



SMC Ranking

★ ★ ☆ ☆ ☆ (1.5/5)

Issue Highlights

Industry	Electronics manufacturers
Offer for sale (Shares)	12,145,749
Fresh Issue (Shares)	7,085,020
Net Offer to the Public	19,230,769
Issue Size (Rs. Cr.)	450-475
Price Band (Rs.)	234-247
Offer Date	20-Dec-22
Close Date	22-Dec-22
Face Value	5
Lot Size	60

Issue Composition

	In shares
Total Issue for Sale	19,230,769
QIB	9,615,385
NIB	2,884,615
Retail	6,730,769

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	53.98%	36.34%
QIB	0.00%	19.36%
NIB	46.02%	30.75%
Retail	0.00%	13.55%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company proposes to utilise the Net Proceeds of the Fresh Issue towards funding the following objects:

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

Book Running Lead Manager

- Axis Capital Limited
- JM Financial Limited

Name of the registrar

- KFin Technologies Limited

About the company

Incorporated in 1969, Elin Electronics Limited is a leading electronics manufacturing services ("EMS") provider. The company is a manufacturer of end-to-end product solutions for major brands of lighting, fans, and small/ kitchen appliances in India, and is one of the largest fractional horsepower motors manufacturers in India. The company serves under both original equipment manufacturer ("OEM") and original design manufacturer ("ODM") business models. The company has three manufacturing facilities which are strategically located in Ghaziabad (Uttar Pradesh), Baddi (Himachal Pradesh) and Verna (Goa). The company also has a centralized R&D centre in Ghaziabad (Uttar Pradesh), focusing on the research and development of all aspects of OEM and ODM models including concept sketching, design refinement, generating optional features and testing. In Fiscals 2020, 2021 and 2022 and the seven-month period ended October 31, 2022, the company catered to 327, 387, 342 and 297 customers, respectively.

Strength

Established market position: The company is a leading electronics manufacturing services ("EMS") manufacturer of end-to-end product solutions for major brands of lighting, fans, and small/ kitchen appliances in India. With its robust R&D set up, it designs, manufactures and sells range of fractional horsepower motors including universal motor, exhaust fan motor, cooler motor, table fan motor, synchronous motor, sub pump and fan blower motor. It has substantial backward integration in manufacturing of fractional horsepower motors which includes press machines and moulding machines to manufacture sheet metal and plastics part which are used in fractional horsepower motors. The company continues to enhance production of fractional horsepower motors by purchase of machinery and equipment. Further, 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, and with a committed investment of Rs. 10 Crore.

Diversified products resulting in a de-risked business model: The company has a diverse product, product vertical and customer base. Further, it caters to its customers across multiple product verticals. Its diverse product portfolio enables it to balance out any impact or risk incurred with respect to any single product, product vertical or customer.

Entrenched relationships with a marquee customer base: The company is established and would continue to focus on strengthening its longstanding relationships with well-known domestic and multi-national customers across its product verticals. Out of its top 20 customers as at September 30, 2022, it has been serving 11 customers for over 10 years, and has been serving 16 customers for over 5 years. The company believes, its strong relationships with well-established customers have not only been instrumental in its success to date, but also will be a strong driver of its future growth and help expand its market share, develop new products and enter newer markets.

High degree of backward integration resulting in higher efficiencies, enhanced quality of products and customer retention capability: Backward integration provides the company the benefit of greater control on the manufacturing process, quality and the corresponding benefits of cost efficiencies thereby improving its margins. Backward integration also enables it to have less dependency on third parties, gain control over the quality of components required for manufacturing its products, have upper edge in

designing products, improve operational and functional efficiencies and gain strategic advantages over competitors. This also enables it to address its consumers' diverse needs, introduce new and unique products in the market and enhance existing products with emerging technologies. As a result, it is able to fulfill customers' requirements in a timely manner and enhance its ability to offer cost-competitive 'one-stop-shop' solutions.

Strategy

Enhance customer base and relationships through cross-selling and product development:

In Fiscals 2020, 2021 and 2022 and seven-month period ended October 31, 2022, the company catered to 327, 387, 342 and 297 customers, respectively. It caters to its customers across multiple product verticals. It intends to increase cross-selling of its product to increase customer base in various product verticals and expand into new or adjacent product verticals with its existing customers. The company will continue to leverage its existing customer relationships to expand into new product categories.

Expand ODM share of the business: The company believes that customers are increasingly looking for ODM capabilities in its manufacturing partners. Its revenue from ODM contributed to 11.30%, 11.26%, 8.13% and 8.21% of its total revenue from operations in Fiscals 2020, 2021 and 2022 and six-month period ended September 30, 2022, respectively. It has developed ODM capabilities with respect to lighting products and small appliances. Its primary ODM capabilities are Lighting products and Small appliances.

Augmenting R&D capabilities: Through its focus on R&D and developing products with its customers, the Company will be able to continually innovate and refresh its products in line with the demands of its customers as well as end-user preferences for better comfort, quality, performance and aesthetics in their products. By developing products with its customers and by offering a broad range of products across segments, the company is able to increase customer dependence on it and position itself as a preferred supplier to its customers across segments.

Expanding operations in medical diagnostics cartridges and manufacturing facilities: The company has planned capital expenditure for construction of building and purchase of machinery which will assist in expansion of medical diagnostics cartridges assembly line. The company plans to purchase cartridge assembly line and moulding machine to enhance production of medical diagnostics cartridges. The company currently proposes to double its existing production capacity for medical diagnostic cartridges from 35,000 units per day to 70,000 units per day, as well as focus on manufacturing of other medical diagnostic market, such as sterilizer for Philips in a clean room technology setup. It is believed that this expansion will enable it to generate higher revenue. The company intends to draw on its experience, market position and ability to timely deliver quality product to successfully foray further in medical diagnostics cartridges vertical.

Focus on one-stop-shop facility with increased degree of backward integration: With its strong R&D capabilities and backward integration, it is largely an integrated one-stop-shop facility for its customers. The company believes its high customer retention capabilities are due to, among others, one-stop-shop facilities. It has enhanced its backward integration over the years.

Risk factor

- The company is highly dependent on certain key customers for a substantial portion of its revenues.
- Its past profitability ratios have been low.
- The success of its business and operations are dependent upon certain quality accreditations.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Dixon Technologies	12,747.84	232.30	39.00	105.74	22.09	186.64	2.00	4,123.70	24,560.83
Amber Enterprises India limited	5,487.15	128.41	38.11	52.39	3.76	531.04	10.00	1,996.60	6,727.29
Elin Electronics Limited	2187.51	78.29	8.32	29.67	2.57	96.27	5.00	247.00	1226.58

* Peer companies financials are TTM based.

** FY23 Estimated Annualised Financials

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.247, the stock is priced at pre issue P/E of 25.44x on Estimated Annualised FY23EPS of Rs.9.71. Post issue, the stock is priced at a P/E of 29.67x on its EPS of Rs.8.32. Looking at the P/B ratio at Rs.247, pre issue, book value of Rs.71.19 of P/Bvx 3.47x. Post issue, book value of Rs.96.27 of P/Bvx 2.57x.

Considering the P/E valuation, on the lower end of the price band of Rs.234, the stock is priced at pre issue P/E of 24.10x on Estimated Annualised FY23 EPS of Rs.9.71. Post issue, the stock is priced at a P/E of 28.11x on its EPS of Rs.8.32. Looking at the P/B ratio at Rs.234, pre issue, book value of Rs.71.91 of P/Bvx 3.29x. Post issue, book value of Rs.96.27 of P/Bvx 2.43x.

Industry Outlook

Electronics production in India is estimated at INR 4,975 Billion (USD 67 Billion) in FY21 and is expected to grow at a CAGR of 32.3% to reach INR 20,133 Billion (USD 272 Billion) by FY26. India has the potential to be one of the most attractive manufacturing destinations and support the objective of 'Make in India for the World'. Government and Industry needs to collaborate and drive initiatives to help India move among top 5 countries in electronics production and among top 3 in electronics consumption. To improve the manufacturing capability in the electronics industry, the Government of India has taken several initiatives and developed a series of policies that would be implemented in the short to medium term. The policies must be reviewed at regular intervals in order to determine their efficacy in achieving the intended objective of increasing the manufacturing capability. The success of the PLI scheme for the electronics segment in encouraging large-scale manufacture of electronics products is being viewed with great confidence. Similarly, the National Policy on Electronics (NPE) aims to make India a global hub for electronic system design and manufacturing and has fixed some aspirational targets. Excellent opportunities for increasing electronics manufacturing are estimated to come from consumer electronics and appliances, the automotive sector, lighting, electronic components, and the medical electronics sector. India will have to find a way out of being a part of the global value chains to increase production and exports. The biggest challenge before India is to make a fast transition to the manufacturing of high-technology electronics. Electronic products do need continuous design modifications, as endusers expect creativity and continuous innovation. Consequently, the design and development of electronics products is often undertaken by ODMs. The earlier a brand engages an ODM for product design and development services, the sooner the product enters high-volume production.

Outlook

Elin Electronics Limited offers various products and services to its OEM customers. The company has marked growth in its top and bottom lines for the reported periods. However, the Company is highly dependent on certain key customers for substantial portion of its revenues. On the Pricing front, the issue price is attractively priced. Considering both positive and negative factors, one can invest for long term.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	20-December-22
BID/ISSUE CLOSSES ON	22-December-22
Finalisation of Basis of Allotment with the Designated Stock Exchange	27-December-22
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	28-December-22
Credit of Equity Shares to demat accounts of Allottees	29-December-22
Commencement of trading of the Equity Shares on the Stock Exchanges	30-December-22

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-22 (6 Months)	Period ended 31-Mar-22 (12 Months)	Period ended 31-Mar-21 (12 Months)
Revenue from operations	604.46	1093.75	862.38
Total expenditure	561.38	1014.74	795.90
Operating Profit	43.08	79.02	66.48
OPM%	7.13	7.22	7.71
Other Income	0.29	0.91	2.52
PBDIT	43.37	79.93	69.00
Depreciation	8.37	14.35	11.84
PBIT	35.00	65.58	57.17
Interest	7.42	12.70	9.68
Restated Profit before tax	27.58	52.87	47.49
Tax	6.91	13.73	12.64
Profit & Loss before Share of Post-acquisition Profit of Associate	20.67	39.15	34.86

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-22	As on 31-Mar-22	As on 31-Mar-21
Non-current assets			
Property, plant and equipment	201.43	187.55	160.52
Capital work-in-progress	1.80	0.02	0.06
Right-of-use-assets	0.07	0.08	0.08
Intangible assets (other than Goodwill)	0.70	0.42	0.67
Financial Assets			
Investments	0.07	0.06	0.06
Other Financial Assets	1.96	1.87	2.50
Other non-current assets	20.69	20.57	18.82
Total non-current assets	226.71	210.55	182.70
Current assets			
Inventories	126.48	119.72	114.99
Financial Assets			
Investments	1.16	1.16	13.56
Trade receivables	213.50	177.37	182.63
Cash and cash equivalents	0.35	4.01	4.68
Bank balances other than (iii) above	1.21	0.92	0.70
Other Financial Assets	1.05	0.97	1.02
Current Tax Assets (net)	0.80	0.75	0.61
Other current assets	17.99	17.16	7.39
Total current assets	362.53	322.06	325.59
Total Assets	589.24	532.61	508.29
Non-current liabilities			
Financial liabilities			
Borrowings	50.17	33.96	37.15
Lease liabilities	0.20	0.19	0.19
Provisions	0.78	0.91	0.87
Deferred tax liabilities (Net)	9.66	9.22	7.76
Total financial liabilities	60.81	44.28	45.97
Current liabilities			
Financial Liabilities			
Borrowings	52.60	68.37	76.62
Lease Liabilities	0.01	0.01	0.01
Total outstanding dues of creditors of micro enterprises and small enterprises	28.40	22.11	19.49
Total outstanding dues of creditors other than micro enterprises and small enterprises	102.90	77.13	85.09
Other financial liabilities	10.62	9.38	9.95
Current Tax liabilities (Net)	4.19	2.27	4.06
Other current liabilities	8.76	5.12	4.09
Provisions	0.82	0.89	0.76
Total current liabilities	208.29	185.26	200.07
Total	269.10	229.54	246.04
NET Worth	320.15	303.07	262.25
Net worth represented by:			
Share capital	20.42	20.42	6.81
Other equity	299.73	282.65	255.45
Net Worth	320.15	303.07	262.25

** standalone for the year ended 31st March 2021

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: smc.care@smcindiaonline.com



Moneywise. Be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402, 4th Floor,
Graham Firth Steel Compound, Off Western
Express Highway, Jay Coach Signal, Goreagon
(East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4,
5th Floor, Kolkata - 700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004

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