Exicom Tele-Systems Limited

April 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	68.00	CARE BBB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities*	45.00	CARE BBB+; Stable / CARE A2	Revised from CARE A2
Short Term Bank Facilities	40.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

**The facilities have been reclassified from earlier Short-Term facility to Long-term/ short-term facilities since bank guarantee facility has a maximum tenor of up to 10 years.*

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Exicom Tele-Systems Limited (ETL) factors in successful completion of IPO (Initial Public Offer) (listed on BSE (Bombay Stock Exchange) and NSE (National Stock Exchange)) on March 05, 2024. There has been a net equity infusion of ~Rs.372.00 crore which has resulted in prepayment of debt and substantial improvement in tangible net-worth of the group with improvement in operational performance during 9MFY24 (refers to the period from April 01, 2023 to December 31, 2023) driven by increase in revenue from critical power segment and hiving off loss making E.V. Battery business (w.e.f. October 31, 2022 onwards). The ratings continue to derive strength from 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, group's healthy order book position in both critical power components as well as EV (Electric Vehicle) charging segment providing visibility for revenue growth and improvement in profitability margins, strong research and development (R&D) capabilities developed by the group leading to constant improvement and customization of its products. 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 consolidated revenue to more than Rs. 1,500 crore and improvement in profitability margins with PBILDT margin above 14% on a sustained basis.
- Improvement in working capital cycle to less than 45 days.

Negative factors

- Any debt-funded capex leading to overall gearing above 0.40x on a sustained basis.
- Decline in operating performance with PBILDT margin below 10% on a sustained basis.

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

Substantial improvement in liquidity post Successful completion of IPO: ETL has completed IPO and equity shares of the company were listed on NSE and BSE on March 05, 2024 with a net equity infusion of ~Rs.372.00 crore which has led to improvement in the tangible net-worth of the group to ~Rs.700.00 crore as on March 31, 2024 (PY: Rs.267.88 crore). Consequently, the overall gearing of the group is further expected to improve to 0.08x as on March 31, 2024 (PY: 0.30x). The funds would be deployed for ongoing capex in Telangana, prepayment of debt (already done), to fund the incremental working capital gap as a result of expected increase in scale of operations, and for general corporate purpose.

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

Improvement in operating performance during 9MFY24: During 9MFY24, the group reported total operating income of Rs.718.69 crore (PY: Rs.361.69 crore). The revival in scale in the current financial year is primarily owing to increase in revenue from telecom segment (contributing ~66% of total operating income) with increase in revenue from sale of SMRs (Switch mode rectifiers). The PBILDT margin of the group has also improved substantially to 10.07% in 9MFY24 (4.56% during FY23) as the group had hived off its EV battery segment (w.e.f. from November 01, 2022 onwards) which had been reeling under operating losses for past two fiscals as a part of business reorganization to optimize operational efficiencies. Consequently, the PAT margin of the group also improved to 5.07% in 9MFY24 (1.06% in FY23). Going forward, with expected increase in revenue contribution of EV charger segment, the PBILDT margin of the group is expected to improve further and remain in the range of ~11%-12%.

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) (rated CARE AAA; Stable/CARE A1+), which has been consistently increasing its market share, continues to be one of the largest client and the company has a long association with RJIL. Mr. Anant Nahata, Managing Director leads the overall strategy and planning, product development, business development and marketing activities of ETL. The Company has recently appointed Mr Vivekanand Kumar (wholetime director) as head of operations. He is a B Tech and MBA by qualification having vast experience in automotive industry. ETL has also hired Ms Karen Wilson Kumar, who brings in vast experience in marketing. 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.

Strong R&D capabilities: The group has in-house R&D Centre recognized by the Department of Science and Technology, Government of India (GoI). This has enabled the group to develop products for the EV segment—batteries (now hived off) and chargers, which are being supplied to established players in the segment and remains focused on expanding its presence in electric vehicles. In FY23 (refers to the period from April 01, 2022 to March 31, 2023) 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 group's clientele comprises of some of the reputed telecom companies including Skipper Limited, Bondada Engineering Private Limited, and Indus Towers Limited among others. The group had healthy unexecuted order book of Rs.491.10 crore as on December 31, 2023, which includes Rs.442.60 crore 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.

Key weaknesses

High level of receivables: The receivable for the group remained high at 119 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 remained moderate at 74 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).

Industry Outlook

Telecom Sector: The prospects of growth for the Indian telecom industry are healthy with the telecom operators upgrading and expanding their network to meet demand for rising data growth with the evolution of new revenue streams.

EV Sector: The growth momentum is expected to continue in CY24 (refers to the period from January 01, 2023 to December 31, 2023) driven by the government's increased focus on electrification at both the Central and state levels, the potential extension of FAME II, the improving EV ecosystem with a significant increase in charging stations, the envisaged reduction in battery costs leading to the lower total cost of ownership (TCO) compared to ICE, and the development of new models across categories, thus continuing to drive demand for EVs.

Liquidity: **Adequate**

The liquidity position of the group is adequate as reflected by projected gross cash accruals to the tune of Rs.110.78 crore in FY25 against nil term loan repayments. Further, the average utilization of working capital borrowings stood 74% for trailing 12 months ended December 31, 2023. The group is planning to incur capex of ~Rs.160.00 crore in FY25 pertaining to setting up of plant in Telangana (operations expected to begin from January, 2025 onwards) which would be funded entirely from equity.

Environment, social, and governance (ESG) risks

Environmental: The company has installed solar panels 250 KWH for power generation, used battery operated rickshaws for inter-office movements and used EEE taxi services (EV Vehicles) to contribute to C02 abatement.

Social: The company conducts environmental, health, and safety awareness programs to educate its stakeholders and also provides regular training sessions to its employees to enhance their knowledge and skills in environment, health, and safety practices.

Governance: ETL provides monthly sustainable reports to its stakeholders and customers with transparent and comprehensive information on its ESG performance, risks, and opportunities. The company has maintained 100% compliance with statutory requirements.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Consolidation
Manufacturing Companies
Short Term Instruments

About the company and industry

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 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.

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Telecommunication	Telecommunication	Telecom - Equipment & Accessories	Telecom - Equipment & Accessories

Brief Financials (Consolidated) (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	906.54	759.05	718.69
PBILDT	49.99	34.59	72.35
PAT	3.59	8.01	36.45
Overall gearing (times)	0.30	0.30	0.30
Interest coverage (times)	2.38	1.58	4.83

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	68.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	45.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Letter of credit		-	-	-	40.00	CARE A2

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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (03-Apr-24)	1)CARE BBB; Stable (04-Sep-23)	-	-
2	Fund-based - LT-Cash Credit	LT	68.00	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Apr-24)	1)CARE BBB; Stable (04-Sep-23)	-	-
3	Non-fund-based - ST-Letter of credit	ST	40.00	CARE A2	1)CARE A2 (03-Apr-24)	1)CARE A3+ (04-Sep-23)	-	-
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	45.00	CARE BBB+; Stable / CARE A2	1)CARE A2 (03-Apr-24)	1)CARE A3+ (04-Sep-23)	-	-
5	Fund-based - LT-Proposed fund based limits	LT	-	-	1)Withdrawn (03-Apr-24)	1)CARE BBB; Stable (04-Sep-23)	-	-

LT: Long term; ST: Short term; LT/ST: 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	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Exicom Tele-systems (Singapore) Pte Limited	Full	Common management, Operational and Financial linkages
2	Horizon Tele-systems SDN-BHD	Full	Common management, Operational and Financial linkages

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.

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