India Ratings & Research
A Fitch Group Company

India Ratings Affirms Elin Electronics at 'IND A-'/Stable; Off RWE

04

MAY 2021

By Aditya Popuri

India Ratings and Research (Ind-Ra) has affirmed Elin Electronics Limited's (EEL) Long-Term Issuer Rating at 'IND A-', while resolving the Rating Watch Evolving (RWE). The Outlook is Stable. Instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term loans	-	-	September 2024	INR335.6 (reduced from INR518.9)	IND A-/Stable	Affirmed; off RWE
Fund-based working capital limits	-	-	-	INR450	IND A-/Stable/IND A2+	Affirmed; off RWE
Non-fund-based working capital limits	-	-	-	INR110	IND A2+	Affirmed; off RWE

ANALYTICAL APPROACH: Ind-Ra has taken a consolidated view of EEL and its wholly-owned subsidiary -Elin Appliances Private Limited (EAPL) - to arrive at the ratings, owing to the strong operational and strategic linkages between them.

The RWE resolution follows the emergence of some clarity on EEL's amalgamation with Asian Magnetic Devices Private Limited (AMDPL) and Rosebud Holdings Private Limited (RHPL), resulting in adequate visibility on EEL's medium-term financial and operational performance.

KEY RATING DRIVERS

Simplified Corporate Structure: Following EEL's scheme of amalgamation effective 2 November 2019 with AMDPL and RHPL, EAPL become a wholly-owned subsidiary of EEL. Post the amalgamation, the corporate structure of the group simplified, eliminating the cross-holding among these entities. Further, EEL also received additional liquidity of about INR143 million in the form of liquid investments from its amalgamation with AMDPL.

Likely Healthy Revenue Growth in FY21: Ind-Ra expects the consolidated revenue to have improved to around INR8400 million in FY21 driven by healthy demand for universal motors and the launch of a new product segment - cartridges (used for blood testing). The company achieved revenue of around INR5,878 million in 9MFY21 (unadjusted for intercompany transactions; FY20: INR7,855.8 million). The scale of operations continued to be medium.

The company produced 5.1 million units of universal motors in 10MFY21 (FY20: 5 million units). The revenue from the universal motors segment increased to INR1,524.5 million in 10MFY21 (FY20: INR1,399.5 million). Further, the revenue for other products, including die tools, moulds, cartridges, etc. increased to INR2,086.1 million in 10MFY21 (FY20: INR1,944.2 million). The increase in the revenue from universal motors and cartridges, however, was offset by a decrease in the revenue from light emitting diode (LED) flashlights and electric light fixtures and LED lights.

EEL achieved a standalone revenue of INR6,293.0 million in 11MFY21 (10MFY21: INR5,428.6 million). The company averaged revenue of INR829 million over December 2020- February 2021, and the agency estimates the revenue to have 10%-15% yoy in FY21 (FY20: INR6,114.6 million) due to increased demand in the universal motors segment and the launch of the new product segment.

EBITDA Margin Improvement: EEL has four main business segments: LED flash lights; universal motors; electrical light fittings; and die tools & molds. The company manufactures electrical light fittings, LED lights and LED flash lights under contract manufacturing from Signify Innovations India Limited (formerly Philips Lighting India Limited) and Eveready Industries India Limited ('IND BBB-/Positive'), respectively. The revenue from the non-contract manufacturing segment increased to 54.7% in FY20 (FY19: 50.9%), which led to an improvement in the EBITDA margin to 7.1% (6.9%).

Healthy Credit Metrics: The interest coverage (operating EBITDA/gross interest expense) improved to 4.8x in FY20 (FY19: 4.4x) and the net leverage(total adjusted net debt/operating EBITDA) to 0.6x (1.2x) due to decline in the overall debt of the company to INR699.7 million (INR863.0 million) because of lower working capital utilisation and repayment of term loans. Historically, reasonable EBITDA margins along with moderate working capital cycle and capex have kept the credit metrics at healthy levels.

Ind-Ra expects the company to incur a capex of around INR500 million over FY21-FY22 for the increase in the capacity of universal motors and the launch of the aforementioned product segment. The capex is funded through a mix of external debt and internal accruals. The company has sanctioned term loans of INR370 million, out of which INR240 million had been disbursed in FY21.

The standalone credit metrics of EEL has been comfortable over the years with the net leverage and the gross coverage averaging 1.4x and 4.1x respectively over FY17-FY20.

Liquidity Indicator-Adequate: EEL's maximum use of the working capital limits was on average 59.8% over the 12-months ended January 2021. The company also generated positive cash flow from operations (CFO) over FY17-FY20. EEL's CFO improved to INR460 million in FY20 (FY19: INR47.5 million) due to healthy fund flow from operations and favourable changes in its working capital cycle. Ind-Ra expects the CFO to remain positive in the short-to-medium term in line with stable revenue growth. The company had cash and cash equivalents (including liquid investments) of INR162.9 million at FYE20.

Customer Concentration: EEL is exposed to customer concentration risk as its top-10 customers accounted for 78.7% of the sales for FY20 (FY19: 80%; FY18: 81%; FY17: 84%). However, fairly strong counterparties along with a long history of relationships with key customers mitigate the risk. The company has been associated with Signify Innovations India – EEL's largest customer accounting for 40% of FY20 revenue (FY19: 45%; FY18: 42%; FY17: 47%)- for over three decades. Also, the sponsorship of dies, tools, and molds developed for a particular customer by the same customer helps in retaining customer interest. Other major customers include reputed companies such as Denso Haryana Private Limited; Havells India Limited; IFB Industries Limited ('IND AA-'/Stable); Panasonic Industries Limited; Eveready Industries India etc.

Forex Fluctuation Risk: EEL remains exposed to forex fluctuation risk. Although its exports were negligible and imports were 18% of the raw material requirements in FY20, the payments for imports were mostly made in advance or within a minimum credit period. Also, there is an absence of any firm hedging practices. Therefore, any steep movement in the exchange rate in a short time frame could impact the profitability of the company. The company had a net unhedged exposure of INR28.5 million in FY20 (FY19: INR55.6 million). The company had net gain on forex fluctuation of negative INR0.72 million in FY20 (FY19: INR0.4 million).

Moderate Working Capital Cycle: EEL's working capital cycle has remained moderate in the range of 50-60 days. Though the company extends a credit period of close to 90 days to its customers, the availability of bill discounting facilities from Signify Innovations India helps in reducing the overall debtor days to around 50, which leads to lower reliance on working capital borrowings, thereby keeping leverage low. However, under this arrangement, EEL bears discounting charges, which lead to higher interest costs. EEL maintains an inventory holding period of about 45 days and receives an average credit period of 45-60 days from its suppliers. Ind-Ra expects the debtor days of the company to increase with an increase in the revenue from the universal motors segment for which the company provides clean credit to its customers.

RATING SENSITIVITIES

Positive: A substantial increase in the revenue, while maintaining the credit metrics and/or achieving product and customer diversification, all on a sustained basis, would lead to an upgrade.

Negative: A decline in the profitability, an elongation of the working capital cycle or a debt-led capex, leading to the gross interest coverage reducing below 3.0x on a sustained basis, will be negative for the ratings.

COMPANY PROFILE

EEL undertakes contract manufacturing of electric light fittings for Philips India, LED flash lights for Eveready, and manufactures and sells universal motors under its own brand name to various home appliances manufacturing companies.

FINANCIAL SUMMARY

CONSOLIDATED FINANCIALS

Particulars	**FY20**	**FY19**
Revenue (INR million)	7,855.84	8,285.45
EBITDAR (INR million)	553.86	574.16
EBITDAR margin (%)	7.1%	6.9%
Interest Expense	225.64	130.66
Total Debt	699.72	862.99
Cash	345.60	162.29
Gross interest coverage (x)	2.45	4.39
Net leverage (x)	0.64	1.22
Source: EEL; Ind-Ra		

STANDALONE FINANCIALS

Particulars	**FY20**	**FY19**
Revenue (INR million)	6,114.61	6,176.80
EBITDAR (INR million)	440.63	428.12

EBITDAR margin (%)	7.21	6.93109701
Interest Expense	103.96	109.05
Total Debt	649.58	768.21
Cash	162.93	147.95
Gross interest coverage (x)	4.24	3.93
Net leverage (x)	1.42	1.45
Source: EEL; Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch		
	Rating Type	**Rated Limits (million)**	**Rating**	**26 February 2020**	**17 January 2019**	**6 December 2017**
Issuer rating	Long-term	-	IND A-/Stable	IND A-/RWE	IND A-/Stable	IND A-/Stable
Long-term loans	Long-term	INR335.6	IND A-/Stable	IND A-/RWE	IND A-/Stable	IND A-/Stable
Fund-based working capital limits	Long-/short-term	INR450	IND A-/Stable/IND A2+	IND A-/RWE/IND A2+/RWE	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+
Non-fund-based working capital limits	Short-term	INR110	IND A2+	IND A2+/RWE	IND A2+	IND A2+

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Long-term loans	Low
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology
Parent and Subsidiary Rating Linkage

Analyst Names

Primary Analyst

Aditya Popuri

Analyst
India Ratings and Research Pvt Ltd DLF Epitome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurugram Haryana - 122002
+91 124 6687266

Secondary Analyst

Pooja Garg

Analyst
0124 6687270

Committee Chairperson

Abhash Sharma

Director
+91 22 40001778

Media Relation

Ankur Dahiya

Manager – Corporate Communication
+91 22 40356121
