ICRA

September 17, 2024

Genus Electrotech Limited: Ratings reaffirmed; outlook revised to Positive 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	18.23	9.76	[ICRA]BBB- (Positive); reaffirmed and outlook revised to Positive from Stable
Long term – Fund-based – Cash credit	88.67	93.67	[ICRA]BBB- (Positive); reaffirmed and outlook revised to Positive from Stable
Long term - Non-fund based – BG	4.50	4.50	[ICRA]BBB- (Positive); reaffirmed and outlook revised to Positive from Stable
Short term - Non-fund based – Letter of credit	27.00	32.00	[ICRA]A3; reaffirmed
Long term/Short term - Unallocated limits	23.23	21.7	[ICRA]BBB- (Positive); reaffirmed and outlook revised to Positive from Stable/[ICRA]A3; reaffirmed
Total	**161.63**	**161.63**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook for the long-term rating of Genus Electrotech Limited (GEL) factors in expectations of a steady growth in turnover, driven by the favourable demand prospects for LED TV and interactive flat panel displays (IFPD) along with the addition of new customers.

The demand prospects remain healthy, given the expansion plans of major customers in India and the push to convert the existing classrooms to smart classrooms which will fuel the demand for IFPD. The company reported healthy growth in FY2024, driven by the addition of IFPD, a new product, in its portfolio. It posted healthy sales in IFPD, though the margin profile remained weak. The margins are likely to remain in a similar range, though the working capital intensity in the major revenue contributor segments of LED TV and IFPD is expected to moderate. The repayment of the existing debt, along with an improvement in the working capital cycle, and a comfortable cash flow generation is likely to result in a steady moderation of the outstanding debt position, thereby leading to an improvement in the leverage and coverage metrics, going forward.

The reaffirmation of the ratings continues to favourably 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 benefited domestic manufacturers to an extent, supporting GEL's revenue growth.

The ratings are, however, constrained by intense competition from OEMs taking up manufacturing themselves and the larger contract manufacturers, which keeps the margins under check. The ratings also factor in the high customer concentration risk as a large portion of the revenues is derived from top customers. ICRA also notes that while a major proportion of the revenue is derived from the cost-plus model wherein the raw material and forex fluctuations can be passed on to the end customers, a portion of the revenues remains vulnerable to the adverse movement in forex rates and raw material prices.

Key rating drivers and their description

Credit strengths

Experience of promoters; ability to manufacture a 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 IFPD, LED TVs, air coolers, LED lights, PCBs and washing machines. The company has developed an established clientele, which provides it with repeat business.

Heathy demand prospects, especially in IFPD segment – GEL clocked a revenue of Rs. 398.5 crore in FY2024 for the interactive flat panel display (IFPD) segment alone. The demand from the Government/ Private is also increasing for IFPD. The company is receiving continuous requirement for IFPD from all the customers as all their products are being manufactured in India and the company's facility is already approved by the customer.

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

Intense competitive intensity – 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 the private sector remain marginal players. Further, the company faces competition from peers and the contract manufacturers for branded players.

High customer concentration – GEL's customer concentration remains high with ~95% of the total revenues accruing from the top 10 customers. However, there has been increasing diversification of customers as GEL is in continuous discussions to add more customers in each segment.

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 FY2024, GEL imported ~40% of its total raw material requirement. Further, the company partially hedges its forex transactions, exposing the profits to the volatilities in forex rates, though it is able to pass on the same to its customers to a certain extent.

Liquidity position: Adequate

GEL's liquidity improved in FY2024 on the back of the cushion available from undrawn working capital limits. The company is expected to comfortably meet its repayment obligations from cash accruals, given the scale-up in revenues and an improved order book position.

Rating sensitivities

Positive factors – ICRA could upgrade GEL's ratings if the company demonstrates a consistent improvement in its revenues and profitability, keeping the interest coverage beyond 3x on a sustained basis. An improvement in the liquidity will also be a key rating driver.

Negative factors – The outlook can be revised to Stable, or the ratings can be revised downwards if there is a moderation in the profitability and elongation in the working capital cycle, putting pressure on the debt coverage metrics and liquidity position.

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 Ltd. (GEL) was incorporated on July 23, 2003, by Mr. I.C Agarwal. GEL is a part of the diversified Kailash Group of industries having presence in the manufacturing, marketing, trading and exporting of various products like electronics, power cables, turnkey projects, paper, coal and coke. GEL started operations in FY2005, essentially to capitalise on the benefits announced by the Gujarat state government in the wake of the devastating earthquake in the Kutch region. The manufacturing facilities of the company are situated at Meghpar Borichi, Gandhidham, close to the Kandla port in the Kutch area. The company has manufacturing facilities dedicated for manufacturing LED TVs, washing machines, PCBs, Air coolers, LED lightings & fixtures, etc.

The Managing Director, Mr. Vishnu Todi, has been instrumental in setting up the unit at Gandhidham. Earlier, he was associated with Genus Power & Infrastructure Ltd (GPIL) when on one of the visits of LG officials he was able to gain an opportunity to showcase the technical competence which laid the foundation of the company's relationships with LG. LG was looking for an outsourcing partner to reduce the overheads and increase production and GEL seemed to be an ideal partner because of its locational advantage, having proximity to the major ports of Kandla and Mundra. The proximity to the ports is very critical for most consumer durable industries as most of the parts used in manufacturing are imported from China to gain cost advantage in the highly competitive price-driven market.

After the collaboration with LG in October 2003 for colour televisions (CTV) and for washing machines (WMs) in October 2004, GEL also began producing cables in March 2005 and printed circuit boards (PCBs) in June 2005. GEL also collaborated with ONIDA in January 2006 for CTVs and later for WMs as well. To carry on with the plans of backward integration, the company started manufacturing corrugation boxes & EPS (expandable polystyrene – Thermocol) in July 2006. GEL started exporting PCBs in September 2006. Besides, the company also produces low-tension power cables for its captive use as well as for commercial sales (installed capacity: 45,600 kms per annum).

The company has demonstrated capabilities to manufacture LCDs, laptops, mobiles, landline phones, DVDs, , coolers, energy meters and inverters. The company has started marketing LCDs, mobiles and invertors under its own 'Genus' Brand in Gujarat and plans to increase the product/geographic coverage gradually.

Key financial indicators (Provisional)

	FY2023	FY2024
Operating income	223.8	907.1
PAT	5.0	16.4
OPBDIT/OI	12.4%	4.1%
PAT/OI	2.2%	1.8%
Total outside liabilities/Tangible net worth (times)	1.4	1.8
Total debt/OPBDIT (times)	5.0	1.7
Interest coverage (times)	1.8	2.4

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

	Current (FY2025)				Chronology of rating history for the past 3 years					
					FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term/Short term-unallocated-unallocated	Long Term/Short Term	21.70	17 -Sep-2024	[ICRA]BBB-(Positive)/[ICRA]A3	24-NOV-2023	[ICRA]BBB-(Stable)/ [ICRA]A3	30-SEP-2022	[ICRA]BBB-(Negative)/[ICRA]A3	-	-
Short term – Others - Non fund based	Short Term	32.00	17 -Sep-2024	[ICRA]A3	24-NOV-2023	[ICRA]A3	30-SEP-2022	[ICRA]A3	15-JUN-2021	[ICRA]A3
Long term – Others – Non-fund based	Long Term	4.50	17 -Sep-2024	[ICRA]BBB-(Positive)	24-NOV-2023	[ICRA]BBB-(Stable)	30-SEP-2022	[ICRA]BBB-(Negative)	15-JUN-2021	[ICRA]BBB - (Stable)
Long term - Term loan – Fund-based	Long Term	9.76	17 -Sep-2024	[ICRA]BBB-(Positive)	24-NOV-2023	[ICRA]BBB-(Stable)	30-SEP-2022	[ICRA]BBB-(Negative)	15-JUN-2021	[ICRA]BBB - (Stable)
Long term-Cash credit - Fund based	Long Term	93.67	17-Sep-2024	[ICRA]BBB-(Positive)	24-NOV-2023	[ICRA]BBB-(Stable)	30-SEP-2022	[ICRA]BBB-(Negative)	15-JUN-2021	[ICRA]BBB - (Stable)

Complexity level of the rated instruments

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2017	NA	FY2030	9.76	[ICRA]BBB- (Positive)
NA	Cash credit	-	NA	-	93.67	[ICRA]BBB- (Positive)
NA	Bank guarantee	-	NA	-	4.50	[ICRA]BBB- (Positive)
NA	Letter of credit	-	NA	-	32.00	[ICRA]A3
NA	Unallocated	-	NA	-	21.7	[ICRA]BBB-(Positive)/ [ICRA]A3

Source: Company

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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