HBL Power Systems Limited

October 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	310.84 (Reduced from 423.42)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	485.00 (Reduced from 580.00)	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	**795.84 (Rs. Seven Hundred Ninety-Five Crore and Eighty-Four Lakhs 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 of over three decades, strong development and manufacturing capabilities, satisfactory operational performance, healthy 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 during FY20 (FY refers to the period April 01 to March 31). The ratings are, however, constrained by low operating margins, volatile raw material prices, elongated operating cycle, revenues being concentrated towards lead acid batteries and telecom sector and proposed debt funded capex. The ratings also take cognizance of decline in total operating income during FY20 and losses reported during Q1FY21.

Key Rating Sensitivities:

Positive Factors

- ✓ Increase in total operating income by 20% on a sustained basis with improvement in PBILDT margin to 9% or above in future years.

Negative Factors

- × Deterioration in overall gearing to above unity, in future years.
- × Any un-envisaged or significant increase in the total debt levels, going forward.
- × Operating cycle elongating to more than 255 days in future.

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 three business verticals, namely batteries, electronics, defence.

Satisfactory Operational Performance during FY20

The operational performance of HBL remained satisfactory during FY20. While the capacity utilization of lead acid batteries marginally declined during FY20 on account of slower off-take from the telecom

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

industry for the lead acid batteries; the capacity utilization of NiCad Batteries remained stable. The performance was also impacted in the month of March 2020 owing to imposition of the lockdown with the ongoing pandemic leading to suspension of the operations of the manufacturing facilities from 23rd March, 2020 for a period of around 45 days.

Healthy order book position

As on August 31, 2020, the company had an outstanding order book of Rs. 812.38 crore thereby providing medium term revenue visibility. The outstanding order book of the company is diversified with orders pertaining to 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 significantly to the profitability margins of HBL.

Strong 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 four account closing dates. The debt equity ratio has remained stable as on March 31, 2020. Further, the overall gearing (including LC against creditors) has also improved as on March 31, 2020. 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 3.49x during FY19 to 1.93x during FY20 despite decline in the GCA levels during the year. The PBILDT interest coverage ratio was comfortable at 4.16x in FY20.

Established relationship with reputed clientele and diversified revenue stream

HBL has maintained a healthy relationship with its clients over the years. The company receives repeated orders from the existing clientele. Further, HBL has started diversifying its business to overcome the concentration risk from the telecom sector. The company entered into 'Green' technology products, batteries for aviation applications, spun reinforced concrete, software, retail and auto segments etc. thereby covering a wider customer base.

Key Rating Weaknesses

Declining trend of total operating income and net loss reported in Q1FY21

The total operating income (TOI) of the company has witnesses a declining tread over the past few years. During FY20, the TOI declined y-o-y by 14.24% primarily on account of slower off-take from the telecom industry for the lead acid batteries. The telecom segment, which accounted for 34.06% of HBL's revenue during FY20, has been going through a tough consolidation phase, wherein the telecom operators/ infrastructure players continue to exert pressure on vendors to reduce prices. Further, during Q1FY21 marred by outbreak of COVID, the total operating income of the company registered de-growth of 53% compared to the corresponding quarter of last year. Also, the company reported a net loss of Rs. 14.23 crore during Q1FY20.

Low operating margins

The operating margins of the company continues to remain on a lower side because of competition from a large number of unorganised players. The profitability margins of the company broadly remained stable at 8.34% in FY20 (8.24% in FY19). Also, the PAT margin of the company marginally improved by 23 bps to 2.21% in FY19 vis-à-vis 1.98% in FY19 mainly due decline in the finance cost backed by efficient utilization of bank limits.

Stretched operating cycle

The company operates in a working capital intensive industry which is characterised by stretched working capital cycle. The operating cycle of the company continues to remain elongated at 205 days for FY20. The operating cycle for the company is stretched on account of high inventory holding period of around 119 days as well as collection period of 116 days. However, the company's reliance on working capital bank limits has remained low.

Proposed debt funded capex

The company is planning to set up its own manufacturing facility at Mahabubnagar, Hyderabad to manufacture Lithium Ion cells and Electric Drive Train (EDT). The company has reduced the planned project cost to Rs. 110 crore as against Rs. 210 crore that was envisaged earlier, primarily because of global economic slowdown and HBL may consider augmentation depending on the demand, going forward. The capex is now proposed to be funded through term debt of Rs.80 crore (earlier expected TL was Rs 157.23 crore) and balance through internal accruals. The project is expected to achieve COD by September 2022. Timely completion of the said capex without incurring any significant time or cost overrun remains critical from rating perspective.

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 improved and remained adequate. The company generates sufficient cash accruals to meet term debt principal obligations. The company has an average utilization of around 39% for the past twelve months period ended August 2020 and is supported by an above unity current ratio. Further, the company had moderate cash & bank balance of Rs.35.72 crore as on March 31, 2020. HBL's capex requirements are modular and expected to be funded using debt of Rs.80 crore for which it has sufficient headroom. The company has not availed moratorium for any of its debt servicing.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating methodology – Manufacturing Companies
Financial ratios - Non Financial Sector
Liquidity Analysis of Non Financial Sector Entities

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.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1270.54	1089.58
PBILDT	104.75	90.89
PAT	25.11	24.07
Overall gearing (times)	0.30	0.16
Interest coverage (times)	3.42	4.16

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

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

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	-	-	March 2021	85.84	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	225.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	25.00	CARE A2+
Fund-based - ST-Factoring/ Forfeiting	-	-	-	110.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	350.00	CARE A2+	-	1)CARE A2+ (26-Aug-19)	1)CARE A2+ (27-Sep-18)	1)CARE A2+ (14-Jul-17) 2)CARE A2+ (12-May-17)
2.	Fund-based - LT-Term Loan	LT	85.84	CARE A-; Stable	-	1)CARE A-; Stable (26-Aug-19)	1)CARE A-; Stable (27-Sep-18)	1)CARE A-; Stable (14-Jul-17) 2)CARE A-; Stable (12-May-17)
3.	Fund-based - ST-EPC/PSC	-	-	-	-	-	-	1)CARE A2+ (12-May-17)
4.	Fund-based - LT-Cash Credit	LT	225.00	CARE A-; Stable	-	1)CARE A-; Stable (26-Aug-19)	1)CARE A-; Stable (27-Sep-18)	1)CARE A-; Stable (14-Jul-17) 2)CARE A-; Stable (12-May-17)
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)
6.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A2+	-	1)CARE A2+ (26-Aug-19)	1)CARE A2+ (27-Sep-18)	1)CARE A2+ (14-Jul-17) 2)CARE A2+ (12-May-17)
7.	Fund-based - ST-Factoring/ Forfeiting	ST	110.00	CARE A2+	-	1)CARE A2+ (26-Aug-19)	1)CARE A2+ (27-Sep-18)	1)CARE A2+ (14-Jul-17) 2)CARE A2+ (12-May-17)
8.	Fund-based - LT-Bills discounting/ Bills purchasing	LT	-	-	-	1)Withdrawn (26-Aug-19)	1)CARE A-; Stable (27-Sep-18)	1)CARE A-; Stable (14-Jul-17) 2)CARE A-; Stable (12-May-17)
9.	Fund-based - ST-Foreign Bill Discounting	ST	-	-	-	1)Withdrawn (26-Aug-19)	1)CARE A2+ (27-Sep-18)	1)CARE A2+ (14-Jul-17) 2)CARE A2+ (12-May-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Factoring/ Forfeiting	Simple
4.	Non-fund-based - ST-BG/LC	Simple

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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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.

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