MIRC Electronics Limited (MIRC)

October 09, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Term Loan	7.59 (reduced from 50.00)	**CARE BB; Stable [Double B; Outlook: Stable]**	Re-affirmed
Long-term Bank Facilities	133.00 (reduced from 150.00)	**CARE BB; Stable [Double B; Outlook: Stable]**	Re-affirmed
Short-term Bank Facilities	161.00 (reduced from 400.00)	**CARE A4 [A Four]**	Re-affirmed
Total Facilities	**301.59 (Rupees Three hundred one crore and Fifty nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of MIRC Electronics Limited (MIRC) continues to factor in its ongoing subdued financial performance in FY17 (refer to the period April 01 to March 31) characterized by marginal decline in revenues, sustained losses at PAT levels leading to thin gross cash accruals, weak debt coverage indicators and elongated operating cycle resulting into stretched liquidity position. Though the company has posted profit at PAT levels in Q1FY18 (refer to the period from April 01 to June 30), the muted sales growth along with highly competitive nature of consumer durables industry owing to presence of international players and technology risk, and its profit margins susceptible to volatility in input prices and forex rates continue to remain the other rating constraints.

The rating weaknesses, however, are underpinned by vast experience of promoters in the consumer durable industry, comprehensive product portfolio, good brand recall value of brand name "ONIDA" and its moderate capital structure.

Going forward MIRC's ability to grow its revenues and increase its market share in the industry, improve its profit margins, debt coverage indicators and capital structure along-with efficient working capital management will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in revenues in FY17 and Q1FY18

MIRC's total operating income (TOI) declined marginally from Rs.778.39 crore in FY16 to Rs.750.82 crore thereby indicating decline of around 2.67% on a y-o-y basis. This was largely owing to decline in sale of television segment by around 18% which was however offset to an extent by growth in its Air Conditioner (AC) segment of 31% and Washing Machine (WM) segment of 3% respectively. Further, in Q1FY18, total operating income of the company declined by 7% on y-o-y basis to Rs.224.22 crore as compared to Rs.241.12 crore in Q1FY17.

Losses at PAT levels leading to thin gross cash accruals in FY17; albeit marginal recovery in Q1FY18

During FY17, despite company's sales declined marginally on a y-o-y basis, MIRC was able to report PBILDT margins of 4.89% as compared to losses in FY16. However, the company continues to incur losses at PAT levels largely owing to one time expenditure in the form of VRS offered to its employees at it Wada unit in FY17 owing to closure of its CRT division. This has resulted in thin gross cash accruals.

However, during Q1FY18, despite decline in sales on y-o-y basis, though MIRC was able to report marginal recovery in profitability margins at PAT levels; yet improvement in profit margins on sustainable basis is yet to be seen.

Weak debt coverage indicators coupled with elongated operating cycle leading to stretched liquidity position

Thin GCA generated by the company during FY17 has led to weak debt service coverage indicators for the company. As on March 31, 2017, MIRC's debt service coverage indicators, as indicated by PBILDT interest coverage ratio, was satisfactory

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

at 1.56 times. The total debt to GCA of the company continues to be weak at 41.41 times for the year ending March 31, 2017. Furthermore, MIRC has operating cycle of more than three months which the company largely finances through working capital bank borrowings, resulting into high utilization of working capital bank facilities. For the year ending March 31, 2017 the utilization of working capital bank facilities was more than 80% of the sanctioned limits.

Vulnerability of profit margin to fluctuations in input prices and forex rates

Being the net importer MIRC is exposed to currency fluctuation risk. The company hedges 100% of its buyer's credit exposure; however, some portion of imports in open credit terms remains un-hedged. Moreover, due to unfavorable market position and high competition across the product segments the company's ability to pass on any rise in raw material/ component cost is limited and it remains the key rating sensitivity.

Presence of *international players and technology risk and low market share*

In India, CEHA industry is dominated by Korean, Taiwan and Japanese players which have relatively high spend towards research and development, marketing and branding activity leading to intense competition in the domestic market. Thus, despite having a comprehensive product portfolio, MIRC continues to face stiff competition from its peers and has a lower market share in all the product categories it is present.

Besides, CEHA industry exhibits high technology risk and is driven by the continuous innovations in the product technology. Furthermore, consumers are changing preferences with the introduction of new technologies viz. Invertor AC's, LCD/LEDs. Thus companies need to keep pace with the change in consumer preferences owing to continuous innovations in the product technology to remain in the business.

Key Rating Strengths

Well experienced promoters and good brand recall value of brand name "ONIDA"

Established in 1981, MIRC is promoted by its founding promoters Mr. Gulu. L. Mirchandani and Mr. Vijay. J. Mansukhani in 1981. Both the promoters have been associated with the consumer durable industry since more than three and half decades. MIRC operates under brand names IGO and ONIDA, however the company is known for its ONIDA brand which has been in existence since MIRC's incorporation. The company may leverage on its ONIDA brand to drive its sales momentum.

Comprehensive product portfolio

MIRC has well diversified product portfolio which includes television (TV), air conditioner (AC), washing machines (WM), microwave oven, and mobile phones. However, the top two segment i,e television (TV) and air conditioner (AC) account for about 87% of the company's sales in FY17 each forming about 39% and 48% of its sales respectively.

Moderate capital structure

As on March 31, 2017, MIRC's capital structure improved slightly and remained moderate as indicated by overall gearing of 1.31 times (P.Y: 1.70 times) on account of fresh equity issue to Bennett coleman and company limited (BCCL) and lower working capital limits from banks. However, as part of this arrangement the full amount received from BCCL against equity issue was required to be repaid back to BCCL as a deposit/ advance for the advertisement services to be availed by the company till 2022. Thus, although addition of equity from BCCL helped in improving the capital structure of MIRC, it did not helped much in easing the liquidity woes of the company.

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

MIRC Electronics Limited (MIRC) is engaged in manufacturing/assembling and marketing of LCDs/LEDs, Digital Video Disc (DVD) players & recorders, Video Compact Disc Players (VCD), Washing Machines, Mobile Phones, Microwave Ovens, Air-Conditioners, set top boxes and Audio Visual Presentation Products. The Company markets its products across India primarily under the ONIDA Brand. Apart from this, the Company has another brand IGO (comprising 5%-7% of total sales), launched in 2002-03, targeted at the rural segments. MIRC has its plant in Wada for assembling LCD/LED's with total assembling capacity of 4 lakh units per annum. The company's assembling unit for washing machines is situated at Roorkee and has total capacity of 2.4 lakh units per annum. The Company has about 1,200 distributers to its network which are covered by about 38 branches spread across India. Further, the company's distribution channel is supported by about 19 warehouses and has about 70 pan India service centers. The company has widespread service network across india, similar to major electronics players operating in India.

As per FY17, MIRC posted a Net Loss of Rs.5.68 crore (FY16 – Net loss of Rs.27.01 crore) on a total operating income of Rs.750.82 crore (FY16 – Rs.771.39 crore).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	771.39	750.82
PBILDT	-0.20	36.70
PAT	-27.01	-5.68
Overall gearing (times)	1.70	1.31
Interest coverage (times)	-0.01	1.56

A: Audited

Status of non-cooperation with previous CRA:

CRISIL has conducted the review on the basis of best available information and has classified MIRC Electronics Limited as "Non Cooperating" vide its press release dated August 11, 2017.

Any other information: N.A

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:

Name: Mr Vikash Agarwal
Tel: 022-6754 3405
Email: Vikash.agarwal@careratings.com

****For detailed Rationale Report and subscription information, please contact us at 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.

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
Fund-based - LT-Cash Credit	-	-	-	133.00	CARE BB; Stable
Non-fund-based - ST-BG/LC	-	-	-	161.00	CARE A4
Term Loan-Long Term	-	-	August 18, 2020	7.59	CARE BB; Stable

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.	Fund-based - LT-Cash Credit	LT	133.00	CARE BB; Stable	-	1)CARE BB; Stable (02-Dec-16)	1)CARE BBB- (31-Dec-15)	1)CARE BBB- (17-Oct-14)
2.	Non-fund-based - ST-BG/LC	ST	161.00	CARE A4	-	1)CARE A4 (02-Dec-16)	1)CARE A3 (31-Dec-15)	1)CARE A3 (17-Oct-14)
3.	Term Loan-Long Term	LT	7.59	CARE BB; Stable	-	1)CARE BB; Stable (02-Dec-16)	1)CARE BBB- (31-Dec-15)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691