March 31, 2023

Elmot Alternators Private Limited: [ICRA]B+ (Stable)/[ICRA]A4 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based - Cash credit	5.0	[ICRA]B+ (Stable); assigned
Long term – Fund based- Term loan	2.5	[ICRA]B+ (Stable); assigned
Short term - Fund based - Bill discounting	8.0	[ICRA]A4; assigned
Short term - Non-fund based limits (BG)	4.0	[ICRA]A4; assigned
Short term - Non-fund based limits (LC)	4.0	[ICRA]A4; assigned
Total limits rated	**23.5**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings derive comfort from the extensive experience of the promoters of Elmot Alternators Private Limited (EAPL) and the company's established relationship with reputed customers. The ratings also factor in a pending order book position of ~Rs. 96.53 crore as of December 2022, which provides near-term revenue visibility.

The ratings are, however, constrained by the company's small scale of operations and its financial risk profile, marked by a moderately leveraged capital structure and average debt protection metrics. The ratings are also constrained by the high working capital intensity of operations (NWC/OI of ~120% in FY2022), resulting from high inventory holding levels.

The Stable outlook on the rating reflects ICRA's opinion that EAPL will continue to benefit from the extensive experience of its promoters and the pending orders-in-hand that will support its revenues, going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – EAPL, incorporated in 1973, has been a manufacturing base for rotating electrical machinery for power generation and other specialty applications. The promoters are experienced in manufacturing alternators and motors which are used in defence applications. In FY2019, the company ventured into manufacturing diesel generating sets, which helped it grow its revenue base.

Reputed customer profile - The company's customers are into defence projects and include reputed OEMs such as Garden Reach Shipbuilders & Engineers Ltd, Larsen & Toubro Limited, Bharat Heavy Electricals Limited and Cummins Limited. EAPL's track record enables it to secure repeat orders from its customers.

Unexecuted order book position provides near-term revenue visibility – The company had an outstanding order book position of ~Rs. 96.53 crore as of December 2022, to be executed over the next couple of years, providing near-term revenue visibility.

Credit challenges

Small scale of operations – The firm's scale of operations has remained modest, with revenues in the range of Rs. 17-20 crore over the past three fiscals. It reported a revenue of Rs. 20.5 crore in FY2022, a growth of 19% over the previous year. The revenue is expected to further increase, going forward, with the expected execution of the orders in hand and new order inflows. Nevertheless, the overall scale will continue to be small. The small revenue base coupled with a modest net worth base limits the financial flexibility and its ability to absorb any temporary disruptions and exposes the company to the risk of business downturn.

Average financial risk profile – The company's financial risk profile is average due to the small scale of operations, volatility in margins and a small net worth base, resulting in a moderately leveraged capital structure and weak debt protection metrics, as indicated in a gearing of 1.4 times as on March 31,2022 and total debt/OPBITDA of 11.8 times in FY2022. ICRA expects the capital structure and coverage metrics to improve, supported by an expected increase in earnings in the near to medium term. Moreover, the adjusted debt protection metrics (excluding unsecured loans from directors/relatives/ICD's) were relatively better, with an adjusted gearing of 0.49 times and adjusted TD/OPBDITA of 3.99 times in FY2022.

High working capital intensity of operations primarily due to very high inventory levels– The company's working capital intensity of operations remained high, as reflected in the net working capital relative to the operating income of 113% in FY2021 and 120% in FY2022, owing to the high inventory holding period (~643 days) due to the inventory build-up during the development phase of a new product. The high working capital requirements have kept EAPL's liquidity under pressure, resulting in almost full utilisation of the fund-based working capital facility. Nevertheless, with the expected liquidation of the inventory following the execution of the orders in hand, the working capital intensity is expected to reduce.

Vulnerability of profitability to adverse fluctuations in raw material prices – The firm's profitability remains exposed to fluctuations in raw material (steel and copper) prices. The firm's margins are exposed to raw material price fluctuations due to the fixed price nature of the contracts. Going forward, the margins are expected to improve with EAPL trying to negotiate better terms with the customers to reduce the impact of higher raw material prices.

Liquidity position: Stretched

EAPL's liquidity remains stretched with limited free cash and bank balance of Rs. 0.20 crore as of March 2022. Further, the working capital utilisation is high with an average utilisation of 95% in the last 14 months ended February 2023. The company also has repayments of Rs. 1.59 crore in FY2023.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a sustained increase in its scale and profit margins while improving the working capital intensity, which leads to an improvement in the key credit metrics and liquidity position.

Negative factors – Pressure on the ratings could arise if there is a significant decline in revenue or margins, resulting in a weakening of the key credit metrics. Any significant stretch in the working capital cycle or a large debt-funded capex will add to the liquidity pressure and may lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on EAPL's standalone financial statements

About the company

Elmot Alternators Private Limited (EAPL) was set up in 1973 by Mr. C. V. K. Rao to establish a manufacturing base for rotating electrical machinery for power generation and other specialty applications for India's defense sector. The company is headquartered in Hyderabad (Telangana). EAPL has a manufacturing unit at Nacharam, Hyderabad, covering 10 acres. EAPL's major clients are the Indian Navy and leading transnationals and PSUs. Its product profile includes alternators, rotary frequency converters, AC & DC motors and diesel generators. The company has given two acres of land on lease to Voith Turbo for which the company receives a rental income of Rs.1.3 crore per annum.

Key financial indicators (audited)

	FY2021 (Audited)	FY2022 (Audited)
Operating income (Rs. crore)	17.18	20.48
PAT (Rs. crore)	0.01	0.04
OPBDITA/OI (%)	6.64%	8.87%
PAT/OI (%)	0.05%	0.21%
RoCE (%)	4.95%	6.30%
Total outside liabilities/Tangible net worth (times)	1.75	2.10
Total debt/OPBDIT (times)	15.16	11.79
Interest coverage (times)	0.81	0.91
DSCR (times)	1.49	1.14

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ROCE: PBIT/avg (total debt + tangible net worth + deferred tax liability - capital work in progress); DSCR: (PBIT + Mat credit entitlements - fair value gains through P&L - non-cash extraordinary gain/loss)/(interest + repayments made during the year).

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 in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					March 31, 2023	-	-	-
1	Fund-based - Cash credit	Long Term	5.0	-	[ICRA]B+ (Stable)	-	-	-
2	Fund-based - Term loan*	Long Term	2.5	-	[ICRA]B+ (Stable)	-	-	-
3	Fund-based (bill discounting)	Short Term	8.0	-	[ICRA] A4	-	-	-
4	Non-fund based (BG)	Short Term	4.0	-	[ICRA] A4	-	-	-
5	Non-fund based (LC)	Short Term	4.0	-	[ICRA] A4	-	-	-

**Not yet availed.*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Bill discounting	Simple
Bank guarantee	Very Simple
Letter of credit	Very Simple

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
-	Fund-based - Cash credit	NA	NA	NA	5.0	[ICRA]B+ (Stable)
-	Fund-based - Term loan	August 2022	NA	2030	2.5	[ICRA]B+ (Stable)
-	Fund based (bill discounting)	NA	NA	NA	8.0	[ICRA]A4
-	Non-fund based (BG)	NA	NA	NA	4.0	[ICRA]A4
-	Non-fund based (LC)	NA	NA	NA	4.0	[ICRA]A4

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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