

November 24, 2023

Genus Electrotech Limited: Ratings reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based – Term loan	25.83	18.23	[ICRA]BBB-; reaffirmed; outlook revised to Stable from Negative
Long term – Fund-based – Cash credit	78.67	88.67	[ICRA]BBB-; reaffirmed; outlook revised to Stable from Negative
Long term - Non-fund based – BG	4.50	4.50	[ICRA]BBB-; reaffirmed; outlook revised to Stable from Negative
Short term - Non-fund based – Letter of credit	37.00	27.00	[ICRA]A3; reaffirmed
Long term/Short term - Unallocated limits	15.63	23.23	[ICRA]BBB-/ [ICRA]A3; reaffirmed; outlook revised to Stable from Negative
Total	161.63	161.63	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook for the long-term rating of Genus Electrotech Limited (GEL) factors in the improvement in its liquidity position with healthy cash accruals aiding debt servicing and adequate cushion in working capital limits. ICRA notes the scale-up in the company's revenues in FY2024 on the back of a new product line i.e. interactive flat panel display (IFPD) and healthy orders for LED TVs, LED lights and home appliances from reputed customers.

The reaffirmation of the ratings continues to favourably factor in the company's backward-integrated manufacturing facility, with established execution capabilities and business relationships with consumer durable and electronic appliance manufacturers. Also, the company has the flexibility to manufacture a wide range of appliances. Moreover, in the last few years, increased import duties on smartphones, TV sets, microwaves, LED lamps and some other electronics products have benefited domestic manufacturers to an extent, supporting GEL's revenue growth. This is reflecting in GEL's revenues and order books as it has started manufacturing LED TVs and LED lights for customers who used to import the same from China. Going forward, the company's ability to gain new orders and improve its working capital cycle would remain the key rating sensitivities.

The ratings are, however, constrained by GEL's high working capital intensity because of the significant inventory levels and high receivables, resulting in moderate cash flows and liquidity position, though the same has improved in H1 FY2024 compared to FY2023. ICRA expects the working capital intensity and liquidity position to improve in the current fiscal, supported by LC-backed creditors.

Further, GEL's return metrics and debt coverage indicators continue to be muted on account of modest operating profits and cash accruals while the debt levels remain high. The ratings are further constrained by intense competition in the electronic and electrical manufacturing business and a modest customer profile, which exert pressure on its margins. GEL's profitability remains exposed to the adverse fluctuations in foreign exchange rates, though it partially hedges its forex transactions, which mitigates the risk to an extent.

The Stable outlook on GEL's rating reflects ICRA's opinion that the company will continue to benefit from its established track record in the consumer durable and electronic appliance sector. Moreover, the recent tie-up as a supplier with IFPD manufacturers would facilitate GEL's revenue growth in the near to medium term.

Key rating drivers and their description

Credit strengths

Experience of promoters; ability to manufacture wide range of products – GEL's promoters have more than two decades of experience in the electronic, electrical and home appliances manufacturing business. GEL has established order execution capabilities and strong business relationships with consumer durable and electronic appliance manufacturers. Also, the company has the flexibility to manufacture a wide range of appliances, such as LED TVs, air coolers, LED lights, PCBs, and washing machines. The company has developed an established clientele, which provides it with repeat business. The company has added a product line — interactive flat panel display (IFPD) - which has scaled up the revenues though the profitability growth remains to be seen.

High cost competitiveness from integrated operations - GEL's electronic and home appliances division manufactures PCBs and consumer electronics. It also undertakes in-house manufacturing of plastic and sheet metal components. In addition, it has developed capabilities to design and manufacture LED TVs, washing machines, air coolers, LED lightings and fixtures, etc. GEL derives significant cost competitiveness from its integrated operations with the in-house manufacturing of single-layered and double-layered PCBs, and through-hole as well as surface-mount PCBs, and moulding of major plastic and sheet metal items.

Favourable changes in import duty benefit domestic electronics manufacturers - The Government has hiked the import duty on smartphones, TV sets, microwaves, LED lamps and other electronics products to protect domestic manufacturers. To promote the Government's Make in India initiative, the import of components attracts lower duty than finished products. GEL has already started manufacturing LED TVs and LED lights for customers who used to import the same from China.

Credit challenges

Financial risk profile impacted by high working capital intensity and moderate coverage indicators - GEL's working capital intensity remained significantly high at 77% in FY2023 due to the stretched receivables and significant inventory levels. The working capital intensity improved to 16% as on September 30, 2023 with the improvement in inventory levels and receivable position. Further, the profits have remained modest amid intense competition, resulting in moderate coverage indicators, as reflected in an interest coverage of 1.8 times (P.Y. 2.2 times) and NCA/TD of 9% (P.Y. 15%) in FY2023. Moreover, the high working capital intensity and subdued accruals pushed up the debt levels, resulting in high TD/OPBITA of 5.0 times as on March 31, 2023. Going forward, the DSCR is expected to remain moderate with high repayment obligations in the next 2-3 years.

Intense competitive intensity and modest customer profile - GEL faces competition from players in the electronic appliance and consumer durable businesses. In PCB manufacturing, competition from domestic players is limited; however, imports provide strong competition. The company also faces competition from large branded players in the tender business but has maintained its position owing to its good track record, even as its customers in the private sector remain marginal players. Further, the company faces competition from peers and contract manufacturers for branded players.

Profitability susceptible to adverse movements in forex rates - GEL imports key input items like open cells for TVs, laminates for PCBs and raw materials for electronic appliances from China, Taiwan and Hong Kong. These items are not available in India because of the highly capital-intensive manufacturing process, resulting in zero domestic capacities. In FY2023, GEL imported ~17% of its total raw material requirement, down from 31% in FY2022, mainly due to increased localisation. Further, the

company partially hedges its forex transactions, exposing the profits to the volatilities in forex rates, though the company is able to pass on the fluctuations to its customers to a certain extent.

Liquidity position: Adequate

GEL's liquidity has improved in H1 FY2024 on the back of the cushion available from undrawn working capital limits. The debt repayments remain high at over Rs. 10 crore over the next 2-3 years. However, the company is expected to comfortably meet its repayment obligations from cash accruals, given the scale-up in revenues and an improved order book position.

Rating sensitivities

Positive factors – ICRA could upgrade GEL's ratings if the company is able to profitably scale up its operations by increasing sales to new customers along with improving its liquidity position through a better management of the working capital cycle.

Negative factors – Pressure on GEL's ratings could arise if the working capital intensity continues to be significantly high, leading to a stretched liquidity position, or if the company undertakes any significant debt-funded capex. Further, inability of the company to improve the DSCR on a sustained basis will lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Genus Electrotech Limited, incorporated in 2003, is promoted by Mr. Vishnu Todi and is a part of the diversified Kailash Group of industries. GEL started operations in FY2005 and is an ISO-certified company. The company's manufacturing facilities are at Meghpar Borichi, Gandhidham, close to the Kandla port in Kutch. GEL has a backward-integrated manufacturing facility with ability to manufacture bare board printed circuit board, surface mount technology, sheet metal, injection moulding, clean room facility and final assembly for manufacturing electronic products. The company's facilities manufacture LED TVs, washing machines, PCBs, air coolers, LED lightings and fixtures, etc.

Key financial indicators (audited)

	FY2022	FY2023	H1 FY2024*
Operating income	315.2	223.8	409.4
PAT	7.9	5.0	6.9
OPBDIT/OI	9.3%	12.4%	5.2%
PAT/OI	2.5%	2.2%	1.7%
Total outside liabilities/Tangible net worth (times)	1.3	1.4	1.6
Total debt/OPBDIT (times)	4.1	5.0	2.2
Interest coverage (times)	2.2	1.8	2.2

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

*Provisional financial statement

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as on October 13, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 24, 2023	Sep 30, 2022	June 15, 2021	July 10, 2020
1 Term loans	Long Term	18.23	18.23	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)
2 Cash credit	Long Term	88.67	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)
3 Bank guarantee	Long Term	4.50	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)
4 Letter of credit	Short Term	27.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
5 Unallocated	Long Term/Short Term	23.23	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Negative)/[ICRA]A3	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based/TL	Simple
Long term fund-based/CC	Simple
Long term – Non-fund based – BG	Very Simple
Non-fund based – Letter of credit	Very Simple
Long term/Short term - Unallocated limits	NA

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	Term loan	FY2017	NA	FY2024	18.23	[ICRA]BBB- (Stable)
NA	Cash credit	-	NA	-	88.67	[ICRA]BBB- (Stable)
NA	Bank guarantee	-	NA	-	4.50	[ICRA]BBB- (Stable)
NA	Letter of credit	-	NA	-	27.00	[ICRA]A3
NA	Unallocated	-	NA	-	23.23	[ICRA]BBB-(Stable)/ [ICRA]A3

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

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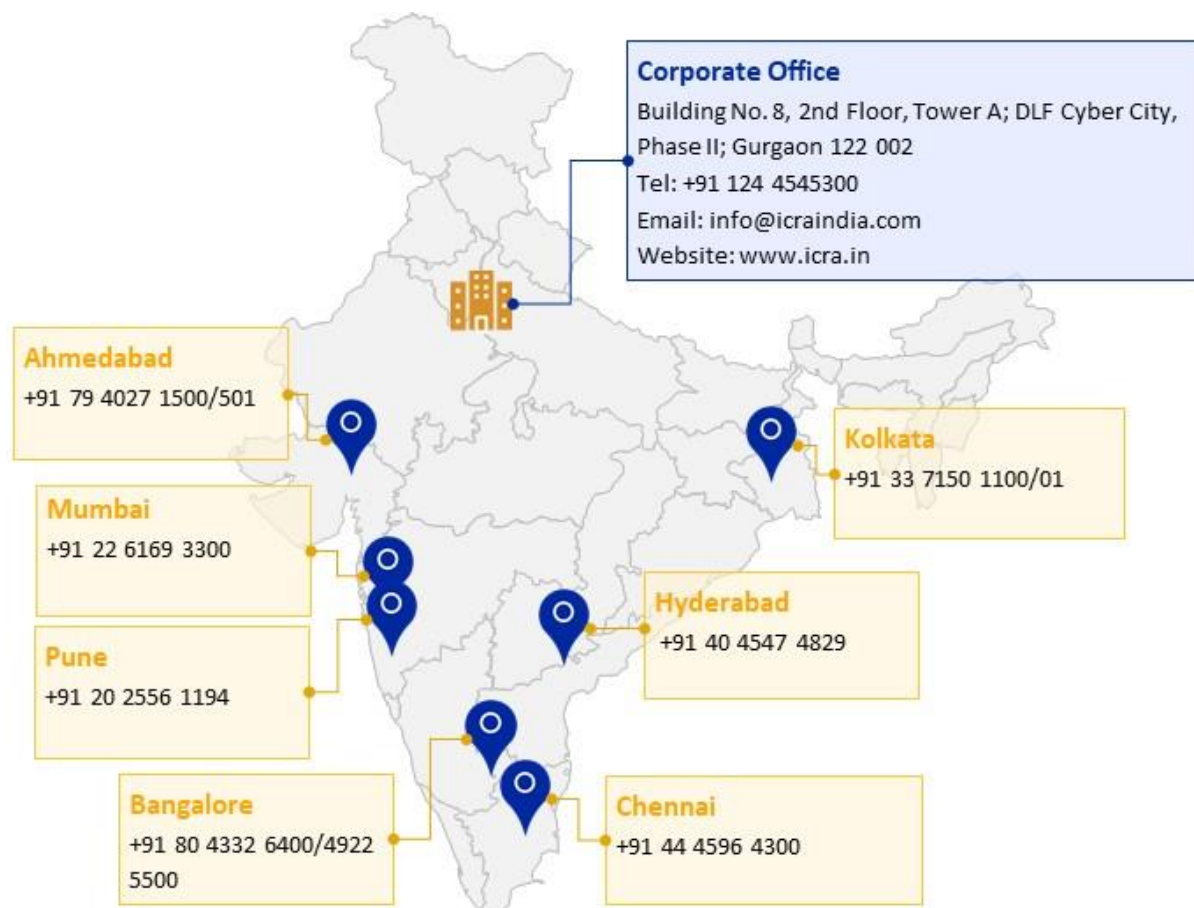


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