

December 26, 2022

Micron Electricals: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term: Non-fund-based Facilities	500.00	500.00	[ICRA]A1; reaffirmed
Total Bank Facilities	500.00	500.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in Micron's established track record of over four decades in the mechanical, electrical, and plumbing (MEP) contracting business, its experienced management team, and a diversified and reputed customer base that includes established real estate developers, information technology (IT) service providers and infrastructure companies. The rating also considers the healthy order inflows in the recent times, which led to an expansion in the order book. ICRA notes that the firm's revenue grew by 9.4% to Rs. 800.8 crore in FY2022 and has a healthy order book position of Rs. 1,535 crore as on November 30, 2022, which provides adequate revenue visibility in the near future. The operating margin of the firm has also improved to 4.7% in FY2022 from 3.6% in FY2021 as the company has started reorienting its order book towards a greater share of turnkey contracts, which are more margin accretive. The rating also considers Micron's favourable capital structure, as reflected by its debt free position. Additionally, the liquidity remained strong, as reflected by its sizeable cash balance (Rs. 227.75 crore as on March 31, 2022, of which free cash stood at Rs. 116 crore), although the same can be partly attributed to healthy mobilisation advances received against the orders. ICRA, however, notes that the cash balances are expected to come down somewhat in the current fiscal as the cash conversion cycle in turnkey projects remain elongated, which necessitates more working capital requirement. This is due to the time-consuming process of verification by the project management consultant, leading to delay in invoicing and a consequent build-up in debtors and inventory levels.

However, the rating is constrained by the limited diversification of Micron's revenue streams as it derives a significant portion of its revenues from the cyclical commercial real-estate industry and IT/technology parks, which exposes its operations to the risk of slowdown in these segments. The firm is diversifying its presence in the infrastructure segment (as witnessed by a healthy order inflow in FY2023) as well as residential real estate and consulting segment. Micron derives around 93% of its revenues from Karnataka, Andhra Pradesh and Telangana, which exposes it to geographical concentration risk as well. Moreover, intense competition in the electrical contracting industry and low value-additive nature of business resulted in low profit margins for the firm. Micron's profitability also remains vulnerable to raw material price volatility, given the fixed price nature of its contracts. ICRA notes that the firm's working capital requirements are primarily funded by its sizeable customer advances and trade creditors and any significant decline in the same could impact its working capital intensity and liquidity. Further, the partnership nature of the firm exposes it to the risk of capital withdrawals by the partners.

Key rating drivers and their description

Credit strengths

Long and established track record of operations – Micron is an established firm with a proven track record of over 40 years in MEP contracting. Over the years, the firm has been able to significantly scale up its operations and has worked with many prominent real estate developers/IT firms in Karnataka, Andhra Pradesh and Telangana. The firm provides turnkey solutions for its entire range of electrical contracts and is managed by Mr. SK Seetharamu, who has extensive experience in this industry.

Healthy scale of operations – Micron's turnover has increased to Rs. 800.8 crore in FY2022 from Rs. 512 crore in FY2016, a compounded annual growth rate of 7.7% during the said period. Micron's revenues, however, fell to Rs. 736 crore in FY2021 from Rs. 840 crore in FY2020 due to lockdown-related disruptions. Despite the above contraction in execution, the firm's scale of operation remained sizeable. Micron is projected to achieve a turnover of ~Rs. 1,200 crore in FY2023 and has already achieved a turnover of Rs. 589.53 crore in H1 FY2023.

Adequate revenue visibility – The firm's order book as on November 30, 2022 stood at Rs. 1,535 crore, including orders from infrastructure projects like Mumbai Metro, Bangalore International Airport Limited, GMR Hyderabad International Airport Limited etc, along with orders from existing clients like the Sattva Group, the Prestige Group, Wipro, Google etc. The healthy order book position provides adequate revenue visibility, going forward.

Reputed client profile – The clientele of the firm is reputed comprising established real estate players (like the Sattva Group, the Prestige Group etc.), IT companies (like Wipro, Google etc.) and infrastructure companies (like L&T, Karnataka Power Transmission Corporation etc). Further, there has been repeat businesses from these customers, which ensure healthy order inflow. Additionally, some of the large orders received by Micron in other states like Telangana, Tamil Nadu and Maharashtra are through existing clients in Bangalore, leveraging its strong client relationships.

Debt-free status and strong liquidity position – There is nil debt on the books of the firm, and it has a strong liquidity position with free cash and bank balances of Rs. 116 crore as on March 31, 2022, although the cash is partly on account of the mobilisation advances it receive from its clients. Micron has additionally maintained a bank fixed deposit of Rs. 101.73 crore as on as on March 31, 2022, to avail the benefit of lower bank charges for its non-fund-based limits. ICRA notes that the firm's operations necessitate higher requirements of non-fund-based limits, especially bank guarantees for bidding, performance guarantee, mobilisation advances, and retention money release.

Credit challenges

Exposure to sector and geographical concentration risks – The rating is constrained by the limited diversification of Micron's revenue streams as it derives a significant proportion of its revenues from the cyclical commercial real-estate industry and IT/technology parks, which exposes its operations to the risk of slowdown in this segment. However, the firm is diversifying its presence in the infrastructure segment, consulting and residential real estate segment, which can mitigate the impact to some extent. Moreover, the firm derives around 93% of its revenues from Karnataka, Andhra Pradesh and Telangana, which exposes it to geographical concentration risk.

Low value-added business limits profitability – Relatively lower value-added business with a large portion of bought-out components results in inherently low profit margins. Additionally, significant competition limits the margins.

Intense competition in the industry – The industry is highly fragmented with the presence of a large number of electrical contractors, which include reputed and established players having a pan-India presence, along with many small and regional players. Besides, there is the potential threat of forward integration from original equipment manufacturers.

Risk of capital withdrawals by partners – The firm's partnership nature exposes it to the risk of capital withdrawals from business by the partners, although there have been no withdrawals over the last three years.

Increased working capital intensity in the business – The working capital intensity of the firm increased to negative 6% in FY2022 from negative 9% in FY2021 owing to the gradual transition to the more margin-accretive turnkey projects, which, however, have a longer cash conversion cycle. This is due to the requirement of the customers to obtain the project management consultant's certificate, leading to delay in invoicing and blockage of working capital. A part of this higher working capital requirement has been funded through the creditor days increasing sharply to 148 days in FY2022 from 94 days in FY2021 as well as a drawdown of the balance sheet liquid investment portfolio.

Liquidity position: Strong

Micron's free cash flows have remained positive between FY2018 and FY2022 given the steady earnings, prudent working capital management, minimal capex requirements of the business, and the absence of debt repayment obligations. Micron had cash balances worth Rs. 227.75 crore as on March 31, 2022 (free cash of Rs. 116 crore and encumbered cash of Rs. 111.74 crore given as margin money for outstanding bank guarantees), which led to its liquidity position remaining strong. In the current financial year, while the working capital intensity has increased somewhat due to the change in the project mix, the company is expected to continue to maintain a sizeable free cash and liquid investment balance, which would keep the liquidity at comfortable levels.

Rating sensitivities

Positive factors – Diversification in the end-user industry, improvement in profit margin, sustained healthy revenue growth, and maintaining a strong liquidity position can lead to a rating upgrade.

Negative factors – A significant decline in the operating income and/or a sizeable build-up in the receivables position impacting the liquidity position of the firm can lead to a rating downgrade. Additionally, any large capital withdrawals may lead to a rating downgrade. Specific credit metric that could lead to a rating downgrade would be a TOL (net of free cash and cash equivalents)/TNW of more than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone financial statements of the issuer

About the company

Micron Electricals was established in 1976 as an electrical contractor that primarily operates in the southern states of India. The firm then expanded its operations in other parts of India such as Maharashtra and Madhya Pradesh. In addition to electrical contracting, the firm also diversified into new verticals of mechanical, plumbing services and fire safety thereby providing mechanical, electrical, plumbing and fire safety (MEPF) services under one umbrella.

The firm undertakes MEPF contracts in commercial and residential buildings, malls, airports, hotels, hospitals and educational institutions. Most of the work is taken up on a turn-key basis. Some of the major customers of Micron include Amazon, Deloitte, Wipro, Karnataka Power Transmission Corporation Limited, Prestige Estates, Salarpuria Sattva Group and Larsen & Toubro.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating Income (Rs. crore)	731.7	800.8
PAT (Rs. crore)	18.6	24.5
OPBDIT/OI (%)	3.6%	4.7%
PAT/OI (%)	2.5%	3.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.48	2.12
Total Outside Liabilities (Net of free Cash and Cash Equivalents)/Tangible Net Worth (times)	0.89	1.58
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	21.16	14.01

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortization*Projected numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three year

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amt rated (Rs. crore)	Amt outstanding (Rs. crore) *	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Dec 26, 2022	03-Sep-2021	22-Jul-2020	06-Aug-2019	
1	Non-fund-based Facilities	Short-term	500.0	NA	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short Term – Non-Fund Based	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: [Click Here](#)

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	Non-fund-based Facilities- Bank Guarantee	NA	NA	NA	500.00	[ICRA]A1

Source: Firm Data

Annexure-2: List of entities considered for consolidated analysis : Not Applicable

ANALYST CONTACTS

Jayanta Roy

+91 33 71501100

jayanta@icraindia.com

Ritabrata Ghosh

+91 33 71501107

ritabrata.ghosh@icraindia.com

Priyesh Ruparelia

022 6169 3328

priyesh.ruparelia@icraindia.com

Ayushi Mittal

+91 80-4332 6417

ayushi.mittal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 43326401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.