

**Bajaj Electricals Limited**  
**December 20, 2018**

**Ratings**

Instruments/Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Commercial Paper	500.00 (Rs. Five Hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the Commercial Paper issue of Bajaj Electricals Limited (BEL) continues to derive strength from the experience of the promoters, diversified business portfolio with an established and long standing position in the consumer product business, strong brand presence and a large distribution network. The rating also factors in healthy performance of the Engineering & Projects (E&P) segment backed by BEL's healthy order book position providing it revenue visibility for the next one and half years and its healthy liquidity position.

These strengths are, however, tempered by moderate profitability margins of the Consumer Products business owing to increasing competition and ongoing implementation of the Range & Reach Expansion Programme (RREP), counter party risk and project execution risks associated with the highly working capital intensive E&P business, moderate capital structure and the support extended by BEL, in the form of corporate guarantees, to Starlite Lighting Limited (SLL). The rating also takes cognizance of the risk of volatility in raw material prices and intense competition prevailing in the Consumer Products as well as the E&P businesses.

The ability of the company to successfully implement the RREP, and improve the margins and market share in the Consumer Products business, complete the E&P projects without any significant cost and time overrun, and efficiently manage working capital cycle remain the key rating sensitivities. Any sizeable debt-funded capital expenditure or increase in the support extended to SLL shall also remain key credit monitorables

**Detailed description of the key rating drivers****Key Rating Strengths*****Established and experienced promoters***

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.

***Diversified business portfolio***

BEL has a strong presence in the market 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 46% and the E&P business contributed 54% to the total operating income during FY18.

The revenue from the Consumer Products segment declined marginally by 3.7% in FY18 on account of implementation of RREP and implementation of GST during the year. Although the implementation of RREP was delayed due to synchronizing and teething issues, and there was associated fixed cost involved which affected profit margins, the company achieved around 85% rollout of RREP by FY18. The whole program rollout is expected to be achieved by December 2018. During H1FY19, the revenue from the segment grew by 26% from H1FY18 driven by increased market penetration through its retail network on account of successful implementation of RREP.

In the E&P business the revenue grew by 25% in FY18 on account of growth in order book and scheduled execution of projects during the year. The revenue from the segment grew by 52% during H1FY19 on account of fast execution of power distribution projects in Uttar Pradesh.

***Strong brand presence aided by large distributor network in consumer product business***

BEL has an established marketing position and brand recall with pan India distribution network and currently serves nearly 500 districts with 400 distributors catering to more than 144,000 retailers. It is also streamlining its distribution network with the implementation of RREP.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications.

**Healthy order book position in the E&P business providing revenue visibility**

In the E&P segment, the company executes projects under the spectrum of power transmission, distribution and illumination. It mainly deals with national and state institutions and municipalities. BEL had a strong order book worth Rs.7,307 crore as on October 01, 2018 providing revenue visibility for the next 1.5 years.

**Moderate capital structure**

The capital structure of the company is moderate with an overall gearing of 1.13x and debt equity ratio of 0.03x as on September 30, 2018 as against overall gearing of 0.78x and debt equity ratio of 0.02x as on March 31, 2018. The debt coverage indicators improved during FY18; however the same deteriorated during H1FY19. The interest coverage ratio stood at 4.30x during H1FY19 as against 5.43x during FY18 and 3.34x during FY17 due to increase in interest cost due to the increase in the borrowings during H1FY19. The Total Debt/ GCA has also deteriorated during H1FY19 to 7.32x as against 3.92x during FY18 and 4.77x in FY17.

**Acquisition of Nirlep Appliances Private Limited**

The company entered into a Share Purchase and Shareholders Agreement on June 15, 2018 with Nirlep Appliances Private Limited [Nirlep; rated CARE BB-; (Credit watch with developing implications/ CARE A4 (Credit watch with developing implications))] and its shareholders for the acquisition of entire shareholding of Nirlep for a consideration of Rs.42.5 crore over a 3-year period. The company has acquired 79.85% stake in Nirlep for Rs. 34.00 crore and it has become a subsidiary of the company w.e.f. September 01, 2018. BEL has a right to exercise call option to acquire the remaining 20% of shares any time within three years after the closing date. The acquisition has provided a portfolio of products which complements with the offerings of BEL. It shall also give BEL an exclusive access to “Nirlep” brand, the state of art manufacturing facility, people, distribution network, intellectual property rights and goodwill of Nirlep.

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

In power transmission, distribution and illumination businesses (which comes under E&P business unit), 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 operating cycle remains elongated at 130 days on account of increase in revenue share of the high working capital intensive E&P business. The company has trade receivables amounting to Rs.2131.39 crore as on September 30, 2018, around 75% of which are for 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.

**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, wherein it undertakes turnkey contracts for transmission line towers, high masts and poles, street lighting, etc. The 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. However, the company is exposed to commodity price risk for products such as copper, aluminium, plastic, steel, zinc etc. The prices of aluminum, copper and zinc have risen sharply over the past two years. Although the prices have tapered in the last few months, BEL's profitability will remain susceptible to volatility in the price of its raw materials. Ability of the company to manage the increased raw material prices remains key monitorable to the credit profile of the company. However the risk is mitigated to certain extent because of its established presence and diversified business profile.

**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.

**Support extended to SLL**

SLL is manufacturer of CFL and LED lamps, water heaters and air conditioners and has recently started manufacturing mixers. BEL has 47% stake in SLL as on March 31, 2018. BEL has extended corporate guarantee of Rs.289 crore for the borrowings of SLL.

**Liquidity**

BEL's liquidity position continues to remain healthy with the presence of sizeable undrawn working capital bank lines. On an average BEL utilizes the fund based limits up to an extent of 40-60%, 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.

**Analytical approach:** Standalone, factoring in the group company exposure.

#### 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](#)  
[Rating Methodology: Factoring Linkages in Ratings](#)

#### 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 400 distributors catering to more than 144,000 retailers. Its manufacturing/assembling units are located at Ranjangaon and Chakan.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	4286.98	4741.90
PBILDT	268.52	319.51
PAT	107.66	83.62
Overall gearing (times)	0.72	0.78
Interest coverage (times)	3.34	5.43

A: Audited

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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	September 2018-December 2018	7.95%-9.30%	December 2018-April 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	500.00	CARE A1+	-	1)CARE A1+ (29-Dec-17)	-	-

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