Exicom Tele-Systems limited

October 09, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	33.85 (enhanced from 27.50)	**CARE BBB ; Stable (Triple B; Outlook Stable)**	Revised from CARE BBB-; Stable (Triple B minus; Outlook: Stable)
Short-term Bank Facilities	50.00 (enhanced from 41.00)	**CARE A3+ (A Three Plus)**	Revised from A3 (A Three)
Total Facilities	**83.85 (Rs. Eighty three crore and Eighty five lakhs only)**		

Detailed Rationale & Key Rating Drivers

The revision in rating takes into account the profitable scale up of operations, improvement in capital structure and comfortable order book position providing adequate revenue visibility and the foray in Energy storage and electrical vehicle charger. The ratings continue to derive strength from its experienced promoters, diversified product portfolio and strong research & development base. These rating strengths are, however, partially offset by its, elongated operating cycle and relatively smaller scale of operations in a competitive business segment. Going forward, scaling up of operations with sustainable profit margins amidst competition and effective working capital management would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Financial risk profile marked by increased scale of operations and improvement in profitability

The total operating income increased by 26.93% to Rs.187.15 crore (PY: Rs.147.03 crore), the scale of operations of ETL increased to that of FY16 on account of operationalization of the Gurgaon plant which added to revenue and increased orders from Reliance Jio Infocomm Limited (RJIL). Also, the net profit of the company grew by 56% y-o-y in FY17 to Rs.13.26crore from Rs.8.49 crore in FY16. PBILDT margin also improved to 13.76% (PY: 11.89%) owing to lower material as well as other manufacturing costs on account of automation of processes, lower wastage/rejection with operationalization of Gurgaon Plant, change in product design, etc. Also the material cost has reduced with rationalization of vendors, the company places orders with fewer vendors for larger quantities resulting in higher trade discount. PAT margin improved to 7.08% in FY17 (PY: 5.78%) showing comfortable growth on year on year basis.

The debt profile of the company comprises of unsecured long term loans, 6% OCCRPS and working capital loans. The DER and overall gearing reduced to 0.41x and 0.53x respectively as on March 31, 2017 (PY: 0.89x and 1.21x) on account of the repayment of unsecured loans and increase in the net worth due to profits. The operating cycle is elongated marked by import component dependency within 45 days lead time. The high collection period (156 days) is on account of Government Business and Solar Receivables.

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

Experienced Promoters

ETL was incorporated in the year 1994 with a manufacturing plant in Solan (Himachal Pradesh) for manufacturing of various power systems which finds application in the telecom tower sector. Mr. Subhash Chander Rustgi (Director) has business experience of more than four decades and is assisted by Mr. Anant Nahata (Whole-time Director, CEO) who has a bachelor's degree in economics from University of Pennsylvania, Philadelphia, USA and in the past has worked with Credit Suisse. The management team of ETL comprising of officials who are technically qualified and highly experienced in their respective domains.

Strong R&D capabilities

The company has in-house R&D Centre recognized by the Department of Science and Technology, Government of India (GoI) and MNRE for indigenous development of technology. The R&D team works in relationship with IIT Chennai and Indian Institute of Science (IIS), Bangalore along with renowned scientists in the power domain for development of key technologies. In FY17, the company has spent Rs.11.77 crore which is 6.29% 0f the total operating income on Research & Development expenses. Furthermore, ETL has made strategic investment in two companies aggregating Rs.14.62 crore for research and product development prospective. ETL has acquired 100% stake in Energywin Technologies Private Limited (Energywin), a Bengaluru based Software Company and 25% stake in Storage Power Solutions Inc., Ontario, Canada (SPS), a start-up in collaboration with Narada, China for development of modules for batteries.

Segment diversification: Foray in Energy Storage and Electrical vehicle charger

ETL has started to bid for tenders which hedges the business from the dependency of Telecom Sector. ETL's investment in Canada operations for technology for India and separate facility coming up in Chennai in consultation with EV specialists, the management is looking at hedging their business from any uncertainty in the Telecom Sector.

Adequate order book position

The company's clientele comprises of some of the reputed telecom companies including Reliance Jio Infocomm Limited, Bharti Infratel Limited, Bharat Sanchar Nigam Limited (BSNL), American Tower Company (ATC), Railtel Corporation of India Limited, Huawei, Vihan Network Limited etc. The order book of the company stood at Rs.93.98 crore as on August 31, 2017 which is to be executed over a period of next 4-5 months.

The company has gradually diversified its product portfolio to Energy Storage and Electrical Vehicle Charger for 3 wheelers with separate manufacturing base underway at Chennai & Telecom Tower Management Systems including ITPU/IPMS, Hybrid Solar Systems (or telecom & non Telecom users) and Li-ion battery based solution for telecom use.

Relatively small scale of operations

The company's operating income was derived from manufacture and supply of power solutions for telecom companies with high dependence on them and limited scale of operations. In the past couple of years, the company has diversified into solar segment and improved its profitability however the operating income remains relatively lower than other established players. Further low net-worth base of the company also limits its ability to bid for large projects.

C. Analytical approach: Standalone

D. Applicable criteria:
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short-term Instruments]
[CARE's methodology for service companies]
[CARE's methodology for manufacturing companies]
[CARE's methodology for financial ratios (Non-Financial Sector)]

About the Company

ETL was originally incorporated on May 9, 1994, as Himachal Exicom Communications Limited to manufacture telecom power equipment and offering power solutions (power converters) as a joint venture between Himachal Futurisitic Communication Limited (HFCL; rated 'CARE BBB+; Negative', 'CARE A2+') and Exicom Australia. After liquidation and exit 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 changed its name to the present one in August 2008. As of March 31, 2017, HFCL and its promoter companies holds cumulative equity stake of 90.45% in ETL. The company generates revenue majorly from two segments viz. Telecom segment (manufacturing of telecom power equipment and Lithium-ion batteries for telecom tower players) and EPC segment (system integrator for off-grid solar projects). The company over the years, has added new products to its repertoire and also diversified in renewable energy sector. ETL is establishing a new manufacturing unit in Chennai for energy storage business.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	147.03	187.15
PBILDT	17.49	25.74
PAT	8.49	13.24
Overall gearing (times)	1.21	0.53
Interest coverage (times)	3.56	4.38

A: Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	30.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	50.00	CARE BBB-; Stable / CARE A3
Term Loan-Long Term	-	-	April 2021	3.85	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB-; Stable	-	1)CARE BBB- (16-Sep-16)	1)CARE BBB- (14-Jul-15)	1)CARE BB+ (31-Dec-14)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	50.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB- / CARE A3 (16-Sep-16)	1)CARE BBB- / CARE A3 (14-Jul-15)	1)CARE A4 (31-Dec-14)
3.	Term Loan-Long Term	LT	3.85	CARE BBB-; Stable	-	1)CARE BBB- (16-Sep-16)	1)CARE BBB- (14-Jul-15)	-

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