November 29, 2024

Exide Energy Solutions Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – fund based - Term loans	1000.00	1000.00	[ICRA]AAA (CE) (Stable); Reaffirmed
Long term - Non fund based – Letter of credit	1000.00	1000.00	[ICRA]AAA (CE) (Stable); Reaffirmed
Long term – Interchangeable	(10.00)	(10.00)	[ICRA]AAA (CE) (Stable); Reaffirmed
Long term - interchangeable – SBLC/LC	(1500.00)	(1500.00)	[ICRA]AAA (CE) (Stable); Reaffirmed
Short term – Interchangeable	(10.00)	(10.00)	[ICRA]A1+ (CE); Reaffirmed
Total	**2,000.00**	**2,000.00**	

Ratings Without Explicit Credit Enhancement	[ICRA]A+/[ICRA]A1

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The above ratings are based on the strength of the corporate guarantee provided by Exide Industries Limited (EIL, rated [ICRA]AAA (Stable)/[ICRA]A1+), the parent of Exide Energy Solutions limited (EESL/the company), for the rated bank facilities. Further, ICRA's assessment of the strength of the linkages between EESL and EIL, including the corporate guarantee furnished by EIL to EESL for the rated facilities, is a key driver for the ratings. The Stable outlook on the long-term rating reflects ICRA's outlook on the long-term rating of the guarantor, Exide Industries Limited.

Adequacy of credit enhancement

The ratings of the instruments are credit enhanced, based on attributes of the guarantee issued by EIL in favour of the rated instruments of EESL. While the guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument, and has the other relevant attributes specified in ICRA's methodology for considering a credit enhancement, the payment mechanism is post-default in nature. Yet, ICRA has assigned ratings of [ICRA]AAA(CE) /[ICRA]A1+(CE) for the said facilities against the unsupported ratings of [ICRA]A+/[ICRA]A1, and equivalent to the guarantor's ratings of [ICRA]AAA (Stable)/[ICRA]A1+ in view of the strong linkages between the company and the guarantor. In case the ratings of the guarantor were to undergo a change in future, the same would reflect in the ratings of the aforesaid instruments as well. The ratings of these instruments may also undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor.

While the outlook for electric vehicles (EVs) and EESL's early mover advantage augur well for the company, any project specific challenges including significant time or cost overrun; those pertaining execution, demand/off-take, supply-chain or technology obsolescence; or delay in ramp up upon commencement of operations, remain key credit monitorables. The company could also witness competition from imports and other players who have invested in lithium-ion cell manufacturing in India. However, the relatively high capital intensity, EESL's early mover advantage, its strong parentage and EIL's wide distribution/ customer network are expected to mitigate the competition to an extent.

Salient covenants of the rated facility

The facility shall be utilised towards financing the project and other related costs. The proceeds shall not be utilised for capital market activities, land acquisition, real estate activities, acquisition of equity, buyback among others.

During the entire duration of the facility, the management control of EESL would remain with EIL and EIL should continue to hold at least 51% stake in EESL.

Prior approval of banker to be obtained for availing any fresh term borrowings not included in the company's projections or working capital borrowings outside the maximum permissible bank finance from any other bank/lender.

Key rating drivers and their description

Credit strengths

Strong parentage – EIL holds 100% stake in EESL. ICRA draws comfort from EESL's strong operational and financial linkages with EIL. EESL has strong financial flexibility and lender/investor comfort from being a subsidiary of EIL. Further, EESL's day-to-day operations are monitored by EIL, and the latter's representatives are part of EESL's Board of Directors. Also, EIL has extended corporate guarantee for EESL's sanctioned bank lines and is expected to extend timely and adequate financial support to EESL, as and when required. Further, EIL has infused its entire committed equity portion; Rs. 3,052 crore of equity has been infused into EESL as of November 26, 2024.

Favourable demand outlook for EVs – While India is one of the larger automobile markets globally, the EV industry is still nascent. However, in the recent years, there has been a strong push by both the Central and state governments for faster adoption of EVs. ICRA expects EV penetration to be ~25% for two-wheelers (2W), ~40% for three-wheelers (3W), 30% for buses, ~15% for passenger vehicles (PV) and ~12-16% for light commercial vehicles (LCVs) as a percentage of total sales by 2030. The favourable EV demand prospects are likely to benefit the company.

Early mover advantage in lithium-ion cell manufacturing – Given the medium to long term demand prospects for EVs, domestic auto OEMs and ancillaries are investing in developing a local vendor ecosystem, and EESL is one of the early movers in lithium-ion cell manufacturing in India. The company is setting up a 12 GWh lithium-ion cell manufacturing facility at Bengaluru in two phases. It has tied up with SVOLT Energy Technology Company Limited (SVOLT) for technology license and services for this company. There has been significant progress in construction for the first phase of 6 GWh and the plant is expected to be operational by end of FY2025/early FY2026. While the company does not have any 'take-or-pay' agreements with customers[1], EIL's brand equity, established clientele and distribution network is likely to mitigate offtake risks to a large extent.

Credit challenges

Sizeable capex plans over the medium term – The company is setting up a 12 GWh lithium-ion manufacturing facility in two phases of 6 GWh each, in Bengaluru. The phase 1 capex is estimated around Rs. 5,000 crore, and a significant part of the same has been incurred till date. While the capex is significant, ICRA notes that it is critical to capitalise on opportunities from EVs.

[1] The company has signed Memorandums of Understanding (MoU) for strategic partnerships with a few customers in FY2025

The capex has been funded through a mix of equity from EIL and debt (tied up entirely). Further, EIL has infused its entire committed equity portion; Rs. 3,052 crore of equity has been infused into EESL as of November 26, 2024. Moreover, EIL is expected to extend timely and adequate financial support to EESL, as and when required.

Project exposed to risks of execution, demand/off-take, supply-chain and technology obsolescence – The project is exposed to risks arising from time and cost overruns. 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[2]. While the company is investing in lithium-ion cells, emergence of any alternative battery technologies such as solid-state batteries would expose it to obsolescence risks, its collaboration with SVOLT for the technology/supply chain and construction contracts being awarded to reputed players mitigate the other risks to an extent.

Exposed to competitive risks – The company could face competition from imports and other players who have invested in lithium-ion cell manufacturing in India. However, the relatively high capital intensity, EESL's early mover advantage, its strong parentage and EIL's wide distribution/ customer network are expected to mitigate the competition to an extent

Liquidity **position: Adequate**

For the rated entity (Exide Energy Solutions Limited): Adequate

EESL's liquidity is adequate, supported by periodic infusion of funds from its parent, EIL, and undrawn lines of Rs. 1,500 crore as of September 30, 2024. The company had unencumbered cash and liquid investments of Rs. 5.3 crore as of September 30, 2024. While the residual capex for the project (of the total cost of around Rs. 5,000 crore) is yet to be incurred in H2 FY2025, the debt for the same has already been tied-up. EIL would also extend timely and adequate financial support to EESL, as and when required. Also, the company does not have any principal repayment obligations for the next 12 months.

For the guarantor (Exide Industries Limited): Strong

EIL's liquidity position is strong, supported by its strong operational cashflows 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 ratings could be downgraded, if there is any weakening in the parent's (EIL) credit profile or EESL's linkages with parent. Additionally, negative pressure on ratings could arise if there is any significant time or cost overrun, delay in ramp up upon commencement of operations, leading to weakening of debt metrics or liquidity position.

[2] The company has signed Memorandum of Understanding (MoU) for strategic partnership with certain customers in FY2025

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group Support	Parent Company: Exide Industries Limited (EIL). EIL (rated [ICRA]AAA (Stable)/[ICRA]A1+) is expected to extend timely and adequate financial support to EESL, as and when required.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of EESL.

About the company

Exide Energy Solutions Limited is a 100% subsidiary of Exide Industries Limited (EIL). EESL was incorporated in March 2022 and is setting up a 12-GWh lithium-ion cell manufacturing facility in Bengaluru in two phases of 6 GWh each. The first phase is expected to be operational by end of FY2025/early FY2026. In addition, it also assembles battery packs, a business that has come in by way of amalgamation of Exide Energy Private Limited with EESL.

About the guarantor

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 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. EIL has one of the largest storage-battery manufacturing capacity in India with geographically diversified manufacturing facilities.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	113.6	240.0
PAT	-107.5	-149.5
OPBDIT/OI	-74.6%	-38.9%
PAT/OI	-94.7%	-62.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.3
Total debt/OPBDIT (times)	-1.0	-2.4
Interest coverage (times)	-10.6	-8.8

Source: Company, ICRA Research; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Nov 29, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based - Term loans	Long-term	1,000.00	[ICRA]AAA(CE) (Stable)	Sep 21, 2023	[ICRA]AAA(CE) (Stable)	-	-	-	-
Non fund based – Letter of credit	Long-term	1,000.00	[ICRA]AAA(CE) (Stable)	Sep 21, 2023	[ICRA]AAA(CE) (Stable)	-	-	-	-
Interchangeable	Long-term	(10.00)	[ICRA]AAA(CE) (Stable)	Sep 21, 2023	[ICRA]AAA(CE) (Stable)	-	-	-	-
Interchangeable – SBLC/LC	Long-term	(1,500.00)	[ICRA]AAA(CE) (Stable)	Sep 21, 2023	[ICRA]AAA(CE) (Stable)	-	-	-	-
Interchangeable	Short-term	(10.00)	[ICRA]A1+(CE) (Stable)	Sep 21, 2023	[ICRA]A1+(CE) (Stable)	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term – fund based – Term loans	Simple
Long term - Non fund based – Letter of credit	Very Simple
Long term – Interchangeable	Simple
Long term - interchangeable – SBLC/LC	Very Simple
Short term – Interchangeable	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 analyzing 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, is available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Long term – fund based – Term loans**	Feb 2023	8.65%	FY2031	1,000.00	[ICRA]AAA(CE) (Stable)
NA	**Long term - Non fund based – Letter of credit**	NA	NA	NA	1,000.00	[ICRA]AAA(CE) (Stable)
NA	**Long term – Interchangeable**	NA	NA	NA	(10.00)	[ICRA]AAA(CE) (Stable)
NA	**Long term - interchangeable – SBLC/LC**	NA	NA	NA	(1,500.00)	[ICRA]AAA(CE) (Stable)
NA	**Short term – Interchangeable**	NA	NA	NA	(10.00)	[ICRA]A1+(CE) (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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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