

## Orient Electric Limited

July 05, 2018

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Remarks
Long-term Bank Facilities	125.35	<b>CARE AA-; Stable (Double A minus; Outlook: Stable)</b>	<b>Reaffirmed</b>
Long/Short-term Bank Facilities	188.50	<b>CARE AA-; Stable/ CARE A1+ (Double A minus; Outlook: Stable/ A one plus)</b>	
Short-term Bank Facilities	3.30	<b>CARE A1+ (A one plus)</b>	
<b>Total</b>	<b>Rs.317.15<sup>#</sup> (Rs. Three Hundred and Seventeen crore and Fifteen lacs only)</b>		

*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 continue to draw support from the long experience of the promoters, OEL being part of established C.K. Birla group and constant improvement in the performance of the consumer electrical segment with improvement in the profitability during FY18 and comfortable capital structure. The rating also factors in the OEL's dominant position in the Fan business with strong brand recall for its other consumer electrical products amidst favorable outlook for the consumer electrical business.*

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

*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**

OEL, belonging to G.P. - C.K. Birla group, was incorporated in October 2016(demerged from OPIL pursuant to the demerger approved by NCL w.e.f 1st March'17).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**

The company sells its products under the brand of 'Orient Electric' with MS Dhoni as the brand ambassador for the company's electronic products. The products are sold through a wide distribution network of around 4,650 dealers and 80,000 outlets spread all across the country. OEL is also selling its products through its own e-commerce portal as well as through other leading online retail platform with committed focus on aggressive advertisement through television, hoardings, print and other medium.

##### **One of the Market leaders in the Fan business**

OEL holds the second position in the overall Indian Fan market with revenue of Rs 1085.6 crore in FY18 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. OEL's Fan segment currently holds 1<sup>st</sup> position in Central, North and East zone and 2<sup>nd</sup> position in South zone.

##### **Financial risk profile marked by improvement in the profitability during FY18 and comfortable capital structure**

The electrical division of OPIL was successfully demerged w.e.f 1<sup>st</sup> March 2017 into OEL. Hence the Audited Financials for OEL (FY17) represent only one month financials of the electrical division for the financial year 2016-17 and are accordingly not comparable with FY18 (full year). Performance of the electric division during 1st April 2016-28th Feb 2017 has been accounted for in the audited financials (FY17) of OPIL as revenue from discontinuing operation. Taking into account the financial performance of the consumer electric division for the whole year (FY17 calculated), Net Sales for the consumer

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

electric division witnessed a y-o-y growth of ~19% in FY18 over FY17 on account of overall increase in the sales volume for the electrical division as a whole (primarily lighting segment). In line with the increase in total sales, PBILDT level also improved from Rs.105.05crore (calculated) in FY17 to Rs.144.07crore in FY18. The profitability margin of electrical division witnessed an increase from 7.67 % (calculated) in FY17 to 8.72% in FY18 on account of improved sales realizations from the premium fan segment and lights and luminaries division. This coupled with aggressive marketing/ rebranding of electric division brand as 'Orient Electric' (one time expenditure of Rs.25 crore was incurred in FY15) and gradually realizing its benefit in the recent years/ period, helped the electrical division to generate better profitability each passing year. Accordingly the PAT margins also witnessed an improvement from 2.84% (calculated) in FY17 to 3.88% in FY18. Interest coverage ratio remained comfortable at 5.89 times in FY18. The debt metrics of OEL also remained comfortable with overall gearing at 0.83x and total debt/GCA at 2.05x as on March 31, 2018.

#### ***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 have shown substantial improvement in FY18 and 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 Weakness**

##### ***Stiff competition 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. OEL also exports fans to the US and some European countries. The management has plans to increase its penetration deeper in all the current markets (OEL is exporting to around 35 countries) with plans to add new products for export segment.

**Analytical approach:** Standalone.

#### **Applicable criteria:**

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

[Criteria for Short Term Instruments](#)

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

[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 98.5 lakh units p.a., lights & luminaries capacity of 255 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. OEL product line includes fans, lighting products, home appliances and switchgears which are sold under the brand name "Orient Electric" with brand ambassador being M.S. Dhoni.

Brief Financials of OEL(Rs. in crore)	FY17(Audited)*	FY18 (Audited)
Period	1 <sup>st</sup> March'17-31 <sup>st</sup> March'17	1 <sup>st</sup> April'17-31 <sup>st</sup> March'18
Total Operating Income	221.95	1,651.44
PBILDT	24.66	144.07
PAT	11.82	64.03
Overall Gearing	1.15	0.83
Interest Coverage	Not Meaningful	5.89

*\*The financial reporting, pursuant to the demerger of the Consumer Electric Division of Orient Paper & Industries Limited, has been accounted for w.e.f March 01, 2017; being the appointed date as per the scheme.*

*Therefore financials of FY17 (A) are not comparable with FY18 (A), showing only one month of operations under OEL (1<sup>st</sup> March'17-31<sup>st</sup> March'17). Financial performance of the electric division during 1<sup>st</sup> April 2016-28<sup>th</sup> Feb 2017 has been accounted for in the books of Orient Paper & Industries Ltd as 'Profit from Discontinued Operations'*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**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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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
Non-fund-based - LT/ ST-BG/LC	-	-	-	122.50	CARE AA-; Stable / CARE A1+
Term Loan-Long Term	-	-	Feb 2023	53.85	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 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.	Non-fund-based - LT/ ST-BG/LC	LT/ST	122.50	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (21-Feb-18)	-	-
2.	Term Loan-Long Term	LT	53.85	CARE AA-; Stable	-	1)CARE AA-; Stable (21-Feb-18)	-	-
3.	Fund-based - LT-Cash Credit	LT	71.50	CARE AA-; Stable	-	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+ (21-Feb-18)	-	-
5.	Non-fund-based - ST-Forward Contract	ST	3.30	CARE A1+	-	1)CARE A1 (21-Feb-18)	-	-

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