

July 23, 2019

Bajaj Electricals Limited: Ratings revised to [ICRA]A(Negative)/[ICRA]A1; 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]A1; Revised from [ICRA]A1+
LT/ST - Non-fund Based Limits	2700.30	2700.30	[ICRA]A (Negative)/ [ICRA]A1; Revised from [ICRA]A+ (Negative)/ [ICRA]A1+
LT/ST – Fund-based/Non-Fund Based Limits	1327.50	1327.50	[ICRA]A (Negative)/ [ICRA]A1; Revised from [ICRA]A+ (Negative)/ [ICRA]A1+
ST – Commercial Paper	500.00	500.00	[ICRA]A1; 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 in to account the increased leveraging level and the subsequent weakening of debt coverage metrics of Bajaj Electricals Limited (BEL), mainly as result of working capital borrowings for the execution of large-sized EPC order for rural electrification in state of Uttar Pradesh (UP). Consequently, the gearing of the company has increased to 1.5 times as on March 31, 2019 from 0.8 times as on March 31, 2018. Further, tight execution timelines coupled with input cost pressures pertaining to UP-based order has moderated the EBIT (Earnings before interest and taxes) margin of the EPC segment to 4.97% in FY2019 from 7.82% in FY2018.

The ratings, however, favourably factor in the healthy performance of BEL's consumer durable business segment in FY2019, wherein revenues grew by ~23% YoY to Rs. 2740.06 crore. 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 availability of advances from its key customer in the EPC business.

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. As the company has extended corporate guarantee on the

borrowings of Starlite Lighting Limited (SLL, an associate arm of BEL, and manufacturer of LED products, water heaters, coolers, mixers, Air-conditioners etc.), 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 retention money remains highly critical from the credit perspective. While the company has plans to infuse additional equity capital to the tune of Rs. 600 crore, timely infusion of the same also remains important from the credit perspective.

Outlook: Negative

The negative outlook reflects ICRA's consideration that the debt coverage metrics will continue to remain moderate in the near term 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 and debt coverage metrics, followed by proposed infusion of equity capital.

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– 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 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 was healthy, with YoY revenue growth of ~23% to Rs. 2740.06 crore 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 of coverage metrics due to increase in leveraging level – Increase in short-term borrowings for the execution of rural electrification project in UP has moderated the company's projected coverage metrics. The company's gearing increased to 1.5 times as on March 31, 2019 from 0.8 times as on March 31, 2018. The total debt level as on March 31, 2019 stood at Rs. 1584.1 crore, which comprises 1366.8 crore of short-term debt and Rs. 217.3 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.

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 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 31% 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 products 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). Adjusted gearing level of BEL (factoring the corporate guarantee to SLL) stood at around 1.7 times as on March 31, 2019. Also, BEL has impaired investment in SLL (Preference Shares and Loans) worth Rs. 89.36 crore in FY2018 due to which the net profit margin came down to 1.8%, which otherwise would have been 3.7%. Any sizeable increase in the financial support extended to SLL from the current level would be a rating sensitivity.

Liquidity position

The liquidity position of the company remains adequate with free cash and liquid investments of ~Rs. 16.0 crore (as on March 2019 end) and undrawn line of credit of ~Rs. 209 crore (as on May 2019 end) as well as the availability of advances from its key customer in EPC business. Further, the company's drawing power stood at around Rs. 1881.7 crore as on May 2019 end against which total utilisation was 73%.

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 standalone 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 (audited)

	FY 2018	FY 2019
Operating Income (Rs. crore)	4707.5	6673.1
PAT (Rs. crore)	83.6	167.1
OPBDIT/ OI (%)	6.2%	5.4%
RoCE (%)	14.2%	17.4%
Total Debt/ TNW (times)	0.8	1.5
Total Debt/ OPBDIT (times)	2.5	4.4
Interest Coverage (times)	5.0	3.1

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) Type	Current Rating (FY2020)		Chronology of Rating History for the past 3 years							
			Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2019			Date & Rating in FY2018		Date & Rating in FY2017	
					July 2019	March 2019	February 2019	December 2018	June 2018	July 2017	January 2017	August 2016
1	Commercial Paper	Short term	500.00	500.00	[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+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)
3	Fund based limits	Long term	379.70	379.70	[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	315.00	[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	2700.30	[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	1327.50	[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 Programm		200.00	185.00	[ICRA]A (Negative)	[ICRA]A+ (Negative)	Provisional [ICRA]A+					

	e					(Negative)
8	NCD Programme	150.00	Yet to be placed	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]A1
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]A1
NA	LT/ST - Non fund based limits	-	-	-	2700.30	[ICRA]A (Negative) / [ICRA]A1
NA	LT/ST - Fund Based/Non-Fund Based Limits	-	-	-	1327.50	[ICRA]A (Negative) / [ICRA]A1
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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Aditya Jhaver
+91 22 6169 3379
aditya.jhaver@icraindia.com

Sourabh Kannoje
+91 22 6169 3349
sourabh.kannoje@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

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents