

January 24, 2023

NED Energy Limited: [ICRA]A-(CE) (Stable)/[ICRA]A2+(CE) rating withdrawn and simultaneously [ICRA]BBB- (Stable)/[ICRA]A3 assigned

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|------------------------------------|--------------------------------------|-------------------------------------|---|
| Long-Term Fund Based – Cash Credit | 46.00 | 46.00 | [ICRA]A-(CE) (Stable); rating withdrawn and simultaneously [ICRA]BBB- (Stable) assigned |
| Long-Term Fund Based – Term Loans | 2.50 | 2.50 | [ICRA]A-(CE) (Stable); rating withdrawn and simultaneously [ICRA]BBB- (Stable) assigned |
| Short-Term Non-Fund Based | 18.00 | 18.00 | [ICRA]A2+(CE); rating withdrawn and simultaneously [ICRA]A3 assigned |
| Total | 66.50 | 66.50 | |

*Instrument details are provided in Annexure-I

Rationale

ICRA has withdrawn its rating of [ICRA]A-(CE)(Stable)/[ICRA]A2+(CE) for the bank facilities of NED Energy Limited (NED/the company) and has simultaneously assigned a fresh rating of [ICRA]BBB-(Stable)/[ICRA]A3 for these facilities.

The rating action follows the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to the credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of a corporate guarantee that does not meet the evaluation mechanism/criteria defined by the RBI is not to be considered while assigning the credit enhanced (CE) ratings. Among other considerations, the [ICRA]A-(CE)(Stable)/[ICRA]A2+(CE) ratings drew comfort from the presence of a corporate guarantee extended by NED's parent to the lenders of the rated bank facilities. For assigning the rating, ICRA had assessed the attributes of the guarantee issued by Time Technoplast Limited (TTL, rated [ICRA]A1+) in favour of the rated facility. While the guarantee was legally enforceable, irrevocable, unconditional and covered the entire amount and met all the other attributes of a strong guarantee, it did not have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA had assigned a rating of [ICRA]A-(CE)(Stable)/[ICRA]A2+(CE) to the said facility against the unsupported rating of [ICRA]BBB-/[ICRA]A3.

To align itself with the aforesaid regulatory guidance, ICRA would no longer be considering in its credit assessments the benefit of a guarantee that lacks an invocation and payment mechanism, though such a support represents a relatively strong expression of commitment on the part of the support provider for the supported facilities in comparison with the support that is only implicit in nature. Accordingly, ICRA has assigned the rating of [ICRA]BBB-(Stable)/[ICRA]A3 to the above bank facilities of NED, while withdrawing the [ICRA]A-(CE)(Stable)/[ICRA]A2+(CE) rating.

The ratings assigned factor in the strong parentage of NED and the benefits it derives from being the subsidiary of TTL. The ratings also factor in the extensive experience of NED for more than two decades in the battery manufacturing industry. The ratings are, however, constrained by NED's modest scale of operations and high working capital intensity owing to the high inventory and debtor days.

The Stable outlook on the long-term rating considers ICRA's opinion that the company will continue to benefit from its long track record in the battery business and orders in hand and support from the parent, should the need arise.

Key rating drivers and their description

Credit strengths

Long track record in battery manufacturing – The company has a track record of more than two decades in the battery manufacturing business with adequate technical competence. NED has been manufacturing batteries since 1998. It produces valve-regulated lead acid (VRLA) batteries that are primarily used in the telecom industry, UPS, solar, inverter and industrial applications. ICRA also takes note of orders received from Tesla Power, which should aid the financial performance in the near to medium term.

Strong Parentage – NED is subsidiary of TTL, which is one of leading manufacturers of industrial packaging solutions, lifestyle products, automotive components, infrastructure related products, IBCs, material handling solutions, composite cylinders, and MOX films. Further, TTL has extended support via corporate guarantee to NED’s rated bank facilities.

Credit challenges

Modest scale of operations – The scale of operations has remained modest over the years. The company’s operating income (OI) increased by ~20% to Rs. 120 crore in FY2022 from ~Rs. 100.0 crore in FY2021. The improvement in OI in FY2022 was largely owing to better demand for batteries from sectors like power utility, railways, industrial etc. Going forward, the revenues are expected to improve, aided by demand from the aforementioned sectors.

High working capital intensity – The working capital intensity was high at ~72% in FY2022, mainly due to the high inventory and debtor days. The inventory days were high at 277 days on account of the high lead time and huge raw materials maintained. The debtors remained high at 79 days in FY2022 owing to the high credit period offered as well as certain stuck receivables of more than six months for some of the customers.

Liquidity position: Stretched

NED’s liquidity position remains stretched with high utilisation of working capital borrowings (average utilisation of ~80-85%) and modest cash and bank balance. The company has moderate repayment obligations of ~Rs. 1.56 crore and no major capex plans for FY2023, which are expected to be met from operational cash flows. Moreover, an improvement in the collection cycle will be the key to materially alter the company’s liquidity profile.

Rating sensitivities

Positive factors – An improvement in the operating income (OI) and operating profitability along with a reduction in the receivable cycle that would improve the overall liquidity position could lead to an upgrade.

Negative factors – Pressure on the ratings could arise if there is a decline in the OI and operating profitability or a further increase in the receivable cycle, impacting the overall liquidity position. Further, any weakening of linkages with TTL or moderation in the credit profile of the parent may adversely impact the ratings.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Approach- Explicit Third-Party Support Rating Approach- Implicit parent or group Support Policy on Withdrawal of Credit Ratings |
| Parent/Group support | Parent/Group Company: Time Technoplast Limited |

| | |
|---------------------------------|--|
| | The ratings consider the likelihood of the parent TTL extending support to NED Energy, should the need arise |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the consolidated financials of NED Energy Limited. The company had one subsidiary that is enlisted in Annexure-2. |

About the company

NED Energy Limited (NED), incorporated in 1998, is a subsidiary of TTL, which has a 97% shareholding in the company. NED manufactures VRLA batteries that are primarily used in the telecom industry, UPS, solar, inverter and industrial applications. NED has a 100% subsidiary, Power Build Batteries Private Limited (PBBPL), based out of Karnataka, which manufactures low maintenance lead acid (LMLA) batteries and mainly supplies to the Indian Railways.

Key financial indicators (audited)

| Consolidated | FY2021 | FY2022* |
|---|--------|---------|
| Operating income | 99.7 | 120.2 |
| PAT | -0.4 | 5.0 |
| OPBDIT/OI | 10.5% | 12.8% |
| PAT/OI | -0.4% | 4.1% |
| Total outside liabilities/Tangible net worth (times) | 0.9 | 0.8 |
| Total debt/OPBDIT (times) | 4.8 | 2.8 |
| Interest coverage (times) | 1.7 | 2.6 |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current rating (2023) | | | Chronology of rating history for the past 3 years | | | | |
|---------------|-----------|--------------------------|--|--|---|-------------------------|-------------------------|-------------------------|----------------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding as on 26 Sep 2022 (Rs. crore) | Date & rating in FY2023 | | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 | |
| | | | | Jan 24, 2023 | Oct 31, 2022 | | | Jul 20, 2021 | - |
| 1 Cash Credit | Long term | 46.00 | - | [ICRA]A-(CE) (Stable); rating withdrawn and simultaneously [ICRA]BBB-(Stable) assigned | [ICRA]A-(CE) (Stable) | [ICRA]A-(CE) (Stable) | - | [ICRA]A-(CE) (Stable) | [ICRA]A+(SO) (Stable) |
| 2 Term Loans | Long term | 2.50 | 0.00 | [ICRA]A-(CE) (Stable); rating withdrawn and simultaneously [ICRA]BBB-(Stable) assigned | [ICRA]A-(CE) (Stable) | [ICRA]A-(CE) (Stable) | - | - | [ICRA]A+(SO) (Stable); Withdrawn |

| | | | | | | | | | | |
|---|-----------------------|------------|-------|---|--|-------------------|-------------------|---|-------------------|-------------------|
| 3 | Non-Fund Based Limits | short term | 18.00 | - | [ICRA]A2+(CE); rating withdrawn and simultaneously [ICRA]A3 assigned | [ICRA]A2+ (CE) | [ICRA]A2+ (CE) | - | [ICRA]A2+ (CE) | [ICRA]A1+ (SO) |
| | | | | | | | | | | |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|------------------------------------|----------------------|
| Long-Term Fund Based – Cash Credit | Simple |
| Long-Term Fund Based – Term Loans | Simple |
| Short-Term Non-Fund Based | 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 | Cash Credit | - | - | - | 46.00 | [ICRA]A-(CE) (Stable); rating withdrawn and simultaneously [ICRA]BBB- (Stable) assigned |
| NA | Term Loans | Apr-20 | - | Mar-22 | 2.50 | [ICRA]A-(CE) (Stable); rating withdrawn and simultaneously [ICRA]BBB- (Stable) assigned |
| NA | Non-Fund Based Limits | - | - | - | 18.00 | [ICRA]A2+(CE); rating withdrawn and simultaneously [ICRA]A3 assigned |

Source: Company

Annexure II: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---------------------------------------|-----------|------------------------|
| Power Build Batteries Private Limited | 100% | Full Consolidation |

Source: Company

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About ICRA Limited:

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Branches



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