Orient Electric Limited (Revised)

July 05, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long- term/Short- term bank facilities	470.00	CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Revised from CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/A One Plus)
Short- term bank facilities	103.30	CARE A1+ (A One Plus)	Reaffirmed
Long- term bank facilities#	-	-	Withdrawn
Total bank facilities	**573.30 (₹ Five hundred seventy-three crore and thirty lakh only)**		

Details of instruments/facilities in Annexure-1.
CARE Ratings Limited has withdrawn the rating assigned to the term loan facility of Orient Electric Limited as the company has repaid the aforementioned facility and there is no outstanding against the facility.

Detailed rationale and key rating drivers

The revision in the long-term rating assigned to the bank facilities of Orient Electric Limited (OEL) factors in the steadily growing scale of operations of the company along with diversification in product mix and its strong financial risk profile marked by consistently healthy return indicators, comfortable capital structure and strong debt coverage indicators and liquidity. The ratings also consider that the company has been able to protect its operating margins despite intense competition prevailing in the industry and headwinds faced on account of the Covid-19 pandemic in FY21 (refers to the period April 1 to March 31) and FY22. OEL continues to have an established market position with pan-India presence and strong brand recall in the domestic fans industry with sustained marketing efforts and continuous product innovation to remain competitive. Furthermore, the non-fans segment has been growing at a faster pace and hence gradually de-risking the product concentration, although fans continue to remain a sizeable contributor to the total operating income (TOI) at about 61%. The TOI increased by about 20% in FY22 as compared with FY21 driven by overall growth in the volume and realisations in all the operating segments. The PBILDT margin, which had improved significantly in FY21, witnessed moderation to 9.47% in FY22 (10.83% in FY21) on account of the increase in the input costs. Nevertheless, it remained above the historical levels of marginally less than 9%. The ratings continue to draw strength from OEL being part of the established C.K. Birla group.

The ratings, however, continue to remain constrained by its working capital-intensive nature of operations, exposure to volatility in the raw material prices, seasonality in sale of OEL's products, warranty provisions and stiff competition in the industry. OEL is implementing a greenfield project in Hyderabad at a cost of about ₹175 crore to further increase its fan manufacturing capacity and improve its presence in the southern India market. The project is envisaged to be entirely funded out of internal generations and the liquidity available on OEL's books as on March 31, 2022. The ratings take cognizance of the implementation risk associated with the planned capex in southern India.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- The ability to significantly diversify its product portfolio both in the ECD and the lighting segment, grow its sales volume and expand its geographical reach resulting in substantial increase in the scale of operations.
- Improvement in the total debt/PBILDT below 0.50x on a sustained basis while maintaining return on capital employed (ROCE) of above 30%

Negative factors – Factors that could lead to negative rating action/downgrade:

- Sustained decline in TOI (by more than 15%) and/or PBILDT margin (below 8%)
- Total debt/PBILDT deteriorating beyond 2x and/or ROCE falling to around 20% on a sustained basis

Detailed description of the key rating drivers

Key rating strengths

Part of an established promoter group: OEL, belonging to the C.K. Birla group, was incorporated in October 2016 by way of demerger of the ECD division of OPIL. Mr C. K. Birla, at the helm of the affairs of the company, has been associated with the company since 1978. The CK Birla group is a leading industrial group having business interest in diverse range of sectors like automobiles, auto ancillary products, earthmoving equipment, engineering products, chemical, cement, paper, fan and electrical items. Most of the companies belonging to the group have an established position in their respective industries. OEL also has a qualified and experienced management team.

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

Established market position in the fans segment with strong brand recall: OEL is among the top three players in the organised fans industry and is also the largest exporter of fans from India. It has a strong presence in West Asia and Africa and exports selected product categories to the USA and European countries as well. The company sells its products under the well-known brand of 'Orient Electric'. It has been spending around 3-4% of its net sales in advertising and sales promotion activities.
The company has pan-India presence and the products are sold through a wide distribution network of around 5,000 dealers and 1,25,000 retail outlets spread across the country. OEL also sells its products through leading online marketplaces.

Diversified product portfolio: OEL currently operates in two broad segments – Electrical Consumer Durables (ECD) and Lighting & Switchgears. Over the years, it has diversified into various products and on y-o-y basis, the concentration in fans has been reducing. In the ECD division, the company sells ceiling fans, portable and airflow along with components and accessories thereof and appliances – air coolers, geysers and home appliances, etc. The segment contributed about 73.5% of the total sales in FY22.
OEL also has an exclusive strategic partnership with De'longhi group, Italy since FY19 to market and sell its premium international brands in India (i.e De'longhi, Kenwood and Braun). De'Longhi, Kenwood and Braun have a strong product basket in small household appliances in coffee preparation, food preparation and cooking, cleaning and ironing and home comfort.
Its lighting division includes lights and luminaries – wide range of LED lamps and luminaries, streetlights, switches, miniature circuit breaker (MCB), switches etc. The segment contributed about 26.5% of the sales in FY22.

Healthy return indicators along with increase in the sales and profit levels in FY22: The TOI increased by about 20% in FY22 as compared with FY21 driven by growth in the volume and realisations in all the segments. While PBILDT increased on an absolute level, the PBILDT margin reduced from 10.83% in FY21 to 9.47% in FY22. This was due to increase in the input costs, impact of the pandemic in the first and fourth quarter which is the main season and normalisation of advertisement cost which was lower in FY21. Nevertheless, it continued to remain above the historical levels of marginally less than 9%. In terms of segmental performance, while its ECD division witnessed some moderation in margins that of its lighting & switchgear division improved during FY22 on a y-o-y basis.
The return indicators of OEL have consistently remained at a healthy level over the years. The company's Return on Capital Employed (ROCE) stood at 33.5% in FY22 (34.80% in FY21).

Comfortable capital structure and strong debt coverage indicators: The overall gearing ratio remained comfortable at 0.44x as on March 31, 2022 (0.54x as on March 31, 2021). OEL did not have any term debt or fund-based working capital outstanding from banks as on March 31, 2022. Debt majorly comprises vendor finance, lease liabilities and trade deposits. Interest coverage ratio remained healthy and improved to 11.43x in FY22 as compared with 10.62x in FY21. The total debt to gross cash accruals (TD/GCA) remained comfortable at 1.42x (1.62x as on March 31, 2021). The total debt/PBILDT was also comfortable at 0.98x as on March 31, 2022. Going ahead as well, the capital structure is expected to remain comfortable with no debt planned to be availed for the ongoing capex and healthy liquidity available with the company.
The company is required to maintain adequate inventory of its various products to meet the demand apart from providing credit to its distributors. OEL has been able to reduce its working capital cycle consistently over the last few years with better management of inventory and debtors and ability to get higher credit from its suppliers through vendor finance. The operating cycle stood lean at 31 days in FY22; albeit its cash flow from operations moderated during FY22 to meet its higher working capital requirement to support its growing scale.

Stable demand outlook: The demand for consumer electronics and appliances has been improving from Q2FY22 due to ease in Covid-19 restrictions and is backed by pent-up demand. Furthermore, festive season also supported the growth in the third quarter of FY22. Work from home culture is expected to continue to aid the growth in demand for goods that enhance personal convenience at home. Also, rural demand could outgrow the demand from urban markets on the back of rising rural incomes and government initiatives taken in relation to rural electrification. There has also been an increasing trend in demand for façade lighting. Long-term demand prospects for the industry remain favourable supported by growing working population, higher disposable income, easier access to credit and improving standard of living.

Liquidity: Strong

The company does not have any term debt repayment obligations. It had free cash and cash equivalents of about ₹150 crore as on March 31, 2022 (including ₹76.04 crore of free fixed deposits). The current ratio as on March 31, 2022, was comfortable at 1.56x. The average fund-based working capital limit utilisation remained low at about 2% during the 12-month period ended March 2022. The available liquidity and internal generations are expected to be sufficient to meet its fund requirement for the ongoing project and routine capital expenditure.

Key rating weaknesses

Stiff competition in the industry: Though OEL has strong presence in the fan market, it faces tough competition in appliances and lighting segment from the already established larger players in the industry. Furthermore, the influx of Chinese products and the unorganised market (especially fan) also creates a highly competitive market. However, OEL has maintained its market share in the fan business over 3-4 years, majorly because of its strong distribution network, effective advertising spends and product innovation. Also, the BEE star rating implementation in fans in the near future is expected to improve the market share of organised sector players. Furthermore, to guard itself from intensifying competition, OEL has consistently focused on exports with a strong presence in the West Asian and African regions. OEL also exports its products to the US and some European countries. The Exports constituted 5.64% of the net sales in FY22 (5.41% in FY21). The company has also been increasing its sales from the B2B segment.

Seasonality of operations: The sales of OEL's products are seasonal in nature, with increased sale of fans and air coolers (accounting for about 65% of the company's sales in FY22) during Q4 (before commencement of summer season). Moreover, adverse weather conditions, including prolonged winters or untimely rains, also adversely affect sale of fans and air coolers. To reduce the impact of seasonality on the working capital needs, the company is focusing on growing its non-fan products (like lighting and switchgears). Also, OEL has been increasing its sales in southern India to reduce the extreme seasonal dependence in North India.

Susceptible to volatility in raw material prices: The major raw materials required for manufacturing of fans, lighting & switchgears are silicon sheets, copper rods and wires, steel and aluminium. These products being commodity in nature have volatile price movements. The cost of raw materials such as steel, copper and aluminium has increased significantly in the recent past. The increasing inflationary pressure during FY23 is expected to pose a challenge; albeit the company's strong market position is envisaged to enable it to take necessary price revisions while balancing demand and thereby sustain its operating profitability.

Risk associated with the ongoing expansion project: The company is implementing a greenfield project in Hyderabad for expansion in its fan capacity at a cost of about ₹175 crore, which is expected to be commissioned towards the end of FY23. The capacity is envisaged to start with an average level of 4 lakh fans per month. In view of healthy cashflows and available liquidity, the company does not envisage to avail any debt for the project.
The capacity expansion will help OEL in increasing its share in the growing market in southern India. However, the company remains exposed to the pre and post -implementation risk associated with the project.

Warranty provision for LED segment: The company recognises provision for warranty claims on products sold under warranty as per the technical estimates made by the management based on historical trends. In case, there are excess defects in the manufactured goods it could entail excess claims against the company which may impact its profitability. In FY22 the company has recognised provision for warranty claims of ₹17.72 crore vis-à-vis ₹20.45 crore in FY21.

Analytical approach: Standalone

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
Policy on Withdrawal of Ratings

About the company

OEL, belonging to the CK Birla group, was incorporated on October 10, 2016 as a subsidiary of Orient Paper & Industries Limited. Pursuant to the scheme of demerger approved by the Hon'ble National Company Law Tribunal (NCLT), Kolkata on November 09, 2017 with effective date of December 08, 2017, the Consumer Electric Division of OPIL (founded in 1954 when the erstwhile Calcutta Electrical Manufacturing Company became a part of the CK Birla group) was demerged into OEL with effect from March 01, 2017 (appointed date) and all the assets and liabilities of this division were transferred at book value from OPIL to OEL. Shares of OEL, held by OPIL, are cancelled and OEL is no more a subsidiary of OPIL.
OEL is engaged in the manufacturing of fans (capacity of 97 lakh units p.a.), lights & luminaries (capacity of 341 lakh units p.a.) and switchgear units (capacity of 142.8 lakh units p.a.), through its manufacturing units situated across Haryana (Faridabad), West Bengal and Noida. OEL is also engaged in selling of home appliance products (coolers, water heaters, etc). In addition to its own capacities, the company also has outsourcing arrangements to meet its requirements.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	2,032.95	2,448.88
PBILDT	220.14	231.83
PAT	119.74	126.64
Overall gearing (times)	0.54	0.44
Interest coverage (times)	10.62	11.43

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: 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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC		-	-	-	322.50	CARE AA; Stable / CARE A1+
Term Loan-Long term		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Cash credit		-	-	-	90.00	CARE AA; Stable / CARE A1+
Fund-based - LT/ ST-CC/Packing credit		-	-	-	57.50	CARE AA; Stable / CARE A1+
Non-fund-based - ST-Forward contract		-	-	-	3.30	CARE A1+
Fund-based - ST-Term loan*		-	-	-	100.00	CARE A1+

** Not yet availed*

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	Non-fund-based - LT/ ST-BG/LC	LT/ST*	322.50	CARE AA; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (06-Jul-21)	1)CARE AA-; Stable / CARE A1+ (07-Jul-20)	1)CARE AA-; Stable / CARE A1+ (13-Aug-19) 2)CARE AA-; Stable / CARE A1+ (05-Jul-19)
2	Term Loan-Long term	LT	-	-	-	1)CARE AA-; Stable (06-Jul-21)	1)CARE AA-; Stable (07-Jul-20)	1)CARE AA-; Stable (13-Aug-19) 2)CARE AA-; Stable (05-Jul-19)
3	Fund-based - LT/ ST-Cash credit	LT/ST*	90.00	CARE AA; Stable /	-	1)CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+

				CARE A1+		(06-Jul-21)	(07-Jul-20)	(13-Aug-19) 2)CARE AA-; Stable / CARE A1+ (05-Jul-19)
4	Fund-based - LT/ ST-CC/Packing credit	LT/ST*	57.50	CARE AA; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (06-Jul-21)	1)CARE AA-; Stable / CARE A1+ (07-Jul-20)	1)CARE AA-; Stable / CARE A1+ (13-Aug-19) 2)CARE AA-; Stable / CARE A1+ (05-Jul-19)
5	Non-fund-based - ST-Forward contract	ST	3.30	CARE A1+	-	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (07-Jul-20)	1)CARE A1+ (13-Aug-19) 2)CARE A1+ (05-Jul-19)
6	Fund-based - ST-Term loan	ST	100.00	CARE A1+	-	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (07-Jul-20)	1)CARE A1+ (13-Aug-19)
7	Fund-based - LT-Cash credit	LT	-	-	-	1)Withdrawn (06-Jul-21)	1)CARE AA-; Stable (07-Jul-20)	-
8	Non-fund-based - LT-BG/LC	LT	-	-	-	1)Withdrawn (06-Jul-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Fund-based - ST-Term loan	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Non-fund-based - ST-Forward Contract	Simple
6	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.

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