Videocon Industries Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term fund based bank	21,222	CARE A [Single A]	Assigned
Long/Short-term non-fund based bank	1,190	CARE A/CARE A1 [Single A/A One]	Assigned
Short-term fund based bank	2,000	CARE A1 [A One]	Assigned
Long-term non-fund based bank	15,105.58*	CARE A [Single A]	Assigned
Total	**39,517.58**		

**Considering 1 USD=60.05 INR*

Rating Rationale

The ratings assigned to the bank facilities of Videocon Industries Limited (VIL) reflect the company's significant presence in upstream Oil & Gas (O&G) business; VIL holds participating interests in oil and gas fields in Brazil, Indonesia, India and till recently Mozambique. The ratings also factor in VIL's leading market position in domestic Consumer Electronics & Home Appliances (CE&HA) segment. The ratings positives also include successful monetizing of gas assets, which has helped the company bolster its liquidity position and so also the capital structure.

In January 2014, VIL successfully monetized its discovery in Mozambique (Rovuma Area-1) through stake sale to Oil India Limited and ONGC Videsh Limited (subsidiary of ONGC Ltd) for USD 2.48 billion leading to improvement in the capital structure. From these proceeds, VIL is committed to prepay installments of rupee term debt (under Rupee Term Loan (RTL) facility towards CE&HA business) due till December 2017 and a portion of foreign currency debt (towards the O&G business). In addition, the company has earmarked proceeds to the tune of around Rs.6,000 crore to meet any mismatch towards future debt servicing; usage of this cash shall be monitored by the lenders. Thus, there shall be no major long-term debt repayment obligation towards CE&HA business till December 2017. The major repayments of debt are slated to commence from FY18 (refers to the period April 01 to March 31) onwards, when production from overseas O&G assets is expected to commence.

Videocon group's Direct to Home (DTH) foray through Bharat Business Channel Limited has also turned EBIDTA (Earnings Before Interest Depreciation Tax Amortization) positive, and is a leading player in the DTH market in India with a customer base in excess of 10 million. Going forward, in case of necessity, free cash generated from DTH business too shall be available to support VIL's financial commitments.

The above rating strengths are tempered by exposure to project execution risk and large investments necessary for commercializing of O&G discoveries; so also stiff competition in the CE&HA business. Its leveraged capital structure is also a rating weakness.

Successful commercialization of O&G assets as per the envisaged timelines is the key ratings sensitivity.

Background

VIL is the flagship company of the Videocon group. Incorporated in 1986, VIL is a diversified company having a presence in varied business verticals such as oil & gas, consumer electronics and telecommunications. It is one of the largest CE&HA company in India and boosts one of the largest glass shell manufacturing facility in India at a single location.

Credit Risk Assessment

Significant presence in upstream O&G business

In 1996, VIL ventured into O&G business in India and later outside India through its subsidiaries. The company has Participating Interest (PIs) in 12 overseas oil and gas blocks in Brazil (10 blocks), Indonesia (1 block) & East Timor (1 block) and in India (Ravva). The Brazil discovery is termed as biggest discovery of 2013 in world and it is primarily an oil discovery, where the development costs are relatively lower (including transportation) as compared to Gas. Currently, the company is focusing on the development of O&G assets in Brazil. The company also has presence in India through PI of 25% in Ravva oil & gas field in the Krishna-Godavari basin (contributes around 10% to revenue in FY13) where production sharing contract is till FY19.

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

Successful monetizing of gas assets helped company bolster its liquidity position and capital structure

In January, 2014 VIL monetized its oil & gas field assets in Mozambique by selling 100% stake to Oil India Limited and ONGC Videsh Ltd. for USD 2.48 Bn. From these proceeds, VIL is committed to prepay installments of RTL facility (towards CE&HA business) due till December 2017 and a portion of foreign currency debt (towards the O&G business). In addition, the company has earmarked proceeds to the tune of around Rs.6,000 crore to meet any mismatch towards future debt servicing; usage of this cash shall be monitored by the lenders. Thus, there shall be no major long-term debt repayment obligation towards CE&HA business till December 2017. The major repayments of debt are slated to commence from FY18 onwards, when production from overseas O&G assets is expected to commence. However, the successful commercialization of O&G assets as per the envisaged timelines is the key ratings sensitivity.

Leading market position in domestic CE&HA business albeit stiff competition among CE&HA players

The Videocon group has about 11 manufacturing facilities across the country in addition to the plants in China. The CE&HA segment accounts for around 86% of the revenues of the group. The product portfolio offered by the company includes Colour Televisions, LCD/LED Televisions, Refrigerators, Washing Machines, Air Conditioners, Audio Systems, Air Coolers, mobiles handsets and miscellaneous kitchen appliances. These products are sold under various brands with a variety of features and formats including selling through its own retail chains –'Next' and 'Digiworld'. In addition to production and marketing of products under its own 'Videocon' brand, the company also manufactures and markets its CE&HA products under various reputed owned / licensed brands like Kenstar, Kelvinator, Electrolux, Philips, Hyundai, Sansui etc. Due to intense competition from Korean and Japanese competitors, margin of consumer electronics is under pressure.

Project execution risk and large investments required for commercialising O&G discoveries

VIL currently, is focusing on production from Campos and Sergipe basin in Brazil. As per the reputed independent engineer/ valuer, the company would have to incur capital expenditure to tune of USD 2.03 bn for the period CY2014-2016 (refers to period January 01 to December 31). The company expects production from the Campos concession in Brazil to commence in CY2016 and from Sergipe Concession in Brazil is expected to commence in CY2018. The capex would partially be funded through unutilized portion of Letter of Comfort (LOC) limits and fresh borrowings from Banks/FIs.

VIL's overseas oil & gas fields are being operated by highly experienced Exploration & Production (E&P) companies' viz. Petrobras (Sergipe field) and Anadarko (Campos block).

Going forward, in case of necessity, free cash generated from Videocon group's Direct to Home (DTH) business too shall be available to support VIL's financial commitments. The group's DTH foray through Bharat Business Channel Limited has also turned EBIDTA (Earnings Before Interest Depreciation Tax Amortization) positive, and is a leading player in the DTH market in India with a customer base in excess of 10 million.

Prospects

Going forward O&G is going to be the key business segment for VIL. It has already demonstrated the ability to invest and monetise its investment in extremely complex segment such as O&G by divesting its investments in Mozambique. Going forward the amount of capital deployment and successful commercialization of various large discoveries especially in Brazil would be the key credit monitorable.

Financial Performance

(Rs. Cr)

For the period ended / as at March 31,	2010 (15m, A)	2011 (12m, A)	2012 (18m, A)
Working Results			
Net Sales	14,762	13,415	18,766
Total Operating income	14,811	13,506	19,326
PBILDT	1,976	1,320	1,150
Interest & Finance charges	1,148	1,624	4,116
Depreciation	891	916	1,326

PBT	45	(1,172)	(3,923)
PAT (after deferred tax)	(303)	(1,364)	(2,826)
Gross Cash Accruals	732	(387)	(2,685)
Financial Position			
Equity Capital	302	303	319
Tangible Networth	9,544	8,538	4,509
Total capital employed	23,995	35,861	43,430
Total Debt	14,451	27,323	38,921
Key Ratios			
Growth			
Growth in Total Operating Income (%)	NM	NM	NM
Growth in PAT (after D.Tax) (%)	NM	NM	NM
Profitability			
PBILDT/Total Op. income (%)	13.34	9.77	5.95
PAT (after deferred tax)/ Total income (%)	NM	NM	NM
ROCE (%)	NM	NM	NM
Solvency			
Long-term Debt Equity ratio (times)	0.93	1.86	7.63
Overall gearing ratio (times)	1.51	3.20	8.63
Interest coverage (times)	1.72	0.81	0.28
Term debt/Gross cash accruals (year)	18.88	NM	NM
Total debt/Gross cash accruals (year)	19.75	NM	NM
Liquidity			
Current ratio (times)	1.18	1.09	1.59
Quick ratio(times)	0.99	0.99	1.43
Turnover			
Average collection period (days)	67	72	80
Average inventory period (days)	75	67	68
Average creditors period (days)	35	36	44
Operating cycle (days)	108	103	104

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(This follows our brief rational for entity published on 02 June 2014)

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