

Press Release

Elcom Innovations Private Limited

October 05, 2018

Rating Downgraded and Reaffirmed



Total Bank Facilities Rated*	Rs. 11.50 Cr.
Long Term Rating	ACUITE B / Outlook: Stable (Downgraded from ACUITE B+)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long term rating to '**ACUITE B**' (read as **ACUITE B**) from **Acuite B+** (read as **ACUITE B plus**) and reaffirmed the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs.11.50 crore bank facilities of Elcom Innovations Private Limited (EIPL). The outlook is '**Stable**'.

The downgrade in the rating is attributed to deterioration in liquidity position and elongation of working capital cycle.

EIPL was incorporated in 2002 by Mr. Pradnyil Usgaonkar and Mr. Arun Sharma. The company is engaged in manufacturing of telecommunication and electronic products sold under the brand name of 'Elcom'. The company is a part of Elcom group promoted by Sun Group Enterprises Private Limited, a private equity in India and other emerging markets.

Analytical Approach

Acuite has considered standalone business and financial risk profile of EIPL to arrive at the rating.

Key Rating Drivers:

Strengths

Established track record of operations and experienced management:

The promoters of the company have experience of more than two decades in telecommunication and electronic industry and have developed healthy relations with customers and suppliers. Based on superior quality and healthy relationships, repeated orders from old and new customers are witnessed. Acuite believes that the company will continue to benefit from its promoters' extensive industry experience over the long term.

Healthy order book position:

The company has healthy order book of ~Rs. 103.21 crore out of which Rs. 9.19 crore has been executed till date and remaining is to be executed by March 31, 2019.

Weaknesses

Average financial risk profile:

EIPL has average financial risk profile. The net worth of the company has improved from Rs. 9.10 crore as on March 31, 2017 to Rs. 9.96 crore as on March 31, 2018. EIPL has moderate gearing level at 1.40 times as on March 31, 2018 as compared to 1.08 times as on March 31, 2017. The company has moderate coverage ratio for the period under study at 1.54 times in FY2017 and FY2018 as well.

Working capital intensive nature of operation and stretched liquidity position:

The operations of EIPL are working capital intensive in nature and have remained stretched over the years, reflected in high Gross Current Asset (GCA) of 321 days as on March 31, 2018 as compared to 286 days as on March 31, 2017. These high GCA days emanates from the company's inventory of 225 days and receivables cycle of 112 days in FY2018. Due to wide range of Design, Development, Manufacture, Marketing and Deployment of Electronic Systems for Defence, Aerospace and Civil Applications, company has to maintain an inventory of around 6-8 months. Further, the Current ratio has declined to 0.93 times in FY2018 from 1.13 times in FY2017 due to increase in current liability to Rs.21.93 crore as on March 31, 2018 from Rs.17.51 crore as on March 31, 2017.

Outlook: Stable

Acuite believes that EIPL will maintain 'Stable' outlook over the medium term on account of experienced management and healthy relationship with reputed customers. The outlook may be revised to positive in case of efficient management of working capital cycle and improvement in liquidity profile. Conversely, the outlook may be revised to negative in case of decline in operations below expected level or further deterioration in financial risk profile.

About the Rated Entity – Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	23.12	25.25	30.26
EBITDA	Rs. Cr.	2.80	2.82	2.98
PAT	Rs. Cr.	0.13	0.15	0.22
EBITDA Margin	(%)	12.12	11.16	9.85
PAT Margin	(%)	0.54	0.58	0.74
ROCE	(%)	8.38	11.52	29.42
Total Debt/Tangible Net Worth	Times	1.40	1.08	2.05
PBDIT/Interest	Times	1.54	1.54	1.40
Total Debt/PBDIT	Times	4.91	3.31	3.76
Gross Current Assets (Days)	Days	321	286	216

Status of non-cooperation with previous CRA (if applicable)

CRISIL, vide its press release dated May 22, 2018 had denoted the rating of Elcom Innovations Private Limited as 'CRISIL B-/Stable/CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition – <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
27-Apr-2017	Cash Credit	Long Term	7.50	ACUITE B+ (Indicative)
	Letter of Credit	Short Term	4.00	ACUITE A4 (Indicative)
12-Jan-2016	Cash Credit	Long Term	7.50	ACUITE B+/Stable (Assigned)
	Letter of Credit	Short Term	4.00	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE B/Stable (Downgraded from ACUITE B+)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.00*	ACUITE A4 (Reaffirmed)

*One way interchangeability from LC facility to cash credit facility upto Rs. 1.00 crore.

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About Acuite Ratings & Research:

Acuite Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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