Orient Electric Limited

July 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	160.58 (Enhanced from 7.70)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Long/Short-term Bank Facilities	395.00 (Enhanced from 260.0)	**CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)**	**Reaffirmed**
Short-term Bank Facilities	103.30	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**Rs.658.88 (Rupees Six Hundred Fifty Eight crore and Eighty Eight lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Orient Electric Ltd (OEL) continue to draw support from the long experience of the promoters, OEL being part of established C.K. Birla group, satisfactory financial performance in FY20 (refers to the period April 01 to March 31), comfortable capital structure, adequate liquidity position and healthy debt protection metrics. The ratings further derive comfort from the leading position of OEL in the fan business with strong brand recall, continuous innovation in its products and entry into premium range of products by tie-up with De'Longhi group, Italy.

The ratings are, however, constrained by working capital intensive nature of operations, volatile raw material prices, seasonality in sale of OEL's products with quarter-end dampener effect on sales and build-up of unsold inventory due to lockdown on account of COVID-19, risks associated with product warranty and stiff competition in the industry. The ratings also factor in the project implementation and stabilization risk for the planned capex in Southern India

Key rating sensitivities

Positive factors

- Ability to further improve the product acceptance and expand its outreach and increase the scale of operation by 15%.
- Improvement in overall gearing ratio below 0.20x on a sustained basis.

Negative factors

- De-growth in sales by 30% on a sustained basis.
- Deterioration of gearing ratio above 1.00x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Established group with long experience of the promoters

Mr C. K. Birla, at the helm of the affairs of the company, has been associated with the business since 1978. CK Birla group is a leading industrial group having major interest in diverse range of products like automobiles, auto ancillary products, earthmoving equipment, engineering products, chemical, cement, paper, fan and electrical items. The companies belonging to the group have an established position in their respective industries. OEL also has a qualified & experienced management team.

One of the market leaders in the fan business supported by wide distribution channel

OEL holds the second position in the Indian Fan market with revenue of Rs.1,245 crore (contributes 60% of the total sales in FY20) and ~20% share of the organized market, and is the largest exporter of fans from India (as maintained by the Company).

The company sells its products under the well-known brand of 'Orient Electric'. The products are sold through a wide distribution network of around 5,000 dealers and 1,25,000 retail outlets spread across the country. OEL is also selling its products through its own e-commerce portal as well as through other leading online marketplaces (like Amazon, Flipkart

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

etc.). OEL has incurred Rs.83.0 crore in FY20 vis-à-vis Rs.73.8 crore in FY19 towards advertisement expenses (4.08% of net sales in FY20 & 4.03% of net sales in FY19) to push sales.

Tie up with De'longhi Group, Italy
OEL has entered into an exclusive strategic tie-up with De'longhi group, Italy to market and sell its premium international brands in India (i.e De'longhi, Kenwood and Barun). In FY20, the company reported sales of Rs.9.30crore from De'Longhi brand.

De'Longhi, Kenwood & Braun have a strong product basket in coffee preparation, food preparation and cooking, cleaning and ironing and home comfort. This partnership will help OEL to expand its appliances portfolio (offering) and tap into emerging trends in the consumer appliances space in India.

Satisfactory financial performance in FY20
Net sales witnessed a y-o-y growth of 10% in FY20 on account of overall increase in the sales volume for all the products. The PBILDT margin of the company stood at 8.72% in FY20 (considering the impact of IND AS-116). However the adjusted PBDILT margin after excluding the impact of IND AS 116 has declined to 7.97% in FY20 from 8.13% in FY19 due to higher advertisement cost and cost of traded goods. The interest coverage ratio remained comfortable at 6.89x in FY20. GCA remained comfortable at Rs.117 crore vis-à-vis total debt repayment obligation of Rs.31 crore in FY20. However, in view of nation-wide lockdown to fight the COVID-19 pandemic, the operations for Q1FY21 is expected to be muted and will start picking up from Q2FY21 onwards.

Improvement in capital structure and debt protection metrics
The debt equity ratio has improved to 0.01x as on March 31, 2020 from 0.12x as on March 31, 2019 on account of prepayment of one of its term loan of Rs.24 crore out of cash generated in Q1FY20. The overall gearing ratio also improved to 0.57x as on March 31, 2020 from 0.82x as on March 31, 2019. The adjusted overall gearing ratio, including the lease liability, stands at 0.73x as on March 31, 2020. TD/GCA also improved to 1.72x as on March 31, 2020 from 2.97x as on March 31, 2019. The debt protection is expected to remain comfortable over the medium term, despite proposed term loan for the planned capex.

Key Rating Weakness
Profitability susceptible to volatility in raw material prices
The major raw materials required for manufacturing of fans, lighting & switchgears are silicon sheets, copper rods and wires, steel and aluminum. These products being commodity in nature have volatile price movements. If the company is not able to pass on the hike in prices of raw materials to customers, it might affect the profitability of the company.

Working capital intensive nature of business
The operating cycle of the company has roughly remained same in FY20 at 62 days vis-a-vis 66 days in FY19 with reduction in debtor's collection period to 69 days in FY20 to 77 days in FY19 due to efficient collection mechanism by the company despite the lockdown on account of COVID-19 at the end of March'2020. The inventory days however remained high at 57days in FY20 due to build-up of unsold inventory on account of lockdown at the time of peak demand period with favourable seasonal condition. The average working capital utilization remained at 45% during the twelve month period ended April 2020.

Seasonality in sale of OEL's products
Sales for OEL's products are seasonal in nature, with increased sale of fans and air coolers (accounting for over 60% of the Company's sales in FY20) during Q4 (before commencement of summer). Moreover, adverse weather conditions, including prolonged winters or untimely rains, also adversely affect sale of fans and air coolers. Further the fan volume in Q4FY20 suffered a setback due to the quarter-end dampener on account of COVID-19 and therefore the margin expansion could not be achieved.

To reduce the impact of seasonality on the working capital needs, the Company is focusing on growing non-fan products (like lighting and switchgears) and using vendor finance.

Risk associated with product warranty
OEL provides 1-5 years warranty on its products (mainly LED segment). The company recognises provision for warranty claims on products sold under warranty as per the technical estimates made by the management, based on historical trends, as it is exposed to the risk associated with product defects.
In FY20 the company has recognized provision for warranty claims of Rs.29.96 crore vis-à-vis Rs.35.51 crore in FY19.

Stiff competition in the industry

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 un-organized 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 is the largest exporter of fans from India (as maintained by the company), with a strong presence in the Middle East and Africa. OEL also exports fans to the US and some European countries.

However, due to COVID-19 as more and more people become home bound to mitigate health risks, consumer behaviour is likely to change and the entire Home appliances product line of the company may actually turn out to be essential home products rather than discretionary. At the same time, cost conscious consumers look upon differentiated products to satisfy their home comfort needs. Covid-19 also could open-up opportunities for indigenization and newer overseas geographies for exports

Industry Outlook

In FY20, CARE Ratings expects the electronic consumer durable industry to witness a growth of about 6-8% vis-à-vis corresponding period previous year largely on back of 9M ending December 2019 demand. Demand in Q4 FY20 is expected to exert pressure on the overall performance of the industry during the year. Further, with the current pandemic Covid-19 impact on the country, CARE expects demand for consumer durables to remain muted during H1FY21 (main summer demand) as the consumer sentiments are expected to be low and spending to be cautious on big-ticket/luxury goods. Also demand for housing in FY21 is expected to remain subdued. Going forward, the industry is expected to register a slower growth of about 4-6% for FY21 supported by an expected improvement in spending on back of normal monsoon in most parts of the country provided the outbreak is curtailed. Also, the untimely rainfall during Q4 FY20 is expected to strain the rural spending in the short to medium term exerting further pressure on the industry demand.

However, demand for consumer durables goods are likely to witness growing demand in the coming years in the rural markets with the government planning to invest significantly in rural electrification as well 'Make in India' initiative. Under the Budget Scheme FY21, the government retained its focus on rural economy by continuing the pro-poor and pro-farmer schemes.

Liquidity Analysis: Adequate.

The company's liquidity position is adequate, with free cash and cash equivalents of Rs.58.68 crore as on May 31, 2020. The current ratio as on March 31, 2020 was comfortable at 1.32x vis-à-vis 1.33x as on March 31, 2019. The company generated GCA of Rs.117.03 crore in FY20 vis-à-vis debt repayment obligation of Rs.31.19 crore. The average working capital utilization remained at 45% during the twelve month period ended April 2020. Given the healthy GCA, low debt repayment obligation and sufficient unutilised line of credit, the company has cushion to fund the routine and expansion capex planned for FY21 and FY22. Further OEL has not sought moratorium for its facilities from its lenders as part of the Covid-19 Regulatory Package announced by RBI.

Analytical approach: Standalone, factoring strong group support of C.K. Birla group

Applicable Criteria

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

About the Company

OEL, belonging to the CK Birla group, was incorporated on October 10, 2016 as a subsidiary of Orient Paper & Industries Limited (OPIL; rated CARE AA-; Stable/ CARE A1+). Pursuant to the scheme of Demerger approved by the National Company Law Tribunal (NCLT), Kolkata on November 09, 2017 with effective date of December 08, 2017, the Consumer Electric Division of OPIL had been demerged into Orient Electric Limited (OEL) with effect from March 01, 2017 (appointed date) and all the assets and liabilities were transferred at book value from OPIL to OEL. Shares of OEL, held by OPIL, are cancelled and OEL is no more a subsidiary of OPIL. Net asset taken over was Rs.190.8 crore against which the Company issued shares to the shareholders of the OPIL (Rs.21.22 crore; one share for every one share held in OPIL).

OEL is engaged in manufacturing of Fan (capacity of 97 lakh units p.a.), lights & luminaries (capacity of 341 lakh units p.a.) and switchgear units (capacity of 142.8 lakh units p.a.), situated across Haryana West Bengal & Noida. During the

Q4FY20, the production operations of Guwahati plant were transferred to the existing plants at Faridabad and Kolkata and the lease for the premises was discontinued from 1st Feb'20. OEL is also engaged in selling of home appliances products (coolers, toasters, etc). In FY17, OEL launched Aero Quiet ceiling fans and riding on its success the Aero series range was expanded with multiple variants in FY18. OEL products are sold under the brand name "Orient Electric" with brand ambassador being M.S. Dhoni. The company is operating under two segments:

1. Electrical Consumer durable (includes ceiling fans, portable and airflow along with components and accessories thereof and appliances- coolers, geysers and home appliances, etc.)
2. Lighting & switchgear (includes lights & luminaries-LED, street lights, switches, MCB etc).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1,873.52	2065.11
PBILDT	152.32	179.98
PAT	69.31	78.62
Overall gearing (times)	0.82	0.57
Interest coverage (times)	6.66	6.89

A: Audited

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 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	-	-	-	247.50	CARE AA-; Stable / CARE A1+
Term Loan-Long Term	-	-	September 2025	52.58	CARE AA-; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	81.50	CARE AA-; Stable / CARE A1+
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	66.00	CARE AA-; Stable / CARE A1+
Non-fund-based - ST-Forward Contract	-	-	-	3.30	CARE A1+
Fund-based - ST-Term loan	-	-	-	100.00	CARE A1+
Fund-based-LT-Cash Credit	-	-	-	108.00	CARE AA-; Stable

Annexure-2: Rating History for 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.	Non-fund-based - LT/ ST-BG/LC	LT/ST	247.50	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (13-Aug-19) 2)CARE AA-; Stable / CARE A1+ (05-Jul-19)	1)CARE AA-; Stable / CARE A1+ (05-Jul-18)	1)CARE AA-; Stable / CARE A1+ (21-Feb-18)
2.	Term Loan-Long Term	LT	52.58	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Aug-19) 2)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (05-Jul-18)	1)CARE AA-; Stable (21-Feb-18)
3.	Fund-based - LT/ ST-Cash Credit	LT/ST	81.50	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (13-Aug-19) 2)CARE AA-; Stable / CARE A1+ (05-Jul-19)	1)CARE AA-; Stable (05-Jul-18)	1)CARE AA-; Stable (21-Feb-18)
4.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	66.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (13-Aug-19) 2)CARE AA-; Stable / CARE A1+ (05-Jul-19)	1)CARE AA-; Stable / CARE A1+ (05-Jul-18)	1)CARE AA-; Stable / CARE A1+ (21-Feb-18)
5.	Non-fund-based - ST-Forward Contract	ST	3.30	CARE A1+	-	1)CARE A1+ (13-Aug-19) 2)CARE A1+ (05-Jul-19)	1)CARE A1+ (05-Jul-18)	1)CARE A1+ (21-Feb-18)
6.	Fund-based - ST-Term loan	ST	100.00	CARE A1+	-	1)CARE A1+ (13-Aug-19)	-	-
7.	Fund-based-LT-Cash Credit	LT	108.00	CARE AA-; Stable	-	-	-	-

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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