

February 05, 2024

## Elins Switch Boards Pvt Ltd: Rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term Non-Fund Based-Letter of Credit	7.50	10.00	[ICRA]A3; reaffirmed/assigned
Short Term- Non-fund-based facilities- Bank Guarantee	5.00	10.00	[ICRA]A3; reaffirmed/assigned
Short-term- Fund based – Buyers' Letter of Credit	17.50	30.00	[ICRA]A3; reaffirmed/assigned
<b>Total</b>	<b>30.00</b>	<b>50.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation continues to derive comfort from the extensive experience of the promoters of Elins Switch Boards Pvt Ltd (ESBPL) in the electrical contracting and panel fabrication industry. The rating is also supported by ESBPL's strong counterparty and steady revenue stream from its sister concern, Micron Electricals (Micron, rated [ICRA]A-(Stable) [ICRA]A1). As a mechanical, electrical, plumbing and fire protection (MEPF) contractor, Micron has a good market position in the southern states and caters to a diversified and reputed customer base. The firm's entire switchboards/low voltage (LV) and medium voltage (MV) panel requirement is catered to by ESBPL, resulting in a healthy revenue visibility. ICRA also notes that apart from Micron, the company has been adding new products/ customers, supporting its revenue growth. Moreover, ESBPL's tie-up with Schneider Electric Overseas Asia Pte for the sale of LV switchboards for power distribution and motor control and entry in the bus-duct segment (with Elins Megaduct) are likely to open new growth avenues for the company. ICRA notes that the company's overall operating income improved to Rs. 184 crore in FY2023 from Rs. 120 crore in FY2022, which is a growth of 54% on a YoY basis. In 9M FY2024, the company achieved a top line of Rs. 168 crore (provisional), and ICRA expects the company to post a YoY revenue growth of 15-20% for the full fiscal. On the margin front, the operating profitability declined by ~210 basis points due to elevated raw material costs, which could not be fully passed on to the customers. However, with the gradually increasing share of value-added products like busducts, margins are expected to improve meaningfully in the current fiscal. The rating also favourably factors in the company's healthy capital structure and coverage indicators. The company's external debt is limited to working capital facilities, which support the liquidity and credit indicators.

ICRA notes that ESBPL has recently commenced operations in a new facility which is in proximity to its existing operations, which provides additional revenue potential of Rs. 70-80 crore. The facility has the capability to produce most of the products of the company and is operationally more efficient than the existing facility, supported by a higher degree of automation to improve productivity, thereby leading to cost savings. Timely ramp up and contribution towards earnings from this facility will be a key monitorable.

The rating is, however, constrained by the company's modest scale of operations resulting in a modest net worth. ESBPL is also exposed to the sectoral concentration risk as it mainly caters to IT and real-estate companies. Further, the rating continues to be constrained by ESBPL's long working capital cycle (working capital intensity of more than 20%), which is a characteristic of the electrical business, wherein the receivable realisation period remains elongated. Despite the long working capital intensity due to elevated receivables and rising inventory levels, favourable payment terms extended by the suppliers backed by the Inland Letter of Credit (ILC) help the company manage its working capital requirements. As a large portion of the receivables are due from Micron, which is backed by LC, the counterparty risks remain low. The ratings are also constrained by the vulnerability of margins to fluctuations in raw material prices and intense competition from organised as well as unorganised players in the industry.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of the promoter in electrical contracting and panel fabrication industry** – The company is promoted by Mr. S K Seetharamu, who has extensive experience in the electrical contracting and manufacturing industry. He is also the promoter of Micron, which is the flagship company of the Group. His long track record in the industry has enabled the company to establish a strong customer base over the years.

**Long-term relationships with customers through Group company** – The company received more than 80% of its orders from Micron in the current fiscal, which has established and long-term relationships with the clients. Moreover, the entire panel business of Micron comes to ESBPL. Further, the company has an outstanding order book of Rs. 122 crore as on November 30, 2023, to be executed over the next two quarters, giving healthy revenue visibility in the near term.

**Healthy financial risk profile** – ICRA notes that the company's overall operating income improved to Rs. 184 crore in FY2023 from Rs. 120 crore in FY2022, representing a growth of 54% on a YoY basis. In 9M FY2024, the company has achieved a top line of Rs. 168 crore (provisional), and ICRA expects the company to post a YoY revenue growth of 15-20% for the full fiscal. On the margin front, the operating profitability fell by ~210 basis points due to elevated raw material costs, which could not be fully passed on to the customers. However, with the gradually increasing share of value-added products like busducts, margins are expected to improve meaningfully in the current fiscal. Despite a moderation in profitability in FY2023, ESBPL's capital structure remained comfortable. Its debt coverage metrics remained healthy with DSCR of 5.9 times and an interest coverage of 6.3 times in FY2023 (8.2 times and 8.8 times, respectively in FY2022). Moreover, its sister concern, Micron, has limited debt and strong liquidity, which provides comfort.

**Expansion of product portfolio and addition of channel partners augur well for growth prospects** – ESBPL's tie-up with Schneider Electric Overseas Asia Pte for the sale of LV switchboards for power distribution and motor control and entry in the busduct segment (with Elins Megaduct) in technological collaboration with Malaysia-based M/s Linkk Busways Technology SDH BHD has opened new growth avenues for the company. ICRA understands that ESBPL has already been able to report revenues of ~Rs. 24 crore in the bus-duct segment in 9M FY2024 so far. With the segment having a peak revenue potential of ~Rs. 100 crore per annum, this would be an important growth driver, going forward.

### Credit challenges

**Moderate scale of operations leading to a modest net worth** – Despite a healthy growth in FY2023, the company's scale of operations remains moderate with an operating income of ~Rs. 184 crore in FY2023 and an operating margin of 4.6% during the fiscal, resulting in a modest net worth of Rs. 58 crore as on March 31, 2023. Its nature of operations and limited product portfolio kept the scale of operations at a moderate level.

**Profitability remains vulnerable to adverse movement in prices of raw materials and intense competition** – The raw materials used for manufacturing are steel sheets, copper busbars, aluminium busbars etc. The company is exposed to fluctuation in the prices of the said items, given the fixed-price nature of orders. Moreover, the company's profitability is susceptible to intense competition owing to the presence of various organised and unorganised players. However, association with Micron mitigates the said risk to some extent. The company's return on capital employed (RoCE) improved to 6.98% in FY2023 (against 5.9% in FY2022), however, the same remains at a modest level owing to intense competition.

**Sectoral concentration risk** – The company mainly caters to real estate and IT companies, which exposes it to sectoral concentration risk. However, the long-term association of the company with reputed clients mitigates the risk to an extent.

**Elongated working capital cycle** – ESBPL's long working capital cycle is a characteristic of the electrical business wherein the receivable realisation period remains elongated. With Micron, its key customer, gradually increasing the share of turnkey projects where the payment cycle is more elongated, ESBPL's receivables have started reducing in FY2023, however, the same still remains elevated compared to the pre-Covid historical trend. Despite the working capital challenges due to elevated

receivables and inventory level, the favourable payment terms extended by suppliers backed by ILC helps the company to tide over the same. Most of the receivables are due from Micron with a large share being LC backed, reducing the counterparty risk.

### Liquidity position: Adequate

ESBPL has ~Rs. 2 crore of free cash and liquid investments as on December 31, 2023, with no long-term repayment obligation. While the company is expected to remain in a growth phase in the near term as it tries to establish the newly developed products in the market, its favourable payment terms with suppliers, unencumbered on-balance sheet liquidity, and high financial flexibility (for being a group company of Micron) are expected to keep the liquidity at an adequate level.

### Rating sensitivities

**Positive Factors** – The company’s rating could be upgraded if there is a significant improvement in its scale of operations and profitability while maintaining healthy liquidity and credit metrics.

**Negative Factors** – The rating may be downgraded if there is a decline in revenue and profitability or if there is a stretch in the working capital cycle, which may weaken its liquidity position. Specific metric that may lead to a rating downgrade includes TOL/TNW of more than 1.8 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

### About the company

Established in 1982, Elins Switch Boards Pvt Ltd (ESBPL) manufactures low and medium voltage switchboards in India. In FY2020, the company ventured into manufacturing of sandwich busducts, which conduct a substantial current of electricity. ESBPL’s manufacturing facility is in Bommasandra over an area of 1,37,500 sq. ft. and manufactures switchboards up to 36 KV. ESBPL is a sister concern of Micron with common promoters and the major part of its orders come from the latter. The company also manufactures and supplies switchboards directly to customers mainly in the IT and real estate sectors. Besides, the company provides programmable logic controller automation solutions for its customers. The company’s manufacturing facility includes sheet metal fabrication facility, machinery required to carry out busbar work, testing labs etc.

### Key financial indicators (audited)

ESBPL Standalone	FY2022	FY2023
Operating income	119.9	184.1
PAT	2.5	2.8
OPBDIT/OI	6.4%	4.3%
PAT/OI	2.1%	1.5%
Total outside liabilities/Tangible net worth (times)	0.9	1.1
Total debt/OPBDIT (times)	2.0	2.2
Interest coverage (times)	8.8	6.3

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. Crore; 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 (FY2024)		Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 05, 2024	Dec 26, 2022	Sep 30, 2021	Jun 23, 2020
1 Letter of Credit	Short term	10.00	--	[ICRA]A3	[ICRA]A3	-	-
2 Buyers' Letter of Credit	Short term	30.00	--	[ICRA]A3	[ICRA]A3	[ICRA]A3	-
3 Bank Guarantee	Short term	10.00	--	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
4 Unallocated	Short term	-	--	-	-	-	[ICRA]A3

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Letter of Credit	Very Simple
Buyers' Letter of Credit	Simple
Bank Guarantee	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 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	Letter of Credit	NA	NA	NA	10.00	[ICRA]A3
NA	Buyers' Letter of Credit	NA	NA	NA	30.00	[ICRA]A3
NA	Bank Guarantee	NA	NA	NA	10.00	[ICRA]A3

Source: Company

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**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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