Bajaj Electricals Limited

August 01, 2019

Ratings

Instrument	Amount (Rs. crore)	Ratings[1]	Remarks
Commercial Paper	500.00 (Rs. Five Hundred crore only)	**CARE A1 (A One)**	**Revised from CARE A1+ (A One Plus)**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the short-term rating assigned to Commercial Paper instrument of Bajaj Electricals Limited (BEL) factors in the moderation in liquidity profile marked by large accumulation of receivables under Engineering Procurement Commissioning (EPC) division affecting the cash generated from operations for FY19. The elevation in working capital intensity witnessed during the year (FY19) was funded via borrowings, which translated into higher overall gearing and weakening of debt coverage indicators for FY19.

CARE believes, the working capital intensity would continue to remain elevated till 9MFY20 as the current order book is expected to gradually exhaust. Further, the realization of receivables (of EPC division) are expected to happen till the end of FY20. CARE also notes that, management is taking steps to rein in the elevated leverage through fund raising plan (QIP), if successful as envisaged, would provide both liquidity cushion and improvement in leverage level.

The rating continues to derive strength from BEL being part of reputable promoter group i.e. Bajaj Group which has strong brand presence and imparts financial flexibility, management having experience of handling the diversified business portfolio with an established position and a large distribution network in the Consumer Product (CP) business division. The rating also factors in expansion witnessed in operating margin of CP division during FY19 on back of change in sales delivery model and consistent growth reported in appliances segment under the CP division.

These strengths are, however, tempered by moderation in overall EBITDA margin for FY19, which is in line with the contraction witnessed in EPC division's operating margin. Counter party risk and project execution risks associated with the working capital intensive EPC business. Stiff competition from existing and new players entering the consumer products division limits the ability of BEL to pass on the increase in key raw material prices. Elevation in leverage as on March 31, 2019 (as compared to previous year) and weakening of debt coverage (like interest cover) as a consequent to incremental borrowing made to fund the high working capital intensity of EPC division.

Timely receipt of large receivables under its EPC division and successful infusion of long-term capital via QIP to bring down the adjusted consolidated leverage (including the corporate guarantees issued to a Joint ventures entity) would be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established and experienced promoters with strong brand presence in consumer product business

BEL is a part of Bajaj Group which has presence in diverse industries such as automobiles (two wheelers and three wheelers manufacturer), home appliances, lighting, iron and steel, insurance, travel and finance. BEL is headed by Mr. Shekhar Bajaj as Chairman & Managing Director of the company, bringing over more than 35 years of experience.

Furthermore, BEL has an established marketing position and brand recall with pan India distribution network and currently serves nearly 500 districts with 478 distributors catering to more than 200,000 retailers. It is also streamlining its distribution network with the implementation of RREP.

Diversified business portfolio

BEL has a strong presence in the CP business and has diverse portfolio in the consumer product space which includes lighting (bulbs, LEDs, torches, lamps etc.), appliances (mixer, grinder, microwave ovens, steam irons, water heaters etc.), fans (ceiling fans, exhaust fans, pedestal fans, wall fans, table fans) and presence in premium segment via Morphy Richards. It also has considerable presence in the E&P segment wherein it executes projects under the spectrum of transmission towers, distribution and illumination. Having a diversified business portfolio helps the company from being less exposed to demand cycle of any one particular business. The consumer durables segment contributed 41% and the E&P business contributed 59% to the total operating income during FY19.

Continued strong performance of its consumer products

The revenue from the CP reported growth of 23.3% on YoY basis in FY19 as compared to YoY decline 3.7% in FY18. The growth in revenue from consumer products was attributable to benefit on account of progress in RREP implementation leading to growth seen in every sub-categories of Appliances. The PBILDT margin of the consumer product has remained on

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

the increasing trend since FY17, led by improved product mix, increased penetration and progress in implementation of RREP.

Progress achieved in implementation of RREP

Under the RREP, the company has changed its strategy from Push model to Pull model, where it is intended to eliminate the wholesale segment entirely once fully implemented. Although, there were delay in implementation owing to synchronizing and teething issues in FY18, however, as at the end of FY19, BEL has achieved about 93% rollout of RREP. The progress in RREP in FY19 had positively impacted the margins of CP business in FY19, further; the same is estimated to have positive impact on the PBILDT margins going ahead for the CP business.

E&P division: PBILDT margins continued to remain on declining trend; albeit consistent growth in revenue

E&P business of BEL primarily includes illumination, distribution and transmission, which accounted for about 7%, 64% and 20% of total revenue of E&P division in FY19.The revenue from its E&P business grew by 58.1% on a YoY basis in FY19. The growth was mainly on account of execution of its UP project (Madhyanchal and Purvanchal projects in Uttar Pradesh). The revenue from UP project was about Rs, 1609 crore, accounting for about 41% of the total revenue of Rs.3,932 crore from E&P business. However, led by higher cost as a result of short execution timelines the margins of E&P segment declined to 4.97% in FY19 as against 7.82% in FY18.

BEL's order book of E&P has reduced significantly to Rs.1, 747 crore as on May 31, 2019 (as against an order book of Rs. 7,307 crore in October 01, 2018), however, the previous year order included two large orders in UP project. Consequently, the share of revenue from E&P is expected to decline going ahead. Although, the declining trend in EPC share is expected to ease stretch in working capital requirement, however, ability of the company to secure larger orders with better margin and manage working capital efficiently remains to be key monitor able.

Key Rating Weaknesses

High working capital intensity owing to increased share of E&P business

Owing to nature of business of consumer products demands higher inventory levels, further adding to this large receivables arising out of E&P makes BEL's operations high working capital intensive in nature. Consequent to increase in revenue from E&P segment over last few years, total receivables in absolute terms have remained on the increasing trend. The same is evident from high share of gross working capital as percent of total capital employed and total operating income of 194% as on March 31, 2019 and 59% in FY19 respectively. Timely receipt of receivables and release of retention money from completed projects, thereby reducing reliance on working capital borrowings remains key monitor able and a key rating sensitivity.

Deterioration in leverage and debt coverage indicators

In-line with increasing share of E&P segment as well as short execution timelines of its UP orders had resulted in higher working capital requirement and higher cost of execution, which as is evident from increase in short term borrowings and decline in PBILDT margins of E&P segment. Consequently, the overall gearing including acceptances rose to 1.59x on a consolidated basis as on March 31, 2019 as against 0.79x as on March 31, 2018. The coverage indicators such as total debt to gross cash accruals also deteriorated to 8x as on March 31, 2019 as against 4.16x as on March 31. 2018 and the interest coverage declined to 3.23x in FY19 as against 5.57x in FY18.

Further, management is planning to infuse about Rs.600 crore through a mix of QIP/ preferential allotment to promoters by end of August 2019, which will be utilized to reduce debt thereby bringing down the total working capital borrowings including acceptances going forward. Hence, timely infusion of equity resulting in to reduced reliance on bank borrowing (short term) remains a key monitor able from credit perspective.

Counter-party and project execution risks in E&P business resulting in stretched operating cycle

The E&P business of the company is exposed to counter party risk as it deals with national as well as state institutions; however, most of the projects done by the company are centrally funded. The receivables in absolute terms continued to remain on the increasing trend with rise in revenue share of the high working capital intensive E&P business. BEL's total receivables as on March 31, 2019 increased significantly to Rs..3,144 crore (current+non-current) as against Rs.2,012 crore as on March 31, 2018. Further, around 80% of which were from the E&P business. In the consumer durables segment, the receivables are on account of credit given to canteen stores and modern retail format stores.

Stiff competition prevailing in the Consumer Product and E&P businesses

On the back drop of promising outlook in consumer appliances industry (due to rising income levels, rapid urbanization, and growth in nuclear families), the competition in the segment is intensifying, thereby increasing the pricing pressure on the company. The E&P industry is also strife with competitors both existing and the new ones entering the market due to low entry barriers.

Susceptibility of profitability to volatility in raw material prices

The company deals in consumer durables business where the terms of payment with vendors of the consumer durables products are on cost plus basis. The company is also into E&P segment, company has price variation clauses in the transmission line towers business, whereas in the power distribution segment, the company has to factor in the cost while bidding for the projects. Hence, the profitability of the company continue to remain susceptible to vulnerability in raw material prices.

Liquidity

BEL's liquidity position remain moderate with the presence of Rs.15.44 crore of cash as on March 31, 2019 and undrawn working capital bank lines (cash credit) to the extent of Rs.250 crore. On an average BEL utilizes the fund based limits up to an extent of 35-70%, thus providing it adequate liquidity cushion throughout the year. The company repays the CP on the maturity date out of the daily collections from debtors or by drawing upon the unutilized bank limits. Further, BEL being part of the Bajaj group enjoys financial flexibility.

Analytical approach:

During the year under review, BEL has acquired 79.85% of equity share capital of Nirlep and subsequent to this acquisition Nirlep has become a subsidiary of BEL with immediate effect on September 01, 2019. Apart from that BEL has Joint Venture (47%) with Starlite Lighting Limited (SLL) and is an associate of Hind Lamps Limited (HLL) (19%). Accordingly, CARE has considered consolidated financials while arriving at the rating as against standalone approach with loading of exposure to group entities adopted in previous year.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

The company was incorporated as Radio Lamp Works in 1938, and changed its name to Bajaj Electricals Limited (BEL) in 1960, and has businesses spread across Consumer Products and Engineering & Projects business (E&P). Bajaj Electricals has 20 branch offices spread in different parts of the country besides being supported by a chain of distributors, authorized dealers, retail outlets, exclusive showrooms called 'Bajaj World' and approximately 462 customer care centers. The company currently serves nearly 500 districts with 478 distributors catering to more than 200,000 retailers. Its manufacturing/assembling units are located at Ranjangaon and Chakan.

Brief Financials- (Consolidated (Rs. Crore)	FY18 (A)	FY19 (A)
Total operating income	4731.17	6712.12
PBILDT	327.89	380.39
PAT	83.63	153.58
Overall gearing (times)	0.79	1.59
Interest coverage (times)	5.57	3.23

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	Feb 2019- May 2019	8.98%-9.20%	Aug 2019-Sep 2019	500.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	500.00	CARE A1	-	1)CARE A1+ (20-Dec-18)	1)CARE A1+ (29-Dec-17)	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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