

Orient Electric Limited

August 13, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	7.70 (reduced from 32.71)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Long/Short-term Bank Facilities	260.00	CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)	
Short-term Bank Facilities	103.30 (enhanced from 3.30)	CARE A1+ (A One Plus)	
Total	Rs.371.00 (Rupees Three Hundred seventy one crore)		

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 FY19 (refers to the period April 01 to March 31) and Q1FY20, 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, 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.

The 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 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.1,148 crore in FY19 (contributes 62% of its total revenue in FY19) 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'. MS Dhoni is the brand ambassador for the company's electronic products. 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 etc.). OEL has incurred Rs.73.8 crore in FY19 vis-à-vis Rs.70.85 crore in FY18 towards advertisement expenses (4.03% of net sales in FY18 & 4.48% of net sales FY19).

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).

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

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 FY19 and Q1FY20

Net sales witnessed a y-o-y growth of 16% in FY19 on account of overall increase in the sales volume for all the products. The PBILD margin declined to 8.13% in FY19 from 8.91% in FY18 due to higher provisioning for warranty, inventory and receivables but remained stable.

The interest coverage ratio improved from 5.89x in FY18 to 6.66x in FY19 mainly because of lower finance cost. GCA remained comfortable at Rs.83 crore vis-à-vis debt repayment obligation of Rs.22 crore in FY19.

The segment wise performance is as under:

Segment	Electrical Consumer Durables		Lighting & Switchgear	
	FY18 (A)	FY19 (A)	FY18 (A)	FY19 (A)
Segment Revenue	1,218.14	1,329.61	407.44	534.79
Segment Results (before interest, tax and un-allocable exp)	147.48	150.79	34.48	58.76
Segment Margin (%)	12.10	11.34	8.46	10.99

(Rs. crore)

The profitability margin of lighting & switchgear division improved due to increase in scale of operations.

In Q1FY20, the company earned a PAT of Rs.18.87 crore (Rs.12.04 crore in Q1FY19) on a total operating income of Rs.568.86 crore (Rs.435.13 crore in Q1FY19).

Comfortable capital structure and debt protection metrics

The debt equity ratio has improved from 0.22x as on March 31, 2018 to 0.12x as on March 31, 2019 and further to 0.02x as on June 30, 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 remained stable as on March 31, 2019 at 0.82x and improved to 0.42x as on June 30, 2019 on account of prepayment of long term loan coupled with reduction in working capital borrowing.

TD/GCA deteriorated to 2.97x as on March 31, 2019 from 2.05x as on March 31, 2018 due to lower GCA but remained comfortable during the period.

Apart from the routine capex of around Rs.50 crore, the Company has planned an expansion project of around Rs.125 crore, in Southern India, to be funded at a debt equity ratio of 4:1 over the next two years. The project is in very nascent stage and land identification and fund tie-up is yet to be achieved. The debt protection is expected to remain comfortable over the medium term, despite proposed term loan for the planned capex, in view of healthy GCA level and low debt position.

Key Rating Weaknesses

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 though has improved from 79 days in FY18 to 66 days in FY19 mainly due to reduction in debtor's collection period from 83 days in FY18 to 77 days in FY19 remained on a higher side. The average working capital utilization remained high at 82% during the twelve month period ended April 2019.

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 62% of the Company's sales in FY19) 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.

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 FY19 the company has recognized provision for warranty claims of Rs.32.8 crore vis-à-vis Rs.24.7 crore in FY18. Higher provisioning is in view of higher warranty claims witnessed by the Company arising out of poor power quality in some pockets.

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 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 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.

Industry Outlook

The outlook for the electrical consumable division is expected to be favorable due to rising disposable income and easy access to credit, increasing electrification of rural areas and wide usability of online sales shall also aid growth in demand. India being a tropical country makes fans a necessity and the fan Industry in India is well established and shown significant growth in past years. The S&P BSE Consumer Durables Index has grown at 16% CAGR between the period 2010-18. Further, initiatives taken by government through various schemes like SAUBHAGYA, UJALA, rural electrification and housing for all has improved the overall demand for lighting and electronics products. 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. LED lighting has now nearly replaced CFLs, which, along with other conventional lights, is in the last stage of its product lifecycle.

The management expects that there will be a gradual shift to organized/ branded fan players over the next 2-3 years on the back of increasing spending power and focus of the company on the premium segment. OEL is well-placed to capitalize this opportunity with its strong brand recall, diversified product portfolio and strong distribution network with PAN India presence. Coolers and water heaters (appliance segment) have strong growth potential, mainly because of lower penetration and a huge unorganized market (more than 50%). OEL has gained market share in air coolers and is now among the top-5 players.

Liquidity Analysis: Adequate.

OEL's liquidity position is adequate, characterized by healthy GCA of Rs.83 crore vis-à-vis debt repayment obligation of Rs.22 crore in FY19. In FY19, OEL incurred capex of Rs.35 crore and paid dividend of Rs.25 crore out of the surplus funds. Accordingly, the cash and bank balance stood at Rs.32 crore as on March 31, 2019 (Rs.31 crore as on March 31, 2018). Current ratio was satisfactory at 1.33x as on March 31, 2019. Given the healthy GCA and low debt repayment obligation, the Company has cushion to fund the routine and expansion capex planned for FY20 and FY21.

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

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 95 lakh units p.a.), lights & luminaries (capacity of 341 lakh units p.a.) and switchgear units (capacity of 3.1 lakh units p.a.), situated across Haryana West Bengal, Noida & Guwahati. 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. in crore)	FY18 (A)	FY19 (A)
Total Operating Income	1,616.84	1,873.52
PBILDT	144.07	152.32
PAT	64.02	69.31
Overall Gearing	0.83	0.82
Interest Coverage	5.89	6.66

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	-	-	-	122.50	CARE AA-; Stable / CARE A1+
Term Loan-Long Term	-	-	December 2020	7.70	CARE AA-; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	71.50	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+

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.	Non-fund-based - LT/ST-BG/LC	LT/ST	122.50	CARE AA-; Stable / CARE A1+	1)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	7.70	CARE AA-; Stable	1)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	71.50	CARE AA-; Stable / CARE A1+	1)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+ (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+ (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+	-	-	-	-

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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