

## IPO Note

**Elin Electronics Ltd.**

Dec 20, 2022



## Company Overview

Elin Electronics Ltd., incorporated on March 26, 1982, is one of the leading electronics manufacturing services (“EMS”) manufacturers of end-to-end product solutions for major brands of lighting, fans, and small/ kitchen appliances in India. The Company is one of the largest fractional horsepower motors manufacturers in India. Elin has 3 state-of-the-art manufacturing facilities strategically located in Ghaziabad (Uttar Pradesh), Baddi (Himachal Pradesh), and Verna (Goa) equipped with high-quality machinery, assembly lines, and full power backup for 100% capacity that enables to meet customer requirements on time. The Company manufactures and assembles a wide array of products and provides end-to-end product solutions. The key diversified product portfolio in EMS includes (i) LED lighting, fans, and switches including lighting products, ceiling, fresh air, and TPW fans, and modular switches and sockets; (ii) small appliances such as dry and steam irons, toasters, hand blenders, mixer grinders, hair dryers, and hair straighteners; (iii) fractional horsepower motors, which are used in mixer grinders, hand blenders, wet grinders, chimneys, air conditioners, heat convectors, TPW fans, etc.; and (iv) other miscellaneous products such as terminal block for air conditioners, stainless steel blade for mixer grinders, die casting, and radio sets. Their business model comprises both original equipment manufacturers (“OEMs”) and original design manufacturers (“ODMs”). Under the OEM model, they manufacture and supply products based on designs developed by their customers, who then further distribute these products under their brands. Under the ODM model, in addition to manufacturing, the Company conceptualizes and designs the products which are then marketed to its customers’ prospective customers under their brands. They have developed ODM capabilities for lighting products and small appliances. The Company also manufactures medical diagnostic cartridges for use in diagnostic devices, and plastic moulded and sheet metal parts and components, largely for customers in the auto ancillary and consumer durable sectors. Also, it manufactures and sells fractional horsepower motors under its brand name “Elin”. For FY2021, the Company is projected to be the largest player under the horsepower motors category with a market share of 12%, one of the key players in LED lighting and flashlight with an EMS market share of approximately 7%, and also one of the key players in small appliances vertical with an EMS market share of 10.7%.

## Objects of the issue

**The IPO proceeds of the fresh issue will be used towards the following purposes:**

- Repayment/ prepayment, in full or part, of certain borrowings availed by the Company;
- Funding capital expenditure towards upgrading and expanding its existing facilities ;
- General corporate purposes.

Rating: **SUBSCRIBE**

### Issue Details

<b>Offer Period</b>	20 <sup>th</sup> Dec- 22 <sup>nd</sup> Dec,2022
<b>Price Band</b>	Rs.234-Rs.247
<b>Bid Lot</b>	60 shares
<b>Issue Size</b>	19.23 million shares
<b>Issue Size</b>	Rs. 4.75 billion
<b>Face Value</b>	Rs. 5/- share

### Issue Structure

<b>QIB</b>	50%
<b>NII</b>	15%
<b>Retail</b>	35%

### BRLM

Axis Capital Ltd.

J M Financial Ltd.

### Registrar

Kfin Technologies Ltd

Particulars	Pre Issue %	Post Issue %
<b>PROMOTER</b>	36.69	23.29
<b>PROMOTER GROUP</b>	15.29	9.64
<b>PUBLIC</b>	46.02	67.07
<b>TOTAL</b>	100.00	100.00

## Investment Rationale

### Established market position in key verticals, including leadership in the fractional horsepower motors segment, bodes well for future

The Company's robust R&D setup helps in the design, manufacturing, and selling of a range of fractional horsepower motors including universal motors, exhaust fan motors, cooler motors, table fan motors, synchronous motors, sub pump, and fan blower motors. Elin has substantial backward integration in the manufacturing of fractional horsepower motors which includes press machines and moulding machines to manufacture sheet metal and plastics parts which are used in fractional horsepower motors. It continues to enhance the production of fractional horsepower motors through the purchase of machinery and equipment. In addition, it continues to focus on increasing the production of metal parts, moulded parts, tools, and cartridge assembly, which will result in enhanced backward integration and increased productivity across all product verticals. In June 2022, the Company received approval under the Production Linked Incentive ("PLI") Scheme for White Goods (Air Conditioners and LEDs) for manufacturing of specified eligible products in the LED (components) target segment, with a committed investment of Rs. 100 million. Rising disposable income, electrification across India, and decreasing prices due to increasing competition is expected to boost the demand for household appliances. Moreover, government initiatives such as power for all and housing for all programs such as Pradhan Mantri Awas Yojana are key growth drivers for the demand for fractional horsepower motors in India.

### A high degree of backward integration has resulted in greater efficiencies, enhanced quality of products, and customer retention

Elin Electronics has always placed a strong focus on expanding its technological expertise in manufacturing its products and integrating its services. This has enabled the Company to increase its efficiencies and become an ideal partner for its customers, thereby maintaining an edge over other competitors. They have set up in-house manufacturing for die and mould, sheet metal components, plastic moulded components, aluminium dies casting, and surface coating. Moreover, they have machineries that produce best-in-class tools and dies which in turn support best-quality components and subassemblies. As on October 31, 2022, their setup included 157 moulding machines and 104 power presses which helped to bring efficiencies and economies of scale. It is to be noted that the Company has an in-house PCB assembly on surface mount technology (SMT) which is a critical part of its manufacturing process and prowess. Elin's backward integration also enables them to have less dependency on third parties, gain control over the quality of components required for manufacturing, have an upper edge in designing products, improve operational and functional efficiencies and gain strategic advantages over competitors.

## Valuation and Outlook

The global electronics manufacturing services market is traditionally comprised of companies that manufacture electronic products, predominantly assembling components on Printed Circuit Boards (PCBs) and box builds for major brands. Currently, brands are witnessing more value from EMS companies, leading to their involvement beyond just manufacturing services to product design and development, testing, and aftersales services, such as repair, remanufacturing, marketing, and product lifecycle management. The total addressable EMS market in India was valued at Rs. 2,654 billion (USD 36 billion) in FY2021 and is expected to grow to Rs. 9,963 billion (USD 135 billion) in FY2026, registering a CAGR of 30.3% over the period. However, the contribution of Indian EMS companies is around 40%, which is valued at Rs. 1,069 billion (USD 14 billion) in FY2021, which is expected to grow at a 41.1% CAGR to reach Rs. 5,978 billion (USD 81 billion) by FY2026. In Fiscals 2020, 2021, and 2022 and seven months ended October 31, 2022, Elin catered to 327, 387, 342, and 297 customers, respectively. The Company intends to increase cross-selling of its products to increase its customer base in various product verticals and expand into new or adjacent product verticals with its existing customers. By developing products with existing customers and offering a broad range of products across segments, the Company has increased customer dependence and positioned itself as a preferred supplier to its customers across segments. On the upper end of the price band, the issue is valued at a P/E of 25.8x based on FY2022 earnings which we feel is fairly priced compared to its peers, although its peers are bigger in terms of operations. We, therefore, recommend a "SUBSCRIBE" rating for the issue

## Income Statement

(Rs in million)

Particulars	Q1 FY23	FY22	FY21	FY20
<b>Revenue</b>				
Revenue from Operations	6,045	10,938	8,624	7,856
<b>Total Revenue</b>	<b>6,045</b>	<b>10,938</b>	<b>8,624</b>	<b>7,856</b>
<b>Expenses</b>				
Employee benefit expenses	671	1,252	1,080	1,063
Other expenses	430	738	632	700
<b>Total Operating Expenses</b>	<b>5,614</b>	<b>10,147</b>	<b>7,959</b>	<b>7,301</b>
<b>EBITDA</b>	<b>431</b>	<b>790</b>	<b>665</b>	<b>555</b>
Depreciation, amortization and impairment expense	84	144	118	94
<b>EBIT</b>	<b>350</b>	<b>656</b>	<b>572</b>	<b>468</b>
Finance costs	74	127	97	117
Other Income	3	9	25	8
<b>PBT</b>	<b>276</b>	<b>529</b>	<b>475</b>	<b>351</b>
Current tax	66	128	110	54
Deferred Tax charge	3	9	16	22
<b>Total tax</b>	<b>69</b>	<b>137</b>	<b>126</b>	<b>76</b>
<b>PAT</b>	<b>207</b>	<b>391</b>	<b>349</b>	<b>275</b>
<b>Diluted EPS</b>	<b>5.1</b>	<b>9.6</b>	<b>8.5</b>	<b>6.7</b>

Source: RHP, Stoxbox Research

## Cash flow Statement

(Rs in million)

Particulars	Q1 FY23	FY22	FY21	FY20
Cash Flow from operating activities	314	513	(336)	768
Cash flow from investing activities	(240)	(278)	(49)	(424)
Cash flow from financing activities	(111)	(241)	342	(284)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(37)</b>	<b>(7)</b>	<b>(44)</b>	<b>60</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>40</b>	<b>47</b>	<b>91</b>	<b>31</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>3</b>	<b>40</b>	<b>47</b>	<b>91</b>

Source: RHP, Stoxbox Research

## Balance Sheet

(Rs in million)

Particulars	Q1 FY23	FY22	FY21	FY20
<b>Equity and Liabilities</b>				
Share Capital	204	204	68	68
Other Equity	2,997	2,827	2,554	2,209
<b>Total Equity</b>	<b>3,201</b>	<b>3,031</b>	<b>2,623</b>	<b>2,278</b>
Borrowings	1,262	1,225	2,939	3,433
Lease liabilities	258	251	263	282
Provisions	56	91	75	52
Deferred tax liabilities(net)	1,205	1,238	1,250	-
<b>Total Non Current Liabilities</b>	<b>2,781</b>	<b>2,804</b>	<b>4,526</b>	<b>3,766</b>
<b>Current Liabilities</b>				
Borrowings	526	684	766	298
Lease liabilities	0	0	0	0
Trade Payables	1,313	992	1,046	682
Other Financial Liabilities	106	94	99	92
Provisions	8	9	8	8
Other current liabilities	88	51	41	48
Current tax liabilities (net)	42	23	41	6
<b>Total Current Liabilities</b>	<b>2,083</b>	<b>1,853</b>	<b>2,001</b>	<b>1,135</b>
<b>Total liabilities</b>	<b>2,691</b>	<b>2,295</b>	<b>2,460</b>	<b>1,599</b>
<b>Total Equity and Liabilities</b>	<b>5,892</b>	<b>5,326</b>	<b>5,083</b>	<b>3,876</b>
<b>Assets</b>				
Property, plant and equipment	2,014	1,875	1,605	1,544
Right-of-Use assets	1	1	1	1
Capital work in Progress	18	0	1	0
Goodwill	0	0	0	0
Other intangible assets	7	4	7	1
Intangible assets under development	0	0	0	0
Other financial assets	20	19	25	18
Deferred tax assets (net)	0	0	0	0
Non-current tax assets (net)	0	0	0	0
Other non-current assets	207	206	188	150
<b>Total Non current assets</b>	<b>2,267</b>	<b>2,106</b>	<b>1,827</b>	<b>1,715</b>
Investments	12	12	136	251
Trade Receivables	2,135	1,774	1,826	908
Cash and cash equivalents	3	40	47	91
Other bank Balances	12	9	7	12
Loans	0	0	0	0
Other Financial Assets	10	10	10	10
Other current assets	180	172	74	84
<b>Total Current Asset</b>	<b>3,625</b>	<b>3,221</b>	<b>3,256</b>	<b>2,161</b>
<b>Total Assets</b>	<b>5,892</b>	<b>5,326</b>	<b>5,083</b>	<b>3,876</b>

Source: RHP, Stoxbox Research

## Key Risks

- The Company is highly dependent on certain key customers for a substantial portion of its revenues. Loss of relationship with any of these customers may have a material adverse effect on its profitability and results of operations.
- Their inability to manage the expansion of its products range, customer base, and manufacturing capacities, and execute its growth strategy on time or within budget estimates, or their inability to meet the expectations to track the changing preferences of the customers or other stakeholders could hurt the business, results of operations and financial condition.

## Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification :

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