ECE Industries Limited

March 29, 2024

Ratings

Instrument Facility	Amount (Rs. Crore)	Current Ratings	Previous Rating	Rating Action	Complexity Indicator
Long term Bank Facilities –	80.00	IVR BBB+ with Stable Outlook (IVR Triple B Plus With Stable Outlook)	IVR BBB+ with Positive Outlook (IVR Triple B Plus With Positive Outlook)	Re-affirmed with change in outlook	Simple
Short Term Bank Facilities	355.00	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)	Re-affirmed	Simple
Total	**435.00**	**(Rupees Four Hundred & thirty Five Crore Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has re-affirmed long-term rating of IVR BBB+ with a stable outlook and short-term rating of IVR A2 for the bank loan facilities of ECE Industries Limited (ECE).

The outlook has been revised from positive to stable due to lower-than-expected business performance of the company till FY23.

The rating draws comfort from the established track record of operations and experienced management, reputed clientele, healthy order book, continuous funding support from promoters and moderate financial risk profile during FY2023 (Audited). However, these strengths are partially offset by tender based nature of business and susceptibility of operating margin to volatile input prices.

IVR has principally relied on the standalone audited financial results of ECE up to 31 March 2023, 9MFY2024 provisional results and projected financials for FY2024 and FY2025, and FY2026 publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and EBITDA margins.
- Improvement in debt protection metrics
- Sustenance of the gearing below 0.50x.

Downward Factors

- Significant reduction in the scale of operations and profitability margins
- Deterioration in debt protection metrics and overall gearing

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record of operations and experienced management:
The company has an established track record of more than five decades in manufacturing a wide range of transformers catering to state utilities and industrial consumers. Further, as a part of the diversified B. K. Birla Group of Companies having interests in cement, tea, sugar, fertilisers, tyres, textiles, plywood and others, the company benefits from the brand equity.

Healthy Capital Structure
ECE reported a tangible net worth of Rs. 319.50 crore as on March 31, 2023 compared to Rs. 323.78 crore as on March 31, 2022. However, the company's total debt (primarily includes short-term debt from banks and NBFCs) decreased to Rs. 94.17 crore as on March 31, 2023 compared to Rs. 115.44 crore as on March 31, 2022. Owing to healthy net worth and limited total debt, the gearing remained strong in FY2023 at 0.29 times (PY: 0.36 times). Further, ECE's capital structure is expected to remain healthy going forward.

Adequate Liquidity position supported by sizeable investment
ECE's liquidity position remains adequate, supported by sizeable investments in equities, mutual funds, debt funds and venture capital funds, in addition to cash balances in the business aggregating to Rs. 195.10 crore as on March 31, 2023.

Improvement in scale in FY2023

ECE has reported 34.73% YoY OI growth in FY2023 to Rs. 582.45 crore post 4.09% OI growth in FY2022 to Rs. 404.30 crore. The OI growth in FY2023 is primarily driven by healthy demand in transformer business, sale of upgraded transformers of up to 160-MVA capacity at higher sales realizations, along with timely execution of the pending order book. Further, its operating margins marginally decreased to 7.38% in FY2023 compared to 8.15% in FY2022. Going forward IVR expects ECE to report healthy operating margins, with moderate 15-25% YoY revenue growth, led by higher sales of upgraded transformers over the medium term.

Comfortable debt coverage indicators

The debt coverage indicators stood comfortable in FY2023. The interest coverage marginally declined at 4.44x times in FY2023 (PY: 4.95x times). Further, the total debt/EBIDTA improved to 2.19 times (PY: 3.50 times). DSCR was at 5.21 times in FY2023 (PY: 8.61 times). Its coverage metrics are expected to improve going forward with better profitability levels.

Key Rating Weaknesses

Intense competition limits pricing power and hence the operating margins in transformer segment

ECE has been facing a challenging operating environment in both transformer and elevator divisions. The existing overcapacity in the transformer industry, coupled with stiff competition in the sector, led to aggressive pricing. Furthermore, the domestic elevator industry is dominated by a limited number of large overseas players with a strong brand name. This extreme competition limits the pricing power and hence the operating margins of the company. However, with a favorable change in product mix to upgraded transformers, ECE is expected to earn higher than its current operating margins.

Elongated receivable cycle due to slow payment realisation from SEBs

ECE's receivable days remained higher although improved at 129 days (PY: 161 days) due to delayed payments from SEBs and real estate entities. State power distribution utilities have longer payment periods owing to varying inspection, approval timelines and moderate financial health. This has resulted in increased working capital intensity. However, there have been persistent efforts by the management to recover long-aged receivables, primarily from real estate players in the elevator division. Going forward, the working capital requirement in the business would depend on timely payments from state power utilities and its long-aged receivables.

Susceptibility of profitability to raw material price volatility:
ECE's margins are susceptible to raw material price fluctuations to an extent especially in the elevators division. The company is protected against any raw material price hikes in the transformer division, to large extent, through price variation clauses in the contracts, which is sensitive to variations in copper and cold rolled grain oriented (CRGO) steel prices. However, the actual realisation of the price escalation can be a long-drawn process, given that it is subject to approvals.

Analytical Approach: Standalone

Applicable Criteria :

Rating Methodologies for Manufacturing Entities
Financial Ratios & Interpretation Non- Financial Sector
Criteria for assigning rating outlook

Liquidity – Adequate

The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 1.82 crore, as on 31st March 2023 and against a current portion of long-term debt (CPLTD) of Rs 0.16 crore in FY2023 the company had a cash accrual of Rs. 33.62 crore in FY2023. The company projected to generate cash accruals of Rs. 75.67 crore in FY2024 against a CPLTD of Rs. 0.62 crore. With the adequate expected cash accruals against repayments, the liquidity position will remain adequate.

About the Company

The ECE story began as early as 1945 when it was Electric Construction & Equipment Co. Ltd. What was started as a small electrical repair workshop at Hazra Road in Calcutta, during the second World War Days, steadily emerged as a growing industrial enterprise establishing itself in various fields of Indian electrical industry.

From the manufacture of Transformers, which ECE took up first, the Company has expanded its activities into four major areas of power technology. Such as, Transformers, Elevators, Energy meters and turn key contracts of Railway Electrification, Power Sub Stations, Roads & Bridges etc.

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	404.30	582.45
EBITDA	32.94	43.01
PAT	47.86	37.62
Total Debt	115.44	94.17
Tangible Net worth*	323.78	319.50
EBITDA Margin (%)	8.15%	7.38%
PAT Margin (%)	10.65%	6.22%
Overall Gearing Ratio (x)	0.36x	0.29x

**as per Infomerics standards*

Status of non-cooperation with previous CRA : Nil

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument / Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23. Dated: Feb 01, 2023	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash credit	Long Term	80.00	IVR BBB+ with Stable Outlook (IVR Triple B Plus with Stable Outlook)	IVR BBB+ with Positive Outlook (IVR Triple B Plus with Positive Outlook)	-	-

Sl. No.	Name of Instrument / Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23. Dated: Feb 01, 2023	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
2.	LC/BG	Short Term	355.00	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)		

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.
Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.
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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long term Bank Facilities – Cash Credit	-	-	-	80.00	IVR BBB+ with Stable Outlook (IVR Triple B Plus with Stable Outlook)
Short term Bank Facilities – LC/BG				355.00	IVR A2 (IVR A Two)

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-ECE-Industries-mar24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com