HBL Power Systems Limited

October 07, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	229.00	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short Term Bank Facilities	446.00	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Facilities	675.00 (Rs. Six Hundred Seventy-Five Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of HBL Power Systems Limited (HBL) is on account of significant improvement in total operating income (TOI) and profitability margins during FY22 (refers to the period April 01 to March 31), and improvement in cash flows from operations resulting in shortening of operating cycle. The ratings continue to remain underpinned by established track record of operations, diversified revenue profile, healthy leverage and coverage indicators, reputed client base, comfortable order book position with favourable industry growth prospects. The ratings are, however, constrained by working capital intensive operations, volatile raw material prices and environmental risk. The ratings also take cognizance of the proposed debt funded capex.

Rating Sensitivities:

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

- Increase in total operating income by 20% y-o-y while maintaining PBILDT margin of above 12% or above, on a sustained basis.
- Further improvement in operating cycle and cash flows.
- Maintaining a minimum ROCE of 13% on a consistent basis.

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

- Notable increase in debt levels resulting in deterioration of overall gearing to 0.75x or above, going forward.
- Operating cycle elongating to more than 250 days in future.
- Significant decline in TOI or profitability margins, in future.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in the scale of operations and profitability margins during FY22

With stabilization of challenges faced across the globe due to COVID, the company reported healthy total operating income of Rs. 1227.21 crore showing a growth of 34% in FY22 over previous FY. Furthermore, the PBILDT margins of the company also improved from 7.92% in FY21 to 11.47% in FY22 with execution of higher margin orders. PAT margins improved from 1.60% during FY21 to 7.28% during FY22 mainly on account of exceptional income towards profit on sale of asset amounting to Rs.10.74 crore as against a loss on sale of asset of Rs. 5.39 crore reported in FY21. The capacity utilization (production levels) of NiCad Batteries has improved to 70% in FY22 vis-à-vis 61% in FY21 due to increased exports for NiCad products. The average sales realisation of lead acid batteries and NiCad batteries improved during FY22 owing to higher margins from the PLT battery business, railway electronics and defence verticals.

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

During Q1FY23, the total operating income of the company improved to Rs.317.95 crore from Rs.225.21 crore during Q1FY22 registering y-o-y growth of 41%. The company is expected to benefit further from its diversified product portfolio and multiple user industry.

Comfortable and diversified order book, strong clientele

As on June 30, 2022, the company had an order book of Rs. 594 crore thereby providing a medium-term revenue visibility. The outstanding order book of the company is diversified with 38% for Silver Zinc, submarine and Lithium batteries followed by 24% of the orders is for Nickle Cadmium and Sintered batteries, 19% for lead batteries (Valve Regulated Lead Acid Batteries), 8% for Train Collision Avoidance System (TCAS) and Train Management System (TMS) for Railways and remaining for Defence electronics segment, Power electronics, etc. The company also has contracts from Railways, Indian Navy and the company also expects to receive tenders in the railways segment in the present financial year.

HBL has maintained a healthy relationship with its clients over the years. The company has been receiving repeat orders from the existing clientele. Indus Towers Ltd, Vertiv Energy Private Limited, and Cummins India Limited being in the top 10 largest clients over the years contributed around 36% of net sales in FY22 (29% in FY21)

Improved operating cycle albeit working capital intensive business

The company operates in a working capital-intensive industry marked by elongated inventory holding and stretch collection period (inventory holding period of around 102 days and collection period of 86 days in FY22). Nevertheless, backed by adequate cash generated from operating activities, the working capital cycle of the company improved to 163 days in FY22 as against 219 days for FY21 (207 days for FY20). The company has been efficiently managing is working capital requirement through its generated cash flows and hence dependence on bank borrowings have been minimal.

Healthy financial risk profile

Capital structure of HBL has remained comfortable with a strong net worth base of around Rs 861 crore as on March 31, 2022 along with debt to equity and overall gearing remaining below 0.5x on the past five account closing dates. The debt equity ratio stood stable at 0.05x as on March 31, 2022. The overall gearing improved from 0.09x as on March 31, 2021, to 0.07x as on March 31, 2022. The company does not have any major debt in its books. Furthermore, the company has healthy coverage indicators, total debt to GCA improved from 1.31x during FY21 to 0.50x during FY22 and the PBILDT interest coverage improved to 19.36x in FY22 as against 4.99x in FY21.

Long proven track record of operations

HBL has been promoted by Dr A. J. Prasad- Chairman and Managing Director in 1986. Dr Prasad has, over a period, 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 over 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.

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. The company is one of the largest manufacturers of Ni-Cad batteries which has diverse industrial applications. HBL has also started focussing on electronic and engineering products for the defence and railways.

Key Rating Weaknesses

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 achieved. The Phase I of the project is envisaged to achieve COD by Q3FY23 and Phase II work will start after successful completion of Phase I. Timely completion of the said capex without incurring any significant time or cost overrun remains critical from credit perspective.

Hazardous nature of lead-recycling operations

Lead, which is a highly toxic and polluting material, is the primary raw material for manufacturing batteries. Companies engage d in such business must adhere to rigorous pollution control norms. With norms getting tightened and environmental activism ta king centre stage, players are exposed to risks on the grounds of environmental concerns. Nevertheless, by virtue of HBL's long presence in the business, the company has been adhering to all the necessary standards.

Volatile raw material prices, competitive nature of business

The company procures its raw material partly indigenously and partly through imports. The prices of raw materials are volatile which impacts the profitability margins of the company. Although, the company has been able to pass on the increased input cost to its customers the same happens with a time lag. Furthermore, the business in exposed to completion and growth prospects of the company depend on its ability to successfully bid for tenders and bag new orders.

Liquidity analysis – Strong

Liquidity is marked by strong accruals with cash and bank balance in the form liquid investments to the tune of Rs.38.16 crore as on March 31, 2022. With a gearing of 0.07 times as of March 31, 2022, 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

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
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)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23 (UA)
Total operating income	913.01	1227.21	317.95
PBILDT	72.34	140.81	37.42
PAT	14.58	89.40@	19.18
Overall gearing (times)	0.09	0.07	0.06
Interest coverage (times)	4.99	19.36	45.08

A: Audited, NA- Not Available

@Includes extraordinary income of Rs. 19.62 crore and extraordinary expense of Rs. 8.89 crore.

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	282.00	CARE A1
Fund-based - LT-Term Loan		-	-	28/02/2028	80.00	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	149.00	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	69.00	CARE A1
Fund-based - ST-Factoring/ Forfeiting		-	-	-	95.00	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	282.00	CARE A1	-	1)CARE A2+ (06-Oct-21)	1)CARE A2+ (05-Oct-20)	1)CARE A2+ (26-Aug-19)
2	Fund-based - LT-Term Loan	LT	80.00	CARE A; Stable	-	1)CARE A-; Stable (06-Oct-21)	1)CARE A-; Stable (05-Oct-20)	1)CARE A-; Stable (26-Aug-19)
3	Fund-based - LT-Cash Credit	LT	149.00	CARE A; Stable	-	1)CARE A-; Stable (06-Oct-21)	1)CARE A-; Stable (05-Oct-20)	1)CARE A-; Stable (26-Aug-19)
4	Non-fund-based - ST-BG/LC	ST	69.00	CARE A1	-	1)CARE A2+ (06-Oct-21)	1)CARE A2+ (05-Oct-20)	1)CARE A2+ (26-Aug-19)
5	Fund-based - ST-Factoring/ Forfeiting	ST	95.00	CARE A1	-	1)CARE A2+ (06-Oct-21)	1)CARE A2+ (05-Oct-20)	1)CARE A2+ (26-Aug-19)
6	Fund-based - LT-Bill Discounting/ Bills Purchasing	LT	-	-	-	-	-	1)Withdrawn (26-Aug-19)
7	Fund-based - ST-Foreign Bill Discounting	ST	-	-	-	-	-	1)Withdrawn (26-Aug-19)

*Long term/Short term.

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

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 Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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