

## MIRC Electronics Limited

January 04, 2023

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	165.27 (Enhanced from 151.25)	CARE BB+; Stable (Double B Plus; Outlook: Stable )	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short Term Bank Facilities	135.98 (Reduced from 150.00)	CARE A4+ (A Four Plus )	Revised from CARE A3 (A Three)
<b>Total Bank Facilities</b>	<b>301.25</b> <b>(₹ Three Hundred One Crore and Twenty-Five Lakhs Only)</b>		

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) is on account of achievement of lower than envisaged operating profitability leading to losses at PAT levels for FY22 (refers to the period from April 01 to March 31) resulting into below average financial risk profile than envisaged by the company on the back of lower cash accruals and deterioration in debt coverage indicators. Further, the performance of the company continued to remain subdued characterised by decline in operating profit margins resulted in losses at PAT levels in H1FY23 (refers to the period from April 01 to September 30 2022).

The ratings, however, derives strength from the MIRC's long track record and vast experience of promoters in the consumer durable industry and comprehensive product portfolio spanning across various product segments. Furthermore, the ratings derive strength from the growth in revenues mainly driven by the company's EMS (Electronic Manufacturing Services) segment for certain OEMs (Original Equipment Manufacturers), moderate capital structure along with efficient working capital management with moderate average working capital utilization levels.

The rating strengths, are however tempered by MIRC's thin operating profit margins leading to fluctuating cash accruals and thin return on capital employed over the past few years, considerable dependence on few clients resulting into revenues remain susceptible to the business plans and performance of the same. Furthermore, the ratings are tempered owing to presence of inherent business risk characterized by high competition in the industry, technology obsolescence risk, large working capital requirement, regulatory changes as well as operating profit margins being susceptible to volatile forex rates and input prices

### Rating Sensitivities

#### Positive Factors

- Significant increase in scale of operations backed by volumetric growth across product segments
- Improve its PBILDT margins to ~3% or above or ROCE to ~9%
- Improvement in working capital position leading to improved cash flows from operations on a sustained basis

#### Negative Factors

- Significant decline in sales or profitability leading to pressure on the cash accruals and debt coverage indicators.
- Increase in overall gearing beyond 1.00x in a sustained manner
- Loss of any large client or slowdown in its key product segments or supply chain disruption materially affects MIRC's financial performance
- Significant deterioration in working capital cycle leading to higher utilisation of limits resulting into pressure on the liquidity parameters in a sustained manner.

### Detailed description of key rating drivers

#### Key Rating Weakness

##### Thin operating profitability margins leading to net losses and weakened debt coverage indicators

PBILDT margin has deteriorated to 1.11% in FY22 as compared to 2.04% in FY21. The decline in PBILDT margin is owing to increase in contribution from the low margin B2B business as compared to retail sales of appliances coupled with increase in raw material coupled with increase in freight cost, selling expenses. Further, during H1FY23, PBILDT margin stood at around 0.63%. The company's thin operating profit margin has led to losses at PAT level and fluctuating cash accruals. This has resulted into weakened debt coverage indicators. Interest coverage ratio at 0.94x in FY22 as compared to 1.05x in FY21 whereas Total Debt to GCA stood negative in FY22 due to weak cash flows as compared to 16.00x in FY21. ROCE was negative in FY22 (PY - 5.24%) and CAGR Growth has remained on lower side in past few years. The company has reported net loss of Rs. 20.17 crores in FY22 as compared to net profit of Rs. 1.89 crores in FY21. Out of total net loss, Rs.18.74 crores, is owing to

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

provision for inventory write-off of goods. Further, during H1FY23, company reported net loss of Rs. 2.59 crores. Hence, the sustainability of EMS Business along with improvement in profitability margin needs to be seen in the near term.

#### **Working Capital intensive nature of operations**

MIRC's nature of operations requires the company to maintain its large basket of SKUs (stock keeping unit) at various warehouses present across the country. Besides, the company extends credit period of around two months to its distributors. However, the company has been able to reduce the receivables cycle owing to better realization from the OEM business. 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 approximately 3 months. Operating cycle is 47 days in FY22 as compared to 80 days in 2021. The company's operations have remained working capital-intensive, with gross current assets (GCAs) is at 175 days as on March 31, 2022. Working capital management will remain a key monitorable over the medium term.

#### **Highly competitive industry, technology obsolescence and client concentration risks prevail**

MIRC operates in a very competitive industry dominated by large MNCs with global presence. As compared to its global competitors, MIRC has less financial flexibility. Besides, presence of large number of players and low product switching cost results in low brand loyalty from consumers in consumer durable segment. Efforts on product differentiation and product penetration is necessary to compete in the industry. The company also faces import threats especially from Chinese competitors. However, India's push for made in India and anti-china sentiment may positively affect the company. Hence the company has ventured into making products on B2B basis as EMS for OEM players. However, though the company stands to benefit from the EMS business; contribution of around 60% or more from its top two clients results into customer concentration risks and therefore the revenues of the company remain susceptible to business plans of the same.

#### **Exposure to forex fluctuation**

The company imports major raw material and 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 part of the exposure through forward contracts; however, open purchases remains un-hedged which exposes MIRC to foreign exchange fluctuation risk. The company registered forex loss of Rs.3.28 crore in FY22 as compared to forex loss of Rs.0.34 crore in FY21. Any adverse movement in the currency may impact the company's profit margins.

#### **Key Rating Strength**

##### **Experienced promoters and management team coupled with Established brand equity and pan India presence**

MIRC was established in 1981 and 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 for nearly four decades. Promoters of the company are well supported by professional management team for heading different divisions of the company.

MIRC has been present in Indian consumer durable industry with its brand name "Onida" since 1981. Onida is a well-recognized brand in the domestic market. By the presence of more than three decades in the industry, the company has maintained robust network of dealers/distributors supported by warehouses spread across the country. However, increase in revenue from West and Central region of India is observed in FY22. West and Central region contributed of more than 60% of Total revenue for FY22. This is owing to the increase in contribution from the EMS business.

##### **Comprehensive product portfolio**

MIRC has a comprehensive product portfolio and is one of the prominent players in the consumer durables segment with major presence in TV, AC and Washing Machine segment. The company's turnover has grown by around more than 55% on a y-o-y basis mainly driven by the increase in contribution from TV and AC business which together formed around 89% of the company's revenues in FY22 (PY-81%). Further, increase in TV segment which rose to 73.75% in FY22 as compared to 51% in FY21 is mainly owing to the company's gaining foothold in the EMS business for certain OEM players.

##### **Growth in revenue**

The company's turnover has grown by around more than 55% on a y-o-y basis and stood at Rs. 1191.89 crores in FY22 as compared to Rs. 767.99 crores in FY21. The growth in revenues is mainly driven by increasing contribution from EMS business for certain OEM players. Further, the company has achieved revenue of Rs. 613.77crore in H1FY23. Going forward, sustaining growth in revenues is crucial from credit perspective.

##### **Moderate capital structure**

The company's overall gearing marginally improved and stood moderate at 0.50x in FY22 as compared to 0.62x in FY21 owing to lower WC utilisation levels coupled with reduced acceptances as on March 31, 2022. The company's net worth marginally declined to Rs. 203.50 crores in FY22 as compared to Rs. 223.23 crores owing to reported PAT losses. Total outstanding liabilities to net worth has deteriorated from 2.47x in FY22 as compared to 1.98x in FY21.

##### **Liquidity position: Adequate**

The company has an adequate liquidity marked by unencumbered cash/bank balance (incl FD and excluding lien) stood at Rs. 5.64 crore and lien FD stood at Rs. 12.13 crores as on March 31, 2022, whereas as on Oct 31, 2022, free cash and bank balance stood at Rs. 3.74 crores and lien FD stood at Rs. 5.89 crores. The company has gross repayments of around Rs. 6.35

crores in FY23, Rs. 5.88 crores in FY24 and Rs. 7.36 crores in FY25, which is expected to be met from a combination of operating profits, cash balances. The average utilization of fund based limit and non-fund-based limit stood at 34.35% and 34.58% for the last twelve months ended Oct-22. Also, availability of free cash and bank balance and moderate utilization of Fund based facility adds to the comfort. Besides, the company has liquidity in the form of unutilized bank limits.

**Analytical approach:** Standalone approach

**Applicable criteria:**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

**About the Company**

MIRC Electronics Limited (MIRC) is engaged in manufacturing/assembling and marketing of consumer durables both in brown goods segment and white goods segment. MIRC has operations in consumer electronics, home appliances like Flat TVs, Washing Machines, Air-Conditioners. 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. The company has ventured into Electronic Manufacturing Services for OEMs. Earlier, during FY21, the company has also entered into two new segments such as Air Coolers and Dishwashers. MIRC's manufacturing units are strategically located at Wada and Chiplun in Maharashtra while another one at Roorkee, Uttarakhand. The Wada factory is located close to Sea port being around 50Kms away from JNPT and its less than around 50 Kms away from warehousing hub at Bhiwandi.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	765.04	1,191.89	614.59
PBILDT	12.69	13.28	5.98
PAT	1.89	-20.07	-2.59
Overall gearing (times)	0.62	0.53	0.50
Interest coverage (times)	0.85	0.94	1.34

A: Audited, UA - Unaudited

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: Not Applicable**

**Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable**

**Disclosure of Interest of Managing Director & CEO: Not applicable**

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	122.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	135.98	CARE A4+
Term Loan-Long Term		-	-	21-03-2028	43.27	CARE BB+; Stable

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	122.00	CARE BB+; Stable	-	1)CARE BBB-; Stable (04-Mar-22)	1)CARE BBB-; Stable (08-Dec-20)	1)CARE BBB-; Stable (07-Oct-19)
2	Non-fund-based - ST-BG/LC	ST	135.98	CARE A4+	-	1)CARE A3 (04-Mar-22)	1)CARE A3 (08-Dec-20)	1)CARE A3 (07-Oct-19)
3	Term Loan-Long Term	LT	43.27	CARE BB+; Stable	-	1)CARE BBB-; Stable (04-Mar-22)	1)CARE BBB-; Stable (08-Dec-20)	1)CARE BBB-; Stable (07-Oct-19)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities**

Name of the Instrument	Detailed Explanation
<b>A. Financial covenants</b>	a. TOL/TNW >3. b. Shortfall in envisaged NWC.
<b>B. Non-financial covenants</b>	a. Company shall maintain adequate books and records reflecting its financial position and operations. b. Assets charged to the bank must be always fully insured. c. Company should submit Due Diligence Certificate at half yearly interval

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Term Loan-Long Term	Simple

**Annexure-5: Bank lender details for this company**To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

**Contact us****Media Contact**

Name – Mr. Mradul Mishra  
Contact no. - +91-22-6754 3596  
Email ID - [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

**Analyst Contact**

Mr. Vikash Agarwal  
+91-22-67543408  
Email ID - [vikash.agarwal@careedge.in](mailto:vikash.agarwal@careedge.in)

**Relationship Contact**

Mr. Saikat Roy  
Contact no. -022-67543404/136  
E-mail: [saikat.roy@careedge.in](mailto:saikat.roy@careedge.in)

**About CARE Ratings Limited:**

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

**Disclaimer**

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please visit [www.careedge.in](http://www.careedge.in)**