April 22, 2025

Incap Contract Manufacturing Services Private Limited: Ratings upgraded to [ICRA]A- (Stable)/ [ICRA]A2+

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Fund-based – Cash credit	5.00	5.00	[ICRA]A- (Stable); Upgraded from [ICRA] BBB+ (Stable)
Long-term – Fund-based – Term loan	3.45	0.00	-
Short-term – Fund-based	38.00	38.00	[ICRA]A2+; Upgraded from [ICRA]A2
Short-term – Non-fund based – Letter of credit	5.00	5.00	[ICRA]A2+; Upgraded from [ICRA]A2
Short-term – Non-fund based – Bank guarantee	(5.00)	(5.00)	[ICRA]A2+; Upgraded from [ICRA]A2
Short-term – Non-fund based – Forward cover	1.55	2.00	[ICRA]A2+; Upgraded from [ICRA]A2
Total	**53.00**	**50.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating upgrade factors in the better-than-expected recovery in Incap Contract Manufacturing Services Private Limited's (ICPL) scale of operations in FY2025e and a healthy order book position (Rs. 527 crore as of February 2025) providing near-term revenue visibility. Its operating income (OI) stood at Rs. 946.5 crore in 9M FY2025 (Vs. Rs. 837 crore in FY2024) and is expected to report a 32-35% year-on-year (YoY) growth in FY2025, supported by healthy order inflows from one of its key customers. Further, the ratings positively note the company's healthy financial profile evidenced by healthy profitability margins (15-16%), strong return on capital employed (RoCE; 21% in FY2024), debt-free position and a sizeable net worth (~Rs. 601 crore as on March 31, 2024), resulting in a strong capital structure and coverage indicators. ICRA expects that a favourable demand outlook from its customers, given the Government of India's focus on strengthening the domestic electronics ecosystem (reflected in policies for promotion of exports) and ICPL's expanded manufacturing capacities (led by sizeable capex undertaken over the past 3-4 years) will support ICPL's revenue profile going forward.

The ratings are, however, constrained by ICPL's high dependency on a single customer in the power electronics sector, which exposes it to high sectoral and customer concentration risks. ICPL's top customer accounted for 88% of its revenue in 9M FY2025 (82% in FY2024). Nonetheless, the long track record of repeat orders from its largest customer remains a source of comfort. The ratings factor in the competitive nature of the EMS industry (which limits pricing flexibility), and the sector's exposure to the risk of technological obsolescence and regulatory changes. ICPL also remains exposed to foreign currency fluctuations owing to sizeable import of critical raw materials, though significant export sales and foreign currency working capital limits provide a natural hedge to an extent. Given that the company's critical component imports are primarily from China, adverse geopolitical developments may result in challenges in their timely availability and exposes ICPL to fluctuations in input materials prices. This can affect the company's margins as well as block the working capital due to the long lead time of delivery, adversely impacting the liquidity.

The Stable outlook reflects ICRA's opinion that the company will be able to maintain a conservative capital structure and strong debt coverage metrics in FY2026, on the back of steady top-line growth expectations and range-bound margins.

Key rating drivers and their description

Credit strengths

Established track record in EMS business – ICPL, along with its parent entity, Incap Oyj, Finland has a long track record in the EMS business. The parent has been involved in contract equipment manufacturing for the power electronics sector for over three decades. The company receives technical and marketing support from Incap Oyj, Finalnd and in return pays ~5% of the export revenues and 1% of the total sales as commission to the parent. The key managerial personnel have more than two decades of experience in the electronics contract manufacturing industry. Over the years, ICPL has augmented its manufacturing capacities and increased the share of value-added products, which support its margin.

Comfortable financial risk profile characterised by healthy profitability and strong debt coverage metrics – ICPL's financial risk profile remains comfortable, characterised by consistent healthy profitability, as reflected in its core return on capital employed (core RoCE) of over 25% over FY2018-FY2024, and sizeable net worth (~Rs. 601 crore as on March 31, 2024; estimated at ~Rs. 700 crore as of March 2025). The debt coverage indicators improved in FY2024, with an interest coverage of 106 times (Vs. 67.5 times in FY2023). The company stood debt free as on March 31, 2024 and continued to remain so as of December 2024. Going forward, ICRA expects ICPL to maintain a conservative capital structure and robust debt coverage indicators, even as operating margins remain moderate vis-à-vis the historically high levels (15-16%).

Favourable industry outlook for electronics industry – The industry outlook for the EMS industry over the medium term remains favourable, driven by increasing domestic demand and sustained Government focus (through policies and schemes) towards strengthening the domestic electronics ecosystem, to help India become a potential manufacturing and export hub.

Credit challenges

High customer and sector concentration risks – Most of ICPL's customers are in the power electronics segment, thereby exposing it to sector concentration risk. In FY2024, the company derived ~82% of its revenues from a single customer, indicating high customer concentration risk. This skewed dependence adversely played out for ICPL in FY2024, when it saw a 50% decline in its top line due to temporary slowdown in order inflows. Nonetheless, higher-than-expected recovery was seen in FY2025e. Given the long track record of repeat orders from its largest customer, the customer concentration risk is mitigated to an extent. While the company has been making efforts to diversify its clientele, its ability to sustainably do so remains to be seen.

Stiff competition limits pricing flexibility; risk of technological obsolescence necessitates continuous upgrade to sustain competitive advantage – ICPL remains a mid-sized player, which faces intense competition in the electronic contract manufacturing services industry. The company is not involved in designing of the PCBs, but only assembles components based on the designs provided by its customers, hence value addition in its operations remains limited. This restricts its pricing flexibility and bargaining power. Also, the electronic products industry remains in a state of flux, with continuous product and process innovations, along with rapid adoption of new technology. Given the risk of technological obsolescence, the industry players are required to undertake regular upgrades to sustain the competitive advantage. For ICPL, the technical and marketing support provided by the parent company has played a critical role in new business/customer acquisition and expanding footprint in new markets even as the royalty/commission paid by ICPL to the parent constrains its profit margins to an extent.

Susceptibility of margins to volatility in raw material price and forex fluctuations – ICPL remains exposed to foreign currency fluctuations owing to sizeable net exports, which remain unhedged and can exert pressure on margins in case of an appreciation of the rupee. The ratings consider the company's exposure to sizeable imports of critical input materials like integrated chips and transformers, primarily from China. This results in challenges in their timely availability and exposes ICPL to fluctuations in input material prices. Further, the company's margins can be affected and working capital blocked due to the long lead time of delivery, adversely impacting the liquidity.

Liquidity position: Adequate

ICPL's liquidity profile is expected to remain adequate, supported by positive cash flows from operations and free cash and bank balance of ~Rs. 267 crore (as of March end 2025) and undrawn fund-based working capital limits of Rs. 43 crore. The average utilisation of limits over the trailing 12-months that ended in December 2024 was nil. A dividend outflow of Euro 25 million (~Rs. 240 crore) is expected in FY2026, which will bring down the free cash on books. However, the liquidity is likely to remain comfortable, aided by the company's debt-free status and absence of any major capex/investment plan in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a steady increase in the company's scale of operations and earnings, along with material improvement in customer diversification, while maintaining comfortable liquidity and leverage metrics on a sustained basis.

Negative factors – Negative pressure on the ratings could arise if there is any notable deterioration in top line or margins and/or any large debt-funded capex weakens its leverage or coverage metrics. Any large dividend payouts or stretch in the working capital cycle leading to a material deterioration in the company's liquidity would be a negative for the ratings.

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 standalone financials of ICPL.

About the company

Incorporated in 2007, Incap Contract Manufacturing Services Private Limited (ICPL) provides electronics manufacturing services mainly to companies operating in the power electronics segment. The company, which started its operations by taking over TVS Electronic Limited's contract manufacturing services division, is a 100% subsidiary of Incap OYJ, Finland. It manufactures products based on design specifications given by its customers at its manufacturing facility in Tumkur (near Bengaluru). Its major products are inverters, printed circuit board assemblies (PCBA), uninterruptible power-supply systems (UPS) and emergency rescue devices (ERD). ICPL derives a predominant share of its income through exports to companies based in the Netherlands and Switzerland.

Key financial indicators (audited)

ICPL standalone	FY2023	FY2024
Operating income (Rs. crore)	1,682.4	845.2
PAT (Rs. crore)	188.1	84.3
OPBDIT/OI (%)	16.0%	15.4%
PAT/OI (%)	11.2%	10.0%
Total outside liabilities/tangible net worth (times)	0.7	0.4
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	67.5	106.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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 (FY2026)				Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Date & rating in FY2026		Date & rating in FY2025		Date & rating in FY2024		Date & rating in FY2023	
Instrument	Type		Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long-term	5.00	April-22-25	[ICRA]A- (Stable)	-	-	Mar-15-24	[ICRA]BBB+ (Stable)	Dec-26-22	[ICRA]BBB+ (Stable)
Term loan	Long-term	0.00	April-22-25	-	-	-	Mar-15-24	[ICRA]BBB+ (Stable)	Dec-26-22	[ICRA]BBB+ (Stable)
Fund based	Short-term	38.00	April-22-25	[ICRA]A2+	-	-	Mar-15-24	[ICRA]A2	Dec-26-22	[ICRA]A2
Letter of credit	Short-term	5.00	April-22-25	[ICRA]A2+	-	-	Mar-15-24	[ICRA]A2	Dec-26-22	[ICRA]A2
Bank guarantee^	Short-term	(5.00)	April-22-25	[ICRA]A2+	-	-	Mar-15-24	[ICRA]A2	Dec-26-22	[ICRA]A2
Forward cover	Short-term	2.00	April-22-25	[ICRA]A2+	-	-	Mar-15-24	[ICRA]A2	Dec-26-22	[ICRA]A2

Amount in Rs. crore; ^sublimit of letter of credit facility

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	**Simple**
Short-term – Fund based	**Simple**
Short-term – Non-fund based – Letter of credit	**Very Simple**
Short-term – Non-fund based – Bank guarantee^	**Very Simple**
Short Term – Non-fund based – Forward cover	**Very Simple**

^sublimit of letter of credit facility

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	**Cash credit**	NA	NA	NA	5.00	[ICRA]A- (Stable)
NA	**Fund-based limits**	NA	NA	NA	38.00	[ICRA]A2+
NA	**Letter of credit**	NA	NA	NA	5.00	[ICRA]A2+
NA	**Bank guarantee^**	NA	NA	NA	(5.00)	[ICRA]A2+
NA	**Forward cover**	NA	NA	NA	2.00	[ICRA]A2+

Source: Company; ^sublimit of letter of credit facility

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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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.

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