November 16, 2022

Exicom Tele-systems Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA]BBB- (Stable); reaffirmed
Fund-based limits	31.0	31.0	[ICRA]BBB- (Stable); reaffirmed
Non-fund based limits	54.0	54.0	[ICRA]A3; reaffirmed
Unallocated	55.0	55.0	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed
Total	**140.0**	**140.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in the healthy growth in Exicom Tele-Systems Limited's (ETSL) group turnover and the improvement in its profitability, along with ICRA's expectations of the trend to sustain in FY2023. The Exicom Group reported healthy revenue growth in FY2022 (operating income of Rs. 905 crore against Rs. 552 crore in FY2021), supported by robust orders in the battery segment and growth in the electric vehicle (EV) segment, leading to better absorption of fixed overheads. This helped ETSL report a net profit of Rs. 3.6 crore in FY2022 against a loss of Rs. 6.5 crore in FY2021. Despite the improvement, the profitability remains lower than the historic levels. While the energy storage business witnesses lumpy revenue generation, the Group is likely to witness healthy growth in the EV segment. Revenue generation in the core business of power electronics will remain steady. With the increase in sales in the EV segment, the profitability is also expected to improve in FY2023.

The high-growth EV segment is proposed to be hived off from ETSL into a separate entity, which will become a subsidiary of parent company Nextwave Communications. Thus, the proposed hive off, expected by the end of the current fiscal, will lower the operating income of the ETSL Group from FY2024 with power electronics and energy storage systems as its key business segments.

The working capital intensity of operations has improved with the reduction in debtor and inventory levels, leading to adequate liquidity position along with healthy cash accruals. The ratings continue to factor in the extensive experience of the promoters of the Exicom Group in the power electronics industry, its reputed and established customer base and a comfortable healthy capital structure (reflected in a gearing of 0.6 times as on March 31, 2022).

However, the ratings are constrained by pressures on the company's profitability in recent years because of limited economies of scale and the vulnerability to adverse movement in raw material prices and foreign exchange rates. Moreover, the Group's dependence on the telecom segment for its revenues remains high, although efforts are being made to diversify the sectoral presence through expansion in the EV segment. Now, as the EV segment is being hived off, ETSL will be once again dependent on the telecom segment. Additionally, the Group remains exposed to client concentration risk as a single customer accounts for a sizeable part of its revenue.

Key rating drivers and their description

Credit strengths

Experience of promoters and Group's track record of operations in telecom infrastructure space – ETSL is promoted by Mr. Anant Nahata, who has significant experience in the power electronics business. Over these years, the management has developed healthy relationships with key telecom tower companies, which resulted in constant business from them.

Healthy growth in operating income in FY2022; trend to continue in FY2023 – The Exicom Group reported significant revenue growth in FY2022 (operating income of Rs. 905 crore against Rs. 552 crore in FY2021), supported by rising demand and growth in the EV segment, leading to better absorption of fixed overheads. The company reported profits of Rs. 3.6 crore in FY2022 against a net loss of Rs. 6.5 crore in FY2021. The turnover is likely to remain healthy in FY2023 as well on the back of growth in the EV segment, even as the other segments are expected to remain steady. The overall financial profile remains comfortable as the working capital intensity improves with the reduction in debtor and inventory levels and comfortable capital structure and debt protection metrics.

Order book in hand provides revenue visibility for current fiscal – The Group has a sizeable order book of ~ Rs.545 crore as of October 2022, which provides revenue visibility for the current fiscal. Only part of the order book comprises the supply of lithium ion batteries, while the rest includes other product segments such as power electronics and EV chargers.

Favourable demand outlook for EV segment – Given its strong in-house R&D capabilities, the Group has been able to develop products for the EV segment – batteries and chargers. It is already supplying these to established players in the segment and remains focussed on expanding its presence in electric vehicles. The favourable demand outlook for the EV segment provides opportunities for future growth. While this segment is expected to witness healthy growth in FY2023, the business is proposed to be hived off to ETSL's parent company.

Credit challenges

Profitability under pressure in recent years – The Group's profitability and liquidity have been under pressure in recent years because of the moderation in revenue due to the deferment of some orders, the adverse impact of the pandemic on operations and unfavourable movement of raw material prices and foreign exchange rates. However, the company bounced back to profit in FY2022 on the back of a healthy performance, although the profitability remains lower than the historic levels.

High level of receivables and dependence on telecom sector– Although the overall working capital intensity of the business has moderated with the reduction in receivables and inventory levels, the receivables in the power electronics business remain high, especially from Government clients. Moreover, the stretching of such receivables can impact the company's working capital cycle and liquidity. The Group's dependence on the telecom segment for its revenues remains high. Moderation in the capex cycle of the telecom sector has led to some moderation in growth in this segment for ETSL.

High-growth EV business being hived off to parent entity – ETSL has recently ventured into the EV segment. This segment is likely to present healthy growth opportunities. The company has been receiving orders from various customers like Tata Motors, MG Motors etc. and currently has a healthy order book position. However, a business restructuring has been proposed wherein the EV battery and EV charger businesses will be transferred to two separate entities on a slump-sale basis and these entities will be owned by Nextwave Communications, which is the promoter entity of ETSL.

Liquidity position: Adequate

ETSL liquidity profile is adequate, supported by free cash/bank balances (~ Rs. 42 crore as of March 2022 on a consolidated level), undrawn bank lines and improvement in cash accrual generation. Moreover, the debt repayment obligations for the Group over the medium term are not too significant and the internal accrual generation is expected to be sufficient to service the same.

Rating sensitivities

Positive factors – The ratings may be upgraded if a healthy growth in operating income and internal accrual generation, without any major increase in debt levels, improves the debt protection metrics, on a sustained basis.

Negative factors – The ratings can be downgraded if the operating income declines and the profitability is under pressure. An increase in the working capital requirements due to stretched receivables and/or any sizeable debt-funded capex that may push up the reliance on external debt will also affect the ratings. Specific credit metrics for a downgrade include TOL/TNW of more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Exicom Tele-Systems Limited. As on March 31, 2022, the company had two subsidiaries and a step-down subsidiary, who are enlisted in Annexure-2. They are together referred to as the Exicom Group or the Group.

About the company

ETSL was originally incorporated in 1994 as Himachal Exicom Communications Limited (a joint venture between HFCL Limited and Exicom Australia) to manufacture telecom power equipment and offer power solutions (power converters). Exicom Australia exited in 1995; in 2008, the company was renamed as Exicom Tele-Systems Limited.

ETSL is involved in the business of power electronics and energy storage solutions. Its main products include power systems for telecom towers, primarily switch mode power supply (SMPS) and lithium-ion batteries. It recently ventured into the supply of EV charging units. ETSL also provides after-sales services, battery services, pre-dispatch services, R&D services and annual maintenance contracts.

Key financial indicators (audited)

ETSL Consolidated	FY2021	FY2022
Operating income	551.9	905.1
PAT	-6.5	3.6
OPBDIT/OI	1.6%	5.4%
PAT/OI	-1.2%	0.4%
Total outside liabilities/Tangible net worth (times)	2.0	1.6
Total debt/OPBDIT (times)	14.1	2.6
Interest coverage (times)	0.5	2.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Nov 16, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Nov 16, 2022	August 6, 2021	August 14, 2020	April 20, 2020	March 3, 2020
1	Issuer rating	Long Term	-	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
2	Fund-based limits	Long term	31.0	NA	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
3	Non-fund based limits	Short term	54.0	NA	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A2	[ICRA]A2
4	Unallocated limits	Long/ Short term	55.0	NA	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Negative)/ [ICRA]A3	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not applicable
Fund based limits	Simple
Non fund based limits	Very Simple
Unallocated limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	-	-	-	-	[ICRA]BBB- (Stable)
NA	Fund based CC	NA	NA	NA	31.0	[ICRA]BBB- (Stable)
NA	Non-fund-based limits	NA	NA	NA	54.0	[ICRA]A3
NA	Unallocated limits	NA	NA	NA	55.0	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	ETSL Ownership	Consolidation Approach
Exicom Tele-Systems (Singapore) Pte Ltd	100.0%	Full Consolidation
Horizon Tele-Systems SDN BHD*	100.0%	Full Consolidation
Energywin Technologies Private Limited	100.0%	Full Consolidation

*Source: Exicom Tele-systems Limited Annual report , * Step-down subsidiary*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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