Orient Electric Limited

February 21, 2018

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating[1]	Remarks
Long Term Bank Facilities	133.16	**CARE AA-; Stable (Double A minus; Outlook: Stable)**	**Assigned**
Short-term Bank Facilities	3.30	**CARE A1+ (A One plus)**	**Assigned**
Long/Short Term Bank Facilities	188.50	**CARE AA-; Stable / CARE A1+ (Double A minus; Outlook: Stable/ A One plus)**	**Assigned**
Total Facilities	**Rs.324.96# (Rs. Three Hundred and Twenty Four crore and Ninety Six lacs only)**		

Details of instruments/facilities in Annexure-1

#Post demerger of the consumer electric division from Orient Paper & Industries Limited (OPIL) into Orient Electric Ltd (OEL), the rated bank facilities appearing in the books of OPIL as on Mar.01, 2017 have been allocated between the demerged entities (OEL's share is tabled above); however bank wise allocation is yet to be finalized by the bankers.

Detailed Rationale & Key Rating Drivers

The ratings of Orient Electric Ltd. draws support from long experience of the promoters, OEL being part of established C.K. Birla group and continuous improvement in the performance of consumer electricals segment. The rating also factors in the OEL's dominant position in the Fan business with strong brand recall for its other consumer electricals products amidst favorable outlook for the consumer electrical business.

The ratings, however, are constrained by stiff completion from established players in the industry and unorganized players in the fan business.

Ability to further improve its product acceptance and expand its outreach with continuous improvement in the profitability while maintaining the overall capital structure shall remain the key rating sensitivities

Detailed description of key rating drivers

Key rating strengths

Established group with long experience of the promoters

OPIL, belonging to G.P. - C.K. Birla group, was incorporated in July, 1936. Shri C. K. Birla, at the helm of the affairs of the company, has been associated with the company since 1978. G.P. - C.K. Birla group, established by late Shri B.M. Birla, is a leading industrial group of the country and has major interest in diverse range of products like automobiles, auto ancillary products, earthmoving equipment, engineering products, chemical, cement, paper, fan and consumer electrical items.

Strong brand recall for its products

In FY15, OPIL came up with its new brand 'Orient Electric' to present itself as an integrated home solutions provider for the Electrical business. The move is part of the company's strategy to reposition Orient Paper & Industries' electrical divisions current brand identity 'Orient Electricals'. The company incurred Rs.25 crore as branding expense for the same. The makeover helped the company to consolidate its diverse business verticals - fans, lighting products, home appliances and switch gears - under one umbrella brand 'Orient Electric'.

MS Dhoni is the brand ambassador for the company's electronic products. The products are sold through a wide distribution network of around 4,400 dealers and 80,000 outlets spread all across the country.

One of the Market leaders in the Fan business

OPIL holds the second position in the overall Indian Fan market with revenue of Rs 945.9 crore in FY17 and ~20% share of the organized market and is the largest exporter of fans from India (with market share of ~60%). It has also received the prestigious Business Superbrand status for 2017. Fan segment currently holds 1st position in Central, North and East zone and 2nd position in South zone.

Satisfactory performance of the enterprise in FY17

The net sales of the consumer electricals segment increased by about 5% in FY17 over FY16 in view of growth in the appliance business (y-o-y growth of 35%) on the back of aggressive marketing/launch of appliances on a PAN India basis. Sales volume of electric fans improved marginally in FY17 mainly due to the impact of demonetization in that period. Lights & Luminaries segment however witnessed a marginal decline during FY17 due to lower orders from the government.

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

The overall profitability margins of the consumer electrical segment witnessed a gradual increase from 5.26% in FY15 to 6.72% in FY16 and 7.55% in FY17 mainly on the back of aggressive marketing/ rebranding of electric division brand as 'Orient Electric" and gradually realizing its benefit. Further the decline in the input cost coupled with increase in volumes helped the company to generate better profitability.

Favorable Outlook of Consumer Electrical Segment

The organized fan market in India is estimated to be around Rs.6,500 crore and the revenue for organized electric fan market is growing at a CAGR of ~12% during the last five years. Of this, OEL accounts for about 20% market share in India and 60% market share in exports. Higher disposable incomes, increased availability of continuous power and a faster shift to the organized sector has propelled the electric fan market in India, which augurs well for the company.

India Lighting market has grown at a CAGR of ~17% during the last five years and is projected to grow even in future due to tremendous growth in the LED Lighting industry. LED Lighting market has grown at a CAGR of ~57% over last five years. Government initiatives to replace incandescent bulbs with LED bulbs under various schemes, increasing energy demand in the country and declining prices of LED lights are the major factors driving the growth of LED lighting in India.

Home appliances industry witnessed a growth of ~5% in FY17 led by Room Coolers and Mixer Grinders which has grown by ~12% and ~10% respectively.

In OEL the fans continue to dominate the segment while the lights & luminaries segment is expected to grow with the launch of various LED products, appliances sector is expected to turnaround with the high demand of room heaters, water heaters and coolers and the launch of new switchgear products in new geographies is expected to add a large market share of the competitive electrical industry.

Key Rating Weaknesses

Stiff completion from established players in the industry and unorganized players in the fan business

Though the company has strong presence in the fan market, it faces tough competition in appliances & lights segment from the already established players in the industry. Further, the influx of Chinese products & the unorganized market (especially fan) 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 and product innovation. Further to guard itself from heavy competition, OEL has consistently focused on exports and currently it has a healthy market share of ~60% of total fans exported from India, with a strong presence in the Middle East and Africa. The management has plans to increase its penetration deeper in all the current markets with plans to add new products for export segment.

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition

Criteria on assigning Outlook to Credit Ratings

Criteria for Short Term Instruments

Rating Methodology-Manufacturing Companies

Financial ratios – Non-Financial Sector

About the Company

The Consumer Electric Division of Orient Paper & Industries Limited (OPIL) has been demerged into Orient Electric Limited (OEL) with effect from 1st March 2017; vide the scheme of Demerger, approved by the National Company Law Tribunal (NCLT), Kolkata on November 09, 2017.

Resultantly, Orient Electric Ltd. incorporated in October 2016, currently has a fan manufacturing capacity of 80 lakh units p.a., lights & luminaries capacity of 144.5 lakh units p.a. and a newly commissioned switchgear unit having a capacity of 25.5 lakh units p.a., situated in Haryana & West Bengal.

Brief Financials (Rs. crore)	FY17 (A)	9MFY18 (P)
	Merged	De-merged
Total operating income	1,878.1	1,002.5
PBILDT	135.4	53.6
PBT	67.5	26.1
PAT	50.6	17.0
Overall gearing (times)	0.87	1.06
Interest coverage (times)	3.05	3.10

A: Audited P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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
Non-fund-based - LT/ ST-BG/LC	-	-	-	122.50	CARE AA-; Stable / CARE A1+
Term Loan-Long Term	-	-	-	61.66	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	71.50	CARE AA-; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	66.00	CARE AA-; Stable / CARE A1+
Non-fund-based - ST-Forward Contract	-	-	-	3.30	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	122.50	CARE AA-; Stable / CARE A1+	-	-	-	-
2.	Term Loan-Long Term	LT	61.66	CARE AA-; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	71.50	CARE AA-; Stable	-	-	-	-
4.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	66.00	CARE AA-; Stable / CARE A1+	-	-	-	-
5.	Non-fund-based - ST-Forward Contract	ST	3.30	CARE A1+	-	-	-	-

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CIN - L67190MH1993PLC071691