April 20, 2020

Exicom Tele-Systems Limited: Update

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	NA	[ICRA]BBB+ (Negative); outstanding
Fund-based CC limits	41.0	41.0	[ICRA]BBB+ (Negative); outstanding
Non-fund based limits	69.0	69.0	[ICRA]A2; outstanding
Unallocated limits	30.0	30.0	[ICRA]BBB+ (Negative)/A2; outstanding
Total	**140.0**	**140.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating update follows the impact of the novel coronavirus (Covid-19) pandemic, resulting in pan-India lockdown announced by the Government of India (GoI) on March 24, 2020 and its subsequent extension. This has resulted in the business operations of many corporates, including Exicom Tele Systems Limited (ETSL) coming to a standstill, creating pressure on the liquidity position. ICRA notes that ETSL has sought a moratorium on payments from some of its lenders until May 31, 2020 and those lenders have approved the same, as per the Covid-19 - Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020. The above rescheduling of loans has been factored in the ratings. The company has also availed the Covid-19 emergency credit line from its lenders, which has also resulted in some easing in the immediate liquidity position.

The outlook on the rating was revised to Negative in March 2020 on ICRA's expectations of moderation in ETSL's scale of operations and profitability in the near term in the backdrop of the lumpy nature of order execution, possibility of supply disruption from China due to the Covid-19 crisis and reduced proportion of orders from Government clients. ICRA expects the weak operating performance to continue, given the nationwide lockdown announced by the GoI to contain spread of Covid-19. The company depends on imports from China for its battery and EV charger businesses, and the timely resumption of supply chain remains to be seen. Since the battery and EV businesses are largely trading operations and the company has also received the order from its largest client, which was deferred in FY2020, completion of these orders post the lockdown is expected to support the growth in operating income (OI) and improvement in liquidity position. Till that time, recovery from receivables in the coming months and additional support from promoters will support the company's liquidity.

ICRA will continue to monitor the developments and take the suitable rating action if the lockdown is prolonged and the supply chain remains impacted, leading to pressure on the liquidity position of the company.

Key rating drivers and their description

https://www.icra.in/Rationale/ShowRationaleReport/?Id=92910

Liquidity position: Stretched

Liquidity has been **stretched** in the current environment, given the nationwide lockdown and the closure of manufacturing operations. While the company has committed payables during the current quarter, the cash flow generation is expected to be limited. ETSL has availed the Covid-19 emergency line from banks and the moratorium till May 31, 2020, which is expected to help in tiding over the current situation to some extent.

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, 2019, 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. 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 (FY2021)				Chronology of Rating History for the Past 3 Years			
					Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	20-Apr-20	03-Mar-20	28-Jan-19	20-Dec-18	-
1	Issuer Rating	Long Term	NA	NA	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Fund based limits	Long term	41.0	NA	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-	-
3	Non fund based limits	Short term	69.0	NA	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	-
4	Unallocated limits	Long/ Short term	30.0	NA	[ICRA]BBB+ (Negative)/ [ICRA]A2	[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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