March 21, 2024

Exide Energy Private Limited: Continues to be on watch with developing implication

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; continues to be on watch with developing implication
Long-term – Term Loans	50.00	20.00	[ICRA]A; continues to be on watch with developing implication
Long -term – Working capital term loan	0.00	30.00	[ICRA]A; continues to be on watch with developing implication
Short Term- Working Capital	50.00	50.00	[ICRA]A2+; continues to be on watch with developing implication
Short-Term Interchangeable	(50.00)	(50.00)	[ICRA]A2+; continues to be on watch with developing implication
Total	**150.00**	**150.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings continue to be on watch with developing implication due to the ongoing amalgamation process of Exide Energy Private Limited (EEPL/the company) with Exide Energy Solutions Limited (EESL; rated [ICRA]AAA (CE) (Stable)/[ICRA]A1+ (CE)] and the operational and financial synergies expected for the company following the same. The amalgamation, which was announced on March 17, 2023, has been approved by the National Company Law Tribunal (NCLT) recently. The other procedural aspects post the NCLT approval for completion of the amalgamation process, are however, yet to be concluded.

The ratings take into account EEPL's strong parentage and the favourable growth prospects for electric vehicles (EV), which are likely to facilitate demand for Lithium-ion battery packs going forward. Exide Industries Limited (EIL; rated [ICRA]AAA (Stable)/[ICRA]A1+; parent) owns 100.0% stake in EEPL currently. ICRA draws comfort from EEPL's strong operational and financial linkages with EIL and financial flexibility/lender comfort arising from its parentage. EIL and EEPL have a common managing director and common Board members, and EIL is expected to provide timely and adequate financial support to EEPL, should there be a need.

EEPL's scale of operations remains modest with operating income of Rs. 113.6 crore in FY2023 and Rs. 198.8 crore in 9M FY2024. The company reported marginal operating profits of Rs. 1.3 crore in 9M FY2024, while the cash losses continued in 9M FY2024, due to sub-optimal volumes and capacity utilisation. While the ability to scale up revenues and accruals adequately remains to be seen, the company's healthy order book position as of February 2024, favourable demand outlook and its experienced management team provide comfort. The relatively high inventory levels and cash losses/capex of the last few years have resulted in increase in debt levels (from Rs. 45.9 crore in FY2022 to Rs. 94.4 crore in 9M FY2024). The coverage metrics are currently weak due to the relatively high debt levels and low operating profits, and the anticipated improvement in accruals, amid absence of debt-funded capex plans is likely to result in improvement in coverage metrics over the medium term. EEPL's liquidity is adequate, supported by ELEPL's undrawn working capital lines of over Rs. 50.0 crore as on December 31, 2023. EIL would also extend timely and adequate financial support, if required.

Key rating drivers and their description

Credit strengths

Strong parentage – Exide Industries Limited (EIL; rated [ICRA]AAA (Stable)/[ICRA]A1+) owns 100.0% stake in EEPL. ICRA draws comfort from EEPL's strong operational and financial linkages with EIL and financial flexibility/ lender comfort arising from its parentage. Further, EIL and EEPL have a common managing director and common Board members. EIL is expected to provide timely and adequate financial support to EEPL, 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 through various policy initiatives. ICRA expects the share of EVs to reach ~11-13% level in buses, ~6-8% in two-wheelers and ~14-16% in three-wheeler by FY2025, and this is likely to benefit EEPL going forward. There is healthy demand for Lithium-ion batteries from industrial applications as well. The integration with Exide Energy Solutions Limited (which is setting up a 6 GWh lithium-ion cell manufacturing facility in Karnataka in phase I) post amalgamation will also aid in revenue growth for the business.

Credit challenges

Nascent stages of operations – The company commenced commercial operations in December 2021. However, the ramp-up has been fairly gradual and the company continues to report modest revenues. EEPL reported operating income of Rs. 113.6 crore in FY2023, which improved further to Rs. 198.8 crore in 9M FY2024, aided by healthy demand. The company also reported operating profit of Rs. 1.3 crore in 9M FY2024. While the ability to scale up revenues and accruals adequately remains to be seen, its healthy order book position as of February 2024 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 thin. 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 given the sizeable imports, in the absence of a hedging mechanism. EEPL remains vulnerable to any adverse geopolitical developments, region-specific risks and supply chain disruptions in its import geographies until there is sufficient localisation of battery cells, although its adequate inventory levels mitigate the risk to an extent.

Weak debt coverage indicators – The company reported marginal operating profits of Rs. 1.3 crore in 9M FY2024, while the cash losses continued in 9M FY2024, due to sub-optimal volumes and capacity utilisation. The relatively high inventory levels and cash losses/capex of the last few years have resulted in increase in debt levels (from Rs. 45.9 crore in FY2022 to Rs. 94.4 crore in 9M FY2024). The relatively high debt levels for the scale of operations, amid weak operating profits and accruals have resulted in weak coverage metrics, and the anticipated improvement in accruals, amid absence of debt-funded capex plans is likely to result in improvement in coverage metrics over the medium term. EIL is expected to provide timely and adequate financial support to EEPL, should there be a need.

Liquidity position: Adequate

The liquidity is expected to remain adequate, supported by EEPL's undrawn working capital lines of over Rs. 50.0 crore as on December 31, 2023, and the expectation that EIL will extend timely and adequate financial support, if required. The company had negligible cash and liquid investments of ~Rs. 1.4 crore as on December 31, 2023. As against these sources of cash, the company has only minimal capex plans over the medium term. It has repayment obligation of Rs. 3.1 crore in Q4 FY2024, Rs. 8.5 crore in FY2025 and Rs. 21.2 crore in FY2026 on existing loans.

Rating sensitivities

Positive factors – The rating watch would be resolved once the amalgamation with EESL is complete. ICRA could upgrade EEPL's ratings if it achieves material improvement in its scale of operations, profitability and cash flow position.

Negative factors – The rating watch would be resolved once the amalgamation with EESL is complete. 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 EIL's credit profile or absence of timely and adequate financial support from EIL, as and when required, would also be a negative trigger.

Analytical approach

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

About the company

Exide Energy Private Limited (EEPL) was formed as a joint venture (JV) company between Exide Industries Limited (EIL) and Leclanche SA, based out of Switzerland, to assemble Lithium ion battery packs in India. While it was a 75:25 JV during inception, EIL bought back Leclanche SA's stake in November 2022. The company commenced operations in December 2021 and is involved in assembly of Lithium-ion battery packs in India. It has 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.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	33.4	113.6
PAT	-43.2	-47.7
OPBDIT/OI	-91.2%	-21.5%
PAT/OI	-129.4%	-42.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.6
Total debt/OPBDIT (times)	-1.5	-3.6
Interest coverage (times)	-10.5	-3.1

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of December 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Mar 21, 2024	Mar 27, 2023	Apr 12, 2022	Mar 10, 2022	Feb 01, 2021
1	**Fund-Based-Working Capital**	Long-term	50.00	-	[ICRA]A; &	[ICRA]A; &	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	**Non-Fund-Based-Working Capital**	Long-term	-	-	-	-	-	-	[ICRA]A (Stable)
2	**Term Loan**	Long-term	20.00	19.20	[ICRA]A; &	[ICRA]A; &	[ICRA]A (Stable)	-	-
3	**Working Capital Term Loan**	Long-term	30.00	28.50	[ICRA]A; &	-	-	-	-
4	**Proposed Facilities**	Long-term	-	-	-	-	-	[ICRA]A (Stable)	-
5	**Fund-Based-Working Capital**	Short-term	50.00	-	[ICRA]A2+; &	[ICRA]A2+; &	[ICRA]A2+	-	-
6	**Interchangeable**	Short-term	(50.00)	-	[ICRA]A2+; &	[ICRA]A2+; &	[ICRA]A2+	[ICRA]A2+	-

Source: company; & rating watch with developing implication

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund Based – Working Capital	Simple
Long Term – Term Loan	Simple
Long Term – Working capital term loan	Simple
Short Term – Working capital	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-Based Working Capital	Aug 2020	NA	NA	50.00	[ICRA]A; continues to be on watch with developing implication
NA	Long-term – Term Loans	March 2022	9.00%	FY2029	20.00	[ICRA]A; continues to be on watch with developing implication
NA	Long-term – Working capital term loan	FY2023	9.10%	FY2027	30.00	[ICRA]A; continues to be on watch with developing implication
NA	Short-term-Working Capital	March 2022	NA	NA	50.00	[ICRA]A2+; continues to be on watch with developing implication
NA	Short-term Interchangeable	Aug 2020	NA	NA	(50.00)	[ICRA]A2+; continues to be on watch with developing implication

Source: Company

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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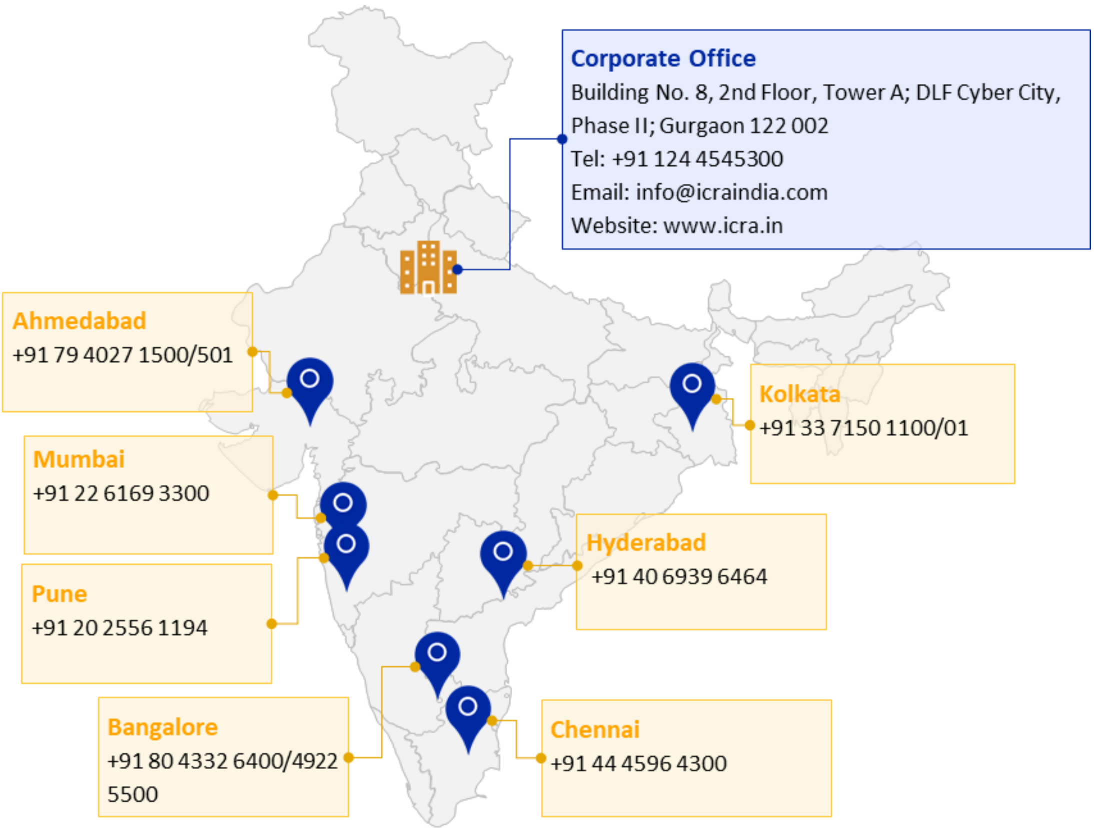

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