

HBL POWER SYSTEM LIMITED

May 12, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	353.07	CARE A-;Stable (Single A Minus; Outlook:Stable)	Reaffirmed
Short-term Bank Facilities	744.80	CARE A2+ (A Two Plus)	Reaffirmed
Total	1,097.87 (Rupees One thousand Ninety Seven crore and Eighty Seven lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of HBL Power System Limited (HBL), continue to derive strength from the experienced promoters, established track record of operations, continued financial support from the holding company in the form of unsecured loans albeit reduction in same as on March 31, 2016, moderate order book position, stable operational performance, diversified revenue profile, improved capital structure, reduction in customer concentration risk and marginal improvement in PAT margin and PAT in FY16 (refers to the period April 01 to March 31) albeit decline in the total operating income and PBILDT. The ratings also take into account the proposed merger with its holding company (M/s Beaver Engineering & Holdings Ltd) and satisfactory financial performance during 9MFY17 (unaudited). The ratings are, however, constrained by volatile raw material prices, weak albeit improved debt coverage indicators, elongated operating cycle and ongoing capex.

The ability of the company to increase its revenue and profit levels, improve its capital structure and working capital cycle are the key rating sensitivities.

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 over two decades.

Continued financial support from the holding company: During FY13, M/s Beaver Engineering & Holdings Ltd (Beaver), which is HBL's holding company (holds 59.25% stake in HBL as on June 30, 2016) raised funds to the tune of Rs.150 crore through equity shares and preference shares. HBL had interest free unsecured loan outstanding amount of Rs.88 crore as on March 31, 2016.

Moderate order book position: As on July 01, 2016, HBL had an order book of Rs.566.55 crore which primarily comprised of orders for Silver Zinc and Lithium batteries. Furthermore, the company had an order book of Rs. 516.57 crore as on April 01, 2017.

Stable operational performance: During FY16, the operational performance of the company remained stable with capacity utilization of lead acid batteries at 49%. However, the capacity utilization of NiCad Batteries declined from 51% in FY15 to 47% in FY16. However, the company had an order book of Rs.120.36 crore as on July 01, 2016, for Nickle Cadmium and Sintered batteries.

Diversified revenue profile and reduction in customer concentration risk: HBL has been primarily focusing on the Telecom sector in the past; however, the company has diversified into other segments like retail, auto, etc. The customer concentration has declined gradually over the years with the diversification of its business line.

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

Proposed merger with its holding company: HBL's board has approved the scheme of arrangement and amalgamation of Beaver Engineering & Holdings Private Limited (Beaver) with HBL. The proposed merger was expected to be completed in FY17, however the same is yet to be completed.

Improved capital structure: The overall gearing level (including creditors backed by LC) of HBL has improved to 1.04x as on March 31, 2016 on account of increase in the net worth during FY16 coupled with reduced debt levels as on March 31, 2016, on account of repayment of loan from holding company during the year and repayment of term loans.

Satisfactory financial performance: The company's financial performance was satisfactory for FY16 despite marginal decline in Total Operating Income (TOI) during FY16 over FY15 on account of fall in demand of Lead Acid Batteries and Silver Zinc Battery Cells. The PBILDT margin of the company also declined marginally by 94 bps in FY16 over FY15 due to increase in employee cost and other manufacturing expenses. However, the PAT margin has improved by 41 bps in FY16 over FY15 due to decrease in capital charge and decline in extraordinary expense. Furthermore, the financial performance during 9MFY17 (UA) has been satisfactory. The company recorded TOI of Rs.1101.09 crore and PBILDT of Rs.114.83 crore. PAT level and margin has increased by 71.95% and 86 bps respectively led by significant reduction in the interest expenses.

Key Rating Weaknesses

Volatile raw material prices: The profitability margins of HBL continued to remain exposed to risk associated with volatile raw material prices. Contribution towards raw material increased to 55% in FY16 vis-à-vis 53% in FY15. During FY16, the prices of lead composites have declined due to the decline in the lead prices owing to London Metal Exchange (LME) prices been on lower side in FY16.

Weak albeit improved debt coverage indicators: Although, Total debt to GCA and term debt to GCA improved to 9.02x and 2.45x respectively during FY16 over FY15 on account improved GCA, however the same remains weak.

Elongated operating cycle: The operating cycle of the company continues to remain elongated at 204 days for FY16. The operating cycle for the company is long on account of high inventory holding period of around 148 days as well as collection period of 110 days.

Ongoing capex: The company is undertaking capital expenditure for setting up of Spun Concrete Poles unit with a capacity of 100,000 poles per annum at Narsaraopet. The total cost of the project is Rs.33.50 crore which is proposed to be funded through the term loans and remaining through internal accruals. During FY16, the company has incurred capital expenditure amounting Rs.11 crore towards the same and is planning to incur the balance during FY17.

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

HBL Power Systems Ltd. (HBL) was incorporated in 1986 by Dr. A.J. Prasad. The company focuses on engineering products/services with the main line of business activity as manufacturing of industrial batteries and electronic equipments. HBL is one of the leading players in Lead Acid battery segment. The company has increased its focus on defence and railways and has been diversifying its business into other engineering and electronic products/services, green technology products etc. HBL has a global presence in America, Europe and Middle East through its subsidiaries HBL America Inc. and HBL Germany GMBH.

During FY16, HBL registered total operating income of Rs.1,295.59 crore (Rs.1,339.74 crore in FY15) with PAT of Rs.19.43 crore (Rs.14.62 crore in FY15). Furthermore, in 9MFY17 (UA), HBL registered an operating income of Rs.1101.09 crore with PAT of Rs.24.10 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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.

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

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Non-fund-based - ST-Letter of credit	-	-	-	310.00	CARE A2+
Fund-based - LT-Term Loan	-	-	October 2019	57.87	CARE A-; Stable
Fund-based - ST-EPC/PSC	-	-	-	4.80	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	270.20	CARE A-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	200.00	CARE A2+
Non-fund-based - ST-BG/LC	-	-	-	50.00	CARE A2+
Fund-based - ST-Factoring/ Forfeiting	-	-	-	155.00	CARE A2+
Fund-based - LT-Bills discounting/ Bills purchasing	-	-	-	25.00	CARE A-; Stable

Fund-based - ST-Foreign Bill Discounting	-	-	-	25.00	CARE A2+
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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.	Non-fund-based - ST-Letter of credit	ST	310.00	CARE A2+	-	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)	1)CARE A2+ (09-Oct-14)
2.	Fund-based - LT-Term Loan	LT	57.87	CARE A-; Stable	-	1)CARE A- (22-Sep-16)	1)CARE A- (07-Oct-15)	1)CARE A- (09-Oct-14)
3.	Fund-based - ST-EPC/PSC	ST	4.80	CARE A2+	-	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)	1)CARE A2+ (09-Oct-14)
4.	Fund-based - LT-Cash Credit	LT	270.20	CARE A-; Stable	-	1)CARE A- (22-Sep-16)	1)CARE A- (07-Oct-15)	1)CARE A- (09-Oct-14)
5.	Non-fund-based - ST-Bank Guarantees	ST	200.00	CARE A2+	-	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)	1)CARE A2+ (09-Oct-14)
6.	Non-fund-based - ST-BG/LC	ST	50.00	CARE A2+	-	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)	1)CARE A2+ (09-Oct-14)
7.	Fund-based - ST-Factoring/ Forfeiting	ST	155.00	CARE A2+	-	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)	1)CARE A2+ (09-Oct-14)
8.	Fund-based - LT-Bills discounting/ Bills purchasing	LT	25.00	CARE A-; Stable	-	1)CARE A- (22-Sep-16)	1)CARE A- (07-Oct-15)	1)CARE A- (09-Oct-14)
9.	Fund-based - ST-Foreign Bill Discounting	ST	25.00	CARE A2+	-	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)	1)CARE A2+ (09-Oct-14)

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