November 15, 2019

Bajaj Electricals Limited: Ratings revised to [ICRA]A-(Negative)/[ICRA]A2+; outlook remains Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT - Term Loans	20.00	20.00	[ICRA]A- (Negative); Revised from [ICRA]A (Negative)
LT – Fund-based Limits	379.70	379.70	[ICRA]A- (Negative); Revised from [ICRA]A (Negative)
ST – Fund-based Limits	315.00	315.00	[ICRA]A2+; Revised from [ICRA]A1
LT/ST - Non-fund Based Limits	2700.30	2700.30	[ICRA]A- (Negative)/ [ICRA]A2+; Revised from [ICRA]A (Negative)/ [ICRA]A1
LT/ST – Fund-based/Non-Fund Based Limits	1327.50	1327.50	[ICRA]A- (Negative)/ [ICRA]A2+; Revised from [ICRA]A (Negative)/ [ICRA]A1
ST – Commercial Paper	500.00	500.00	[ICRA]A2+; Revised from [ICRA]A1
LT-NCD programme	200.00	200.00	[ICRA]A (Negative); Revised from [ICRA]A+ (Negative)
LT-NCD programme	150.00	150.00	Provisional [ICRA]A- (Negative); Revised from Provisional [ICRA]A (Negative)
Total	**5592.50**	**5592.50**	

*Instrument details are provided in Annexure - 1

Rationale:

The revision in the ratings takes into account the significant decline in profitability of the Engineering, Procurement and Construction (EPC) business particularly pertaining to the orders in rural electrification in H1FY2020 and the subsequent weakening in the company's debt coverage metrics. The company's revenue from the EPC business declined by 39% to Rs. 914.51 crore in H1FY2020 from Rs. 1498.86 crore reported in the corresponding period of the previous year. Further, high overheads in the EPC business segment and the input cost pressures have moderated its EBIT (Earnings before interest and taxes) margin to 0.28% in H1FY2020 from 4.87% in H1FY2019. The sharp decline in the EBIT margin of the EPC business coupled with the high finance cost, following the elevated borrowing levels due to high working capital requirements has impacted the company's deb coverage metrics evident from the decline in interest coverage ratio to 1.1 times in H1FY2020 from 3.4 times in the H1FY2019. While the company has now decided not to focus on rural electrification orders and gradually optimise the cost overheads in the EPC business, its ability to secure better margin orders in the EPC business [particularly in transmission line towers (TLT) & high mast] and also improve the profitability remains a key rating sensitivity.

The ratings, however, favourably factor in the healthy performance of BEL's consumer durable business segment in FY2019 and H1FY2020, wherein revenues grew by ~23% and ~20%, respectively, on YoY basis. Further, the EBIT margin of the consumer durable business witnessed a healthy improvement of 169 bps in FY2019, supported by better inventory management under the new distribution model (Range and Reach Expansion Program, RREP). The ratings also factor in BEL's diversified business portfolio and its leading position in the consumer durable business, supported by strong brand and product development strengths and wide distribution network. The company's cost-effective sourcing from domestic small-scale industries and China helps it to counter competition from imports as well as unorganised players in the consumer durables space to some extent. The ratings also consider the company's satisfactory financial flexibility by virtue of being a part of the Bajaj Group as well as the adequate liquidity position, as evident from the presence of undrawn limits and support made available to it through inter-corporate deposits from Bajaj Group's promoter trust entity.

The ratings further take into account the exposure of the company's operations to volatility in the raw material prices as well as the high working capital intensity of the EPC business. Further, the financial performance of SLL (SLL, an associate arm of the company, and manufacturer of LED products, water heaters, coolers, mixers, Air-conditioners etc.) is expected to remain weak in near term due to its scale constraints, cost overheads and high debt on its books. As the company has extended corporate guarantee on the borrowings of SLL, any sizeable increase in the financial support extended to SLL from the current level to bolster its weak financial position remains a rating sensitivity. Also, the NCD raised by the company has been utilised to fund the retention money (10% of the order size) requirement for the UP-based project; the timely receipt of the receivables from the counterparty, including the retention money, remains crucial from the credit perspective. Further, any acceleration of debt as per the terms of NCD remains a key rating sensitivity.

The negative outlook reflects ICRA's view that the company's EPC business segment's profitability will continue to face pressure due to high cost overheads in near term and subsequently, its debt coverage metrics would remain moderate due to the increased working capital borrowings. The outlook will be revised to Stable if the company shows an improvement in the working capital position in a sustained manner along with consequent improvement in profitability and debt coverage metrics.

Key rating drivers

Credit strengths

Diversified business portfolio - BEL's business is well diversified. Its presence in both consumer product (lighting, fans and appliances) and EPC businesses reduces the exposure to demand indicators of any particular business. Moreover, the company enjoys a strong brand recall in the consumer product business and is supported by a large distribution network.

Healthy revenue growth in FY2019– The company's revenue grew at a healthy rate of ~42% to Rs. 6673.1 crore in FY2019 from Rs. 4707.5 crore in FY2018. Revenues from the EPC business and consumer durable business grew by 58% and 23%, respectively, in FY2019 on a YoY basis.

Strong performance of consumer durables business – The performance of BEL's consumer durable business segment in FY2019 H1FY2020 was healthy, with YoY revenue growth of ~23% and ~20%, respectively, led by better market penetration post implementation of the new distribution model (RREP). Further, the EBIT margin of the consumer durable business witnessed a healthy improvement of 169 bps in FY2019, supported by improved inventory management under RREP.

Implementation of new distribution model (RREP) is in final stages – The company has covered more than 2 lakh retailers in 550 districts of the country, under its new distribution model. Performance of the consumer durable business is expected to pick up further because of better inventory management, supported by RREP.

Financial flexibility from being part of Bajaj Group

Credit challenges

Moderation in coverage metrics – The sharp decline in EBIT margins of EPC business coupled with high finance cost pertaining to elevated borrowing levels has impacted the deb coverage metrics of the company as evident from the decline in interest coverage ratio to 1.1 times in H1FY2020 from 3.4 times in the H1FY2019. Earlier, the company's borrowing levels had gone up due to increase in short-term borrowings for the execution of rural electrification project in UP. The company's gearing reduced slightly to 1.4 times as on September 30, 2019 from 1.5 times as on March 31, 2019, however, was still higher than the gearing of 0.8 times reported on March 31, 2018. The total debt level as on September 30, 2019 stood at Rs. 1448.9 crore, which comprises 1189.1 crore of short-term debt and Rs. 259.9 crore of long-term debt. Also, the adjusted gearing level (factoring the corporate guarantee to SLL) stood at around ~1.7 times as on March 31, 2019. Further, with a selective defocus in the EPC business, the company expects improvement in the cash flow from operations this year as well as reduction in debt levels by March 31, 2020.

High working capital intensity - The company's working capital intensity remains high, primarily because of high inventory, given the need to maintain inventories of imported goods and large number of stock keeping units (SKUs) in fans, appliances and lighting. Debtors continue to remain high, as reflected in debtors' days of 173 as on March 2019, mainly due to receivables related to the project business carried out by the EPC segment. Working capital intensity has also increased because of the tight execution timelines of the rural electrification project in UP and the retention money requirement for the same. The same is reflected in NWC/OI of 32% in FY2019 as against 25% in FY2018. While increase in regular receivables has been funded through higher working capital borrowings, the retention money (10% of the order size) requirement for the project has been funded through NCD. Consequently, timely collection of receivables along with the release of retention money post project completion remains a key monitorable.

Exposure to volatility in raw material cost; low pricing flexibility - The profitability of the consumer product business remains linked to the movement in prices of raw materials, mainly copper and zinc. The margins in the consumer products segment moderated in previous years (FY2015 - FY2018), owing to high competitive pressures and muted revenue growth (on account of RREP implementation). However, the fall in international commodity prices during the same period has provided some support.

Extension of corporate guarantees to SLL – SLL manufactures LED products, water heaters, coolers, mixers, air-conditioners etc. Apart from being SLL's key customer, BEL has high exposure to SL in the form of corporate guarantees (for around ~Rs. 242 crore). The adjusted gearing level of BEL (factoring the corporate guarantee to SLL) stood at around 1.7 times as on March 31, 2019. Any sizeable increase in the financial support extended to SLL from the current level would be a rating sensitivity.

Liquidity position: Adequate

The liquidity position of the company remains adequate, with free cash of Rs.12.25 crore (as on September 2019 end) and undrawn line of credit of ~Rs. 134.15 crore (as on September 2019 end). Further, the company's drawing power stood at around Rs. 1402.3 crore as on September 2019 end, against which the total utilisation was 70%.

Rating Sensitivities

Positive triggers – Given the negative outlook, a rating upgrade over the next one year is less likely. However, a change in outlook to Stable or an upward movement in rating could happen in BEL's ratings if the company demonstrates a sustained improvement in its profitability and debt coverage metrics followed by a material reduction in debt levels. Specific credit metrics that could lead to an upgrade of ratings include (1) TOL/TNW below 2.5 times on a sustained basis; and (2) Interest coverage greater than 3.0 times on a sustained basis.

Negative triggers – Negative pressure on BEL's rating could arise a) if there is any further decline in profitability owing to lower internal accrual generation and stretch in working capital cycle and b) if there is any acceleration of debt under the terms of NCD. Further, the reduction in debt levels and the extent of improvement in performance of SLL remains a key monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company

About the company:

BEL, a part of the Bajaj Group of Companies, was incorporated on July 14, 1938, under the name of Radio Lamp Works Limited. The name was changed to Bajaj Electricals Limited in 1960. BEL's shareholding is concentrated; the Bajaj family has about 63% equity stake in the company. The company has five business units—fans, lighting, luminaires, appliances and engineering and projects. From April 1, 2016, BEL divided its business segments into: a) Consumer Products which includes appliances, fans and consumer lighting products, and b) EPC which includes transmission line towers, telecommunication towers, high masts, poles, special projects including rural electrification projects and luminaires. Until 1998, BEL was mainly a marketing company and dealt with various consumer durable goods such as fans, lighting and electrical appliances under the Bajaj umbrella brand. In the year 2001-02, the company commenced manufacturing high-masts and transmission towers as part of its projects division at Ranjangaon, Pune. The company also has a 19% stake in Hind Lamps Limited (reduced from 50% in FY2015), which manufactures tubes and lamps. In March 2007, the company acquired a 32% equity stake in Starlite Lighting Limited, which manufactures compact fluorescent lamps (CFL), light emitting diode (LED) products and other appliances such as heaters, air-conditioners etc. at Nashik. In June 2017, BEL increased its stake in SLL to 47%.

Key financial indicators (Consolidated, Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	4707.4	6679.4
PAT (Rs. crore)	94.2	153.6
OPBDIT/ OI (%)	6.5%	5.2%
RoCE (%)	15.3%	16.8%
Total Debt/ TNW (times)	0.8	1.5
Total Debt/ OPBDIT (times)	2.4	4.6
Interest Coverage (times)	5.2	3.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No.	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating		Date & Rating in FY2019				Date & Rating In FY2018	Date & Rating in FY2017	
					15-November-2019	23-July-2019	01-March-2019	06-February-2019	17-December-2018	13-June-2018	10-July-2017	13-January-2017	26-August-2016
1	Commercial Paper	Short term	500.00	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Term Loans	Long term	20.00	20.00	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)
3	Fund based limits	Long term	379.70	-	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)
4	Fund based limits	Short term	315.00	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Non-fund based limits	Long term / Short term	2700.30	-	[ICRA]A- (Negative) /[ICRA]A2+	[ICRA]A (Negative) /[ICRA]A1	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (stable) /[ICRA]A1+	[ICRA]A+ (stable) /[ICRA]A1+	[ICRA]A+ (stable) /[ICRA]A1+	[ICRA]A+ (stable) /[ICRA]A1+
6	Fund Based/Non-Fund Based Limits	Long term / Short term	1327.50	-	[ICRA]A- (Negative) /[ICRA]A2+	[ICRA]A (Negative) /[ICRA]A1	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (stable) /[ICRA]A1+	-	-	-
7	NCD Programme		200.00	185.00	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	Provisional [ICRA]A+ (Negative)					
8	NCD Programme		150.00	Yet to be placed	Provisional [ICRA]A- (Negative)	Provisional [ICRA]A (Negative)	Provisional [ICRA]A+ (Negative)	Provisional [ICRA]A+ (Negative)					

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	ST - Commercial Paper	-	7.95% - 9.30%	3 to 6 months	500.00	[ICRA]A2+
NA	LT - Term Loans	December 2017	-	May 2021	20.00	[ICRA]A- (Negative)
NA	LT - Fund based limits	-	-	-	379.70	[ICRA]A- (Negative)
NA	ST - Fund based limits	-	-	-	315.00	[ICRA]A2+
NA	LT/ST - Non fund based limits	-	-	-	2700.30	[ICRA]A- (Negative) /[ICRA]A2+
NA	LT/ST - Fund Based/Non-Fund Based Limits	-	-	-	1327.50	[ICRA]A- (Negative) /[ICRA]A2+
INE193E08012	NCD Programme	February 2019	11.0%	February 2022	75.00	[ICRA]A- (Negative)
INE193E08020	NCD Programme	February 2019	11.0%	August 2021	75.00	[ICRA]A- (Negative)
INE193E08038	NCD Programme	February 2019	11.0%	February 2022	35.00	[ICRA]A- (Negative)
Proposed	NCD Programme	-	-	-	15.00	[ICRA]A- (Negative)
Yet to be placed	NCD Programme	-	-	-	150.00	Provisional [ICRA]A- (Negative)

Source: BEL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Starlite Lighting Limited	47.00%	Limited Consolidation
Hind Lamps Limited	19.00%	Limited Consolidation
Nirlep Appliances Pvt Ltd	79.85%	Limited Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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