Exicom Tele-Systems Limited (Revised)

September 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	80.00	CARE BBB; Stable	Assigned
Short Term Bank Facilities	85.00	CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to Exicom Tele-Systems Limited (ETL) favourably factors in the promoter's extensive experience in power electronics industry, its long-standing relationship with Reliance Jio Infocomm Limited (RJIL) resulting in steady revenue stream over the years and reputed clientele. The ratings also favourably consider ETL's diversified product portfolio and improved operational performance reflected by the healthy growth in Electric Vehicle (EV) charging segment leading to healthy revenue-mix and diffusing the risk of dependence on revenue from telecom segment. Moreover, group's healthy order book position in both critical power components as well as EV charging segment, providing visibility for revenue growth and improvement in profitability margins. The improvement in profitability margins is further expected as the group successfully hived off its loss-making EV battery segment w.e.f. November 01, 2022. CARE also factors in the strong research and development (R&D) capabilities developed by the group, leading to constant improvement and customization of its products. Further, the ratings consider the low reliance of the group on external debt and consequently healthy capital structure along with healthy debt coverage indicators along with adequate liquidity position backed by healthy cash balances and low repayment obligations.

However, these rating strengths are partially offset by vulnerability of margins to raw material prices and foreign exchange rates. Although the overall working capital intensity of the business remains low, receivables in the power electronics business remain high, especially from the Government clients.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in the consolidated revenue to more than Rs. 1000 Cr and improvement in profitability margins with PBILDT margin of more than 7% on sustained basis
- Improvement in cash conversion cycle to less than 60 days

Negative factors

- Any debt funded capex leading to an overall gearing of more than 0.40x
- Decline in operating performance with decline in PBILDT margins below 5.00%

Analytical approach: Consolidated

A consolidated approach has been adopted on account of the common management, operational and financial linkages between the company and its subsidiaries. The entities considered for consolidating the financials are provided in Annexure-6.

Outlook: Stable

CARE believes that the group will continue to benefit from the experience of its promoters and continue to register improvement in its operational performance in the near to medium term.

Detailed description of the key rating drivers

Key strengths

Established track record with extensive experience of promoters in the industry

ETL was incorporated in the year 1994 for the manufacturing of critical power components which find applications in the telecom sector. Reliance Jio Infocomm Limited (RJIL), which has been consistently increasing its market share, continues to be its largest client and the company has long association with RJIL. Mr. Anant Nahata, Managing Director leads the overall strategy and planning, product development, business development and marketing activities of ETL. He is the son of Mr. Mahendra Nahata, who has been on the board of RJIL since 2010. Mr. B.B Tandon (Director) is a retired Chief Election Commissioner and provides ETL with Corporate Governance framework and direction. Mr. Subhash Chander Rustgi (Director) has more than 40 years of experience in telecom industry. The top management team of ETL is ably supported by experienced second line of management.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Strong R&D capabilities
The company has in-house R&D Centre recognized by the Department of Science and Technology, Government of India (GoI). The R&D team works in relationship with IIT Chennai and Indian Institute of Science (IIS), Bangalore in the power domain for development of key technologies. This has enabled the group to develop products for the EV segment—batteries and chargers, which are being supplied to established players in the segment and remains focused on expanding its presence in electric vehicles. In FY23, the company had spent Rs. 19.32 Cr (2.80% of the total cost) on Research & Development expenses as against Rs. 19.22 Cr (2.38%) during the previous year.

Reputed clientele and sound order book position
The company's clientele comprises of some of the reputed telecom companies including Reliance Jio Infocomm Limited (rated CARE AAA; Stable/ CARE A1+), Bharat Sanchar Nigam Limited (BSNL) (rated CARE AAA (CE); Stable), Indus Towers Limited, Mahindra & Mahindra Limited (CARE AAA; Stable/ CARE A1+), Tata Motors Passenger Vehicles Limited and Hindustan Petroleum Corporation Limited, among others. The group has healthy unexecuted order book of Rs. 357.15 Cr as on July 31, 2023, which includes Rs. 279.55 Cr of orders from tower companies for telecom segment and balance from automobile sector for EV charging segment. It also shows the increasing demand for EV segment, which would result in healthy revenue-mix.

Improvement in operational performance with reorganization of business verticals and diversified product profile
The operational performance of the company is comfortable marked by total operating income of Rs. 758 Cr during FY23 (PY: Rs. 905 Cr) with PBILDT margins of ~5% (PY: 5.52%) despite some moderation, owing to moderation in revenue from trading of energy storage solutions leading to lower economies of scale, increase in the prices of semi-conductors, discontinuation of inspection/ commissioning charges for telecom segment and development cost for 4 KW SMPS modules. The group has already registered Rs. 331.22 Cr of revenue during 4MFY24. The profitability margins are expected to improve going forward as the group has hived off its EV battery segment which had been reeling under operating losses for past two fiscals as a part of business reorganization to optimize operational efficiencies. Further, the group is undertaking capex to set up plant & machinery in its Gurgaon facility for manufacturing lithium-ion batteries for critical power segment, production of which is expected to start from September 2023. Further, the group has plans to set up a manufacturing facility for EV chargers and critical power components in Telangana. Timely completion of projects along with stabilization of operations would remain key sensitivities.

Comfortable financial risk profile
The financial risk profile of the group is comfortable marked by comfortable gearing and healthy debt coverage indicators. The total debt at consolidated level stood at Rs. 80.69 Cr as on March 31, 2023 (PY: Rs. 79.42 Cr) and the net worth stood healthy at Rs. 281.14 Cr. This led to an overall gearing of 0.29x as on March 31, 2023 (PY: 0.30x). The debt coverage indicators stood comfortable with interest coverage ratio of 2.83x and total debt/ PBILDT of 1.5x for FY23. The group has plans to incur capex to be spread over next two fiscals with an expected outlay of Rs. 125 Cr expected to be funded through infusion of equity, which would further strengthen its capital structure and reflects Exicom group's low reliance on external debt. However, any material increase in debt would remain a key monitorable.

Key weaknesses
High level of receivables
The receivable for the group remains high at 127 days as on March 31, 2023 (PY: 101 days), especially in critical power components segment. Further stretch in receivables could impact the liquidity of the group. However, the overall working capital cycle of the group remains efficient at 78 days as on March 31, 2023 (PY: 59 days). With the growing revenue share of EV charging segment which has more efficient collection cycle, the level of receivables is expected to moderate going forward.

Vulnerability of profitability to volatility in raw material prices and forex fluctuation
The profitability margins of the group are susceptible to volatility of prices of raw material such as semi-conductor chips, etc. With significant increase in the prices of semi-conductors due to limited availability, the operational profitability of the group was impacted. Further, the group procures battery modules from China and sell it in the domestic market as well as in the countries like Singapore, Malaysia, etc. to name a few which exposes it to foreign exchange fluctuation risk and the group has recorded a forex loss of Rs. 1.7 Cr during FY23 (PY: Nil).

Liquidity: Adequate
The liquidity profile of the group is adequate marked by adequate cash accruals against low debt repayment obligations. The group is expected to generate cash accruals of around Rs. 31 Cr during FY24 vis-à-vis modest debt repayment obligation of Rs. 4.5 Cr. Further, ETL has utilized its working capital limits at an average of 84% during the trailing 12 months ending June 2023, supported by above unity current ratio. With the expected enhancement in working capital limits the group would have additional liquidity buffer to fund its working capital requirements. The group also had free cash and bank balances of Rs. 38.00 Cr as on March 31, 2023. Moreover, there are no plans for raising debt to fund capex.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

ETL was initially incorporated in the year 1994 as Himachal Exicom Communications Limited to manufacture telecom power equipment such as converters, battery modules, controllers, rectifiers, etc. as a joint venture between Himachal Futuristic Communication Limited (HFCL, rated CARE A; Stable/ CARE A1 as per PR dated July 07, 2023) and Exicom Australia. However, post the liquidation of Exicom Australia and its subsequent exit, the name of the company was changed to its current name. ETL is engaged in the manufacturing critical power components such as rectifiers, AC to DC converters, etc. and also offers energy storage solutions. The company has recently forayed into the business of EV chargers.

Brief Financials (₹ crore)- Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	4MFY24 (UA)
Total operating income	906.54	758.42	331.22
PBILDT	49.99	37.29	-
PAT	3.59	14.47	-
Overall gearing (times)	0.30	0.29	-
Interest coverage (times)	2.38	2.83	-

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	71.00	CARE BBB; Stable
Fund-based - LT-Proposed fund based limits		-	-	-	0.65	CARE BBB; Stable

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	December 2026	8.35	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	45.00	CARE A3+
Non-fund-based - ST-Letter of credit		-	-	-	40.00	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	8.35	CARE BBB; Stable				
2	Fund-based - LT-Cash Credit	LT	71.00	CARE BBB; Stable				
3	Non-fund-based - ST-Letter of credit	ST	40.00	CARE A3+				
4	Non-fund-based - ST-Bank Guarantee	ST	45.00	CARE A3+				
5	Fund-based - LT-Proposed fund based limits	LT	0.65	CARE BBB; Stable				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Proposed fund-based limits	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple
5	Non-fund-based - ST-Letter of credit	Simple

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities forming part of the consolidated financials (as on March 31, 2023)

S. No.	Name of the companies	% Stake
	Subsidiaries (held directly)	
1.	Energywin Technologies Private Limited	100.00
2.	Exicom Tele-Systems (Singapore) Pte. Limited	100.00
	Step-down subsidiaries (held indirectly)	
3.	Horizon Tele-Systems SDN BHD	100.00

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Name: Sajan Goyal Director **CARE Ratings Limited** Phone: +91-120-4452017 E-mail: sajan.goyal@careedge.in
Relationship Contact Name: Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-120-4452005 E-mail: dinesh.sharma@careedge.in	Name: Sachin Mathur Assistant Director **CARE Ratings Limited** Phone: +91-120-4452054 E-mail: sachin.mathur@careedge.in Name: Charu Mahajan Analyst **CARE Ratings Limited** E-mail: charu.mahajan@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in