



IPO Report

18th Dec' 22

Snapshot

Elin Electronics 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, and is one of the largest fractional horsepower motors manufacturers in India. In addition, company is one of the key players in LED lighting and flashlight with EMS market share of approximately 7% in Fiscal 2021, and is also one of the key players in small appliances vertical with EMS market share of 10.7% in Fiscal 2021.

VALUATION

Company is bringing the issue at price band of Rs 234-247 per share at p/e multiple of 26x on FY22 basis.

Company has established market position in key verticals including leadership in fractional horsepower motors with diversified products resulting in a de-risked business model. Also, company’s entrenched relationships with a marquee customer base & high degree of backward integration resulting in higher efficiencies, enhanced quality of products and customer retention capability. Along with this, company’s consistent and strong track record of financial performance is making this issue attractive. Hence, looking after all above, we recommend “Subscribe” on issue.

Price Band (Rs./Share)	234-247
Opening date of the issue	20th Dec 2022
Closing Date of the issue	22nd Dec 2022
No of shares pre issue	42,574,200 Eq Shares
Issue Size	Rs 475 Cr
Fresh Issue	Rs 175 Cr
Offer For Sale	Rs 300 Cr
Face Value (Rs/ share)	Rs 5/share
Bid Lot	60

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 9,615,372 Eq Shares)
Non-Institutional	15% of the offer (Approx 2,884,612 Eq Shares)
Retail	35 % of the offer (Approx 6,730,762 Eq Shares)
Lead managers	JM Financial , Axis Capital
Registrar to the issue	KFin Technologies Ltd.

WHAT WE LIKE

Established market position in key verticals including leadership in fractional horsepower motors

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. 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 ₹ 100 million.

Diversified products resulting in a de-risked business model

Company have a diverse product, product vertical and customer base. Further, it cater to its customers across multiple product verticals. Philips, Bosch and Panasonic are its customers in both fractional horsepower motors and small appliances verticals. Its diverse product portfolio enables company to balance out any impact or risk incurred with respect to any single product, product vertical or customer. Company is also able to develop designs which are customised to customer specific requirements through its ODM capabilities.

Entrenched relationships with a marquee customer base

Company have been able to establish and maintain long-term relationship with its marquee customers for different products. Company started its relationship with Philips by manufacturing radio in 2001 and subsequently started manufacturing small appliances for them. Currently, company also manufacture lighting products and fractional horsepower motors for Philips and Preethi (owned by Philips). Company’s ability to be a key supplier and establish long term relationships with many of its customers demonstrates its ability to maintain customer stickiness and strong delivery capabilities. Company’s global customers typically have stringent approval processes and quality audit checks in the selection of the suppliers. Company’s high standards of manufacturing quality, enable it to consistently deliver quality products which meet the customer specific requirements.



COMPANY BACKGROUND

Company manufacture and assemble a wide array of products and provide end-to-end product solutions. It serve under both original equipment manufacturer (“OEM”) and original design manufacturer (“ODM”) business models. Under the OEM model, company manufacture and supply products basis designs developed by its customers, who then further distribute these products under their own brands. Under the ODM model, in addition to manufacturing, company conceptualize and design the products which are then marketed to its customers’ prospective customers under their brands. Company have developed ODM capabilities with respect to lighting products and small appliances. Its 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 dryer and hair straightener; (iii) fractional horsepower motors, which is used in mixer grinder, hand blender, wet grinder, chimney, air conditioner, heat convactor, TPW fans etc.; and (iv) other miscellaneous products such as terminal block for air conditioners, stainless steel blade for mixer grinders, die casting, radio sets. In addition to its EMS offerings, company also manufacture 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 durables sectors. Company manufacture and sell fractional horsepower motors in its own brand name “Elin”. Company offer innovative solutions to its customers, which include leading international and national consumer electronics brands. Its comprehensive solution suite includes global sourcing, fabrication of components and parts, captive manufacturing and assembly, quality testing, packaging and logistics support, which enables company to partner with leading consumer electronics and appliances brands in India.

Company have three manufacturing facilities which are strategically located in Ghaziabad (Uttar Pradesh), Baddi (Himachal Pradesh) and Verna (Goa). As on October 31, 2022, its large scale setup included 157 units of molding machines and 104 units of power presses which enable company bringing efficiencies and economies of scale. Company’s modern and state-of-art manufacturing facilities are equipped with high quality machinery, assembly lines and full power backup for 100% capacity that enable it to meet the quality requirements of its customers in a timely manner. In line with its focus to provide end to-end product solutions and to develop better control on its supply chain and improve company’s margins, company have backward integrated its major manufacturing processes. Company have developed in-house capabilities in SMT lines, die and mold manufacturing, injection molding, sheet metal components, semi-automated motor assembly, testing labs and surface coating. Company’s tool room has sophisticated machinery to produce quality tools and dies which in turn supports quality components and sub-assemblies. Company have equipped its facilities to improve its cost efficiency, reduce dependency on third party suppliers and provide better control on production time and quality of critical components used in the manufacturing of products.

Company have a centralized R&D centre in Ghaziabad (Uttar Pradesh), recognised by the Department of Scientific and Industrial Research, Ministry of Science and Technology, Government of India (“DSIR”) since 1992, focusing on the research and development on all aspects of OEM and ODM models including concept sketching, design refinement, generating optional features and testing. This enables company to address its consumers’ diverse needs, introduce new and innovative products in the market, enhance existing products with emerging technologies, and optimize costs across its products through value analysis and value engineering.



INVESTMENT RATIONALE

<p><i>High degree of backward integration resulting in higher efficiencies, enhanced quality of products and customer retention capability</i></p>	<p>Since inception, company have placed strong focus on expanding its technological expertise in manufacturing of its products integrating its services, and thereby increasing company’s efficiencies, becoming an ideal partner for its customers and maintaining an edge over its competitors. Company’s dedication to manufacturing and its infrastructure ensure customer satisfaction, foster customer loyalty and generate repeat business.</p>
<p><i>Consistent and strong track record of financial performance</i></p>	<p>Company have a strong balance sheet with net worth of ₹ 3,201.49 million as of September 30, 2022 and have been able to maintain a low debt position. As of September 30, 2022, company had total long-term borrowing of ₹ 501.73 million, while its interest coverage ratio was 4.72 times. Company have prudently utilized its resources, which has enabled company to fund its expansions through a mix of internal accruals and debt. Company’s revenue from ODM contributed to 11.30%, 11.26%, 8.13% and 8.21% of its revenue from operations in Fiscals 2020, 2021 and 2022 and six-month period ended September 30, 2022, respectively. Company’s strong operational and financial performance will allow it to take advantage of the growth opportunities in the OEM and ODM industry in India.</p>
<p><i>Expand ODM share of the business</i></p>	<p>Company’s customers are increasingly looking for ODM capabilities in their manufacturing partners. Its revenue from ODM contributed to 11.30%, 11.26%, 8.13% and 8.21% of its revenue from operations in Fiscals 2020, 2021 and 2022 and six-month period ended September 30, 2022, respectively. Company have developed ODM capabilities with respect to lighting products and small appliances. Company’s primary ODM capabilities are as follows:</p> <ul style="list-style-type: none"> • Lighting products: Company have ODM capabilities in baton lights, down lights, flashlights, wall lights and linear lights. ODM customers in this vertical include Signify and Eveready. • Small appliances: Company have ODM capabilities in irons and mixer grinders. ODM customers in this vertical include Philips, Panasonic, Usha and Faber. Company is also able to retain marquee customers through its ODM capabilities. Company have catered to six ODM customers between Fiscals 2020, 2021 and 2022 and seven-month period ended October 31, 2022. Its ODM capabilities are a function of its strong R&D setup and capabilities. Company intend to capitalise on its existing OEM experience and increase its customer base and product portfolio through ODM projects with strong R&D setup and capabilities.
<p><i>Expanding operations in medical diagnostics cartridges and manufacturing facilities</i></p>	<p>Company commenced manufacturing medical diagnostic cartridges in the year 2019 in its facility in Goa. Company is currently supplying to Molbio Diagnostics Private Limited, a leading player in diagnostic devices which has its own patented technology in Rapid Point of Care equipment that is used for DNA and mRNA extraction and is available to individual labs, hospitals, and government hospitals. This product vertical contributed 1.53% of its revenue from operations in Fiscal 2022. Company intend to expand its customer and product base in relation to medical diagnostics equipment market. Contribution from rapid point of care diagnostics devices is expected to grow at CAGR of 18.5% from estimated production value of ₹ 18 billion in Fiscal 2021 to reach ₹ 42 billion in Fiscal 2026. Increased demand for healthcare and medical products as a result of rising medical tourism is anticipated to boost local production at a rate of 18.5% over the next 5 years.</p>



OBJECTS OF OFFER

The Offer comprises a Fresh Issue by company and an Offer for Sale by the Selling Shareholders..

Fresh Issue

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 company;
2. Funding capital expenditure towards upgrading and expanding its existing facilities at (i) Ghaziabad, Uttar Pradesh, and (ii) Verna, Goa; and
3. General corporate purposes .

RISKS

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 company's profitability and results of operations.

Source:RHP

INDUSTRY OVERVIEW

Fans:

Overall Market Size The Indian fan market has tremendous growth potential in the coming years. From INR 121 billion in FY21 to INR 222 billion in FY26, the market is anticipated to increase at a 12.9% CAGR. Increased disposable income has resulted in shorter product replacement cycles and altered lifestyles, leading in faster consumer durables replacement. The upper-middle class is rapidly replacing fans as they want a better lifestyle and more beautiful décor. Until recently, the replacement cycle was 8-9 years. Urban replacement cycles for ceiling and TPW fans have been reduced to 5-6 years. Premium fans are anticipated to rise by 15-20% in the next 3-5 years, driven by an ambition to enhance lifestyle and décor.

Medical Diagnostic Devices:

Market Size vs. Domestic Production The Medical device market in India is growing exponentially in the last few years, which is estimated at INR 728 Billion in FY21, which is expected to grow further at a rate of 16.6 % till FY26. However, the domestic production of medical devices is around INR 204 Billion, which is 28% of the overall market. Over the years, various medical device clusters have emerged across States in India, which has boosted the domestic manufacturing scenario, and with the help of PLI scheme, the industry is expected to grow further. The Indian medical device industry, which is expanding at an unprecedented rate, has the presence of both large multinational corporations and small and medium-sized enterprises (SMEs). Approximately 65 percent of Indian manufacturers are domestic players in the consumer goods sector, primarily catering to domestic demand and exporting little. Elin's involvement in medical diagnostics is limited to the supply of medical cartridges to Molbio, a leading player in diagnostic devices which has its own patented technology in Rapid Point of Care equipment that is used for DNA and mRNA extraction and is available to individual labs, hospitals, and government hospitals. It is a distinct product in today's market. This product category's current market value is around INR 20 billion, and it is expected to grow at a 15% annual rate.

LED Lighting and Flashlights: EMS Market Share Mapping

Major LED lighting EMS player present in the Indian market are Dixon, Elin Electronics and RK Lighting which combined hold a market share of ~91%. The other key players present in the EMS space are Century LED, Compact Lamps and Goel Lighting to name a few. Elin Electronics is a leading manufacturer of end-to-end product solutions to OEM customers, electrical and electronics equipment in India and currently within top three spots in LED manufacturing in EMS market in India. Key clients in this category include Signify (Philips) and Eveready. Elin Electronics has a full-fledged R&D setup that has been approved by the DSIR of the Government of India. This department assists with the conceptualization and development of all existing and new products. It also aids in cost reduction across the product line through value engineering.



Consolidated Financials

(Rs in Mn)

	FY20	FY21	FY22	H1FY23
Total Revenue (A)	7855.84	8623.78	10937.54	6044.57
Total Expenditure (B)	7301.29	7958.99	10147.38	5613.77
EBIDTA	554.55	664.79	790.16	430.80
EBIDTA Margin	7.06	7.71	7.22	7.13
Other Income	7.88	25.23	9.14	2.86
Depreciation	94.34	118.35	143.53	83.65
EBIT	468.09	571.67	655.77	350.01
Interest	117.04	96.76	127.04	74.22
PBT	351.05	474.91	528.73	275.79
Extraordinary item	0.00	0.00	0.00	
PBT	351.05	474.91	528.73	275.79
Tax	76.18	126.35	137.26	69.10
PAT	274.87	348.56	391.47	206.69
NPM%	3.50	4.04	3.58	3.42
ROE %	12.07	13.29	12.92	6.46
EPS	40.39	51.22	9.59	5.06
Eq Cap	68.05	68.05	204.20	204.20
Net Worth	2,277.50	2,622.52	3,030.70	3,201.49

(Source: RHP)

Peer Comparison

Company Name	Total Income (Rs in million)	P/E	EPS	RONW %	NAV as at March'2022
Elin Electronics	10946.68		9.59	12.92	74.21
Peer Group					
Dixon technologies	107008.90	140.44	32.31	19.09	168.06
Amber Enterprises	42396.29	62.82	32.41	6.28	526.17

(Source: RHP)



DISCLAIMER

HEM Securities Limited ("Research Entity or HSL") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services, merchant banking services, Portfolio Management Services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.