

L-1/1928/MGP

December 24, 2018

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai- 400 001

National Stock Exchange Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai- 400051.

Code No: 500031

Symbol: BAJAELEC- Series: EQ

Dear Sirs,

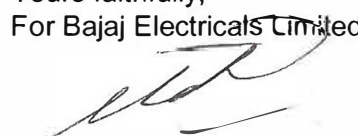
Sub: Credit Rating for Rs.4867.50 crore Line of Credit of Bajaj Electricals Limited

We enclose herewith a letter dated December 17, 2018 received from ICRA Limited informing the Company that it has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned earlier to the Rs.4367.50 crore Line of Credit of your Company, and also assigned short-term Commercial Paper rating of [ICRA]A1+ (pronounced ICRA A one plus) to the additional limit of Rs.500 crore. The Outlook on the long-term rating is revised from stable to Negative.

Kindly put this on the Notice Board for the information of the investors and general public.

Thanking you,

Yours faithfully,
For Bajaj Electricals Limited



Mangesh Patil
EVP-Legal & Taxation and Company Secretary

Encl: as above.

Bajaj Electricals Limited

December 17, 2018

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+ reaffirmed; outlook revised to Negative from Stable
LT – Fund-based Limits	379.70	379.70	[ICRA]A+ reaffirmed; outlook revised to Negative from Stable
ST – Fund-based Limits	315.00	315.00	[ICRA]A1+ reaffirmed
LT/ST - Non-fund Based Limits	2700.30	2700.30	[ICRA]A+ reaffirmed; outlook revised to Negative from Stable / [ICRA]A1+ reaffirmed
LT/ST – Fund-based/Non-fund Based Limits	952.50	952.50	[ICRA]A+ reaffirmed; outlook revised to Negative from Stable / [ICRA]A1+ reaffirmed
ST – Commercial Paper	500.00	500.00	[ICRA]A1+ reaffirmed
Total	4867.50	4867.50	

*Instrument details are provided in Annexure - 1

Rationale:

The outlook revision takes into account the increasing leveraging level and the expected moderation in debt coverage metrics due to high working capital requirements for the execution of ongoing large-sized rural electrification project orders under the EPC segment. Further, in view of the tight execution timelines, the company's ability to ensure timely execution without any cost over-run, meet the increased working capital requirements in a prudent manner, and maintain budgeted margins in EPC project business remains a key rating sensitivity.

The ratings continue to favourably factor in BEL's diversified business portfolio and its leading position in the consumer durable business, supported by strong brand and product development strengths and wide distribution network. The company's cost-effective sourcing from domestic small-scale industries and China helps it to counter competition from imports as well as unorganised players in the consumer durables space to some extent. The ratings also factor in the business performance of the Engineering Procurement and Construction (EPC) segment of BEL in FY2018 and H1FY2019— BEL's EPC business has been able to sustain its margin improvement since Q4FY2015 on the back of timely execution of its on-going projects and healthy built-in margins in these projects. ICRA also takes note of the strong order book position of the EPC business, driven by orders for rural electrification in the state of Uttar Pradesh (UP) under Saubhagya Scheme of Central Government. The strong order book lends healthy revenue visibility to the company over the next two years. The company is also expected to benefit from the improvement in the profitability of the consumer durable business going forward, as reflected in the strong revenue growth in H1FY2019, and the fact that a Range and Reach Expansion Program (RREP) for improving the inventory management of its consumer durables business is currently in its final stages of completion. The ratings also consider the company's favourable 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 as well as availability of advances from its key customer in the EPC business.

The ratings continue to remain constrained by the exposure of the company's operations to volatility in the raw material prices as well as the high working capital intensity of the EPC business. While reaffirming the ratings, ICRA has also considered the impairment of BEL's investments in Starlite Lighting Limited (SLL), worth ~ Rs. 89 crore, owing to the weak performance of the Compact Fluorescent Lamp (CFL) business of SLL. As the company has extended corporate guarantee

on the borrowings of SLL, any sizeable increase in the financial support extended to SLL from the current level to bolster the weak financial position of SLL remains a rating sensitivity.

Outlook: Negative

The negative outlook reflects ICRA's consideration that the increase in working capital borrowings for the execution of rural electrification order in Uttar Pradesh and its short execution timeline would put pressure on the profitability and coverage indicators. The outlook will be revised to Stable if the company is able to execute the project in a timely manner while maintaining the desired margins and shows an improvement in the working capital position.

Key rating drivers

Credit strengths

Diversified business portfolio - BEL'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 any particular business. Moreover, the company enjoys a strong brand recall in the consumer product business and is supported by a large distribution network.

Healthy revenue growth - The company's revenue grew at a healthy rate of 10.5% to Rs. 4707.5 crore in FY2018 from Rs. 4261.7 crore in FY2017. The trend continued in H1FY2019 also wherein revenue grew by 40% to Rs. 2738.4 crore from Rs. 1956.1 crore reported in the corresponding period of the previous year. Revenues from EPC business and consumer durable business grew by 26% and 53%, respectively, in H1FY2019 on a YoY basis. The operating margin of the company also improved to 5.8% in H1 FY2019 from 4.5% reported in the corresponding period of the previous year.

Implementation of new distribution model (RREP) is in final stages - The company has covered almost 1.8 lakh retailers in 550 districts of the country under its new distribution model. Performance of the consumer durable business is expected to pick up further because of better inventory management supported by RREP.

Healthy order book position provides revenue visibility to EPC segment - In April 2018, the company received fresh orders totalling to Rs. 5967 crore for rural electrification projects in the state of UP under Saubhagya Scheme. The total order book position of the company stood at Rs 7307.36 crore (of which Rs. 5812.9 crore is for Power Distribution projects) as on September 30, 2018, which is ~3 times the revenue generated in FY2018.

Financial flexibility from being part of Bajaj Group

Credit challenges

Moderation of coverage metrics due to increase in leveraging level - Increase in short-term borrowings for the execution of rural electrification project in UP has moderated the company's projected coverage metrics. The company's gearing increased to 1.3 times as on September 30, 2018 from 0.8 times as on March 31, 2018. The total debt level as on September 30, 2018 stood at Rs. 1311.3 crore, which comprises of 1282.7 crore of short-term debt and Rs. 28.6 crore of long-term debt.

High working capital intensity - The company's working capital intensity remains high, primarily because of high inventory, given the need to maintain inventories of imported goods and large number of stock keeping units (SKUs) in fans, appliances and lighting. Debtors continue to remain high mainly due to receivables related to the project business carried out by EPC segment. Working capital intensity of the company is likely to remain high because of the tight execution timelines of the rural electrification project in UP and the retention money requirement (10% of the order size) for the same.



Exposure to volatility in raw material cost; low pricing flexibility - The profitability of the consumer products 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 (FY2015 - FY2018) owing to high competitive pressures and muted revenue growth (on account of RREP implementation). However, the fall in international commodity prices during the same period has provided some support.

Extension of corporate guarantees to SLL - BEL has high exposure to its associate concern, SLL, in the form of corporate guarantees. Also, BEL has impaired investment in SLL (Preference Shares and Loans) worth Rs. 89.36 crore in FY2018 due to which the net profit margin came down to 1.8% which otherwise would have been 3.7%. Any sizeable increase in the financial support extended to SLL from the current levels would be a rating sensitivity.

Liquidity position

The liquidity position of the company remains adequate with free cash and liquid investments of ~Rs. 20.5 crore and undrawn line of credit of ~Rs. 278 crore as on September 2018 as well as the availability of advances from its key customer in EPC business. However, increasing working capital requirement for execution of rural electrification order in UP could put pressure on the liquidity profile of the company; consequently, the company's ability to ensure timely execution and maintain desired margins in the project order remains a key monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<u>Corporate Credit Rating Methodology</u>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone 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. From 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 the year 2001-02, the company commenced 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 is involved in manufacturing of 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 etc. at Nashik. In June 2017, BEL increased its stake in SLL to 47%.



Key financial indicators (audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	4261.7	4707.5
PAT (Rs. crore)	107.7	83.6
OPBDIT/ OI (%)	5.7%	6.2%
RoCE (%)	15.9%	14.2%
Total Debt/ TNW (times)	0.7	0.8
Total Debt/ OPBDIT (times)	2.6	2.5
Interest Coverage (times)	3.0	5.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S · N o ·	Current Rating (FY2019)					Chronology of Rating History for the past 3 years					
	Instrument	Type	Amount Rated (Rs. Crore)	Amount Outstan ding (Rs. Crore)	Date & Rating		Date & Rating				
					Rating		Date & Rating in FY2017		Date & Rating in FY2016		
					December 2018	June 2018	July 2017	January 2017	August 2016	October 2015	August 2015
1	Commercial Paper	Short term	500.00	500.00	[ICRA]A1+	[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+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A (positive)	[ICRA]A (stable)
3	Fund based limits	Long term	379.70	379.70	[ICRA]A+ (Negative)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A (positive)	[ICRA]A (stable)
4	Fund based limits	Short term	315.00	315.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1
5	Non-fund based limits	Long term / Short term	2700.30	2700.30	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (stable) /[ICRA]A1+	[ICRA]A+ (stable) /[ICRA]A1	[ICRA]A+ (stable) /[ICRA]A1	[ICRA]A+ (stable) /[ICRA]A1	[ICRA]A+ (stable) /[ICRA]A1	[ICRA]A+ (stable) /[ICRA]A1
6	Fund Based/Non-Fund Based Limits	Long term / Short term	952.50	952.50	[ICRA]A+ (Negative) /[ICRA]A1+	[ICRA]A+ (stable) /[ICRA]A1+	-	-	-	-	-

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	-	7.95% - 9.30%	3 to 6 months	500.00	[ICRA]A1+
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]A1+
NA	LT/ST - Non fund based limits	-	-	-	2700.30	[ICRA]A+ (Negative) / [ICRA]A1+
NA	LT/ST - Fund Based/Non-Fund Based Limits	-	-	-	952.50	[ICRA]A+ (Negative) / [ICRA]A1+

Source: BEL

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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.

For more information, visit www.icra.in

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