

Press Release

Supreme Batteries Private Limited

June 28, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 48.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.48.00 crore bank facilities of Supreme Batteries Private Limited. The outlook is '**Stable**'.

Supreme Batteries Private Limited (SBPL) is engaged in the business of manufacture of lead alloys and batteries. SBPL is involved in smelting and refining of Lead Alloy and its allied products such as Pure Lead, Selenium Lead Alloy, Calcium Lead Alloy, Lead Sub Oxide and Red Lead Oxide among others. SBPL also manufactures lead acid storage batteries. SBPL's facility is located in Hyderabad (Telangana) with an installed capacity to manufacture 18000 metric tonnes per annum (MTPA) of lead alloys and 1.2 lakh units of batteries per annum. SBPL was incorporated in 2001, and was promoted by Mr. Vimal Kumar Aggarwal, Mr. Anuj Aggarwal and Mr. Ajay Goyal. SBPL commenced its commercial operations in September 2009.

Key Rating Drivers

Strengths

• Experienced management and diversified product portfolio

SBPL promoters possess over three decades of experience in the lead alloy and lead acid battery manufacturing industry. The company benefits from established relationship with players in the battery manufacturing industry such as Exide Industries Limited, HBL Power Systems Ltd, Amara Raja Batteries Limited, Livguard Energy Technologies. The product portfolio contains different lead alloys such as Pure Lead, Selenium Lead Alloy, Calcium Lead Alloy, Lead Sub Oxide and Red Lead Oxide. The batteries manufactured by the company find application in ups, inverters, automobiles, solar and e-rickshaw and two wheelers. The company is also developing Lithium Ion batteries which find application in E-Bikes, E-Rickshaws, Four Wheeler Cars and UPS. The diversified portfolio along with reputed clientele helped the company in improving its revenues at a compound annual growth rate (CAGR) of 14 percent over four years through FY2018 at Rs.164.0 crore (Provisional).

The company also benefits from stable growth prospects, since Indian market for rechargeable batteries is expected to grow at a steady pace. With more urbanisation and increase in standard of living of people, power issues in few geographies lead to demand for alternate/back-up power sources in the form of generator sets, power inverters, UPS. Lead alloys find its primary application in the manufacturing of lead acid batteries for its use in automobiles, invertors, solar power systems. Acuite believes that the market potential, healthy and reputed client base and diversified product portfolio of SBPL are expected to support in improvement of business risk profile over the medium term.

• Moderate financial risk profile

The financial risk profile is marked by moderate net worth, moderate gearing (debt-to-equity) and debt protection metrics. The net worth is moderate at Rs.21.54 crore as on 31 March, 2018 (Provisional) against Rs.17.82 crore in 31 March, 2017. Gearing is moderate at 1.63 times as of March 31, 2018 (Provisional), improved from 1.75 times as of March 31, 2017; however, its total outside liabilities to total networth is high at 2.6 times (Provisional) in FY2018 being working capital intensive operations. The net cash accruals in FY2018 of about Rs.4.50 crore against repayment obligations of

about Rs.1.00 crore, and marginal unutilised balances of about 10 percent in the working capital limits are expected to keep the liquidity comfortable. Also, debt protection metrics are moderate with interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 2.10 times and 0.13 times respectively for FY2018 (Provisional). As there is no significant capex envisaged over the medium term and with improving revenues and diversified product portfolio, Acuite believes that the financial risk profile is expected to improve over the medium term.

Weaknesses

• Working capital intensive operations

The operations are working capital intensive as evident from Gross Current Asset (GCA) days of 151 as on March 31, 2018 (Provisional). The working capital is majorly in the form of inventory. The company maintains an average inventory of about three months of its cost of sales; high inventory is to maintain adequate stock across the product varieties to meet the customer demand. The company offers credit period of about 60 days to its customers. The holding levels besides increasing revenue at a CAGR of about 14 percent over the past four years, lead to high utilisation of its bank lines at 93 percent over the past six months through April 30, 2018. Acuite believes that with the expected growth in revenues at about 15-20 percent over the medium term, the operations are expected to be working capital intensive.

• Limited value addition and competitive market

The business of manufacturing lead alloys has the scope of low value addition, which results in low business margins. Consequently, SBPL's EBITDA margin remains low at 6 percent. The company also faces competition from other lead alloy manufactures with the presence of a large number of unorganised players. However, the company is diversifying towards much value added battery manufacturing business to mitigate the same.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the SBPL to arrive at this rating.

Outlook: Stable

Acuite believes that SBPL will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	153.73	123.57	110.79
EBITDA	Rs. Cr.	10.70	7.48	7.24
PAT	Rs. Cr.	2.59	1.99	1.84
EBITDA Margin	(%)	6.96	6.05	6.54
PAT Margin	(%)	1.68	1.61	1.66
ROCE	(%)	22.25	19.70	39.87
Total Debt/Tangible Net Worth	Times	1.75	1.77	1.63
PBDIT/Interest	Times	1.77	1.84	1.81
Total Debt/PBDIT	Times	2.89	3.26	2.84
Gross Current Assets (Days)	Days	147	134	132

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB- / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB- / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3 (Assigned)

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About Acuite Ratings & Research:

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