

## Rating Rationale

October 05, 2021 | Mumbai

### Elin Electronics Limited

'CRISIL A/Stable/CRISIL A1' assigned to Bank Debt

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.134 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL A/Stable (Assigned)</b>
<b>Short Term Rating</b>	<b>CRISIL A1 (Assigned)</b>

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has assigned its 'CRISIL A/Stable/CRISIL A1' ratings to the bank facilities of Elin Electronics Ltd (EEL).

The ratings reflect the company's healthy business risk profile in the form of diversified product portfolio, long-term relationships with key customers, and comfortable financial risk profile, as reflected in low gearing and adequate interest coverage ratio. These strengths are partially offset by high competitive intensity in the contract manufacturing space.

#### Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of EEL and its wholly owned subsidiary, Elin Appliances Pvt Ltd (EAPL) on account of strong business and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

#### Key Rating Drivers & Detailed Description

##### Strengths

##### Diversified product range and longstanding relationships with key clients

EEL has a wide product range covering motors, lighting, medical devices, and mouldings and sheet metal fabrication. It manufactures motors under its own brand name while other products are manufactured under contract manufacturing. Motor manufacturing has been critical to the growth of the company, with segmental contribution growing from 12% in fiscal 2018 to 27% in fiscal 2021. Additionally, uptake of other key products and introduction of new products under contract manufacturing have supported strong revenue growth. Furthermore, the company has longstanding relationships of more than 10 years with its key customers that reduces the offtake risk substantially. Key clients include Signify Innovations India Ltd, Phillips India Ltd, Havells India Ltd, Eveready Industries India Ltd, Usha International Ltd and Panasonic India Pvt Ltd. The revenue contribution from its top customer was 25% in fiscal 2021, down from 32% in fiscal 2018 and CRISIL Ratings expects this to reduce further over the medium term.

##### Comfortable financial risk profile

The financial risk profile remains comfortable due to high reliance on internal funds, resulting in strong interest coverage ratio of around 7 times and gearing of 0.5 time as of March 2021. Additionally, favorable terms of trade with customers helps manage working capital efficiently with gross current assets (GCAs) of 100-120 days. This helps to keep in check the overall indebtedness in the form of total outside liabilities to tangible networth (TOLTNW) ratio at 1.1 times. Going forward, sustained profitability and funding of capital expenditure (capex) by internal accrual will keep overall financial risk profile healthy.

##### Weaknesses

##### High competitive intensity in the contract manufacturing space

The contract manufacturing industry, wherein a company is hired to produce the product based on the hiring firm's design and quality standards, is fragmented and competitive. It relies on relationships with customers, market reputation and past experience. With value addition being relatively low by the contract manufacturer, possibility of replacement is high which can expose it to the risk of stranded manufacturing lines. EEL's operating margin of 7-8% is constrained by relatively lower operating margin in the contract manufacturing segment. But the company has demonstrated its ability to pass on commodity price and foreign exchange fluctuations to customers, which helps maintain fairly stable operating margin. Furthermore, increasing share of its own branded products helps mitigate the risk

##### Liquidity: Adequate

Liquidity remains healthy, driven by expected net cash accrual of Rs 50-60 crore, against scheduled term debt maturity of about Rs 20 crore and estimated capex of Rs 20-25 crore in fiscal 2022. Additionally, the moderate utilisation of fund-based bank limits averaged 46% in the 12 months through August 2021, strengthening the liquidity profile. As on August 31, 2021, the unencumbered cash balance stood at Rs 5 crore in the form of bank account and deposits.

**Outlook: Stable**

CRISIL Ratings believes EEL will continue to post steady revenue growth and stable operating margin, backed by strong product uptake and longstanding relationships with key customers.

**Rating Sensitivity Factors****Upward factors:**

- Significant increase in scale of operations due to sustained revenue growth
- Material improvement in operating margin, leading to return on capital employed (RoCE) sustaining over 18%

**Downward factors:**

- Material deterioration in operating margin to below 6.5% on sustained basis
- Significant, debt-funded expansion, leading to increase in financial leverage

**About the Company**

Incorporated in 1982, EEL manufactured electric motors. Thereafter, the company forayed into manufacturing of tape-recorders. Presently, EEL has a wide range of products, including universal motors, electrical appliances, light-emitting diodes (LEDs), sheet metals and mouldings, among others. EEL has three manufacturing facilities at Ghaziabad, Uttar Pradesh; Baddi, Himachal Pradesh; and Goa.

EEL is part of the Sethia group, with the group holding 91.32% in the company as on March 31, 2021.

**Key Financial Indicators**

Particulars	Unit	2021	2020
Revenue	Rs.Crore	862	786
Profit After Tax (PAT)	Rs.Crore	27	19
PAT Margin	%	3.1	2.4
Interest coverage	Times	7.0	4.9
Adjusted debt/adjusted networkth	Times	0.5	0.4

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

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**Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Crore)	Complexity Level	Rating assigned with outlook
NA	Bank guarantee	NA	NA	NA	1	NA	CRISIL A1
NA	Cash credit	NA	NA	NA	75	NA	CRISIL A/Stable
NA	Letter of credit	NA	NA	NA	10	NA	CRISIL A1
NA	Proposed long-term bank loan facility	NA	NA	NA	0.86	NA	CRISIL A/Stable
NA	Term loan	NA	NA	Feb-2026	14.04	NA	CRISIL A/Stable
NA	Term loan	NA	NA	Mar-2026	12.98	NA	CRISIL A/Stable
NA	Term loan	NA	NA	Apr-2026	20.12	NA	CRISIL A/Stable

**Annexure - List of Entities Consolidated**

Name of company	% shareholding	Extent of consolidation	Rationale for consolidation
Elin Appliances Pvt Ltd	100.00	Full	Strong operating and financial linkages

**Annexure - Rating History for last 3 Years**

Instrument	Type	Current		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	123.0	CRISIL A/Stable		--		--		--		--	--
Non-Fund Based Facilities	ST	11.0	CRISIL A1		--		--		--		--	--

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Name of Lender	Rating
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Bank Guarantee	1	State Bank of India	CRISIL A1
Cash Credit	35	State Bank of India	CRISIL A/Stable
Cash Credit	10	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A/Stable
Cash Credit	10	Citibank N. A.	CRISIL A/Stable
Cash Credit	20	HDFC Bank Limited	CRISIL A/Stable
Letter of Credit	10	HDFC Bank Limited	CRISIL A1
Proposed Long Term Bank Loan Facility	0.86	Not Applicable	CRISIL A/Stable
Term Loan	14.04	Citibank N. A.	CRISIL A/Stable
Term Loan	12.98	HDFC Bank Limited	CRISIL A/Stable
Term Loan	20.12	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A/Stable

This Annexure has been updated on 5-Oct-2021 in line with the lender-wise facility details as on 5-Oct-2021 received from the rated entity

## Criteria Details

Links to related criteria
<a href="#">CRISILs Bank Loan Ratings</a>
<a href="#">The Rating Process</a>
<a href="#">CRISILs Criteria for Consolidation</a>

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p><b>Saman Khan</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 3895 B: +91 22 3342 3000 <a href="mailto:saman.khan@crisil.com">saman.khan@crisil.com</a></p> <p><b>Naireen Ahmed</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 1818 B: +91 22 3342 3000 <a href="mailto:naireen.ahmed@crisil.com">naireen.ahmed@crisil.com</a></p>	<p>Manish Kumar Gupta Senior Director <b>CRISIL Ratings Limited</b> B:+91 124 672 2000 <a href="mailto:manish.gupta@crisil.com">manish.gupta@crisil.com</a></p> <p>Ankit Hakhu Director <b>CRISIL Ratings Limited</b> B:+91 124 672 2000 <a href="mailto:ankit.hakhu@crisil.com">ankit.hakhu@crisil.com</a></p> <p>Pramit Pal Senior Rating Analyst <b>CRISIL Ratings Limited</b> D:+91 44 6656 3130 <a href="mailto:Pramit.Pal@crisil.com">Pramit.Pal@crisil.com</a></p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a></p> <p>For Analytical queries: <a href="mailto:ratingsinvestordesk@crisil.com">ratingsinvestordesk@crisil.com</a></p>



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