April 20, 2020

Okaya Power Pvt. Ltd.: Ratings removed from watch with developing implications and Negative outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	10.00	10.00	[ICRA]BBB+(Negative); removed from watch with developing implications and Negative outlook assigned
Fund based limits – Working Capital	127.00	127.00	[ICRA]BBB+(Negative); removed from watch with developing implications and Negative outlook assigned
Non-fund based- LC/BG	135.00	135.00	[ICRA]A2; removed from watch with developing implications
To tal	**272.00**	**272.00**	

**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 Power[1], Sunoxx International[1], Arush Industries[1], Nasaka Energy Systems[1], Geon International[1], Kenzo International, A.G. Peripherals and S.G. International – given the common promoters, strong business and financial linkages. Together, these are referred to as the Okaya Group.

The rating action and outlook factors in the adverse impact of the unprecedented nationwide lockdown due to novel coronavirus (Covid-19) pandemic on the Okaya Group's operations during its peak sales period. This is demonstrated by the moderation in sales and the resultant build-up of inventory and receivable levels, leading to increased reliance on debt and exerting pressure on the Group's liquidity position. In case the lockdown continues for an extended period, the Group's sales, especially inverter batteries (major business segment), are likely to witness further moderation, given the inherent seasonality in demand. This is likely to exert further pressure on the Group's cash flow generation and credit profile. The risk is further exacerbated by its debt repayment obligations and sizeable committed payments (against letter of credit) due in the near term. The ratings also continue to factor in the stiff competition in the fragmented battery industry and vulnerability of the Group's profit margins to fluctuations in raw material prices and adverse movement in foreign currency exchange rates. Moreover, most of the Group entities are constituted as partnership firms and are thus 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 ratings, however, continue to draw comfort from the Okaya Group's established position and strong brand presence in the lead acid battery industry, supported by its long track record of operations and experience of its promoters in the industry, its wide product portfolio and a well-entrenched distribution and service network. Over the years, the Group has developed an integrated manufacturing setup, with capacities to manufacture key battery components, lead recycling and assembly and charging of batteries. These factors, coupled with benefits of economies of scale on the back

[1]*Rated [ICRA]BBB+(Negative)/[ICRA]A2*

of steady revenue growth, have supported profit margins and internal accrual generation. The Okaya Group has entered new product segments such as lithium-ion batteries, energy storage solutions services and export of batteries. The Group's ability to scale up operations, while sustaining its profit margins amid subdued economic activity, remains to be seen.

Key rating drivers and their description

Credit strengths

Established brand and wide distribution network – The business is managed by the members of the Gupta family, who have over two decades of experience in the battery industry. Moreover, over the years, the Group has been able to develop a well-entrenched distribution and service network as well as expand its product portfolio. These factors have enabled the Group to establish a strong brand presence, especially in the inverter battery segment.

Integrated manufacturing setups – 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. Moreover, it has developed in-house R&D capabilities for product development and customisation in both the battery as well as the energy storage space. The integrated nature of manufacturing setup supports its profit margins.

Adequate financial profile – Economies of scale, established brand, integrated manufacturing setup and expansion of the product portfolio have led to healthy profit margins for the Group. Moreover, steady internal accrual generation and relatively low fixed capital intensity of the business have resulted in moderate gearing and debt protection metrics in the past. However, some pressure on margins and debt protection metrics could arise in the current fiscal due to continued disruption in its operations, if the lockdown gets extended for a prolonged period.

Credit challenges

Intense competition in industry – The battery industry is highly competitive and fragmented in nature. The Group faces stiff competition from large-to-medium-sized players and numerous unorganised participants. This limits the pricing flexibility of industry participants, including the Okaya Group.

Moderation in sales and elevated funding requirements due to Covid-19 impact – The need to maintain 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 results in higher working capital intensity. Moreover, the disruption to the Okaya Group's operations during its peak sales period, due to the unprecedented nationwide lockdown has led to moderation in sales and resultant build-up of inventory and receivable levels, leading to increased reliance on debt and exerting pressure on liquidity position. In case the lockdown continues for an extended period, the sales of inverter batteries (major business segment for the Group) are likely to witness further moderation, given the inherent seasonality in demand. This is likely to exert pressure on the Group's cash flow generation, liquidity profile and debt protection metrics.

Vulnerability to raw material and foreign exchange volatility – Lead is the main raw material for manufacturing batteries and accounts for around 70% of the total cost. As a result, the profitability of the Okaya Group remains exposed to adverse movements in lead prices. Moreover, as a part of the raw material requirement is met through imports, the company's profitability remains exposed to foreign exchange volatility. The Group is also involved in exports, which creates a natural hedge against the foreign exchange risk. However, the level of exports has been modest thus far.

Concentration in inverter battery sub-segment – 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. Though 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, it remains relatively high at 60-70%. This risk is further accentuated by the ongoing disruption to operations during the peak sales period.

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 during the recent years. 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: Stretched

The Okaya Group's liquidity is **stretched**, given the build-up of inventory and receivable levels in light of disruption in operations due to the ongoing lockdown related to Covid-19 pandemic. This has elevated the funding requirements of the business, translating into high utilisation of working capital limits availed from the bank. In case the lockdown continues for an extended period, it may adversely impact the Group's operations, leading to a significant decline in its cash flows from operations and further pressure on its liquidity position. ICRA also notes the insurance claim recoverable against the loss of inventory owing to fire accident at the Group's office premise in January 2020. Recovery of the same in the near term will support the liquidity position. While the debt servicing for March 2020 has been done by the Group, it has applied for the moratorium for March to May, with expected reversal of debt servicing already done for March. Moreover, it has availed partial interchangeability of non-fund-based limits to fund-based facilities to support its near-term funding requirements. Apart from its debt repayment obligations, the Group has sizeable committed payables (against letter of credit) due in the near term. Thus, its ability to fund the same will be key to tide over the near-term liquidity constraints. The same shall remain a key monitorable for the ratings.

Rating sensitivities

Positive triggers – 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 triggers – The ratings could be downgraded if prolonged lockdown due to the Covid-19 pandemic materially impacts the Group's cash flow generation and liquidity position. Moreover, stretching of working capital cycle and sizeable capital withdrawals leading to deterioration in debt protection metrics may lead to a rating 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

OPL, a part of the Okaya Group, was incorporated in 1987. Promoted by Mr. O. P. Gupta, the Okaya Group is involved in manufacturing 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 activities. The Group's manufacturing facilities are in Baddi (Himachal Pradesh). The shareholding of all Group entities is completely held by the members of the Gupta family. The family holds a 50% stake in the Microtek Group, an established inverter and UPS manufacturer.

In FY2019, on a consolidated basis, the Group reported a net profit of Rs. 77.0 crore on an operating income (OI) of Rs. 827.3 crore compared to a net profit of Rs. 42.3 crore on an OI of Rs. 610.7 crore in the previous year.

Key financial indicators – Okaya Group (Consolidated)

	FY2018	FY2019*
Operating Income (Rs. crore)	610.7	827.3
PAT (Rs. crore)	42.3	77.0
OPBDIT/ OI (%)	13.9%	15.9%
RoCE (%)	20.9%	27.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	1.5
Total Debt/OPBDIT (times)	2.2	1.6
Interest Coverage (times)	6.0	7.1
DSCR	5.0	2.9

**based on audited/unaudited financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Rating	FY2020		FY2019	FY2018
					20-Apr-2020	8-Jan-2020	23-Dec-2019	21-Jan-2019	2-Aug-2017
1	Term Loans	Long Term	10.00	10.00	[ICRA]BBB+(Negative)	[ICRA]BBB+&	[ICRA]BBB+ (Stable)	-	-
2	Fund based limits – Working capital	Long Term	127.00	-	[ICRA]BBB+(Negative)	[ICRA]BBB+&	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable), ISSUER NOT COOPERATING; withdrawn	[ICRA]BBB- (Stable), ISSUER NOT COOPERATING
3	Non-fund based – LC/BG	Short Term	135.00	-	[ICRA]A2	[ICRA]A2&	[ICRA]A2	ICRA]A3, ISSUER NOT COOPERATING; withdrawn	ICRA]A3, ISSUER NOT COOPERATING

&- on 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 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	Term Loans	2017-18	9-9.5%	2023	10.00	[ICRA]BBB+(Negative)
NA	Fund based limits – working capital				127.00	[ICRA]BBB+(Negative)
NA	Non-fund based – LC/BG				135.00	[ICRA]A2

Source: Okaya Power Pvt.Ltd.

Annexure-2: List of entities considered for consolidated analysis

Entity Name	Consolidation Approach
Fujikawa Power	Full Consolidation
Arush Industries	Full Consolidation
Sunoxx International	Full Consolidation
Geon International	Full Consolidation
A.G. Peripherals	Full Consolidation
S.G. International	Full Consolidation
Kenzo International	Full Consolidation
Nasaka Energy Systems	Full Consolidation
Okaya Power Pvt. Ltd.	Full Consolidation

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About ICRA Limited:

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