MIRC Electronics Limited

May 23, 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	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the long-term rating factors in the lower-than-expected operating profitability of MIRC Electronics Limited (MIRC) reflected in PBILDT loss of Rs. 45.67 crores in FY24 (refers to the period from April 01 to March 31) largely on account of provisions made for slow and non-moving inventory of Rs. 17.34 crores and loss on sale of old inventories Rs. 33.09 crores coupled with slower revenue offtake from branded and unbranded businesses. The resultant weak cash accruals translated into weakening of financial risk profile as reflected in higher leverage with TOL/TNW at 3.44 times as on March 31, 2024 (1.77 times as on March 31, 2023) and low debt coverage indicators marked by interest coverage turning negative in FY24. Furthermore, during FY24, the company generated a cash PBLIDT of ~Rs. 5 crores (adjusted for non-cash inventory losses) against interest payment of ~Rs. 15 crore and debt repayment of ~Rs. 9 crores. The difference was funded through drawdown of working capital bank lines and unsecured loans from promoters of ~Rs. 8 crores. CARE Ratings expects MIRC's revenue to be in the range of Rs. 1,000 - 1200 crores over the next 2-3 years with operating margin improving to ~3% p.a.

The ratings derive strength from MIRC's long track record and vast experience of its promoters in the consumer durables industry coupled with a wide product portfolio. Furthermore, the ratings factor in 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 losses at PBILDT level and negative return on capital employed over the past few years coupled with considerable dependence on few clients (top 5 customers accounted for 48.12% of revenue in H1FY24 and 71.66% in FY23) resulting into revenues remaining susceptible to the business plans and performance of major customers. Moreover, the ratings consider the inherent business risks including high competition in the industry, technology obsolescence risk, large working capital requirement, regulatory changes as well as operating profit margins being susceptible to volatility in foreign exchange rates and input costs.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Substantial improvement in profitability and working capital cycle translating into better liquidity position and higher debt coverage indicators on a sustained basis

Negative Factors

- Continued losses at PBILDT level
- Significant deterioration in scale of operations or working capital cycle leading to pressure on the liquidity parameters

Analytical approach: Standalone

Outlook: Stable

The Stable outlook on the long-term rating reflects CARE Ratings' expectations that MIRC will report steady operations in the current fiscal.

Key weaknesses

Subdued operating performance in FY24 leading to losses at PBILDT level

MIRC reported a ~13% YoY decline in revenue to Rs. 968.04 crore in FY24 as compared to Rs. 1,109.78 crores in FY23 on account of weaker-than-expected sales in H1FY24, due to adverse weather conditions in north India impacting demand for ACs, despite some YoY growth in revenue in H2 FY24 led by marketing efforts. Additionally, the company reported a 4.72% loss at the PBILDT level in FY24 primarily on account of provision made for slow and non-moving inventories of Rs. 17.34 crores and loss on sale of old inventory of Rs. 33.09 crores in Q4FY24. Adjusting for the same, the company generated a small cash PBLIDT of ~Rs. 5 crore in FY24 against interest payment of ~Rs. 15 crore and debt repayment of ~Rs. 9 crores. While the operating profits were insufficient for debt servicing, the shortfall was funded by drawdown of working capital bank lines and unsecured loans from promoters of ~Rs. 8 crores. The company's ability to profitably scale up its business remains a key rating sensitivity.

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

Leverage capital structure and weak debt protection metrics
The company's capital structure demonstrated high leverage marked by total outside liabilities to tangible net worth (TOL/TNW) increasing to 3.4 times as on March 31, 2024 as compared to 1.8 times as on March 31, 2023 partly due to deterioration in net worth base (Rs. 128.3 crore as on March 31, 2024 from Rs. 190.7 crore as on March 31, 2023) from PAT losses and sizeable increase in creditors for goods supplied under tendering process. MIRC's debt protection metrics remained weak marked by interest coverage turning negative in FY24 as compared to 0.42x in FY23. CARE Ratings expects MIRC's financial risk metrics to remain under pressure in the coming quarters.

Working Capital intensive nature of operations and exposure to technology obsolescence risk
MIRC's nature of operations requires it to maintain a large basket of SKUs (stock keeping unit) at various warehouses present across the country, which is reflected in inventory days of ~100 days over the last three years. Besides, the company extends credit period of 1-2 months to its distributors reflected in the receivables cycle of ~45 days. 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. Working capital management will remain a key monitorable over the medium term. The large inventory holding requirements in an industry with rapidly changing technology exposes the company to the risk of inventory write-offs on slow moving inventory, as recorded in FY24, which could impact its financial risk profile.

Highly competitive industry, client concentration risks and exposure to volatility in foreign exchange rates
MIRC operates in a very competitive and fragmented industry dominated by large MNCs with global presence. As compared to its global competitors, MIRC has limited financial flexibility. Besides, presence of large number of players and low product switching cost results in low brand loyalty from consumers in consumer durables 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, the government's push for make in India may positively affect the company. While the company stands to benefit from the EMS business, contribution of around 60% or more from its top two clients as on Mar 31, 2023, indicates customer concentration risks. MIRC imports its major raw materials and components from countries such as China and Hong-Kong while majority of its sales are in the domestic market, exposing its profitability to fluctuations in foreign exchange rates. The risk is, however, partly mitigated by its hedging policy wherein it hedges part of the exposure through forward contracts.

Key Strengths

Experienced promoters and management team coupled with established brand equity
MIRC was established in 1981 and is promoted by Mr Gulu. L. Mirchandani (Chairman) and Mr Vijay. J. Mansukhani (MD). The company's promoters have a long track record of nearly four decades in the consumer durable industry. The operations are supported by a professional management team for heading different divisions of the company. MIRC has been present in Indian consumer durable industry with its brand name "Onida", which is well-recognized in the domestic market, with a wide distribution network of dealers/distributors supported by warehouses spread across the country.

Wide product portfolio
MIRC has a wide product portfolio spanning televisions, air conditioners and washing machines. The company continues to derive majority of its revenue from TV at ~58% (PY - 65%) and AC at ~26% (PY - 21%), which together accounted for ~84% of total revenues in FY24 (PY - 86%). During FY24, while the branded business contributed ~55% to sales, its contribution is expected to increase ~75% of sales over the medium term, led by management's efforts, translating into better operating margins.

Liquidity: Stretched

The company has stretched liquidity with likelihood of projected cash accruals being insufficient to meet the scheduled debt servicing obligations of ~Rs. 8 crores in FY25. The promoters are, however, expected to infuse unsecured loans of ~Rs. 20 crores to fund the shortfall and meet incremental working capital requirements. The company had free cash and bank balances of Rs. 5.11 crores as on Mar 31, 2024. The average working capital utilisation stood at around 59% for the 12-months till Apr-24, indicating some buffer. As on March 31, 2024, the current ratio stood at 1.08x (PY: 1.20x) and quick ratio stood at 0.48x (PY: 0.34x).

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

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)	March 31, 2024 (A)
Total operating income	1,191.89	1,109.78	968.04
PBILDT	13.28	4.58	-45.67
PAT	-20.07	-12.47	-62.21
Overall gearing (times)	0.53	0.54	0.97
Interest coverage (times)	0.94	0.42	-3.03

A: Audited UA: Unaudited; 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: Annexure-2

Covenants of rated instrument / facility: 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	122.00	CARE BB-; Stable	-	1)CARE BB; Stable (08-Jan-24)	1)CARE BB+; Stable (04-Jan-23)	1)CARE BBB-; Stable (04-Mar-22)
2	Non-fund-based - ST-BG/LC	ST	135.98	CARE A4	-	1)CARE A4 (08-Jan-24)	1)CARE A4+ (04-Jan-23)	1)CARE A3 (04-Mar-22)
3	Term Loan-Long Term	LT	43.27	CARE BB-; Stable	-	1)CARE BB; Stable (08-Jan-24)	1)CARE BB+; Stable (04-Jan-23)	1)CARE BBB-; Stable (04-Mar-22)

LT: Long term; ST: Short term; LT/ST: 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-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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About us:
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