

February 01, 2021 ^{Revised}

Exide Leclanche Energy Private Limited: [ICRA]A (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-Based Working Capital	100.00	[ICRA]A (Stable) assigned
Long -term – Non- Fund Based Working Capital^	(20.00)	[ICRA]A (Stable) assigned
Total	100.00	

[^]Sub-limit of fund-based working capital facilities

*Instrument details are provided in Annexure-1

Rationale

The assigned rating takes into account the status of Exide Leclanche Energy Private Limited (ELEPL) as an 80% subsidiary of Exide Industries Limited (EIL, rated [ICRA]AAA (Stable)/A1+), which commands a leadership position in the domestic lead acid battery (LAB) industry. Besides, the company has access to the Lithium-ion battery (LIB) technology through a technical agreement with Leclanche SA, which holds the balance 20% stake in ELEPL and is experienced in manufacturing Lithium ion cells and batteries for the European market. The rating considers the strategic importance of ELEPL in EIL's long-term business prospects and its competitive advantage for being one of the first movers in starting a LIB manufacturing facility in India. The rating also notes that the project being set up has been funded entirely by equity, which would keep the company's capital structure at comfortable levels and the overall banking commitments limited over the next few years.

The rating is, however, constrained by the company's start-up nature of operations and its low revenue visibility over the medium term. While the long-term demand outlook for LIBs remains promising, the short-to-medium term demand would depend on the pace of adoption of electric vehicles (EV), which remains uncertain as on date, given their high upfront costs and unavailability of adequate charging infrastructure in India. Nevertheless, the company can leverage the business position of EIL and its sales network to gain a foothold in this market. ICRA estimates that ELEPL would report losses at least over the next couple of years because of its high overhead costs and limited scale-up in operations during this period. The projected operating loss would result in adverse debt coverage indicators and depressed return on capital employed. Notwithstanding the same, ELEPL's overall liquidity position would remain adequate as the company has a strong financial flexibility for being a strategic subsidiary of EIL. Moreover, ICRA expects timely financial support from EIL, given the importance of ELEPL to the long-term business prospects of EIL.

Key rating drivers and their description

Credit strengths

Strong credit profile of EIL a positive – ELEPL is promoted by EIL (rated [ICRA]AAA (Stable)/A1+), which has a leadership position in the domestic automobile and industrial batteries. While assigning the rating, ICRA has factored in the strong credit profile of the parent and its operational and financial linkages with ELEPL. The Board of Directors (BoD) of ELEPL is largely represented by the board members of EIL that shows the strategic importance of the company within the overall business plans of EIL. ELEPL's access to LIB technology through Leclanche SA, which holds a 20% stake in the company is also a credit positive.

Early mover advantage in the domestic Li-ion battery industry – ELEPL is one of the first companies in India to set up a battery assembling unit. Moreover, the capacity of the plant is large compared to the limited number of existing players, which are mostly start-ups in the battery making field. This is likely to provide the company with a significant competitive advantage.

Project funded by equity only, overall debt exposure to be limited by working capital required in the business – ELEPL's 1.5-gigawatt-hours (GWh) battery assembly unit has been funded entirely through equity. Consequently, the overall debt exposure of the company would be limited to the working capital loans availed by the company. ICRA expects the capital structure of the company to remain comfortable, going forward.

Status of operating as a separate business segment of EIL; to leverage the wide business network of the parent – The LIB manufacturing business of ELEPL is essentially an extended business arm of EIL. The new business has been set up by EIL to future proof its current battery manufacturing business, which is focussed on manufacturing lead acid batteries. ICRA expects ELEPL to benefit from the wide business network of EIL as well as its business position in the domestic battery industry.

Credit challenges

Low revenue visibility as the Li-ion battery market in India is at a nascent stage with a low user base – The user base of Li-ion batteries in India is currently low due to the low penetration of electrical vehicle usage as well as higher upfront costs of using these batteries in stationary applications compared to lead acid batteries. Consequently, the overall timeline of scaling up of ELEPL's operations is uncertain as on date, which results in a low revenue visibility.

Debt coverage indicators to remain adverse in the near term due to projected operating loss – ELEPL is likely to report operating losses at least over the next couple of years of its operations due to its large overhead costs and limited scaling up of operations during this period. The projected operating loss would result in adverse debt coverage indicators.

Risks associated with early stages of operations – ELEPL's battery assembling unit is likely to be commissioned within the current financial year. However, given the nascent stage of production, the operation is exposed to the risks associated with an early stage. ICRA would monitor the timeline of stabilisation of the plant and teething troubles (if any) during the initial period.

Weak financial position of JV partner Leclanche SA – EIL's JV partner, Leclanche SA, which is the other promoter of ELEPL, has a weak financial position as indicated by its regular losses in business that had resulted in a negative tangible net worth position of the company as on June 30, 2020. The weak financial position would limit the possibility of fresh fund infusion by Leclanche SA.

Liquidity position: Adequate

ELEPL's liquidity position is adequate because of its unutilised working capital facilities and zero term debt exposure that result in a reduction of its overall banking commitments. Moreover, the company's financial flexibility is high for being a subsidiary of EIL, which has a strong credit profile.

Rating sensitivities

Positive factors – ICRA could upgrade ELEPL's rating if the company is able to scale up its operations with healthy operating profitability.

Negative factors – ELEPL's rating would come under pressure if there is a deterioration in the overall financial profile of EIL. A debt-funded capacity expansion/backward integration in the near term could also be a trigger for a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto component suppliers
Parent/Group Support	ICRA has considered the strategic importance of the LIB manufacturing operations of ELEPL within the overall battery business of EIL. The company is expected to receive both operational and financial support from EIL at least over the initial few years of operations of the company.
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 80:20 joint venture (JV) company between Exide Industries Limited (EIL) and Leclanche SA, based out of Switzerland. The company has been set up to manufacture Lithium ion batteries in India and is expected to commission its 1.5-gigawatt hours (GWh) battery assembling facility in Prantik, Gujarat within FY2021. Once operational, it would procure lithium ion cells of various forms (cylindrical, prismatic and pouch) and technologies from overseas suppliers and assemble the same into modules and battery packs. The finished battery packs would be used in both electric vehicles as well as stationary battery applications.

EIL, incorporated in 1947, is a leading battery manufacturer in India. The company started operations as Associated Battery Makers (Eastern) Ltd., a subsidiary of Chloride Overseas UK, which was acquired by the Rajan Raheja Group in 1993. In 1995, the name of the company was changed to Exide Industries Limited. In 1998, EIL took over the battery business of Standard Batteries Limited (SBL), the then second-largest battery manufacturer in India, along with four of its factories and the Standard Furukawa brand. As on date, EIL has the largest storage-battery manufacturing capacity in India with geographically diversified manufacturing facilities.

Key financial indicators (audited)

ELEPL Standalone*	FY2019	FY2020
Operating Income (Rs. crore)	Not Applicable*	2.2
PAT (Rs. crore)		-19.0
OPBDIT/OI (%)		-746.8%
RoCE (%)		-20.1%
Total Outside Liabilities/Tangible Net Worth (times)		0.2
Total Debt/OPBDIT (times)		-1.0
Interest Coverage (times)		-16.3
DSCR (times)		-14.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

* The company's operations commenced only in FY2020.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					February 01, 2021	-	-	-
1	Fund based bank facilities	Long-term	100.0	-	[ICRA]A (Stable)	-	-	-
2	Non-Fund based bank facilities^	Long-term	(20.0)	--	[ICRA]A (Stable)	-	-	-

^Sub-limit of fund based limits

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

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	100.00	[ICRA]A (Stable)
NA	LT-Non-Fund-based working capital facilities	Aug 2020	NA	NA	(20.00)^	[ICRA]A (Stable)

^sub-limit of fund based facilities

Source: Company

Annexure-1: List of entities considered for consolidated analysis

Not Applicable

Corrigendum

Previously published document dated February 1, 2021 has been corrected with revisions as detailed below:

- 1) Revision in Page 3 : Rating Methodology for Auto component suppliers is added in Applicable Rating Methodologies
- 2) Revision in Page 3 : Key financial indicators for FY2019 updated as Not Applicable (as the company's operations commenced only in FY2020)

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