

IPO Note: Elin Electronics Ltd.

Industry: Electronics

Date: December 19, 2022

Issue Snapshot		Issue Break up		
Company Name	Elin Electronics Ltd.	QIB ex Anchor	20%	3,846,154
Issue Opens	December 20, 2022 to December 22, 2022	Anchor Investor	30%	5,769,231
Price Band	Rs. 234 to Rs. 247	HNI<Rs. 10 Lakhs	5%	961,538
Bid Lot	60 Equity Shares and in multiples thereof.	HNI>Rs. 10 Lakhs	10%	1,923,077
The Offer	Public issue of 19,230,769 Equity shares of Face value Rs. 5 each, (Comprising of fresh issue of 7,085,020 Equity Shares* (Rs. 175 cr.) and Offer for Sale of 12,145,749 Equity Shares* (Rs. 300 cr.) by Selling Shareholder).	RII	35%	6,730,769
		Total Public	100%	19,230,769
Issue Size	Rs. 475 Crore	Equity Share Pre Issue (Nos. Cr.)		4.3
IPO Process	100% Book Building	Fresh Share (Nos. Cr.)		0.7
Face Value	Rs. 5.00	OFS Share (Nos. Cr.)		1.2
Exchanges	NSE & BSE	Equity Share Post Issue (Nos. Cr.)		5.0
BRLM	Axis Capital Ltd, JM Financial Ltd	Market Cap (Rs. Cr.)		1,226.6
Registrar	KFin Technologies Ltd	Equity Dilution		14.3%
		Stake Sale by OFS		24.5%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (by Kamal Sethia up to Rs. 171.82 Million, By Kishore Sethia up to Rs. 280.88 Million, by Gaurav Sethia up to Rs. 253.76 Million, by Sumit Sethia up to Rs. 66.62 Million, by Suman Sethia up to Rs. 305.16 Million, by Vasudha Sethia up to Rs. 83.30 Million, by Vinay Kumar Sethia up to Rs. 49.61 Million and up to Rs. 1,788.85 Million by Other Selling Shareholders)

Fresh Issue

- Repayment/ prepayment, in full or part, of certain borrowings availed by the Company (Rs. 88 cr.);
- Funding capital expenditure towards upgrading and expanding the existing facilities at (i) Ghaziabad, Uttar Pradesh, and (ii) Verna, Goa (Rs. 37.6 cr.); and
- General corporate purposes.

Company Highlights

- Elin Electronics Ltd. (EEL) 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. Based on the overall market, EEL is projected to be the largest players in this category, with a market share of 12% in FY21. In addition, the company is one of the key players in LED lighting and flashlight with EMS market share of approximately 7% in FY21 and is also one of the key players in small appliances vertical with EMS market share of 10.7% in FY21.
- Elin serves under both original equipment manufacturer (OEM) and original design manufacturer (ODM) business models. Under the OEM model, the company manufacture and supply products basis designs developed by the customers, who then further distribute these products under the own brands. Under the ODM model, in addition to manufacturing, Elin conceptualize and design the products which are then marketed to the customers' prospective customers under their brands.
- 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 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 the EMS offerings, EEL 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. EEL manufacture and sell fractional horsepower motors in the own brand name "Elin".

- Elin offers innovative solutions to the customers, which include leading international and national consumer electronics brands. Their comprehensive solution suite includes global sourcing, fabrication of components and parts, captive manufacturing and assembly, quality testing, packaging and logistics support, which enables the company to partner with leading consumer electronics and appliances brands in India. The key customers by business verticals include:
 - ❖ 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 (owned by Philips), Groupe SEB (Maharaja brand) and Usha;
 - ❖ Medical diagnostic cartridges: Molbio Diagnostics Private Limited; and
 - ❖ Moulded and sheet metal parts and components: Denso and IFB.
- Elin has 3 manufacturing facilities which are strategically located in Ghaziabad (Uttar Pradesh), Baddi (Himachal Pradesh) and Verna (Goa). As on October 31, 2022, the large-scale setup included 157 units of molding machines and 105 units of power presses which enable the company bringing efficiencies and economies of scale. The modern and state-of-art manufacturing facilities are equipped with high quality machinery, assembly lines and full power backup for 100% capacity that enable them to meet the quality requirements of their customers in a timely manner. Elin has backward integration of their major manufacturing processes. EEL have developed in-house capabilities in SMT lines, die and mould manufacturing, injection moulding, 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.

View

Elin Electronics is one of the leading electronics 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. It serves under both original equipment manufacturer ("OEM") and original design manufacturer (ODM) business models. Under the OEM model, they manufacture, and supply products basis designs developed by their customers, who then further distribute these products under their own brands. Under the ODM model, in addition to manufacturing, Elin conceptualize and design the products which are then marketed to their customers' prospective customers under their brands. The company is also engaged in manufacturing 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. Elin manufacture and sell fractional horsepower motors in their own brand name "Elin". Elin has healthy presence in electronic manufacturing services which market size is estimated at Rs 2,654 billion in FY21 and is expected to grow at 30% CAGR till FY26 to reach at Rs 9,963 billion. Hence, Elin Electronics has good growth opportunity going forward. Further, it has maintained strong and longstanding relationships with well-known domestic and multi-national customers across their product verticals. Out of their Top-20 customers as of September 30, 2022, they have been serving 11 customers for over 10 years and have been serving 16 customers for over 5 years. Its top 10 customers account nearly 77% of total revenue as of FY22. Its top 5 customers including Philips, Havells India, Eveready, Signify and Molbio, contribute nearly 63% of Elin topline. Government strong focus on Make in India program and PLI scheme will boost India's manufacturing capabilities in coming years and eventually increase the manufacturing contribution in domestic GDP. Hence, Elin Electronic is in promising and growing industry which has huge scope of growth. As the ODM segment generate higher margins compared to OEM segment, Elin Electronic has been focusing to increase the revenue share of ODM. However, Elin Electronics is comparatively smaller player compared to Dixon technologies and Amber Enterprises who are in the same business. The issue is comprising of Rs 175 crore fresh issue and Rs 300 crore offer for sale. The promoter group is offloading their stake in this IPO. Company will utilize Rs 175 crore towards debt repayment and capex. Hence, debt level is expected to reduce further post the IPO. In terms of the valuations, on the higher price band, EEL demands a P/E multiple of 29.7x based on H1FY23 post issue fully diluted EPS which seems at higher level. Given the valuation at higher level, small scale of operation compared to the peers and muted financial growth, we have Neutral view on this IPO.

Revenue from Operations

	FY20		FY21		FY22		H1FY23	
	Amount (Rs. Cr.)	% to Total	Amount (Rs. Cr.)	% to Total	Amount (Rs. Cr.)	% to Total	Amount (Rs. Cr.)	% to Total
Business Verticals								
Sale and Services	770.2	98.05%	842.7	97.7%	1066.2	97.5%	589.5	97.5%
– Sale of Products	767.7		841.3		1064.6		588.6	
– Sale of Services	2.5		1.5		1.7		0.9	
Other Operating Revenue	15.4	1.95%	19.7	2.3%	27.5	2.5%	15.0	2.5%
– Scrap Sales	15.0		19.5		27.3		14.9	
– Export Incentives	0.4		0.1		0.2		0.0	
Total	785.6	100.00%	862.4	100.0%	1093.8	100.0%	604.5	100.0%
Product vertical wise revenue								
EMS	635.9	80.9%	663.2	76.9%	855.6	78.2%	469.5	77.7%
– LED lighting, fans and switches	292.8	37.3%	255.8	29.7%	332.6	30.4%	188.8	31.2%
– Small appliances	193.9	24.7%	193.4	22.4%	255.1	23.3%	149.2	24.7%
– Fractional horsepower motors	119.1	15.2%	184.4	21.4%	236.9	21.7%	113.6	18.8%
– Other EMS products	30.1	3.8%	29.6	3.4%	31.0	2.8%	17.9	3.0%
Medical diagnostic cartridges	4.2	0.5%	42.1	4.9%	16.7	1.5%	8.1	1.3%
Moulded and sheet metal parts and components	109.7	14.0%	123.3	14.3%	163.5	15.0%	105.5	17.4%
Others	35.7	4.5%	33.8	3.9%	57.9	5.3%	21.5	3.6%
Total	785.6	100.0%	862.4	100.0%	1093.8	100.0%	604.5	100.0%

Product Details and Revenue From Operations

	Year of Launch	FY20	FY21	FY22	H1FY23
LED lighting, fans and switches					
– LED lights	2001	241.84	186.99	235.25	126.16
– LED flashlights	2007	35.23	34.56	31.04	21.6
– Miscellaneous lighting products	2020	14.55	12.95	14.58	9.74
– Fans	2019	1.18	21.28	51.74	31.33
Small Appliances					
– Mixer Grinder	2012	62.68	83.66	92.62	47.72
– Bar Blender	2015	8.19	13.39	15.47	5.79
– Hair Dryer	2015	14.63	13.53	26.38	17.63
– Hair Straightener	2015	27.23	16.33	31.52	16.02
– Iron	2011	79.6	64.76	86.4	59.85
– Toaster	2015	1.57	1.71	2.69	1.82
Fractional horsepower motors	1977	119.05	184.4	236.9	113.62
Other EMS products					
– Terminal block	2015	14.05	10.11	11.87	6.82
– Stainless steel blade	2019	2.81	3.07	7.57	5.15
– Die casted product	2001	2.33	4.36	0.35	0.14
– Miscellaneous	-	10.96	12.1	11.16	5.76
Medical diagnostic cartridges	2019	4.23	42.1	16.73	8.07
Moulded and sheet metal parts and components					
– Sheet metal	2014	36.3	25.3	42.07	23.62
– Injection moulded plastic parts	2014	45.31	71.87	94.08	61.94
– Dies tools and moulds	2014	8.77	7.26	11.48	6.64
– Other spare parts and products	2014	19.34	18.87	15.9	13.26

Key Financial Performance Indicators

	FY20	FY21	FY22	H1FY23
Revenue from operations	785.6	862.4	1093.8	604.6
Net worth	227.8	262.3	303.1	320.2
EBITDA	56.2	69.0	79.9	43.4
EBITDA (%)	7.2%	8.0%	7.3%	7.2%
Profit after Tax	27.5	34.9	39.2	20.7
PAT Margin (%)	3.5%	4.0%	3.6%	3.4%
ROE (%)	12.9%	14.2%	13.9%	6.6%
ROCE (%)	15.4%	14.9%	15.8%	8.1%
Asset Turnover Ratio	2.0	1.7	2.1	1.0
Net Working Capital Days	48	53	46	46
Debt to Equity Ratio	0.3	0.4	0.3	0.3
Interest Coverage Ratio	4.0	5.9	5.2	4.7

Installed Capacity and Capacity Utilisation

Production Stream	FY21			FY22			H1FY23		
	Installed Capacity (MP)	Production Volume (MP)	Capacity utilization (%)	Installed Capacity (MP)	Production Volume (MP)	Capacity utilization (%)	Installed Capacity (MP)	Production Volume (MP)	Capacity utilization (%)
EMS									
LED lighting, fans and switches									
LED fittings, fixture and solar device	17,500,000	11,425,074	65.29%	17,500,000	12,624,361	71.14%	17,500,000	6,509,736	74.40%
LED flashlights (torch)	12,500,000	9,670,476	77.36%	12,500,000	8,251,012	66.01%	12,500,000	5,395,549	86.33%
Fans (all types)	300,000	248,294	82.76%	1,000,000	697,542	69.75%	1,000,000	396,837	79.37%
Light fitting/ switch	6,000,000	5,408,495	90.14%	6,000,000	5,267,714	87.80%	6,000,000	3,205,588	106.85%
Small appliances									
Mixer grinder	700,000	627,991	89.71%	750,000	565,699	75.43%	750,000	290,964	77.59%
Bar blender	300,000	239,089	79.70%	400,000	245,102	61.28%	400,000	76,393	38.20%
Hair dryer	1,000,000	582,365	58.24%	1,000,000	904,483	90.45%	1,000,000	589,499	117.90%
Hair straightener	1,000,000	376,273	37.63%	1,000,000	727,519	72.75%	1,000,000	377,690	75.54%
Iron	3,000,000	1,674,004	55.80%	3,000,000	1,941,237	64.71%	3,000,000	1,298,818	86.59%
Toasters	50,000	32,642	65.28%	50,000	46,224	92.45%	50,000	26,832	107.33%
Other Products									
Fractional Horsepower Motors	8,000,000	6,824,516	85.31%	8,000,000	6,334,733	79.18%	8,000,000	3,315,650	82.89%
Terminal block	5,000,000	3,343,773	66.88%	5,000,000	3,917,007	78.34%	5,000,000	2,197,161	87.89%
Stainless steel blade	5,000,000	4,048,741	80.97%	7,000,000	6,490,695	92.72%	7,000,000	3,964,479	113.27%
Die casting components	5,000,000	4,034,197	80.68%	5,000,000	4,558,762	92.18%	5,000,000	221,900	8.88%
Dies/ tools/ molds	300	203	67.67%	400	338	84.50%	400	59	29.50%
Medical Diagnostic Cartridges	8,000,000	6,800,825	85.01%	10,500,000	2,608,840	24.85%	10,500,000	1,359,541	25.90%

Financial Statement

(In Rs. Cr)	FY20	FY21	FY22	H1FY23
Share Capital	6.8	6.8	20.4	20.4
Net Worth	227.8	262.3	303.1	320.1
Long Term Borrowings	40.1	37.1	34.0	50.2
Other Long Term Liabilities	6.3	8.8	10.3	10.6
Short-term borrowings	29.8	76.6	68.4	52.6
Other Current Liabilities	83.7	123.4	116.9	155.7
Fixed Assets	154.6	161.3	188.1	204.0
Non Current Assets	171.5	21.4	22.5	22.7
Current Assets	216.1	325.6	322.1	362.5
Total Assets	387.6	508.3	532.6	589.2
Revenue from Operations	785.6	862.4	1093.8	604.5
Revenue Growth (%)		9.8	26.8	
EBITDA	55.5	66.5	79.0	43.1
EBITDA Margin (%)	7.1	7.7	7.2	7.1
Net Profit	27.5	34.9	39.1	20.7
Net Profit Margin (%)	3.5	4.0	3.6	3.4
Earnings Per Share (Rs.)	6.7	8.5	9.6	5.1
Return on Networth (%)	12.1	13.3	12.9	6.5
Net Asset Value per Share (Rs.)	55.8	64.2	74.2	78.4

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY20	FY21	FY22	H1FY23
Cash flow from Operations Activities	76.8	(33.6)	51.3	31.4
Cash flow from Investing Activities	(42.4)	(4.9)	(27.8)	(24.0)
Cash flow from Financing Activities	(28.4)	34.2	(24.1)	(11.1)
Net increase/(decrease) in cash and cash equivalents	6.0	(4.4)	(0.7)	(3.7)
Cash and cash equivalents at the beginning of the year	3.1	9.1	4.7	4.0
Cash and cash equivalents at the end of the year	9.1	4.7	4.0	0.3

Source: RHP

Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBIDTA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Elin Electronics Ltd.	1093.8	7.2	0.0	18.4	8.4	29.7	2.5	14.4	1.0	1226.6
Dixon Technologies (India) Ltd.	10697.1	3.6	0.5	25.9	22.2	103.3	21.6	51.4	1.9	23986.7
Amber Enterprises India Ltd.	4206.4	7.4	0.6	8.4	6.7	52.8	3.8	20.3	1.2	6781.7

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