

Press Release

Elcon

30 January, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	SMERA BB/ Outlook:Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB**' (read as **SMERA double B**) on the Rs.10.00 crore bank facilities of Elcon. The outlook is '**Stable**'.

Elcon, established in 2006 by Mr Ganesh, is a Tamil Nadu-based partnership firm engaged in the manufacture of automotive components such as bumpers, front weight frames, front hi-tech among others for tractors and allied products. The firm also manufactures chair angle, safety catch and shroud for building coaches. The manufacturing facilities are located at Dindigul and Ambattur (Tamil Nadu) apart from Bangalore.

Key rating drivers

Strengths

Experienced management, moderate track record of operations: The firm established in 2006 is led by partner, Mr Ganesh and manufactures automotive components. Mr Ganesh has around two decades of experience in the field of tool designing and developing. He also undertakes tool designing for tractor OEMs such as Tractors and Farm Equipment Limited (TAFE).

Established relations with reputed clientele: Elcon has been supplying automotive components to TAFE since 2006. It has been catering to ~70 per cent of the component (bumpers) requirements of TAFE (Bangalore) and ~100 per cent to TAFE (Madurai). The manufacturing facilities of the firm are located in close proximity to the facilities of TAFE in Dindigul (Madurai) and Bangalore (Karnataka).

Healthy order book position: Elcon has an order book position of Rs.44.37 crore as on December 2017 from reputed players including TAFE, Integral Coach Factory (ICF) and others. The order book lends modest revenue visibility over the medium term and are expected to be executed in a year.

Weaknesses

Fluctuating revenue trend: The firm has registered an uneven revenue trend with operating income increasing from Rs.24.30 crore in FY2015 to Rs.31.26 crore in FY2016 due to increase in sales to TAFE. However, the operating income declined from Rs.31.26 crore in FY2016 to Rs.27.10 crore in FY2017 due to the Vardah cyclone in

December 2016, demonetisation and layoff in TAFE (major customer). Elcon registered a top line of Rs.26 crore from April 2017 to December 2017 (Provisional).

Average financial risk profile: The average financial risk profile is marked by low net worth, high gearing levels and modest debt protection metrics. The net worth stood low at Rs.4.09 crore as on 31 March, 2017 compared to Rs.2.06 crore as on 31 March, 2016. The gearing improved from 5.99 times as on 31 March, 2016 to 2.70 times as on 31 March, 2017 due to infusion of funds by the partner. Elcon has short term debt of Rs.9.98 crore and unsecured loans of Rs.0.91 crore. The Interest Coverage Ratio (ICR) improved to 1.30 times as on 31 March, 2017 as against 1.25 times as on 31 March, 2016. Further, the Debt Service Coverage Ratio (DSCR) stood at 0.67 times as on 31 March, 2017 compared to 1.13 times as on 31 March, 2016. The Net Cash Accruals to Total Debt (NCA/TD) stood at 0.04 times as on 31 March, 2017.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Elcon.

Outlook – Stable

SMERA believes that the outlook on Elcon will remain 'Stable' over the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm reports substantial growth in revenue along with improvement in its capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue or deterioration in the financial risk profile.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	27.10	31.26	24.30
EBITDA	Rs. Cr.	1.96	2.05	1.62
PAT	Rs. Cr.	0.16	0.15	0.15
EBITDA Margin	(%)	7.23	6.55	6.66
PAT Margin	(%)	0.59	0.48	0.61
ROCE	(%)	11.35	11.49	16.72
Total Debt/Tangible Net Worth	Times	2.70	5.99	3.75
PBDIT/Interest	Times	1.30	1.25	1.30
Total Debt/PBDIT	Times	5.63	6.01	8.14
Gross Current Assets (Days)	Days	152	165	141

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable): None

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BB/ Stable (Assigned)

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ABOUT SMERA

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