

December 24, 2020

Bajaj Electricals Limited: Ratings reaffirmed; outlook revised to stable from negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	20.00	20.00	[ICRA]A- reaffirmed; outlook revised to stable from negative
Long-term Fund-based Limits	379.70	379.70	[ICRA]A- reaffirmed; outlook revised to stable from negative
Short-term Fund-based Limits	315.00	315.00	[ICRA]A2+ reaffirmed
Long /Short-term Non-Fund based Limits	2700.30	2700.30	[ICRA]A- / [ICRA]A2+ reaffirmed; outlook revised to stable from negative
Long /Short-term Fund-based/Non-Fund based Limits	1327.50	1327.50	[ICRA]A- / [ICRA]A2+ reaffirmed; outlook revised to stable from negative
LT-NCD programme	200.00	200.00	[ICRA]A- reaffirmed; outlook revised to stable from negative
Total	4942.50	4942.50	

*Instrument details are provided in Annexure - 1

Rationale:

The revision in the rating outlook to stable reflects the healthy improvement in revenue and profitability posted by Bajaj Electrical Limited (BEL) in Q2FY2021, especially in the consumer products (lighting, fans and appliances) segment, after a weak performance in the first quarter due to Covid-19. The outlook revision also takes into account the considerable reduction in the company's debt level, which is likely to be maintained at the similar level, going forward.

BEL's revenues and profitability were severely impacted in Q1FY2021 by the nationwide lockdown imposed by the Government of India (GOI) to contain the spread of Covid-19. While there was an uncertainty with respect to the extent of lockdown, pickup in demand post easing of restrictions, and recovery in profitability, especially for the consumer products, the company has performed strongly in Q2 FY2021, reporting ~13% YoY revenue growth in consumer products segment on the back of healthy revival in demand, with easing of lockdown restrictions, increasing work from home culture, and small ticket size and essential nature of the products. This apart, the cost optimisation measures improved the profitability in the consumer products segment in Q2FY2021.

The reaffirmation of the ratings continues to favourably factor in BEL's well diversified business portfolio. The company has presence in both consumer products, and engineering, procurement and construction (EPC) businesses, which reduces the exposure to demand indicators of a particular business. The company has a leading position in the consumer products business, supported by strong brand image, product development capabilities and a wide distribution network. The ratings also draw comfort from the company's strong financial flexibility by virtue of it being a part of the Bajaj Group, as evidenced by the funding support received in the past in the form of inter-corporate, infusion of equity through rights issuance etc. Moreover, BEL has adequate liquidity position given the presence of sizeable undrawn limits.

The ratings, however, continue to be constrained by the weak profitability and sizeable pending receivables in the engineering and project segment, and the company's modest debt coverage indicators. While a significant portion of the rural electrification orders in Uttar Pradesh (UP) and Bihar has been completed and the company has been able to collect some pending receivables in H1FY2021 despite lockdown, the overall EPC receivable position continues to be significant

i.e. at Rs.1712 crore (including the retention money of Rs.661 crore) as on September 30, 2020. As a result, timely closure of the remaining sites, along with the collection of pending receivables including the retention money, remains crucial from the liquidity perspective. The rating also considers the exposure of BEL's profitability to volatility in the raw material prices and the competitive pressures in both the business segments. ICRA notes that BEL has extended corporate guarantees to the borrowings of Starlite Lighting Limited (SLL), a joint venture of the company, and has also provided funding support to SLL for meeting its debt servicing obligations. SLL's performance is expected to remain moderate in the near term given its scale constraints, cost overheads and high debt levels. Any higher-than-anticipated funding support by BEL to SLL that impacts its own liquidity would remain a key rating sensitivity.

The stable outlook reflects ICRA's expectation that the company would be able to sustain a healthy revenue growth in the consumer products segment in the near term with profitability level in line with the company's expectation. The stable outlook also reflects the company's stated strategy to selectively focus on the EPC segment to ensure the budgeted profitability.

Key rating drivers

Credit strengths

Diversified business portfolio – The company'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 a particular business. About 65% of the revenue in H1FY2021 was from the consumer product segment in line with the company's planned scaling down of the EPC business by bidding selectively for fresh orders with more focus on the consumer products business.

Strong brand recall and leading market position in consumer product segment – The company enjoys a strong brand recall in the consumer product business and is supported by an extensive distribution network. The company has covered more than 2 lakh retailers in 550 districts of the country, under its new distribution model.

Financial flexibility from being part of Bajaj Group – The company has strong financial flexibility by virtue of being part of the Bajaj Group. In the past, Jamnalal Sons Pvt. Ltd. (holding company of the Bajaj Group) had supported the company during times of exigency. In August 2019, the holding company extended Rs.200 crore of inter-corporate deposits to the company. The company successfully completed the rights issue of Rs.350 crore in March 2020, augmenting its net worth position from the previous year.

Healthy recovery in consumer segment in Q2FY2021, notable reduction in debt levels – After a weak Q1FY2021 performance amidst lockdown restrictions, BEL posted a healthy recovery in Q2FY2021, with 11.1% YoY increase in the consolidated revenues and a profit after tax of Rs.53.11 crore against a loss of Rs.32.54 crore in Q2FY2020. The improvement was largely driven by the consumer products segment, which witnessed 13% YoY growth in revenues on the back of strong demand after gradual opening of lockdown restrictions due to rise in work from home culture, and gain of market share from the unorganized players. The profitability in the consumer products segment (PBIT) also witnessed a significant improvement in Q2 FY2021 driven by a reduction in advertising and promotion costs, and a price hike to some extent in select product categories. The EPC segment also reported a decent performance with 8% YoY revenue growth and positive PBIT margin in Q2FY2021 (losses for previous quarters) on the back of reversal of provisions pertaining to projects that achieved closures. The company has made conscious efforts to bring down its leverage levels in the past few quarters. The total debt, which peaked to Rs.1592 crore as on March 31,2019, was brought down to Rs.964 crore as on March 31,2020 and further to Rs.559 crore as on September 30, 2020. This reduced the interest costs in H1FY2021 and improved the gearing to 0.39 time as on September 30,2020. Nonetheless, adjusted gearing after considering the guarantee exposure to SLL moderated to 0.55 time as on September 30, 2020.

Credit challenges

Stretched receivables and weak profitability in engineering project division, modest debt coverage indicators: As on September 30, 2020, the company's total receivables stood at Rs.2208 crore, of which Rs.1712 crore belonged to the EPC segment and the rest to the consumer products segment. The receivables from the rural electrification project in UP remain stretched, impacting the company's cash flow position. The outstanding receivables from the UP projects were approximately Rs.700 crore as on September 30, 2020 (including ~Rs.200 crore of retention money). Overall receivables from the engineering projects (EPC segment) stood at Rs.1712 crore as on September 30, 2020 (including around Rs.661 crore of retention money). Timely collection of receivables along with the release of retention money post project completion remains a key monitorable. Further, profitability in the engineering projects division is expected to remain weak in the near term due to decline in scale, high capital and cost overheads for completion of the large-sized EPC orders. Given the weak profitability levels in H1, the company's debt coverage indicators have remained subdued. The company's interest coverage, although improved from 1.22 times as on March 31, 2020 due to reduction in interest costs in H1 FY2021, continued to remain subdued at absolute level and stood at 1.69 times as on September 30, 2020.

Exposure to volatility in raw material cost; limited 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 between FY2015 and FY2018, owing to high competitive pressures and muted revenue growth (on account of range, reach expansion program implementation), though the fall in international commodity prices during this period had provided some support. In the current fiscal, the company has implemented a price hike of ~2.5% on a certain product ranges to partly mitigate the impact of the rising commodity prices.

Extension of corporate guarantee and funding support to SLL – SLL manufactures LED products, water heaters, coolers, mixers, air-conditioners etc. Along with being SLL's key customer, BEL has high exposure to SLL in the form of corporate guarantees (for ~Rs.242 crore). Financial performance of SLL continues to be weak, with net losses and high debt levels, thus necessitating dependence on BEL to meet its debt service obligations. Any higher-than-anticipated funding support to SLL that impacts BEL's own liquidity would be a rating sensitivity.

Liquidity position: Adequate

BEL's liquidity position is adequate with cash and cash equivalents of Rs.22.42 crore as on September 30, 2020. In addition, there is adequate buffer available in the form of undrawn working capital limits of ~Rs.200 crore and short-term lines of credit of Rs.165 crore as on October 31, 2020. There are no long-term debt repayment obligations in H2FY2021, except Rs.35 crore of NCD redemption in February 2021, against which there is adequate liquidity. The company also has strong financial flexibility by virtue of being part of the Bajaj Group. As witnessed in the past, liquidity support from the Group is expected to be available in case the need arises.

Rating Sensitivities

Positive triggers – Sustained improvement in profitability and debt coverage metrics along with timely recovery of EPC receivables could lead to an upward movement in BEL's ratings. Specific credit metric that could trigger a rating upgrade includes interest coverage greater than 3.0 times on a sustained basis.

Negative triggers – Negative pressure on BEL's rating could arise if there is any further decline in profitability owing to lower internal accrual generation and stretch in working capital cycle or higher-than-anticipated support to SLL that impacts BEL's own liquidity position.

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. On 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 2001-02, the company started 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, and air-conditioners at Nashik. In June 2017, BEL increased its stake in SLL to 47%.

On a consolidated basis, in FY2020, the company reported a net loss of Rs.7.44 crore on an operating income of Rs.4987.23 crore as against a net profit of Rs.155.97 crore on an operating income of Rs.6679.41 crore in FY2019. Further, as per the consolidated unaudited financials for H1FY2021, the company reported a net profit of Rs.36.51 crore on an operating income of Rs.1826.00 crore.

Key financial indicators (Consolidated)

	FY2019 (Audited)	FY2020 (Audited)	H1FY2021 (Unaudited)
Operating Income (Rs. crore)	6,679.41	4,987.23	1,826.00
PAT (Rs. crore)	155.97	-7.44	36.51
OPBDIT/ OI (%)	5.10%	4.18%	4.55%
PAT/ OI (%)	2.34%	-0.15%	2.00%
Total Outside Liabilities/ Tangible Net Worth (times)	3.85	2.35	1.95
Total Debt/ OPBDIT (times)	4.68	4.62	3.37
Interest Coverage (times)	2.89	1.22	1.69

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

SN	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating		Date & Rating in FY2020		Date & Rating in FY2019				Date & Rating In FY2018
					24-Dec-20	20-May-20	15-Nov-19	23-Jul-19	1-Mar-19	6-Feb-19	17-Dec-18	13-Jun-18	10-Jul-17
1	Commercial Paper	Short term	-	-	-	[ICRA]A2+; withdrawn	[ICRA]A2+	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Term Loans	Long term	20.00	20.00	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A+(Negative)	[ICRA]A+(Negative)	[ICRA]A+(Negative)	[ICRA]A+(stable)	[ICRA]A+(stable)
3	Fund based limits	Long term	379.70	-	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A+(Negative)	[ICRA]A+(Negative)	[ICRA]A+(Negative)	[ICRA]A+(stable)	[ICRA]A+(stable)
4	Fund based limits	Short term	315.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[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-(Stable) / [ICRA]A2+	[ICRA]A-(Negative) / [ICRA]A2+	[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+
6	Fund Based/Non-Fund Based Limits	Long term / Short term	1327.50	-	[ICRA]A-(Stable) / [ICRA]A2+	[ICRA]A-(Negative) / [ICRA]A2+	[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	Long term	200.00	185.00	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A+(Negative)	Provisional [ICRA]A+(Negative)			
8	NCD Programme	Long term	-	-	-	Provisional [ICRA]A-(Negative); withdrawn	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	LT - Term Loans	December 2017	-	May 2021	20.00	[ICRA]A- (Stable)
NA	LT - Fund based limits	-	-	-	379.70	[ICRA]A- (Stable)
NA	ST - Fund based limits	-	-	-	315.00	[ICRA]A2+
NA	LT/ST - Non-fund based limits	-	-	-	2700.30	[ICRA]A- (Stable) / [ICRA]A2+
NA	LT/ST - Fund Based/Non-Fund Based Limits	-	-	-	1327.50	[ICRA]A- (Stable) / [ICRA]A2+
INE193E08012	NCD Programme	February 2019	11.50%	February 2022	75.00	[ICRA]A- (Stable)
INE193E08020	NCD Programme	February 2019	11.50%	August 2021	75.00	[ICRA]A- (Stable)
INE193E08038	NCD Programme	February 2019	11.50%	February 2021	35.00	[ICRA]A- (Stable)
Proposed	NCD Programme	-	-	-	15.00	[ICRA]A- (Stable)

Source: BEL

Annexure-2: List of entities considered for consolidated analysis

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

ANALYST CONTACTS

Sabyasachi Majumdar

+91 124 4545 304

sabyasachi@icraindia.com

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Tushar Bharambe

+91 22 6169 3347

tushar.bharambe@icraindia.com

Abhilash Dash

+91 22 6169 3358

abhilash.dash@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 226114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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