August 14, 2020

Exicom Tele-Systems Limited: Ratings downgraded to [ICRA]BBB- / [ICRA]A3 from [ICRA]BBB+ / [ICRA]A2, outlook retained at Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	NA	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB+ (Negative)
Fund based limits	41.0	41.0	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB+ (Negative)
Non fund-based limits	69.0	69.0	[ICRA]A3; downgraded from [ICRA]A2
Unallocated	30.0	30.0	[ICRA]BBB- (Negative) / [ICRA]A3; downgraded from [ICRA]BBB+ (Negative)/A2
Total	**140.0**	**140.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating downgrade takes into account the material deterioration in the operating income and profitability of Exicom Tele-Systems Limited (ETSL) in H2 FY2020 and expectations of weak operating performance in the near term. Sizeable decline in the business across all the segments of the company—power electronics, batteries and electronic vehicles (EV) businesses—along with a large order being deferred, led to the operating income contracting to Rs. 462.1 crore (on consolidated basis) in FY2020. Moreover, the nationwide lockdown pursuant to the Covid 19 pandemic and consequent weaker demand from its business segments further delayed recovery in ETSL's business prospects with meaningful supplies set to commence only from Q3 FY2021. Further, since most of its supplies come from China, ETSL also faced supply chain related disruptions. Substantial decline in operating income and continued high fixed costs translated into sizeable losses in FY2020. The continued pressure on revenue generation and profitability, along with build-up of inventory and receivables, which resulted in almost full utilisation of working capital limits and depletion of the cash levels, resulted in a stretched liquidity position.

The Negative outlook on the rating reflects ICRA's expectations of continued pressures on ETSL's scale of operations and profitability in the near term amid continued supply disruption from China and a persistent weak demand scenario. Moreover, the completion of the order, which was deferred in FY2020 (and is likely to begin in Q3 FY2021) is likely to support the growth in operating income (OI) and improvement in liquidity position. Till that time, recovery from receivables and additional support from promoters will remain the key to support the company's liquidity.

The ratings continue to be 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, RJio, which exposes it to significant client concentration risk. The ratings also consider the vulnerability of profitability to fluctuations in raw material prices and adverse movement in foreign currency exchange rates.

However, 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. Further, the rating factors in the Group's low reliance on external debt and consequently healthy capital structure, as reflected by gearing of 0.3 time as on March 31, 2020.

Key rating drivers and their description

Credit strengths

Extensive experience and long track record of operations in the telecom infrastructure space spanning over 25 years - 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 them.

Credit challenges

Substantial degrowth in operating income and decline in profitability in FY2020 and the current year – While the deferment of a big order from RJIL impacted the sales in the battery segment in FY2020, the power electronics segment was also impacted by slowdown in order intake. Significant decline in operating income to Rs. 462.1 crore on a consolidated basis from Rs. 1005.9 crore in FY2019 **resulted in EBITDA losses, as the company was not able to optimise its fixed costs. Further, the cash levels were depleted as the inventory levels continued to remain high due to delay in offtake of some orders from its clients.**

Expected continued pressure on revenue generation and profitability leading to stressed liquidity position in near to medium term – Due to the Covid-19 induced nationwide lockdown, all ETSL's business segments were impacted. In Q1 FY2021, the company booked revenues of ~Rs. 33 crore in its Indian entity with minimal sales from its Singapore entity due to supply disruptions, since most of its stock is procured from China. The losses are expected to continue, given the steep decline in revenue generation, putting further pressure on ETSL's liquidity position.

Supply disruptions from China can impact the business in the near term – The company depends on imports from China for its battery and EV charger businesses. Trade and supply restrictions along with the ongoing geopolitical issues can disrupt the supply chain for the company, resulting in adjournment in order execution.

Profitability exposed to adverse foreign exchange fluctuations and raw material price movements - The Group's margins are primarily affected by raw material price fluctuation. Since a large proportion of its products are imported and there are long-term pricing contracts with vendors vis-à-vis short-term contracts with customers, any adverse movement in raw material prices or in foreign exchange rates could have a negative impact on the margins.

High level of receivables – Although the overall working capital intensity of the business remains low, receivables in the power electronics business remain high, especially from Government clients. Moreover, the stretching of such receivables can impact the working capital cycle and liquidity of the company.

Stretched liquidity position with company incurring cash losses – ETSL's liquidity remains stretched with working capital limits almost fully utilised. The company has availed the moratorium on its repayment obligations and the same will start from September 2020. Along with the repayment of LCs maturing in the coming months, this puts pressure on the liquidity position of the company. Promoter support or any other liquidity booster will be of crucial significance.

Liquidity position: Stretched

Liquidity has been **stretched** in the current environment with significant decline in profit generation and cash levels along with high utilisation of working capital limits, which together with depletion of cash levels have resulted in a weakened liquidity position. The company has availed the moratorium offered by RBI, while repayments of the interest on the CC and term loan will commence from September 2020. Moreover, ETSL has also availed the Covid line of around Rs. 2.2 crore offered by the State Bank of India and Punjab National Bank. With pressure on revenue generation and weak profitability, coupled with high gross current assets, resulting in full utilisation of working capital limits, the liquidity position is expected to continue to remain stretched in the medium term.

Rating Sensitivities

Positive triggers- Given the negative outlook, a rating upgrade looks unlikely. However, sustained improvement in operational performance led by growth in operating income and profitability can lead to an outlook revision to Stable.

Negative triggers – Ratings can be downgraded if there is a further decline in operating income and continuation of EBITDA losses, which along with increase in working capital requirements primarily owing to stretched receivables and any sizeable debt-funded capex can result in increasing reliance on external debt. Any delay in infusion of funds by the promoters or in tapping any other liquidity source, thereby increasing the pressure on liquidity, can also be a downgrade trigger.

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, 2020, the company had two subsidiaries and a step-down subsidiary, who are enlisted in Annexure-2. They 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 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.

In FY2020, on a consolidated level, on provisional basis, the company reported a net loss of Rs. 59.1 crore on an OI of Rs. 462.1 crore compared to a net profit of Rs. 69.2 crore on an OI of Rs. 1,005.9 crore in the previous year.

Key financial indicators (Consolidated)

	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	1005.9	462.1
PAT (Rs. crore)	69.2	-59.1
OPBDIT/OI (%)	11.2%	-7.7%
PAT/OI (%)	6.9%	-12.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.0
Total Debt/OPBDIT (times)	0.5	-2.0
Interest Coverage (times)	10.6	-3.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2020	FY2019		FY2018
					14-Aug-2020	20-Apr-2020	03-Mar-2020	28-Jan-2019	20-Dec-2019	-
1	Issuer Rating	Long Term	NA	NA	[ICRA]BBB- (Negative)	[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+ (Negative)	[ICRA]BBB+ (Stable)	-	-
3	Non fund based limits	Short term	69.0	NA	[ICRA]A3	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	-
4	Unallocated limits	Long/ Short term	30.0	NA	[ICRA]BBB- (Negative)/ [ICRA]A3	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-

Amount in Rs. crore

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 click here

Annexure-1: Instrument details

ISIN	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]A3
NA	Unallocated limits	NA	NA	NA	30.0	[ICRA]BBB- (Negative)/ [ICRA]A3

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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