

August 24, 2023

Micron Electricals: Rating reaffirmed; long-term rating assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term-Non Fund Based-Others	0.00	700.00	[ICRA]A- (Stable) /[ICRA]A1; long-term rating assigned; short-term rating reaffirmed; assigned for the enhanced amount
Short Term-Fund Based-Working Capital Demand Loan	0.00	50.00 [^]	[ICRA]A1; assigned
Short Term-Non Fund Based-Others	500.00	0.00	-
Total	500.00	750.00	

*Instrument details are provided in Annexure-I; [^] One way interchangeability from Short Term-Fund Based to Long Term/Short term -Non fund-based facilities

Rationale

The rating action factors in Micron's healthy order book position of ~Rs. 1,662 crore as on June 30, 2023, which provides adequate revenue visibility over the next 12 months. The rating action also factors in Micron's track record of generating repeat orders from a diversified and reputed customer base along with a growing scale of operations as well as an increase in the number of turnkey projects executed in the past three years, which had aided in an improvement in the operating margin to ~5.0% in FY2023 from 4.7% in FY2022 and 3.6% in FY2021. The ratings are further supported by the established track record of Micron over four decades in the mechanical, electrical, plumbing and fire services (MEPF) contracting business, its experienced management team and strong liquidity position along with debt-free status.

ICRA also notes that the firm's operating revenue witnessed a CAGR¹ of 14% from FY2018 to FY2023. The top line growth accelerated last fiscal when a year-on-year (YoY) revenue growth of 50% boosted the turnover to Rs. 1,200.8 crore in FY2023 against Rs. 800.8 crore in FY2022. Micron's free cash and liquid investments balance stood at Rs. 75.73 crore as on March 31, 2023. The liquidity is further supported by the unutilised working capital lines of Rs. 50 crore sanctioned in March 2023, along with Micron's prudent capital allocation policy, and absence of debt repayment obligations. ICRA, however, notes that the firm is currently undergoing a high growth phase where the working capital requirements have increased on the back of an uptick in the order execution, and an increase in the cash conversion cycle. ICRA notes that post Covid, the firm's policy of pivoting to more margin-accretive turnkey contracts, which have a longer receivable period, along with tightened credit terms from suppliers have increased the working capital needs. As a result, the firm's free cash flows slipped in the negative territory in FY2022 and FY2023 after remaining in the positive for several years. Consequently, the firm's free cash and liquid investments declined to Rs. 75.73 crore as on March 31, 2023 from Rs. 109.9 crore as on March 31, 2021. As the firm progresses through the ongoing high growth phase, the ability to prudently manage working capital, generate positive free cash flows, and thereby maintain a comfortable liquidity along with comfortable credit metrics would remain under focus, going forward.

The ratings are constrained by the limited diversification of Micron's revenue streams as it derives a significant portion of its revenues from the cyclical IT/technology parks and commercial real-estate industry, which exposes its operations to the risk of slowdown in these segments. Micron derived around 89% of its revenues in FY2023 from Karnataka, Andhra Pradesh and Telangana, which exposes it to the geographical concentration risk as well. Moreover, intense competition in the electrical contracting industry and the low value-additive nature of the business resulted in low profit margins for the firm. Micron's

¹ Compound annual growth rate

profitability also remains vulnerable to raw material price volatility, given the fixed price nature of its contracts. Further, the partnership nature of the firm exposes it to the risk of capital withdrawals by the partners.

The Stable outlook on the long-term rating reflects ICRA's opinion that there would be a healthy growth in the revenue and earnings of Micron in the near term, which along with the management's initiatives of tightening the cash conversion cycle, is expected to help it in maintaining its debt-free status and an overall comfortable financial risk profile.

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 MEPF contracting. Over the years, the firm has been able to significantly scale up its operations and has worked with clients from various sectors like information technology (IT) service providers, real estate developers, hospitality, pharma and infrastructure companies in Karnataka, Andhra Pradesh, Telangana, Maharashtra, Tamil Nadu and Kerala. 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 operating revenue witnessed a CAGR of 14% from FY2018 to FY2023. The top line growth accelerated in the last fiscal when a YoY revenue growth of 50% boosted the turnover to Rs. 1,200.8 crore in FY2023 against Rs. 800.8 crore in FY2022. Micron is projected to achieve a turnover of ~Rs. 1,500 crore in FY2024 and has already recorded a provisional turnover of Rs. 374 crore in Q1 FY2024. The operating margin of the firm has also improved to 5% in FY2023 from 4.7% in FY2022 and 3.6% in FY2021, as the firm has started reorienting its order book towards a greater share of turnkey contracts, which are more margin accretive.

Adequate revenue visibility – The firm's order book as on June 30, 2023 stood at Rs. 1,662 crore, comprising a mix of orders from reputed companies like Microsoft, Boeing, Amazon, Tech Mahindra, IIM Vishakhapatnam, Sattva Group, the Prestige Group, Wipro, Google etc. The firm's reputed clientele reduces the counterparty credit risk. Also, the ratio of closing FY2023 order book position/ FY2023 revenue (trailing book to bill ratio) stood at 1.2 times, providing adequate revenue visibility, especially given the shorter duration of the projects ranging from 9-12 months.

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 Microsoft, Wipro, Google etc.) and infrastructure companies (like L&T, Karnataka Power Transmission Corporation etc). Further, there has been repeat businesses from most of the 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 – The nil debt in the books of Micron and its free cash and liquid investments balance of Rs. 75.73 crore as on March 31, 2023 supported its strong liquidity position. The liquidity is further supported by the unutilised working capital lines of Rs. 50 crore sanctioned in March 2023, along with Micron's prudent capital allocation policy, and absence of debt repayment obligations. ICRA, however, notes that the firm is currently undergoing a high growth phase where the working capital requirements have increased on the back of an uptick in the order execution, and an increase in the cash conversion cycle. ICRA also notes that the firm's operations necessitate substantial requirements of non-fund-based limits, especially bank guarantees for bidding, performance guarantee, mobilisation advances, and retention money release. Therefore, going forward, as the firm progresses through the ongoing high growth phase, the ability to timely complete projects, prudently manage working capital, generate positive free cash flows, and thereby maintain a comfortable liquidity along with comfortable credit metrics will be monitored.

Credit challenges

Increased working capital intensity in the business and rapid scaling up of operations adversely impacting the firm's free cash flow generation – ICRA notes that post Covid, the firm's policy of concentrating on more margin-accretive turnkey contracts, which have a longer receivable period, along with tightened credit terms from suppliers, have increased the working

capital needs, leading to the firm's free cash flows slipping in the negative territory in FY2022 and FY2023 after remaining positive for several years. The effect of this has been a decline in the firm's free cash and liquid investments to Rs. 75.73 crore as on March 31, 2023 from Rs. 109.9 crore as on March 31, 2021 and the working capital intensity of the firm deteriorating to - 4% in FY2023 from - 17% in FY2021. However, ICRA notes that specific measure like deployment of a credit control team to oversee the working capital management and fund flow across the projects are expected to support the liquidity profile of Micron.

Exposure to sectoral and geographical concentration risks – 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 IT/technology parks and commercial real-estate industry, which exposes its operations to the risk of slowdown in this segment. However, the firm is diversifying its presence in the infrastructure segment, consulting, pharma, hospitality, and residential real estate segment, which can mitigate the impact to some extent. Moreover, the firm derived around 89% of its revenues in FY2023 from Karnataka, Andhra Pradesh and Telangana, which exposes its revenue to geographical concentration risk as well.

Low value-added business and intense competition in the industry limit profitability – Relatively lower value-added business with a large portion of bought-out components results in an inherently low profit margin. Additionally, significant industry competition limits scope for material improvement in margins. 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. However, higher share of turnkey contracts aided in the operating margins improving to 5% in FY2023 from 4.7% in FY2022 and 3.6% in FY2021. Micron's profitability also remains vulnerable to raw material price volatility, given the fixed price nature of its contracts.

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.

Liquidity position: Strong

Micron had free cash and liquid investment balance of Rs. 75.73 crore as on March 31, 2023, which, along with its debt free status leads to a strong liquidity position for the firm. The liquidity is further supported by the unutilised working capital lines of Rs. 50 crore sanctioned in March 2023. Although, Micron's free cash flows remained positive between FY2018 and FY2021, given the steady earnings and prudent working capital management, it moved to the negative territory in FY2022 and FY2023 despite an increase in absolute earnings. This was largely due to the increase in the working capital requirements following the firm's policy of concentrating in more margin-accretive turnkey contracts which have a longer receivable period, along with tightened credit terms from suppliers. While the firm is targeting a revenue growth of ~25% in FY2024, the management's attempts to tighten the cash conversion cycle, along with minimal capex requirements is expected to improve the free cash flows in the current fiscal, helping arrest the sharp drawdown of on-balance sheet liquidity that has been witnessed in FY2023.

Rating sensitivities

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

Negative factors – A significant decline in the profits and/or a further build-up in the working capital and/or any large capital withdrawal leading to a sustained period of negative free cash flows along with a deterioration in the liquidity position of the firm can lead to a rating downgrade. Specific credit metric that could lead to a rating downgrade would be 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 Rating methodology for Construction Entities
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. Besides electrical contracting, the firm diversified in 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 turn-key basis. Some of the major customers of Micron include Microsoft, Adani Enterprises Limited, Amazon, Deloitte, Wipro, Karnataka Power Transmission Corporation Limited, Prestige Estates, Salarpuria Sattva Group and Larsen & Toubro Limited.

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	800.8	1,200.8
PAT	24.5	36.5
OPBDIT/OI	4.7%	5.0%
PAT/OI	3.1%	3.0%
Total outside liabilities/Tangible net worth (times)	2.1	2.1
Total Outside Liabilities (Net of free Cash and Cash Equivalents)/Tangible Net Worth (times)	1.6	1.8
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	14.0	12.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 24, 2023	Dec 26, 2022	Sep 03, 2021	Jul 22, 2020
1 Non Fund Based Facilities	Long term/ Short term	700.00	-	[ICRA]A- (Stable)/ [ICRA]A1	-	-	-
2 Working Capital Demand Loan	Short term	50.00	-	[ICRA]A1	-	-	-
3 Non-fund based Facilities	Short term	-	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term / Short Term-Non Fund Based-Others	Very Simple
Short Term-Fund Based-Working Capital Demand Loan	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term / Short Term-Non Fund Based-Others	NA	NA	NA	700.00	[ICRA]A- (Stable)/[ICRA]A1
NA	Short Term-Fund Based-Working Capital Demand Loan	NA	NA	NA	50.00	[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 – Not Applicable

ANALYST CONTACTS

Jayanta Roy
+91 33-71501100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22-61693328
priyesh.ruparelia@icraindia.com

Ritabrata Ghosh
+91 33-61143438
ritabrata.ghosh@icraindia.com

Ayushi Mittal
+91 80-4332 6417
ayushi.mittal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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, 2023 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.