

India Ratings Upgrades High Energy Batteries (India)’s Bank Loan Facilities to ‘IND BBB’/Stable

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India Ratings and Research (Ind-Ra) has upgraded High Energy Batteries (India) Limited’s (HEBL) bank loan facilities to ‘IND BBB’ from ‘IND BBB-’. The Outlook is Stable. The detailed rating action is as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Bank loan facilities	-	-	-	INR750	IND BBB/Stable/IND A3+	Upgraded

Analytical Approach

Ind-Ra continues to take a standalone view of HEBL to arrive at the rating.

Detailed Rationale of the Rating Action

The upgrade reflects HEBL’s ability to record stable operating performance, with margins consistently remaining at 25%-30% and its capacity to generate a return on capital employed (ROCE) exceeding 20% over FY22-FY25 while maintaining robust credit metrics. The rating also reflects the company’s strong market position in niche silver zinc batteries which have applications in the defence segment and it being one of the two domestic suppliers of these batteries. The rating is, however, constrained by the company’s customer concentration risk, high working capital intensive nature of operations, modest scale of operations along with exposure to volatility in key input prices.

List of Key Rating Drivers

Strengths

- Robust credit metrics
- Healthy EBITDA margins
- Increase in FY25 revenue; likely to grow in FY26-FY27
- Eminent supplier of silver zinc batteries

Weaknesses

- Working capital intensive operations
- Exposure to volatile input prices
- Modest scale of operations and high concentration risk
- Dependence on budgetary allocation

Detailed Description of Key Rating Drivers

Robust Credit Metrics: HEBL's credit metrics remained robust with the net leverage (net debt/EBITDA) remaining at 0.6x in FY25 (FY24: 0.2x; FY23: 0.6x) and the gross interest coverage (EBITDA/gross interest) of 11.7x in FY25 (11.5x; 9.9x) despite an increase in working capital borrowings following an increased order book position. However, its cash position largely remained stable. Ind-Ra expects the net leverage to remain below 1.0x over FY26-FY27, owing to an improvement in the EBITDA levels, coupled with the absence of any debt-funded capex plans.

Healthy EBITDA Margins: HEBL's EBITDA margins remained at 31%-35% over FY22-FY25. During FY25, the company reported EBITDA margins of 21.4% (FY24: 28.9%; FY23: 33.5%); however, after adjusting increased research and development (R&D) expenses, the company's EBITDA margins were 31% (34%; 35%). The margins could somewhat vary on account of product mix. The expenditure on scientific research increased to 9% of the revenue in FY25 (FY24: 5%; FY23: 1%), on account of the participation in various defence-related programmes for battery development. The management expects its R&D expense to reduce over FY26-FY27, which should support margin increase. Ind-Ra expects absolute EBITDA to remain at INR250 million–280 million in FY26. Although the company could pass on any fluctuations in silver prices to its customers, increased prices of other components could impact the margins.

Increase in FY25 Revenue; Likely to Grow Further in FY26-FY27: The company's revenue increased to INR810 million during FY25 (FY24: INR781 million; FY23: INR928.3 million), supported by a stable receipt of orders from the government. The revenue expanded at a CAGR of about 9.45% over FY19-FY25, backed by the government's thrust on the defence sector as well as its focus on awarding orders to indigenous players. Ind-Ra expects HEBL's FY26 revenue to improve 7%-10% yoy to INR900 million-1,000 million in FY26, backed by its confirmed order book of around INR700 million as of August 2025, to be executed over 15-18 months, providing adequate revenue visibility in the short term.

Eminent Supplier of Silver Zinc Batteries: According to the management, the company supplies silver zinc batteries to several defence authorities including naval, air force and space research organisations. Operating in a niche product segment with limited competition, the company often serves either sole supplier or one of the two suppliers in several defence programmes. HEBL derives around 65% of its revenue from naval -related orders and has a market share of 65%-70%. As per the management, HEBL is one of the two suppliers of silver zinc batteries to Indian Navy. HEBL's clientele includes Dte. General of Naval Armament that contributed 28% to its FY25 revenue (FY24: 21%), Naval Science and Technology Laboratory 14% (8%), Naval Armament Depot 17% (5%), Air headquarters 8% (8%) and Bharat Dynamics Ltd. 4% (7%). Ind-Ra believes the company will continue to receive regular orders from Naval defence, considering its established presence in this segment.

Working Capital Intensive Operations: HEBL has a long working capital cycle, mainly due to higher levels of inventory days of 229 days in FY25 (FY24: 254 days). Its inventory primarily comprises silver used for manufacturing batteries along with other battery accessories and components kept on hand for immediate replacement in case of repairable damage or failures in previously supplied batteries. The company generally maintains an inventory cycle of six-to-eight months as it procures silver in bulk as and when the market offers a lower rate. As per Ind-Ra's calculations, the net working capital cycle for FY25 stood at 322 days (FY24: 317 days). At end-March 2025, the company held around 4 tonnes of silver to hedge any price risk fluctuations.

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 HEBL's total raw material is imported, exposing the company to certain forex risks.

Modest Scale of Operations and High Concentration Risk: HEBL's scale of operations remained modest and is likely to improve in the medium term, led by the increase in governmental orders. HEBL's revenue mainly comes from the silver zinc segment (FY25: 96%; FY24: 92%). Also, government/government undertaking defence companies contributed 84% to the revenue in FY25 (FY24: 97%). HEBL's dependency on its sole product and the defence segment is likely to continue over the near to medium term. While the company has several R&D 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 the 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 around budgetary allocation pertains.

Liquidity

Adequate: HEBL’s liquidity is supported by its modest cash balances of INR0.22 million at FYE25 (FYE24: INR6.8 million). The average utilisation of the company’s sanctioned fund-based limits of INR300 million was around 32% for the 12 months ended May 2025. The cash flow from operations remained positive at INR26 million at FYE25 (FYE24: INR217 million) owing to working capital changes while the free cash flow turned negative to INR34 million (INR166 million) due to modest capex levels and a decline in the cashflow from operations. Ind-Ra expects the cash flow from operations for FY26 to remain at INR70 million-INR100 million and the free cash flow to turn positive over FY26-FY27 on account of strong EBITDA generation despite a high envisaged capex. HEBL’s liquidity further benefits from the absence of any debt repayments in FY26 and FY27. The management plans a capex of INR200 million over FY26-FY27 for the R&D projects in the pipeline, to be internally funded. Ind-Ra believes the company will be able to meet its capex requirements from its internal accruals.

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, all 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 4x, all on a sustained basis, could lead to a negative rating action.

Any Other Information

Not applicable

About the Company

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 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, Italy and Kyrgyzstan.

Key Financial Indicators

Particulars	FY25	FY24
Revenue (INR million)	810	781
EBITDA* (INR million)	249	262
EBITDA margin* (%)	30.7	33.6
Gross interest coverage (x)	11.7	11.5
Net leverage (x)	0.6	0.2
Source: HEBL, Ind-Ra		
* Adjusted R&D expenses		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Rating/Outlook	
				31 May 2024	6 March 2023
Bank loan facilities	Long-term/Short-term	INR750	IND BBB/Stable /IND A3+	IND BBB-/Positive/IND A3	IND BBB-/Positive/IND A3

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan facilities	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 AND POLICIES

Evaluating Corporate Governance

Corporate Rating Methodology

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

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