

Elin Electronics Limited

- Incorporated in 1969, Elin Electronics is a leading electronics manufacturing services (EMS) manufacturer providing end-to-end product solutions in multiple business verticals:
 - LED lighting, fans and switches including lighting products, ceiling, fresh air and TPW fans, and modular switches and sockets.
 - Small appliances such as dry and steam irons, toasters, hand blenders, mixer grinders, hair dryers and hair straighteners.
 - Fractional horsepower motors, which is used in mixer grinder, hand blender, wet grinder, chimney, air conditioner, heat convector, TPW fans etc. These are manufacturer and sold in their own brand name "Elin".
 - Other miscellaneous products such as terminal block for air conditioners, stainless steel blade for mixer grinder, die casting, radio sets.
 - Apart from its EMS offerings, it also manufactures medical diagnostic cartridges for use in diagnostic devices, and plastic moulded and sheet metal parts and components, catering to clients in auto ancillary and consumer durables sector.

BUSINESS VERTICAL	Clients
LED lighting, fans and switches	Signify innovations and Eveready
Small appliances	Philips, Bosch, Faber, Panasonic and Usha
Fractional horsepower motors	Havells, Bosch, Faber, Panasonic, Preethi, Groupe SEB and Usha
Medical diagnostic cartridges	Molbio Diagnostics Pvt Ltd
Moulded and sheet metal parts and components	Denso and IFB

- They under both OEM (Original Equipment Manufacturer) and Original Design Manufacturer (ODM) business model:



Source: Company's RHP

- They have three manufacturing facilities which are strategically located in Ghaziabad (Uttar Pradesh), Baddi (Himachal Pradesh) and Verna (Goa). As on 31st October, 2022, their large scale setup included 157 units of molding machines and 104 units of power presses, ensuring efficiency and economies of scale.
- They also have a centralised R&D facility in Ghaziabad, which focuses on the research and development on all aspects of OEM and ODM models including concept sketching, design refinement, generating optional features and testing.

Objects of the Issue:

- Repayment/prepayment, in full or part, of certain borrowings availed by the company.
- Funding capital expenditure towards upgrading and expanding its existing facilities at (i) Ghaziabad, Uttar Pradesh, and (ii) Verna, Goa.
- General corporate purposes.

Competitive Strengths:

- Established Market Position in key verticals and a leadership position in fractional horsepower motors:**
 - A summary of the key product segments and market position in India with expected growth of EMS production for the period specified:

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Issue Highlights

Issue Size	Rs. 475 Crores
Fresh Issue	Rs. 175 Crores
Offer for Sale	Rs. 300 Crores
Issue Open Date	20 th December, 2022
Issue Closing Date	22 nd December, 2022
Price Band	Rs. 234 - Rs. 247
Lot Size	60 shares per lot
Face Value	Rs. 5 per share
Post Issue Market Cap at Lower Price Band	Rs. 1,171 Crores
Post Issue Market Cap at higher price band	Rs. 1,227 Crores

Source: Company's RHP

Timetable

PARTICULARS	Date
Finalisation of basis of allotment	27/12/2022
Refunds/Unblocking ASBA Fund	28/12/2022
Credit of equity shares to DP A/C	29/12/2022
Commencement of trading	20/12/2022

Source: Company's RHP

Shareholding Pattern

PARTICULARS	PRE-ISSUE	POST-ISSUE
Promoters	53.98%	32.93%
Public	46.02%	67.07%
TOTAL	100%	100%

Financial Highlights

PARTICULARS (in crores)	FY20	FY21	FY22
Revenue from Operations	786	862	1,094
EBITDA	56	69	80
EBITDA Margin (%)	7.2%	8%	7.3%
Profit before tax	35	47	53
Net Profit	27	35	39
Net Profit (%)	3.5%	4%	3.6%
EPS	7	9	10
RoNW(%)	12%	13%	13%

Source: Company's RHP

PARTICULARS (in Bn)	TOTAL DOMESTIC MARKET					TOTAL DOMESTIC PRODUCTION			DOMESTIC PRODUCTION BY EMS			EMS SHARE OF PRODUCTION		ELIN'S MARKET POSITION
Segment	FY21	FY26E	CAGR %	Brand Leader	Customer of Elin	FY21	FY2 6E	CAGR%	FY21	FY26E	CAGR%	FY21	FY26E	
Small appliances	73	99	6.3%	Philips	Yes	47	83	11.7%	18	43	19.2%	37%	52%	10.7% (Top 5)
Small Electric Motors (FHP)	23	41	12.4%	N/A (Sold as input)	N/A	17	36	16%	N/A			N/A		12% (Market Leader)
LED Lighting	125	359	23.5%	Signify	Yes	77	319	35.2%	35	229	45.8%	45%	72%	7.2% (Top 2)
Flashlight	5	7	6.7%	Eveready	Yes									0.6%
Fans	121	222	12.9%	Crompton	Yes	115	219	13.7%	40	103	20.6%	35%	47%	(New Entrant)

● **Diversified products resulting in a de-risked business model:**

Source: Company's RHP

- The company obtains its revenue from a diversified range of products that contribute to the revenue from operations of the company in different proportions, reducing the reliance of the company to generate revenue from one vertical.

PARTICULARS (in crores)	LED Lighting, fans and switches	Small Appliances	Fractional horsepower motors	Other EMS products	Medical Diagnostic cartridges	Moulded and sheet metal parts and components
Fiscal 2020	37.27%	24.68%	15.15%	3.84%	0.54%	13.97%
Fiscal 2021	29.66%	22.42%	21.38%	3.44%	4.88%	14.30%
Fiscal 2022	30.41%	23.32%	21.66%	2.83%	1.53%	14.95%
Six-month period ended September 30, 2022	31.24%	24.68%	18.80%	2.96%	1.33%	17.45%

● **Entrenched relationships with a marquee customer base:**

Source: Company's RHP

- Out of their top 20 customers, as at September 30, 2022, they have been serving 11 customers for over 10 years, and have been serving 16 customers for over 5 years.
- Revenue proportion of their top customers for the respective periods:

TOP CUSTOMERS	FY2020		FY2021		FY2022		Period ended 30 th September, 2022	
	In ₹ Crores	%	In ₹ Crores	%	In ₹ Crores	%	In ₹ Crores	%
Top 5 customers	542.3	69.03%	542.7	62.93%	691.2	63.20%	395.5	65.43%
Top 10 customers	634.8	80.81%	671.8	77.90%	843.7	77.14%	489.8	81.04%

Source: Company's RHP

TOP 5 clients	Key Products purchased	Duration of relationship								
			FY2020		FY2021		FY2022		Period ended 30 th September, 2022	
			In ₹ Crores	%	In ₹ Crores	%	In ₹ Crores	%	In ₹ Crores	%
Signify	LED Lighting and fans	More than 10 years	260	33.10%	223.6	25.93%	295.4	27.01%	162.4	26.8%
Philips	Small appliances and FHP	More than 10 years	171.5	21.83%	149.7	17.35%	226.4	20.70%	131.1	21.73%
Havells	Fractional horsepower motors	More than 10 years	39.9	5.08%	84.7	9.82%	117.4	10.73%	63.8	10.55%

Eveready	LED Lighting and fans	More than 10 years	39.1	4.98%	42.3	4.91%	36.5	3.34%	27.3	4.51%
Molbio	Medical diagnostic cartridges	More than three years	4.8	0.61%	42.4	4.92%	16.7	1.53%	8.1	1.34%

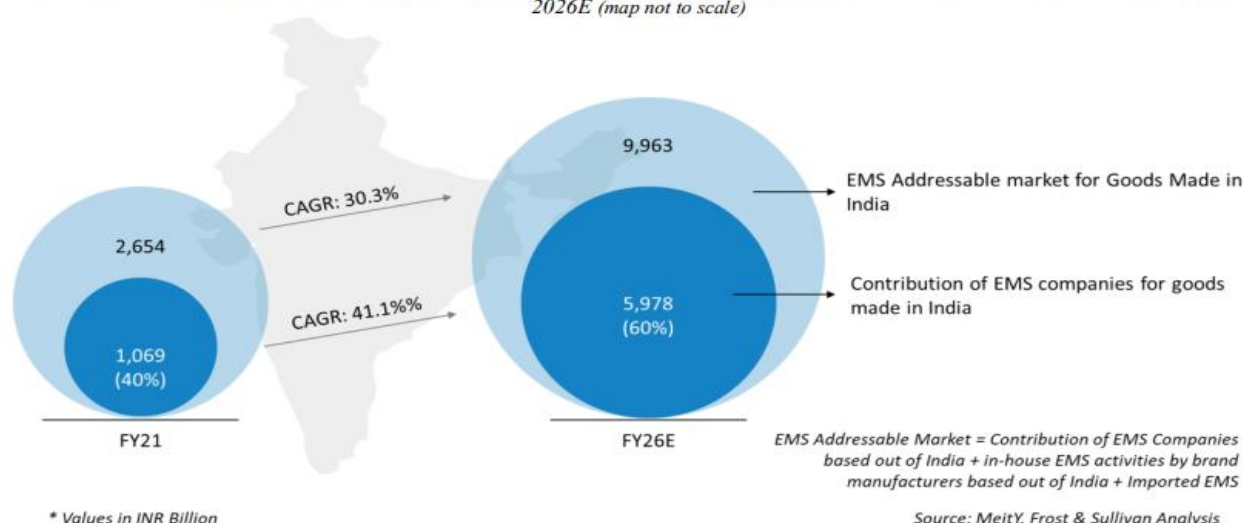
Source: Company's RHP

● **High degree of backward integration resulting in higher efficiencies:**

- Since its inception, it has focused on expanding its technological expertise in manufacturing its products, integrating its services and increasing its efficiencies.
- The facilities that allows it to provide end-to-end solutions are:
 - ◆ In house manufacturing of components and sub-assemblies that supports all its product verticals.
 - ◆ It has modern and state-of-the-art manufacturing facilities equipped with high quality machinery, assembly lines and power backup for 100% of its production capacity.

Industry Highlights:

EMS addressable market vs. Contribution of EMS companies for goods made in India, value in ₹ billion, Fiscal 2021 and Fiscal 2026E (map not to scale)



- This expansion in EMS industry is boosted by factors like increase in consumer electronics and appliances consumption as well as lighting segment .
- Other supporting factors in the economy are rising labour costs in rest of the world, resulting in OEMs to outsource manufacturing rather than investing in their own infrastructure.
- Consumer Electronics & Appliances has the largest market share in India after mobile phones. Its sales are driven by rising income levels and innovations in technology. Small and kitchen appliances occupy a significant portion of the market size. With rise in demand, it can be expected that EMS and Tier-1 players would step in and build a component base within the country.
- As for the LEDs, the government's effort to install LED lighting, replacing traditional CFL and GLS lights is still continuing. So far, the government has installed around 12 million LED lights as a part of its Street Lighting National Programme.
- Government's initiative like the Automotive Mission Plan, which focuses on producing 940 million vehicles by FY26, is encouraging for the auto sector. Subsequently, it supports growth in the auto-components sector. This translates to rise in demand for sheet metals, where Elin has a presence.
- The demand for medical diagnostic cartridges is also expected to grow as existing medical devices are becoming relatively smaller, more complex and "smarter" as the healthcare industry is transforming toward IoT. Rise in the medical diagnostic industry has grown consistently as a result of rise in lifestyle diseases, expansion of healthcare facilities and growing healthcare awareness.
- Steady increase in production of electric motor-driven systems, such as small/kitchen appliances results in the growth of small motors. Rise in electricity costs and increase in awareness of benefits of energy-efficient motors awards a considerable opportunity for premium energy efficient motors.

Key Concerns:

● **High dependence on top customers:**

- The top 5 customers, cumulatively account for 69.03%, 62.93%, 63.20% and 65.43% of the revenue from operations in FY20, FY21, FY22 and the six month period ended 30th September, 2022 respectively. Whereas the top 10 customers accounted, cumulatively, for 80.81%, 77.90%, 77.14% and 81.04% of the revenues from operations in FY20, FY21, FY22 and the six month period ended 30th September, 2022 respectively.

● **Low profitability ratio:**

- The PAT was recorded at Rs. 27.5 Crores, Rs. 34.9 Crores, Rs. 39.1 Crores and Rs. 20.7 Crores in FY20, FY21, FY22 and six month period ended 30th September, 2022. The PAT margins were at 3.50%, 4.03%, 3.58% and 3.42% in FY20, FY21, FY22 and six month period ended 30th September, 2022.
- The low profitability ratio is attributable to the business model that the company operates in. It has incurred significant capital expenditure in the past and will continue to do so in the future and may not yield the benefits the company anticipates. In FY20, FY21, FY22 and in the six

month period ended 30th September, 2022, the company incurred capital expenditure towards additions to fixed assets to the extent of Rs. 32.6 Crores, Rs. 20.4 Crores, Rs. 43.4 Crores and Rs. 24.6 Crores respectively.

● **No long-term purchase commitments from clients:**

- The company typically enters into general purchasing agreements for specific products which is valid for three years and can be renewed at a later point. Within the contract period, the products are manufactured and sold on a purchase order basis.
- There is no guarantee that despite having contractual agreements with the customers, the company will continue to generate revenues in the future as the clients are not obliged to outsource their manufacturing requirements to Elin.
- There is also a risk that the customers may not place orders with the company, or may place order of lesser-than expected quantity or cancel existing orders or make changes in their policies which may result in reduced quantities being manufactured by Elin for its customers.

Competitive Landscape:

PARTICULARS (in crores)	Elin Electronics	Dixon Technologies	Amber Enterprises India
Revenue from Operations	1,093.75	10,697.08	4,206.40
EBITDA	79.93	382.86	308.61
EBITDA Margin	7.31%	3.58%	7.34%
Profit after Tax	39.15	190.33	111.32
PAT Margin	3.58%	1.78%	2.65%
ROE	13.85%	21.94%	6.52%
ROCE	15.82%	20.26%	6.91%

Source: Company's RHP

■ The competitors' presence in end-user industry:

Company	Consumer electronics	Home Appliances	Mobile Phones	Automotive	Industrial	IT	Telecom	Lighting	Medical	Others
Elin Electronics	-	Yes	-	Yes	-	-	-	Yes	Yes	Yes
Dixon Technologies	Yes	Yes	Yes	-	-	-	Yes	Yes	Yes	Yes
Amber Enterprises India	Yes	-	-	-	-	-	-	-	-	Yes

Source: Company's RHP

Recommendation:

- Although the concentration of clients in the top 2 - Philips and Signify, seems alarming, the company has maintained a relationship of over 10 years, which is long enough to attest for the trust the marquee clients have in Elin.
- It has also managed to maintain consistent EBITDA margins over the years, which shows the underlying stability of the company.
- It is reasonably priced at 38 times price-to-earnings (at the higher price band). Given the room for growth in the EMS sector, **we recommend investors with a long-term investment horizon to "SUBSCRIBE" to this IPO.**

Balance Sheet

Particulars	30 th Sept, 2022	FY20 (in Crores)	FY21 (in Crores)	FY22 (in Crores)
ASSETS				
Non-current assets				
Property, Plant and Equipment	201.4	187.5	160.5	154.4
Capital work-in-progress	1.8	0.02	0.06	0.03
Right-of-use-assets	0.07	0.08	0.08	0.08
Intangible assets (other than Goodwill)	0.7	0.4	0.7	0.1
Financial Assets	0.07	0.06	0.06	0.05
Investments	2	1.9	2.5	1.8
Other Financial Assets	20.7	20.6	18.8	15
Total Non-current Assets	226.7	210.6	182.7	171.5
Current Assets				
Inventories	126.5	119.7	115	79.9
Financial Assets				
Investments	1.2	1.2	13.6	25.1
Trade receivables	213.5	177.4	182.6	90.8
Cash and cash equivalents	0.3	4	4.7	9.1
Bank balances other than (iii) above	1.2	0.9	0.7	1.2
Loans	-	-	-	-
Other Financial Assets	1	1	1	1
Current Tax Assets (net)	0.8	0.7	0.6	0.6
Other current assets	18	17.1	0.7	0.8
Total Current Assets	362.5	322.1	325.6	216.1
TOTAL ASSETS	589.2	532.6	508.3	387.61
EQUITY AND LIABILITIES				
EQUITY				
Equity Share Capital	20.4	20.4	6.8	6.8
Other Equity	229.7	282.7	255.4	220.9
Total Equity	320.1	303.1	262.2	227.8
LIABILITIES				
Non-current Liabilities				
Financial Liabilities	50.2	34	37.1	40
Borrowings	0.2	0.2	0.2	0.2
Lease liabilities	0.8	0.9	0.9	0.5
Provisions	9.7	9.2	7.8	5.6
Deferred tax liabilities (Net)	60.8	44.3	46	46.4
Total Non Current Liabilities				
Current Liabilities				
Financial Liabilities				
Borrowings	52.6	68.4	76.6	29.8
Lease Liabilities	0.006	0.005	0.005	0.005
Trade payables				
total outstanding dues of micro and small enterprises	28.4	22.1	19.5	10.3
total outstanding dues to other than micro and small enterprises	102.9	77.1	85.1	67.9
Other financial liabilities	10.6	9.4	9.9	9.2
Current Tax liabilities (Net)	4.2	2.3	4	0.6
Other current liabilities	8.8	5.1	4.1	4.8
Provisions	0.8	0.9	0.8	0.8
Total Current Liabilities	208.3	185.3	200.1	113.5
Total Liabilities	269.1	229.5	246	159.9
TOTAL EQUITY AND LIABILITIES	589.2	532.6	508.3	387.6

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