

April 11, 2022<sup>(Revised)</sup>

## Indic EMS Electronics Private Limited: Issuer rating [ICRA] BBB+ (Stable) assigned

### Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	[ICRA]BBB+ (Stable); assigned
Total	NA	

### Rationale

The assigned rating to Indic EMS Electronics Private Limited (Indic/ the company) factors in the established track record of the company in the electronics manufacturing services (EMS) industry and consistent improvement in the scale of operations with inflow or large export orders. The revenues have improved significantly to Rs. 323.6 crores during FY2021 from Rs. 175.9 crore in FY2020, and is likely to cross Rs. 400 crore in FY2022. The ratings also favourably factor in the comfortable capitalization and coverage indicators, driven by limited debt levels and healthy cash accruals.

The ratings are, however, constrained by Indic's single product line and high dependency on a single customer, which exposes it to high sectoral and customer concentration risks. Indic's top customer accounted for 85% of its revenue in FY2021. However, long track record of repeat orders from its largest customer remains a source of comfort. The ratings also factor in the competitive nature of the EMS industry, and the sector's exposure to the risk of technological obsolescence and regulatory changes. Indic also remains exposed to foreign currency fluctuations owing to sizeable import of raw materials. However, significant export sales provide a natural hedge to an extent.

The Stable outlook on Indic reflects ICRA's opinion that Indic will be able to maintain credit profile in near to medium term driven by healthy inflow of export orders and its conservative capital structure, given absence of any plans for any debt funded capex.

### Key rating drivers and their description

#### Credit strengths

**Established track record in EMS business** – Indic is engaged in the manufacturing of Printed Circuit Boards (PCB) assembly for past 15 years and has long-standing relation with its key customer. The company would also continue to benefit from its promoters' strong technical experience and long-standing presence in the PCB assembly industry.

**Comfortable Financial risk profile** – The company's financial profile remains comfortable, driven by negligible debt levels and improvement in operating profit margins to 7.6% in FY2021 from 5.4% in FY2020, led by increased exports and economies of scale. The company's business return indicators remain attractive, as reflected by ROCE of 92.9% in FY2021. Moreover, Indic's coverage indicators remained healthy with an interest coverage of 35.4 times and DSCR of 24.6 times in FY2021.

**Significant ramp in topline witnessed in FY21 as well as in FY2022, driven by large export orders** – The company's revenue grew at a CAGR of 38.7%, and stood at Rs. 323.6 crore in FY2021 from Rs. 63.0 crore in FY2017 primarily on the back of growing export sales. In 10M FY2022, the company has already clocked Rs. 373.6 crore in revenue and is expected to cross Rs. 400 crore in FY2022. With the company sitting on a healthy order book position of ~Rs. 262 crore as on February 2022, largely

driven by orders from key customer, and growing needs of PCBs, given the rising digitization content, the execution momentum is expected to remain healthy in FY2022 and FY2023.

## Credit Challenges

**High customer and sector concentration risks** – The customers of the company primarily consist of manufacturers of power electronic devices. The revenue contribution from key customer increased to 90% in 9M FY2022 from 67% in FY2019 on account of increased orders. Given the high concentration, any disruption in order inflow due to client specific issues or change of strategy at clients end regarding supplies remains a key risk for Indic. Though, long standing relationship with the client remains a source of comfort, diversification in customer profile remains key from credit perspective going forward.

**High TOL/TNW given large dependence on customer advances** – Indic receives large percentage, almost in the range of 75% of sales value in advance from export customers for its orders. Given, such high level of advances, the TOL/TNW remains on a higher side and stood at 4.6x in FY2021 compared to 2.2x in FY2020. With growing export orders, the same is expected to remain elevated in near term.

**Susceptibility of margins to volatility in raw material fluctuations and forex fluctuations** – Semi-conductor is the major raw materials required by the company. Majorly it is imported from China. More than 60% of the raw materials are imported depending on the availability and quality requirements of the products (high end and medium range electronics products require higher import content). Also, export customers specify the supplier from which such imports need to be done based on availability and quality. Thus, company's margins remain exposed to volatility in raw material cost and fluctuations in foreign exchange rates. The margin has witnessed fluctuating trend in last five fiscals, also there have been instances of foreign exchange loss in FY2019 and FY2020. However, comfort can be drawn from the fact that since the entity is an export oriented player, with exports accounting for 91% of its revenue in FY2021 it acts as a natural hedge to an extent.

**Stiff competition from other players limiting pricing flexibility and risk of technological obsolescence necessitates continuous upgrade to maintain competitive advantage** – Indic remains a mid-sized player, which faces intense competition in the electronic contract manufacturing services industry. Also, the electronic products industry is characterised by continuous product and process innovation, along with rapid adoption of new technology. Given the risk of technological obsolescence, the industry players are required to undertake continuous upgrades to sustain the competitive advantage.

## Liquidity position: Adequate

The company has sanctioned working capital limits of Rs. 35 crore, wherein the utilization has been nil for last 13 months. The company had cash and liquid investments of Rs. 47.2 crore as on March 31, 2021, though largely backed against customer advances for execution of orders. The company has no long-term debt repayments, given nil long-term debt on books currently. The company has recently utilized FCDL limit of \$ 2.64 million (~Rs. 20 crore) in March 2022. The loan is taken for a period of 6 months, however similar amount of Fixed Deposit is created to benefit from interest arbitrage.

## Rating sensitivities

**Positive factors** – ICRA could upgrade ratings if there is sizable improvement in top-line and profitability along with customer diversification on a sustained basis.

**Negative factors** – Negative pressure on the ratings could arise if there is any material deterioration in top-line or margins and/or debt funded capex or acquisitions weakening the company's coverage metrics.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of Indic.

## About the company

Indic EMS Electronics Private Limited is engaged in the manufacturing of Printed Circuit Boards (PCB) assembly for past 15 years and has an established long-standing relationship with its key customers. The company caters to industries like avionics and defense, automotive, energy, industrial and medical.

Indic is a Joint Venture between 2 Indian shareholders and two foreign entities from Spain namely DigiProcess (33.07%) and Electronics ITEL, S.A (32.85%). Around 5-10 years back these European entities used to provide technical support to the company. However, now they are only investors

The shift towards renewable energy by several countries has favored Indic in bagging healthy orders during fiscal 2021 and revenues improved significantly to Rs. 323 crores during the year. The company would also continue to benefit from the strong technical experience and longstanding presence in the PCB assembly industry of its promoters, Mr. Vivek Khanna.

## Key financial indicators (standalone, audited)

Indic Standalone	FY2020	FY2021
Operating Income (Rs. crore)	175.9	323.6
PAT (Rs. crore)	2.2	14.7
OPBDIT/OI (%)	5.4%	7.6%
PAT/OI (%)	1.3%	4.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	4.6
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	9.6	35.4

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	Current Rating (FY2023)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					April 11, 2022	-	-	-
1	Issuer Rating	Long-Term	NA	-	[ICRA] BBB+ (Stable)	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable

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: [Click Here](#)

**Annexure-1: Instrument details**

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]BBB+ (Stable)

**Annexure-2: List of entities considered for consolidated analysis – Not applicable****Corrigendum**

Rating rationale dated April 11, 2022 has been corrected with revision as detailed below:

Key customer name removed on request received from client

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