Press Release

MIRC Electronics Limited
October 01, 2018

Ratings

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. crore)</th>
<th>Rating¹</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term Loan</td>
<td>24.57 (enhanced from 7.59)</td>
<td>CARE BBB; Stable [Triple B Minus; Outlook: Stable]</td>
<td>Revised from CARE BB; Stable [Double B; Outlook: Stable]</td>
</tr>
<tr>
<td>Long-term Bank Facilities</td>
<td>132.00 (reduced from 133.00)</td>
<td>CARE BBB; Stable [Triple B Minus; Outlook: Stable]</td>
<td>Revised from CARE BB; Stable [Double B; Outlook: Stable]</td>
</tr>
<tr>
<td>Short-term Bank Facilities</td>
<td>145.00 (reduced from 161.00)</td>
<td>CARE A3 [A Three]</td>
<td>Revised from CARE A4 [A Four]</td>
</tr>
<tr>
<td>Total Facilities</td>
<td>301.57 (Rupees Three hundred one crore and Fifty seven lakh only)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of MIRC Electronics Limited (MIRC) takes into account improvement in credit risk profile owing to infusion of funds through issue of fresh equity shares along with improvement in the profit margins during FY18 (refers to period April 01 to March 31) leading to higher cash accruals. This has led to improvement in the liquidity profile and the capital structure of the company.

The rating continues to factor in vast experience of promoters in the consumer durable industry, comprehensive product portfolio having good brand appeal with pan India presence backed by well-established marketing network. The ratings strengths are, however, tempered by MIRC’s moderate scale of operations, inherent business risk characterized by operating profit margins susceptible to volatile input prices/forex rates, high competition in the domestic consumer durable industry largely dominated by multi-national companies and technological obsolescence risks.

Going forward, MIRC’s ability to achieve improvement in scale of operations and profit margins as envisaged along with simultaneous maintenance of capital structure, and effectively manage its working capital cycle are the key ratings sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

*Presence of experienced promoters, supported by professional management team*

MIRC is promoted by its founding promoters Mr Gulu. L. Mirchandani (Chairman) and Mr Vijay. J. Mansukhani (MD). Promoters of the company have been associated with the consumer durable industry since more than three and half decades. Promoters of the company are supported by professional management team for heading different divisions of the company.

*Comprehensive product portfolio*

MIRC has well diversified product portfolio which includes Television (TV), Air Conditioner (AC), Washing Machines (WM) and Microwave Oven. However, the top two segment i.e. Television (TV) and Air Conditioner (AC) account for around 87% of the company’s sales in FY18 with each forming around 47% and 40% of sales respectively as compared to around 86% in FY17 with each forming around 38% and 48% of sales respectively. Besides, the company is also focusing on growing its washing machine segment which contributes around 12% (P.Y.~9%) of sales. Thus, having diversified product profile helps the company to reduce its dependence as well as tide over any downturn in a particular product segment.

*Having good brand appeal and well-established pan India distribution network*

MIRC has been present in Indian consumer durable industry with its brand name “Onida” since 1981. Onida, which was once amongst top CRT TV’s manufacturers in India, is a well-recognized brand in the domestic market. Besides, through presence of more than three decades in the industry the company has created robust network of dealers/distributors supported by warehouses spread across the country. For the year ending March 31, 2018 the company had about 4,000 dealers/distributors and 28 warehouses to its sales and distribution network. Besides, the company also started selling its products through online retailers which accounted for more than 10% of the company’s total revenue in FY18.

*Fresh equity infusion leading to Improvement in the liquidity profile and the capital structure*

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications
In order to augment its working capital funding requirements and address its liquidity concern the company infused Rs.90.07 crore through issue to equity shares (Rs.72.06 crore) and share warrants (Rs.18.01 crore) to non-promoter investors. Infusion of much needed cash in the company has led to significant improvement in the liquidity profile of the company, and the company’s reliance on working capital borrowings to fund its working capital requirements have also reduced considerably. Due to low capex requirements, the company has negligible term debt of Rs.5.10 crore as on March 31, 2018, which coupled with lower working capital borrowings led to reduction in total debt of the company to Rs.50.42 crore as compared to Rs.167.38 crore as on March 31, 2017. Additionally, fresh equity of shares along with plough back of profits to the reserves led to improvement in the tangible net-worth of the company from Rs.124.19 crore as on march 31, 2017 to Rs.237.35 crore as on March 31, 2018. MIRC’s overall gearing improved to 0.45 times for the year ending March 31, 2018 as compared to 1.59 times as on March 31, 2017.

Steady revenues coupled with improvement in profit margins leading to higher cash accruals in FY18

During FY18, MIRC’s reported stable net income as compared to FY17. The company’s net sales during FY18 was at Rs.728 crore as compared to net sales of Rs.728.65 crore reported during FY17 as the impact of decline in sales from the AC business was offset by growth in TV/LED business as well as growth in the washing machine segment. MIRC’s profitability improved in FY18 on Y-o-Y basis. Furthermore, discontinuation of loss making phone business and CRT TV’s along with higher proportion of sales from margin accretive flat TV’s segment, resulted in improvement in profit margins during the year. During FY18, MIRC reported PBILDT of Rs.46.16 crore with PBILDT margin of 6.30% as compared to PBILDT of Rs.35.17 crore with PBILDT margin of 4.81% in FY17. For the year ending March 31, 2018 the company generated healthy GCA of Rs.32.96 crore (P.Y: Rs.-8.79 crore). However, rise in other expenses (primarily in the form of advertisement expenses), exchange losses (MTM loss of Rs. 2 crore) and employee cost led to decline in net profit to Rs.0.48 crore in Q1FY19 as compared to Rs.4.01 crore reported during Q1FY18.

Key Rating Weaknesses

Relatively moderate scale of operations

With total income from operations at Rs 733 crore in FY18, MIRC is still considered a relatively moderate sized entity in the domestic consumer durable industry. Also, the company’s networth as on March 31, 2018 stood at Rs 237.35 crore. During Q1FY19, the company reported revenues of Rs.199.53 crore.

Inherent Business risk continues to remain owing to higher competition and seasonal nature; however the company is launching new products to increase penetration.

The consumer durable industry in India is dominated by large MNC’s which have global presence and thus operates at significantly larger scale. Higher scale allows these companies to have an edge in terms of high R&D as well as marketing budget as consistent innovation and brand awareness holds key to growth in the industry. Moreover, presence of large number of players in the industry puts pricing pressure, especially in the mass segment where the brand loyalty is relatively low. MIRC’s business risk continues to remain on account of intense competition in the industry and lower market share of the company.

Moreover, with AC sale in India being largely seasonal in nature, unfavourable climate affects the company’s revenue, especially during April-June quarter in which MIRC’s income is largely driven by sale of AC’s. In Q1FY19 intermittent rains in summer season affected AC sales during the period resulting into marginal decline of 3.74% on Y-o-Y basis in total operating income from Rs.207.29 crore in Q1FY18 to Rs.199.53 crore in Q1FY19. However, MIRC’s washing machine segment continued to grow during the period. Moreover, In order to continue its growth momentum, the company launched 20 new models of washing machine during Q2FY19.

Working capital intensive nature of operations

MIRC nature of operations requires the company to maintain its large basket of SKU’s at various warehouses present across the country. Besides, the company extends credit period of around two months to its distributors. Although the company receives credit of around 90 days, it still requires significant working capital requirements to fund its average working capital cycle which ranges at around 2-3 months. The high working capital requirement

Profit margins susceptible to fluctuation in input prices and forex rates

MIRC’s imports more than 80% of its components requirements, with majority of them being from countries such as China and Hong-kong for which the company pays primarily in USD. On the other hand the company’s products are sold in domestic market. MIRC hedges through forward contracts; however, open purchases remains un-hedged which exposes MIRC to foreign exchange fluctuation risk. Any adverse movement in the currency may impact the company’s profit margins. As on March 31, 2018 the company had net un-hedged foreign exchange liability of Rs.90.11 crore. Besides, depreciation in the local currency against USD results in rise in input cost to the company. However, owing to intense competition and relatively smaller position of MIRC in the industry, there can be significant lag in passing on increased input cost which in turn may impact the company’s profitability.
**Risk of technological obsolescence**

The CEHA industry exhibits high technology risk and is driven by the continuous innovations in the product technology. Furthermore, the consumers are changing preferences with the introduction of new technologies viz. Inverter AC's, LCD/LEDs. Thus, companies need to keep pace with the change in consumer preferences owing to continuous innovations in the product technology to remain in the business. Thus, MIRC being part of the industry is exposed to inherent risk of technological obsolescence. However, the company is making attempts to launch products in various categories to stave off the risk.

**Analytical approach:** Standalone.

**Applicable Criteria**

- Criteria on assigning Outlook to Credit Ratings
- CARE’s Policy on Default Recognition
- Criteria for Short Term Instruments
- Rating Methodology-Manufacturing Companies
- Financial ratios – Non-Financial Sector

**About the Company**

MIRC Electronics Limited (MIRC) is engaged in manufacturing/assembling and marketing of Flat TV’s, Washing Machines, Air-Conditioners & Microwave Ovens. The company markets its products across India primarily under the ONIDA Brand. Apart from this, the company has another brand IGO which was launched in 2002-03 for targeting the rural segments. MIRC has its plant in Wada for assembling LCD/LED’s and the assembling unit for semi-automatic washing machines is situated at Roorkee. The company has about 4,000 dealers/distributers to its network which are covered by about 32 branches spread across India. Furthermore, the company’s distribution channel is supported by about 28 warehouses and has about 70 pan India service centres.

<table>
<thead>
<tr>
<th>Brief Financials (Rs. crore)</th>
<th>FY17 (A)</th>
<th>FY18 (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating income</td>
<td>731.53</td>
<td>733.00</td>
</tr>
<tr>
<td>PBILDT</td>
<td>35.17</td>
<td>46.16</td>
</tr>
<tr>
<td>PAT</td>
<td>-19.24</td>
<td>23.49</td>
</tr>
<tr>
<td>Overall gearing (times)</td>
<td>1.59</td>
<td>0.45</td>
</tr>
<tr>
<td>Interest coverage (times)</td>
<td>1.71</td>
<td>3.28</td>
</tr>
</tbody>
</table>

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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**For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

**About CARE Ratings:**

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Annexure-1: Details of Instruments/Facilities

<table>
<thead>
<tr>
<th>Name of the Instrument</th>
<th>Date of Issuance</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Size of the Issue (Rs. crore)</th>
<th>Rating assigned along with Rating Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund-based - LT-Cash Credit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>132.00</td>
<td>CARE BBB-; Stable</td>
</tr>
<tr>
<td>Non-fund-based - ST-BG/LC</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>145.00</td>
<td>CARE A3</td>
</tr>
<tr>
<td>Term Loan-Long Term</td>
<td>-</td>
<td>-</td>
<td>Sept-23</td>
<td>24.57</td>
<td>CARE BBB-; Stable</td>
</tr>
</tbody>
</table>

Annexure-2: Rating History of last three years

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Instrument/Bank Facilities</th>
<th>Current Ratings</th>
<th>Rating history</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Type</td>
<td>Amount Outstanding (Rs. crore)</td>
<td>Date(s) &amp; Rating(s) assigned in 2018-2019</td>
</tr>
<tr>
<td>1.</td>
<td>Fund-based - LT-Cash Credit</td>
<td>LT 132.00</td>
<td>-</td>
</tr>
<tr>
<td>2.</td>
<td>Non-fund-based - ST-BG/LC</td>
<td>ST 145.00</td>
<td>-</td>
</tr>
<tr>
<td>3.</td>
<td>Term Loan-Long Term</td>
<td>LT 24.57</td>
<td>-</td>
</tr>
</tbody>
</table>
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