

June 27, 2022

Exide Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits - Long Term	300.00	300.00	[ICRA]AAA (Stable); reaffirmed
Non-Fund Based - Long Term	700.00	700.00	[ICRA]AAA (Stable); reaffirmed
Unallocated – Long Term	300.00	300.00	[ICRA]AAA (Stable); reaffirmed
Commercial Paper – Short Term	50.00	50.00	[ICRA]A1+; reaffirmed
Total	1,350.00	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, UPS, solar, telecom, traction, power and others) and customer segments (Original Equipment Manufacturers, or OEMs, replacement market and exports). With its diversified presence, the company's revenues are relatively protected from downturn in any specific segment. ICRA also notes EIL's recent foray into the lithium-ion battery pack assembly through its subsidiary Exide Leclanche Energy Private Limited and proposed backward integration into lithium-ion battery cell manufacturing, which would help leverage any potential disruptions that can be caused by the emergence of electric vehicles (EVs).

ICRA notes that EIL's cash flows are exposed to the variability in lead prices, due to timing difference in passing on any fluctuation in lead prices to customers. With sharp increase in lead prices in the last few quarters and inability to pass on the same completely, EIL's consolidated operating margins declined by 230 bps to 10.9% in FY2022 from 13.2% in FY2021. Any further increases in raw material and other costs, or increase in competitive intensity, will remain headwinds for EIL's margins, going forward; although the company's several cost optimisation initiatives in supply-chain, production and distribution network revamping are likely to mitigate any adverse impact to an extent. Also, the company has significant capex plans of over Rs. 4,000 crore in total for the period FY2023-FY2025, with a large portion of it being for the proposed lithium-ion battery cell manufacturing facility. However, majority of it is likely to be funded through internal accruals and this is expected to support the capital structure and coverage metrics, going forward. EIL has long-term investments in HDFC Life Insurance Company Limited, fair valued at Rs. 4,683.5 crore as on March 31, 2022.

The battery space has inherent regulatory risks, especially on account of the hazardous nature of its lead recycling operations. Thus, the company is bound by strict pollution control norms for handling lead. Although any deviation in the same could result in reputational risks and other penalties for the company, historical absence of pollution-related issues provides comfort to a large extent.

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 replacement battery space. The company's long-standing presence, its distribution

network/ brand and product quality have resulted in strong position for EIL in the domestic battery segment. EIL currently assembles lithium-ion battery packs used in EVs in its subsidiary, Exide Leclanche Energy Private Limited. Further, the company is looking at backward integrating into lithium-ion battery cell manufacturing over the medium term, through a subsidiary.

Diversified revenue base across multiple end-user industries in the industrial segment – Apart from the automobile battery segment, EIL sells its batteries to a large customer pool, spanning across the automobile and industrial battery segments. Further, its industrial battery customers are from diversified sub-segments including UPS, solar, telecom, traction, power etc. ICRA notes that most of the end-user industries are cyclical in nature. Hence, EIL's industrial segment revenues are exposed to business downturns, although EIL's diversified user base mitigates demand risks to a large extent. EIL's industrial segment revenues have witnessed a compounded annual revenue growth of 9.9% for FY2018-FY2022.

Strong financial risk profile, with negligible debt and healthy cash accruals – EIL has remained net debt negative for the last several years, aided by healthy accruals. At the consolidated level, the company's total net cash accruals for the period FY2018-FY2022 stood at over Rs. 4,000 crore net cash accruals, and it had sizeable cash and liquid investments of Rs. 910.5 crore as against a consolidated gross debt of Rs. 532.0 crore (including lease liabilities of Rs. 310.3 crore) as on March 31, 2022. The net debt negative position has resulted in strong capital structure and coverage metrics for EIL. ICRA notes that the company also has long-term investments in HDFC Life Insurance Company Limited, fair valued at Rs. 4,683.5 crore as on March 31, 2022. EIL has significant capex plans of over Rs. 4,000 crore in total for the period FY2023-FY2025, with a large portion of it being for the proposed lithium-ion battery cell manufacturing facility. However, majority of it is likely to be funded through internal accruals and this is expected to support the capital structure and coverage metrics, going forward.

Credit challenges

Commodity inflation remains a key headwind for margins, although the company's cost saving initiatives are likely to mitigate the impact to an extent – EIL's cash flows are exposed to the variability in lead prices, due to timing difference in passing on any fluctuation in lead prices to customers. ICRA notes that EIL is typically the price setter in the replacement battery market, but any delay in price revision in an increasing raw material price regime, temporarily impacts the cash flows of the company. In FY2022, the company had undertaken several price increases with sharp increase in raw material prices. The company has also undertaken several cost optimisation initiatives in its supply-chain, production and distribution network. However, these have been inadequate to pass on the raw material price increase entirely, thus impacting margins. The company's consolidated operating margins declined by 230 bps to 10.9% in FY2022 from 13.2% in FY2021. Any further increases in raw material and other costs will remain headwinds for EIL's margins going forward.

Competition from the other organised and unorganised players - EIL witnesses competition both in the auto and industrial battery segments. In the replacement segment, the company also witnesses competition from the unorganised segment. The company's long presence, its distribution network/brand and product quality mitigate the risk to an extent. Further, the company has also undertaken several cost optimisation initiatives in its supply-chain, production and distribution network to mitigate margin pressures that could arise from competitive threats, to a large extent. Also, EIL currently assembles lithium-ion battery packs in its subsidiary, Exide Leclanche Energy Private Limited, and is looking at backward integrating into lithium-ion battery cell manufacturing over the medium term, for early mover advantage in the EV battery segment.

Hazardous nature of lead-recycling operations - Lead, a highly toxic and polluting material, is the primary raw material for manufacturing batteries. Akin to other industry players, the company is bound by strict pollution control norms for handling lead. Although any deviation in the same could result in reputational risks and other penalties for the company, historical absence of pollution-related issues provides comfort to a large extent.

Liquidity position: Strong

EIL's liquidity position is strong, supported by its healthy accruals of over Rs. 4,000 crore, sizeable cash and bank balances and liquid investments of over Rs 900 crore (as on March 31, 2022) and sanctioned fund-based working capital lines of Rs. 300

crore (which has been minimally utilised). The company has significant capex plans of over Rs. 4,000 crore in total for the period FY2023-FY2025, with a large portion of it being for the proposed lithium-ion battery cell manufacturing facility. However, majority of it is likely to be funded through internal accruals. The company's liquidity position is expected to remain strong over the medium term, supported by its strong operational profile and exceptional financial flexibility.

Rating Sensitivities

Positive factors – Not applicable

Negative factors – The company's ratings can be downgraded in case of considerable weakening in its market position, resulting in sustained deterioration in operating profit margins and cash accruals. Also, significant cost or time overrun in the lithium-ion project capex leading to weakening of net debt/OPBDITA above 0.75 times on a sustained basis could result in a rating downgrade.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
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 Exide Life insurance business has been sold by EIL, with effect from January 01, 2022. Following this, the consolidated financials only comprise the manufacturing business.

About the Company

Exide Industries Limited, 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 and 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 (audited)

Consolidated (excluding Exide Life)	FY2021	FY2022
Operating income (Rs. crore)	10,358.0	12,789.2
PAT (Rs. crore)	734.1	4,357.8
OPBDITA/OI	13.2%	10.9%
PAT/OI	7.1%	34.1%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDITA (times)	0.3	0.4
Interest coverage (times)	41.7	23.0

Source: Company, ICRA Research, BSE; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

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 4 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					June 27, 2022	June 30, 2021	May 13, 2020	-	March 18, 2019
1	Fund-based Limits	Long-term	300.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	[ICRA]AAA (Stable)
2	Non-fund-based Limits	Long-term	700.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	[ICRA]AAA (Stable)
3	Unallocated Limits	Long-term	300.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-
4	Commercial Paper Programme	Short-term	50.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+

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 are available on ICRA's website: www.icra.in

Annexure I: 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)
NA	Non-fund-based Limits	NA	NA	NA	700.00	[ICRA]AAA (Stable)
NA	Unallocated Limits	NA	NA	NA	300.00	[ICRA]AAA (Stable)
NA	Commercial Paper Programme*	NA	NA	NA	50.00	[ICRA]A1+

Source: Company *Not placed

Annexure II: List of entities considered for consolidated analysis

Company Name	EIL's 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	84.9%	Full Consolidation
Exide Energy Solutions Limited	100%	Full Consolidation
CSE Solar Sunpark Maharastra Private Limited	27.2%	Equity method
CSE Solar Sunpark TamilNadu Private Limited	27.2%	Equity method

Source: Company

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