

July 25, 2024

Elecon Engineering Company Limited: Long-term rating upgraded to [ICRA]AA (Stable); short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Cash credit limits	100.0	0.0	-
Short term non-fund-based limits	200.0	0.0	-
Long-term/Short-term Fund Based and Non-fund-based facility	0.0	400.0	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable)/ [ICRA]A1+ reaffirmed and assigned for enhanced amount
Total	300.0	400.0	

*Instrument details are provided in Annexure-I

Rationale

The revision in the long-term rating factors in ICRA's expectations of a sustained revenue growth, driven by healthy order inflow in the domestic as well as export markets from key end-user industries, such as steel, power and cement. The revenue growth remained robust in FY2024 as well, which coupled with the healthy profitability, has translated into strong cash accruals. While the growth slowed down in Q1 FY2025 on account of lower activity owing to the General Elections, it is expected to pick up during the remaining part of the fiscal. The profitability is likely to continue to be healthy, going forward, which will translate into a consistently strong capital structure and comfortable debt coverage metrics, given the negligible debt levels. The ratings also factor in the company's strong liquidity position with the presence of sizeable cash and investments and buffer in the fund-based working capital limits.

The ratings continue to favourably factor in the company's established market position in the domestic industrial gearbox industry with a sizeable market share of 38-40% in India, its expansive geographic presence (international sales accounted for 24% of revenues in FY2024), a wide distribution network and significant presence in the material handling equipment segment (MHE).

The ratings consider the favourable medium-term demand outlook with increased demand from the end users, such as the steel, cement, sugar and power sectors, which have translated into a healthy order inflow of around Rs. 1,994 crore in FY2024. This trend is expected to continue, thereby providing revenue visibility. The order book stood at Rs. 536 crore in the transmission segment and Rs. 260 crore in the MHE segment on a consolidated basis as on March 31, 2024. ICRA notes that EECL's operating profit margin (OPM) expanded to 24.8% in FY2024 (22.4% in FY2023), driven by improving operational efficiencies, increasing scale and the execution of high-margin orders. Further, the company's capital structure remained strong with negligible external debt, a strong net worth position and healthy liquidity. The debt on the company's books is in the form of pension and lease liabilities only.

The ratings are, however, constrained by the revenues being exposed to the cyclical nature in the domestic capex cycle and any weakness in economic activity, although its presence across various industries as well as the replacement market and its growing exports provides some comfort. The ratings further note the vulnerability of the company's profitability to the variation in the prices of raw materials, which majorly include steel and steel components, given the fixed price nature of contracts.

ICRA also notes the improvement in the working capital intensity of the business as on March 31, 2024, which was primarily driven by a reduction in the inventory levels. The working capital intensity is expected to increase with a rise in export sales based on the transit time.

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.

Key rating drivers and their description

Credit strengths

Leading player in transmission products segment – EECL is a leading player in the transmission products segment i.e. gears, with a sizeable domestic market share of 38-40%. The company benefits from its strong design and engineering capabilities and technical collaborations that has allowed it to enhance its product offerings over the years with increased complexity, reflected in its ability to bag orders for marine gears from the Indian Navy. Over the years, the company has widened its product offerings and geographic presence in transmission products through in-house development and acquisitions globally. EECL has developed a reasonable global footprint in recent years and its revenue mix is diversified across geographies with international sales accounting for around 24% of the consolidated revenues in FY2024.

Apart from the transmission segment, the company has an established presence in the material handling equipment segment, in which it caters only to the products and after-sales segment.

Favourable medium-term demand outlook; strong order book provides revenue visibility – In transmission products segment the company received a healthy order inflow of around Rs. 1,601 crore in FY2024 on a consolidated basis and the order book stood at Rs. 536 crore as on March 31, 2024. Moreover, a healthy order inflow is expected in the near to medium term even as Q1 was impacted by the relatively slow activity owing to the General Elections. The product offerings encompass the standard/catalogue products as well as engineered products in the gear division. Standard products, which account for around 45% of the gear division sales in FY2024, and have a shorter execution cycle vis-à-vis the engineered products. Expectations of a strong order inflow stems from the demand from the end-users such as the steel, cement, sugar and power sectors. Additionally, over the years, EECL has been focusing in the international market. The strong order book in the transmission segment and the favourable demand prospects with healthy capex in the end-user industries are expected to drive the company's revenue growth over the next few years.

The order inflow improved to around Rs. 393 crore in FY2024 in the MHE segment with the order book position stood at Rs. 260 crore (March 2024) and is expected to remain healthy, going forward.

Steady improvement in revenue and profitability – The company's revenues improved to Rs. 1,944 crore in FY2024, a growth of 27%, on the back of healthy order inflow in the transmission and MHE divisions. The company demonstrated a steady improvement in its operating profit margins (consolidated basis) to 24.8% in FY2024 from 22.4% in FY2023, along with the strengthening of the return metrics, which was in line with the increase in the scale of operations, resulting in better absorption of fixed expenses.

Healthy capital structure and coverage indicators along with strong liquidity profile – The company's capital structure remained healthy with no external debt and a strong net worth position. The company's working capital intensity, which was high in the earlier years, has improved based on the strategy of not taking large EPC orders in the MHE segment. The company's capital structure remained healthy with a gearing of 0.1 times as on March 31, 2024, with no external debt and the debt largely in the form of lease and pension liabilities. The coverage indicators also stood comfortable with TD/OPBDITA of 0.2 times, TOL/TNW of 0.3 times and interest coverage of 54.2 times on consolidated basis as on March 31, 2024. The coverage metrics

are expected to remain comfortable with expectations of healthy revenue growth and sustenance of the profit level, going forward as well.

Credit challenges

Moderately high working capital-intensive operations – EECL’s working capital intensity remained moderately high even as it improved from the elevated levels in the past. This is primarily on account of the high receivables and inventory levels. For majority of the stuck legacy receivables in the MHE segment, the company has taken the recourse of arbitration following the delays in payments. While the working capital cycle improved as on March 31, 2024, some moderation is expected, going forward, with a slight increase in the inventory levels as well as receivable days with higher export orders.

Revenues vulnerable to cyclicity in end-user industries – EECL’s revenues are exposed to the cyclicity in the domestic capex cycle and any economic slowdown could impact its revenues, as witnessed in the past. However, its presence across multiple segments as well as the international market (mostly replacement market) and the increased focus on the replacement market in India mitigate the risk to an extent.

Margins susceptible to fluctuations in raw material prices – The company’s margins are susceptible to the fluctuations in raw material prices as the orders remain fixed price in nature and the tenure of the orders for gears, especially engineered gears, is typically two to six months. Nonetheless, EECL’s ability to keep the inventory largely order-backed and time the procurement of the raw material mitigates the risk to an extent. Further, ICRA notes that the rising competition faced by the company from domestic and foreign players can limit its pricing flexibility to an extent.

Environmental and social risks

Environmental considerations: While the company is not exposed directly to tightening environmental regulations, they are taking various initiative to address the regulations on the end user industries (its customers) such as saving of natural resources through implementation of condition monitoring system (CMS) in its products, designing the products in such manner to increase the life and sustainability which can lead to improvement in the operating costs for its customers. Moreover, its customers remain exposed to climate-transition risks from the likelihood of tightening emission-control requirements. Accordingly, the company’s prospects are linked to the ability of its customers to meet tightening emission requirements. In this regard, the company has signed up with an international organization for taking up target towards mitigation of climate change.

The Company has also been taking steps to minimise the impact of environmental aspect on its operations by adopting practices like renewable energy generation for captive consumption, to reuse waste metal scrap by taking approach towards Reuse, Reduce and Recycle, and efforts towards rainwater harvesting and waste water usage by way of treated water for its large green belt area.

Social Considerations: Social considerations for EECL relate primarily to maintaining healthy industrial relations and product safety. Attracting and nurturing skilled manpower is critical as it seeks to keep pace with innovation and technological changes. The company would need to adapt to an evolving social fabric, including changing consumer preferences, from time to time. In order to address the same company has started with culture transformation program and implemented value system for its human capital.

Liquidity position: Strong

EECL has a strong liquidity profile, reflected in its healthy cash flow from operations and cash and investments of more than Rs. 500 crore on a consolidated level (including investments in market-linked debentures, InvITs, ETFs, etc) as on March 31, 2024. The fund-based working capital utilisation for EECL (standalone) has remained negligible for the past 12 months,

providing adequate cushion. Further, the company has a capex plan of around Rs. 200-crore for FY2025, which can be easily funded through internal accruals and surplus cash.

Rating sensitivities

Positive factors – ICRA could upgrade EECL’s ratings if it demonstrates a significant growth in its scale of operations, along with continued diversification in the product portfolio and sustenance of strong profitability, liquidity profile and debt coverage metrics.

Negative factors – Pressure on the ratings could arise if it witnesses a sharp deterioration in its revenues and profitability. Further, any deterioration in the working capital cycle or any large debt funded capex that weakens the liquidity position or coverage metrics may trigger a downward rating action.

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 considered the consolidated financials of EECL with its subsidiaries, the details of which is enlisted in Annexure II

About the company

Elecon Engineering Company Limited (EECL) is a Mumbai-based listed company, founded in 1951 to manufacture elevators and conveyors. In 1960, it was incorporated as a private limited company. After the formation of a separate Gujarat state in May 1960, Elecon shifted its base to Vallabh Vidyanagar and became a public limited company in 1962. In 1976, the company set up a gear division to manufacture 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, antenna drives and for satellites in the Indian space programme. Initially, the gears manufactured were used for captive consumption and it is currently the leading division of the company.

Key financial indicators (audited)

EECL Consolidated	FY2023	FY2024
Operating income	1529.8	1944.4
PAT	234.2	349.2
OPBDIT/OI	22.4%	24.8%
PAT/OI	15.3%	18.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	24.9	54.2

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			Date & rating in FY2022
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		
			Jul 25, 2024	Jun 07, 2023	Oct 18, 2022	Jun 21, 2022	
1 Fund-based – Cash credit limits	Long term	0.0	-	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	-
2 Non-fund-based limits	Short term	0.0	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1	-
3 Fund Based and Non-fund-based facility	Long-term/Short-term	400.0	[ICRA]AA (Stable)/[ICRA]A1+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based and Non-fund-based facility	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	Fund Based and Non-fund-based facility	NA	NA	NA	400.0	[ICRA]AA (Stable)/ [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	EECL Ownership	Consolidation Approach
Eelcon Engineering Company Limited	100% (rated entity)	Full consolidation
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 (Eiecon) 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 FY2024

Note: ICRA has taken the consolidated financials of EECL along with its subsidiaries and associates while assigning the ratings

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