

September 30, 2022

Genus Electrotech Limited: Ratings reaffirmed; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Term Loan	49.76	25.83	[ICRA]BBB-(Negative) reaffirmed; outlook revised to Negative from Stable
Long Term – Fund Based – Cash Credit	63.37	78.67	[ICRA]BBB-(Negative) reaffirmed; outlook revised to Negative from Stable
Long Term – Non-Fund Based – Bank Guarantee	6.50	4.50	[ICRA]BBB-(Negative) reaffirmed; outlook revised to Negative from Stable
Short Term – Non-Fund Based – Letter of Credit	42.00	37.00	[ICRA]A3; reaffirmed
Long Term/Short Term – Unallocated	-	15.63	[ICRA]BBB- (Negative)/[ICRA]A3; reaffirmed; outlook revised to Negative from Stable
Total	161.63	161.63	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook for the long-term rating of Genus Electrotech Limited (GEL) factors in the weakening of the liquidity position with limited cushion available in the form of working capital limits coupled with high debt repayments.

The ratings are constrained by GEL's high working capital intensity because of the significant inventory levels and high receivables, resulting in moderate cash flows and liquidity position, though the same has improved in FY2022 compared to FY2020. The company's liquidity position in FY2022 was to an extent supported by a guarantee emergency credit line (GECL) availed during the fiscal. This additional debt provided some liquidity support but increased the repayment burden over FY2023-2026.

Further, GEL's return metrics and debt coverage indicators continue to remain muted on account of modest operating profits and cash accruals while the debt levels remain high. The ratings are further constrained by intense competition in the electronic and electrical manufacturing business and a modest customer profile, which exert pressure on its margins. GEL's profitability remains exposed to the adverse fluctuations in foreign exchange rates, though it partially hedges its forex transactions, which mitigates the risk to an extent.

The ratings, however, continue to factor in the company's backward-integrated manufacturing facility, with established execution capabilities and business relationships with consumer durable and electronic appliance manufacturers. Also, the company has the flexibility to manufacture a wide range of appliances. Moreover, in the last few years, increased import duties on smartphones, TV sets, microwaves, LED lamps and some other electronics products have protected domestic manufacturers to an extent, supporting GEL's revenue growth. This has already started benefitting GEL, since it has started manufacturing LED TVs and LED lights for customers who used to import the same from China. While the company added a new product line i.e. interactive flat panel display (IFPD), the scale-up of revenues in the segment remains to be seen and would be critical for the

company's revenue and profit growth. Going forward, the company's ability to gain new orders and improve its working capital cycle would remain the key rating sensitivities.

Key rating drivers and their description

Credit strengths

Experience of promoters; ability to manufacture wide range of products – GEL's promoters have more than two decades of experience in the electronic, electrical and home appliances manufacturing business. GEL has established order execution capabilities and strong business relationships with consumer durable and electronic appliance manufacturers. Also, the company has the flexibility to manufacture a wide range of appliances, such as LED TVs, air coolers, LED lights, PCBs, and washing machines. The company has developed an established clientele, which provides it with repeat business. While the company has added a new product line i.e. interactive flat panel display (IFPD), the scale up of revenues in the segment remains to be seen and would be important for the company's revenue and profit growth.

Integrated operations lead to high cost competitiveness – GEL's electronic and home appliances division manufactures PCBs and consumer electronics. It also undertakes in-house manufacturing of plastic and sheet metal components. In addition, it has developed capabilities to design and manufacture LED TVs, washing machines, air coolers, LED lightings and fixtures, etc. GEL derives significant cost competitiveness from its integrated operations with the in-house manufacturing of single-layered as well as double-layered PCBs, and through-hole as well as surface-mount PCBs, and moulding of major plastic and sheet metal items.

Favourable changes in import duty benefit domestic electronics manufacturers – The Government has hiked the import duty on smartphones, TV sets, microwaves, LED lamps and other electronics products to protect domestic manufacturers. To promote the Government's Make in India initiative, the import of components attracts lower duty than finished products. GEL has already started manufacturing LED TVs and LED lights for customers who used to import the same from China.

Credit challenges

Financial risk profile impacted by high working capital intensity and moderate coverage indicators – GEL's working capital intensity has moderated to 44% in FY2022 from 73% in FY2020; however, it remains significantly high due to the stretched receivables and significant inventory levels. Further, the profits have remained modest amid intense competition, resulting in moderate coverage indicators as reflected in an interest coverage of 2.3 times (P.Y. 1.7 times) and NCA/TD of 15% (P.Y. 14%) in FY2022. Moreover, because of the higher working capital intensity and subdued accruals, the debt levels remained high, resulting in high TD/OPBITA of 4.0 times as on March 31, 2022. Going forward, the DSCR is expected to moderate with high repayment obligations in next 2-3 years. ICRA also notes that the company has written off sizeable debtors over two years from its reserves.

Intense competitive intensity and modest customer profile – GEL faces competition from players in the electronic appliance and consumer durable businesses. In PCB manufacturing, competition from domestic players is limited; however, imports provide a strong competition. The company faces strong competition from large branded players in the tender business as well but has maintained its position owing to its good track record, even as its customers in private sector remain marginal players. Further, the company faces competition from peers and contract manufacturers for branded players.

Profitability susceptible to adverse movements in forex rates – GEL imports key input items like open cells for TVs, laminates for PCBs and raw materials for electronic appliances from China, Taiwan and Hong Kong. These items are not available in India because of the highly capital-intensive nature of the manufacturing process, resulting in zero domestic capacities. In FY2022, GEL imported ~31% of its total raw material requirement. Further, the company partially hedges its forex transactions,

exposing the profits to the volatilities in forex rates, though the company is able to pass on the same to its customer to a certain extent.

Liquidity position: Stretched

GEL's liquidity is stretched on the back of limited cushion available in the form of undrawn working capital limits and high debt repayments of over Rs. 10 crores in next 2-3 years. Going forward, the company's ability to generate adequate cash accruals will remain critical for its repayments as well as improving its liquidity position.

Rating sensitivities

Positive factors – ICRA could change the outlook to Stable if the company profitably scales up its operations by increasing sales to new customers along with improving its liquidity position through a better management of the working capital cycle.

Negative factors – Negative pressure on GEL's rating could arise if the working capital intensity continues to be significantly high, leading to stretched liquidity position, or if the company undertakes any significant debt-funded capex. Further, inability of the company to improve the DSCR to 1.3 times on a sustained basis will lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Genus Electrotech Limited, incorporated in 2003, is promoted by Mr. Vishnu Todi and is a part of the diversified Kailash Group of industries. GEL started operations in FY2005 and is an ISO certified company. The company's manufacturing facilities are at Meghpar Borichi, Gandhidham, close to the Kandla port in Kutch. GEL has a backward-integrated manufacturing facility with ability to manufacture bare board printed circuit board, surface mount technology, sheet metal, injection moulding, clean room facility and final assembly for manufacturing electronic products. The company's facilities are dedicated to manufacturing LED TVs, washing machines, PCBs, cables, air coolers, table fans, set top boxes, LED lightings and fixtures, etc.

Key financial indicators

	FY2021	FY2022*
Operating income (Rs. crore)	281.3	316.6
PAT (Rs. crore)	5.2	7.1
OPBDIT/OI (%)	9.8%	9.6%
PAT/OI (%)	1.9%	2.2%
Total outside liabilities/Tangible net worth (times)	1.6	1.3
Net debt/OPBDIT (times)	3.9	4.0
Interest coverage (times)	1.7	2.3

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

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 on August 31, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 30, 2022	June 15, 2021	July 10, 2020	May 17, 2019
1	Term Loans	Long Term	25.83	25.83	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
2	Cash Credit	Long Term	78.67	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
3	Bank guarantee	Long Term	4.50	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
4	Letter of Credit	Short Term	37.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
5	Unallocated	Long Term/ Short Term	15.63	-	[ICRA]BBB- (Negative)/ [ICRA]A3	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term-Fund Based/TL	Simple
Long term-Fund Based/CC	Simple
Long term – Non-Fund based – BG	Very Simple
Non-Fund Based – Letter of Credit	Very Simple
Long Term/Short Term-Unallocated Limits	NA

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: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	FY2017	NA	FY2024	25.83	[ICRA]BBB- (Negative)
NA	Cash Credit	-	NA	-	78.67	[ICRA]BBB- (Negative)
NA	Bank Guarantee	-	NA	-	4.50	[ICRA]BBB- (Negative)
NA	Letter of Credit	-	NA	-	37.00	[ICRA]A3
NA	Unallocated	-	NA	-	15.63	[ICRA]BBB- (Negative)/[ICRA]A3

Source: Company

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

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