December 20, 2022

Elgi Electric and Industries Limited: Ratings upgraded to [ICRA]BBB (Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Cash credit	5.00	5.00	[ICRA]BBB (Stable) upgraded from [ICRA]BBB- (Stable)
Long term - Unallocated facilities	8.06	8.06	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Short term - Non-fund based facilities	5.00	5.00	[ICRA]A3+; upgraded from [ICRA]A3
Total	**18.06**	**18.06**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade takes into consideration the improvement in the business performance of Elgi Electric and Industries Limited (EEIL) and ICRA's expectation of healthy growth and return metrics over the medium term, supported by steady order inflows and increase in export sales. Order inflows increased substantially as domestic spinning mills continued to increase their capacity to meet the growing demand. The company's revenue grew by ~142% to Rs. 54.8 crore in FY2022 at a consolidated level from Rs. 22.6 crore in FY2021. The company reported a revenue of ~Rs. 35 crore in 6M FY2023 and given the order book visibility of Rs. 20.0 crore as on November 30, 2022, ICRA expects a healthy YoY revenue growth of ~20-25% for FY2023.

The ratings continue to consider the established presence of EEIL in the auxiliary textile machinery space, a reputed client profile with a history of low churn rates and low customer concentration, and its operational comfort from being part of the reputed Coimbatore-based Sara Elgi Group. The ratings also take into account the healthy financial profile, characterised by low dependence on bank borrowings and healthy profit margins. EEIL's liquidity remains adequate, with positive free cash flows in FY2022, consolidated cash and bank balance of ~Rs. 18.0 crore as on December 01, 2022, and nil utilisation of working capital limits.

However, the ratings are constrained by EEIL's modest scale of operations, exposure to the cyclical textile industry and susceptibility of its profit margins to volatility in raw material prices, although the cost-plus pricing mechanism mitigates the risk to a large extent.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company will continue to maintain a comfortable financial profile, supported by a healthy liquidity buffer, absence of any aggressive debt-funded capex plans and adequate profitability levels.

Key rating drivers and their description

Credit strengths

Established presence in auxiliary textile machinery segment; part of Coimbatore-based Sara Elgi Group – The company is one of the leading players in the auxiliary textile machinery space. EEIL has been in the business for over five decades and has a product portfolio comprising overhead travelling cleaners (OHTC), yarn conditioning systems (YCS), bobbin transport systems (BTS) and metal and spark diversion systems. EEIL has a wide distribution network across the country. The company also benefits from being part of the Sara Elgi Group – a reputed name in the domestic textile industry.

Healthy financial profile –EEIL has had negligible debt over the last several years owing to adequate accruals, minimal capital expenditure and low working capital intensity. As on March 31, 2022, the company has no debt on the books, with free cash and bank balances of ~Rs. 18.0 crore as on December 01, 2022, resulting in comfortable coverage metrics and liquidity position. Also, its operating margin and net margin continued to be healthy at 16.5% and 12.1% in FY2022, respectively.

Reputed client profile - The company shares established relationships with reputed OEMs and textile players in the domestic market and has secured repeat orders from majority of them. Also, EEIL has relatively low customer concentration with the top 10 customers constituting less than 30% of the total revenues in FY2022.

Credit challenges

Modest scale of operation – Although the company's revenue grew 142% to Rs. 54.8 crore at a consolidated level in FY2022, the scale remains modest. The revenue from the textile division grew 166% to Rs. 44.78 crore in FY2022 from Rs. 16.83 crore in FY2021, contributing around 82% of the total revenue due to revival of demand during the fiscal. The company's ability to scale up its operations by ensuring a healthy inflow of orders while sustaining healthy profitability levels would remain a key rating monitorable.

Profit margins susceptible to volatility in raw material prices –The lead time between order receipt and order delivery is relatively high, which exposes the company to any interim raw material cost hikes. Nonetheless, the cost-plus pricing mechanism in majority of the orders mitigates the risk to a large extent. Further, EEIL is also vulnerable to changes in raw material prices in case of tender-based orders with fixed price mechanism, although the share of revenue from tender-based orders is minimal.

Liquidity position: Adequate

EEIL's liquidity position remains adequate, marked by the absence of external long-term debt, positive cash flows from operations and minimal working capital utilisation. The company has consolidated cash and bank balances of ~Rs. 18.0 crore as on December 01, 2022, which lends further support to the overall liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade EEIL's ratings if it achieves a substantial improvement in its scale of operations, while maintaining healthy margins and debt protection metrics.

Negative factors – Pressure on EEIL's ratings could emerge if a sharp deterioration in the scale of operations or earnings or an increase in debt levels weakens the company's liquidity and key credit metrics. A specific credit metric for downgrade would be net debt/OPBITDA greater than 2.5x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the EEIL. The company has 1 subsidiary and 1 associate, which are enlisted in Annexure-2.

About the company

Elgi Electric and Industries Limited (EEIL/the company), incorporated in 1963 and headquartered in Coimbatore, primarily manufactures auxiliary textile machinery (~46% of revenues) and alternating current (AC)/direct current (DC) motors (~11% of revenues). EEIL also trades in AC motors belonging to the Hengsin brand and cotton for group company Super Spinning Mills Limited (~29% of revenues). EEIL winded up its cotton trading business in August 2019. The company has a manufacturing facility in Pollachi, Tamil Nadu.

EEIL is a part of the reputed Coimbatore-based Sara Elgi Group, with interests in textiles, engineering, building products and construction, among others. The company has a relatively small subsidiary, Sara Elgi Industries Limited, and an associate, Sara Elgi Envirotech LLP, involved in allied/supplementary businesses for EEIL.

Key financial indicators (Audited)

EEIL Consolidated	FY2021	FY2022
Operating income (Rs. crore)	22.6	54.8
PAT (Rs. crore)	2.5	6.6
OPBDIT/OI (%)	16.6%	16.5%
PAT (%)	11.1%	12.1%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	-	-
Interest coverage (times)	42.4	74.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec-20-2022	Sep-28-2021	-	Mar-12-2020
1	Long term - Fund based-Cash credit	Long-Term	5.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)
2	Long term-Unallocated facilities	Long-Term	8.06	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)
3	Short term - Non-fund based facilities	Short-Term	5.00	-	[ICRA]A3+	[ICRA]A3	-	[ICRA]A3

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash credit	Simple
Inland LC/Bank guarantee	Very Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	5.00	[ICRA]BBB (Stable)
NA	Bank Guarantee	NA	NA	NA	5.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	8.06	[ICRA]BBB (Stable)

Source: *EEIL*

Annexure-2: List of entities considered for consolidated analysis

Company Name	EEILL Ownership	Consolidation Approach
Sara Elgi Industries Limited	100.0%	Full Consolidation
Sara Elgi Envirotech LLP	50.0%	Equity Method

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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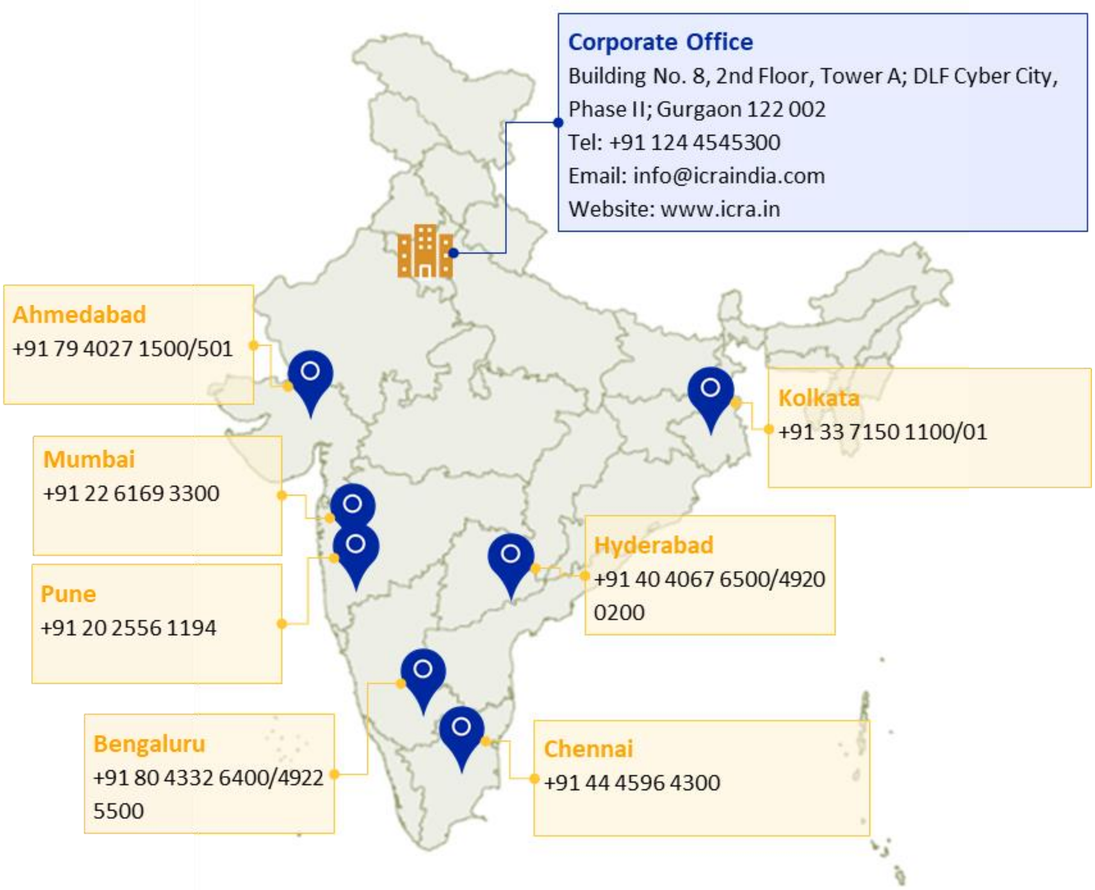

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