Exicom Tele-Systems Limited

January 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term fund based Facilities	43.74 (33.85)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE BBB; Stable (Triple B; Outlook: Stable)**
Long Term/short term bank facilities	69.00 (50.00)	**CARE BBB+; Stable/CARE A2 (A Two)**	**Revised from CARE BBB; Stable/CARE A3+ (Triple B Plus; Outlook: Stable/ A Two)**
Total	**112.74 (Rs. One hundred twelve crore and seventy four lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of Exicom-Tele Systems Limited (ETL) takes into account the diversified product portfolio with foray into Energy Storage Solutions & Electric Vehicle charger segments, reputed clientele and enhanced financial risk profile characterized by growth in total income from operations, increase in profitability, comfortable capital structure and adequate liquidity position on the back of healthy cash balances with low debt repayments and limited capex plans. The rating revision further draws strength from the experience of the promoters in the power electronics industry and long standing relationship with Reliance Jio Infocomm Limited (RJIL) which has been consistently expanding its market share. The ratings further draw comfort from the healthy order book and the strong research & development base of the company.

However, the ratings are constrained by the client concentration risk, its susceptibility to technological risk and its presence in the telecom industry with regulatory uncertainty.

Going forward, the ability of the company to profitably scale up its operations as envisaged while sustaining its capital structure and maintaining its working capital cycle will be the key rating sensitivities. Further any material investments or any major capex plans as against what has been envisaged which may adversely impact its leverage position will be critical for the credit profile of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Enhanced financial profile: The financial risk profile of ETL has improved characterized by growth in total income from operations by 43.71% from Rs 487.04 crore in FY17 to Rs 699.94 crore in FY18 due to increased execution of order primarily from Reliance Jio Infocomm Limited (rated CARE AAA; Stable /CARE A1+). The PBILDT margin has increased to 11.47% in FY18 as against 8.97% in FY17 on account of better operating efficiency due to economies of scale. Also, the company's PAT margin has improved from 4.92% in FY17 to 5.57% in FY18. Further, PBILDT interest coverage has improved from 6.88x in FY17 to 9.90x in FY18.

The company's capital structure is comfortable with the total debt reducing to Rs 49.63 crore as on 31st Mar 2018 from Rs 57.58 crore as on 31st Mar 2017 as the company had converted preference shares of Rs 15 crore to equity and repaid term loan and unsecured loans. The overall gearing has improved to 0.29x as on 31st Mar 2018 as against 0.49x as on 31st Mar 2017 on account of reduced debt and enhancement in net-worth due to accretion of profits to reserves and surplus.

Liquidity Analysis

The company has a comfortable liquidity position marked by cash & cash equivalents of Rs 46.43 crore (includes margin money of Rs 8 crore) as on 31st Mar 2018. The current ratio of the company remained comfortable at 1.48x as on 31st Mar 2018 (vs. 1.37x as on 31st Mar 2017). The average fund based working capital utilisation for the last 12 months ended Oct 2018 though, stood high at 95.35%, however, the company is in the process of increasing its working capital lines with the increasing scale of operations.

Long and established track record with experienced promoters and association with RJIL: ETL was incorporated in the year 1994 for manufacturing of various power systems which find application in the telecom tower sector. ETL supplies Lithium ion batteries for companies in the telecom tower space and has long standing relationship with these companies.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

RJIL which has been consistently increasing its market share, continues to be its largest client and contributed around 80% of its total sales in FY18. The company shares strong association with RJIL and continues to be a key vendor for them. Mr. Anant Nahata (Managing Director) leads the overall strategy and planning, product development, business development and marketing activities of ETL. He has a bachelor's degree in economics from University of Pennsylvania, Philadelphia, USA. He is the son of Mr Mahendra Nahata, who has been on the board of RJIL since 2010. Mr Mahendra Nahata, has a business experience of more than thirty five years in the telecom industry and has been associated with various forums related to it. 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 management team of ETL comprising of officials who are technically qualified and highly experienced in their respective domains.

Healthy order book & Reputed clientele: 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 (SO); Stable), Bharti Infratel Limited, Railtel Corporation of India Limited etc. As on 30th Sep 2018, the company has healthy orders in hand of Rs 329 crore.

Diversified product portfolio with foray in Energy Storage Solutions & Electric Vehicle charger: ETL has been diversifying its portfolio to reduce its dependence on the Telecom Sector. The company has forayed into new businesses including Energy Storage Solutions in which ETL supplies Li-ion battery. Further, ETL has also ventured into Electric vehicle Charger which has enabled the company to diversify its product offerings with varied applications. ETL also provides services including after-sales services, battery services, R&D services, annual maintenance contracts etc. This is mainly a trading business in which the battery is procured from China and Taiwan and supplied to RJIL.
The company has healthy orders in the energy storage solutions and apart from telecom operators the company has also provided advanced Lithium-Ion Batteries for application in E-Rickshaws. With rising concerns of climate change, the governments across the world are promoting electric vehicles including Indian government which provides huge scope for the company's products in Energy Storage Solutions & Electric Vehicle charger business.

Strong R&D capabilities: The company has an 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 provides ample opportunities for the company to be able to deliver customized products as per the specifications of the customer. In FY18, the company has spent Rs.14.10 crore on Research & Development expenses which accounted for 2% of FY18 total income from operations.

Key Rating Weaknesses

Client concentration risk: RJIL continues to be a key customer for the company which contributed around 80% of total operating income in FY18. The company primarily supplies Lithium- Ion battery to RJIL for its telecom towers. With a significant portion of its turnover being derived from a single client, the performance of the company is linked to the growth prospects of its offtaker. However, with the RJIL reporting strong performance with its subscriber market share increasing consistently, the risk gets mitigated to a large extent. Further, the promoters continue to have a strong relationship with RJIL. Also, RJIL has huge demand and ETL is supplying only a portion of it.

Industry Risk and regulatory uncertainty: The performance of the company is strongly linked to the telecom sector. With the disruptive entry of RJIL, the sector witnessed innovative tariff structure. It increased data up-take in both 3G and 4G segment coupled with increase in infrastructure spending by telecom service operators. The network expansion plans of major telecom operators are subdued due to heavy debt repayment obligations, spectrum charges and on-going price war between the players. This has a trickle-down effect on the players catering to telecom operators for their infrastructure requirements. However with consolidation in the sector, the remaining three large players are expected to increase spending to ensure strong quality of services to retain their customers and attract new customers.
The Company is also susceptible to technology risk, as it is operating in an industry in which technology has been rapidly evolving.

Analytical approach: Consolidated approach has been adopted to include its 3 subsidiaries: Exicom Tele-systems (Singapore) Pte Ltd, Horizon Tele-Systems SDN Bhd (Malaysia) and Energywin Technologies Private Limited (Bangalore) with ramping up of the operations in its subsidiaries having operational linkages. In FY18, Exicom Tele-Systems (Singapore) Pte Ltd had contributed 49.82% of total consolidated profit and 1.82% was contributed by subsidiaries in Malaysia and Bangalore.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios- Non- Financial Sector
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings

About the Company
Exicom Tele-Systems Ltd (ETL) was originally incorporated on May 9, 1994 as Himachal Exicom Communications Limited to manufacture telecom power equipment (converters, battery modules, controllers, rectifiers, etc) as a joint venture between Himachal Futuristic Communication Limited (HFCL, rated CARE A-; Stable / CARE A2+) and Exicom Australia. However, after the liquidation of Exicom Australia in 1995, the company carried on operations of manufacturing switch mode power supply (SMPS) and other telecom power supplies on its own and in August 2008, the name of the company was changed to the Exicom Tele-systems Limited (ETL). The company has forayed in new businesses including Energy Storage Solutions and Electric Vehicle Chargers.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	487.04	699.94
PBILDT	43.70	80.25
PAT	23.97	39.01
Overall gearing (times)	0.49	0.29
Interest coverage (times)	6.88	9.90

A: Audited

 # The financials include:
1. *Exicom Tele-Systems Limited (Parent company)*
2. *Exicom Tele-systems (Singapore) Pte Ltd - 100% ownership*
3. *Horizon Tele-Systems SDN Bhd (Malaysia) - 100% ownership [step down subsidiary of Exicom Tele-systems (Singapore) Pte Ltd]*
4. *Energywin Technologies Private Limited (Bangalore) - 100% ownership*

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

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

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

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Annexure-1: Details of Instruments/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-Cash Credit	-	-	-	41.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	69.00	CARE BBB+; Stable /CARE A2
Term Loan-Long Term	-	-	Apr 2021	2.74	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	41.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (09-Oct-17)	1)CARE BBB- (16-Sep-16)	1)CARE BBB- (14-Jul-15)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	69.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (09-Oct-17)	1)CARE BBB- / CARE A3 (16-Sep-16)	1)CARE BBB- / CARE A3 (14-Jul-15)
3.	Term Loan-Long Term	LT	2.74	CARE BBB+; Stable	-	1)CARE BBB; Stable (09-Oct-17)	1)CARE BBB- (16-Sep-16)	1)CARE BBB- (14-Jul-15)

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