HBL Power Systems Limited

October 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	229.00 (Reduced from 310.84)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	446.00 (Reduced from 485.00)	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**675.00 (Rs. Six Hundred Seventy-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The re-affirmation in the ratings assigned to the bank facilities of HBL Power Systems Limited (HBL) continue to derive strength from the experienced promoters with established track record of operations, diversified revenue profile, improved financial risk profile, comfortable order book position with healthy demand prospects. The ratings also take cognizance of strong liquidity position and stable profitability margins albeit moderation in total operating income during FY21 (FY refers to the period April 01 to March 31). The ratings are, however, constrained by moderate operational performance, volatile raw material prices, stretched operating cycle and on-going debt funded capex.

Key Rating Sensitivities:

Positive Factors - Factors that could lead to positive rating action/upgrade:

- ✓ Increase in total operating income by more than 25% y-o-y on a sustained basis with improvement in PBILDT margin to 9% or above in future years.
- ✓ Operating cycle improving to less than 200 days.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- ✗ *Deterioration in overall gearing above unity going forward.*
- ✗ *Operating cycle elongating to more than 250 days in future.*
- ✗ *Cost over-run and increase in debt for the on-going capex leading to deterioration in capital structure of TD/GCA (Total Debt/ Gross Cash Accruals) falling below 4.50x.*

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record of operations

HBL was promoted by Dr A. J. Prasad in 1986. Dr Prasad has, over a period of time, built substantial experience in the line of business in which the company operates and has undertaken extensive research in battery and related segments. He has been associated with the industry for around three decades. He along with Ms. Kavita Prasad (daughter)- whole time Director and a team of experienced professionals, look after the day to day operations of the company.

HBL has been a well-known name in the manufacture of industrial batteries catering to various industries through its varied product mix. The company caters to the requirement of core sectors like telecom, railways, power, defence, etc.

Diversified revenue base across multiple user industries

Over the years, HBL has established itself as one of the leading players engaged in development and manufacturing of batteries, electronics and engineered products based on in-house developed technologies. The company's product portfolio mainly caters to niche sectors namely telecom, UPS, solar, defence and railways in India. The Battery vertical is one of the major revenues spinners for the company followed by Electronics segment. Although, batteries continue to remain the major revenue contributor for HBL, with HBL being the second largest supplier for telecom batteries, the company is gradually working to reduce its dependence on telecom sector and increasing its concentration towards defence and railways.

Stable profitability margins albeit moderation in the total operating income (TOI) during FY21

The company saw moderation in income by 15.80% during FY21 primarily due to on-going COVID-19 pandemic which impacted the sales during the year. Further, there was a supply chain disruption in India and across the globe leading to increase in freight costs which escalated the cost structure appreciably resulting in decline in PBILDT levels. Despite lower turnover, the PBILDT margins of the company remained stable at 8.37% in FY21 (8.34% in FY20) largely because of its diversified revenue streams from Railways and Defence sector and product quality.

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

Further, the TOI of the company improved to Rs.233.54 crore from Rs.123.09 crore during Q1FY21 registering y-o-y growth of 90% with net profit of Rs. 20.65 crore during Q1FY22 as against net loss of Rs. (13.64) crore during Q1FY21.

Improved financial risk profile

Capital structure of HBL has remained comfortable with improvement in overall gearing to 0.09x as on March 31, 2021 from 0.21x as on March 31, 2020 on account of decrease in the debt levels and accretion of profits to net worth. Also, the total debt to GCA improved from 2.47x during FY20 to 1.31x during FY21 despite decline in the GCA levels during the year. However, the PBILDT interest coverage moderated to 5.30x in FY21 as against 4.16x in FY20 due to decline in PBILDT levels during FY21 albeit decrease in interest expense.

Comfortable order book position with healthy demand prospects over medium term

As on June 30, 2021, the company had an order book of Rs. 799.05 crore which provides strong medium-term revenue visibility. The outstanding order book of the company is diversified with 47% for Silver Zinc, submarine and Lithium batteries followed by 20% of the orders is for Nickle Cadmium and Sintered batteries, 10% for TCAS & TMS for Railways, 9% for lead batteries (Valve Regulated Lead Acid Batteries) and remaining for Defence electronics segment, Power electronics, etc. The company also has contracts from North Central Railway and Eastern Railway, Kolkata Metro, Indian Navy and the company also expects to receive tenders in the railways segment in the present financial year.

Key Rating Weaknesses

Moderate Operational Performance during FY21 and Q1FY22

The operating performance remained moderate during FY21. The capacity utilization of Lead acid batteries remained stable at 37% in FY21 vis-à-vis 38% in FY20 while NiCad batteries declined marginally during FY21 to 61% from 69% in FY20 owing to suspension of the operations of the manufacturing facilities for 45 days due to imposition of lockdown because of COVID-19. Also, the operational performance of the company was impacted during Q1FY22 owing to the challenges faced by the company in terms of logistics disruption due to the subsequent lockdown in lieu of COVID-19 to prevent the spread of the virus.

Stretched operating cycle marked by elongated collection period

The company operates in a working capital-intensive industry which is characterized by stretched working capital cycle. The operating cycle of the company continues to remain elongated at 219 days for FY21. The operating cycle for the company is stretched on account of high inventory holding period of around 133 days as well as collection period of 117 days during FY21. However, the company's reliance on working capital bank limits has remained low.

Proposed debt funded capex

The company is planning to set up its own manufacturing facility at Mahbubnagar, Hyderabad to manufacture Lithium Ion cells and Electric Drive Train (EDT). The total cost for proposed capex is expected to be around Rs. 110.00 crore to be completed in two phases. The capex is proposed to be funded through term debt of Rs.80 crore and balance through internal accruals. The financial closure for Phase I is partially achieved. The Phase I of the project is envisaged to achieve COD by Q4FY22 and Phase II will be started on successful completion of Phase I. Timely completion of the said capex without incurring any significant time or cost overrun remains critical from rating perspective.

Hazardous nature of lead-recycling operations coupled with volatile raw material prices

Lead, which is a highly toxic and polluting material, is the primary raw material for manufacturing batteries. Hence handling lead requires adherence to pollution control norms and the company has to incur additional costs for managing the environmental impacts of the material. The company faces risk of price escalation as the prices of raw material are market driven and are volatile in nature and hence might impact the margins of the company.

Liquidity: Strong

Liquidity is marked by strong accruals with cash and bank balance in the form liquid investments to the tune of Rs.67.36 crore as on March 31, 2021. With a gearing of 0.09 times as of March 31, 2021, the company has sufficient gearing headroom, to raise additional debt for its capex if required. Its unutilized bank lines are more than adequate to meet its incremental working capital needs if any over the next one year.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios –Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments

[Rating Methodology -Manufacturing Companies]

About the Company
HBL Power Systems Ltd. (HBL) was incorporated in 1986 by Dr. A.J. Prasad. The company is listed on BSE and NSE. HBL Power Systems Limited (HBL) specializes in developing and manufacturing products and solutions for telecom, industrial, railways and defence applications. The Company has seven fully integrated facilities manufacture batteries, electronics and engineered products based on in-house developed technologies. In addition to catering to niche sectors namely telecom, UPS, solar, defence and railways in India, HBL's products are marketed across the globe spanning 80+ countries. HBL has a global presence in America, Europe and Middle East through its subsidiaries HBL America Inc. and HBL Germany GMBH.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)
Total operating income	1,089.58	917.42
PBILDT	90.89	76.75
PAT	24.07	14.58
Overall gearing (times)	0.21	0.11
Interest coverage (times)	4.16	5.30

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	-	282.00	CARE A2+
Fund-based - LT-Term Loan	-	-	-	March 2028	80.00	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	149.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	69.00	CARE A2+
Fund-based - ST-Factoring/ Forfeiting	-	-	-	-	95.00	CARE A2+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	282.00	CARE A2+	-	1)CARE A2+ (05-Oct-20)	1)CARE A2+ (26-Aug-19)	1)CARE A2+ (27-Sep-18)
2	Fund-based - LT-Term Loan	LT	80.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-20)	1)CARE A-; Stable (26-Aug-19)	1)CARE A-; Stable (27-Sep-18)
3	Fund-based - LT-Cash Credit	LT	149.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-20)	1)CARE A-; Stable (26-Aug-19)	1)CARE A-; Stable (27-Sep-18)
4	Non-fund-based - ST-BG/LC	ST	69.00	CARE A2+	-	1)CARE A2+ (05-Oct-20)	1)CARE A2+ (26-Aug-19)	1)CARE A2+ (27-Sep-18)
5	Fund-based - ST-Factoring/ Forfeiting	ST	95.00	CARE A2+	-	1)CARE A2+ (05-Oct-20)	1)CARE A2+ (26-Aug-19)	1)CARE A2+ (27-Sep-18)

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Factoring/ Forfeiting	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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