

Orient Electric Limited

July 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	470.00	CARE AA; Stable / CARE A1+	Reaffirmed
Short Term Bank Facilities	103.30	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Orient Electric Limited (OEL) continue to draw strength from its 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) in FY23 (refers to the period April 01 to March 31). The ratings also factor in the comfortable capital structure and strong debt coverage indicators and liquidity. The ratings continue to draw strength from OEL being a part of the established C.K. Birla group.

The ratings take note of the moderation in operating profitability of OEL in FY23 with contraction in profitability margins in the electrical consumer durables (ECD) segment, though the lighting and switchgear segment exhibited growth. The sales and profitability of fans were impacted during the year on account of unfavourable weather conditions in the peak seasons and disruptions caused by the implementation of BEE star ratings for fans, which was in line with the industry trend. Going forward, with normalisation of demand and various marketing initiatives undertaken by the company, the performance of the ECD segment is expected to improve.

The ratings remain constrained by the working capital-intensive nature of operations, exposure to volatility in raw material prices, seasonality in sale of OEL's products, and stiff competition in the industry. OEL is implementing a greenfield project in Hyderabad 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. The ratings take cognisance of the implementation risk associated with the planned capex in southern India.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability to significantly diversify its product portfolio in the ECD segment and grow its sales volumes and expand its outreach resulting in substantial increase in the scale of operations.
- Improvement in total debt/PBILDT on a sustained basis while maintaining return on capital employed (ROCE) of above 30%.

Negative factors

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

Analytical approach: Standalone

Outlook: Stable

The Stable outlook reflects that OEL is likely to maintain its significant market position in the fans segment and gradually improve its presence in other segments which shall enable it to maintain its healthy business risk profile over the medium term. Furthermore, the financial risk profile is expected to remain strong amidst healthy cash flow generation from operations, relatively low debt levels and absence of any debt-laden expansion plans.

Detailed description of the key rating drivers:

Key strengths

¹Complete 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 more than 2,700 dealers and 125,000 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 – 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 69% of the total sales in FY23 (73% in FY22). 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 31% of the sales in FY23 (27% in FY22).

Comfortable capital structure and debt coverage indicators, likely to remain so: The overall gearing ratio remained comfortable at 0.17x as on March 31, 2023 (0.13x as on March 31, 2022). OEL did not have any term debt or fund-based working capital outstanding from banks as on March 31, 2023. Adjusted overall gearing including trade deposits and creditors backed by acceptances stood at 0.43x as on March 31, 2023 (0.44x as on March 31, 2022).

Interest coverage ratio remained healthy, though it decreased to 6.86x in FY23 as compared with 11.43x in FY22 with decrease in operating profits. The total debt to adjusted gross cash accruals (TD/GCA) also deteriorated, however, it remained comfortable at 2.21x as on March 31, 2023 (1.42x as on March 31, 2022). The total debt/PBILDT was also comfortable at 1.61x as on March 31, 2023. Going ahead, the capital structure is expected to remain comfortable with no debt planned to be availed and healthy liquidity available with the company, alongside improvement in margins.

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 kept its working capital cycle consistently on the lower side 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 39 days in FY23.

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. 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, healthcare, 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.

Stable demand outlook: The demand prospects for consumer electronics and appliances in the near term appear positive with gradual economic revival, while demand prospects for fans are expected to stabilise after lower demand and sales in FY23. 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. 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.

Liquidity: Strong

The company does not have any term debt repayment obligations. It had free cash and cash equivalents of ₹163.64 crore as on March 31, 2023 (including ₹100.45 crore of free fixed deposits). The current ratio as on March 31, 2023, was comfortable at 1.46x. The average fund-based working capital limit utilisation remained negligible at about 1% during the 12-month period ended April 2023. 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 weaknesses

Moderation in profitability in FY23: In FY23, TOI increased by about 3.4% as compared with FY22. However, due to lower sales and margins in fans, PBILDT decreased on an absolute level and the PBILDT margin reduced from 9.47% in FY22 to 6% in FY23. Apart from the reduced profitability from the fans division, profitability was also affected due to increase in advertisement and consultancy costs. In terms of overall segmental performance, while its ECD division witnessed moderation in margins, that of its lighting & switchgear division improved during FY23 on a y-o-y basis.

The return indicators of OEL also weakened in FY23. The company's ROCE decreased to 19.20% in FY23 (33.50% in FY22). However, with improvement expected in the performance of the ECD division, profitability and return indicators are expected to improve.

Stiff competition in the industry: While 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 fans) 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 from January 2023 is expected to improve the market share of organised sector players over time. 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 4.52% of the net sales in FY23 (5.64% in FY22). The company has also been increasing its sales from the B2B segment.

Seasonality of operations: The sales of OEL's ECD segment is seasonal in nature, with sales of fans and air coolers increasing 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 & 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 CARE Ratings notes that any increase in inflationary pressure 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 ₹175-180 crore, which is expected to be completed by August 2023 and commissioned by Q3FY24. The capacity is envisaged to start with around 62.5 lakh fans per year. In view of healthy cashflows and available liquidity, the company does not envisage to avail any debt for the remaining 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.

Environment, social, and governance (ESG) risks:

The manufacturing processes of OEL have a moderate impact on the environment through its raw material procurement, waste generation and energy consumption. The company has taken initiatives towards addressing environmental issues, like installation of rainwater harvesting systems for water management and solar panels for energy production. It supports usage of finite raw materials over plastics and has arrangements with Government-authorized agencies for collection of hazardous wastes. The company during FY22 spent ₹2.64 crore for various Corporate Social Responsibility (CSR) projects and initiatives. 50% of its board members are independent directors.

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Household Appliances

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 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 the 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, 2022 (A)	March 31, 2023 (A)
Total operating income	2,448.88	2,530.04
PBILDT	231.83	151.85
PAT	126.64	75.85
Overall gearing (times)	0.13	0.17
Adjusted overall gearing (times)*	0.44	0.43
Interest coverage (times)	11.43	6.86

*Including trade payables backed by acceptances and trade deposits as part of debt

Ratios are classified as per CARE Ratings standards

A: Audited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

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
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+
Fund-based - ST-Term loan*		-	-	-	100.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC		-	-	-	322.50	CARE AA; Stable / CARE A1+
Non-fund-based - ST-Forward Contract		-	-	-	3.30	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 2023-2024	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
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	322.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Jul-22)	1)CARE AA-; Stable / CARE A1+ (06-Jul-21)	1)CARE AA-; Stable / CARE A1+ (07-Jul-20)
2	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (05-Jul-22)	1)CARE AA-; Stable (06-Jul-21)	1)CARE AA-; Stable (07-Jul-20)
3	Fund-based - LT/ ST-Cash Credit	LT/ST*	90.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Jul-22)	1)CARE AA-; Stable / CARE A1+ (06-Jul-21)	1)CARE AA-; Stable / CARE A1+ (07-Jul-20)
4	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	57.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Jul-22)	1)CARE AA-; Stable / CARE A1+ (06-Jul-21)	1)CARE AA-; Stable / CARE A1+ (07-Jul-20)
5	Non-fund-based - ST-Forward Contract	ST	3.30	CARE A1+	-	1)CARE A1+ (05-Jul-22)	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (07-Jul-20)
6	Fund-based - ST-Term loan	ST	100.00	CARE A1+	-	1)CARE A1+ (05-Jul-22)	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (07-Jul-20)
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 covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the 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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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

<p>Media Contact</p> <p>Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Name: Lalit Sikaria Director CARE Ratings Limited Phone: + 91-033- 40181600 E-mail: lalit.sikaria@careedge.in</p>	<p>Analytical Contacts</p> <p>Name: Padmanabh Bhagavath Senior Director CARE Ratings Limited Phone: +91-22-6754 3407 E-mail: ps.bhagavath@careedge.in</p> <p>Name: Hardik Shah Director CARE Ratings Limited Phone: +91-22-6754 3591 E-mail: Hardik.shah@careedge.in</p> <p>Name: Mamta Muklania Associate Director CARE Ratings Limited Phone: +91-33-4018 1651 E-mail: mamta.khemka@careedge.in</p>
--	--

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, 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 the detailed Rationale Report and subscription information,
please visit www.careedge.in**