March 03, 2020

Exicom Tele-Systems Limited: Ratings reaffirmed; outlook revised to Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	NA	[ICRA]BBB+ (Negative); rating reaffirmed; outlook revised to Negative from Stable
Fund-based CC limits	31.0	41.0	[ICRA]BBB+ (Negative); rating reaffirmed; outlook revised to Negative from Stable
Non-fund based limits	54.0	69.0	[ICRA]A2; reaffirmed
Unallocated limits	25.0	30.0	[ICRA]BBB+ (Negative)/A2; rating reaffirmed; outlook revised to Negative from Stable
Total	**110.0**	**140.0**	

Instrument details are provided in Annexure-1

Rationale

The revision in rating outlook factors in ICRA's expectations on moderation in scale of operations and profitability of Exicom Tele-Systems Limited (ETSL) in the near term in the backdrop of lumpy nature of order execution, possibility of supply disruption and reduced proportion of orders from Government clients. The company's operating income (OI) declined in H1 FY2020 to Rs. 349 crore (as against Rs. 1,006 crore in FY2019 on a consolidated basis), while its operating margins halved to 5.1% in the same period. There was deferment of orders for the energy storage solutions from one of the key customers that has adversely impacted revenues during the current fiscal, which coupled with the management's strategy of limiting ETSL's participation in business from Government customers eventually culminated in contraction of operating margins. ICRA notes that due to the ongoing Coronavirus outbreak in China, the possibility of supply disruptions in the near term cannot be ruled out, which might result in further adjournment in execution of orders.

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 its diversified product portfolio. ICRA factors in the research and development (R&D) capabilities of the Group that enables constant improvisation and customisation of products for Indian requirements. Further, the rating factors in the Group's low reliance on external debt and consequently healthy capital structure as reflected by gearing of 0.22 times as on March 31, 2019 and 0.21 times as on September 30, 2019. ICRA notes the weakening of debt coverage indicators as marked by interest coverage of 3.2 times (10.65 times for FY2019), Total Debt/OPBDITA of 1.58 times (0.53 times) for H1 FY2020, although the metrics still remain comfortable. The Group 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 notes that a predominant portion of the Group's revenues are derived from a single customer – Reliance Jio Infocomm Limited (RJio) – which exposes it to significant client concentration risk, which was witnessed in the current fiscal as reflected by reduced operating income (OI) following deferment of orders from RJIL. The ratings 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. Although the overall working capital intensity of the business remains low, receivables in the power electronics business remain high, especially from the Government clients and stretching of such receivables can impact the working capital cycle. Moreover, any fresh investments or financial support to Group companies/related associates cannot be ruled out.

Key rating drivers and their description

Credit strengths

Diversified product base – The Group was primarily involved in power electronics, but later diversified its revenuestreamby foraying intolithium-ion batteries and electric vehicle (EV) chargers. The EV charger business is at a nascent stage and is expected to grow in the near future. The OI contribution from batteries segment witnessed significant decline in the current fiscal due to deferment of orders from RJIL, which is expected to continue in the near term. This along with possible delays in supplies from China is expected to impact the revenue generation over the near to medium term.

Strong R&D capabilities – The Group has developed in-house R&D capabilities forproduct development and customisation in both power electronics as well as the energy storage space. In FY2019, the R&D spend was Rs. 24.2 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 R&D centre in Bangalore for batteries and EV chargers.

Healthy capital structure and comfortable coverage indicators – With limited reliance on external debt, the capital structure of the Group has been healthy as marked by gearing of 0.22 times as on March 31, 2019 and 0.21 times as on September 30, 2019. Although decline in profitability resulted in weakening of debt coverage indicators, the same remained comfortable as reflected by interest coverage of 3.2 times, Debt/OPBDITA of 1.6 times, and NCA/Debt of 51% as on March 31, 2019. Going forward, no major addition in debt is expected.

Adequate liquidity position – The Group had consolidated free cash balances of Rs. 56 crore as on March 31, 2019. This apart, the company has healthy cushion in the working capital limits against the drawing power, which coupled with low debt repayment obligations and limited capex plans resulted in adequate liquidity position.

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 key telecom tower companies, which resulted in constant business from these companies.

Credit challenges

Decline in OI and margins in current fiscal – Due to deferment of order from RJIL, which is its key customer, the OI in the current fiscal witnessed a significant decline. Decrease in OI, along with reduction in proportion of government business (primarily BSNL) resulted in decline in operating margins to 5.1% in H1 FY2020 from 11.2% in FY2019. Further, over the near to medium term, pressure on OI is expected due to possibility of supply disruptions from China.

Dependence on telecom sector – At present, most of the revenues of the Group are derived from the telecom sector, which is facing headwinds. This 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, RJIL. As a result, ETSL is exposed to significant client concentration risk. Although the promoters share an established relationship with RJIL, the risk remains. In the current fiscal, the Group registered decline in sales due to deferment of orders from RJIL.

Vulnerability of profitability to any adverse fluctuation in raw material prices – The Group's margins are primarily affected by raw material price fluctuation. Since a large proportion of its 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. Further, for majority of the items imported from China, near-term supply disruptions cannot be ruled out.

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

Liquidity position: Adequate

Liquidity remains **adequate** as the company reported liquid unencumbered cash and equivalents of Rs. 56 crore as on March 31, 2019. Further, the working capital intensity remains low, which along with moderate capex requirements and low debt repayment obligations indicate strong liquidity position.

Rating Sensitivities

Positive triggers – Improvement in OI and margins with growth in the EV business, resulting in operating margins of more than 15% on a sustained basis, while keeping working capital intensity (NWC/OI) at less than 20%, may result in a rating upgrade.

Negative triggers – Increase in working capital requirements primarily owing to stretching of receivables resulting in increase in reliance on external debt and increase in TOL/TNW beyond 1.5 times or decline in OI and margins, on a sustained basis, may trigger a downward revision in the rating.

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 twosubsidiaries and onestep-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. Its main products 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 after-sales services, battery services, pre-dispatch services, R&D services and annual maintenance contracts.

In FY2019, on a consolidated level, the company reported a net profit of Rs. 69.2 crore on an OI of Rs. 1,005.9 crore compared to a net profit of Rs. 42.3 crore on an OI of Rs. 702.7 crore in the previous year.

Key financial indicators (audited)

Exicom - Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	702.7	1005.9
PAT (Rs. crore)	42.3	69.2
OPBDIT/OI (%)	11.3%	11.2%
RoCE (%)	25.2%	37.0%
Total outside liabilities/TNW (times)	1.22	1.19
Total Debt/OPBDIT (times)	0.56	0.53
Interest Coverage (times)	10.84	10.65
DSCR (times)	6.37	8.93

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
						Date & Rating in FY2019		Date & Rating in FY2017	Date & Rating in FY2016
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 03-Mar 2020	28-Jan 2019	20-Dec 2018	-	-
1	Issuer Rating	Long Term	NA	NA	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	Fund based limits	Long term	41.0	NA	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-	-	-
3	Non fund based limits	Short term	69.0	NA	[ICRA]A2	[ICRA]A2	-	-	-
4	Unallocated limits	Long/ Short term	30.0	NA	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

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+ (Negative)
NA	Fund based CC	NA	NA	NA	41.0	[ICRA]BBB+ (Negative)
NA	Non-fund-based limits	NA	NA	NA	69.0	[ICRA]A2
NA	Unallocated limits	NA	NA	NA	30.0	[ICRA]BBB+ (Negative)/ [ICRA]A2

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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About ICRA Limited:

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