

L-1/1535/SRB

January 4, 2018

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

: Code No. 500031

National Stock Exchange of India Ltd. :  
Exchange Plaza, Bandra Kurla Complex  
Bandra (East), Mumbai 400 051

Symbol: BAJAJELEC – Series: EQ

Dear Sirs,

**Sub: Credit Rating for Commercial Paper (CP) issue of Rs.500.00 crore**

We enclose herewith a letter No.CARE/HO/RL/2017-18/3714 dated December 29, 2017 received from CARE Ratings Limited informing the Company that it has assigned "**CARE A1+ (A One Plus)**" rating to the Company's CP issue of Rs.500.00 crore.

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

Thanking you,

Yours faithfully,  
For Bajaj Electricals Limited

  
Shekhar Bajaj  
Chairman and Managing Director

No. CARE/HO/RI/2017-18/3714  
Mr. Anant Martand Purandare  
President & CFO  
Bajaj Electricals Limited  
Rustomjee Aspire, 6th Floor,  
Bhanu Shankar Yagnik Marg,  
Sion East, Mumbai- 400022

December 29, 2017

**Confidential**

Dear Sir,

**Credit rating for Commercial Paper (CP) issue of Rs.500.00 crore**

Please refer to your request for rating of proposed CP issue of your company, for a limit of Rs.500.00 crore with a maturity not exceeding one year.

2. The following rating has been assigned by our Rating Committee:

Instrument	Amount (Rs. crore)	Rating	Rating Action
Commercial Paper (CP) Issue	500.00 (Rs. Five Hundred crore only)	CARE A1+ (A One Plus)	Assigned

- Please arrange to get the rating revalidated in case the proposed CP issue is not made within two months from the date of our initial communication of rating to you i.e. by February 28, 2018. Once the CP is placed, the rating is valid for the tenure of such instrument till redemption.
- In case there is any change in the size or terms of the proposed issue, please get the rating revalidated.
- Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

Instrument type	ISIN	Issue Size (Rs cr.)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Trustee/IPA	Details of top 10 investors

- The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press by the end of the day, a draft of which is enclosed for your perusal as Annexure. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in.

<sup>2</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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**CARE Ratings Limited**  
(Formerly known as Credit Analysis & Research Limited)

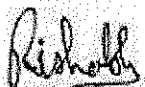
Kindly revert as early as possible. In any case, if we do not hear from you by the end of the day, we will proceed on the basis that you have no any comments to offer.

7. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
8. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instruments, CARE shall carry out the review on the basis of best available information throughout the life time of such instruments. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
9. Users of this rating may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding rating.
10. CARE ratings are not recommendations to buy, sell, or hold any securities.


If you need any clarification, you are welcome to approach us in this regard. We are indeed, grateful to you for entrusting this assignment to CARE.

Thanking you,

Yours faithfully,

  
Rishabh Jaiswal  
Analyst

[rishabh.jaiswal@careratings.com](mailto:rishabh.jaiswal@careratings.com)

  
Murtuza Patrawala  
Senior Manager

[murtuza.patrawala@careratings.com](mailto:murtuza.patrawala@careratings.com)

Encl.: As above

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are

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**CARE Ratings Limited**  
(Formerly known as Credit Analysis & Research Limited)

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rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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**Annexure**  
**Press Release**  
**Bajaj Electricals Limited**

December 29, 2017

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>2</sup>	Rating Action
Commercial Paper	500.00 (Rs. Five Hundred crore only)	CARE A1+ (A One Plus)	Assigned
<b>Total Facilities</b>	<b>500.00</b> <b>(Rs. Five Hundred crore only)</b>		

*Details of instruments/facilities in Annexure-I*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the Commercial Paper of Bajaj Electricals Limited (BEL) derive strength from an established and long standing position in the consumer product business aided by strong brand presence and large distribution network, diversified business portfolio and experienced promoter group. The rating also positively factors in improved performance of E&P (Engineering & Projects) backed by moderate order book position providing revenue visibility for next 1.5 years. Healthy capital structure along with comfortable liquidity profile and financial flexibility provides strength to the rating.

These strengths are however tempered by moderate profitability margins of the consumer product business owing to increasing competition and ongoing implementation of RREP (Range & Reach Expansion Programme), counter party risk and inherent risk associated with project execution in a high working capital intensive E&P business and support extended in the form of advances and corporate guarantee to an associate i.e. Starlite Lighting Limited (SLL). The rating also takes cognizance of risk of volatility in raw material prices and intense competition in consumer as well as E&P businesses from organized and un-organized players.

The ability of the company to successfully implement RREP and maintain its consumer product business market share and complete E&P projects without any significant cost and time overrun and efficiently manage working capital cycle remains the key rating sensitivity.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Established and experienced promoters along with diversified business portfolio**

Bajaj Electricals Limited (BEL) is headed by Mr. Shekhar Bajaj as Chairman & Managing Director of the company, bringing over 35+ years of experience. BEL has a strong presence in the market and has diverse portfolio in the consumer product space which includes Lighting (Bulbs, LEDs, Torches, etc.), Appliances (Mixer, Grinder, Microwave Ovens, etc.), Fans (Ceiling Fans, Exhaust Fans, etc.) and presence in premium segment via Morphy Richards. It also has considerable presence under the Engineering & Projects (E&P) segment wherein it executes projects under the spectrum of transmission towers, distribution and illumination. Having a diversified business portfolio helps the company from being less exposed to vagaries of any one particular business.

**Strong brand presence aided by large distributor network in consumer product business**

BEL has an established marketing position and brand recall with pan India distribution network around 450 distributors and reach in around 1,10,000 Retailers across 600 districts. It is also streamlining its distribution network with the implementation RREP (Range and Reach Expansion Program). The company has recently set up a R&D center in Navi Mumbai, Maharashtra, for the consumer products segment, wherein it expects to leverage the consumer data analysis to gain further insights in consumer preferences and lifestyle choices and using it to design and market products.

**Implementation of Range and Reach Expansion Program (RREP)**

<sup>2</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Under the RREP, the company has changed its strategy from Push model to Pull model; following which the distribution mix changed from 65% Wholesalers and 35% Distributors to 100% Distributors/ Retailers (the company is more focused on secondary sales). However, the implementation of RREP was delayed mainly due to synchronizing and teething issues and there was associated fixed cost involved which affected profit margins, but the company has achieved ~70% rollout, of RREP smoothly and the whole program rollout is expected to be achieved by end of Q1FY19. Successful implementation of the program would help the company to manage its inventory across all levels and control its cost which may improve margins.

**Healthy performance of E&P business supported by good order book position**

In the Engineering & Projects (E&P) segment, the company executes projects under the spectrum of power transmission, distribution and illumination. It mainly deals with national and state institutions such as Power Grid Corporation of India Ltd (PGCIL, rated CARE AAA), Rural Electrification Corporation Ltd (rated CARE AAA; Stable), state discoms such as North/South Bihar Power Distribution Company Ltd, Transmission Corporation of Telangana Limited, and municipalities, etc. BEL has a strong order book in Transmission Line Tower business (Rs.886.31 crore) and Power distribution business (Rs.2,489.62 crore) which provides visibility to revenues and cash flows for the next 1.5 years.

**Largely stable operational performance**

**Consumer products**

The revenue declined from Rs.2597.48 crore in FY16 to Rs.2314.21 crore in FY17, also EBITDA margin shows a declining trend, from 8.67% in FY13 to 5.17% in FY16 and 4.95% in FY17, the reason for which is reduced margins in the consumer space due to pricing pressure and RREP implementation resulting into change in business model. During Q1FY18, there was 15% decline in revenue of Consumer Products business mainly due to GST de-stocking, however it mostly recovered in Q2FY18, and the sales stood at Rs.514.11 crore and overall impact of GST was neutralised.

**EPC segment**

In the E&P business sales remained mostly flat at Rs.1983.33 crore in FY17 compared to Rs.2,029.57 crore in FY16 (Rs.1,335.54 crore in FY15) on account of demonetization and extended monsoon, wherein the labor availability was low. The EBITDA margin improved significantly over the years to 7.84% in FY17, improved performance is mainly due to timely execution of on-going projects and the healthy margins prevalent in these projects.

**Comfortable risk profile and liquidity**

BEL's overall gearing ratio improved to 0.72x as on March 31, 2017 from 1.29x as on March 31, 2016 on account of reduction in acceptances. Also, the interest coverage ratio improved from 2.84x in FY16 and 3.34x in FY17, mostly due to decline in interest cost associated with long term borrowings and Total Debt/ GCA improved from 6.74x in FY16 to 4.77x in FY17 on account of improved profitability and lower working capital debt. Furthermore, being a part of the Bajaj Group, the company has adequate financial flexibility.

**Key Rating Weaknesses**

**Counter-party risk in E&P business**

In Power transmission, distribution and illumination businesses (which comes under E&P business unit), the company is exposed to counter party risk as it deals with national as well as state institutions. However, the Rural Electrification projects are funded by central government and dependency on State Electricity Boards is not involved as far as payments are concerned. The operating cycle remains elongated at 126 days in FY17, on account of increase in revenue share of the high working capital intensive EPC business.

**Susceptible to volatility in raw material prices**

The company manufactures transmission line towers, high masts and poles, street lighting etc. wherein it uses Aluminum, Copper and Zinc are raw materials, which in turn exposes the company to volatility in commodity prices, and BEL does not hedge its exposure to the price risk. However, the Company exercises constant vigilance on commodity prices and adjust the procurement prices from vendors accordingly. Ability of the company to manage the increased raw material prices remains key monitorable to the credit profile of the company. However the risk is mitigated to certain extent because of its established presence and diversified business profile.

**Inherent risk associated with project execution**

During FY13-15, major projects of BEL which had witnessed cost and time overruns were completed. Subsequently the company implemented a strategy of OTIF (On Time In Full Kit), wherein they order all components together at one time and avoid time loss due to shortage of one component, consequently no

major time overruns are expected for the existing order book. This would result in timely inflow of funds in tandem with the outflow requirements.

**Stiff competition in Consumer Product business and E&P business from existing players and new ones entering the market**

The industry is strife with competitors both existing and the new ones entering the market due to low entry barriers, for instance in Transmission Line Towers (TLT) business, the government is encouraging the participation of private players through Tariff Based Competitive Bidding (TBCB), which is encouraging the other players to enter the market creating overcapacity situation which puts pressure on margins. Similarly, in Illumination business, the small time contractors are bidding based on the support from other manufacturers of high masts and poles which is posing a risk for the company's business.

In consumer products business, on the back drop of promising outlook in consumer appliances industry; due to rising income levels, rapid urbanization, and growth in nuclear families, the competition is intensifying which increases the pricing pressure on the company in order to maintain its market share and remain competitive with respect to other players.

**Analytical approach:** Standalone

**Applicable Criteria**

- Criteria on assigning Outlook to Credit Ratings
- CARE's Policy on Default Recognition
- Criteria for Short Term Instruments
- Rating Methodology-Manufacturing Companies
- Financial ratios – Non-Financial Sector

**About the Company**

The company was incorporated as Radio Lamp Works in 1938, and changed its name to Bajaj Electricals Limited (BEL) in 1960, and has businesses spread across Consumer Products and Engineering & Projects business. Bajaj Electricals has 19 branch offices spread in different parts of the country besides being supported by a chain of distributors, authorized dealers, retail outlets, exclusive showrooms called 'Bajaj World' and approximately 462 customer care centers. Manufacturing/Assembling units are located at Ranjangaon and Chakan.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	4630	4287
PBILDT	306.83	268.52
PAT	108.10	105.37
Overall gearing (times)	1.29	0.72
Interest coverage (times)	2.84	3.34

*A. Audited*

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**Rating History for last three years:** Please refer Annexure-2

*Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

**Analyst Contact:**

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper		7.1% - 7.6%		500.00	CARE A1+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	500.00	CARE A1+				

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