

October 18, 2022

Elecon Engineering Company Limited: Change in Limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based- Cash Credit Limits	175.0	150.0	[ICRA]A+(Stable); Outstanding
Short-term Non-fund-based Limits	325.0	350.0	[ICRA]A1; Outstanding
Total	500.0	500.0	

*Instrument details are provided in Annexure-I

Rationale

The ratings factor in the leadership position of Elecon Engineering Company Limited (EECL) in the transmission products segment i.e. gears with a sizeable market share of around 38% in India, supported by significant manufacturing capacities, an expansive geographic presence and an established presence in the material handling equipment segment (MHE). Additionally, EECL has developed a reasonable global footprint in recent years and its revenue mix is fairly diversified across geographies with international sales accounting for 35% of the consolidated revenues in FY2022.

The ratings consider the favourable medium-term demand outlook with increased demand from end-users such as the steel, cement, sugar and power (flue gas desulphurisation or FGD projects) sectors. The order book is also strong at Rs. 410 crore on a standalone basis and at Rs. 605 crore on a consolidated basis as on March 31, 2022. Further, an order inflow guidance of around Rs. 1,000 crore for FY2023 provides revenue visibility over the near term.

The company has enhanced its focus on the replacement market which will support revenue growth. The ratings favourably factor in the steady improvement in the operating profit margin (OPM) to 21% in FY2022 from 11.6% in FY2019 as well as strengthening of the core ROCE to 20.5% in FY2022 (7.6% in FY2019). A favourable revenue mix with a higher share of the manufacturing business and scaling down of the EPC business under the MHE segment improved the working capital cycle and thus, the borrowings. The company's capital structure remained strong with a gearing of 0.1 times as on March 31, 2022, backed by a considerable reduction in debt levels and strong net worth. Expanding operating profits and cash accruals supported healthy debt coverage metrics and a favourable liquidity profile.

The ratings are, however, constrained by the moderately high working capital intensity with NWC/OI at 28.1% as on March 31, 2022, though it improved from 32.9% as on March 31, 2021. This was primarily on account of high receivables from the MHE segment and high inventory levels in the gear division. The working capital cycle is expected to improve going forward with the release of retention money and receivables from the MHE division along with a shorter working capital cycle in the transmission division. Notwithstanding the scaled-down EPC business, any major write-offs in legacy projects would remain a key monitorable.

The ratings are further constrained by the revenues being exposed to the cyclicity in the domestic capex cycle and any economic slowdown, though the company's presence across various industries as well as in the replacement market and its growing exports provides some comfort. The ratings further note the vulnerability of the company's profitability to the variations in the prices of raw materials, which majorly include steel and steel components. Steel prices have increased substantially over the past few months and are at a multi-year highs now amid some moderation seen recently.

The Stable outlook on the long-term rating reflects ICRA's opinion that EECL's revenues and accruals will be supported by its comfortable order book along with expectations of a healthy order inflow in the near to medium term. Also, the company will continue to benefit from its established track record in the transmission and the MHE segments.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and their description, the liquidity position and rating sensitivities: [Click here](#)

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 taken a consolidated view of EECL and its wholly-owned subsidiaries, Radicon Transmission UK Limited (including its wholly owned step-down subsidiaries), Elecon Singapore Pte. Limited, Elecon Middle East FZE as well as associate companies Emico (Elecon) India Limited, Elecon Eng. (Suzhou) Co. Limited, Elecon Australia Pty. Limited and Elecon Africa Pty. Limited.

About the company

Elecon Engineering Company Limited (EECL) is a listed company which was founded in 1951 in Bombay to manufacture elevators and conveyors and later on incorporated as private limited company in 1960. On formation of a separate Gujarat state in May 1960, ELECON Shifted its base to Vallabh Vidyanagar, and become a public limited company in 1962. In 1976, the company set up a Gear Division for manufacturing of products like worm gears, helical gears, spiral bevel helical gears and different types of couplings for application in steel mills, High speed turbines, sugar mills, marine vessels, coast Guard ships, plastic extrusions, Antena Drives and for satellites in the Indian space Programme. Initially gears manufactured were used for captive consumption and currently it the leading division of the company.

Key financial indicators (audited)

EECL Consolidated	FY2021	FY2022
Operating income	1,050.8	1,207.8
PAT	55.8	139.1
OPBDIT/OI	18.0%	21.2%
PAT/OI	5.3%	11.5%
Total outside liabilities/Tangible net worth (times)	1.2	0.6
Total debt/OPBDIT (times)	1.5	0.4
Interest coverage (times)	3.1	6.7

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	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Oct 18, 2022	June 21, 2022			
1 Fund-based limits- Cash Credit	Long Term	150.0	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-
2 Non-fund-based limits	Short Term	350.0	-	[ICRA]A1	[ICRA]A1	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits- Cash Credit	Simple
Non-fund-based limits	Very simple

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based limits- Cash Credit	--	NA	--	150.00	[ICRA]A+ (Stable)
NA	Non-fund-based limits	--	NA	--	350.00	[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Radicon Transmission UK Limited (including its following wholly owned step-down subsidiaries)	100.00%	Full Consolidation
- Benzlers Systems AB	100.00%	Full Consolidation
- AB Benzlers	100.00%	Full Consolidation
- Radicon Drive Systems Inc.	100.00%	Full Consolidation
- Benzler Transmission AS.	100.00%	Full Consolidation
- Benzler TBA B.V.	100.00%	Full Consolidation
- Benzler Antriebstechnik GmbH	100.00%	Full Consolidation
- OY Benzler AB	100.00%	Full Consolidation
- Benzlers Italia s.r.l	100.00%	Full Consolidation
Elecon Singapore Pte. Limited	100.00%	Full Consolidation
Elecon Middle East FZE	100.00%	Full Consolidation
Eimco (Elecon) India Limited	16.62%	Equity Method
Elecon Eng. (Suzhou) Co. Limited*	50.00%	Equity Method
Elecon Africa Pty. Limited*	50.00%	Equity Method
Elecon Australia Pty. Limited*	50.00%	Equity Method

Source: EECL annual report FY2022 *Company is in the process of obtaining approval from Reserve Bank of India for their liquidation

Note: ICRA has taken a consolidated view of the parent (EECL), its subsidiaries and associates while assigning the ratings.

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