May 26, 2023

Usha International Limited: Ratings downgraded; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	106.23	106.23	[ICRA]BBB- downgraded from [ICRA]BBB; outlook revised to Negative from Stable
Long-term fund-based – Working capital	175.00	175.00	[ICRA]BBB- downgraded from [ICRA]BBB; outlook revised to Negative from Stable
Short-term non fund based – LC/BG	285.00	285.00	[ICRA]A3 downgraded from [ICRA]A3+
Total	**566.23**	**566.23**	

**Instrument details are provided in Annexure-I*

Rationale

The rating downgrade takes into account the sustained muted profitability of Usha International Limited (UIL) in the last two years due to input cost hikes, high competitive intensity and demand-side pressures. The revenue of the key electric fan segment declined by almost one-tenth in FY2023 even as the company's overall revenue remained flat during the year (home appliances grew 14%).

The profitability was further impacted by the price support offered to channel partners by most of the players including UIL for offloading non-star rated fans by December 31, 2022. While shift to star rating fans should result in improvement in the market share of organised players like UIL, the demand for fans is expected to remain volatile in the near to medium term because of the existing low-cost non-star rated inventory and the potential deferment of purchases for the higher cost star-rated fans by consumers. The unfavourable rains also impacted volumes towards the end of March 2023/April 2023 although they are expected to pick up.

The revision in the outlook to Negative takes into account the company's moderated liquidity buffer and high fixed costs (branding, employee, overhead expenses etc). Moreover, the company faces high financial leverage as two consecutive years of losses have reduced its net worth, increasing its external borrowings to meet the working capital requirements. These factors limit the company's ability to withstand a deterioration in the operating environment caused by demand and cost-side pressures in the near to medium term.

The ratings remain supported by UIL's long track record and the extensive experience of its management in the consumer durables industry. The ratings also take into consideration UIL's diversified product portfolio, which reduces the exposure to demand volatility in a particular segment. Its well-established brand, especially in fans and sewing machines, supports the ratings. These factors, coupled with the brand franchise, an extensive distribution network and the marketing initiatives, have enabled the company to sustain its growth across most product categories. ICRA also notes the steps taken by the company to improve its working capital efficiency through optimisation of inventory levels. Further, UIL's marketing initiatives to increase brand penetration and the cost rationalisation incentives, which once implemented, should reduce employee/overhead expenses.

Key rating drivers and their description

Credit strengths

Experience of promoters; established brand image and diversified product profile – UIL, incorporated in 1935, is involved in the sales, marketing, distribution and manufacturing of consumer durables and agricultural and auto components. UIL has a long track record of operations in key product segments such as electric fans, sewing machines and other home appliances. The company's presence across product categories cushions the slowdown in any segment.

Wide distribution network - The company has an extensive distribution network spread across the country, enabling it to maintain its strong position in electric fans and sewing machines. In addition, the company is gradually expanding its network of authorised service centres, which would support its distribution and servicing network.

Credit challenges

Intense competition in industry - The company faces stiff competition from organised and unorganised players in the industry. This limits its pricing flexibility and bargaining power with customers, putting pressure on its revenues and margins. Further, the volatile demand scenario for fans in the near term weighs on the earnings. Also, cost-effective sourcing and large supplier tie-ups are critical to ensure profitability.

Subdued profitability – While UIL's turnover remained flat in FY2023, higher commodity prices carried forward from the previous year and discounts offered to channel partners resulted in operating loss for the company in FY2023. The overall profit margins remain low as most revenues are generated through sales of products sourced through contract manufacturing. Moreover, the company has been making continuous expenditure towards brand building and distribution network.

Susceptibility to adverse movement in raw material prices – UIL's margins are largely affected by raw material price fluctuation, which in turn affects the sales realisations. Any adverse movement in the price of raw materials could put pressure on the company's margins, considering its limited ability to pass on the price hike owing to intense competition.

High leverage and inadequate debt protection metrics – Losses at the operating and net level in FY2023 reduced UIL's net worth, which in turn has increased its reliance on external debt for meeting the working capital requirements. The leverage (total debt/tangible net worth) has deteriorated to 3.1 times as on March 31, 2023 from 1.1 times as on March 31, 2022. With losses at the operating level, the debt protection metrics were inadequate in FY2023.

Liquidity position: Adequate

While the liquidity of the company has moderated from last year, it continues to be adequate on account of its cash and bank balances of ~Rs. 70 crore (including encumbered cash of ~Rs. 31.2 crore to be utilised for debt repayment obligations in FY2024) and undrawn working capital facilities, aggregating to approximately Rs. 55.7 crore (drawing power of Rs. 151.7 crore) as on March 31, 2023, against debt servicing obligations of ~Rs. 100 crore in FY2024. Going forward, UIL's ability to generate adequate cash accruals will remain critical for its repayments as well as improving its liquidity position.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade over the near term is less likely. The outlook could be revised to Stable if the company's profitability improves with increasing sales, without any material deterioration in its credit metrics and liquidity position. A specific credit metric that could lead to a change in outlook to Stable includes interest coverage of more than 3.5 times on a sustained basis.

Negative factors – Pressure on UIL's rating could arise if the profitability continues to decline, leading to stretched liquidity position and weakening of the debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

UIL, incorporated in 1935, sells, markets, distributes and manufactures consumer durables and auto components. While the company has a diverse product portfolio such as electric fans, sewing machines, appliances, electrical pump sets, water coolers, auto products and lighting products, electric fans remain the dominant product segment. UIL follows an asset-light model as most of its production is outsourced to vendors with in-house production being restricted to fans (largely outsourced as well), water coolers and fuel injection components.

Key financial indicators

UIL standalone	FY2022 (Audited)	FY2023 (Un-Audited)
Operating income	3,309.0	3,337.3
PAT	-37.0	-57.3
OPBDIT/OI	0.7%	-0.8%
PAT/OI	-1.1%	-1.7%
Total outside liabilities/Tangible net worth (times)	6.4	11.6
Total debt/OPBDIT (times)	6.4	-8.8
Interest coverage (times)	0.8	-1.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
Note: Amount in Rs. crore; All calculations are as per ICRA Research
Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding. (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					May 26, 2023	June 29, 2022		Mar 05, 2021	May 07, 2020
1	**Term loan**	Long Term	106.23	106.23	[ICRA]BBB– (Negative)	[ICRA]BBB(Stable)	-	[ICRA]BBB(Stable)	[ICRA]BBB (Negative)
2	**Fund based working capital limit**	Long Term	175.00	-	[ICRA]BBB– (Negative)	[ICRA]BBB(Stable)	-	[ICRA]BBB(Stable)	[ICRA]BBB (Negative)
3	**Non Fund-based limit – LC/BG**	Short Term	285.00	-	[ICRA]A3	[ICRA]A3+	-	[ICRA]A3+	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term Loan	Simple
Long-term fund based working capital	Simple
Short-term non-fund based LC/BG	Very 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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan – I**	Aug 2018	NA	FY2024	25.08	[ICRA]BBB-(Negative)
NA	**Term Loan – II**	Jan 2021	NA	FY2027	21.65	[ICRA]BBB-(Negative)
NA	**Term Loan – III**	Sep 2020	NA	FY2026	21.67	[ICRA]BBB-(Negative)
NA	**Term Loan – IV**	Aug 2021	NA	FY2024	28.00	[ICRA]BBB-(Negative)
NA	**Term Loan – V**	Dec 2018	NA	FY2024	9.83	[ICRA]BBB-(Negative)
NA	**Working capital Limit**	NA	NA	NA	175.0	[ICRA]BBB-(Negative)
NA	**LC/BG Limit**	NA	NA	NA	285.00	[ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

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