

Press Release
Supreme Batteries Private Limited

January 07, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 66.00 Cr. (Enhanced from Rs.48.00 Cr)
Long Term Rating	ACUITE BBB- / Outlook: Negative (Outlook revised from Stable to Negative)
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.48.00 crore bank facilities and assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.18.00 crore bank facilities of Supreme Batteries Private Limited (SBPL). The outlook is revised from 'Stable' to '**Negative**'.

The revision in the outlook reflects Acuité's expectations of pressure on the working capital management as reflected in full utilisation of its bank lines over the past six months through November 2018 and further, accentuated by increasing scale of operations demanding incremental working capital requirements. The rating continues to reflect extensive industry experience of the promoters, long track record of operations, and moderate financial risk profile. However, these strengths are partially offset by intense working capital operations.

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 and 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.

Analytical Approach

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

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 Limited, Amara Raja Batteries Limited and Livguard Energy Technologies. 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.165.0 crore.

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. Acuité 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 gearing (debt-to-equity) and debt protection metrics. The net worth is moderate at Rs.21.04 crore as on 31 March, 2018 against Rs.17.82 crore in 31 March, 2017. Gearing is moderate at 1.84 times as on March 31, 2018, deteriorated from 1.70 times as on March 31, 2017 due to debt funded capital expenditure to the tune of Rs.4.62 crore. The total outside liabilities to total net worth is high at 2.79 times in FY2018 being working capital intensive operations. SBPL has reported cash accruals of Rs.4.06 crore in FY2018; its cash accruals are expected in the range of Rs.7 – 10 crore, against which its repayment obligations are about Rs.3.00 crore over the medium term. SBPL's debt protection metrics are moderate with interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 2.12 times and 0.10 times respectively for FY2018. With improving revenues, diversified product portfolio and modest capex needs, the working capital requirement is expected to increase and Acuité believes that the financial risk profile is expected to be at similar levels over the medium term.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive as evident from Gross Current Assets (GCA) of 155 days as on March 31, 2018 as against 134 days as on March 31, 2017. 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 99 percent over the past six months through November, 2018. Acuité believes that with the expected growth in revenues at about 30 percent over the medium term, the working capital requirement is expected to intensify further, and balancing of working capital management and liquidity are key rating sensitivity factors over the near to medium term.

- **Limited value addition and competitive market**

The business of processing of lead alloys has the scope of low value addition, which results in low profitability 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 organised and unorganised players. However, the company is diversifying towards much value added battery manufacturing business to mitigate the same.

Outlook: Negative

Acuité believes that SBPL's operations continue to be working capital intensive marked by high GCA and fully utilized working capital lines. The ratings may be downgraded in case of further stretch in its working capital management leading to pressure on its liquidity. The outlook may be revised to 'Stable' in case of expected improvement in revenues and cash accruals, while improving its working capital management and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	164.66	153.73	123.57
EBITDA	Rs. Cr.	10.69	10.52	7.48
PAT	Rs. Cr.	3.21	2.59	1.99
EBITDA Margin	(%)	6.49	6.84	6.05
PAT Margin	(%)	1.95	1.68	1.61
ROCE	(%)	18.47	22.13	19.70
Total Debt/Tangible Net Worth	Times	1.84	1.70	1.77
PBDIT/Interest	Times	2.12	1.79	1.84
Total Debt/PBDIT	Times	3.58	2.86	3.26
Gross Current Assets (Days)	Days	155	147	134

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
28-Jun-2018	Letter of Credit	Short Term	10.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	35.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	2.50	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB-/Negative (Reaffirmed; Outlook revised to Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Negative (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB-/Negative (Reaffirmed; Outlook revised to Negative)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Assigned)

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Sethu Madhav Analyst - Rating Operations Tel: 022-67141128 sethu.madhav@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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