LEEL Electricals Ltd

October 30, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	455.00	**CARE D (Single D)**	**Revised from CARE BB; Negative (Double B; Outlook: Negative)**
Long term/Short term Bank Facilities	595.00	**CARE D (Single D)**	**Revised from CARE BB; Negative/ CARE A4 (Double B; Outlook: Negative/ A four)**
Total	**1050.00 (One Thousand Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings for the bank facilities of LEEL Electricals Limited (LEEL) takes into account the stressed liquidity position primarily on account of the working capital-intensive nature of business operations leading to cash flow mismatches and ongoing devolvements of LC (letter of credit). The rating revision also factors in the exposure to raw material price volatility, forex risks and exposure to overseas subsidiaries.

Going forward, the ability of LEEL to profitably scale-up its operations while maintaining its capital structure and effectively manage its working capital requirements shall be the key rating sensitivities. The higher-than-envisaged exposure towards overseas subsidiaries shall also have a bearing on the credit profile of the company and remains a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Stressed liquidity & Working capital intensive operations: The liquidity of the company has been under stress due to certain cash flow mismatches primarily on working capital intensive operations of the company. As a result of the stress on liquidity there are ongoing devolvements in the letter of credit (LC). LEEL's operating cycle has remained on the higher side in the past primarily due to high inventory holding period. Further after the LOU's were discontinued, company has though placed a proposal for enhancement in the working capital lines or interchangeability between the fund and non-fund based limits but has not been able to secure the same so far. Since the operations of the company are working capital intensive, this situation has led to cash flow mismatches and devolvements of LC due to stretched liquidity position. Going forward, the ability of the company to improve its liquidity position shall remain critical.

Weak Financial risk Profile: LEEL registered total operating income of Rs 1950.80 crore in FY18 (refers to period from April 01 to March 31) as against a total operating income of Rs.2977.31 crore in FY17. Consumer durable business (CDB) segment was sold in May 2017 to Havells India Ltd which contributed to the revenue mix till Q1FY18. On a comparable basis the revenue from the other two segments namely OEM & packaged AC and the Heat Exchangers & components together contributed Rs 1504.57 crore to the net sales in FY18 as compared to Rs 1128.36 crore to the net sales in FY17. The PBILDT margins for FY18 moderated to 5.39%(9.13% in FY17) on account of increase in Input costs of raw material especially of Aluminum, Copper and Sheet Metal. The total operating income in Q1FY19 registered a decline by 45% compared to Q1FY18 primarily on account of the CDB segment income which contributed to the operations till May 08, 2017 with a total sales of Rs 423.53 crore in Q1FY18 as compared to NIL in Q1FY19. The profitability in absolute terms also registered decline in Q1FY19 primarily due to CDB segment which contributed to the operations in Q1FY18 till May 08, 2017 & also further also due to higher raw material cost due to rise in the prices of raw materials aluminum & copper in Q1FY19 compared to Q1FY18. Further, the financial profile also weakened due to the lean season and also due to slowing down of the railway diesel loco business of Heat exchanger due to government's plan to gradually discontinue the diesel locomotive and moving towards electrical locomotives, which has impact the business both in terms of volume and margins. The PBILDT margins stood at 7.38% in Q1FY19 as against 8.16% in Q1FY18.

Exposure to raw material price volatility: The main raw material for manufacturing of air conditioners and coils are aluminum and copper. The prices of the same have been very volatile in the past, thus making LEEL's profitability susceptible to the fluctuations in the raw material prices.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Exposure to overseas subsidiaries: LEEL now has exposure to two of its subsidiaries in form of equity investment and corporate guarantee to the debt availed by the subsidiaries. The non-current investments in the subsidiaries stand at Rs.106.30 crore as on March 31, 2018. Further, loss of Rs 18 crore arising from the diminution in the value of investments in wholly owned subsidiary Noske Kaesar Rail & vehicle Germany (NK Germany) has been recognised in FY18 as an exceptional expense by the Company. This was on account of market conditions in Europe that NK Germany continued to incur losses leading to complete erosion of net-worth & post the balance sheet date the subsidiary had to file for insolvency proceedings under Germany laws resulting in the impairment loss of Rs. 18 Crores for LEEL.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
CARE's Methodology for Short-term Instruments
CARE's Methodology for manufacturing companies
Financial Ratios – Non Financial Sector

About the Company
LEEL was incorporated in 1987 and operates in HVAC segment. It is engaged in the manufacturing of condenser and evaporator coils and contract manufacturing for Air Conditioners (ACs) for various brands. LEEL was also into retailing of ACs and consumer durable products like LCD/ LED TVs, washing machines, freezers, etc. The Company, however had sold its Consumer Durable Business comprising of business of importing, trading, marketing, exporting, distribution, sale of air conditioners, televisions, washing machines and other household appliances and assembling of televisions under the brand "LLOYD" and all of the rights, title, interest, licensees, contracts, assets, continuing employees, intellectual property including the brand, logo, trade mark "LLOYD" as a going concern on slump sale basis to Havells India Ltd. Pursuant to the transaction, the Company has also changed its name to 'LEEL Electricals Ltd.' LEEL has six manufacturing/ assembly units located at Rajasthan, Himachal Pradesh, Tamil Nadu, Haryana and Uttarakhand.
On a consolidated basis, LEEL operates two subsidiaries, namely, Lloyd Coils Europe s.r.o (LCE) engaged in manufacturing of coils and finned pack heat exchangers and Noske Kaeser Company (NKC) which is engaged in engineering, manufacturing and providing system solutions and components for the transport industry in the fields of air conditioning, refrigeration, piping, fire-fighting, CBRN protection and related services.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2977.31	1950.80
PBILDT	271.86	105.23
PAT*	85.14	522.23
Overall gearing (times)	1.35	0.42
Interest coverage (times)	2.29	1.58

** in FY18 PAT includes extraordinary income of Rs 663 crore on account of closing adjustments after sale the CDB segment to Havells India Ltd & loss of Rs 18 crore arising from diminution in the value of investments in wholly owned subsidiary Noske Kaesar Rail & vehicle Germany. Further, the total operating Income in FY17 includes Income for the full financial year from the CDB segment as against in FY18 the income from the CDB segment only till May 08, 2017 is forming a part of the total operating income.*
A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	455.00	CARE D
Non-fund-based-LT/ST	-	-	-	595.00	CARE D

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (01-Sep-16)	1)CARE A2 (11-Dec-15)
2.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (09-Feb-18)	1)CARE A- (Under Credit watch with Developing Implications) (24-Feb-17) 2)CARE A-; Stable (16-Feb-17) 3)CARE A- (01-Sep-16)	1)CARE A- (11-Dec-15)
3.	Fund-based-Long Term	LT	455.00	CARE D	1)CARE BB; Negative (12-Oct-18) 2)CARE BBB; Negative (08-Jun-18)	1)CARE A-; Stable (09-Feb-18)	1)CARE A- (Under Credit watch with Developing Implications) (24-Feb-17) 2)CARE A-; Stable (16-Feb-17) 3)CARE A- (01-Sep-16)	1)CARE A- (11-Dec-15)
4.	Non-fund-based-LT/ST	LT/ST	595.00	CARE D	1)CARE BB; Negative / CARE A4 (12-Oct-18) 2)CARE BBB; Negative / CARE A3 (08-Jun-18)	1)CARE A-; Stable / CARE A2 (09-Feb-18)	1)CARE A- / CARE A2 (Under Credit watch with Developing Implications) (24-Feb-17) 2)CARE A-; Stable / CARE A2 (16-Feb-17) 3)CARE A- / CARE A2 (01-Sep-16)	1)CARE A- / CARE A2 (11-Dec-15)

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