

June 30, 2021

Exide Industries Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	300.00	300.00	[ICRA]AAA (Stable); reaffirmed
Non-fund-based Limits	700.00	700.00	[ICRA]AAA (Stable); reaffirmed
Unallocated Limits	-	300.00	[ICRA]AAA (Stable); assigned
Commercial Paper Programme	50.00	50.00	[ICRA]A1+; reaffirmed
Total	1,050.00	1,350.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings factors in the strong financial profile of Exide Industries Limited (EIL), as indicated by its comfortable capital structure and debt protection metrics, and its strong market position in the domestic lead-acid battery industry. The ratings continue to factor in EIL's diversified revenue base across multiple end-user industries (automobile, power, telecom, retail and others) and customer segments (Original Equipment Manufacturers, or OEMs, and replacement-market). With this diversified presence, the company's revenue and profitability are relatively protected from downturn in any specific segment. ICRA also notes EIL's recent foray into the lithium-ion battery (LIB) manufacturing business (by forming a joint venture with the Switzerland-based, Leclanche SA), which would help it leverage any potential disruptions that can be caused by the emergence of electric vehicles (EVs). Going forward, ICRA expects the company to sustain its growth trajectory and its operating margin.

ICRA also notes that the company's financial risk profile has remained robust, driven by healthy cash accruals, calibrated capex and investments. Its healthy capital structure and debt protection metrics is illustrated by a Gearing and Net Debt/ OPBDITA of less than 0.5 time in recent years. The company's liquidity position has remained strong, as reflected by its conservative capital structure as well as a sizeable cash and liquid investments. ICRA also notes that any large capex that might be planned, going forward, to foray into backward or forward integration will be a key rating monitorable. ICRA expects EIL to calibrate its capex outgo and any investments in its subsidiary, Exide Life Insurance, with the internal cash generation. In the absence of any major capex/investment plans and track record of conservative financial policy followed by the management, the company is likely to remain net-debt free over the medium term.

ICRA, however, takes cognizance of increased competition in the domestic industrial battery segment, which exerts pressure on the company's overall margins. Nevertheless, the company's sustained investments in technological improvements, which are likely to help keep costs under control, are likely to support its margins despite the pricing pressure. Addition of capacity in its subsidiary, Chloride Metals Limited, is also expected to be value accretive to the Group, going forward. While ICRA notes that that battery segment has inherent regulatory risks, especially on account of the hazardous nature of its lead recycling operations, the company's strong track record and diversified presence mitigates this risk to an extent.

The Stable outlook reflects ICRA's expectations that EIL will continue to benefit from its established position in the domestic market, resulting in healthy cash accruals leading to maintenance of strong debt protection metrics.

Key rating drivers and their description

Credit strengths

Dominant market position in the automobile batteries market – EIL is the market leader in the domestic automobile battery industry, both in the OEM as well as in the replacement battery space. The company's long presence in the industry, its brand-building initiatives coupled with its product quality provided EIL with a strong position in the industry.

Diversified revenue base across multiple end-user industries – EIL sells its batteries to a large customer pool, spanning across the automobile and industrial battery segments. Its industrial battery customers are primarily from sectors like power, railways, telecom, solar projects, etc. ICRA notes that most of the end-user industries are cyclical in nature and, hence, are exposed to business downturns, but EIL's diversified user base mitigates demand risks to some extent. Further, with the JV with Leclanche SA, EIL has diversified its presence by entering into the domestic lithium-ion battery segment as well.

Strong financial risk profile, with negligible debt and healthy cash accruals – Healthy cash accruals over the years coupled with a net debt-free status ensures a healthy financial risk profile. EIL's healthy capital structure and debt protection metrics is illustrated by TOL/TNW and Net Debt/OPBDITA of less than 0.5 time in recent years. The company's liquidity position has remained strong, as reflected by its conservative capital structure as well as sizeable cash and liquid investments. ICRA expects EIL to calibrate its capex outgo and any investments in its subsidiary, Exide Life Insurance, with the internal cash generation. With healthy cash accruals projected from the business, EIL's financial risk profile would continue to remain strong.

Credit challenges

Intense competition from organised and unorganised players – EIL's business margins have been under pressure because of intense competition in the industrial battery segment and emergence of new players in the auto segment in recent years. However, the company has maintained stable operating margins and pass on the price escalation to its customers. Nonetheless, EIL is partially exposed to increasing lead prices as its ability to pass on such price hikes is constrained by competition, particularly in the automobile battery segment.

The JV with Leclanche SA - Exide Leclanche Energy Private Limited, is likely to start by assembling LIBs in India in the current financial year with cells sourced from overseas, and gradually set up backward integration facilities for manufacturing cells. EIL's strong brand position, its wide marketing and sales network, along with Leclanche SA's technical competence are likely to provide an early mover advantage to the JV in the domestic EV battery market.

Hazardous nature of lead-recycling operations – Lead, a highly toxic and polluting material, is the primary raw material for manufacturing batteries. Hence, handling lead requires adherence to pollution control norms and EIL has to incur additional costs for managing the environmental impacts of the material. Nonetheless, the company's track record and diversified presence mitigates this risk to an extent.

Liquidity position: Strong

Exide's liquidity position is strong, supported by cash and bank balances and liquid investments of over Rs 1,000 crore and domestic bank lines of nearly Rs. 300 crore (which has been sparingly utilised), along with healthy accruals from business, should help it to maintain strong liquidity. With its moderate capex plans and with the business expected to chart a stable growth trajectory in the medium term, EIL's free cash flows are estimated to remain robust. However, unusually large dividend outflows and/or significant debt-funded capex may pressurise its liquidity position and, thus, will remain a key monitorable.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The company’s ratings can be downgraded in case of a sharp decline in its market position, resulting in sustained weakening in operating profitability or cash accruals. Weakening in net-debt/OPBDITA above 0.75 time on a sustained basis will also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of EIL. However, Exide Life Insurance Company Limited (Exide Life) has been excluded from the consolidated financials to make a distinction between the manufacturing business and the insurance business. The analysis of EIL, however, considers the ongoing and future funding support likely to be extended by it to the above entity. The company’s subsidiaries and step-down subsidiaries are all enlisted in Annexure-2.

About the company

Exide Industries Limited (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 company was renamed as 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 (Consolidated; excluding Exide Life)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	10182.6	10358.0
PAT (Rs. crore)	771.5	734.1
OPBDIT/OI (%)	13.2%	13.2%
PAT/OI (%)	7.6%	7.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.4
Total Debt/OPBDIT (times)	0.1	0.3
Interest Coverage (times)	66.7	41.7

Source: Company Annual Reports; ICRA research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: Some figures are adjusted as per ICRA (including adjustments for Exide Life)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jun 30, 2021	May 13, 2020	-	March 18, 2019	
1	Fund-based Limits	Long-term/Short-term	300.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	[ICRA]AAA (Stable)	
2	Non-fund-based Limits	Long-term/Short-term	700.00	*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	[ICRA]AAA (Stable)	
3	Unallocated Limits	Long-term/Short-term	300.00	-	[ICRA]AAA (Stable)	-	-	-	
4	Commercial Paper Programme	Short-term	50.00	-	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	

*Not Available

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Limits	Simple
Non-fund-based Limits	Simple
Unallocated Limits	Not Applicable
Commercial Paper Programme	Very 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	Fund-based Limits	NA	NA	NA	300.00	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	Non-fund-based Limits	NA	NA	NA	700.00	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	300.00	[ICRA]AAA (Stable)/ [ICRA]A1+
NA*	Commercial Paper Programme	NA	NA	NA	50.00	[ICRA]A1+

Source: Company, * Not availed

Annexure-2: List of entities considered for consolidated analysis

Company Name	EIL Ownership	Consolidation Approach
Chloride Metals Limited	100%	Full Consolidation
Chloride Power Systems and Solutions Limited	100%	Full Consolidation
Chloride International Limited	100%	Full Consolidation
Chloride Batteries S.E. Asia Pte Limited	100%	Full Consolidation
Espex Batteries Limited	100%	Full Consolidation
Associated Battery Manufacturers (Ceylon) Limited	61.5%	Full Consolidation
Exide Leclanche Energy Private Limited	80.2%	Full Consolidation

Source: EIL Annual Report

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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Branches



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