

June 28, 2024

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 – 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	1,000.00	[ICRA]AAA (Stable); reaffirmed and assigned for enhanced limits
Commercial Paper – Short-term	50.00	50.00	[ICRA]A1+; reaffirmed
Total	1,350.00	2,050.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings for Exide Industries Limited (EIL) factors in ICRA's expectation of a sustained financial performance in the medium term, supported by its dominant market position in lead-acid batteries and early mover advantage in lithium-ion (Li-ion) batteries; diversified revenue base with presence across multiple end-user industries and customer segments; and strong liquidity. The diversified presence in lead-acid batteries protects revenue risks arising from segment/customer specific impacts to a large extent. Further, foray into Li-ion cell manufacturing would help leverage potential disruptions from higher penetration of electric vehicles (EVs) over the medium to long-term.

EIL's consolidated revenues grew by 11.2% in FY2024 to Rs. 16,769.7 crore supported by favourable demand from its end-user segments while its operating margins were maintained at ~11%, aided by EIL's dominant market position, product mix and cost optimisation measures. The company's debt protection metrics and liquidity position remain strong with unencumbered cash and liquid investments of Rs. 581.9 crore as of March 31, 2024. Further, it has an investment of ~Rs. 5,500 crore (as on March 31, 2024) in HDFC Life Insurance Company Limited, providing financial flexibility. Going forward, the company has significant capex plans of Rs. 3,500-4,000 crore for FY2025-FY2026¹, with a large portion of it being for the Li-ion cell manufacturing plant at Bengaluru, Karnataka. Part of the capex is expected to be debt-funded and financial closure for the same has been achieved. ICRA notes that the capex is critical for early mover advantage in the Li-ion cell manufacturing, and despite the relatively high capex, EIL's consolidated capital structure and coverage metrics are expected to remain strong over the medium term.

The battery space has inherent regulatory risks, especially on account of the hazardous nature of its lead recycling operations. Thus, the business remains exposed to strict pollution control norms for handling lead. Although any deviation in the same could result in reputational risks and other penalties for EIL, the company has not had pollution-related issues historically. EIL witnesses competition from organised and unorganised segments in lead-acid batteries, and from imports and other players who have invested in Li-ion cell manufacturing in India. However, the company's established presence, its distribution network/brand and product quality mitigate the risk to an extent in the former, while the relatively high capital intensity, EIL's early mover advantage and its strong distribution/customer network mitigate the latter risk to an extent.

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile supported by its strong business profile and cash accruals, despite significant capex plans over the medium term.

¹ Of the project cost of Rs. 5,200 crore for the Li-ion manufacturing facility, ~Rs. 1,650 crore has been incurred till FY2024 and the remaining is expected to be spent in FY2025. The capex incurred until FY2024 has been entirely funded through equity, while part of the residual capex is expected to be debt-funded.

Key rating drivers and their description

Credit strengths

Strong financial risk profile – EIL’s revenues and earnings remain stable, supported by demand from its end-user segments and healthy market share in the replacement segment. At the consolidated level, the company’s cumulative cash accruals for FY2020-FY2024 stood at over Rs. 5,500 crore, and it had sizeable cash and liquid investments of Rs. 581.9 crore against a consolidated gross debt of Rs. 1,122.9 crore (including lease liabilities of Rs. 425.9 crore) as on March 31, 2024. Further, it has an investment of ~Rs. 5,500.0 crore (as on March 31, 2024) in HDFC Life Insurance Company Limited, providing financial flexibility. EIL has significant capex plans of Rs. 3,500-4,000 crore for FY2025-FY2026, with a large portion of it being for the Li-ion cell manufacturing plant. Part of the capex is expected to be debt-funded and financial closure for the same has been achieved. Despite this capex, EIL’s consolidated capital structure and coverage metrics are likely to remain strong over the medium term.

Dominant market position in the automobile batteries market – EIL is the market leader in the domestic automobile battery industry, both in the original equipment manufacturer (OEM) as well as replacement battery space. The company’s established presence, its distribution network/brand and product quality has resulted in its strong position in the domestic battery segment. EIL, through EESL, assembles Li-ion battery packs used in EVs and is setting up a Li-ion cell manufacturing plant.

Diversified revenue base across multiple end-user industries in the industrial segment – Apart from automobiles, EIL also sells its batteries to the industrial segment (industrial sales grew by 15.9% in FY2024). Further, its industrial battery customers are from diversified sub-segments including UPS, solar, telecom, traction, power, etc. ICRA notes that most of these end-user industries are cyclical in nature. Hence, EIL’s industrial segment revenues are exposed to business downturns, although its diversified user base mitigates demand risk to a large extent.

Early mover advantage in Li-ion cell manufacturing; favourable demand outlook for EVs – While India is one of the large automobile markets globally, its EV industry is still nascent. However, there has been a strong push by both the Central and State Governments for faster adoption of EVs, especially in recent years. ICRA expects EV penetration to be ~25% for two-wheelers (2Ws), ~40% for three-wheelers (3Ws), ~30% for buses, ~20% for light commercial vehicles (LCVs) and ~15% for passenger vehicles (PVs), as a percentage of total sales by 2030. Given the medium to long-term demand prospects for EVs, domestic auto OEMs and ancillaries are investing in developing a local vendor ecosystem, and EIL is one of the early movers in Li-ion cell manufacturing in India. The company is setting up a 6-GWh Li-ion cell manufacturing facility at Bengaluru in the first phase, through its subsidiary, Exide Energy Solutions Limited (EESL), and plans to expand to 12-GWh based on demand, once the first phase is completed. It has tied up with SVOLT Energy Technology Company Limited (SVOLT) for technology license and services. The construction for the first phase of the project is in advanced stages, and it is expected to become operational by Q4 FY2025. While the company does not have any ‘take-or-pay’ agreements with customers, it has signed a non-binding Memorandum of Understanding (MoU) with Hyundai Motor Company and Kia Corporation (South Korea). Further, EIL’s brand equity, established clientele and distribution network is likely to mitigate offtake risks to an extent. Moreover, while the capex is significant, ICRA notes that it is critical to capitalise on opportunities from EVs.

Credit challenges

Sizeable capex plans over the medium term; project exposed to risks of execution, demand/off-take, supply-chain and technology obsolescence – EIL has significant capex plans of Rs. 3,500-4,000 crore for FY2025-FY2026, with a large portion of it being for the Li-ion cell manufacturing plant. Part of the capex is expected to be debt-funded and financial closure for the same has been achieved. Although the project is in advanced stages and no material cost or time overruns have been witnessed thus far, it remains exposed to cost and time overrun risks for the remaining part. Further, significant dependence on imports for sourcing raw materials exposes it to geopolitical and region-specific risks for raw materials. Also, there are risks on the off-take front, given that EV penetration is still in nascent stages and the company does not have any ‘take-or-pay’ agreements, although the non-binding Memorandum of Understanding (MoU) with Hyundai Motor Company and Kia Corporation (South

Korea) mitigates the risk to an extent. While EIL is investing in Li-ion cells, emergence of any alternative battery technologies, such as solid-state batteries, would expose it to obsolescence risks. However, its collaboration with SVOLT for the technology/supply chain and construction contracts being awarded to reputed players mitigate the other risks to an extent. Also, while the capex is sizeable, EIL's consolidated capital structure and coverage metrics are expected to remain strong over the medium term.

Competition from other organised and unorganised players – EIL witnesses competition in its lead-acid battery business across both the auto and industrial battery sectors. In the replacement segment, the company also witnesses competition from unorganised players. Its established 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, the company is expected to witness competition from imports and other players who have invested in Li-ion cell manufacturing in India. The relatively high capital intensity, EIL's early mover advantage and its strong distribution/ customer network, however, mitigate the competition in Li-ion cell manufacturing in India to an extent.

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.

Environmental and Social Risks

Environmental considerations – EIL remains indirectly exposed to climate-transition risks by virtue of its automotive OEM customers, whose manufactured products are used across different fuel powertrains. Accordingly, the prospects for EIL are linked to the ability of its customers to meet tightening emission requirements. The foray into Li-ion cell manufacturing would mitigate these risks to an extent. The company also remains exposed to tightening environmental regulations with regard to waste/recycling and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. EIL has been taking steps to minimise the impact of environmental risks on its operations and carbon footprint, by enhancing its reliance on renewable sources and other energy saving efforts such as adoption of energy-efficient fixtures/equipment and water/battery recycling. The company also recycles lead at the smelting unit of its subsidiary.

Social considerations – Social considerations for EIL relate primarily to maintaining healthy industrial relations and product safety. Attracting and nurturing skilled manpower is critical as it seeks to keep pace with innovation and technological changes. On the product front, vehicle recalls by OEMs because of defective auto parts and any recalls in Li-ion batteries (because of it being a nascent technology) could create additional cost burden and liabilities. The company also has exposure to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, usage of sustainable materials and consumer trends like preference for ride-sharing.

Liquidity position: Strong

EIL's liquidity position is strong, supported by its strong operational cash flows and anticipated healthy accruals (the latter was over Rs. 1,200 crore in FY2024), sizeable cash and bank balances and liquid investments of over Rs. 581.9 crore (as on March 31, 2024) along with sanctioned fund-based working capital lines of Rs. 300.0 crore (which have been minimally utilised). As against these sources of cash, the company has significant consolidated capex plans of Rs. 3,500-4,000 crore for FY2025-FY2026, with a large portion for the proposed Li-ion battery cell manufacturing facility. Part of the capex is expected to be funded through debt, for which EIL is expected to have repayment obligations from FY2026. The company's liquidity position is likely to remain strong over the medium term, supported by its strong operational profile.

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 Li-ion project capex, leading to weakening of debt metrics on a sustained basis, could result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of EIL. Details of subsidiaries/associates are provided in Annexure-II.

About the company

Exide Industries Limited is a leading lead-acid 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 one of the largest storage-battery manufacturing capacities in India with regionally diversified manufacturing facilities. The company is setting up a 6-GWh Li-ion cell manufacturing facility at Bengaluru in the first phase, through its subsidiary, Exide Energy Solutions Limited (EESL), and plans to expand to 12-GWh based on demand, once the first phase is completed. EIL is already present in Li-ion battery pack assembly.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	15,078.2	16,769.7
PAT	822.5	882.3
OPBDIT/OI	10.5%	10.8%
PAT/OI	5.5%	5.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	0.4	0.6
Interest coverage (times)	21.5	15.7

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of May 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				June 28, 2024	June 26, 2023	June 27, 2022	June 30, 2021
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	1000.00	--	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[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	Very 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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	1,000.00	[ICRA]AAA (Stable)
NA	Commercial Paper Programme*	NA	NA	NA	50.00	[ICRA]A1+

Source: Company, *Not placed

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Annexure II: List of entities considered for consolidated analysis

Company Name	EIL's Ownership	Consolidation Approach
Chloride Metals Limited	100%	Full Consolidation
Chloride International Limited	100%	Full Consolidation
Exide Energy Solutions 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
CSE Solar Sunpark Maharashtra Private Limited	27.2%	Equity method
CSE Solar Sunpark TamilNadu Private Limited	27.2%	Equity method

Source: Company, BSE

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