April 12, 2022

Exide Leclanche Energy Private Limited: Ratings Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-Based Working Capital	50.00	50.00	[ICRA]A (Stable) reaffirmed
Long -term – Term Loans	-	50.00	[ICRA]A (Stable) reaffirmed
Long-Term Proposed	100.00	-	-
Short Term- Working Capital	-	50.00	[ICRA]A2+ reaffirmed
Short-Term Interchangeable	(50.00)	(50.00)	[ICRA]A2+ reaffirmed
Total	**150.00**	**150.00**	

*^Sub-limit of fund-based working capital facilities; *Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account Exide Leclanche Energy Private Limited's (ELEPL) strong parentage, the company's comfortable capital structure and the favourable EV growth prospects, which are likely to facilitate demand for Lithium-ion battery packs. Exide Industries Limited (EIL; rated [ICRA]AAA (Stable)/[ICRA]A1+; parent) owns 84.9% stake in ELEPL currently, which has increased from 75% during inception. ICRA draws comfort from ELEPL's strong operational and financial linkages with EIL and financial flexibility/ lender comfort arising from its parentage. EIL and ELEPL have a common managing director and common Board members, and EIL has committed to provide timely and adequate financial support to ELEPL, should there be a need. The entire initial project cost of Rs. 320 crore was funded through equity (with EIL contributing Rs. 277.1 crore) and this has resulted in comfortable capital structure for the company.

The company commenced operations only from December 2021, with the project completion getting delayed by 8-9 months from its initial timelines, due to Covid-related hiccups. For 9M FY2022, the company clocked minimal revenues of Rs. 20.8 crore. While the ability to scale up revenues and accruals adequately remains to be seen, the company's healthy order book position of Rs. 260 crore as of February 2022 and the company's experienced management team provide comfort to an extent. Further, ELEPL's revenues are also likely to benefit from the favourable EV industry outlook and healthy demand for Lithium-ion batteries from industrial applications, going forward. The company is expected to have relatively low accruals over the next 12 months at least, although it is likely to improve from current levels. Even once revenues scale, steady-state margins for the business are likely to remain in thin by virtue of the limited value addition, unless there is significant localisation of battery cells. Further, its margins remain vulnerable to steep raw material price increase and unfavourable forex movements, given the limited passthrough and absence of a hedging mechanism. On the debt front, ICRA expects the company's coverage metrics to remain moderate in the next 1-2 years, and the company's liquidity position is expected to remain adequate. ELEPL remains vulnerable to adverse geopolitical developments, region-specific risks and supply-chain disruptions in its import geographies, if any, although the company's adequate inventory levels mitigate the risk to an extent.

Key rating drivers and their description

Credit strengths

Strong parentage – Exide Industries Limited (EIL; rated [ICRA]AAA (Stable)/[ICRA]A1+) owns 84.9% stake (increased from 75% during inception) in ELEPL and has infused Rs. 277.1 crore for the latter's project funding. ICRA draws comfort from ELEPL's strong operational and financial linkages with EIL and financial flexibility/ lender comfort arising from its parentage. Further, EIL and ELEPL have a common managing director and common Board members. EIL has committed to provide timely and adequate financial support to ELEPL, should there be a need.

Favourable EV industry outlook – The company has a first-mover advantage in the assembly of the Lithium-ion battery packs and is looking at supplying to both the transportation/ EV segment and industrial applications, ensuring reasonable diversification of revenues. As far as the EV segment is concerned, there has been a strong push by both the Central and state governments for faster adoption, especially in recent times, through various policy initiatives. ICRA expects the share of EVs to reach about 8-10% level in buses, about 13-15% in two-wheelers and over 30% electric three-wheeler by FY2025, and this is likely to benefit ELEPL over the medium term. There is healthy demand for Lithium-ion batteries from industrial applications as well.

Comfortable capital structure – The company has a comfortable capital structure, with gearing of 0.2x as on December 31, 2021. The entire initial project cost of Rs. 320 crore was funded through equity and the company has only working capital borrowings currently. Going forward, the company's debt levels are likely to increase with its moderate debt-funded capex plans and increasing working capital requirements. Despite this, ELEPL's capital structure is expected to remain comfortable in FY2023.

Credit challenges

Nascent stages of operations – The company commenced commercial operations only in Dec 2021, with the project completion getting delayed from the earlier estimates of March 2021, due to Covid-related hiccups. For 9M FY2022, the company clocked minimal revenues of Rs. 20.8 crore. While the ability to scale up revenues and accruals adequately remains to be seen, the company's healthy order book position of Rs. 260 crore as of February 2022 and its experienced management team provide comfort to an extent.

Limited value addition; dependence on imports for supply of critical components – The company primarily imports its battery cells and assembles them into battery packs in its Gujarat plant. Battery cells constitute majority of the raw materials for battery packs and, hence, the company does only limited value addition. By virtue of the low value addition, the steady-state margins for the business are likely to remain in thin, unless there is significant localisation of battery cells. Further, given its nascent stages of operations, the company has limited passthrough of increase in raw material prices. It is also exposed to unfavourable foreign exchange movements, in the absence of a hedging mechanism. ELEPL remains vulnerable to adverse geopolitical developments, region-specific risks and supply chain disruptions in its import geographies, if any, although its adequate inventory levels mitigate the risk to an extent.

Moderate debt coverage indicators – The company is expected to have relatively low accruals over the next 12 months at least, although it is likely to improve from current levels. Further, while the debt levels stood at a modest Rs. 36.1 crore[1] as on December 31, 2021, it is likely to increase given the company's moderate debt-funded capex plans and increasing working capital requirements. ICRA expects the company's coverage metrics to remain moderate over the medium term.

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[1] *Includes lease liability of Rs. 13.5 crore as on December 31, 2021*

Liquidity position: Adequate

The company's liquidity is expected to remain adequate, supported by the financial flexibility and lender/investor comfort arising from its strong parentage. The parent, EIL, has committed to provide timely and adequate financial support, should there be a need. The company had cash and liquid investments of ~Rs. 23.0 crore as on December 31, 2021. Further, the company had undrawn working capital lines of Rs. 18.0 crore as on December 31, 2021 and is in the process of enhancing its bank lines. Also, the company has only moderate capex plans of Rs. 50 crore per year (part debt-funded) and is unlikely to have significant principal repayments in FY2023 and FY2024. Although its business cash accruals are expected to be low in the near term considering the nascent stage of operations, ICRA draws comfort from ELEPL's strong debt-raising capabilities to meet shortfalls and the expectation that EIL will extend timely and adequate financial support, if required.

Rating sensitivities

Positive factors – ICRA could upgrade ELEPL's ratings if it achieves material improvement in its scale of operations, profitability and cash flow position.

Negative factors – Negative pressure on ELEPL's ratings could arise if the company is unable to witness healthy scale up in operations and improvement in accruals or its debt levels increase on sustained basis. Weakening in the parent's credit profile or absence of timely financial support from EIL, if required, would also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Parent Company: Exide Industries Limited (EIL) We expect ELEPL's parent, EIL (rated [ICRA]AAA(Stable)/[ICRA]A1+), to be willing to extend financial support to ELEPL, should there be a need.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of ELEPL.

About the company

Exide Leclanche Energy Private Limited (ELEPL) is an 84.9:15.1 joint venture (JV) company between Exide Industries Limited (EIL, rated [ICRA]AAA (Stable)/[ICRA]A1+) and Leclanche SA, Switzerland, and commenced commercial operations in December 2021. The company is involved in assembly of Lithium-ion battery packs in India with an assembling capacity of 0.75 gigawatt hours (GWh) and an incremental testing capacity of 0.75 GWh facility for traded products in Prantij, Gujarat. The finished battery packs find application in electric vehicles and industrial applications. The entire project cost of Rs. 320 crore was funded through equity, with EIL and Leclanche SA infusing Rs. 277.1 crore and Rs. 42.0 crore, respectively.

Key financial indicators (audited)

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	2.2	3.0
PAT (Rs. crore)	-19.0	-18.2
OPBDITA/OI (%)	-746.8%	-501.1%
PAT/OI (%)	-864.6%	-864.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.3
Total Debt/OPBDITA (times)	-1.0	-2.0
Interest Coverage (times)	-16.3	-8.8

Source: Company and ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Total debt includes lease liability

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2019
					April 12, 2022	March 10, 2022	February 01, 2021	-
1	Fund-Based Working Capital	Long-term	50.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2	Non- Fund Based Working Capital	Long-term	-	-	-	-	[ICRA]A (Stable)	-
3	Term Loan	Long-term	50.00	Nil	[ICRA]A (Stable)			
4	Proposed Facilities	Long-term	-	-	-	[ICRA]A (Stable)	-	-
5	Fund-Based Working Capital	Short-term	50.00	-	[ICRA]A2+			
6	Interchangeable Limits	Short-Term	(50.00)	-	[ICRA]A2+	[ICRA]A2+	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based - Working Capital Facilities	Simple
Term Loan	Simple
Short term- Working Capital Facilities	Simple
Short term interchangeable	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	LT-Fund-based working capital facilities	Aug 2020	NA	NA	50.00	[ICRA]A (Stable)
NA	LT- Term Loan	March 2022	7.45%	December 2028	50.00	[ICRA]A (Stable)
NA	ST-Fund-based working capital facilities	March 2022	NA	NA	50.00	[ICRA]A2+
NA	ST-Interchangeable	Aug 2020	NA	NA	(50.00)	[ICRA]A2+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis - Not applicable

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