

June 29, 2021

Bajaj Electricals Limited: Ratings reaffirmed; rating reaffirmed and withdrawn for Rs.35.00 crore NCD and Rs.15.00 crore proposed NCD; rated amount reduced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|-----------------------------------|----------------------------------|---|
| Long-term Term Loans | 20.00 | 0.00 | [ICRA]A (Stable); reaffirmed |
| Long-term Fund-based Limits | 379.70 | 269.70 | [ICRA]A (Stable); reaffirmed |
| Short-term Fund-based Limits | 315.00 | 250.00 | [ICRA]A1; reaffirmed |
| Long /Short-term Non-Fund based Limits | 2700.30 | 2547.72 | [ICRA]A (Stable)/ [ICRA]A1; reaffirmed |
| Long /Short-term Fund-based/Non-Fund based Limits | 1327.50 | 1175.08 | [ICRA]A (Stable)/ [ICRA]A1; reaffirmed |
| Long-term-NCD programme | 150.00 | 150.00 | [ICRA]A (Stable); reaffirmed |
| Long-term-NCD programme | 35.00 | 0.00 | [ICRA]A (Stable); reaffirmed and simultaneously withdrawn |
| Long-term- Proposed NCD programme | 15.00 | 0.00 | [ICRA]A (Stable); reaffirmed and simultaneously withdrawn |
| Total | 4942.50 | 4392.50 | |

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to favourably factor in Bajaj Electricals Limited's (BEL/ the company) diversified business portfolio, with presence in the consumer products (CP) and the engineering, procurement and construction (EPC) businesses, and its leadership position in the CP business, driven by strong brand image, product development capabilities and a wide distribution network. The ratings also draw comfort from the company's strong financial flexibility, from being a part of the Bajaj Group, as evidenced by the funding support received in the past in the form of inter-corporate deposits and equity infusion through rights issuance etc. Moreover, BEL has adequate liquidity position, given the presence of sizeable undrawn limits.

The ratings also consider BEL's improved financial performance in FY2021 on the back of healthy revenues and profitability posted by the CP segment in the last three quarters of FY2021. While the revenue growth in the CP segment is likely to moderate to some extent due to the second wave of Covid-19 infections, the company's overall profitability is expected to remain healthy, given the cost optimisation efforts and the expected margin improvement in the EPC business in the near term. The rating also takes into account the consistent reduction in the company's debt level over the last few quarters, which has helped reduce the interest cost considerably, thereby supporting the debt coverage indicators.

The ratings, however, continue to be constrained by the weak profitability in the EPC segment and sizeable pending receivables in the EPC segment, despite improvement in company's debt coverage indicators. 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 subsidiary since April 30, 2021. 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. ICRA will continue to monitor the financial performance of SLL, its operational synergies with BEL and the consequent impact on the credit profile of BEL.

The stable outlook reflects ICRA's expectation that the company would be able to sustain a healthy revenue growth in the CP 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.

The rating on the NCD programme of Rs.35 crore has been reaffirmed and simultaneously withdrawn in line with ICRA's Withdrawal Policy at the request of the company, as the same has been fully redeemed and there is no amount outstanding.

The rating on the proposed NCD programme of Rs.15 crore has been reaffirmed and simultaneously withdrawn at the request of the company, given that the same has not been issued.

Key rating drivers and their description

Credit strengths

Improvement in financial performance in FY2021 led by strong growth in CP segment and notable reduction in debt levels

– After a weak Q1FY2021 performance amidst lockdown restrictions, BEL posted a healthy recovery in the next three quarters of the year with a YoY decline of only 8.1% in the consolidated revenue in FY2021. The recovery was largely driven by the CP segment, which witnessed 7.1% YoY revenue growth in FY2021, on the back of demand pick-up, strong performance during the festive season in Q2 and Q3, and gain of market share from the unorganised players. The profitability in the CP segment (PBIT) also witnessed a significant improvement to 9.65% in FY2021 from 6.48% in FY2020 because of cost optimisation measures undertaken by the company such as reduction in overheads, logistics cost etc and operating leverage. A strong performance in the CP segment during the year resulted in the company reporting a profit after tax of Rs.188.96 crore in FY2021 as against a loss of Rs.7.44 crore in FY2020. However, the performance of the EPC segment continued to be muted, with ~33% YoY revenue decline (in line with company's strategy to scale down the business) and a PBIT loss of Rs.54.13 crore in FY2021. Nonetheless, the EPC losses declined to Rs.7.93 crore in Q4FY2021 and the losses are expected to further reduce in the coming quarters and it is expected to break even at the PBIT level by Q2 / Q3FY2022. The closure of few EPC projects has been delayed due to the second wave of Covid-19 infections and the EPC segment's break-even may get pushed to Q3FY2022 depending on the extent of restrictions imposed by the respective state governments. The company has been able to significantly reduce its leverage levels in the past few quarters. The total debt, which had 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.471 crore as on March 31, 2021. The same led to significant reduction in the company's interest costs in FY2021, which has supported its interest coverage and profitability.

Diversified business portfolio – The company's business is well diversified. Its presence in both the consumer product (lighting, fans and appliances) and the EPC businesses reduces the exposure to demand indicators of a particular business. About 72% of the revenue in FY2021 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. Also, the sale of consumer products through e-commerce channel has significantly increased in the last 12 months.

Financial flexibility from being part of Bajaj Group – The company has strong financial flexibility by virtue of being a 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. The company also successfully completed the rights issue of Rs.350 crore in March 2020, augmenting its net worth position from the previous year.

Credit challenges

Stretched receivables and weak profitability in engineering project division; moderate debt coverage indicators – As on March 31, 2021, the company's total receivables stood at Rs.1917 crore, of which Rs.1425 crore belonged to the EPC segment (including retention money of around Rs.555 crore). Nonetheless, the EPC receivable position has reduced from Rs.1973 crore as on March 31, 2020. In the EPC segment, the receivables from the rural electrification projects in UP and Bihar as on March 31, 2020 remained high at Rs.563 crore and Rs.400 crore respectively. Sustained improvement in the EPC receivable position along with the release of retention money post project completion would be a credit positive. Further, the profitability in the

engineering projects division is expected to remain weak in the near term due to the decline in scale, high capital and cost overheads for completion of the large-sized EPC orders, despite improvement in the company's debt coverage metrics due to better profitability levels in FY2021. Hence the metrics continue to be moderate.

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 product 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. Though the commodity prices are increasing since Sep 2020, the impact of headwinds in prices witnessed in Q4FY2021 moderately impacted the margins. The company has implemented a price hike of ~3-4% across categories starting May 2021 (earlier hike of ~6-8% was implemented in Jan'21), to offset the impact of the rising commodity prices. Timely pass through of input costs to the end consumers would remain important to protect the profitability margins.

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.202.00 crore). SLL became a subsidiary of Bajaj Electricals Limited with effect from April 30, 2021. 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. ICRA will continue to monitor the financial performance of SLL, its operational synergies with BEL and the consequent impact on the credit profile of BEL.

Liquidity position: Adequate

BEL's liquidity position is adequate, with buffer available in the form of undrawn working capital limits of ~Rs.215 crore and short-term lines of credit of Rs.35 crore as on May 31, 2021. There are no long-term debt repayment obligations in the next six months, except for NCD redemption worth Rs.75 crore in August 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 factors – 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 include TOL/TNW lower than 1.5 times on a sustained basis.

Negative factors – Negative pressure on BEL's rating could arise if there is any significant decline in profitability owing to lower internal accrual generation and stretch in working capital cycle.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology |
| Parent/Group Support | Not applicable |
| Consolidation/Standalone | Consolidated The list of companies that are consolidated to arrive at the rating are given in Annexure 2 below. |

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 include 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, air conditioners and mixer grinders at Nashik. BEL increased its stake in SLL to 47% in June 2017. The company acquired the control and management rights from the outgoing promoters of SLL on April 30, 2021 and further increased its shareholding to 88.48% in May 2021.

Key financial indicators (audited)*

| BEL Consolidated | FY2020 | FY2021 |
|--|---------------|---------------|
| Operating Income (Rs. crore) | 4,987.23 | 4,584.61 |
| PAT (Rs. crore) | -7.44 | 188.96 |
| OPBDIT/OI (%) | 4.18% | 6.61% |
| PAT/OI (%) | -0.15% | 4.12% |
| Total Outside Liabilities/Tangible Net Worth (times) | 2.35 | 1.67 |
| Total Debt/OPBDIT (times) | 4.62 | 1.56 |
| Interest Coverage (times) | 1.22 | 3.97 |

*Ratios are as per ICRA's computation; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History for the past 3 years | | | | | | | | | | |
|---|----------------------------------|-------------------------|--------------------------|---|-----------------------------|---|-----------------------------|-------------------------------|---------------------------------|---------------------------------|-------------------------------|---------------------------------|---------------------------------|---------------------------------|-------------------------------|-------------------------------|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of May 31, 2021 (Rs. crore) | Date & Rating in FY2022 | | Date & Rating in FY2021 | | | Date & Rating in FY2020 | | Date & Rating in FY2019 | | | | |
| | | | | | Jun 29, 2021 | May 11, 2021 | Feb 17, 2021 | Dec 24, 2020 | May 20, 2020 | Nov 15, 2019 | Jul 23, 2019 | Mar 01, 2019 | Feb 06, 2019 | Dec 17, 2018 | Jun 13, 2018 | |
| 1 | Commercial Paper | Short term | - | - | - | - | - | - | - | [ICRA]A2+; withdrawn | [ICRA]A2+ | [ICRA]A1 | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 2 | Term Loans | Long term | 0.00 | 0.00 | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [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 | 269.70 | - | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [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 | 250.00 | - | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [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 | 2547.72 | - | [ICRA]A (Stable) / [ICRA]A1 | [ICRA]A (Stable) / [ICRA]A1 | [ICRA]A (Stable) / [ICRA]A1 | [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 | 1175.08 | - | [ICRA]A (Stable) / [ICRA]A1 | [ICRA]A (Stable) / [ICRA]A1 | [ICRA]A (Stable) / [ICRA]A1 | [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+ |
| 7 | NCD Programme | Long term | 150.00 | 150.00 | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Negative) | [ICRA]A- (Negative) | [ICRA]A (Negative) | [ICRA]A+ (Negative) | Provisional [ICRA]A+ (Negative) | | | |
| 8 | NCD Programme | Long term | 35.00 | 0.00 | [ICRA]A (Stable); Withdrawn | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Negative) | [ICRA]A- (Negative) | [ICRA]A (Negative) | [ICRA]A+ (Negative) | Provisional [ICRA]A+ (Negative) | | | |
| 9 | NCD Programme | Long term | 15.00 | 0.00 | [ICRA]A (Stable); Withdrawn | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Negative) | [ICRA]A- (Negative) | [ICRA]A (Negative) | [ICRA]A+ (Negative) | Provisional [ICRA]A+ (Negative) | | | |

| | | | | | | | | | | | | | | | |
|----|---------------|-----------|---|---|---|---|---|---|--|---------------------------------|--------------------------------|---------------------------------|---------------------------------|--|--|
| 10 | 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 instruments

| Instrument | Complexity Indicator |
|---|----------------------|
| Long-term Term Loans | Simple |
| Long-term Fund-based Limits | Simple |
| Short-term Fund-based Limits | Simple |
| Long /Short-term Non-Fund based Limits | Very Simple |
| Long /Short-term Fund-based/Non-Fund based Limits | Simple |
| Long-term – NCD programme | Simple |

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, is available on ICRA's 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 | Long-term- Term Loans | December 2017 | - | May 2021 | 0.00 | [ICRA]A (Stable) |
| NA | Long-term - Fund based limits | - | - | - | 269.70 | [ICRA]A (Stable) |
| NA | Short-term - Fund based limits | - | - | - | 250.00 | [ICRA]A1 |
| NA | Long/Short- term Non-fund based limits | - | - | - | 2547.72 | [ICRA]A (Stable) / [ICRA]A1 |
| NA | Long/Short- term - Fund Based/Non-Fund Based Limits | - | - | - | 1175.08 | [ICRA]A (Stable) / [ICRA]A1 |
| INE193E08012 | Long-term - NCD Programme | February 2019 | 11.50% | February 2022 | 75.00 | [ICRA]A (Stable) |
| INE193E08020 | Long-term - NCD Programme | February 2019 | 11.50% | August 2021 | 75.00 | [ICRA]A (Stable) |
| INE193E08038 | Long-term - NCD Programme | February 2019 | 11.50% | February 2021 | 35.00 | [ICRA]A (Stable); Withdrawn |
| Proposed | Long-term - NCD Programme | - | - | - | 15.00 | [ICRA]A (Stable); Withdrawn |

Source: Bajaj Electricals Limited

Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---------------------------|-----------|------------------------|
| Starlite Lighting Limited | 88.48% | Full Consolidation |
| Hind Lamps Limited | 19.00% | Equity method |
| Nirlep Appliances Pvt Ltd | 79.85% | Full Consolidation |

Source: Bajaj Electricals Limited

ANALYST CONTACTS

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

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

Vikram V
+91 40 4067 6518
vikram.v@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 22 6114 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



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2021 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.