Press Release

Eswari Electricals Private Limited

June 05, 2023

Ratings

Instrument/ Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	8.75	IVR BB-/ Stable (IVR Double B Minus with Stable Outlook)	Assigned	Simple
Short-Term Bank Facilities	18.00	IVR A4 (IVR A Four)	Assigned	Simple
Total	**26.75 (Rs. Twenty-six crore and Seventy-five lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Eswari Electricals Private Limited (EEPL) derives comfort from its experienced promoters with long track record, strategic location of the plant, continuous growth in scale of operation and comfortable gearing and debt protection matrices. These rating strengths are partially offset by small scale of operation, susceptibility of profitability to volatile input prices, highly competitive & fragmented nature of industry and working capital intensive nature of operations.

Rating Sensitivities

Upward factors

- Growth in scale of operations on a sustained basis and consequent improvement in profitability
- Growth in cash accrual and prudent working capital management

Downward Factors

- Moderation in scale of operations and/or profitability impacting the gross cash accruals on a sustained basis
- Moderation in the capital structure with overall gearing ratio moderated to over 1.5x
- Deterioration in debt protection metrics and Total debt/GCA.

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters with long track record**

Mr. Ganesan Anandkumar, director and a BE and MBA by qualification, has over two decades of business experience. This apart, other director, Ms. Anand Nirmala, is also having over a decade long experience in the similar line of business. The operation of the company has started from 1983, thus it is enjoying a long and track record of operation.

- **Strategic location of the plant**

EEPL's manufacturing facilities are located in and around Chennai and SEZ in Kancheepuram, which is in close proximity to industrial belt of Southern India from where availability of various raw materials. Moreover, the plant is well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Hence, the plants enjoys competitive advantages in terms of containment of transportation costs and ready market

- **Continuous growth in scale of operation**

Total operating income of the company has improved at a CAGR of ~4% during FY20 to FY23 (prov.) on the back of increase in industrial demand during post lockdown period coupled with increase in average realisation where TOI has increase to ~Rs.33 crore in FY23. With sharp rise in scale of operation, the PAT level of the company has also improved marginally in FY23.

- **Comfortable gearing and debt protection matrices**

The company has a conservative capital structure over the years. The long-term debt equity ratio and overall gearing continued to remain comfortable since FY20 and the same was at 0.06x and 0.64x as on March 31, 2023 (improved from 0.11x and 0.71x as on March 31, 2022). Further, the company also has adequate debt protection metrics marked by the interest coverage at 1.81x in FY23 (improved from 1.67x in FY22) and Total debt/GCA was at 10.50x in FY23. Further, total indebtedness of the company as reflected by the Total Outside Liabilities/Tangible Net worth remained satisfactory at 1.82x as on March 31,2023. Infomerics expects that the credit risk profile of the company will remain comfortable in the coming years.

Key Rating Weaknesses

- **Small scale of operation**

The scale of operation of the company remained small over the past three years and the total operating income of the company stood at ~Rs.33 crore with a PAT of Rs. 0.37 crore in FY23 (prov.). The same was at ~Rs.31 crore and Rs.0.32 crore respectively in FY22. The small scale of operations restricts the financial flexibility of the company to an extent. However, notwithstanding its small scale of operations the profitability of the company remained satisfactory over the years.

- **Susceptibility of profitability to volatile input prices**

Major raw materials used in switch gear production activities like- Ceramic Tube, Brass Sheet, Copper Sheet, Copper Bar, Epoxy Resin, SS Sheet, Conductor, Cables etc. which are usually sourced from large players at proximate distances or import from foreign countries. The input prices are generally volatile and consequently the profitability remains susceptible to fluctuation in input prices.

- **Highly competitive & fragmented nature of industry**

The spectrum of the electrical equipment industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants. However, the risk mitigates to some extent as there are lesser number of manufacturers for some electrical products manufactured by EEPL.

- **Working capital intensive nature of operations**

The operation of the company is highly working capital intensive marked by its elongated operating cycle due to its long collection period and high average inventory period. The average collection period has elongated in FY23 to 160 days on account of longer inspection and certification time by Gulf Authorities for Rural Electrification project of Kenya where the company is working in since FY22. This apart, due to scarcity of container, shipping takes longer time which further intensify the elongation of debtors' period. Inventory period also remain high in past financial years as the company keeps semi-finished goods in stocks for faster delivery as and when orders comes. The average working capital utilization is high at around 99% during last 12 months ending in March 2023, which imparts low liquidity buffer.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria for assigning rating outlook

Liquidity: Adequate

EEPL has earned a gross cash accrual of Rs.0.90 crore in FY23 (prov). Further the company is expected to earn a gross cash accrual in the range of ~Rs.1.89-3.33 crore as against its debt repayment obligations around ~Rs.0.05 crore per year during FY24-26. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term. Further, average cash credit utilisation of the company remained high at ~99% during the past 12 months ended March 2023 indicating a low liquidity cushion.

About the Company

Eswari Electricals Private Limited (EEPL) was established in the year 1983 as a proprietorship firm, namely M/s Eswari Electricals, by one Mr. N. Ganesan of Chennai to initiate a manufacturing business of electrical switch gears. Later in 1992, the promoters incorporated the business into Private Limited Company and rechristened as EEPL. After incorporation, the company also initiated new business profile like EPC and turnkey projects along with high voltage switchgear products manufacturing. Currently The company has four manufacturing units in and around Chennai along with a SEZ in Kancheepuram. The company works as equipment suppliers of various state electricity board and exports to Kenya, Tanzania, Southeast Asian Countries and USA.

Currently, Mr. Ganesan Anandkumar, director, looks after day-to-day affairs of the company along with other director, Mrs Anand Nirmala and a team of experienced personnel.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Audited
Total Income	31.16	32.54

EBITDA	2.54	2.29
PAT	0.32	0.37
Total Debt	10.21	9.50
Tangible Net worth	14.38	14.75
EBITDA Margin (%)	8.14	7.03
PAT Margin (%)	1.03	1.13
Overall Gearing Ratio (x)	0.71	0.64

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. 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	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1	Open Cash Credit	Long Term	8.75	IVR BB-/ Stable	-	-	-
2	Bank Guarantee	Short Term	18.00	IVR A4	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Sanmoy Lahiri Tel: (033)- 46022266 Email: slahiri@infomerics.com	Name: Sandeep Khaitan Tel: (033)- 46022266 Email: sandeep.khaitan@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Open Cash Credit	-	-	-	8.75	IVR BB-/ Stable
Bank Guarantee	-	-	-	18.00	IVR A4

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

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Eswari-Electricals-jun23.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.