

February 15, 2021

Nasaka Energy Systems: Ratings reaffirmed; outlook on long-term rating revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	7.50	7.50	[ICRA]BBB+(Stable); reaffirmed and outlook revised to Stable from Negative
Fund based limits – Working Capital	2.0	2.0	[ICRA]BBB+(Stable); reaffirmed and outlook revised to Stable from Negative
Non-fund based- LC/BG	4.0	4.0	[ICRA]A2; reaffirmed
Unallocated	6.50	6.50	[ICRA]BBB+ (Stable)/[ICRA]A2; reaffirmed and outlook revised to Stable from Negative
Total	20.0	20.0	

*Instrument details are provided in Annexure-1

Rationale

In assigning the ratings, ICRA has taken a consolidated view of the financial and operational profiles of Okaya Power Pvt. Ltd. (OPL) and its Group entities—Fujikawa Power¹, Sunoxx International¹, Nasaka Energy Systems¹, and Geon International¹—given the common promoters as well as strong business and financial linkages. Together, these are referred to as the Okaya Group.

The rating action and revision in outlook factors in the Group's adequate financial profile and steady performance in the current fiscal (i.e. FY2021), as demonstrated by healthy revenue growth in 9M FY2021, notwithstanding some disruption to operations in the initial months due to the novel coronavirus (Covid-19)-induced nationwide lockdown. While there has been some moderation in the profit margins in the current fiscal, the overall accrual generation has been steady, resulting in comfortable debt protection metrics. There was some build-up of inventory and debtor levels during the initial period (March–April 2020) of the nationwide lockdown, which led to elevated funding requirements and increased reliance on debt. However, the subsequent months saw considerable decline in debtor levels and optimisation of inventory with recovery in sales gaining traction, improving the Group's liquidity position. Additionally, the ratings continue to factor in Okaya Group's established business position and good brand presence in the lead acid battery industry on the back of its established operational track record of operations, experienced promoters, its wide product portfolio and a well-entrenched distribution and service network. Moreover, the Group's integrated manufacturing setup continues to support its product mix and boosts profit margins.

However, the ratings are constrained by the highly competitive and fragmented nature of the battery industry, which includes a few organised established and numerous unorganised participants. This limits the pricing flexibility of the industry participants, including the Okaya Group. Notwithstanding the same, the Group benefits to some extent on account of its established position in the industry. Additionally, the working capital intensity remains high, driven by the need to maintain sizeable inventory and increasing debtor levels, due to sales being done through wide distribution network and widening of the product base. Moreover, the Group's profitability remains vulnerable to adverse movement in raw material prices and in foreign currency exchange rates (as part of the raw material requirement is being met through imports). However, the growing

¹Rated [ICRA]BBB+(Stable)/[ICRA]A2

level of exports creates a natural hedge against forex risk to some extent. Also, there is revenue concentration with high contribution from the inverter battery sub-segment (60–70% of total revenue), exposing it to the inherent seasonality in demand. However, the same has declined in the recent years on the back of increased revenue contribution from newer product segments (lithium-ion batteries, electric vehicle (EV) charging stations, solar street lighting projects, etc). While these segments are likely to drive the future revenue growth, the Okaya Group's ability to scale up these segments alongside sustaining its profit margins remains to be seen. Further, as most of the Group's entities are constituted as partnership firms, it remains exposed to the inherent risks therein. However, the management is looking towards the possible merger/amalgamation of various Group entities in the near future to streamline the Group structure.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the Okaya Group will continue to benefit from its established brand, integrated manufacturing setup and wide product portfolio, enabling it to register steady growth and sustain profit margins.

Key rating drivers and their description

Credit strengths

Established business position with good brand presence – The Group is among the leading players in the battery industry, supported an established track record of several decades, experienced promoters and a diverse product base. These factors have enabled it to develop good brand presence, especially in northern India.

Integrated manufacturing setup supports product mix and profit margins – The Group has sizeable battery manufacturing capacities and an integrated manufacturing setup with capacities to manufacture key battery components, assemble and charge batteries and recycle lead. The integrated nature of manufacturing setup also supports its profit margins. The Group has developed in-house R&D capabilities for product development and customisation in both the battery as well as the energy storage space, which has enabled it to develop a wide product base. Inverter batteries apart, the Group has added new segments, such as batteries for solar lighting, e-rickshaws, lithium-ion batteries, EV charging stations, etc. The Okaya Group has also secured sizeable orders for setting up of EV charging stations across various states in the country.

Wide distribution and servicing network; growing level of exports – The business operations are supported by a wide distribution and servicing network, which is common for all Group entities. This coupled with its strong presence has enabled the Group to scale up its operations and expand its presence across all regions of the country. Moreover, export revenues have increased in the recent years, resulting in diversification of the revenue stream to some extent.

Financial profile remains adequate; healthy growth in current fiscal – The Group's adequate financial profile as marked by steady revenue growth, healthy profit margins, moderate gearing and comfortable debt protection metrics. Despite some disruptions to operations in the initial months of the current fiscal due to the pandemic/nationwide lockdown, the Okaya Group has registered healthy growth in the current fiscal thus far, with revenues of ~ Rs. 700 crore in 9M FY2021 (against Rs. 610 crore in 9M FY2021) with the momentum likely to be sustained in the current fiscal and in the medium term. Profit margins, despite having witnessed some moderation, continue to be supported by the Group's integrated nature of operations and well-established brand presence.

Credit challenges

Intense competition – The battery industry is highly competitive and the Okaya Group faces stiff competition from the unorganised sector as well as organised sector, which is dominated by players like Exide Industries Limited, Luminous Power Technologies and Amara Raja Batteries. While this limits pricing flexibility of the industry participants, including the Okaya Group, it benefits to an extent on account of its established brand presence.

High working capital intensity because of high inventory and debtor levels – The high inventory levels, given the large number of products (in terms of specifications) and sales being done through a wide distribution network spread across multiple states, coupled with increasing debtor levels has led to high working capital intensity. There was a build-up of inventory and debtor levels during the initial months of the nationwide lockdown, which led to elevated funding requirements and increased reliance on debt. However, there was considerable recovery in debtor collection and optimisation of inventory with recovery in sales in the subsequent months.

Profitability remains susceptible to raw material and foreign exchange volatility – The Group’s profitability remains exposed to adverse movements in prices of key raw material, i.e. lead. Moreover, as a part of the raw material requirement is met through imports, the Group’s profitability remains exposed to foreign exchange volatility. However, as it is involved in exports, there is a natural hedge against the foreign exchange risk. Notwithstanding exposure to forex and raw material price increases, the Group is largely able to pass on the increase in costs benefiting from its established business position in the industry.

Concentration in inverter battery sub-segment; albeit some decline in recent years – Despite widespread application and manufacturing capabilities, the Okaya Group’s revenues remain concentrated on the inverter battery sub-segment. This exposes the Group’s top line to the seasonality in demand inherent to this segment. However, growth from other product segments, such as lead acid batteries for e-rickshaw and solar applications, and lithium-ion batteries has led to a decline in the concentration on the inverter battery segment to 60–70%. Moreover, the same is likely to decline further with increased revenue contribution from other segments over the next few years.

Risks inherent in partnership firms– Given that some of the Group entities are partnership firms, these remain exposed to the inherent risks of limited liability, capital withdrawals, etc. There have been sizeable capital withdrawals in most of the entities in the past. However, the rating factors in the Group’s consolidation plans to make the structure leaner and the management’s guidance that there will not be any capital withdrawals going forward.

Liquidity position: Adequate

The Group’s liquidity is **adequate** supported by steady internal accrual generation, free cash (around ~Rs. 12 crore of December 2020) and undrawn bank lines. Due to pandemic-related business uncertainties the Group had initially availed the first round of moratorium from the banks along with some conversion of non-fund based limits into fund-based limits, as there was adequate drawing power available. However, strong recovery in operations coupled with reduction in debtor levels in subsequent months had led to an improvement in the liquidity position. This is also demonstrated by part prepayment of term loans of the Group in the current fiscal. Its internal accruals are expected to be more than sufficient to meet its debt servicing obligations over the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Group demonstrates strong growth in its revenues and improvement in its profit margins on a sustained basis, without any material deterioration in its working capital cycle. Additionally, consolidation of various partnership firms of the Group into a private limited company, resulting in a leaner Group structure and restricting the possibility of capital withdrawals, could lead to a rating upgrade.

Negative factors – Ratings could be downgraded if there is a considerable decline in revenues, profit margins and cash flow generation on a sustained basis. Additionally, stretching of working capital cycle and sizeable capital withdrawals on a sustained basis leading to weakening of debt protection metrics could also lead to a ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various Group entities (as mentioned in Annexure-2), given the close business, financial and managerial linkages among the same

About the company

NES, a part of the Okaya Group, is a partnership firm promoted by members of the Gupta family. It was set up in 2009 for manufacturing/assembling of air and water purifiers. The manufacturing unit of the firm is in Baddi, Himachal Pradesh.

Okaya Group is involved in manufacturing of batteries (for inverters, UPS, solar and automotive segment) and water and air purifiers. While OPL primarily acts as the marketing and distribution arm of the Group, other entities are involved in manufacturing activity. The Group's manufacturing facilities are in Baddi (Himachal Pradesh). The shareholding of all Group entities is completely held by members of the Gupta family. The family also holds a 50% stake in the Microtek Group, an established inverter and UPS manufacturer.

In FY2020, on a consolidated basis, the Group reported a net profit of Rs. 87.4 crore on an operating income (OI) of Rs. 852.1 crore compared to a net profit of Rs. 70.2 crore on an OI of Rs. 826.5 crore in the previous year.

Key financial indicators – Okaya Group (Consolidated)

	FY2019	FY2020
Operating Income (Rs. crore)	826.5	852.1
PAT (Rs. crore)	70.2	87.4
OPBDIT/OI (%)	15.7%	15.3%
RoCE (%)	27.5%	23.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.4
Total Debt/OPBDIT (times)	1.8	2.0
Interest Coverage (times)	6.9	5.6
DSCR (times)	15.3	3.2

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)

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Rating (FY2021)					Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) – Oct 31, 2020	Current Rating	Earlier Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
				Date & Rating		Jan 08, 2020	Dec 23, 2019			
				Feb 15, 2021	Apr 20, 2020					
1	Term Loans	Long Term	7.50	6.50	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+&	[ICRA]BBB+ (Stable)	-	-
2	Fund based limits – Working capital	Long Term	2.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+&	[ICRA]BBB+ (Stable)	-	-
3	Non-fund based – LC/BG	Short Term	4.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2&	[ICRA]A2	-	-
4	Unallocated	Short Term/ Long Term	6.50	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+&/ [ICRA]A2&	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-

& - under watch with developing implications

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	Term Loans	2017-18	8-9.5%	2023	7.50	[ICRA]BBB+(Stable)
NA	Fund based limits – working capital				2.00	[ICRA]BBB+(Stable)
NA	Non-fund based – LC/BG				4.00	[ICRA]A2
NA	Unallocated				6.50	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Fujikawa Power	-	Full Consolidation
Sunox International	-	Full Consolidation
Geon International	-	Full Consolidation
Nasaka Energy Systems	-	Full Consolidation
Okaya Power Pvt. Ltd.	-	Full Consolidation

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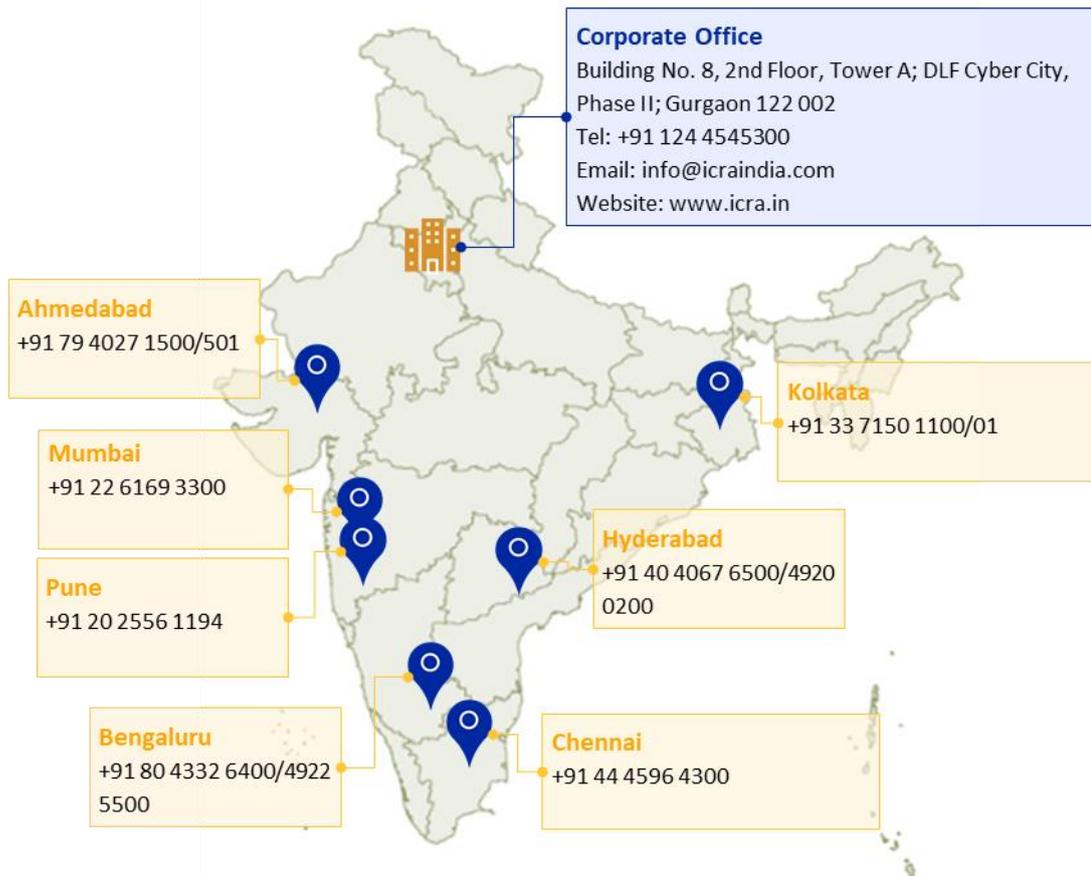
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