

March 14, 2022^(Revised)

Bajaj Electricals Limited: Long-term rating upgraded, and short-term rating reaffirmed for bank lines; long-term rating for NCD upgraded and withdrawn (since redeemed); rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	269.70	269.70	[ICRA]A+ (Stable), upgraded from [ICRA]A (Stable)
Short-term Fund-based Limits	250.00	150.00	[ICRA]A1, reaffirmed
Long /Short-term Non-fund Based Limits	2,547.72	2,547.72	[ICRA]A+ (Stable), upgraded from [ICRA]A (Stable); [ICRA]A1 reaffirmed
Long /Short-term Fund-based/Non-fund Based Limits	1,175.08	1,125.08	[ICRA]A+ (Stable), upgraded from [ICRA]A (Stable); [ICRA]A1 reaffirmed
Long-term NCD Programme	150.00	0.00	[ICRA]A+ (Stable), upgraded from [ICRA]A (Stable) and simultaneously withdrawn (since redeemed)
Total	4,392.50	4,092.50	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the long-term rating of Bajaj Electricals Limited (BEL/the company) factors in the sharp reduction in the company's debt level over the past few quarters, which has enabled a considerable reduction in the interest cost in FY2021 and 9M FY2022, thereby supporting the debt coverage indicators. The positive cash flows from the consumer products division and a notable recovery of receivables in 9M FY2022 from the engineering-procurement-construction (EPC) segment allowed the company to reduce its debt dependence. The ratings continue to favourably factor in BEL's diversified business portfolio as it is present across multiple product categories in the consumer products (CP) business, and its leadership position in the CP business, driven by a strong brand image, product-development capabilities and a wide distribution network. Further, the ratings draw comfort from the company's strong financial flexibility, by being a part of the Bajaj Group, evident from the funding support received in the past in the form of inter-corporate deposits and equity infusion through rights issuance etc. Moreover, BEL has an adequate liquidity position, with sizeable undrawn limits.

The ratings also take note of the recent approval by its board of directors to restructure its business segments through a scheme of arrangement. As per the scheme, the power distribution and power transmission business of the EPC segment will be demerged into a separate company, Bajel Projects Ltd (BPL). BEL will hold the consumer products (CP) and the illumination business, which is currently a part of the EPC segment, given the similarities in the business profile. Each shareholder of BEL will be issued BPL shares in 1:1 ratio, in consideration for the demerger. BPL will also be listed on the stock exchange and its shareholding will mirror that of BEL. The appointed date of the demerger is April 01, 2022, subject to regulatory and other approvals such as approval from shareholders, creditors, NCLT etc., as applicable. The demerger of the EPC business, with a relatively lower operating profitability and higher receivables/ working capital intensity into a separate entity is expected to improve BEL's credit profile.

The ratings are, however, constrained by the EPC segment's weak profitability metrics and sizeable pending receivables, despite notable recovery in the current fiscal. The rating also considers the exposure of BEL's profitability to the volatility in

the raw material prices evident from the moderation in profit margins in the CP segment in the current fiscal, due to elevated commodity prices, and the competitive pressures in both the business segments.

The stable outlook reflects ICRA's expectation that the company's performance would be supported by stable revenues and profitability from its CP segment and realisation of past dues from the EPC segment.

The rating on the NCD programme of Rs. 150 crore has been upgraded and simultaneously withdrawn, in line with ICRA's Withdrawal Policy at the company's request, as the NCDs have been fully redeemed and there is no amount outstanding.

Key rating drivers and their description

Credit strengths

Significant reduction in debt levels – The company has made conscious efforts to reduce its leverage levels over the past few quarters. The cash flow from operations has been utilised to bring down the debt levels. The total debt, which had peaked to Rs. 1,592 crore as on March 31, 2019, reduced to Rs. 964 crore as on March 31, 2020 and further to Rs. 471 crore as on March 31, 2021. In 9M FY2022, the company has paid off its outstanding NCDs of Rs. 150 crore and the entire long-term external debt of Starlite Lighting Limited (SLL), which became BEL's subsidiary at the start of the current fiscal. As a result, at present, the company's total debt is below Rs. 200 crore. The company's interest coverage and debt servicing indicators are expected to improve with the significant reduction in debt levels and absence of any significant debt-funded capital expenditure (capex) plan.

Diversified business portfolio – The company's business is well-diversified with presence across multiple product categories in the consumer product business (lighting, fans and appliances), along with the EPC businesses, which is being demerged under a scheme of arrangement. Around 72% of the company's revenue in FY2021 and 78% in 9M FY2022, were 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 increased focus on the consumer products business. Within the CP segment, BEL has a diversified revenue mix with 57% contribution from appliances, 24% from fans, 12% from lighting and 7% from its premium appliances brand Morphy Richards.

Strong brand recall and leading market position in CP segment – The company enjoys a strong brand recall in the consumer product business, supported by an extensive distribution network. The company has more than 2.2 lakh retailers in 550 districts under its distribution model. Also, the sale of consumer products through e-commerce channels has significantly increased in the last 12-18 months.

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

Credit challenges

High receivables and weak profitability in EPC segment – As on December 31, 2021, the company's total receivables was Rs. 1,584 crore, of which Rs. 1,001 crore belonged to the EPC segment (including retention money of around Rs. 464 crore). Nonetheless, the EPC receivable position has reduced from Rs. 1,425 crore as on March 31, 2021. Within the EPC segment, the receivables of the power distribution business remained at Rs. 556 crore as on December 31, 2021, reducing by Rs. 416 crore compared with March 31, 2021. A sustained improvement in the EPC receivable position along with the release of retention

money, post project completion will be a credit positive. Further, the losses in the EPC division have continued because of the decline in scale and increased cost overheads for completion of the large-sized EPC orders, resulting in the moderate return and coverage indicators on an overall basis.

Exposure to volatility in raw material cost, moderation in profitability of CP segment in current fiscal – The company's operating profit margins have remained modest in the range of 4.1-6.6% in the last five fiscals. The profitability of the consumer product business remains linked to the movement in the prices of raw materials, mainly copper and zinc. The elevated commodity prices over the past 12-15 months have moderated the profitability of the consumer product segment, reflected in the PBIT margin of 7.43% for 9M FY2022 against 9.81% in FY2021. The company has implemented price hikes of 15-17% during this period, in some of the product categories, to partly offset the impact of the rising commodity prices. Timely and adequate pass-through of the input costs to the end consumers will remain important to protect the profitability margins and improve the debt coverage metrics.

Liquidity position: Adequate

BEL's liquidity position has remained **adequate** with undrawn working capital limits of Rs. 300 crore and short-term lines of credit of Rs. 175 crore as on December 31, 2021. The company has modest long-term debt repayment obligations of Rs. 12.75 crore in FY2023 and Rs. 11.83 crore in FY2024, which are expected to be serviced comfortably from the cash flows from operations. The company has strong financial flexibility by being a part of the Bajaj Group. As witnessed in the past, the Group is expected to extend liquidity support in case of any exigency.

Rating sensitivities

Positive factors – ICRA could upgrade BEL's rating in case of sustained improvement in earnings leading to improved capital structure, debt coverage metrics and liquidity position. Further, the completion of ongoing demerger exercise resulting in improvement in profitability and credit metrics could also be a positive rating trigger.

Negative factors – Pressure on BEL's rating could arise if there is any significant decline in profitability adversely impacting the debt coverage metrics. Also, a stretched working capital cycle adversely impacting the company's liquidity position will be a negative trigger. Specific credit metrics that can lead to a rating downgrade include the interest coverage ratio falling below 5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate credit rating methodology Policy on withdrawal of credit ratings Rating approach - Consolidation
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, with the Bajaj family owning around 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 primarily a marketing company, dealing in various consumer durable goods such as fans, lighting and electrical appliances under the Bajaj brand. In 2001- 2002, the company started manufacturing high-masts and transmission towers under 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 SLL's outgoing promoters on April 30, 2021, and further increased its shareholding to 88.48% in May 2021.

Key financial indicators*

BEL Consolidated	FY2020 (Audited)	FY2021 (Audited)	H1 FY2022 (Unaudited)
Operating Income (Rs. crore)	4,987.23	4,584.60	2158.87
PAT (Rs. crore)	-7.44	188.96	37.58
OPBDIT/OI (%)	4.18%	6.61%	4.40%
PAT/OI (%)	-0.15%	4.12%	1.74%
Total Outside Liabilities/Tangible Net Worth (times)	2.35	1.67	1.63
Total Debt/OPBDIT (times)	4.62	1.55	1.48
Interest Coverage (times)	1.22	3.97	2.22

*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 on Dec 31,2021 (Rs. crore)	Date & Rating in FY2022			Date & Rating in FY2021			Date & Rating in FY2020		Date & Rating in FY2019			
					Mar 14,2022	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	-	-	-	[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)
3	Fund based limits	Long term	269.70	-	[ICRA]A+ (Stable)	[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)
4	Fund based limits	Short term	150.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[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]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+
6	Fund Based/Non-Fund Based Limits	Long term / Short term	1125.08	-	[ICRA]A+ (Stable) /[ICRA]A1	[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+
7	NCD Programme	Long term	150.00	0.00	[ICRA]A+ (Stable) withdrawn	[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	-	-	-	[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	-	-	-	[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)		

	Instrument	Current Rating (FY2022)						Chronology of Rating History for the past 3 years								
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31,2021 (Rs. crore)	Date & Rating in FY2022			Date & Rating in FY2021			Date & Rating in FY2020		Date & Rating in FY2019			
					Mar 14,2022	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
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 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, are available on ICRA's website: [click here](#)

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 - Fund based limits	-	-	-	269.70	[ICRA]A+ (Stable)
NA	Short-term - Fund based limits	-	-	-	150.00	[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	-	-	-	1125.08	[ICRA]A+ (Stable) / [ICRA]A1
INE193E08012	Long-term - NCD Programme	February 2019	11.50%	February 2022	75.00	[ICRA]A+ (Stable), withdrawn
INE193E08020	Long-term - NCD Programme	February 2019	11.50%	August 2021	75.00	[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	100.00%	Full Consolidation

Source: Bajaj Electricals Limited

Corrigendum

Document dated March 14, 2022 has been corrected with revision as detailed below:

- Methodology for 'Rating approach – Consolidation' which was missed earlier in Analytical approach table, has been included
- Total Debt/OPBDITA in key financial indicators section for FY2021 has been corrected from 1.56 times to 1.55 times
- Shareholding of Nirlep Appliances Pvt Ltd has been corrected from 99.99% to 100.00%

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