developing technologically driven market could impact its existing business profile.

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Smart Chip (part of Morpho India), has a successful tender execution track record. However, its market position could be impacted by significant changes in government policies on procurements and its business risk profile would nonetheless remain open to vagaries of tender based nature of operations.

Rating Sensitivity Factors

- Substantial and sustainable growth in revenues or operating margins
- Ability to manage technological obsolescence risk
- Ability to adapt to regulatory changes
- Future capex plans and its funding mix thereof

About the Company

While Morpho India comprises four major entities viz. Smart Chip, Syscom, Adhikaar and Inlays only Syscom and Smart Chip are the major revenue contributors. Smart Chip, subsidiary of Morpho Cards GmbH (Germany), was incorporated in 1996 and is engaged in the business of smart cards, biometrics, bank cards and other related services. Its products/solutions are used in the Indian ID market in the areas of e-governance, healthcare, transport and banking domain.

Syscom, the wholly owned subsidiary of Smart Chip was incorporated in 1996 and is engaged in the manufacture of SIM, smart and bank cards mainly for telecom, transport and the banking industry. Adhikaar, a wholly owned subsidiary of 'Smart Chip' was incorporated in 2010 and is engaged in the manufacture of biometrics, fingerprint scanner and other related products. The company mainly caters to its group companies. Inlays, a joint venture between Smart Chip and ASK S.A., (France) was incorporated in 2009. The company has discontinued manufacturing of contactless smart cards and RFID products.

For FY 2014-15 (refers to financial year, April 1 to March 31), Morpho India has reported profit after tax (PAT) of Rs.64.52 crore on operating income (OI) of Rs.929.68 crore as compared with PAT of Rs.40.15 crore on OI of Rs.883.84 crore in the previous year.

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