

15 November 2012

CMP: Rs.158

Industry: Dry Cells

BSE group/index: T

Promoters

N Gopalaratnam

R Vaidyanathan

Year of incorporation

1979

Registered office

 13, Old Mahabalipuram Road,
 Seevaram Village,
 Esvin House,
 Perungudi,
 Chennai - 600096

Company website
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Write to us at:
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Key Data (as on 15 Nov'12)

BSE	504176	ISIN	INE783E01015
Face Value	10	Mkt Cap (Rs.mn)	290
Current P/E	12.0	Current P/BV	1.6
52 week high-low	183.8- 66.1	30 day average daily trading volume (nos.)	626
Equity capital (Rs.mn)	17.9	Net worth (Rs.mn)	181.9

Company business

High Energies Battery (India) Ltd ('HEBL') was founded in 1979 and is based in Chennai. The company manufactures and sells re-chargeable or secondary batteries mainly for defense and industrial applications. HEBL broadly operates in two segments :- (1) defense batteries (2) automotive and industrial batteries. Defense batteries include silver zinc and nickel cadmium batteries. Automotive and industrial batteries mainly include lead acid batteries. It offers aircraft batteries, helicopter batteries, industrial nickel cadmium cells, rail road & UPS batteries, and batteries for launch vehicle and other applications. It also earned revenue from exports.

HEBL has been promoted by N Gopalaratnam and R Vaidyanathan. N Gopalaratnam is the non-executive chairman and R Vaidyanathan is a non-executive director of the company.

Peer group analysis – Standalone financials

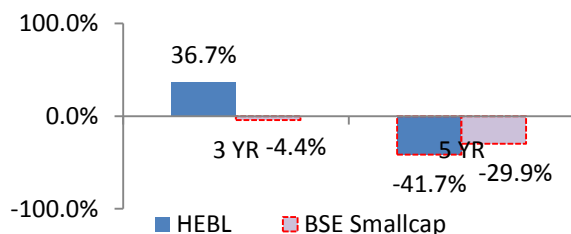
HEBL reported EBIDTA of Rs.70.9 mn in FY12. The company has better EBIDTA margin as compared with other select industry peers (refer table below). However the company lagged behind the peer set in terms of profit margin and returns for FY12.

Financials - Standalone

FY12, Rs.mn	HEBL ¹	Shervani ¹ Industrial	Nippo ¹ Batteries	Panasonic ¹ Energy
Total income	590.7	86.0	3341.5	1892.0
EBIDTA	70.9	9.4	272.7	73.6
EBIDTA margin	12.0%	10.9%	8.2%	3.9%
PBT	5.5	7.5	216.8	30.5
PAT	3.9	7.4	146.3	18.1
PAT margin	0.7%	8.6%	4.4%	1.0%
EPS	2.2	2.3	39.0	2.4
Cash accruals	20.4	8.9	202.0	48.4
BV/share	101.5	656.6	376.1	90.5
Debt/EBIDTA	3.5	0.6	-	-
Debt/Equity	1.35	0.00	-	-
ROANW	2.2%	0.5%	10.6%	2.7%
ROACE	1.3%	0.5%	10.5%	2.7%
P/E	37.7	17.8	10.3	20.4
P/BV	0.8	0.1	1.1	0.5

Source: Moneycontrol, Company

¹ FV Rs.10 per share

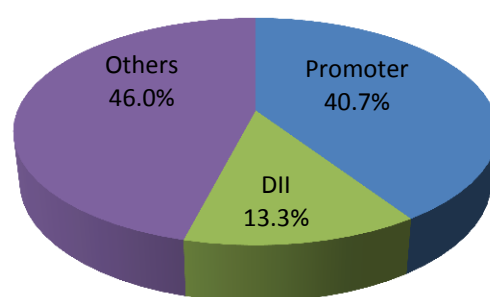
Business capacity		Price Performance
Battery type	Installed capacity	 <p>The chart shows the price performance of HEBL (blue bars) and BSE Smallcap (red dashed bars) from 15 Nov 07 to 15 Nov 12. HEBL starts at 36.7% and ends at -41.7% over 5 years. BSE Smallcap starts at 0.0% and ends at -29.9% over 5 years. A 3-year period shows a -4.4% change.</p>
Silver Zinc	2,400,000 AH	
Nickel Cadmium	3,00,000 AH	
Lead acid	2,00,000 nos	
AH: Ampere Hours		<p>3 Years: 15 Nov 09 to 15 Nov 12 5 Years: 15 Nov 07 to 15 Nov 12</p>

Public shareholders with >1% shareholding

Sl. No.	Name of the Shareholder	No. of Shares held (mn)	Shares as % of Total No. of Shares
1	Life Insurance Corporation of India*	0.24	13.33
2	Srikanth C	0.05	2.78
3	Sathyamoorthi Devarajulu	0.03	1.87
4	Balram Bharwani	0.03	1.86
5	Ruchit Bharat Patel	0.03	1.62
6	Far & Wide Marketing Pvt Ltd	0.03	1.39
7	Dr Ramesh Chimanlal Shah	0.02	1.12
Total		0.43	23.97

Source: BSE

*D. Vijayalakshmi is a non-executive director in High Energy Batteries Ltd, who is a nominee of LIC. Therefore LIC does not appear to be a public shareholder.

Change in Shareholding Pattern (%)					Shareholding Pattern (%)
Year	Promoters	DII	FII	Others	 <p>The pie chart shows the shareholding pattern as of 30 September 2012: Promoter (40.7%), Others (46.0%), and DII (13.3%).</p>
Sep-12	40.7	13.3	0.0	46.0	
Jun-12	40.7	13.3	0.0	46.0	
Mar-12	40.7	13.3	0.0	46.0	
Mar-11	40.7	14.4	0.0	44.9	
Mar-10	40.7	14.4	0.0	44.9	
Mar-09	39.7	20.6	0.0	39.7	
Mar-08	39.7	24.3	0.0	36.0	
Mar-07	39.7	28.4	0.0	31.8	

Source: BSE

Source: BSE, as at 30 September 2012

Strong operational experience in batteries for defense sector

Key strengths

HEBL has a strong base of in-house R&D to design, develop and manufacture silver zinc and nickel cadmium batteries. The company has been supplying batteries to defense organizations for over 25 years. It has also developed products in different technological area in working with DRDO.

High entry barrier in the defense battery segment

The company's defense batteries are used in high end critical applications like aviation, torpedo propulsion and lunch vehicles. Advanced technology and stringent approval norms in the defense sector act as barriers for quick entry of new players.

Defence batteries are subjected to rigorous testing

Key concerns

The company's silver zinc and nickel-cadmium batteries are used in defense sectors in India and abroad. These batteries are subjected to rigorous testing and approvals and various stage inspection procedure which may lead to rejection of the product and consequent losses. However once defense approves a set of parameters it would smoothen the production and increase the acceptance level.

Volatility of silver price in the bullion market

The key raw material in the silver zinc battery is silver which constitutes more than 50% of the cost of the battery. The price of the silver in the bullion market is subject to fluctuation, which may affect the profitability.

Volatility of lead price

Lead acid batteries consume around 74% of the total lead supply in the country. Also nearly 76% of the battery raw material costs come from refined lead. Rising trend in lead prices could impact the profitability of the segment.

Industry overview

Lead-acid battery industry largely depend on auto sector

The total Indian storage battery market is approximately estimated at Rs.32.4 bn as of FY11. The automotive battery segment contributes to more than 65% of the overall market.

Increasing demand from industrial market

The industrial battery consumption is growing up with economic growth of the country. There is increased demand for industrial batteries in telecom sector followed by railways and power sector. During the last three years the organized battery sector has grown at 19% in industrial segment.

Lead-acid battery industry is highly fragmented

The lead acid battery market in Indian subcontinent is highly fragmented with few manufacturers in quality brand segment and several small players in tier 2 and tier 3 categories. These manufacturers mainly cater to replacement battery market of old automobiles, farm equipments, heavy commercial vehicle etc.

Government initiative generating demand for lead-acid storage battery

The central and state government mandates 10% of power used by telecom tower companies to be generated from renewable energy sources. This would lead to a major spike in battery demand, as the generated power need to be stored in batteries.

Company fundamentals

Focus more on lead acid battery segment

The company has established depots in Chennai, Bangalore, Cochin and Hyderabad and it is in process of opening new sales depot in Jaipur and Kanpur to widen the customer access for lead acid batteries. It has identified few manufacturers to outsource batteries to cater to different customer segments in the lead acid battery market.

Increasing focus on export market

During the year the company has achieved a turnover of Rs.276.6 mn from exports as compared to Rs.194.8 mn in FY11 registering an increase of 42%. Also the export amounts to 47% of total sales in FY12. The export growth was mainly due to development and commencement of battery supply to OEMs in foreign market. The company is expecting further orders from OEM companies. It intends to explore new markets in middle east countries.

Increased exports of batteries to OEMs led to top line growth

HEBL's total income increased significantly by 55.4% to Rs.590.7 mn in FY12 as against Rs.380.1 mn in FY11. The increase in revenue was mainly associated with sales growth from both high energy battery segment and lead acid battery segment.

Sales from high energy silver zinc batteries increased by 47% to Rs.454.4 mn in FY12 (Rs.310 mn in FY11). This was mainly due to increase in export of batteries to OEMs.

Sales from lead acid battery quadrupled in FY12 to Rs. Rs.95.7 mn from Rs.23.8 mn in FY11 backed by increased demand of these batteries in the domestic market.

Higher EBIDTA in FY12, backed by increased sales and proportionate decrease in material cost

Material cost for FY12 increased to Rs.348.8 mn as against Rs.239.3 mn in FY11. However on a percentage of sales basis it decreased from 71.6% in FY11 to 63.4% in FY12. Increased sales combined with proportionate decrease in material cost led to a significant increase in EBIDTA level of the company. EBIDTA for FY12 increased by 76% to Rs.70.9 mn (Rs.40.3 mn in FY11). EBIDTA margin increased from 10.6% in FY11 to 12% in FY12.

Finance cost increased by 30% to Rs.48.9 mn in FY12 as against Rs.37.6 mn in FY11. This was mainly due to additional borrowing to meet the increased production of lead acid batteries. However on the back of higher sales growth the company made a net profit of Rs.3.9 mn in FY12 as against a loss of Rs.4.4 mn in FY11.

A low inventory turn rate

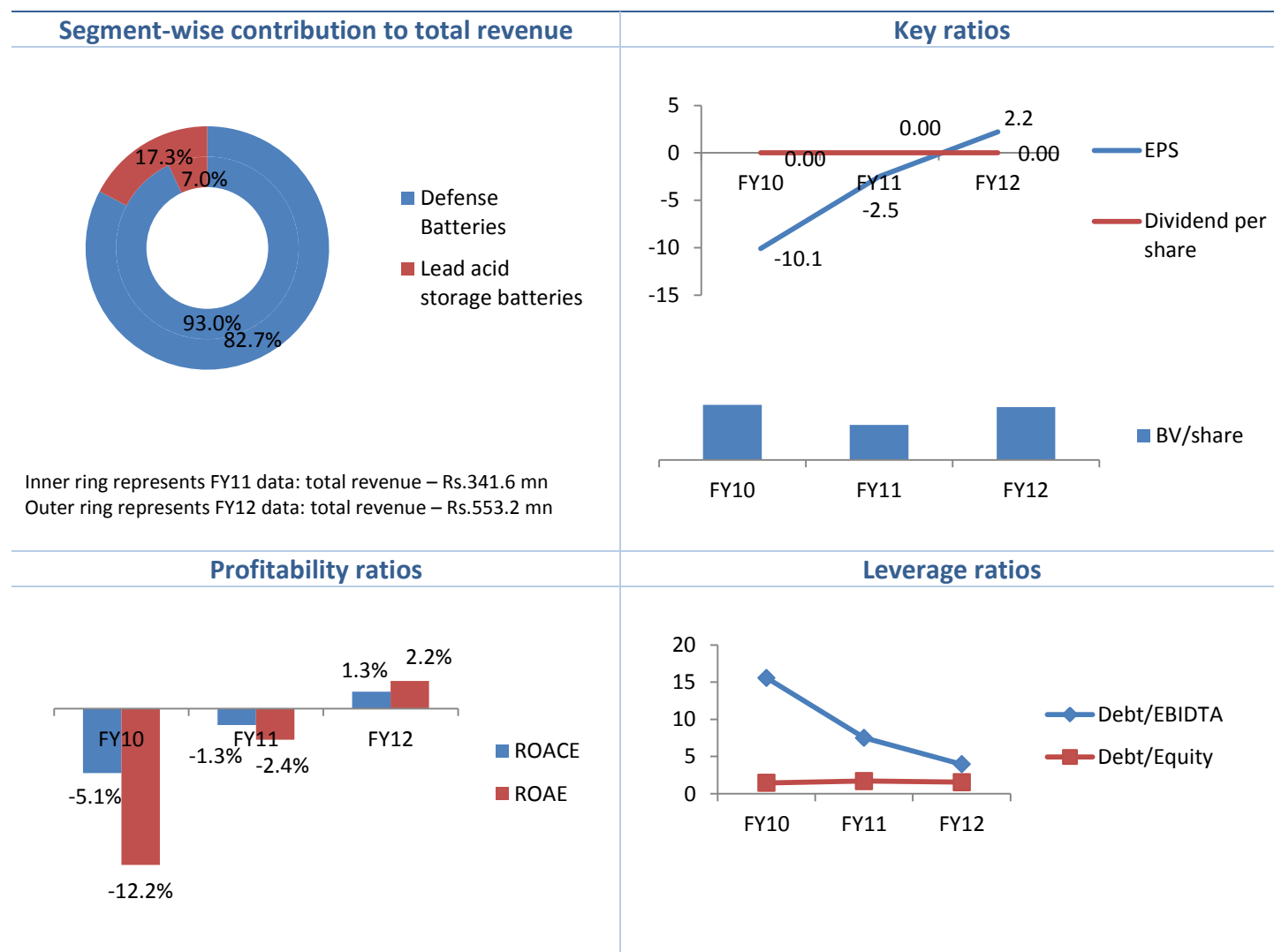
The company's inventory level consists of around 70% of its current asset. The inventory turn rate stood at 1.9 and 1.8 for FY11 and FY12 respectively. It took above six months to complete its inventory.

Quarterly results

Particulars (Rs in mn)	Apr'12 to June'12	Apr'11 to Jun'11	% Change ¹	Jan'12 to Mar'12	% Change ²
Total income	232.0	124.5	86.3%	177.0	31.1%
Total expenditure	205.8	119.3	72.5%	151.4	35.9%
EBIDTA	26.2	5.2	403.8%	25.6	2.3%
PAT	6.8	-6.6	-203.0%	7.2	-5.6%
PAT margin	0.0	-0.1	-155.3%	0.0	-27.9%
EPS	3.8	-3.7	-202.7%	4.0	-5.0%

¹ compared to corresponding quarter in the previous year

² sequential comparison



Financials

P&L (Rs. mn)	FY10	FY11	FY12
Total income	282.4	380.1	590.7
EBIDTA	17.0	40.3	70.9
EBIDTA margin	6.0%	10.6%	12.0%
Depreciation	14.0	17.0	16.5
EBIT	3.0	23.3	54.4
Interest	30.4	37.6	48.9
PBT	(27.4)	(14.3)	5.5
Tax	(9.3)	(9.9)	1.6
PAT	(18.1)	(4.4)	3.9
PAT margin	(6.4%)	(1.2%)	0.7%
Cash Accruals	(4.1)	12.6	20.4

Balance Sheet (Rs. mn)	FY10	FY11	FY12
Share Capital	17.9	17.9	17.9
Reserves & Surplus	164.5	160.1	164.0
Net worth	182.4	178.0	181.9
Borrowings	264.5	302.7	281.0
Deferred tax liability	10.6	5.6	7.0
Current Liabilities (excluding borrowing)	0.0	192.0	200.6
Total Liabilities	457.5	678.3	670.5
Net fixed assets	238.4	221.2	209.1
Other non-current assets	-	2.6	2.5
Investments	6.0	6.3	5.5
Current Assets	213.1	448.2	453.4
Total Assets	457.5	678.3	670.5

Valuation ratios	FY10	FY11	FY12
P/E	-	-	37.7
P/BV	1.1	0.9	0.8

Cash Flow (Rs.mn)	FY10	FY11	FY12
PBT	(27.4)	(14.3)	5.5
CF from Operation	(39.7)	16.6	55.0
CF from Investment	(45.7)	20.1	(3.1)
CF from Financing	10.5	(31.6)	(50.7)
Inc/(dec) Cash	(74.9)	5.1	1.2
Closing Balance	5.1	9.2	10.5

Disclaimer

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