October 25, 2024

# Micron Electricals: Ratings reaffirmed

## 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** | 700.00 | 700.00 | [ICRA]A- (Stable)/ [ICRA]A1; Reaffirmed |
| **Short-term – Fund-based – Working capital demand loan^** | 50.00 | 50.00 | [ICRA]A1; Reaffirmed |
| **Total** | **750.00** | **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 reaffirmation factors in Micron Electricals' (Micron) healthy order book position of ~Rs. 1,962 crore as on June 30, 2024, which translates to 1.3 times of its operating income (OI) in FY2024, providing adequate revenue visibility, coupled with its proven track record of generating repeat orders from its reputed customer base. The ratings reflect its comfortable financial profile, with healthy scale up of operations (last five-year revenue CAGR[1] of 15% to touch ~Rs. 1,460 crore in FY2024), while maintaining its debt-free status, comfortable coverage metrics (interest cover of above 12 times) and a strong liquidity position (with free cash and investments[2] of ~Rs. 96 crore as on June 30, 2024), which is expected to sustain over the medium term. The ratings take cognisance of the firm's established track record of over four decades in the mechanical, electrical, plumbing and fire services (MEPF) contracting business and its experienced management team, which reflects in timely execution and repeat business.

The ratings are, however, 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. The firm has ~90% of its pending OB, as on June 30, 2024, concentrated in Karnataka, Maharashtra and Telangana, which results in geographical concentration risk. Moreover, intense competition in the electrical contracting industry and the low value-additive nature of the business keeps its operating profit margins (OPM) constrained. Micron's profitability remains vulnerable to raw material price volatility, given the fixed-price nature of its contracts. The firm has been on a high growth trajectory, wherein the working capital requirements have increased on the back of an uptick in order execution and a rise in the cash conversion cycle. While the CFO[3] turned positive in FY2024, with better scale and improved operating margins as the firm progresses through the ongoing high growth phase, its ability to prudently manage working capital would remain a key rating monitorable. Further, its TOL/TNW[4] remains leveraged at 1.6 times as on March 31, 2024, despite its debt-free status, primarily on the back of high mobilisation advances. ICRA expects the leverage to gradually decline with healthy accretion to reserves.

Further, its partnership nature exposes it to the risk of capital withdrawals by the partners. The ratings factor in the firm's exposure to sizeable contingent liabilities in the form of bank guarantees (BG), mainly for contractual performance and mobilisation advance. Nonetheless, Micron's favourable execution record, nil instances of BG invocation in the past and strong liquidity, provide comfort.

---

[1] *Compound annual growth rate*
[2] *Investments in financial instruments like fixed deposits (FDs), mutual funds; excludes investment in subsidiaries/associates*
[3] *Cash flow from operations*

[4] *Total outside liabilities/ Tangible net-worth*

The Stable outlook on the long-term rating reflects ICRA's expectation that Micron will sustain its revenue growth in the near to medium term, while maintaining its credit profile on the back of its debt-free status and strong liquidity.

## Key rating drivers and their description

### Credit strengths

**Established track record of operations with reputed client profile –** Micron is an established firm with a proven track record of over 40 years in MEPF contracting. Over the years, it 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. It provides turnkey solutions for its entire range of electrical contracts and is managed by Mr. SK Seetharamu, who has extensive experience in this industry. The firm's clientele comprises reputed real estate players (like the Sattva Group, the Prestige Group, etc), data centre entities (like DC Development, Data Edge), 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 has ensured healthy order inflow.

**Adequate revenue visibility –** Supported by healthy order inflows in FY2024 (Rs. 1,552 crore) and Q1 FY2025 (Rs. 839 crore), Micron had a pending OB aggregating ~Rs. 1,962 crore as on June 30, 2024, which was ~1.3 times of its OI in FY2024. The current order book, spread across projects from multiple clients, provides adequate revenue visibility especially given the shorter duration of the projects of 9-12 months. The top three clients and projects account for about 25-26% of the OB, reflecting reasonable diversification.

**Healthy scale up of operations with debt-free status –** Micron's revenues recorded a five-year CAGR of 15% (FY2020-FY2024) to reach Rs. 1,460 crore in FY2024. ICRA expects the revenues to witness a 14-16% YoY growth in FY2025, aided by a healthy order book position, with less than 1 year tenure of the projects. Its financial risk profile remains comfortable with healthy RoCE (at 30.1% in FY2024 Vs. FY2023: 25.8%) and its continuous debt-free status. Given a favourable cash conversion cycle, the reliance on outside funds is low and the coverage indicators remain healthy, as evident from interest cover and DSCR at 23 times (FY2023: 13 times) and 16.9 times (FY2023: 9.7 times), respectively, as on March 31, 2024. While ICRA notes the firm's exposure to sizeable contingent liabilities (~Rs. 469 crore as on July 31, 2024) especially in the form of bank guarantees (~Rs. 313 crore) for bidding, performance guarantee, mobilisation advances, and retention money release, the favourable execution track record and no instances of crystallisation of bank guarantees is a positive. Its profile is further strengthened by a strong liquidity position.

### Credit challenges

**Highly working capital-intensive nature of business leading to relatively high leverage –** The firm's working capital needs has increased in the last few years due to its policy of concentrating on more margin-accretive turnkey contracts, having a longer receivable period, along with tightened credit terms from suppliers. This has led to the firm's free cash flows slipping in the negative territory in FY2023 and improving modestly in FY2024, which resulted in a decline in the free cash and liquid investments to ~Rs. 96 crore as on June 30, 2024 from ~Rs. 116 crore as on March 31, 2022. The working capital intensity deteriorated to 0.3% in FY2024 from -12.2% in FY2022. However, ICRA notes that specific measures like deployment of a credit control team to oversee the working capital management and fund flow across the projects are likely to support the liquidity profile. Further, its TOL/TNW remains leveraged at 1.6 times as on March 31, 2024, despite its debt-free status, primarily on the back of high mobilisation advances. ICRA expects the leverage to gradually reduce with healthy accretion to reserves.

**Modest profitability levels; exposed to sectoral and geographical concentration risks –** The relatively lower value-added business, with a large portion of bought-out components, results in an inherently low profit margin. Additionally, stiff competition in the sector (i.e., MEPF, due to low entry barrier) limits scope for a material improvement in OPM. The profitability remains vulnerable to raw material price volatility, given the fixed-price nature of its contracts. There also persists the potential threat of forward integration from original equipment manufacturers. However, Micron has been able to improve its OPM to 5.7% in FY2024 from 4.9% in FY2023. 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 has been diversifying its presence in the pharma, hospitality, and residential real estate segment, which can mitigate the impact to some extent. Moreover, Micron has around 89% of its pending OB as on June 30, 2024, concentrated in Karnataka, Maharashtra and Telangana, which exposes it to region-specific economic and political risks.

**Risk associated with partnership nature of the entity –** The partnership nature exposes the company to several risks like withdrawal of capital and limited ability to raise capital, among others. However, ICRA notes the relatively limited capital withdrawal (compared to the accruals) in the past. The management plans to convert the firm into a private limited company in the near to medium term.

## Liquidity position: Strong

Micron's free cash and liquid investments of ~Rs. 96 crore (as on June 30, 2024), along with its debt-free status leads to a strong liquidity position. The liquidity is further supported by unutilised working capital lines of Rs. 50 crore (marginal and intermittent utilisation over trailing 12-months). With the firm's target to achieve a healthy revenue growth of ~20% in FY2025, it faces the risk of elongation in cash conversion cycle, leading to a decline in free cash flow from operations. However, the overall liquidity is expected to remain comfortable, with marginal capex plans and nil long-term debt servicing obligations. Further, it has the option of availing unutilised mobilisation advance against its contracts, in case of any exigencies and has a buffer of ~Rs. 188 crore in BG lines available for the same (as of July 2024). The average utilisation of the non-fund based limits of Rs. 700 crore stood at around 72% in the 12 months that ended in July 2024.

## Rating sensitivities

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

**Negative factors –** A material decline in top line or profits, further build-up in the working capital cycle or any large capital withdrawal leading to a sustained period of negative free cash flows, along with a deterioration in the liquidity position can lead to a rating downgrade. Specific credit metric that would lead to rating downgrade will be TOL/TNW of more than 1.75 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Construction |
| **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 operated in the southern states of India. The firm has since then expanded its operations in other parts of India such as Maharashtra and Madhya Pradesh. Besides electrical contracting, the firm has diversified into providing 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)

| Micron Electricals | FY2023 | FY2024* |
|---|---|---|
| **Operating income (Rs. crore)** | 1,200.8 | 1,460.4 |
| **PAT (Rs. crore)** | 36.4 | 53.3 |
| **OPBDIT/OI (%)** | 4.9% | 5.7% |
| **PAT/OI (%)** | 3.0% | 3.6% |
| **Total outside liabilities/Tangible net worth (times)** | 1.7 | 1.6 |
| **Total debt/OPBDIT (times)** | 0.0 | 0.0 |
| **Interest coverage (times)** | 12.9 | 22.9 |

*Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; OI: Operating income; 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

| | Current (FY2025) | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY2025 | | | FY2024 | | FY2023 | | FY2022 | |
| **Instrument** | **Type** | **Amount Rated (Rs Crore)** | **25-OCT-2024** | **Date** | **Rating** | **Date** | **Rating** | **Date** | **Rating** |
| Working capital demand loan – Fund-based | Short-term | 50.00 | [ICRA]A1 | 24-AUG-2023 | [ICRA]A1 | - | - | - | - |
| Others – Non-fund based | Long-term/ Short-term | 700.00 | [ICRA]A-(Stable)/ [ICRA]A1 | 24-AUG-2023 | [ICRA]A-(Stable)/ [ICRA]A1 | - | - | - | - |
| Non-fund based facilities | Short-term | - | - | - | - | 26-DEC-2022 | [ICRA]A1 | 03-SEP-2021 | [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

**Ashish Modani**
+91 20 6606 9912
ashish.modani@icraindia.com

**Suprio Banerjee**
+91 22 6114 3443
supriob@icraindia.com

**Ritu Goswami**
+91 124 4545 826
ritu.goswami@icraindia.com

**Mrinal Jain**
+91 124 4545 863
mrinal.j@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