HBL Power Systems Limited

August 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	325.82 (Enhanced from 229.00)	CARE A; Positive	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	446.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the outlook of HBL Power Systems Limited (HBL) from 'Stable' to 'Positive' is on account of significant improvement in the revenue and profits demonstrated by HBL in Q1FY24 besides achieving a steady financial and operational growth during FY23 (refers to the period April 1 to March 31). Backed by healthy demand, the total operating income (TOI) of HBL is expected to improve further in coming quarters.

The ratings assigned to the bank facilities of HBL derive strength from extensive experience of the promoters and management in the industry, growing trend of income and profits y-o-y, and diverse stream of revenue, mitigating industry concentration risk. The ratings also derive strength from its healthy orderbook from reputed clientele that provides medium-term revenue visibility, strong financial risk profile and favourable industry growth prospects. The ratings are, however, constrained by elongated operating cycle amid working capital intensive business, exposure towards group/associate entities, profitability margins susceptible to raw material price movement, and risks associated with policy changes by government.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- ✓ Increase in TOI to above ₹1,700 crore while sustaining its PBILDT margin at 12%.
- ✓ Steady improvement in cash accruals and achieving return on capital employed (ROCE) of 15% or above.

Negative factors

- × Moderation in overall gearing above 0.75x, going forward.
- × Operating cycle elongating to more than 250 days, in future.
- × Significant decline in TOI and profitability by more than 30% y-o-y, in future.

Analytical approach: Standalone

Outlook: Positive

CARE Ratings expects TOI of HBL to grow over 25% y-o-y (backed by strong demand) in fiscal 2024 along with sustaining its operating margins and maintaining a healthy financial risk profile. The outlook may be revised to stable if the company achieves less-than-expected revenue and profitability, going forward.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters

HBL has been promoted by Dr A. J. Prasad in 1986. Dr Prasad has, over a period of time, gained 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 over three decades. He, along with Kavita Prasad (daughter)- Director, and a team of experienced professionals, look after the day-to-day operations of the company. HBL has been a well-known name in the industrial batteries manufacturing industry. The company also has established a good presence in the electronics segment, and now has a diversified revenue base across multiple user industries. HBL caters to requirement of core sectors like telecom, railways, and defence. The battery vertical continues to be is one of the major revenue spinners for the company followed by electronics.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Improvement in financial performance during FY23 and Q1FY24

The company has been witnessing healthy demand for its products, the orderbook of the company also has been growing over the quarters. During FY23, the company reported a y-o-y growth of 10% in its TOI to ₹1,358 crore, backed by strong demand from the telecom sector especially in its electronic segment driven by telecom infrastructure post the 5G roll out. The demand from other segments, viz., railways, defence, etc, also witnessed a steady growth. HBL registered a robust growth of around 45% in the revenue during Q1FY24 vis-à-vis Q1FY23. The orderbook position as of June 2023 improved and stood at ₹1,607 crore (June 2022: ₹594 crore during) providing medium-term revenue visibility.

CARE Ratings notes that the operating margins also remained healthy at 11% in FY23 and expects the margins to sustain at the back of steady revenue contribution from the electronic segment.

Comfortable capital structure

HBL maintains a comfortable financial risk profile and has a favourable leverage structure represented by overall gearing of 0.09x and total debt/ PBILDT of 0.53x as on March 31, 2023. The net worth base of the company stands strong at ₹992.57 crore as on June 30, 2023, supported by prolonged profits earned over the years while the company has been maintaining a conservative debt profile.

The company is planning to avail a term debt of around ₹150 crore to fund its operational capex during next two years, although the same is not committed in nature and debt may be drawn depending on the cash flows. Nonetheless, CARE Ratings expects the leverage position of the company to remain favourable.

Key weaknesses

Elongated operating cycle

The company operates in a working capital-intensive business. It procures raw materials majorly from the domestic market while some of the raw materials are imported. Fluctuations in the raw material prices have a direct impact on the company's profit margins. Hence, in order to maintain adequate raw material and also given integrated operations which involve multiple processes, a majority of inventory is under WIP stage. Thus, the overall inventory period for HBL is typically high. The company, however, has been funding the inventories from its internal cash flows and reliance on bank borrowings has been low.

Investment in associate entities

HBL has entered into an investment agreement with Tonbo Imaging, outlining a commitment to invest a sum of ₹150 crore. This investment forms about 15% of HBL's existing net worth base. Through this initiative, HBL is likely to leverage the intellectual property strategy and development capabilities that Tonbo brings to the realm of defence electronics. HBL's potential to capitalise on the advantages of this investment is yet to unfold, and while this presents an opportunity for growth, the uncertainty surrounding its outcome has an inherent element of risk. Further increase in the investment in group/associate entities and ability of the company to generate commensurate benefits from the same, may remain critical from the rating and credit perspective.

The potentially risk associated with lead-recycling operations

Lead, a substance recognised for its high toxicity and environmental impact, serves as the fundamental raw material in battery production. Enterprises involved in this industry are compelled to adhere to stringent pollution control regulations. As environmental regulations continue to become more stringent and environmental advocacy gains prominence, businesses operating in this sector face inherent risks related to ecological considerations. Nonetheless, owing to HBL's extensive tenure within this industry, the company has consistently maintained compliance with all requisite standards.

Liquidity: Adequate

The liquidity position of the company is adequate with sufficient cash accruals of ₹160 crore projected during FY24 as against a scheduled repayment obligation of around ₹12 crore during the year. Considering the additional term loan projected in current year, the annual repayment from FY25 is likely to be ₹30 crore against which the company is expected to generate adequate accruals. The liquidity is further supported by un-utilised fund-based working capital lines, cash and bank balance of around ₹140 crore, healthy current ratio of 2.7x coupled positive cash flows from operations as on March 31, 2023. Also, the company has sufficient gearing headroom to raise additional debt if required, in future.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Environment: The Company has made changes at its shopfloor processes to improve efficiencies, product quality and optimise costs. It is also focusing on improving collection of used batteries for environment-friendly disposal through efficient recycling. This adds to the company's economic viability.

Governance and social: Prudent governance and social practices followed.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Policy on Withdrawal of Ratings
Manufacturing Companies

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

Founded in 1986 by Dr A.J. Prasad, HBL is a publicly listed entity on both the BSE and NSE stock exchanges. HBL is engaged in the manufacturing of industrial batteries, electronics, and engineered products. HBL's products cater to sectors, namely, telecom, UPS, defence and railways in India. The company's presence spans continents, including North America, Europe, and the Middle East, facilitated through its subsidiaries - HBL America Inc. and HBL Germany GMBH.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,227.21	1,358.61	458.4
PBILDT	140.81	156.55	75.48
PAT	89.40	95.54	48.54
Overall gearing (times)	0.07	0.09	0.07
Interest coverage (times)	19.36	25.13	38.31

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	149.00	CARE A; Positive
Fund-based - LT-Term Loan		-	-	28/02/2028	176.82	CARE A; Positive

Fund-based - ST-Factoring/ Forfeiting		-	-	-	95.00	CARE A1
Non-fund-based - ST-BG/LC		-	-	-	282.00	CARE A1
Non-fund-based - ST-BG/LC		-	-	-	69.00	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - ST-BG/LC	ST	282.00	CARE A1	-	1)CARE A1 (07-Oct-22)	1)CARE A2+ (06-Oct-21)	1)CARE A2+ (05-Oct-20)
2	Fund-based - LT-Term Loan	LT	176.82	CARE A; Positive	-	1)CARE A; Stable (07-Oct-22)	1)CARE A-; Stable (06-Oct-21)	1)CARE A-; Stable (05-Oct-20)
3	Fund-based - LT-Cash Credit	LT	149.00	CARE A; Positive	-	1)CARE A; Stable (07-Oct-22)	1)CARE A-; Stable (06-Oct-21)	1)CARE A-; Stable (05-Oct-20)
4	Non-fund-based - ST-BG/LC	ST	69.00	CARE A1	-	1)CARE A1 (07-Oct-22)	1)CARE A2+ (06-Oct-21)	1)CARE A2+ (05-Oct-20)
5	Fund-based - ST-Factoring/ Forfeiting	ST	95.00	CARE A1	-	1)CARE A1 (07-Oct-22)	1)CARE A2+ (06-Oct-21)	1)CARE A2+ (05-Oct-20)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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