

April 12, 2024

Usha International Limited: Ratings downgraded; Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	106.23	108.48	[ICRA]BB+; Downgraded from [ICRA]BBB-; Outlook revised to Stable from Negative
Long-term – fund-based working capital limits	175.00	50.00	[ICRA]BB+; Downgraded from [ICRA]BBB-; Outlook revised to Stable from Negative
Short-term – Non-fund based – Letter of credit/Bank guarantee	285.00	193.75	[ICRA]A4+; Downgraded from [ICRA]A3
Long-term/Short-term fund-based & non-fund based working capital limits	-	125.00	[ICRA]BB+/[ICRA]A4+; Downgraded from [ICRA]BBB-/ [ICRA]A3; Outlook revised to Stable from Negative
Unallocated limits	-	29.15	[ICRA]BB+/[ICRA]A4+; Downgraded from [ICRA]BBB-/ [ICRA]A3; Outlook revised to Stable from Negative
Total	566.23	506.38	

*Instrument details are provided in Annexure-I

Rationale

The ratings downgrade factors in Usha International Limited's (UIL) persistent low profitability in the last few years with the company's operating profitability continuing to remain low in FY2024. The losses and weak profits have resulted in significantly lower tangible net worth (TNW) for UIL in the last two years and increased its reliance on external debt, resulting in higher leverage and weaker debt protection metrics. Further, the profitability remains exposed to the adverse movement in raw material prices and intense competition. Over the years, the profitability has been impacted by increased input costs, high fixed costs (branding, employee, overhead expenses etc) and price support offered for offloading non-star rated fans (in FY2023). ICRA notes the improvement in operating profitability in H2 FY2024 and the new management's efforts to rationalise the cost structure and improve profitability driven by launch of several products, introduction of a wide range of premium fans, etc. and increase in the share of appliances in the overall revenue profile. However, the translation of all the above steps to improved operating margins on a sustained basis remains to be seen.

The ratings remain supported by UIL's long track record and the extensive experience of its management in the consumer durables industry. The ratings also take into consideration UIL's diversified product portfolio, which reduces the exposure to demand volatility in a particular segment. Its well-established brand, especially in fans and sewing machines, supports the ratings. These factors, coupled with the brand franchise, an extensive distribution network and the marketing initiatives, have enabled the company to sustain its growth across most product categories. ICRA also notes the steps taken by the company to improve its working capital efficiency through optimisation of inventory levels.

The Stable outlook on the rating reflects ICRA's opinion that UIL is likely to benefit from its established brand, diverse product profile and long operational track record in the industry.

Key rating drivers and their description

Credit strengths

Experience of promoters; established brand image and diversified product profile - UIL, incorporated in 1935, is involved in the sales, marketing, distribution and manufacturing of consumer durables and agricultural and auto components. UIL has a

long track record of operations in key product segments such as electric fans, sewing machines and other home appliances. The company's presence across product categories cushions against a slowdown in any segment.

Wide distribution network – The company has an extensive distribution network spread across the country, enabling it to maintain its strong position in electric fans and sewing machines. In addition, the company is gradually expanding its network of authorised service centres, which would support its distribution and servicing network.

Credit challenges

Subdued profitability – UIL's profitability has remained subdued in the last few years with the company's operating profitability continuing to remain low in FY2024. Although the profitability improved in Q4 FY2024 due to increased scale, the overall profitability remained subdued in FY2024. The overall profit margins remain low as most of the revenue was generated through sales of products sourced through contract manufacturing. Moreover, the company has been making continuous expenditure towards brand building and distribution network.

Susceptibility to adverse movement in raw material prices - UIL's margins are affected by raw material price fluctuation, which in turn affects the sales realisations. Any adverse movement in the price of raw materials could put pressure on the company's margins, considering its limited ability to pass on the price hike owing to intense competition.

High leverage and inadequate debt protection metrics – Losses at the operating and net level in FY2023, and weak profits in FY2024 has reduced UIL's net worth, which in turn has increased its reliance on external debt for meeting the working capital requirements, as witnessed in the recent term loan of Rs. 50 crore availed in March 2024 for working capital purposes. The leverage (total debt/tangible net worth) deteriorated to 3.3 times as on March 31, 2023 from 1.1 times as on March 31, 2022. With losses at the operating level, the debt protection metrics were inadequate in FY2023 and remain subdued for FY2024.

Intense competition in industry - The company faces stiff competition from organised and unorganised players in the industry. This limits its pricing flexibility and bargaining power with customers, putting pressure on its revenues and margins. Further, the volatile demand scenario for fans weighs on the earnings. Also, cost-effective sourcing and large supplier tie-ups are critical to ensure profitability.

Liquidity position: Adequate

UIL's liquidity continues to be adequate on account of healthy cash and cash equivalents including ~Rs. 48-crore unencumbered fixed deposits (including DSRA) as on Mar 31, 2024, and moderate undrawn working capital facilities against debt servicing obligations of ~Rs. 31 crore in FY2025. Further, the company availed a long-term loan of Rs. 50 crore in March 2024 to support the working capital requirements. Going forward, UIL's ability to generate adequate cash accruals will remain critical for its repayments as well as for improving its liquidity position.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant improvement in the operating profitability without any material deterioration in the credit metrics and liquidity position. A specific credit metric for upgrade would be an interest coverage of more than 3 times on a sustained basis.

Negative factors – Pressure on the ratings could arise if UIL is unable to improve its profitability, leading to a stretched liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of UIL

About the company

UIL, incorporated in 1935, sells, markets, distributes and manufactures consumer durables and auto components. While the company has a diverse product portfolio comprising electric fans, sewing machines, appliances, water coolers, auto products and lighting products, electric fans remain the dominant product segment. UIL follows an asset-light model as most of its production is outsourced to vendors with in-house production being restricted to fans (largely outsourced as well), water coolers and fuel injection components.

Key financial indicators

UIL	FY2022	FY2023	9MFY2024*
Operating income	3309.01	3337.25	1997.29
PAT	-36.97	-59.01	-54.03
OPBDIT/OI	0.7%	-0.8%	-1.2%
PAT/OI	-1.1%	-1.8%	-2.7%
Total outside liabilities/Tangible net worth (times)	6.42	11.99	
Total debt/OPBDIT (times)	6.45	-8.92	
Interest coverage (times)	0.84	-1.00	-1.02

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * Provisional Numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				April 12, 2024	May 26, 2023	June 29, 2022	-
1 Term loans	Long term	108.48	60.21	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Stable)	-
2 Fund-based working capital limits	Long term	50.0	-	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Stable)	-
3 Non-fund-based facilities – LC/BG	Short term	193.75	-	[ICRA]A4+	[ICRA]A3	[ICRA]A3+	-
4 Fund based & non fund based working capital limits	Long term & short term	125.00	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-	-
5 Unallocated limits	Long term & short term	29.15	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based working capital	Simple
Short-term non fund based – LC/BG	Very Simple
Long term & short-term fund-based & non-fund based working capital limits	Simple
Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan-I	Jan 2021	9.25%	FY2027	13.53	[ICRA]BB+ (Stable)
NA	Term loan-II	Mar 2024	10.85%	FY2029	50.00	[ICRA]BB+ (Stable)
NA	Term loan-III	Oct 2020	10.55%	FY2025	9.75	[ICRA]BB+ (Stable)
NA	Term loan-IV	Mar 2023	8.23%	FY2028	35.20	[ICRA]BB+ (Stable)
NA	Fund-based working capital limits	NA	NA	NA	50.00	[ICRA]BB+ (Stable)
NA	Non-fund-based facilities - LC/BG limits	NA	NA	NA	193.75	[ICRA]A4+
NA	Fund-based and non-fund based working capital limits	NA	NA	NA	125.00	[ICRA]BB+ (Stable)/[ICRA]A4+
NA	Unallocated limits	NA	NA	NA	29.15	[ICRA]BB+ (Stable)/[ICRA]A4+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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