

May 20, 2020

Bajaj Electricals Limited: Ratings reaffirmed; Rating withdrawn for Commercial Paper of Rs.500 crore and proposed NCD of Rs.150 crore

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); Rating reaffirmed
LT – Fund-based Limits	379.70	379.70	[ICRA]A- (Negative); Rating reaffirmed
ST – Fund-based Limits	315.00	315.00	[ICRA]A2+; Rating reaffirmed
LT/ST - Non-Fund based Limits	2700.30	2700.30	[ICRA]A- (Negative)/ [ICRA]A2+; Rating reaffirmed
LT/ST – Fund-based/Non-Fund based Limits	1327.50	1327.50	[ICRA]A- (Negative)/ [ICRA]A2+; Rating reaffirmed
ST – Commercial Paper	500.00	0.00	[ICRA]A2+; Rating reaffirmed and simultaneously withdrawn
LT-NCD programme	200.00	200.00	[ICRA]A- (Negative); Rating reaffirmed
LT-NCD programme	150.00	0.00	Provisional [ICRA]A- (Negative); Rating reaffirmed and simultaneously withdrawn
Total	5592.50	4942.50	

*Instrument details are provided in Annexure - 1

Rationale:

The reaffirmation of the ratings continues to factor in Bajaj Electrical Limited's (BEL) well diversified business portfolio. The company has presence in both consumer product (lighting, fans and appliances) & engineering, procurement and construction (EPC) businesses, which reduces the exposure to demand indicators of a particular business. The company has a leading position in the consumer durable business, supported by strong brand image and product development strengths and wide distribution network. The ratings also draw comfort from 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, infusion of equity through rights issuance concluded recently and support from inter-corporate deposits by the Bajaj Group.

The ratings, however, takes note of the likely pressure on the company's revenues and debt coverage indicators in FY2021 as a result of prevailing nationwide lockdown measures imposed by the government for containing contain novel coronavirus (Covid-19) outbreak. The revenues from consumer durable segment are likely to be affected because of extended lockdown in Q1FY2021, and uncertainty with respect to the extent of pickup in demand post easing of restrictions. Given this, the company's ability to maintain profit margins by curtailing various overheads, especially pertaining to selling and general expenses, remains crucial and would be a key rating sensitivity. A large part of the company's consumer products portfolio comprises small ticket items falling under the essential products category, which coupled with the strong brand recall could benefit the company in posting healthy recovery in demand. Nonetheless, the extent of prevailing lockdown, easing of restrictions and the anticipated recovery in demand/sales in consumer products business would remain key monitorables from the credit perspective. The rating also factors in the weak profitability given the high fixed overheads and sizeable receivables

in the engineering and projects segment. While a significant portion of the rural electrification orders in Uttar Pradesh & Bihar has been completed, the overall EPC receivable position remains significant i.e. at Rs. 1881 crore (including the retention money of Rs. 689 crore) as on March 31, 2020. As a result, timely closure of the remaining sites along with the collection of pending receivables including the retention money remains crucial for the company's liquidity.

The rating also takes into account the exposure of the company's profitability to volatility in the raw material prices and the competitive pressures in both the business segments. ICRA notes that Bajaj Electricals Limited (BEL) has extended corporate guarantee to the borrowings of Starlite Lighting Limited (SLL), an associate arm of the company and has also provided funding support to meet its debt servicing obligations. SLL manufactures LED products, water heaters, coolers, mixers, air-conditioners etc. The company is dependent significantly on BEL for revenue generation, with ~75% of its sales made to BEL. SLL's performance is expected to remain moderate in the near term, given its scale constraints, cost overheads and high debt on its books; any sizeable increase in funding support by BEL that impacts its own liquidity would remain a key rating sensitivity. Further, any acceleration of debt as per the terms of NCD remains a key rating sensitivity.

The negative outlook reflects ICRA's view that the company's revenue and profitability are expected to remain under pressure, particularly in the EPC segment due to high cost overheads, in the near term.

Rating on the Commercial Paper programme of Rs.500 crore has been reaffirmed and simultaneously withdrawn at the request of the company, as the same has been fully redeemed and there is no amount outstanding.

Rating on the proposed non-convertible debenture (NCD) programme of Rs.150 crore has been reaffirmed and simultaneously withdrawn at the request of the company, given that the same has not been issued.

Key rating drivers

Credit strengths

Diversified business portfolio – The company'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 a particular business. About two-thirds of the revenue in 9M FY2020 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. The consumer product segment witnessed ~12.7% revenue growth (y-o-y) in 9M FY2020, at a healthy PBIT margin of around 6.4%.

Financial flexibility from being part of Bajaj Group – The company has strong financial flexibility by virtue of being 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; in August 2019, the holding company extended Rs.200 crore of inter-

corporate deposits to the company. The company successfully completed the rights issue of Rs.350 crore in March 2020, augmenting its net worth position from the previous year.

Credit challenges

Expected pressure on revenue, profitability and debt coverage metrics because of Covid-19 pandemic – The pan-India lockdown announced by the Government of India (GoI) on March 24, 2020 due to the novel coronavirus (Covid-19) pandemic and the subsequent extensions are expected to have significant impact on BEL's consumer durables sales in Q1FY2021, especially of coolers and fans which are significant contributors within the consumer products segment. The risk of demand slowdown is perceptible, particularly in the CP business, post easing of restrictions. Nonetheless, the extent of such risk is likely to remain relatively low as the company's product portfolio in the CP business is in the relatively low-price category as against the consumer products in the high-price category such as air conditioners, refrigerators and washing machines. Any significant decline in revenues may have an impact on the profitability, cash flow generation and consequently the debt coverage metrics of the company. The pressure on the coverage metrics remains, even though the company pared its debt level by ~Rs.330 crore in March 2020 by utilising proceeds of the rights issue of Rs.350 crore. The extent of lockdown, anticipated recovery in demand/sales and cash flow generation would remain crucial from the credit perspective. While the debt level has come down to less than Rs.1000 crore as on March 31, 2020 from Rs.1577.5 crore as on March 31, 2019, backed up repayment of short-term debt utilising proceeds from the rights issue, the interest coverage ratio has moderated significantly to 1.3 times in 9M FY2020 from 3.0 times in FY2019.

Stretched receivables position and weak profitability in engineering projects division: The receivables from the rural electrification project in Uttar Pradesh (UP) remain stretched, impacting the company's cash flow position. The outstanding receivables from the UP project was Rs.791 crore as on March 31, 2020 (including ~Rs.200 crore of retention money). Overall receivables from the engineering projects (EPC segment) stood at Rs.1881 crore as on March 31, 2020 (including around Rs.689 crore of retention money). Since a significant part of the rural electrification order in Uttar Pradesh has been completed, the risk of further built-up of receivables is negated to some extent. Timely collection of receivables along with the release of retention money post project completion remains a key monitorable. However, the company has been able to collect ~Rs.150 crore from the earlier receivables in the current fiscal, without any manufacturing or sales in FY2021, providing some comfort. Further, profitability in the engineering projects division is expected to remain weak due to high capital employed and cost overheads for completion of the large sized EPC orders.

Exposure to volatility in raw material cost; low 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 products 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 fall in international commodity prices during this period had provided some support.

Extension of corporate guarantees 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. 242 crore). 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. Any sizeable increase in the financial support extended to SLL from the current level would be a rating sensitivity.

Liquidity position: Adequate

The liquidity position of the company is adequate with cash and cash equivalents of Rs.99.45 crore and undrawn line of credit of ~Rs.199.15 crore as on March 31, 2020. Further, the company has availed additional short-term loans of Rs.190 crore to meet any cash flow mismatch in case the lockdown due to the Covid-19 pandemic is extended beyond May 2020. BEL has additional drawing power (~Rs.189 crore available till May 31, 2020) from reduction in margin on stock/debtors and 10% of sanctioned working capital limit, available as additional limits. 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 made available in case the need arises.

Rating Sensitivities

Positive triggers – Given the negative outlook, a rating upgrade over the next one year is unlikely. However, a change in outlook to Stable or an upward movement in rating could happen in BEL's ratings if the company demonstrates a sustained improvement in its profitability and debt coverage metrics followed by a material reduction in debt levels. Specific credit metric that could lead to an upgrade of ratings include interest coverage greater than 3.0 times on a sustained basis.

Negative triggers – Negative pressure on BEL's rating could arise if there is any further decline in profitability owing to lower internal accrual generation and stretch in working capital cycle or if there is any acceleration of debt under the terms of NCD or higher-than-anticipated support to SLL that impacts BEL's own liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated 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. On 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 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, and air-conditioners at Nashik. In June 2017, BEL increased its stake in SLL to 47%.

Key financial indicators (Consolidated, Audited)

	FY2018	FY2019	H1FY2020 (Unaudited)	9MFY2020 (Unaudited)
Operating Income (Rs. crore)	4707.4	6679.4	2402.7	3686.6
PAT (Rs. crore)	94.2	153.6	-18.8	-9.5
OPBDIT/ OI (%)	6.5%	5.2%	4.3%	4.6%
RoCE (%)	15.3%	16.8%	7.5%	NA
Total Outside Liabilities/ Tangible Net Worth (times)	2.6	3.7	3.4	NA
Total Debt/ OPBDIT (times)	2.4	4.6	6.9	NA
Interest Coverage (times)	5.2	3.0	1.1	1.3
DSCR	1.1	2.7	1.3	NA

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Sl. No.	Instrument	Type	Current Rating (FY2021)		Date & Rating	Chronology of Rating History for the past 3 years						
			Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)		Date & Rating in FY2020		Date & Rating in FY2019			Date & Rating In FY2018	
					May 20, 2020	November 15, 2019	July 23, 2019	March 1, 2019	February 6, 2019	December 17, 2018	June 13, 2018	July 10, 2017
1	Commercial Paper	Short term	500.00	0.00	[ICRA]A2+; Rating reaffirmed and simultaneously withdrawn	[ICRA]A2+	[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+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (stable)	[ICRA]A+ (stable)
3	Fund based limits	Long term	379.70	-	[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	315.00	-	[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	2700.30	-	[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	1327.50	-	[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		200.00	185.00	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	Provisional [ICRA]A+ (Negative)			
8	NCD Programme		150.00	0.00	Provisional [ICRA]A- (Negative); Rating reaffirmed and simultaneously withdrawn	Provisional [ICRA]A- (Negative)	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	-	-	-	500.00	[ICRA]A2+; Rating reaffirmed and simultaneously withdrawn
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]A2+
NA	LT/ST - Non-fund based limits	-	-	-	2700.30	[ICRA]A- (Negative) / [ICRA]A2+
NA	LT/ST - Fund Based/Non-Fund Based Limits	-	-	-	1327.50	[ICRA]A- (Negative) / [ICRA]A2+
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); Rating reaffirmed and simultaneously withdrawn

Source: BEL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Starlite Lighting Limited	47.00%	Limited Consolidation
Hind Lamps Limited	19.00%	Limited Consolidation
Nirlep Appliances Pvt Ltd	79.85%	Limited Consolidation

ANALYST CONTACTS

Sabyasachi Majumdar

+91 124 4545 304

sabyasachi@icraindia.com

Girishkumar Kadam

+91 22 6114 3441

girishkumar@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 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, 2020 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