Exide Industries Limited

March 18, 2019

Summary of rated instruments

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
Commercial Paper	50.00	50.00	[ICRA]A1+; Reaffirmed
Total	**1050**	**1050**	

Rationale

The reaffirmation of the ratings considers Exide Industries Limited's (EIL) status as a dominant player in the domestic battery manufacturing industry, the company's healthy revenue growth in 9M FY2019, backed by volume growth, and its strong capital structure and liquidity position. ICRA, however, takes cognisance 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 it in reducing fixed costs going forward, are likely to support its margins despite pricing pressure. With a favourable outlook for domestic automobile sales, EIL's automobile OEM[1] battery sale is likely to register a healthy growth in the short to medium term. Additionally, a favourable demand outlook for batteries in the replacement market is also expected to benefit the top line as well as the bottom line of the company. Contribution margin in the replacement battery market is higher than the OEM battery market. ICRA notes that EIL had undertaken a sizeable capex and investment into its subsidiaries in the last few years. Despite that, the company's liquidity position has remained highly favourable, as reflected by its conservative capital structure as well as a sizeable portfolio of cash and liquid investments as on date. With healthy cash accruals projected from business, EIL's risk profile would continue to remain strong, going forward.

While assigning the ratings, ICRA has factored in EIL's recent foray into the lithium ion battery (LIB) manufacturing business by forming a 75:25 joint venture (JV) with Switzerland-based Leclanche SA. The JV is likely to start by assembling lithium ion batteries in India with cells sourced from overseas. It would gradually manufacture cells in India to ensure backward integration. EIL's strong brand position, its wide marketing and sales network, along with Leclanche SA's technical competence are likely to provide a positive edge to the JV in the domestic LIB market.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that EIL would continue to maintain its dominant position in the domestic battery market. Moreover, with a favourable demand outlook, the company would continue to generate healthy cash from business.

[1] *Original Equipment Manufacturer*

Key rating drivers

Credit strengths

Diversified revenue base across multiple user industries and customers – EIL sells its batteries to a large customer pool, spanning across the automobile and industrial battery segments. The industrial battery customers are primarily from sectors like power, railways, telecom, solar projects etc. Although ICRA notes that most of the user industries are cyclical in nature and hence are exposed to business downturns, a diversified user base mitigates demand risks to some extent.

Dominant market position – EIL is the market leader in the domestic automobile battery industry both in the OEM as well as 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 dominant position in the industry.

Favourable financial risk profile – Strong business accruals over the years, superior business returns, coupled with a debt-free status ensure a healthy financial risk profile to the company.

Focus on reducing production costs and process improvements – EIL's capital expenditure in the last few years have been targeted towards technology upgradation, leading to increased automation in the manufacturing business, lower usage of lead in batteries and a longer product life. In ICRA's view, such steps would control EIL's product costs, maintain quality and also reduce its future costs on product warranty.

Early entrant in the domestic lithium ion battery business – EIL has entered the domestic lithium ion battery business by forming a 75:25 JV with Leclanche SA. Exide's wide marketing network, along with Leclanche SA's technical competence is likely to provide a positive edge to the JV in the domestic lithium battery market.

Credit challenges

Pressure on margins due to competition in the industrial battery segment – EIL's business margins are under pressure because of intense competition in the industrial battery segment. The company's technological initiatives to reduce cost are likely to counter the margin pressure, going forward.

Partial exposure of cash flows to volatile lead prices – EIL is partially exposed to increasing lead prices as the company's ability to pass on such price hike is constrained by competition, particularly in the replacement battery market in the automobile segment.

Hazardous nature of lead-recycling operations – Lead, which is a highly toxic and polluting material, is the primary raw material for manufacturing batteries. Hence handling lead requires adherence to pollution control norms and the company has to incur additional costs for managing the environmental impacts of the material.

Liquidity position

EIL remains debt free as on date. The company is likely to fund its capital expenditure through its internal accruals. Although EIL's liquid investments have been drawn down to an extent, the same is likely to be replenished as cash flows from the technologically improved manufacturing lines materialise. The company's liquidity position is comfortable because of a healthy accrual from the business and undrawn lines of credit.

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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 has been excluded from the consolidated financials to make a distinction between the manufacturing business and the insurance business. The analysis of EIL, however, does consider the ongoing and future funding support likely to be extended by it to the above entity. Such funding support is assessed based on factors such as expected growth in the insurance business, expected losses for which support from EIL might be required, capital adequacy and solvency ratio requirements, besides our expectation that EIL will tend to maintain its 100% ownership of the life insurance business. As on March 31, 2018, the company had seven subsidiaries, that are 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 name of the company was changed to 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.

EIL made a standalone net profit of Rs. 668.4 crore on an operating income of Rs. 9,076.5 crore in FY2018. The company registered a consolidated profit after tax of Rs. 694.1 crore on the back of an operating income of Rs. 12,698.2 crore in FY2018.

In 9M FY2019, EIL (standalone) registered a PAT of Rs. 633.0 crore on an OI of Rs. 7,990.0 crore.

Key Financial Indicators (Audited, Standalone)

	FY2017	FY2018	9M FY2019 (Provisional)
Operating Income (Rs. crore)	7612.6	9076.5	7990.0
PAT (Rs. crore)	693.6	668.4	633.0
OPBDIT/ OI (%)	14.24%	13.71%	13.0%
RoCE (%)	20.37%	19.59%	
Total Debt/ TNW (times)	0.0	0.0	
Total Debt/ OPBDIT (times)	0.2	0.0	
Interest coverage (times)	205.7	189.7	215.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Mar 2019	Date & Rating in FY2018 Feb 2018	Date & Rating in FY2017 Jan 2017	Date & Rating in FY2017 Apr 2016	Date & Rating in FY2016 Apr 2015
1	Fund based limits	Long Term	300.00	-	[ICRA]AAA (Stable)	[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)	[ICRA]AAA (Stable)
3	Commercial Paper	Short Term	50.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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	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	Commercial Paper[2]	NA	NA	NA	50.00	[ICRA]A1+

Source: Exide Industries Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Chloride Metals Limited	100.00%	Full Consolidation
Chloride Power Systems and Solutions Limited	100.00%	Full Consolidation
Exide Life Insurance Company Limited	100.00%	Limited Consolidation
Chloride International Limited	100.00%	Full Consolidation
Chloride Batteries S.E. Asia Pte Limited	100.00%	Full Consolidation
Espex Batteries Limited	100.00%	Full Consolidation
Associated Battery Manufacturers Ceylon Limited	100.00%	Full Consolidation

[2] Yet to be placed

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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.

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