Usha International Limited

June 15, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Term-Loans	32.0	6.50	Upgraded to [ICRA]BBB from [ICRA]BBB-; outlook revised to Stable from Negative
Fund-based working capital facilities	75.0	75.0	Upgraded to [ICRA]BBB from [ICRA]BBB-; outlook revised to Stable from Negative
Unallocated facilities	33.0	58.5	Upgraded to [ICRA]BBB from [ICRA]BBB-; outlook revised to Stable from Negative
Non-fund based working capital facilities	210.0	210.0	Upgraded to [ICRA]A3+ from [ICRA]A3

Rating action

ICRA has upgraded the long-term rating to [ICRA]BBB (pronounced as ICRA triple B) from [ICRA]BBB- (pronounced as ICRA triple B minus) for the Rs 75-crore[1] fund-based limits, the Rs 6.5-crore term loan and the Rs. 58.5-crore unallocated limits of UIL. ICRA has also upgraded the short-term rating to [ICRA]A3+ (pronounced as ICRA A three plus) from [ICRA]A3 (pronounced as ICRA A three) for the Rs 210-crore non-fund-based limits of UIL. The outlook on the long-term rating has been revised to Stable from Negative.

Rationale

The rating revision takes into consideration the healthy revenue growth of 10% in FY2018 registered by the company on the back of strong performance in H2FY2018, offsetting the weak H1FY2018. The launch of Goods and Service tax (GST) on July 1, 2017 had caused short term disruptions to company's performance in Q1FY2018 leading to revenue decline and margin pressures. However, the performance improved from Q2FY2018 onwards, with the steps taken by the company over the last few years in terms of strengthening its distribution model starting to show results, thereby allowing the company to improve its market share. Further, control over overhead costs (employee expenses, and selling, general and administrative expenses) has resulted in improvement in UIL's operating profit margin (OPM) (improved to 3.7% in FY2018 from 1.4% in FY2017). ICRA also takes note of the steps taken by the company to improve its liquidity, including: reduction in inventory levels, equity infusion by promoters, and sale of non-core investments. In addition, the ratings continue to factor in UIL's long track record and established position in the consumer durables market, especially in the fans and sewing machines segments; its brand franchise and extensive distribution network; its experienced management; and its extensive product portfolio, which reduces the exposure to the demand indicators of any particular business. In addition, the company has seen increasing traction in its home appliances business.

However, the ratings continue to remain constrained because of UIL's relatively moderate profitability, though improved during FY2018, which impacts the cashflow from operations. The ratings also factor in the inherently working capital-intensive nature of operations, which in the past have led to reliance on creditor financing and working capital debt. ICRA notes that the company plans to avail long-term loans to reduce its dependence on short-term funding sources. In addition, the decline in net-worth due to losses in the past have led to elevated leverage levels as evidenced by total outside

[1] *100 lakh = 1 crore = 10 million*

liabilities/tangible net worth of 4.84 times as on March 31, 2018. ICRA has also taken note of company's plans of relatively higher capital outlay over next few years. UIL's ratings also remain constrained by high industry competition, which results in pricing pressures; and the exposure of its profitability to adverse fluctuations in raw material prices and currency movements, given the sizeable imports. Going forward, sustenance of the revenue growth and improvement in profitability, along with working capital management would remain the key rating drivers.

Outlook: Stable

The Stable outlook takes into consideration the easing of pressures on company's revenue generation and profitability. Further the trend of revenue growth and profitability is expected to continue.

The outlook may be revised to positive if growth in revenue and profitability, and better working capital management, further strengthens the financial risk profile. However, in case the company is not able to sustain its revenue growth and profitability improvement and there are downward pressures, the outlook may be revised to Negative.

Key rating drivers

Credit strengths

Revenue Growth and profitability improvement in H2FY2018 – after witnessing pressure on its revenue growth in last few quarters because of demonetisation and launch of GST, which caused short term disruptions, the company has witnessed revenue growth in Q3FY2018 and Q4FY2018, which has negated the impact of revenue decline in Q1FY2018 resulting in overall revenue growth for FY2018. In addition, company has controlled its key cost heads such as employee costs and selling and general and administration expenses. This has helped the company in registering improvement in its profitability.

Better working capital management and reduction in leverage – Further, the company has significantly improved its inventory management by reducing defunct inventory and looking at more in-time inventory stocking. The company has also made efforts to improve its liquidity, which includes steps like: elongation of payables, equity infusion by promoters, and sale of non-core investments. Going forward, the company has planned to avail long-term loans to reduce its dependence on short-term funding sources (such as buyers' credit and creditors) to meet its high working capital requirements.

Experience of promoters; established brand image and diversified product profile - Incorporated in 1935, UIL is engaged in sales, marketing, distribution and manufacturing of consumer durables, agri 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 the slowdown in any particular segment.

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

Significant investments towards brand promotion, distribution network and supply chain - To augment its brand penetration and achieve growth in turnover, UIL has undertaken significant investments in its distribution network, product portfolio, procurement tie-ups, supply chain, after sales service, and business intelligence. All these initiatives are starting to show results in terms of revenue growth and profitability improvement.

Credit weaknesses

Moderate profitability - The company has witnessed steady growth in its turnover, however, its continuous investment in brand building and remodelling distribution network, resulted in high overheads keeping its profitability under pressure. With the stabilisation of its structural expenses, it has witnessed improvement in profitability in H2FY2018, however, it is moderate as compared to other players in the industry.

Relatively high leverage – In FY2018, company has improved its working capital cycle by reducing inventory and elongating its payable days. This helped the company reduce its dependence on working capital borrowings. Consequently, the company has witnessed improvement in its TOL/TNW to 4.84 times as on March 31, 2018 from 7.83 times as on March 31, 2017. However, it is still remains relatively high.

Intense competition, given the commoditised nature of products - The company faces stiff competition from other organised and unorganised players in the industry. This limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins. Cost effective sourcing and larger supplier tie-ups are critical to ensure profitability.

Vulnerability of profitability to any adverse fluctuation in raw material prices and foreign exchange fluctuation - The margins of the company are largely affected by the raw material price fluctuation, which in turn affects the sales realisations. Any adverse movement in the price of raw materials could have an adverse impact on the firm's margins, considering the limited ability to pass on the price hike owing to high competitive intensity. Further, given the sizeable level of import, the company remains exposed to adverse movement in exchange rates.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company

Incorporated in 1935, UIL is engaged in sales, marketing, distribution and manufacturing of consumer durables, agri and auto components. While the company has a diverse product portfolio such as electric fans, sewing machines, home appliances, engines, pump-sets, water coolers, auto products and lighting products, the electric fan continues to remain the most dominant product segment. The company 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), diesel engines, water coolers and auto components.

For full year, UIL reported a net profit of Rs. 40 crore in FY2018 (provisional financials) on an operating income of Rs. 2,635 crore as against a net loss of Rs. 32 crore on an operating income of Rs. 2,400 crore in FY2017.

Key financial indicators (Audited)

	FY2016	FY2017	FY2018 Provisional
Operating Income (Rs. crore)	2,196	2,400	2,635
PAT (Rs. crore)	-12.6	-31.8	40.1
OPBDIT/OI (%)	2.6%	1.4%	3.7%
RoCE (%)	9.7%	4.4%	30.1%
Total Debt/TNW (times)	1.25	1.52	0.69
Total Debt/OPBDIT (times)	2.79	4.66	1.17
Interest Coverage (times)	1.30	0.78	2.43

Source: UIL's annual reports, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2018	Date & Rating in FY2018 August 2017	Date & Rating in FY2017 February 2017	Date & Rating in FY2016 December 2015
1	Term-Loans	Long-term	6.5	6.5	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
2	Fund-based working capital facilities	Long-term	75.0	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
3	Unallocated facilities	Long-term	58.5	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
4	Non-fund based working capital facilities	Short-term	210.0	-	[ICRA]A3+	[ICRA] A3	[ICRA] A3+	[ICRA] A3+

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	Term-Loans	FY2011	11.50%	October 2018	6.5	[ICRA]BBB(Stable)
NA	Fund-based working capital facilities	-	-	-	75.0	[ICRA]BBB(Stable)
NA	Unallocated facilities	-	-	-	58.5	[ICRA]BBB(Stable)
NA	Non-fund based working capital facilities	-	-	-	210.0	[ICRA]A3+

Source: UIL

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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.

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.

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