

MIRC Electronics Limited

December 08, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	150.00 (enhanced from 140.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	125.00 (reduced from 135.00)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	275.00 (Rs. Two Hundred Seventy-Five Crore Only)		

Details of facilities as per Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of MIRC Electronics Limited (MIRC) derives strength from comfortable capital structure with low overall gearing and efficient working capital management with moderate average working capital utilization levels. The ratings are also supported by comprehensive product portfolio ranging from TVs, washing machines, ACs, refrigerators and microwaves with brand presence spanning over three decades as well as experienced management.

That being said, MIRC has seen decline in its operational performance in FY20 marked by lower total income and profitability. However, Q2FY21 has shown better performance as compared to Q2FY20 both in terms of sales and profitability. Rating weaknesses also include inherent business risk characterized by high competition in the industry, technology obsolescence risk as well as operating profit being susceptible to volatile forex rates and raw material prices.

Key Rating Sensitivities

Positive Sensitivities

- Increase in PBILDT margins beyond 5% on account of better operational management on a sustained basis
- Significant improvement in working capital position resulting in positive cash flow from operations on a sustained basis

Negative Sensitivities

- Increase in overall gearing beyond 1.00x on account of any new capital expenditure or higher working capital utilization on a continued basis.

Detailed description of the key rating drivers

Key rating strength

Experienced promoters and management team

MIRC Electronics Limited was established in 1981 by Mr Gulu. L. Mirchandani (Chairman) and Mr Vijay. J. Mansukhani (MD). They have experience of more than four decades in the consumer durable industry. Promoters of the company are well supported by their professional management team.

Established brand equity and pan India presence

MIRC has been present in Indian consumer durable industry with its brand name "Onida" since 1981. Onida is a well-recognized brand in the domestic market. Through its presence of more than three decades in the industry, the company has created robust network of dealers/distributors. The company has also been increasing its e-commerce presence with increasing sales contribution coming from online portals such as Flipkart and Amazon. Company launched another brand called 'IGO' on Flipkart in December 2019. This brand is operating only in the online segment and is targeted towards millennial. MIRC has also launched India's first Fire OS TV partnering exclusively with Amazon in December 2019.

Comprehensive product portfolio

MIRC has a comprehensive product portfolio and is one of the prominent players in the consumer durables segment with major presence in TV, AC and Washing Machine segments. The company continues to derive majority of its sales from TV and AC business which together formed about 77% (P.Y.82%) of the company's FY20 revenues. MIRC has also introduced refrigerators in its product portfolio with the launch of its first refrigerator model in June 2020. The product is getting good response and will reduce company's dependence on TV and AC segments, thereby giving it a more diversified product portfolio.

Moderate capital structure and liquidity position

Company has moderate capital structure with overall gearing of 0.47x as on March 31, 2020 and 0.58x as on September 30, 2020. There is no foreseeable capital expenditure in near future. Company's liquidity position is adequate with minimal repayments and moderate average working capital utilization levels.

Key rating weakness**Highly competitive industry with inherent business risk of technology obsolescence**

MIRC operates in a very competitive industry with presence of global players. Presence of large number of players and low product switching cost results in low brand loyalty from consumers. Company needs to engage in continuous technological innovation and provide the right product to effectively compete in the market.

Working capital intensive nature of operations

MIRC's nature of operations requires the company to maintain its large basket of SKUs (stock keeping unit) at various warehouses present across the country. Besides, the company extends credit period of around two months to its distributors. Although the company receives credit of around 90 days, it still requires significant working capital requirements to fund its average working capital cycle at approximately 3 months. Operating cycle increased to 104 days in FY20 as compared to 92 days in FY19.

Decline in operating performances in FY20 although there is improvement in Q2FY21

Company registered operating income of Rs.606.34 crore in FY20 as compared to Rs.647.99 crore in FY19. Decline in revenue is mainly on account of lockdown imposed in March 2020 by GOI. Company witnesses seasonal sales and the fourth quarter (especially March month) is important for the company with respect to sales of ACs. PBILDT margins declined in FY20 to 1.09x as compared to 2.14x in FY19. Operational performance declined also on account of higher freight and forwarding expenses as well as forex losses. However, company's performance improved in Q2FY21. It registered income of Rs.141.05 crore in Q2FY21 as compared to Rs.95.08 crore in Q1FY21 and Rs.114.25 crore in Q2FY20. PBDIT for Q2FY21 is at Rs. 5.55 crore as against PBDIT loss of Rs. 3.40 crore for Q2FY20.

Exposure to forex rate fluctuation

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 contract. Company registered forex loss of Rs.3.79 crore in FY20 as compared to forex gain of Rs.3.20 crore in FY19. Company's imports are mostly done from china. China is a main supplier of open cells, which is a key raw material for TV panels. COVID19 adversely affected MIRC's raw material prices and in turn PBILDT margins also got affected.

Liquidity analysis**Adequate**

MIRC has a gearing ratio of 0.47x as on March 31, 2020 and 0.58x as on September 30, 2020. This gives company sufficient headroom to raise debt for its capex, although there is no major capex projected in the near term. Company has repayments amounting to Rs. 5.40 crore in FY21 and Rs.7.72 crore in FY22. Current ratio is 1.26x as on March 31, 2020. Average fund based utilization is moderate at 51.34% for past twelve months ending May 2020 against the fund based sanctioned limit of Rs.104 crore.

Analytical approach: Standalone

Applicable criteria

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology- Manufacturing companies](#)

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the company:

MIRC Electronics Limited (MIRC) is engaged in manufacturing/assembling and marketing of Flat TVs, Washing Machines, Air-Conditioners, Microwave Ovens and refrigerators. The company markets its products across India primarily under the ONIDA Brand. Apart from this, the company has another brand IGO which is available only in e-commerce space. MIRC has its plant in Wada for assembling LCD/LEDs and the assembling unit for semi-automatic and automatic washing machines is situated at Roorkee (Uttarakhand).

Brief Financials (Rs. In Crores)	FY 19 (A)	FY20(A)
Total operating income	647.99	606.34
PBILDT	13.86	6.60
PAT	-4.40	-11.47
Overall gearing (times)	0.44	0.47
Interest coverage (times)	0.94	0.55

A-Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History: 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	-	-	-	130.50	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	125.00	CARE A3
Term Loan-Long Term	-	-	2023	19.50	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	130.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Oct-19)	1)CARE BBB-; Stable (01-Oct-18)	1)CARE BB; Stable (09-Oct-17)
2.	Non-fund-based - ST-BG/LC	ST	125.00	CARE A3	-	1)CARE A3 (07-Oct-19)	1)CARE A3 (01-Oct-18)	1)CARE A4 (09-Oct-17)
3.	Term Loan-Long Term	LT	19.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Oct-19)	1)CARE BBB-; Stable (01-Oct-18)	1)CARE BB; Stable (09-Oct-17)

Annexure-3: Complexity level of instruments

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-4: 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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