MIRC Electronics Limited

January 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	165.27	CARE BB; Stable	Revised from CARE BB+; Stable
Short Term Bank Facilities	135.98	CARE A4	Revised from CARE A4+

Details of instruments/facilities in Annexure-1.

Rationale and 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 FY23 (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 PBILDT levels in H1FY24 (refers to the period from April 01 to September 30 2023).

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: Factors likely to lead to rating actions

Positive Factors

- Improvement in its PBILDT margins to ~3% or above or ROCE to ~9% on sustained basis
- Improvement in working capital position leading to improved cash flows from operations on a sustained basis

Negative Factors

- Continued losses at PBILDT level
- Increase in overall gearing beyond 1.00x in a sustained manner
- Significant deterioration in working capital cycle leading to higher utilisation of limits resulting into pressure on the liquidity parameters in a sustained manner

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the rated entity is expected to report steady operations for the company in the current fiscal.

Key weaknesses

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

PBILDT margin has deteriorated to 0.41% in FY23 as compared to 1.11% in FY22. 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 input prices. Further, during H1FY24, the company has reported PBILDT losses of Rs. 1.08 crores. The company's thin operating profit margin has led to losses at PAT level in FY23 and fluctuating cash accruals. This has resulted into weakened debt coverage indicators. Interest coverage ratio at 0.43x in FY23 as compared to 0.945x in FY22 whereas Total Debt to GCA stood negative in FY23 and FY22 due to weak cash flows. ROCE was negative in FY23 and FY22 and CAGR Growth has remained on lower side in past few years. The company has reported net loss of Rs. 12.47 crores in FY23 as compared to net loss of Rs. 20.17 crores. Further, during H1FY24, company reported net loss of Rs. 12.65 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

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

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 51 days in FY23 as compared to 47 days in FY22. The company's operations have remained working capital-intensive, with gross current assets (GCAs) is at 127 days as on March 31, 2023. 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 its 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. 1.88 crore in FY23 as compared to forex loss of Rs. 3.28 crore in FY22. Any adverse movement in the currency may impact the company's profit margins.

Key Strengths

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 FY23. West and Central region contributed of more than 60% of Total revenue for FY23. 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 continues to derive majority of its sales from TV at around 64.73% (PY-73.45%) and AC at around 20.95% (PY-14.80%) which together formed about 85.69% of total revenues in FY23 (PY-88.55%)

Moderate scale of operation backed by order book
The company's turnover has marginally declined by around 7% on y-o-y basis and stood at Rs. 1109.78 crores in FY23 as compared to Rs. 1191.89 crores in FY22 on account of lower sales of TV segment. Nevertheless, the scale of operation stood at moderate levels. During H1FY24, the company achieved TOI of Rs. 382 crores. As on Dec 28, 2023, the company has order book of Rs. 330 crores to be executed in FY24. This includes order for B2G segment Rs. 120 crores, OEM orders Rs. 110 crores and branded sales of Rs. 100 crores**.** Going forward, sustaining growth in revenues is crucial from credit perspective.

Moderate capital structure
The company's overall gearing stood moderate at 0.54x in FY23 as compared to 0.52x in FY22. The company's net worth marginally declined to Rs. 190.70 crores in FY23 as compared to 203.50 crores owing to reported PAT losses. Total outstanding liabilities to net worth has improved to 1.77x in FY23 as compared to 2.47x in FY22.

Liquidity: Stretched

The company has stretched liquidity marked by tightly matched cash accruals with scheduled debt repayment obligations. As on Sep 30, 2023, the free cash and bank balance stood at Rs. 3.75 crores. During FY23, net cash flow from operating activities stood negative. The average working capital utilisation stood at around 47% for the last 12 months ended Nov-23. As on March 31, 2023, the current ratio stood at 1.20x (PY-1.17x) and quick ratio stood at 0.34x (PY-0.28x)

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 and industry

Industry Classification

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

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. 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, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1,191.89	1,109.78	382.00
PBILDT	13.28	4.58	-1.08
PAT	-20.07	-12.47	-12.65
Overall gearing (times)	0.53	0.54	0.65
Interest coverage (times)	0.94	0.42	-0.15

A: Audited UA: Unaudited NA: Not available; 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 the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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 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	Fund-based - LT-Cash Credit	LT	122.00	CARE BB; Stable	-	1)CARE BB+; Stable (04-Jan-23)	1)CARE BBB-; Stable (04-Mar-22)	1)CARE BBB-; Stable (08-Dec-20)
2	Non-fund-based - ST-BG/LC	ST	135.98	CARE A4	-	1)CARE A4+ (04-Jan-23)	1)CARE A3 (04-Mar-22)	1)CARE A3 (08-Dec-20)
3	Term Loan-Long Term	LT	43.27	CARE BB; Stable	-	1)CARE BB+; Stable (04-Jan-23)	1)CARE BBB-; Stable (04-Mar-22)	1)CARE BBB-; Stable (08-Dec-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: 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.

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