

June 23, 2020

## Elins Switch Boards Pvt Ltd: [ICRA]A3 rating assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-Fund based- Bank Guarantee	5.00	[ICRA]A3; assigned
Short Term- Unallocated	15.00	[ICRA]A3; assigned
<b>Total</b>	<b>20.00</b>	

### Rationale

The assigned rating considers the extensive experience of the promoters of Elins Switch Boards Pvt Ltd (ESBPL) in the electrical contracting and panel fabrication industry. The rating further considers the healthy growth in its scale of operations with the company's revenues driven by steady order inflow from its sister concern, Micron Electricals (Micron) (rated [ICRA]A1<sup>1</sup>). As a mechanical, electrical and plumbing (MEP) 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) Medium Voltage (MV) panel requirement is catered to by ESBPL, resulting in a healthy revenue visibility. This apart, expansion in the company's product portfolio augurs well for its growth prospects. The rating also considers ESBPL's comfortable capital structure and coverage indicators in the absence of any external debt.

The rating is, however, constrained by the company's modest scale of operations, notwithstanding a steady revenue growth, vulnerability of margins to fluctuations in raw material prices and intense competition from organised as well as unorganised players in the industry. ESBPL is also exposed to the sectoral concentration risk as it mainly caters to IT and real-estate companies. Execution and revenues in FY2021 are likely to be subdued following the Covid-19 pandemic.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of the promoter in the 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. 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 receives ~90% of its orders from Micron, which has established and long-term relationships with the clients. Moreover, the entire panel business of Micron comes to ESBPL. Micron's business to ESBPL rose at a CAGR of 14% from FY2016 to FY2020. Further, the company has an outstanding order book of Rs. 73.3 crore as on March 31, 2020, to be executed over the next two quarters. Moreover, expansion of the product portfolio also enhances the growth prospects of the company.

<sup>1</sup> Please find the rating rationale [here](#)

**Strong financial profile** – The company's revenues have witnessed a healthy CAGR of 15% over the last four fiscals, driven by steady order inflows from Micron. The growth and working capital requirements have largely been funded through equity with no dependence on external debt. Despite a modest profitability, ESBPL's capital structure remained comfortable with no external debt as on March 31, 2020<sup>2</sup>. Its debt coverage metrics remained healthy with DSCR of 10.5 times and interest coverage of 11.9 times in FY2020 (35.4 and 39.7 times, respectively in FY2019). Moreover, its sister concern, Micron, has limited debt and healthy liquidity, which provide comfort.

## Credit challenges

**Moderate scale of operations despite steady growth achieved in the last two fiscals** – The company's scale of operations has been moderate with an operating income of ~Rs. 115 crore in FY2020. Its limited product portfolio has kept the scale at moderate levels. In addition, the pace of execution and revenue growth are expected to be subdued in FY2021 due to the Covid-19 pandemic, which resulted in a nationwide lockdown and an overall slowdown in the economic activity.

**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 also 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 operating return on capital employed stood at a modest 7.1% in FY2020 (against 6.8% in FY2019).

**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.

## Liquidity position: Adequate

The company's cash flow from operations was negative in FY2020 mainly owing to higher working capital requirements on a growing scale. However, the company was able to fund the same through existing cash balances. Moreover, the company's capex has been funded through equity infusion. The company also does not have any external debt repayment obligation. The liquidity position of the company is **adequate** and the promoters are expected to infuse funds, if required.

## Rating sensitivities

**Positive triggers** – The company's rating may be upgraded if there is a significant and sustainable improvement in its scale of operations along with an improvement in its profitability. Specific metric that could lead to an upgrade would be ROCE (return on capital employed) greater than 12% on a sustained basis.

**Negative triggers** – The rating may be downgraded if there is a decline in order inflows and profitability and/or if there is any stretch in the working capital cycle, which may result in weakening of its liquidity position.

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<sup>2</sup> As per provisional figures shared by the company

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on the standalone financial profile of the company

## About the company

Elins Switch Boards Pvt Ltd (ESBPL), established in 1982, manufactures low and medium voltage switchboards in India. It also manufactures sandwich busducts, which conduct a substantial current of electricity. Its manufacturing facility is in Bommasandra with an area of 137,500 sq. ft. and manufactures switchboards up to 36 kV. The company is a sister concern of Micron Electricals with common promoters and the major portion of its orders come from Micron. The company also manufactures and supplies switchboards directly to customers mainly in the IT and real-estate sectors. The LV and MV panels are thoroughly tested to meet international standards.

In FY2020, based on the provisional figures, the company reported a net profit of Rs. 2.1 crore on an operating income (OI) of Rs. 117.0 crore compared to a net profit of Rs. 2.2 crore on an OI of Rs. 106.9 crore in FY2019.

## Key financial indicators

	FY 2019	FY 2020*
Operating Income (Rs. Crore)	106.9	117.0
PAT (Rs. Crore)	2.2	2.1
OPBDIT/ OI (%)	5.0%	5.1%
RoCE (%)	6.8%	7.1%
Total Outside Liabilities/ Tangible Net Worth (times)	0.3	0.3
Total Debt/ OPBDIT (times)	-	-
Interest coverage (times)	39.7	11.9
DSCR	35.4	10.5

Source: Company, ICRA research

\*provisional figures

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for last three years:

Current Rating (FY2021)					Chronology of Rating History for the past 3 years			
					Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	23-Jun-2020	-	-	-	
1 Bank Guarantee	Short Term	5.00	-	[ICRA]A3	-	-	-	
2 Unallocated	Short Term	15.00	-	[ICRA]A3	-	-	-	

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

## 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	Bank Guarantee	NA	NA	NA	5.00	[ICRA]A3
NA	Short Term-Unallocated	NA	NA	NA	15.00	[ICRA]A3

Source: Elins Switch Boards Pvt Ltd

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