

MIRC Electronics Limited

October 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Term Loan	21.00	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Long-term Bank Facilities	119.00	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	135.00	CARE A3 [A Three]	Reaffirmed
Total Facilities	275.00 (Rupees Two hundred seventy five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of MIRC Electronics Limited (MIRC) takes into account comfortable capital structure with low overall gearing and sufficient liquidity cushion available with the company backed by moderate working capital utilization levels. Ratings also derive strength from comprehensive product portfolio spanning over TVs, Washing machines, ACs and microwaves with brand equity presence for more than over three decades as well as experienced management.

The rating strengths are, however, tempered by MIRC's deteriorating operational performance in FY19 and Q1FY20 marked by declining total income and profitability, inherent business risk characterized by higher competition in the industry, technology obsolescence risk and operating profit susceptibility to volatile forex rates.

Key rating sensitivities- Going forward, MIRC's ability to improve its scale of operations and profitability in the wake of increasing competition as well as maintain the capital structure with efficient working capital management are the key ratings sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

MIRC is promoted by Mr Gulu. L. Mirchandani (Chairman) and Mr Vijay. J. Mansukhani (MD). Promoters of the company have been associated with the consumer durable industry since more than three and half decades. Promoters of the company are supported by professional management team for heading different divisions of the company.

Comprehensive product portfolio

MIRC's product portfolio is well diversified with Television (TV), Air Conditioner (AC), Washing Machines (WM) and Microwave Oven. The product wise revenue break up is as given below;

	Revenues					
	2017-18		2018-19		Q1FY20	
	(Rs. Cr.)	(% of total)	(Rs. Cr.)	(% of total)	(Rs. Cr.)	(% of total)
TV	344	47	243.34	38	28.51	16
AC	298	40	283.94	44	117.86	66
WM	85	12	95.50	15	29.81	17
Other	8	1	20.97	3	1.38	1
Total	735	100	644.15	100	177.56	100

TVs and ACs contributed 82% to the revenues in FY19 as compared to 87% in FY18. However, AC and washing machine segments are growing majorly, further mitigating the dependence on one particular product segment. ACs were the major contributor to revenue in FY19 as compared to TVs in FY18.

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

Good brand appeal and well-established pan India distribution network

MIRC has brand recognition in Indian Electronic consumer durable market as “Onida” since 1981. MIRC has a robust network of dealers throughout the country. As on March 31, 2019, MIRC has 3000 dealers/distributors across pan India. Besides the offline channels, the brand “Onida” also has online presence through e-commerce retailers.

Comfortable capital Structure

With the equity infusion in FY18, MIRC’s overall gearing has improved significantly to 0.45 times as on March 31, 2018 against 1.59 times as on March 31, 2017. As on March 31, 2019, the same remained constant at 0.44 times and going forward also, it is expected to remain comfortable with no major capex and moderate working capital utilization. The average working capital utilization for the past 12 months ending June 2019 has remained moderate at around 44%.

Key Rating Weaknesses**Muted operational performance in FY19 and Q1FY20**

The company’s net sales during FY19 was at Rs.642.41 crore as compared to net sales of Rs.728 crore reported during FY18. Decline in revenues is because of decline in TV sales, which are triggered by aggressive pricing from Chinese brands in online space. Profitability margins were further impacted by volatile foreign exchange rates, rupee depreciation and an inventory write off related to CRT TVs to the tune of Rs 6.47 crores in Q4FY19. Also, during the first and fourth quarter the company’s sales are mainly driven by AC segment and late start of summers affected sales of ACs in Q4FY19. The AC sales shifted to Q1FY20, and the company registered healthy sales of Rs. 178cr and PBILDT of Rs. 5.07 cr during this period. Also, the company reported PAT of Rs. 0.88 crore in Q1FY20 as compared to net loss of Rs. 2.38 crore in Q4FY19 and PAT of Rs. 0.48 crore in Q1FY19.

Growth in the ACs and washing machines product segments is expected to increase the revenues in future.

Business risk in terms of higher competition, cheap imports along with risk of technology obsolescence

MIRC operates in a very competitive industry dominated by large MNCs with global presence. Presence of large number of players and low product switching cost results in low brand loyalty from consumers. Company faces technology obsolescence risk, thus efforts on product innovation and differentiation is needed which in turn further increases cost. Effective marketing strategies for product penetration is necessary to compete in the industry. There is an import threat in domestic consumer durable markets, especially from Chinese competitors. To compete and mitigate the competitive intensity, MIRC has relaunched brand “IGO” with a view to target millennials and will be available on online platform.

Working capital intensive nature of operations

MIRC’s nature of operations requires the company to maintain its large basket of SKUs at various warehouses present across the country. Besides, the company extends credit period of around two months to its distributors. Its average working capital cycle ranges at around 2-3 months.

Susceptibility to fluctuation in input prices and forex rates

Company imports 80% of its raw material and is exposed to volatility of exchange rates. Company manages its forex risk by hedging 50% of its liabilities through forward contracts. Company’s unhedged position on foreign liabilities exposes its PBILDT margins to volatility. MIRC’s forex gain in FY19 was Rs. 3.67 crore as compared to loss of Rs. 5.63 crore in FY18.

Liquidity Position

MIRC has adequate liquidity in terms of cash and cash equivalents amounting to Rs. 7.13 crore as on March 31, 2019. The company has a repayment of around Rs. 4 crore in FY20 and FY21 and the cash accruals each year are expected to be higher than these. Further, the company has adequate liquidity cushion in terms of unutilized fund based limits as the company had an average working capital utilization of 44% for the past 12 months ending June 2019.

Analytical approach: Standalone.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'credit watch' to credit Ratings](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology- Manufacturing companies](#)

[Financial ratios : Non-financial sector](#)

[Care's Policy on Default Recognition](#)

About the Company

MIRC Electronics Limited (MIRC) is engaged in manufacturing/assembling and marketing of Flat TVs, Washing Machines, Air-Conditioners and Microwave Ovens. 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.

MIRC has its plant in Wada (Maharashtra) for assembling LCD/LEDs and the assembling unit for semi-automatic washing machines is situated at Roorkee (Uttarakhand). The company has about 3,000 dealers/distributors to its network.

Brief Financials (Rs. crore)	FY18 (A)	FY19(A)
Total operating income	733.00	647.99
PBILDT	46.16	13.86
PAT	23.49	-4.40
Overall gearing (times)	0.45	0.44
Interest coverage (times)	3.28	0.94

A: Audited

*The Financials are reclassified as per the CARE Standards

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

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
Fund-based - LT-Cash Credit	-	-	-	119.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	135.00	CARE A3
Term Loan-Long Term	-	-	September 2023	21.00	CARE BBB-; Stable

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.	Fund-based - LT-Cash Credit	LT	119.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (01-Oct-18)	1)CARE BB; Stable (09-Oct-17)	1)CARE BB; Stable (02-Dec-16)
2.	Non-fund-based - ST-BG/LC	ST	135.00	CARE A3	-	1)CARE A3 (01-Oct-18)	1)CARE A4 (09-Oct-17)	1)CARE A4 (02-Dec-16)
3.	Term Loan-Long Term	LT	21.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (01-Oct-18)	1)CARE BB; Stable (09-Oct-17)	1)CARE BB; Stable (02-Dec-16)

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. <ul style="list-style-type: none"> a. Debt to equity- $\leq 0.5x$ b. Debt/EBITDA- $\leq 2x$ c. EBITDA margins $> 5\%$ 	
B. Non-financial covenants	
I. Company shall maintain adequate books and records reflecting its financial position and operations	
II. Assets charged to the bank must be always fully insured.	
III. In case of default of any loans/advances/interest or agreed installments, Banks and RBI has a right to publish the name of company and its directors as defaulters.	
IV. Company should hedge its forex exposure atleast to the extent of 50% at any given time	

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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