

Exicom Tele-Systems Limited

December 20, 2018

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	[ICRA]BBB+ (Stable); assigned

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favourably factors in the extensive experience of the promoters of the Exicom Group in the power electronics industry, its reputed and established customer base, and its diversified product portfolio. The ratings also factor in the healthy growth of 43% in operating income (OI) during FY2018 (CAGR of 51% over the last three years) and consistent improvement in profitability to 10.6% in FY2018 from 6.7% in FY2016. Moreover, with healthy order book position in both power electronics as well as energy storage business, the OI is expected to grow steadily. ICRA also factors in the strong research and development (R&D) capabilities developed by the company, which helps in constant improvisation and customisation of its products. Further, the rating factors in the low reliance of the company on external debt and consequently healthy capital structure (gearing of 0.24 times as on March 31, 2018) and comfortable coverage indicators (interest coverage of 9.10 times, debt/OPBDITA of 0.60 times and NCA/Debt of 141% as on March 31, 2018). The Group also enjoys adequate liquidity position on the back of healthy cash balances, cushion in the working capital borrowings against drawing power, low repayment obligations and limited expected capex plans going forward.

However, the rating is constrained by the Group's dependence on the telecom segment for its revenues, although efforts are being made to diversify sectoral presence. ICRA also notes that most of the revenues of the Group are derived from a single customer – Reliance Jio Infocomm Limited (RJio) – which exposes it to significant client-concentration risks. The ratings also take into account the vulnerability of profitability to fluctuations in the raw material prices and adverse movement in foreign currency exchange rates. The Group faces intense competition in all its business lines which limits its profitability. In addition, a large portion of the revenues are accrued from the lithium-ion batteries segment, where the consistent demand remains to be seen and where the trading nature impacts the margins. Although the overall working capital intensity of the business remains low, receivables in the power electronics business remain high, especially from the Government clients. ICRA takes note of sizeable write-offs over the last two years on account of the discontinuation of the solar business and liquidated damages paid to the Government clients for delays in supply of orders and for unrelated investments. Moreover, any fresh investments or financial support to Group companies/related associates cannot be ruled out.

Outlook: Stable

ICRA believes that the Group will continue to benefit from the experience of its promoters and continue to register healthy growth in its OI in the near to medium term. The outlook may be revised to Positive if substantial growth in revenues and profitability, and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if the cash accrual is lower than expected, or if any major capital expenditure, or financial support to any other entity, or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Experience of promoters in power electronics industry – The company 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 the key telecom tower companies, which in turn has resulted in constant business from these companies.

Diversified product base – The Group was primarily involved in power electronics, but later diversified its revenue stream by foraying into lithium-ion batteries and electric vehicle (EV) chargers. In FY2018, batteries contributed 62% to the total sales, followed by power electronics at 30% and services at 7%. The EV charger business is at a nascent stage and is expected to grow in the near future.

Strong R&D capabilities – The Group has developed in-house R&D capabilities for product development and customisation in both power electronics as well as the energy storage space. In FY2018, the R&D spend was Rs. 14.1 crore, accounting for 2% of the total OI. The R&D activities for power electronics are being carried out in Gurgaon, while the company has developed a new R&D centre in Bangalore for batteries and EV chargers.

Consistent growth in OI and improvement in profitability – The OI has been growing at a healthy pace as reflected by a CAGR of 51% over the last three years, primarily driven by strong growth in both batteries and power electronics segment. The profitability has also witnessed steady improvement with increasing scale of operations. During FY2018, the company reported OPBDITA margins of 10.6% against 8.8% in FY2017.

Healthy capital structure and adequate coverage indicators – With limited reliance on external debt, the capital structure of the Group has been healthy as marked by gearing of 0.24 times as on March 31, 2018. Further, debt coverage indicators are adequate as reflected by interest coverage of 9.10 times, debt/OPBDITA of 0.60 times, NCA/Debt of 141% and debt service coverage ratio of 7.68 times as on March 31, 2018.

Comfortable liquidity position – The Group had consolidated cash balances of Rs. 46.4 crore as on March 31, 2018, of which free cash was Rs. 38.4 crore. This apart, the company maintains healthy cushion in the working capital limits against the drawing power, which coupled with low debt repayment obligations and limited capex plans, have resulted in comfortable liquidity position for it.

Credit challenges

Dependence on telecom sector – At present, most of the revenues of the Group are derived from the telecom sector, which is going through a tough phase, which in turn is impacting the overall capex cycle in the sector. Further, consolidation in the telecom tower industry impacts the demand for the Group's products. However, the Group has been making efforts to diversify its presence by venturing into products for the automobile segment.

High client-concentration risk – More than 75% of the Group's sales are to a single customer, RJio. As a result, ETSL is exposed to significant client-concentration risks. Although the promoters have long-standing relationships with RJio, the risks remain.

Vulnerability of profitability to any adverse fluctuation in raw material prices – The margins of the Group are largely affected by the raw material price fluctuation. Since a large proportion of Group's products are bought-out and there are long-term pricing contracts with vendors vis-à-vis short-term contracts with customers, any adverse movement in the raw material prices could have a negative impact on the margins.

Intense competition - The competitive intensity of its business segments is high, which puts a tab on the profitability. The competition in the power electronics business is marked by the presence of multinational players like Delta Power Solutions, Emerson Electric Company, etc along with India-based players like Lineage Power Private Limited, etc.

Risks associated with lithium-ion battery business – The Group ventured into the business of lithium-ion batteries some time back and has been supplying the same to RJio. This is primarily a trading business in which the Group procures the batteries from manufacturers in China and Hong Kong. Since this is a new product in the battery industry, the acceptability and product usage remain to be seen. Moreover, the trading nature of operations limits profitability of this business segment.

Instances of sizeable write-offs in past – With adequate cash flow generation from business and limited capex requirements, any additional financial support to related parties/Group companies remains a risk. Further, there have been instances of write-offs in the past which include write-off for the discounted solar business in FY2018 and liquidated damages for delayed supply of orders to Government clients, which along with impairment of investments, have impacted the profitability.

Liquidity position

The company has a comfortable liquidity position marked by healthy cash levels, buffer in the working capital limits against drawing power, and limited debt repayment obligations amid limited capex plans. As on March 31, 2018, ETSL had cash balances of Rs. 46.4 crore, of which free cash available was Rs. 38.4 crore. This apart, the company maintains healthy cushion in the working capital limits against the drawing power (average of more than Rs. 30 crore for last 12 months), which coupled with low debt repayment obligations and limited capex plans has resulted in comfortable liquidity position for the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Consolidation - For arriving at the ratings, ICRA has considered the consolidated financials of Exicom Tele-Systems Limited. As on March 31, 2018, the company had two subsidiaries and one step-down subsidiary, that are enlisted in Annexure-2; these are together referred to as Exicom Group or the Group

About the company

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

ETSL is involved in the business of power electronics and energy storage solutions. The main products of the company include power systems for telecom towers, primarily Switch Mode Power Supply (SMPS) and lithium-ion batteries. It recently ventured into supplying of EV charging units. These products apart, ETSL provides services around these which include after-sales services, battery services, pre-dispatch services, R&D services and annual maintenance contracts.

In FY2018, on a consolidated level, the company reported a net profit of Rs. 38.7 crore on an OI of Rs. 695.3 crore compared with a net profit of Rs. 24.0 crore on an OI of Rs. 486.3 crore in the previous year.

Key financial indicators (audited)

Exicom - Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	486.3	695.3
PAT (Rs. crore)	24.0	38.7
OPBDIT/OI (%)	8.8%	10.6%
RoCE (%)	20.3%	25.1%
Total Debt/TNW (times)	0.26	0.24
Total Debt/OPBDIT (times)	0.88	0.60
Interest coverage (times)	6.77	9.10

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Issuer Rating	Long Term	NA	NA	Dec 2018 [ICRA]BBB+ (Stable)	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]BBB+ (Stable)

Source: Exicom Tele-Systems Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	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

* - Step-down subsidiary

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