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India Ratings Revises Outlook High Energy Batteries (India)’s Bank Loans to Positive; Affirms ‘IND BBB-’

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India Ratings and Research (Ind-Ra) has revised the Outlook on High Energy Batteries (India) Limited’s (HEBL) bank loans to Positive from Stable while affirming the rating at ‘IND BBB-’ as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limit	-	-	-	INR300	IND BBB-/Positive	Outlook revised to Positive from Stable; Affirmed
Non-fund-based limit	-	-	-	INR450	IND A3	Affirmed

The Positive Outlook reflects Ind-Ra’s expectation that the sustained growth seen in HEBL’s revenue over FY22-9MFY23 could continue over 4QFY23-FY24. Ind-Ra further believes the margins and credit metrics will remain largely strong and stable during the same period, owing to a modest recovery in exports and the receipt of new orders over the near-to-medium term.

Key Rating Drivers

Revenue Likely to Grow Further: Ind-Ra expects HEBL’s FY23 revenues to be around INR900 million and further improve 10%-12% yoy in FY24. HEBL had a confirmed order book of around INR707 million at end-December 2022, to be executed over a period of 18-24 months, providing adequate revenue visibility. The company’s revenue grew to INR619.34 million during 9MFY23 (9MFY22: INR539.05 million) and 2% yoy to INR796 million in FY22 after growing at a CAGR of 11% over FY17-FY22, backed by the government’s thrust on the defence sector as well as its focus on awarding orders to indigenous players. The revenue in FY22 was supported by an increase in the number of orders from Dte. General of Naval Armament (31% of the total revenue), Brahmos Aerospace Private Limited (14%) as well as higher development orders.

Strong EBITDA Generation: Ind-Ra expects HEBL’s EBITDA margins to sustain at around 30% over FY23-FY24, considering the uncertainties regarding the incremental flow of development orders and exposure to raw material price fluctuations. Though fluctuation in silver prices could be passed on to the customers, the increased prices of other components could impact the margins. HEBL’s EBITDA margins improved substantially to 34.3% in 9MFY23 from 13.7% in FY17, primarily backed by a change in the product mix, better absorption of fixed costs, and discontinuation of lossmaking lead-acid battery division. During 9MFY23, the margins remained strong but declined marginally to 34.3% (FY22: 35.6%, FY21: 38.7%, FY20: 25.2%), due to an increase in the employee expense and other operating expenses for the company. Sustainable EBITDA margins of over 25% remains a key monitorable for the agency.

Robust Credit Metrics: Ind-Ra expects the company's net leverage to be around 1.0x over FY23-FY24, even after considering a capex of INR40 million annually, subject to the execution of the research and development projects in the pipeline. In 9MFY23, HEBL's interest coverage (EBITDA/gross interest) improved to 9.5x, (FY22: 7.5x, FY21: 5.9x) due to sustained EBITDA levels (9MFY23: INR202 million; FY22: INR283 million; FY21: INR301 million) and reduced interest cost. However, the net leverage (net debt/EBITDA) deteriorated to 1.52x in 9MFY23 (FY22: 0.90x, FY21: 1.10x) as the company had received additional overdraft limits during November 2022-January 2023, as its receivables had increased over the same period due to a delay in the payment from one of its major clients. However, the payments were received in February 2023 and so, the receivable days resumed back to normal and along with the utilisation levels.

Market Leader in Silver Zinc Batteries: According to the management, the company supplies silver zinc batteries to several defence authorities including naval defence, air force and space research organisations. With limited competition on the product supplied, HEBL derives around 60% revenues from naval defence-related orders and has a market leadership with a share of 65%-70%. Basis the management, HEBL is the sole supplier of silver zinc batteries to Indian Navy defence. The clientele includes Dte. General of Naval Armament that contributed 31% to FY22 revenue (FY21: 7%), Naval Science & Technological Laboratory (NSTL) 23% (FY21: 51%), Brahmos Aerospace Pvt. Ltd. 14% (9%) and Bharat Dynamics Ltd. 8% (6%). Ind-Ra believes the company will continue to receive regular orders from Naval defence, considering its prolonged presence in this segment.

Liquidity Indicator - Adequate: Ind-Ra expects the cash flow from operations (FY22: INR124 million; FY21: INR28 million) and free cash flow (FCF) to remain positive over FY23-FY24 on account of strong EBITDA generation and modest capex requirements. As per Ind-Ra's calculations, the FCF in FY22 was INR92 million (FY21: INR19 million). The company has no debt repayments as there are no term loans in the debt. HEBL had cash and equivalents of INR44 million at FYE22. The firm's sanctioned fund-based limits were INR300 million at end-February 2023 with sufficient drawing power. The average utilisation of its fund-based limits was around 80% of the sanctioned limits in the 12 months ended January 2023. The company had received additional overdraft limits during November 2022-January 2023, as its receivables had increased over the same period. However, the situation normalised in February 2023

Working Capital Intensive Operations: HEBL has a long working capital cycle, mainly due to higher levels of inventory (FY22: around 253 days) consisting primarily of the silver used for manufacturing batteries as well as of other battery accessories and components for immediate replacement in case of repairable damages or failures caused in batteries already supplied. As per Ind-Ra's calculations, the net working capital cycle for FY22 stood at 314 days (FY21: 262 days). This increase was mainly due to a reduction in the payable days to 29 in FY22 (FY21: 44) as the company started procuring raw materials by direct payments rather than against letters of credit (with usance period of 120-180 days) as was practised earlier till FY20.

Exposure to Volatile Input Prices: HEBL's major raw materials include silver, zinc and copper, the prices of which are highly volatile due to external market factors. Any adverse increase in the raw material prices may lead to margin compression. While prices fluctuations in silver are passed on to the consumers on a timely basis, those for copper and zinc are not covered under price escalation clause, thus exposing the company to price fluctuations. Moreover, around 10% of the total raw material consumed by HEBL are imported, which exposes the company to certain forex risks.

Modest Scale of Operations and High Concentration Risk: HEBL's scale of operations is fairly small and is likely to remain so over the medium term. Moreover, HEBL's revenue mainly comes from the silver zinc segment (FY22: 94%; FY21: 97%). Also, government/government undertaking defence companies contributed 76% to the revenue in FY22 (FY21: 84%). HEBL's dependency on its sole product and the defence segment will likely to continue over near to medium term. While the company has several research and development projects in its pipeline to diversify its revenue base, the management believes the revenue contribution from the same may take a couple of years to materialise.

Dependence on Budgetary Allocation: The company derives a majority of its revenue from defence sector, which is dependent on budgetary allocation by the government. In recent years, increased budgetary allocation towards defence and indigenisation of components used in the sector has been positive for the local manufacturers in the sector. However, the uncertainty with regard to budgetary allocation pertains.

Rating Sensitivities

Positive: Any significant increase in the scale of operations (either revenues or profitability), orderbook visibility along with maintaining the credit metrics with the net leverage staying below 2x and the interest coverage above 4x, on a sustained basis, could result in a positive rating action.

Negative: Significant deterioration in the revenues or profitability and/or a further elongation of the working capital cycle or deterioration in the liquidity position, leading to the interest coverage reducing below 2.25x, on a sustained basis, could lead to a negative rating action.

Company Profile

Incorporated in 1979, HEBL is part of Esvin group and is engaged in the manufacturing of hi-tech batteries for use in army, navy, air force, satellite launch vehicles and also commercial batteries for auto and standby valve regulated lead acid battery applications. The company also exports products to various countries such as Sri Lanka, Malaysia, Algeria and Italy.

FINANCIAL SUMMARY

Particulars	FY22	FY21
Revenue (INR million)	796	778
EBITDA (INR million)	295	301
EBITDA margin (%)	37.1	38.7
Interest coverage (x)	7.79	5.9
Net leverage (x)	0.48	1.0
Source: HEBL, Ind-Ra		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Ratings/Outlook
	Rating Type	Rated Limits (million)	Rating	8 December 2021
Fund-based working capital limits	Long-term	INR300	IND BBB-/Positive	IND BBB-/Stable
Non-fund-based working capital limits	Short-term	INR450	IND A3	IND A3

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Non-fund-based working capital limits	Low
Fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

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