SEPTEMBER 22, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF HBL POWER SYSTEM LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	353.07	**CARE A- (Single A Minus)**	**Reaffirmed**
Short term Bank Facilities	744.80	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total Facilities	**1097.97 (Rupees One Thousand Ninety Seven crore and Eighty Seven lakh only)**		

Rating Rationale

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 and diversified revenue profile. The ratings also take into account the proposed merger with its holding company (M/s Beaver Engineering & Holdings Ltd), 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 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

Background

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. Telecom sector has remained the major revenue contributor for HBL contributing around 46% of the total sales during FY16. The company has increased its focus on defense 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. Other subsidiaries include HBL Suntech LLP and SCIL Infracon Pvt. Ltd.

Beaver Engineering & Holdings Pvt. Ltd is the holding company of HBL and it holds 59.25% of the equity capital of HBL as on June 30, 2016.

HBL vide its press release dated March 23, 2016 has approved the scheme of arrangement and amalgamation of Beaver Engineering & Holdings Private Limited (Beaver) with HBL. The proposed merger is expected to result in improved capital structure for HBL and simplification of group structure.

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 Q1FY17 (UA), HBL registered an operating income of Rs.331.63 crore with PAT of Rs.5.52 crore.

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

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

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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CIN - L67190MH1993PLC071691