

## Efftronics Systems Private Limited

March 16, 2021

### Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	39.32 (Enhanced from 39.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	15.00 (Enhanced from 11.00)	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Revised from CARE BB+; Stable / CARE A4+ (Double B Plus ; Outlook: Stable / A Four Plus)
<b>Total Bank Facilities</b>	<b>54.32</b> <b>(Rs. Fifty-Four Crore and Thirty-Two Lakhs Only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Efftronics Systems Private Limited (ESPL) take into consideration significant growth in revenue base over the past 3 years, while maintaining healthy profitability and return on capital indicators, comfortable capital structure with low reliance on external debt and significant requirement of working capital met through strong networth base and completion of debt funded capex undertaken by the company. The ratings continue to derive strength from the experienced management with long track record of operation, wide product portfolio/service offerings catering to the railway segment, strong counterparty with entire revenue derived from various zones of railways and a positive industry outlook. However, the rating strengths are tempered by the modest scale of operation, skewed revenue distribution towards last quarter of financial year, high working capital intensity with extended payment terms for few project execution/services provided by the company. The ratings also take note of the impact of Covid-19 pandemic on the business operation which has been gradually recovering with opening up of the economy, easing of restrictions and improving supply chain.

### Rating Sensitivities

#### Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability to increase the scale of operations with TOI increasing Rs.200 crore and above
- Shortening of the collection period below 150 days in the projected years

#### Negative Factors - Factors that could lead to negative rating action/downgrade:

- Non addition of orders resulting in reduction of revenue below Rs.100 crore on a sustained basis
- Elongation of collection period beyond 250 days in the projected years
- Decline of PBILDT margin below 15% in the projected period

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced management with long track record of operations:** ESPL is promoted by Mr. Rama Krishna Dasari who is the founding CEO and Managing Director of the company and has more than 37 years of experience. Mr. Dasari is also a Solution Architect and Chief Designer for the various projects of the organization and is assisted by his son Mr. Anvesh Dasari, an Electrical Engineer with more than a decade long experience.

**Established operations with various zones of railways:** The company is engaged in manufacturing & executing contracts providing railway safety system solution. Smart Signalling vertical provide solutions to improve safety, punctuality and productivity of train operations by monitoring the existing signalling systems. The company's products are installed in more than 7500 stations across the country. The company generates 60-70% of its revenue from sale of products and with balance revenue through Service/AMC work. It caters to 68 divisions of railways. The company has a running order book and has orders in hand of Rs.62.54 crore as on February 01, 2021. The said orders constitute both manufacturing and AMC work. The AMC contracts are entered on yearly basis and renewed year on year which provides yearly. Besides railway work, the company has also developed products to cater to smart cities and is currently catering at Vijayawada, Hyderabad, Dehradun and Belgavi.

**Scaling up of business operation with robust profitability:** The company is a mid-sized entity with improvement in scale of operations in past few years. The TOI grew at CAGR of 15.38% (FY18 to FY20). During FY20, TOI witnessed marginal growth of 1.84% (50.87% during FY19) from Rs.101.29 crore in FY19 to Rs.103.15 crore in FY20. The company provides specialized products and hence the profit margins have been on the higher side. With gradual expansion of product base and diversification efforts, the PBILDT margin has witnessed continuous increase from 17.76% in FY19 to 18.57% in FY20. Further, debt level has been on lower side resulting in low interest cost. Hence, PAT margin has been high at about 7-9% during the last three years. The company has also reported strong ROCE which stood at 20.48% in FY20 (FY19: 26.47%).

During 9MFY21, the company has reported TOI of Rs.57.84 crore. The revenue distribution is generally more in the Q4 (about 50%) of a year, as the company receives work orders from railways primarily in the second half of a financial year (which ramps up post budget).

**Comfortable capital structure and debt coverage metrics:** The company has been present in the industry for several decades and the promoters have infused sufficient equity which along with accretion of profits has resulted in adequate network for the size and scale of operation of the company. Besides reliance on debt has been low resulting in comfortable capital structure with overall gearing ratio below unity for the past three years. A large part of the working capital requirement is funded through network resulting in low reliance on working capital borrowings. The company had undertaken additional term loan in FY18 for funding capex for Rs.30 crore which resulted in increased term debt in FY20. Nevertheless, the debt coverage metrics have been also at satisfactory level.

**Completion of capex:** The company has successfully constructed state of the art facility spread across an area of 1,09,714 Sq.ft in Vijayawada, Andhra Pradesh. The Company has moved its operations and administrative activities from its previously leased property during January, 2020. The total capital expenditure incurred for this project was Rs.33.78 crore which was funded by way of term loan amounting to Rs.20 crore and remaining from internal accruals. The new facility is capable of accommodating more sophisticated equipment which are critical for company's future endeavors.

**Positive industry outlook:** ESPL majorly caters to Indian Railway for supply of its manufactured products and maintenance services. Indian Railways has come up with a vision document called National Rail Plan (NRP) to develop Indian Railways as world class system, covering all aspects of railways including infrastructure requirement for the entire network. Thus, the business of ESPL from Railways is expected to increase over the next few years by ways of various products/solutions along with software to meet the challenges of the operations of railways.

#### **Key Rating Weaknesses**

**Skewed revenue concentration:** The company caters to railway work orders and provides AMC services as well. Most of the revenue (more than 50%) is generated in the last quarter of the year resulting in bunching of payments towards the year end. The uneven work receipt and execution thereby results in revenue risk. The company reported lower revenue in FY20 vis-à-vis work in hand due to covid induced lockdown in March 2020 which is the highest revenue generator month for the company.

**Various contractual supplies to railways and payment terms resulting in stretch operating cycle:** The company majorly caters to railway products through various types of contract models. The company supplies its products through railway contractors, bidding for product supplies, bidding for supply and installations, services to various stations of railways. The company receives payment for supply of products in a timely manner while for the installation and commencement, the payments generally gets delayed due to non-availability of sites. The company also caters its annual maintenance services to various zones of Indian Railways. The billing for the services provided are done on quarterly basis and the payment receipts are more often stretched. Along with these, with more than 25% revenue booked in last quarter, the collection and operating cycle days appears extended at year end (184 days for FY20 vis-à-vis 168 days for FY19 and 203 days for FY18).

**Liquidity - Adequate:** The liquidity position is characterized by sufficient cushion in accruals vis-à-vis repayment obligations, moderate cash balance. Its bank limits are utilized to the extent of 74% supported by above unity current ratio. The company had also availed interest and principal moratorium on term loan and working capital facilities, provided by RBI as a part of Covid-19 relief for the period March 2020 to August 2020. The interest on working capital was repaid post end of moratorium while the installments (both principal and interest) of term loans has been shifted by six months. The company was also sanctioned loan against Union Guaranteed Emergency Credit Line (UGECL) and Covid Emergency Line of Credit (CELC) scheme as part of Covid-19 relief measure.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios - Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

#### **About the Company**

Efftronics Systems Private Limited (ESPL), incorporated on June 19, 1987 has been promoted by Mr. Rama Krishna Dasari and the company is certified Information Security Management Systems (ISMS) by International Accreditation Forum (IAF) in 2019. The company commenced its business operation with manufacturing of LED based single color display board and is engaged in manufacturing & executing contracts providing railway safety system solution. The company has majorly four verticals, namely, Smart Signalling, Smart Building, IoT Solutions and Smart Cities with product portfolio spanning across predictive maintenance system, fail safe system, asset monitoring, energy & power monitoring, Intelligent transportation system, water SCADA etc.

The company has manufacturing facilities located at Vijayawada, Andhra Pradesh and includes an in-house Research and Development facilities which has been appraised for Capability Maturity Model Integration (CMMI).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	101.29	103.15
PBILDT	17.99	19.15
PAT	9.59	9.01
Overall gearing (times)	0.68	0.72
Interest coverage (times)	5.25	4.37

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

#### Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	August 2026	18.32	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	21.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	15.00	CARE BBB-; Stable / CARE A3

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	18.32	CARE BBB-; Stable	-	1)CARE BB+; Stable (10-Jan-20)	-	-
2.	Fund-based - LT-Cash Credit	LT	21.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (10-Jan-20)	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	15.00	CARE BBB-; Stable / CARE A3	-	1)CARE BB+; Stable / CARE A4+ (10-Jan-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable

#### Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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