

## HBL Power System Limited

July 14, 2017

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	345.83 (reduced from 353.07)	<b>CARE A-;Stable</b> <b>(Single A Minus; Outlook:Stable)</b>	Reaffirmed
Short-term Bank Facilities	740.00 (reduced from 744.80)	<b>CARE A2+</b> <b>(A Two Plus)</b>	Reaffirmed
<b>Total</b>	<b>1,085.83</b> <b>(Rupees One thousand and Eighty Five Crore and Eighty Three lakh only)</b>		

*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, moderate order book position, satisfactory operational performance, diversified revenue profile and established relationship with reputed clientele. The ratings also take into account advanced stages of amalgamation with its holding company (M/s Beaver Engineering & Holdings Ltd) and satisfactory financial performance during FY17 (refers to the period April 01 to March 31) and improved capital structure of HBL on account of amalgamation. The ratings are, however, constrained by operating margins susceptible to volatile raw material prices resulting in decline in PBILDT margin during FY17, continued elongated operating cycle, high dependence on lead acid batteries with segmental concentration and project risk associated with ongoing capex. The ability of the company to diversify and increase its revenue and profit levels and improve the working capital cycle are the key rating sensitivities.

### Detailed Rationale & Key Rating Drivers

#### 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.

**Advanced stage of arrangement and amalgamation with M/s Beaver Engineering & Holdings Ltd (Holding company of HBL):** HBL vide its press release dated March 23, 2016 has confirmed that the scheme of arrangement and amalgamation (reverse merger) of Beaver Engineering & Holdings Private Limited (Beaver), its holding company with HBL has been approved by the shareholders with effect from April 01, 2016.. The Company's Petition was allowed by the Hon'ble National Company Law Tribunal (NCLT), Hyderabad Bench on May 9, 2017, a certified copy of which is awaited for further compliance. The financial impact of the same, has however been considered in the financials for FY17 of HBL

**Improved capital structure on account of amalgamation with Beaver:** Post-amalgamation with Beaver, the capital structure of HBL has improved significantly during FY17 on account of improved networth coupled with decline in debt levels. The overall gearing level (including creditors backed by LC) has improved to 0.74x as on March 31, 2017.

**Satisfactory operational performance during FY17:** The operational performance of HBL was satisfactory during FY17. The capacity utilization of lead acid batteries and NiCad batteries has improved during FY17 on account of increased demand. However, the average sales realizations of lead acid batteries and NiCad batteries has declined during the year on account of high competition.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications.

**Satisfactory financial performance:** The company's financial performance was satisfactory for FY17. The total operating income (TOI) of HBL grew by 9.6% during FY17 to Rs.1541.97 crore backed by increased sales of lead acid batteries and Nickel Cadmium Pocket Plate (NiCad) batteries. The PBILDT margin although declined marginally by 180 bps on account of decline in average sales realisations and increased material costs, remained at satisfactory level. However, the PAT margin improved by 180 bps to 2.09% in FY17 due to decrease in capital charges.

**Moderate order book position:** As on May 31, 2017, HBL had an order book of Rs.551.07 crore which primarily comprised of orders for lead acid batteries and silver zinc and lithium batteries.

**Established relationship with reputed clientele:** HBL has maintained a healthy relationship with its clients over the years. The company receives repeated orders from the existing clientele.

**Stable demand outlook:** Battery market in India is projected to reach USD 8.6 billion by 2022, on account of growing demand from automobile and industrial sectors. Strong growth in domestic production and exports of automobiles, coupled with expanding vehicle fleet is projected to drive demand for batteries from OEMs (Original Equipment Manufacturer) as well as replacement segments through 2022.

#### Key Rating Weaknesses

**Operating margins susceptible to 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 65% in FY17 vis-à-vis 64% in FY16. During FY17, the lead prices have increased by around 28.7% thereby impacting the margins.

**Product and segment concentration albeit continued diversified revenue profile:** The portfolio of HBL is diversified yet it is concentrated towards lead acid batteries contributing around 62% of the net sales from products and the telecom sector contributing around 36% of the net sales from products.

**Elongated operating cycle:** The operating cycle of the company continues to remain elongated at 175 days for FY17. The operating cycle for the company is long on account of high inventory holding period of around 108 days as well as collection period of 109 days.

**Project risk associated with ongoing capex:** The company is further planning to incur capex of around Rs.59.00 crore during FY18-FY20 for line balancing as well as expansion for lead acid batteries for non-telecom sector, to be funded through internal accruals.

**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 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 36% of the total sales during FY17. 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.

HBL vide its press release dated March 23, 2016 has confirmed that the scheme of arrangement and amalgamation (reverse merger) of Beaver Engineering & Holdings Private Limited (Beaver), its holding company with HBL has been approved by the shareholders with effect from April 01, 2016. The Company's petition was allowed by the Hon'ble National Company Law Tribunal (NCLT), Hyderabad Bench on May 9, 2017, a certified copy of which is awaited for further compliance. The financial impact of the amalgamation has been considered in the FY17 financials.

Brief Financials (Rs. crore)	FY16 (A) As per Ind-AS	FY17 (A) As per Ind-AS
Total operating income	1406.50	1541.97
PBILDT	146.02	142.15
PAT	4.05	32.20
Overall gearing (times)	0.97	0.74
Interest coverage (times)	2.14	3.08

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Radhika Ramabhadran

Tel: 040-6900 0516

Mobile: +91-8008883012

Email: [radhika.ramabhadran@careratings.com](mailto:radhika.ramabhadran@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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	-	-	-	271.00	CARE A2+
Fund-based - LT-Term Loan	-	-	October 2019	40.83	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	275.00	CARE A-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	174.00	CARE A2+
Non-fund-based - ST-BG/LC	-	-	-	115.00	CARE A2+
Fund-based - ST-Factoring/ Forfeiting	-	-	-	155.00	CARE A2+
Fund-based - LT-Bills discounting/ Bills purchasing	-	-	-	30.00	CARE A-; Stable
Fund-based - ST-Foreign Bill Discounting	-	-	-	25.00	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 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	271.00	CARE A2+	1)CARE A2+ (12-May-17)	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	40.83	CARE A-; Stable	1)CARE A-; Stable (12-May-17)	1)CARE A- (22-Sep-16)	1)CARE A- (07-Oct-15)	1)CARE A- (09-Oct-14)
3.	Fund-based - ST-EPC/PSC	-	-	-	1)CARE A2+ (12-May-17)	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	275.00	CARE A-; Stable	1)CARE A-; Stable (12-May-17)	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	174.00	CARE A2+	1)CARE A2+ (12-May-17)	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	115.00	CARE A2+	1)CARE A2+ (12-May-17)	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+ (12-May-17)	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	30.00	CARE A-; Stable	1)CARE A-; Stable (12-May-17)	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+ (12-May-17)	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)	1)CARE A2+ (09-Oct-14)

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
 Cell: + 91 98190 09839  
 E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
 Cell: + 91 98196 98985  
 E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
 Cell: + 91 99675 70636  
 E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
 Cell: + 91 98209 98779  
 E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
 32, Titanium, Prahaladnagar Corporate Road,  
 Satellite, Ahmedabad - 380 015  
 Cell: +91-9099028864  
 Tel: +91-79-4026 5656  
 E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
 304, Pashupati Akshat Heights, Plot No. D-91,  
 Madho Singh Road, Near Collectorate Circle,  
 Bani Park, Jaipur - 302 016.  
 Cell: +91 – 95490 33222  
 Tel: +91-141-402 0213 / 14  
 E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
 No. 30, M.G. Road, Bangalore - 560 001.  
 Cell: +91 98407 54521  
 Tel: +91-80-4115 0445, 4165 4529  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
 10A, Shakespeare Sarani, Kolkata - 700 071.  
 Cell: +91-98319 67110  
 Tel: +91-33- 4018 1600  
 E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
 SCF No. 54-55,  
 First Floor, Phase 11,  
 Sector 65, Mohali - 160062  
 Chandigarh  
 Cell: +91 99888 05650  
 Tel: +91-172-5171 100 / 09  
 Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
 13th Floor, E-1 Block, Videocon Tower,  
 Jhandewalan Extension, New Delhi - 110 055.  
 Cell: +91-98117 45677  
 Tel: +91-11-4533 3200  
 E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
 Unit No. O-509/C, Spencer Plaza, 5th Floor,  
 No. 769, Anna Salai, Chennai - 600 002.  
 Cell: +91 98407 54521  
 Tel: +91-44-2849 7812 / 0811  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
 9th Floor, Pride Kumar Senate,  
 Plot No. 970, Bhamburda, Senapati Bapat Road,  
 Shivaji Nagar, Pune - 411 015.  
 Cell: +91-98361 07331  
 Tel: +91-20- 4000 9000  
 E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
 T-3, 3rd Floor, Manchester Square  
 Puliakulam Road, Coimbatore - 641 037.  
 Tel: +91-422-4332399 / 4502399  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**HYDERABAD**

**Mr. Ramesh Bob**  
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
 Hyderabad - 500 029.  
 Cell : + 91 90520 00521  
 Tel: +91-40-4010 2030  
 E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)