MIRC Electronics Limited (Revised)

March 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	151.25 (Enhanced from 150.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	150.00 (Enhanced from 125.00)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**301.25 (Rs. Three Hundred One Crore and Twenty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
The reaffirmation of ratings assigned to the bank facilities of MIRC Electronics Limited (MIRC) derives strength from the MIRC's long track record and vast experience of promoters in the consumer durable industry, comprehensive product portfolio spanning across various product segments, having good brand appeal with pan India presence backed by well-established marketing network and strong relationship with customers. Furthermore, the ratings derive strength from the growth in revenues mainly driven by the company's foray into EMS (Electronic Manufacturing Services) segment for certain OEMs (Original Equipment Manufacturers) coupled with improvement in operating profitability margins albeit continues to remain thin, moderate capital structure and satisfactory debt coverage indicators along with efficient working capital management with moderate average working capital utilization levels.
However, the ratings are tempered by thin operating profitability 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 being susceptible to volatile forex rates and input prices.

Key Rating Sensitivities

Positive rating sensitivities:
- Ability of the company to achieve the envisaged revenue growth and cash accruals through greater customer diversification in a sustained manner.
- Ability of the company to 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 rating sensitivities:
- 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 the key rating drivers
Key Rating Strengths
Experienced promoters and management team:
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.

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 continues to derive majority of its sales from TV and AC business which together formed about 83% (P.Y.77%) of the company's FY21 revenues. Further, during 9MFY22, the company's turnover has grown by around more than 76% on a y-o-y basis mainly driven by the increase in contribution from

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

TV segment which rose from being 51% in FY21 to around 77% in 9MFY22. The increase in contribution is mainly owing to the company's gaining foothold in the EMS business for certain OEM players.

Established brand equity and pan India presence:
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 9MFY22. West and Central region contributed of more than 60% of Total revenue for 9MFY22. This is owing to the increase in contribution from the EMS business.

Growth in Revenues coupled with improvement in profitability margins albeit continues to remain thin
Growth in revenue was seen in FY21 wherein Total revenue from operations increased from Rs.606.34 crore in FY20 to Rs. 767.99 crore. Further, the company has achieved revenue of Rs. 950.78 crore till Dec 31, 2021, as compared to Rs.538.74 crore in 9MFY21; thereby representing growth of around 77%. The growth in revenues is mainly driven by increasing contribution from EMS business for certain OEM players.
PBILDT margin has also increase from 1.14% in FY20 to 2.04% in FY21. Besides, PBILDT margin for 9MFY22 was 1.95% against 1.56% in 9MFY21. The increase is mainly on account of company's new policy to venture into EMS to various OEMs. This has helped company to improve the capacity utilisation and generate more revenue thereby increasing profitability owing to better absorption of cost overheads. Nevertheless, the operating profit margins continue to remain thin owing to sizeable business derived from prescriptive nature of operations.

Moderate capital structure and satisfactory debt coverage indicators
As on March 31, 2021, company's net worth has increased to Rs. 223.26 crore as compared to Rs. 221.63 crore as on March 31, 2020. The company's overall gearing stood moderate at 0.62 times as on March 31, 2021 (0.47 times as on March 31, 2020). The change in gearing is mainly owing to availment of GECL loans taken by company during Covid period. Total outstanding liabilities to net worth has deteriorated from 1.60x as on March 31, 2020 to 1.98x as on March 31 2021. Debt coverage indicators are satisfactory, with interest coverage ratio at 1.05x in FY21 and at 1.64x as on Dec 31, 2021 while Total Debt to GCA is at 16.00x as on March 31 2021 and at 12.65x as on Dec 31 2021. Improvement in debt coverage indicators will remain crucial from credit perspective.

Key rating Weaknesses
Thin operating profitability margins leading to fluctuating cash accruals
The Company's Operating Profit margin has remained thin in past which has led to losses or minimal profitability at PAT level and fluctuating cash accruals. This has resulted into pressure on the debt coverage indicators and liquidity parameters in past years. ROCE for FY21 was 5.24% only and CAGR Growth has remained on lower side in past few years. Company has entered in EMS business towards the second half of FY21. This has gained momentum in Business which has resulted into improvement in profitability margin. However, the same is still on lower side. Therefore, 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 for FY21 is 80 days as compared to 107 days in 2020. The company's operations have remained working capital-intensive, with gross current assets (GCAs) is at 253 days as on March 31, 2021. 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. Any adverse movement in the currency may impact the company's profit margins.

Liquidity Position: Adequate –
The company registered a positive gross cash accruals of Rs.8.58 crore in FY21 as compared to negative gross cash accruals of Rs.4.86 crore in FY20. The company's liquidity position is adequate with moderate working capital utilization and improved GCA. Besides, company has repayments amounting to Rs. 7.72 crore in FY22 and Rs.7.67 crore in FY23. Of this, Rs.5.79 crore has already been paid by the company for the financial year of FY22. As compared to the repayment obligations, the company has already garnered around Rs.7.03 crore in 9MFY22. Current ratio is 1.23 as on March 31, 2021. Average fund based utilization is moderate at 51.93% for past twelve months ending on Dec 2021. This along with the moderate gearing levels provides the company with enough headroom to raise debt or funds to meet any incremental working capital requirements or exigencies (if any) over the next one year.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch 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 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 & 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. The company has ventured into Electronic Manufacturing Services for OEMs. 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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY2022 (UA)
Total operating income	606.66	767.99	950.78
PBILDT	6.92	15.65	18.55
PAT	-11.47	1.89	1.24
Overall gearing (times)	0.47	0.62	0.53
Interest coverage (times)	0.58	1.05	1.64

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

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

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	128.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	150.00	CARE A3
Term Loan-Long Term		-	-	Sept 2026	23.25	CARE BBB-; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	128.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (08-Dec-20)	1)CARE BBB-; Stable (07-Oct-19)	1)CARE BBB-; Stable (01-Oct-18)
2	Non-fund-based - ST-BG/LC	ST	150.00	CARE A3	-	1)CARE A3 (08-Dec-20)	1)CARE A3 (07-Oct-19)	1)CARE A3 (01-Oct-18)
3	Term Loan-Long Term	LT	23.25	CARE BBB-; Stable	-	1)CARE BBB-; Stable (08-Dec-20)	1)CARE BBB-; Stable (07-Oct-19)	1)CARE BBB-; Stable (01-Oct-18)

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	a. TOL/TNW >3. b. Shortfall in envisaged NWC.
B. Non-financial covenants	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 instrument: CARE Ratings Ltd. 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.

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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.

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