Deepak International Limited

August 30,2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	42.00 (Reduced from 42.05)	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	20.00 (Enhanced from 19.95)	CARE BBB; Stable / CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Deepak International Limited (DIL) factors in company's growing scale of operations and comfortable financial risk profile marked by low overall gearing and comfortable debt coverage indicators. The ratings further draw comfort from company's experienced promoters, its reputed clientele and moderate operating cycle. The ratings, however, continue to be constrained by hazardous nature of lead - recycling operations, competitive nature of industry, low profitability margins and susceptibility of margins to volatility in raw material prices coupled with foreign exchange fluctuation risk.

Rating sensitivities: Factors likely to lead to rating action

Positive Factors

• Increase in scale of operations as marked by total operating income of Rs. 550 crores with PBILDT Margin of 4% on sustained basis.

Negative Factors

• Decrease in operational performance as marked by scale of operation below Rs 270 crores and PBILDT margin below 3.00%

• Deterioration in financial risk profile as marked by overall gearing above 0.80x and debt service indicators as marked by total debt/GCA above 4.50x

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity shall benefit from experience of its promoter as well as through its association with reputed client base.

Detailed description of the key rating drivers:

Key strengths

Growing scale of operation with stable margins

The operations of the company are on growing trajectory over past five fiscals ending FY24 (refers to period from April 01, 2023 to March 31, 2024) registering a CAGR (Compounded annual growth rate) of 20.40%. The growth is backed by DIL's continuous additions of different variety of batteries to its product portfolio and growing demand from automotive sector. During FY24, DIL has booked turnover of Rs 334.41 crore (PY: Rs.321.08 crore) marking a y-o-y (year-on-year) growth of 4.15% due to addition of new customers and steady demand from existing customers particularly Amara Raja Energy & Mobility Limited (Erstwhile Amara Raja Batteries Limited). Company is envisaged to achieve stable growth with CAGR of ~11% over projected period FY25-FY27 on account of growth in demand of lead acid batteries particularly from automotive and telecom sector.

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

However, profitability margins of the company historically have been on lower side with PBILDT Margin ranging between 3.00% to 3.50% during FY22-FY24. DIL has low market share and faces intense competition from established players in the market like Exide Industries Ltd, Amara Raja Energy & Mobility Limited, Luminous Power Technologies Pvt Ltd, and HBL Power Systems Ltd (CARE A; Positive /CARE A1) etc. restricting its ability to exert bargaining power and charge premium pricing. Further, DIL has also been involved in trading of bicycles, spares and automotive parts which is low value addition business with limited margins. The PBILDT margin are expected remain in same range in near to medium term.

Comfortable capital structure with moderate debt coverage indicators
The capital structure of the company remained comfortable as marked by overall gearing of 0.35x as on March 31,2024. The same has improved over previous year ratio of 0.59x due to repayment of term loan and lower working capital borrowings outstanding as on balance sheet date. The net worth base stands comfortable at Rs 47.66 crores as on March 31,2024... The company's debt coverage indicator as marked by interest coverage ratio stood comfortable at 6.14x for FY24 with slight moderation from previous year ratio of 6.27x due to higher interest charges. The total debt to GCA improved from 3.88x in FY23 (refers to period from April 01 to March 31) to 1.74x in FY24 due to lower debt on balance sheet date.

Reputed Clientele albeit concentrated
During FY24, top 10 largest clients contributed Rs.212.47 crore during FY24 (63.54% of net sales) as against Rs. 120.02 crore during FY23 (37.38% of net sales). A single customer Amara Raja Energy & Mobility Limited (Erstwhile Amara Raja Batteries Limited) accounted for 56.09% of net sales reflecting customer concentration. The risk is however mitigated since DIL is associated with Amara Raja Energy & Mobility Limited for past one decade. DIL has maintained healthy relations with all its clients over the years resulting in repeat orders.

Moderate operating cycle
DIL primarily deals in manufacturing of batteries. The conversion process of lead acid batteries is around 15 days on an average. The company also holds sufficient inventory as finished goods for timely execution of its orders. Majority of orders are booked during April- June hence the inventory days appear to be stretched as on balance sheet date taking average inventory days to around 2 months. Further, DIL also hold inventory of cycle and auto parts for exports. Payment is realised within one month. Lead being commodity is generally sold on cash basis or at a credit period of around 7-15 days. However, DIL's few suppliers offer credit period of more than one month taking average credit period to around 20-30 days. The operations of company are thus working capital intensive resulting in moderate operating cycle of 61 days in FY24. (PY: 55 days)

Experienced promoters with an established track record

DIL was promoted in 1976 by Mr. Deepinder Singh Ranger who is currently the Managing Director of the company. Initially, the company was dealing in export of bicycles, spares and automotive parts. Since 2008, Mr. Ranger, shifted majority of the operations to manufacturing of batteries. Over the span of last one and half decade, the management has built substantial experience in the line of business and created liaising with the clientele. Mr. Ranger is supported by other family members of Ranger family mainly Mr. Neeraj Prakash Singh Ranger (Director- Channel Sales) and Mr. Sandeep Ranger (Director- Exports) along with a team of experienced professionals, looking after the day-to-day operations of the company

Key weaknesses

Hazardous nature of lead-recycling operations
Lead, which is a highly toxic and polluting material, is the primary raw material for manufacturing batteries. Companies engaged in such business must adhere to rigorous pollution control norms. With norms getting tightened and environmental activism taking centre stage, players are exposed to risks on the grounds of environmental concerns. Nevertheless, by virtue of DIL's long presence in the business, the company has been adhering to all the necessary standards and has all necessary approvals in place. Further, as confirmed from the management the company is compliant with Battery Management (and Handling Rules) 2001 and there have been no instances of penalty for noncompliance in the past.

Susceptibility of margins to volatility in raw material prices coupled with foreign exchange fluctuation risk
DIL majorly deals in lead acid manufacturing. The key raw material in lead acid batteries is lead which is procured from Himachal Pradesh, Haryana and Delhi. Raw Material cost accounted for 74.52% of total cost of sales in FY24 (PY:76.25%). During FY24, cost per tonne of lead increased by ~14%. The company was able to pass on the increased cost due to simultaneous improvement in sales realisation along with better absorption of overhead expenses. Raw material cost is key element in lead manufacturing business hence any adverse moment in price of lead will have bearing on the profitability margins of the company. DIL monitors the prices of lead on London Metal Exchange. Lead prices applicable in India are published every day, the average of previous month is used as base for next month. The prices are thus factored in contracts with the customers and the company is easily able to pass on the price fluctuation to its customers as evident from stable PBILDT margins. Apart from domestic sale of batteries, DIL is also engaged in export of batteries as well as cycle and auto parts. Around 13% of total operating income of FY24 (PY: 38.22%) was derived through exports to countries like Dubai, Afghanistan, Lebanon, Nairobi and Mali exposing the profitability margins of the company to any adverse fluctuations in the foreign exchange prices.
The gain on account of foreign exchange fluctuation was Rs 0.15 crores for FY24 (PY: Rs 0.51 crores). Further, DIL hedges against the risk of exchange rate risk by availing forward contract limits. Company has also earned premium on forward contracts over past five fiscal years. Furthermore, the export orders are 100% backed by Letter of Credit or advance payments.

Competitive nature of industry
Indian lead acid battery market was valued at USD 4,495.40 Million in 2023. Major market share (~80%) of the lead acid batteries industry in consolidated with few top players who have created a brand name and enjoy better bargaining power. Remaining share is fragmented among large number of players making the space highly competitive and restraining the growth prospect. DIL's ability to grow gradually and capture market share will be a key monitorable.

Liquidity: Adequate
The liquidity of the company remains adequate on account of comfortable repayment obligations vis-a vis the gross cash accrual (GCA). The GCA stood comfortable at Rs 9.60 crores for FY24 and is envisaged at Rs 9.84 crores for FY25 against which repayment obligations are Rs 2.03 crores. Further, the cash flow from operations (CFO) stood positive at Rs 22.21 crores for FY24. Further, the working capital limits remained only ~17% utilized on an average for past twelve-month period ending June 30, 2024. This provides sufficient cushion of liquidity for the company.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

Deepak International Limited (DIL) was promoted in 1976 by Mr. Deepinder Singh Ranger for export of Bicycles, spares & Automobile parts. Later in 2008, the company ventured in battery manufacturing with launch of Tubular & Automotive Batteries under the brand name 'TuffBull'. Currently, the company has battery product portfolio ranging from Automobile (Two-wheelers, Cars, heavy duty vehicles and e-rickshaw), home inverters and other power storage products. The company has three manufacturing facilities which are located in Sansarpur, Kangra District, Himachal Pradesh. The company has installed capacity of 24000 TPA which can manufacture 1 million units of dry lead acid batteries per annum.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	321.08	334.41	123.69
PBILDT	9.95	11.01	NA
PAT	3.26	3.48	NA
Overall gearing (times)	0.59	0.35	NA
Interest coverage (times)	6.27	6.14	NA

A: Audited UA: Unaudited; NA: Not Available Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:
Brickwork has downgraded the bank facilities of DIL under Issuer not cooperating (INC) category vide its press release dated March 15, 2024, on account of its inability ratings assigned to the to carry out review in the absence of requisite information from the company. Further, CRISIL has retained the ratings assigned to the bank facilities of DIL under Issuer not cooperating (INC) category vide its press release dated December 11, 2023, on account of its inability ratings assigned to the to carry out review in the absence of requisite information from the company

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31-03-2031	12.00	CARE BBB; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	30.00	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	20.00	CARE BBB; Stable / CARE A3+

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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Working Capital Limits	LT	30.00	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Jul-23)	-	-
2	Fund-based - LT-Term Loan	LT	12.00	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Jul-23)	-	-
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	20.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (24-Jul-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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