Orient Electric Limited

July 25, 2024

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.

Ratings assigned to 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. OEL has been able to scale up its non-fans segment over the years and hence gradually de-risking the product concentration, though fans continue to remain a sizeable contributor to the total operating income (TOI) in FY24 (refers to April 01 to March 31). Ratings also factor in the strong financial risk profile as characterised by its robust capital structure, and debt coverage indicators, strong liquidity, and efficient management of working capital. Ratings continue to draw strength from OEL being a part of the established C.K. Birla group.

Ratings remain constrained by exposure to raw material price volatility, seasonality in sale of OEL's products, and stiff competition in the industry. OEL has implemented a greenfield project in Hyderabad to further increase its fan manufacturing capacity and improve its presence in the southern India market. The project is entirely funded out of internal accruals and the liquidity available with OEL. Ratings take cognisance of the stabilisation risk associated with this project.

CARE Ratings takes note that the negative sensitivities were breached considering moderation in the company's operating profitability and return on capital employed (ROCE). This was considering higher cost such as employee and marketing costs, high discounting schemes in the past because of weak demand situation and operating deleverage and extended producer responsibility (EPR) provisioning norm, which is impacting across the industry and delay in commissioning of Hyderabad plant. The decline in the lighting segment was due to price erosion and the same is yet to stabilise. However, CARE Ratings believes, with the commencement of production in Hyderabad plant, OEL scale will improve, bringing operating leverage and improve the company's profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins and ROCE in medium term.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability to significantly diversify its product portfolio in the electrical consumer durable segment, grow its sales volumes and expand its outreach resulting in substantially increasing scale of operations.
- Improving total debt/PBILDT below 0.50x while maintaining ROCE of above 30% on a sustained basis.

Negative factors

- Inability to improve its existing TOI and/or inability to improve its existing operating margin over medium term.
- Net debt/PBILDT deteriorating beyond 1.5x 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. Moreover, the financial risk profile is expected to remain strong amidst healthy cash flow generation from operations, relatively low debt levels, and absence of debt-laden expansion plans.

Detailed description of key rating drivers:

Key strengths

Established market position in the fans segment with strong brand recall

OEL is one of the largest manufacturers (One of the top 3 players) in domestic market and is also the exporter of fans from India. It has a strong presence in West Asia and Africa. The company sells its products under the well-known brand of 'Orient Electric'. It has been spending around 3%-5% 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 4,000 dealers and more than 125,000 retail

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

outlets spread across the country. OEL also sells its products through leading online marketplaces, and to strengthen its brands and e-commerce presence, it also sells its products through its own e-commerce portal and focuses on advertising through TV, print, hoardings, and other mediums. The company has implemented Direct to Market (DTM) distribution in ten states and is able to gain market share where there was low penetration in the market.

Diversified product portfolio

OEL currently operates in two broad segments – ECD and lighting & switchgears. Over the years, it has diversified into various products, and the concentration in fans has been reducing y-o-y. In the ECD division, the company sells ceiling fans, portable and airflow and their components and accessories thereof and appliances – air coolers, geysers, and home appliances, among others. The segment contributed about 71% of the total sales in FY24 (69% in FY23). Its lighting division includes lights and luminaries – wide range of LED lamps and luminaries, streetlights, switches, miniature circuit breaker (MCB), and switches, among others. The segment contributed about 29% of the sales in FY24 (31% in FY23).

Strong capital structure and debt coverage indicators, likely to remain so

Overall gearing ratio remained strong at 0.18x as on March 31, 2024 (0.17x as on March 31, 2023). OEL did not have term debt or fund-based working capital outstanding from banks as on March 31, 2024. Adjusted overall gearing including trade deposits and creditors backed by acceptances improved and stood at 0.38x as on March 31, 2024 (0.43x as on March 31, 2023). Interest coverage ratio remained healthy, though it decreased to 6.32x in FY24 as compared to 6.86x in FY23 considering moderation in operating profits. The company's total debt to adjusted gross cash accruals (TD/GCA) remained stable and stood at 2.23x as on March 31, 2024 (2.21x as on March 31, 2023). Net debt/PBILDT is strong and stood at 0.90x as on March 31, 2024. CARE Ratings observes, going ahead, the capital structure is expected to remain comfortable with no debt planned to be availed and healthy liquidity available with the company, with improvement in margins.

Efficient management of working capital

The company is required to maintain adequate inventory of its 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 32 days in FY24 (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 Orient Paper and Industries Limited (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 such as 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.

Liquidity: Strong

The company does not have term debt repayment obligations. It had free cash and liquid investments of ₹152.68 crore as on June 30, 2024. The current ratio as on March 31, 2024, was comfortable at 1.28x. The average fund-based working capital limit utilisation remained Nil in the 12-month period ended May 2024. The available liquidity and internal generations are expected to be more than sufficient to meet its fund requirement for the operations and routine capital expenditure.

Key weaknesses

Moderate profitability

In FY23, the company's PBILDT margins impacted and moderated to 5.97% (PY: 9.47%) considering aggressive de-stocking of non-rated fans at discounted prices, which was in line with the industry trend and higher marketing cost. The impact on PBILDT margins continued and further moderated to 5.20% in FY24 considering higher people cost as the company has hired new employees across functions considering centralisation of certain functions such as procurement, manufacturing, to strengthen their e-commerce business, distribution channels and higher marketing cost as the company has more thrust on E-commerce business, which requires higher marketing. The company's PBILDT margins in FY24 were also impacted by EPR provisioning of ~₹20 crore, having an impact across the industry. The company's ROCE was impacted from last two years and stood at 16.85% in FY24 as compared to 19.20% and 33.50% in FY23 and in FY22, respectively, considering lower operating profitability and delayed commission of Hyderabad project. However, CARE Ratings believes that with the commencement of operations in Hyderabad plant, the company's scale is expected to improve, which will bring operating leverage and improve its PBILDT margins in medium term. The company is also expected to raise its product prices gradually year by year to improve its profitability margins, and this remains a key monitorable.

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. 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. To guard itself from intensifying competition, OEL has consistently focused on exports with a strong presence in the West Asian and African regions. The exports constituted 4-5% of the net sales in FY24. The company has also been increasing its sales from the B2B segment and through e-commerce websites.

Seasonality of operations

The sales of OEL's ECD segment is seasonal in nature, with sales of fans and air coolers increasing in 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 (such as lighting and switchgears). Also, OEL has been increasing its sales in southern India to reduce the extreme seasonal dependence in north India.

Susceptible to raw material price volatility

The major raw materials required for manufacturing fans, lighting, and 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 increase in inflationary pressure is expected to pose a challenge, though the company's strong market position is envisaged to enable it to take necessary price revisions while balancing demand and sustain its operating profitability.

Project stabilisation risk

The company was implementing the project of greenfield plant in Hyderabad, which was expected to be completed by August 2023 with operations to commence from September 2023. However, the company has commenced the commercial production of non-ceiling fans in their Hyderabad plant in May 24 and production of ceiling fans is expected to start in Q2FY25. The delay was due to diplomatic reasons, as the company faced challenges in obtaining visas for Chinese technicians who are important for commissioning the plant, as the company will lose the warranty if they unbox the machinery without presence of Chinese engineers. Estimated cost of the project increased to ₹225 crore (Earlier ₹180 crore) as the company has increased the scope of work and delay in the project commissioning.

The company has incurred the entire amount through internal accruals and available liquidity till Q1FY25. The expansion of capacity will help OEL increase its share in export and south Indian market. However, this plant can take several more months to stabilise, with the company expecting to achieve meaningful sales from it only in H2FY25. The management's ability to enhance the off take from this plant and improve its overall scale of operations and profitability remains a monitorable.

Environment, social, and governance (ESG) risks

OEL's manufacturing processes 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, such as installation of rainwater harvesting systems for water management and solar panels for energy production. The company is investing in innovative techniques to reduce the adverse impact on environment from the manufacturing processes and gain control over energy consumption such as the introduction of BLDC technology in fans and air coolers, which consume up to 50% less energy than ordinary fans.

The company expended ₹2.66 crore for corporate social responsibility (CSR) projects and initiatives in FY24. The company is managed by professional board of directors who have extensive experience in industry. The Board comprises six directors including one women director. The independent directors are 50% of the total number of directors.

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

Belonging to the CK Birla group, OEL was incorporated on October 10, 2016, as a subsidiary of OPIL. 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 on 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 manufacturing fans (capacity of 97 lakh units p.a.), lights & luminaries (capacity of 341 lakh units p.a.) and switchgear units, through its manufacturing units situated across Haryana (Faridabad), West Bengal, and Noida. With the new manufacturing unit, OEL is expected to increase its fan manufacturing capacity further by 4 lakh from its greenfield project in Hyderabad. OEL is also engaged in sale of home appliance products (coolers and water heaters, among others). In addition to its own capacities, the company also has outsourcing arrangements to meet its requirements.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	2,543.17	2,827.89	NA
PBILDT	151.85	147.09	NA
PAT	75.85	75.27	NA
Overall gearing (times)	0.17	0.18	NA
Adjusted overall gearing (times)*	0.43	0.38	NA
Interest coverage (times)	6.86	6.32	NA

*Including trade payables backed by acceptances and trade deposits as part of debt
A: Audited; UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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/ ST-Cash credit		-	-	-	40.00	CARE AA; Stable / CARE A1+
Fund-based - LT/ ST-CC/Packing credit		-	-	-	107.50	CARE AA; Stable / CARE A1+
Fund-based - ST-Term loan		-	-	Proposed	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+

Annexure-2: Rating history for 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	Non-fund-based - LT/ ST-BG/LC	LT/ST	322.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (06-Jul-23)	1)CARE AA; Stable / CARE A1+ (05-Jul-22)	1)CARE AA-; Stable / CARE A1+ (06-Jul-21)
2	Term loan-Long term	LT	-	-	-	-	1)Withdrawn (05-Jul-22)	1)CARE AA-; Stable (06-Jul-21)
3	Fund-based - LT/ ST-Cash credit	LT/ST	40.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (06-Jul-23)	1)CARE AA; Stable / CARE A1+ (05-Jul-22)	1)CARE AA-; Stable / CARE A1+ (06-Jul-21)
4	Fund-based - LT/ ST-CC/Packing credit	LT/ST	107.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (06-Jul-23)	1)CARE AA; Stable / CARE A1+ (05-Jul-22)	1)CARE AA-; Stable / CARE A1+ (06-Jul-21)
5	Non-fund-based - ST-Forward Contract	ST	3.30	CARE A1+	-	1)CARE A1+ (06-Jul-23)	1)CARE A1+ (05-Jul-22)	1)CARE A1+ (06-Jul-21)
6	Fund-based - ST-Term loan	ST	100.00	CARE A1+	-	1)CARE A1+ (06-Jul-23)	1)CARE A1+ (05-Jul-22)	1)CARE A1+ (06-Jul-21)
7	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (06-Jul-21)
8	Non-fund-based - LT-BG/LC	LT	-	-	-	-	-	1)Withdrawn (06-Jul-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Note on complexity levels of 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 clarifications.

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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.

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