

HBL Power Systems Ltd
September 27, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	393.34 (enhanced from 345.83)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	740.00	CARE A2+ (A Two Plus)	Reaffirmed
TOTAL	1133.34 (Rupees One Thousand One Hundred and Thirty three Crore and Thirty Four lakh only)		

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, strong development and manufacturing capabilities, moderate order book position, satisfactory operational performance and established relationship with reputed clientele. The ratings also take into account satisfactory financial performance during FY18 (refers to the period April 01 to March 31) and improved capital structure. The ratings are, however, constrained by operating margins being susceptible to volatile raw material prices resulting in decline in profitability margins during FY18, continued elongated operating cycle, high dependence on lead acid batteries and telecom sector albeit , moderately diversified revenue profile and ongoing debt funded capex.

The ability of the company to increase its revenue and profit levels and improve its 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 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.

Satisfactory operational performance during FY18: The operational performance of HBL was satisfactory during FY18. The capacity utilization of lead acid batteries has improved during FY18 on account of increased demand while the capacity utilization of Nickel Cadmium Batteries has remained stable. However, the average sales realization of lead acid and nickel cadmium batteries has declined during FY18 on account of high competition.

Comfortable capital structure and debt coverage metrics; however the same is expected to deteriorate marginally on account of debt funded capex: The capital structure of HBL has improved during FY18 on account of improved networth coupled with decline in debt levels. The overall gearing (including LC against creditors) has also improved from 0.72x as on March 31, 2017 to 0.50x as on March 31, 2018. The company is

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

however proposing to avail term debt for capex, and the same is envisaged to deteriorate the capital structure of the company marginally.

Satisfactory financial performance: The company's financial performance was satisfactory during FY18. The total operating income (TOI) of HBL grew by 13.6% during FY18 to Rs.1613.32 crore from Rs.1419.18 crore in FY17 backed by increased sales of Lead Acid Batteries.

Moderate order book position: As on June 30, 2018, HBL had an order book of Rs.520.17 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.

Key Rating Weaknesses

Operating margins being susceptible to volatile raw material prices resulting in decline in profitability margins: Lead is the major raw material of the company which constitutes around 60% of the cost of batteries. Prices of lead are volatile and the profitability margins of HBL continued to remain exposed to risk associated with volatile raw material prices. The PBILDT margin of the company declined marginally by 95 bps to 9.06% in FY18 from 10.01% in FY17 on account of decline in average sales realizations and increased material costs, however, the same remained comfortable. The PAT margin of the company has also declined marginally by 55 bps to 1.84% in FY18 vis-a-vis 2.39% in FY17 on account of high exceptional expenses.

High dependence on lead acid batteries and telecom sector albeit continued diversified revenue profile: The portfolio of HBL is diversified yet it is concentrated towards lead acid batteries contributing around 65% of the net sales from products and the telecom sector contributing around 44% of the net sales from products. 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.

Elongated operating cycle: The operating cycle of the company continues to remain elongated at 170 days for FY18; however the same was improved from 182 days in FY17. The operating cycle for the company is long on account of high inventory holding period of around 100 days as well as collection period of 106 days.

Proposed debt funded capex:

The Ministry of Defence (MoD) under its Make in India initiative is now encouraging the private sector to manufacture ammunition. The Indian army had given the Request for Proposal to seven companies. It is a Rs.15,000 crore project under which a range of ammunition for its critical weapons and tanks will be produced indigenously to overcome long delays in imports and address the problem of a dwindling stockpile. Currently, the technical evaluation of the bids was ongoing by the Indian Army. For Phase I, the expected project cost is Rs.62.50 crore, which would be met through debt and internal cash accruals.

The aforementioned debt funded projects is expected deteriorate the capital structure of the company, however the same is expected to remain comfortable.

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 equipment's. 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1419.18	1613.32
PBILDT	142.01	146.24
PAT	33.86	29.66
Overall gearing (times)	0.72	0.50
Interest coverage (times)	3.07	3.61

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

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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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	-	-	-	266.00	CARE A2+
Fund-based - LT-Term Loan	-	-	March 2021	88.34	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	275.00	CARE A-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	179.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-Letter of credit	ST	266.00	CARE A2+	-	1)CARE A2+ (14-Jul-17) 2)CARE A2+ (12-May-17)	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)
2.	Fund-based - LT-Term Loan	LT	88.34	CARE A-; Stable	-	1)CARE A-; Stable (14-Jul-17) 2)CARE A-; Stable (12-May-17)	1)CARE A- (22-Sep-16)	1)CARE A- (07-Oct-15)
3.	Fund-based - ST-EPC/PSC	-	-	-	-	1)CARE A2+ (12-May-17)	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)
4.	Fund-based - LT-Cash Credit	LT	275.00	CARE A-; Stable	-	1)CARE A-; Stable (14-Jul-17) 2)CARE A-; Stable (12-May-17)	1)CARE A- (22-Sep-16)	1)CARE A- (07-Oct-15)
5.	Non-fund-based - ST-Bank Guarantees	ST	179.00	CARE A2+	-	1)CARE A2+ (14-Jul-17) 2)CARE A2+ (12-May-17)	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)
6.	Non-fund-based - ST-BG/LC	ST	115.00	CARE A2+	-	1)CARE A2+ (14-Jul-17)	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)

						2)CARE A2+ (12-May-17)		
7.	Fund-based - ST-Factoring/ Forfeiting	ST	155.00	CARE A2+	-	1)CARE A2+ (14-Jul-17) 2)CARE A2+ (12-May-17)	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)
8.	Fund-based - LT-Bills discounting/ Bills purchasing	LT	30.00	CARE A-; Stable	-	1)CARE A-; Stable (14-Jul-17) 2)CARE A-; Stable (12-May-17)	1)CARE A- (22-Sep-16)	1)CARE A- (07-Oct-15)
9.	Fund-based - ST-Foreign Bill Discounting	ST	25.00	CARE A2+	-	1)CARE A2+ (14-Jul-17) 2)CARE A2+ (12-May-17)	1)CARE A2+ (22-Sep-16)	1)CARE A2+ (07-Oct-15)

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