# HBL Power Systems Limited

August 26, 2019

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 423.42 (enhanced from 393.34) | **CARE A-; Stable (Single A Minus; Outlook – Stable)** | **Reaffirmed** |
| Short-term Bank Facilities | 580.00 (Reduced from 740.00) | **CARE A2+ (A Two Plus)** | **Reaffirmed** |
| Long-term Bank Facilities – Sales Bills Discounting | - | **-** | **Withdrawn** |
| Short-term Bank Facilities –Foreign Bills Purchase/ Discounting | - | **-** | **Withdrawn** |
| **Total** | **1003.42 (Rupee One thousand and three crore and Forty Two 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) continues to derive strength from the experienced promoters, established track record of operations of over three decades, strong development and manufacturing capabilities, moderate operational performance, moderate order book position, diversified revenue profile and established relationship with reputed clientele. The ratings also take into account adequate liquidity position and improved capital structure and debt coverage indicators. The ratings are, however, constrained by operating margins vulnerable to intense competition and volatile raw material prices, continued elongated operating cycle, high dependence on lead acid batteries and telecom sector albeit diversification and proposed debt funded capex. The ratings also take cognizance of moderation in total operating income and PBILDT margin during FY19 (FY refers to the period April 01 to March 31). The ability of the company to increase its revenue, profit levels and improve its working capital cycle are the key rating sensitivities.

Further, CARE has withdrawn the ratings assigned to the Sales Bills Discounting and Foreign Bills Purchase/ Foreign Bills Discounting, as the company has repaid and surrendered the aforementioned bank facilities rated by us and there is no amount outstanding against the said facilities as on date.

**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.

***Strong development and manufacturing capabilities***

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 company primarily operates in 3 business verticals, namely batteries, electronics, defence.

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

***Moderate Operational Performance***
The operational performance of HBL remained satisfactory during FY19. The capacity utilization of lead acid batteries has declined during FY19 on account of slower off-take from the telecom industry for the lead acid batteries; while the capacity utilization of NiCad Batteries has improved in FY19 due to increased exports for NiCad product.

***Moderate order book position***
As on June 30, 2019, the company had an order book of Rs.465.36 crore (as against Rs.520.17 crore in June 30, 2018). The outstanding order book of the company is diversified with orders from Nickle Cadmium and Sintered batteries, Silver Zinc and Lithium batteries, lead batteries (Valve Regulated Lead Acid Batteries), LMLA & Tubular gel & Monoblock and defence electronic. Defence electronics segment is a high margin segment contributing to the profitability margins to a large extent.

***Improved capital structure and debt coverage indicators***
Capital structure of HBL has remained comfortable with both debt to equity and overall gearing being below unity during the last three account closing dates. The debt equity ratio has remained stable as on March 31, 2019. Further, the overall gearing (including LC against creditors) has also improved as on March 31, 2019 Reduction in the total debt of the company at the back of lower working capital utilization has led to improvement in the total debt to GCA from 4.82x during FY18 to 3.46x during FY19 despite decline in the GCA levels during the year. The PBILDT interest coverage ratio  was comfortable at 3.42x in FY19.

***Diversified revenue base across multiple user industries***
HBL has started diversifying its business to overcome the concentration risk. The company entered into 'Green' technology products, batteries for aviation applications, spun reinforced concrete, software, retail and auto segments for its batteries etc.

***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.

**Key Rating Weaknesses**
***Moderation in the total operating income***
The company saw moderation in income by 21.25% during FY19 to Rs.1270.54 crore from Rs.1613.31 crore in FY18 primarily on account of slower off-take from the telecom industry for the lead acid batteries. The telecom segment, which accounted for 33.72% of HBL's revenue during FY19, has been going through a tough consolidation phase, wherein the telecom operators/ infrastructure players continue to exert pressure on vendors to reduce prices. Sluggish off take by the telecom sector lead to decline in the net sales of Lead Acid Batteries by 29.20% from Rs. 1040.82 crore in FY18 to Rs.736.94 crore in FY19.

***Operating margins vulnerable to intense competition***
The fixed expenses of the company increased from 24% in FY18 to 26% in FY19 leading to marginal decline in the PBILDT margin of the company by 82 bps to 8.24% in FY19 from 9.06% in FY18. Nevertheless,  HBL's margins were not impacted much, largely because of its diversified revenue streams and product quality. The company's initiatives to reduce cost are likely to counter the margin pressure, going forward. Despite decline in the PBILDT margin, the PAT margin of the company marginally improved by 14 bps to 1.98% in FY19 vis-a-vis 1.84% in FY18 mainly on account of exceptional income reported by the company i.e. Profit on sale of asset to an extent of Rs.6.64 crore as against loss on sale of asset to the extent of Rs. 6.99 crore reported in FY18.

***Stretched operating cycle***
The operating cycle of the company continues to remain elongated at 202 days for FY19. The operating cycle for the company is long on account of high inventory holding period of around 112 days as well as collection period of 121 days.

***Hazardous nature of lead-recycling operations coupled with volatile raw material prices***
Lead, which is a highly toxic and polluting material, is the primary raw material for manufacturing batteries. Hence handling lead requires adherence to pollution control norms and the company has to incur additional costs for managing the environmental impacts of the material.

**Liquidity: Adequate**
The liquidity position of the company has improved and was adequate as the company generates sufficient cash accruals to meet term debt principal obligations. The company has an average utilization of 52%for the last 12 months ended June 2019. Further, the company had moderate cash & bank balance of Rs.30.63 crore as on March 31, 2019.

**Analytical approach:** Standalone

**Applicable Criteria**
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's policy on withdrawal of ratings
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 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 five 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.

*Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

| Brief Financials (Rs. crore) | FY19 (A) | FY18 (A) |
|---|---|---|
| Total operating income | 1270.54 | 1613.32 |
| PBILDT | 104.75 | 146.24 |
| PAT | 25.11 | 29.66 |
| Overall gearing (times) | 0.30 | 0.50 |
| Interest coverage (times) | 3.42 | 3.61 |

*A: Audited*

**Status of non-cooperation with previous CRA:** India Ratings has withdrawn its ratings vide its press release dated December 19, 2016 due to lack of adequate information from the company

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**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-BG/LC | - | - | - | 350.00 | CARE A2+ |
| Fund-based - LT-Term Loan | - | - | December 2023 | 173.42 | CARE A-; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 250.00 | CARE A-; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 100.00 | CARE A2+ |
| Fund-based - ST-Factoring/ Forfeiting | - | - | - | 130.00 | CARE A2+ |
| Fund-based - LT-Bills discounting/ Bills purchasing | - | - | - | 0.00 | Withdrawn |
| Fund-based - ST-Foreign Bill Discounting | - | - | - | 0.00 | Withdrawn |

**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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Non-fund-based - ST-BG/LC | ST | 350.00 | CARE A2+ | - | 1)CARE A2+ (27-Sep-18) | 1)CARE A2+ (14-Jul-17) 2)CARE A2+ (12-May-17) | 1)CARE A2+ (22-Sep-16) |
| 2. | Fund-based - LT-Term Loan | LT | 173.42 | CARE A-; Stable | - | 1)CARE A-; Stable (27-Sep-18) | 1)CARE A-; Stable (14-Jul-17) 2)CARE A-; Stable (12-May-17) | 1)CARE A- (22-Sep-16) |
| 3. | Fund-based - ST-EPC/PSC | - | - | - | - | - | 1)CARE A2+ (12-May-17) | 1)CARE A2+ (22-Sep-16) |
| 4. | Fund-based - LT-Cash Credit | LT | 250.00 | CARE A-; Stable | - | 1)CARE A-; Stable (27-Sep-18) | 1)CARE A-; Stable (14-Jul-17) 2)CARE A-; Stable (12-May-17) | 1)CARE A- (22-Sep-16) |
| 5. | Non-fund-based - ST-Bank Guarantees | - | - | - | - | 1)CARE A2+ (27-Sep-18) | 1)CARE A2+ (14-Jul-17) 2)CARE A2+ (12-May-17) | 1)CARE A2+ (22-Sep-16) |
| 6. | Non-fund-based - ST-BG/LC | ST | 100.00 | CARE A2+ | - | 1)CARE A2+ (27-Sep-18) | 1)CARE A2+ (14-Jul-17) 2)CARE A2+ (12-May-17) | 1)CARE A2+ (22-Sep-16) |
| 7. | Fund-based - ST-Factoring/ Forfeiting | ST | 130.00 | CARE A2+ | - | 1)CARE A2+ (27-Sep-18) | 1)CARE A2+ (14-Jul-17) | 1)CARE A2+ (22-Sep-16) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | 2)CARE A2+ (12-May-17) | |
| 8. | Fund-based - LT-Bills discounting/ Bills purchasing | LT | - | - | - | 1)CARE A-; Stable (27-Sep-18) | 1)CARE A-; Stable (14-Jul-17) 2)CARE A-; Stable (12-May-17) | 1)CARE A- (22-Sep-16) |
| 9. | Fund-based - ST-Foreign Bill Discounting | ST | - | - | - | 1)CARE A2+ (27-Sep-18) | 1)CARE A2+ (14-Jul-17) 2)CARE A2+ (12-May-17) | 1)CARE A2+ (22-Sep-16) |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable**

***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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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.

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