

August 06, 2021

Exicom Tele-Systems 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
Issuer Rating	-	-	[ICRA]BBB- (Stable); reaffirmed, outlook revised to Stable from Negative
Fund based limits	41.0	31.0	[ICRA]BBB- (Stable); reaffirmed, outlook revised to Stable from Negative
Non fund based limits	69.0	54.0	[ICRA]A3; reaffirmed
Unallocated	30.0	55.0	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed, outlook revised to Stable from Negative
Total	140.0	140.0	

*Instrument details are provided in Annexure-1 ^sub-limit of cash credit

Rationale

The rating reaffirmation and revision in outlook factors in the improvement in Exicom Tele-Systems Limited's (ETSL) performance and its liquidity position in H2 FY2021 and Q1 FY2022, along with ICRA's expectations of the same being sustained going forward. After a sharp decline in FY2020, the Exicom Group reported revenue growth in FY2021, supported by recovery in demand, leading to better absorption of fixed overheads and consequently lower-than-anticipated losses for the fiscal. Maintaining the momentum, the Group has already registered revenue of around Rs. 220 crore in Q1 FY2022 (against Rs. 552 crore in FY2021) and had a sizeable outstanding order book, which provides revenue visibility for the remaining quarters of the fiscal. Additionally, the sizeable funds raised by the company in September 2020 (through compulsory convertible debentures; CCD¹) coupled with improvement in profit margins and reduction in receivable levels (outstanding for more than six month) aided the improvement in the Group's liquidity position. The ratings continue to factor in the extensive experience of the promoters of the Exicom Group in the power electronics industry, its reputed and established customer base and comfortable healthy capital structure (as reflected by gearing of 0.5 times as on March 31, 2021). The Group is focussed on expanding its presence in the electric vehicle (EV) segment. The favourable demand outlook for the EV segment provides opportunities for future growth and revenue diversification.

However, the ratings are constrained by pressures on the company's profitability in the recent years because of limited economies of scale and vulnerability to adverse movement in raw material prices as well as foreign exchange rates. Also, an increase in the overall receivable levels has accentuated the funding requirements of the Group, which have been met through increased reliance on debt and creditor levels. Moreover, the Group's dependence on the telecom segment for its revenues remains high, although efforts are being made to diversify sectoral presence, through expansion in the EV segment. Additionally, the Group remains exposed to client concentration risk as a single customer accounts for a sizeable part of its revenue. However, the concentration has declined, to some extent, over the recent years with diversification of the customer base.

¹ Subscribed by promoter group company

Key rating drivers and their description

Credit strengths

Extensive of promoters and group's track record of operations in telecom infrastructure space – ETSL is promoted by Mr. Anant Nahata, who has significant experience in the power electronics business. Over these years, the management has developed healthy relationships with key telecom tower companies, which resulted in constant business from them.

Recovery in performance in H2 FY2021 and momentum likely to sustain in the current fiscal – The Exicom Group reported good revenue growth in FY2021 (operating income of Rs. 552 crore against Rs. 462 crore in FY2020), supported by recovery in demand, leading to better absorption of fixed overheads and consequently lower-than-anticipated losses for the fiscal (net loss of Rs. 6.5 crore against Rs. 59.1 crore in FY2020). Maintaining the momentum, the Group has registered good growth with revenue of around Rs. 220 crore in Q1 FY2022 itself (against Rs. 552 crore in FY2021) and improvement in margins, which is likely to sustain going forward. This coupled with funds raised in September 2020 (Rs. 75 crore through CCD) and reduction in receivable levels (outstanding for more than six month) have aided the improvement in the Group's liquidity position. Moreover, the capital structure has remained comfortable with gearing of 0.5 times as on March 31, 2021. With an improvement in profit margins and no major increase in debt levels, the debt protection metrics are expected to improve in the near term.

Order book in hand provides revenue visibility for the current fiscal – The Group has a sizeable order book of ~ Rs. 530 crore as of June 2021, which provides revenue visibility for the current fiscal. While a large part of the same is towards supply of lithium ion batteries, it also includes orders for other product segments including power electronics and EV chargers.

Favourable demand outlook for EV segment – Given its strong in-house R&D capabilities, the Group has been able to develop products for the EV segment – lithium ion batteries and chargers. It is already supplying the same to established players in the segment and remains focussed on expanding its presence in the electric segment. The favourable demand outlook for the EV segment provides opportunities for future growth and revenue diversification.

Credit challenges

Profitability has remained under pressure in recent years – Moderation in revenue due to deferment of some orders and adverse impact of the pandemic on operations, coupled with vulnerability to unfavourable movement in raw material prices and foreign exchange rates, exerted pressures on the Group's profitability and liquidity in the recent years. However, the level of net losses declined considerably in FY2021 on the back of recovery in performance and the same is expected to sustain.

High level of receivables – Although the overall working capital intensity of the business remains low, the receivables in the power electronics business remain high, especially from Government clients. Moreover, the stretching of such receivables can impact the company's working capital cycle and liquidity. An increase in overall receivable levels in FY2021 has accentuated the funding requirements of the Group, which have been met through increased reliance on debt and creditor levels.

High dependence on telecom sector – The Group's dependence on the telecom segment for its revenues remains high and moderation in the capex cycle of the telecom sector has led to some moderation in growth in this segment for ETSL. However, efforts are being made by the Group to diversify its sectoral presence, through expansion in the EV segment, as also demonstrated by steady scaling up of revenues in this segment.

High client concentration risk – The Group remains exposed to client concentration risk as a single customer - Reliance Jio Infocom Limited (RJIL) accounts for a sizeable part (50-60% in recent years) of its revenues. However, the concentration has declined to some extent over the recent years with diversification of the customer base. Although the promoters share an established relationship with RJIL, the risk remains.

Liquidity position: Adequate

ETSL liquidity profile is **adequate**, supported by free cash/bank balances (~ Rs. 32 crore as of June 2021), undrawn bank lines and improvement in cash accrual generation in the current fiscal. Cash accrual generation is expected to improve in the current fiscal on the back of increase in revenue as well as recovery in profit margins, which will continue to support the liquidity position. Moreover, the debt repayment obligations for the Group over the medium term are not too significant and internal accrual generation is expected to be sufficient to service the same.

Rating sensitivities

Positive factors – Healthy growth in operating income and internal accrual generation, without any major increase in debt levels, translating into an improvement in debt protection metrics, on a sustained basis, could trigger a rating upgrade.

Negative factors – The ratings can be downgraded if there is a decline in operating income and pressure on profitability, which along with increase in working capital requirements primarily owing to stretched receivables, and any sizeable debt-funded capex resulting in increasing reliance on external debt. Specific credit metrics include TOL/TNW of more than 2.0 times on sustained basis

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidation - For arriving at the ratings, ICRA has considered the consolidated financials of Exicom Tele-Systems Limited. As on March 31, 2021, the company had two subsidiaries and a step-down subsidiary, who are enlisted in Annexure-2. They are together referred to as Exicom Group or the Group.

About the company

ETSL was originally incorporated in 1994 as Himachal Exicom Communications Limited (a joint venture between HFCL Limited and Exicom Australia) to manufacture telecom power equipment and offer power solutions (power converters). Exicom Australia exited in 1995; and in 2008, the company was renamed as Exicom Tele-Systems Limited.

ETSL is involved in the business of power electronics and energy storage solutions. Its main products include power systems for telecom towers, primarily switch mode power supply (SMPS) and lithium-ion batteries. It recently ventured into the supply of EV charging units. ETSL also provides after-sales services, battery services, pre-dispatch services, R&D services, and annual maintenance contracts.

Key financial indicators (Consolidated)

	FY2020	FY2021
Operating Income (Rs. crore)	462.1	551.9
PAT (Rs. crore)	-59.1	-6.5
OPBDIT/OI (%)	-8.8%	1.5%
PAT/OI (%)	-12.8%	-1.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.03	2.04
Total Debt/OPBDIT (times)	-1.19	12.05
Interest Coverage (times)	-3.54	0.52

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019		
				August 6, 2021	August 14, 2020	April 20, 2020	March 3, 2020	January 28, 2019	December 20, 2018	
1 Issuer Rating	Long Term	NA	NA	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2 Fund based limits	Long term	31.0	NA	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-	
3 Non fund based limits	Short term	54.0	NA	[ICRA]A3	[ICRA]A3	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	
4 Unallocated limits	Long/Short term	55.0	NA	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Negative)/ [ICRA]A3	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Issuer Rating	NA
Fund based limits	Simple
Non fund based limits	Very Simple
Unallocated limits	Simple/Very 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	-	-	-	-	[ICRA]BBB- (Stable)
NA	Fund based CC	NA	NA	NA	31.0	[ICRA]BBB- (Stable)
NA	Non-fund-based limits	NA	NA	NA	54.0	[ICRA]A3
NA	Unallocated limits	NA	NA	NA	55.0	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Exicom Tele-Systems (Singapore) Pte Ltd	100.0%	Full Consolidation
Horizon Tele-Systems SDN BHD*	100.0%	Full Consolidation
Energywin Technologies Private Limited	100.0%	Full Consolidation

* Step-down subsidiary

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