Rating Rationale

Brickwork Ratings assigns 'BWR BB' & 'BWR A4' for the Bank Credit facilities aggregating ₹ 69.39 Cr of Aegan Batteries Limited.

Brickwork Ratings (BWR) has assigned the following **Ratings**[1] for the Bank Loan facilities of Aegan Batteries Limited *(ABL)*.

Facility	Limit (₹ Cr)	Tenure	Rating
Fund Based Facilities	**59.39**	Long Term	**BWR BB** (BWR Double B) **(Outlook- Stable)**
Non-Fund Based Facilities	**10.00**	Short Term	**BWR A4** (BWR A Four)
Total	**69.39**	**INR Sixty Nine Crores & Thirty Nine Lakhs only**	

The rating has, inter alia, factored in the experience of the promoters in the lead storage battery related industry, experienced team of professionals and the performance of the Company during FY 2012-13 and 9 month operation during 2013-14 . The assigned rating also takes into account the Company's diversified product profile in industrial and automotive batteries. The ratings are, however, constrained by the limited track record in battery manufacturing, relatively smaller scale of operations, restricting economies of scale and financial flexibility. Further, owing to debt funded capital expenditure towards construction of plant and purchase of machinery in the recent past, the Company's financial profile is characterized by moderately high gearing and low coverage indicators. However, Brickwork Rating (BWR) expects the company's financial profile to improve with scale of operations in the coming years with diversified product profile.

Background

Incorporated in 2010, Aegan Batteries Limited (ABL) is promoted by Mr. T. Arun Kumar, Mr. T. Raj Kumar (younger brother of Mr. T. Arun Kumar) and Smt. Chitra (wife of Mr. T. Arun Kumar). The Company is engaged in manufacturing of Lead Acid Tubular Batteries, Valve Regulated Lead Acid (VRLA) Batteries, Gel batteries, Traction Batteries and Automotive Batteries. The promoters have been associated with the battery industry for over 15 years via their erstwhile company Leadage Alloys India Private limited (manufacturing and trading of lead/ lead alloys) which was sold to Exide Industries limited in August 2010. The Company started operations in February 2012 and manufactures a wide range of batteries.

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

The Company sources majority of its raw materials (lead) from the domestic market to manufacture maintence free lead acid tubular batteries which cater to the OEMs and replacement segment in the domestic market. The Company's products find wide applications in Solar, Telecommunication, UPS &Inverters and other industrial application. "Aegan" tubular batteries/cells are approved by Department of telecom (DOT) and the Company is certified for ISO-9001:2008. The Company's plant is located at Kolar district in Bangalore and spread over five and half acre with the total capacity of 3.6 lakhs batteries per annum.

Financial Performance:

- ABL achieved Net Sales of Rs.61.15 Cr during FY 2012-13, which was the first full year of operations. ABL concentrated only on Industrial Batteries segment where the entry barriers are relatively low (low competition, high margin).
- During current year i.e. FY2013-14, Industrial Batteries segment is envisaged to contribute more than 97.50% to the total sales of the company. In view of stiff competition and relatively lower margin under Automotive Batteries segment, the company presently concentrates only on four wheeler segments with less than 2.50% contribution to total sales. The company has booked sizeable business from SMF Online UPS Batteries sub-segment during FY2012-13 which is the first full year of operations for the company followed by Home Inverter Tubular Batteries, AGM VRLA and Traction & Tubular Gel Batteries sub-segments.
- The promoters of ABL have infused Rs.21.00 crores of equity as margin towards Term loans availed and Rs.5.00 Cr as margin towards working capital limits availed. TNW of the company has improved to Rs.26.11 Cr during FY2012-13 from the previous year level of Rs.15.69 in FY11-12 Cr. due to retention of profit and infusion equity.

Risk Analysis:

Volatility in lead prices- High Volatility in lead prices makes pricing policy for the battery manufacturing companies challenging job. Increase in lead prices will impact the margins and will affect the profitability and performance indicators. ABL procures Lead / Lead Alloys from various suppliers in domestic market. ABL requires 15 mAH per month. For the Battery Manufacturing Process, Secondary Lead (i.e., lead extracted from recycle process) at present is considered as sufficient for the companies demand. The ratings also take into account the Company's limited pricing flexibility owing to intense competition from both large established and unorganized players in the OEM and replacement markets and susceptibility of the Company's profit margins to high volatility in raw material prices.

Rating Outlook:

The promoters are experienced in the field and are capable of withstanding competition in the sector. The company has bagged sizeable orders during current year from customers like BSNL, Railways, etc for supply of VRLA / Traction batteries. As the unit has already established itself in UPS market (both Home Inverter as well as SMF Online UPS for Institutions), orders from other sub-segments would augment sales thereby enabling the company to achieve its target. Erratic Power supply in the country has positive effect on the growth in demand of batteries and inverters which makes the rating outlook Stable.

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