May 14, 2024

Olectra Greentech Limited: Ratings reaffirmed and rated amount enhanced; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Cash Credit	75.00	122.00	[ICRA]A-(Negative); reaffirmed and assigned for enhanced amount; Outlook revised to Negative from Stable
Long Term – Term Loans	0.00	500.00	[ICRA]A- (Negative); assigned
Long Term/Short Term – Non-fund Based	145.00	125.00	[ICRA]A-(Negative)/[ICRA]A2+; reaffirmed; Outlook revised to Negative from Stable
Short Term – Non-fund Based, Derivative Limits	10.00	15.00	[ICRA]A2+; reaffirmed and assigned for enhanced amount
Short Term- Non-Fund Based, Letter of Credit	480.00	755.00	[ICRA]A2+; reaffirmed and assigned for enhanced amount
Total	**710.00**	**1517.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on the long-term rating to Negative from Stable considers the expected moderation in Olectra Greentech Limited's (OGL) debt protection metrics following change in its funding plan for the ongoing capital expenditure. The company is expanding its e-bus assembling capacity to 5,000 buses per annum (from 1,500 buses per annum) at an estimated cost of Rs. 750 crore. The capex is expected to be funded by term loans of Rs. 500 crore and the rest by internal accruals and unsecured loans from its parent, Megha Engineering and Infrastructures Limited (MEIL) against the earlier plan to fund the capex through equity. As of March 2024, the company incurred capex worth ~Rs. 100 crore. The rest of the capex is expected to be incurred in FY2025. The company has started assembling in the new plant and delivered the first batch of buses from the new plant in April 2024. OGL is expected to be fully operational by the end of FY2025. However, the ratings consider the company's strong order book of 10,969 e-buses as on March 31, 2024, which is expected to result in a substantial growth in revenues and earnings in the next two years. Timely completion of its proposed capacity expansion in the e-bus division and ramp-up in production remain critical for timely execution of orders and improvement in the credit profile.

The ratings factor in OGL's technical collaboration with Build Your Dreams Company Limited (BYD), which is a renowned and established player in the electric vehicles (EV) space and OGL's established track record in the polymer insulators segment. The ratings also factor in the company's first mover advantage in the e-bus market, favourable demand prospects for EVs, which would support healthy order inflow and ramp-up in operations. Support from Government initiatives such as reduction of GST rate on e-buses, introduction of Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles in India (FAME) I,, FAME II, and Electric Vehicle Promotion (EVPM) schemes to promote electric mobility in India, also support growth prospects. The ratings also consider the financial support that OGL enjoys from its parent, MEIL. In the past, OGL had received support in the form of equity infusion and unsecured loans from its parent group.

The ratings are constrained by its high working capital intensity, as reflected in high NWC/OI of 38% as on March 31, 2024, owing to the stretched receivables cycle. In the e-bus division, OGL sells buses to Special purpose vehicle (SPV)s, Evey Trans Private Limited (Evey) or its subsidiaries, which bid to operate buses for various State Road Transport Undertakings (SRTUs). Evey's ability to make timely payments depends on timely receipt of payments from SRTUs for the operation of buses and timely release of subsidies from the Department of Heavy Industries (DHI). The working capital requirements for the e-bus division are expected to increase, given the sizeable ramp-up likely in the medium term. However, expected improvement in the receivables cycle on the back of funding tie-up at the operating companies (SPVs) is expected to improve its working capital cycle. The same would be critical to strengthen the company's liquidity. Further, ICRA notes that OGL's e-bus division's operations are dependent on technology support from China-based BYD, which exposes itself to geopolitical risks. It also faces stiff competition from players such as Tata Motors Limited, Ashok Leyland Limited, Foton PMI and JBM Solaris among others. The ratings also consider the exposure of its insulators division's profitability to fluctuation in raw material prices, as seen in the past, given the fixed-price nature of the insulator orders.

Key rating drivers and their description

Credit strengths

Technological support from BYD China for e-bus division operations – The company has a technological collaboration with BYD for procurement of e-bus battery, chassis, components, sub-assemblies and spare parts. BYD is a Chinese manufacturer of automobiles, buses, forklifts, lithium rechargeable batteries, trucks, etc, with its corporate headquarters in Shenzhen, China. It has presence in China, North America, South America, East Asia, Middle East and Europe. At present, OGL has four models of electric buses namely V-2 (7 metres), iX (9 metres), X2 (12 metres), and CX2 (12 meters) and has also delivered 51 electric tippers.

Extensive experience of Olectra in the polymer insulators industry – The company has over 15 years of experience in the manufacturing of the composite polymers insulators. OGL is an ISO 9001:2008-certified company with a research and development unit for polymer insulators. The company supplies to reputed players like Power Grid Corporation of India Limited, Kalpataru Power Transmission Limited, MacLean Power (India) Private Limited and Larsen & Toubro Limited. The revenue from the insulator division grew by 15.5% to Rs. 143.0 crore in FY2024 from Rs. 123.8 crore in FY2023. The insulator division's margins improved in FY2024 on account of improved product mix, design optimisation resulting in lower raw material consumption, higher proportion of exports, moderation in raw material costs and increased scale.

Healthy order book position – The company has a strong order book for supplying 10,969 e-buses as on March 2024, out of which 2,319 e-buses orders are under the FAME II scheme. These buses are to be supplied over 12-24 months. Timely execution of orders would support scale-up of revenues and earnings. Healthy demand for e-buses and support from Government initiatives such as reduction of GST rate on e-buses, introduction of FAME I, FAME II, and EVPM schemes to promote electric mobility in India, also support the growth prospects.

Support from parent group – OGL enjoys financial support from its parent group, as reflected in equity infusions and unsecured loans extended by MEIL in the past. ICRA also notes the strategic importance of OGL to the Group, given the former's focus to expand in high-growth EV segment. Moreover, OGL has the board's approval to avail loans from MEIL, if required.

Credit challenges

Sizeable debt-funded capex plans in the near term – The company is constructing a new facility with a capacity to assemble 5,000 buses per annum (against the current capacity of 1,500 buses) at an estimated cost of ~Rs. 750 crore, of which ~Rs. 100 crore has been incurred till date (including ~Rs. 45 crore towards land procurement in FY2022). It is expected to incur ~Rs. 650-crore capex towards expansion in FY2025, which would be funded through term loan worth Rs. 500 crore and internal accruals / unsecured loans worth Rs. 150 crore from its parent group. OGL has delivered the first set of buses from its new unit in April 2024. However, the capacity is expected to be fully operational by the end of FY2025. Given the sizeable debt-funded capex plans, the company's capital structure and coverage metrics are expected to moderate in the near term. Timely completion of the capex and ramp-up of production in the new unit remain critical for timely delivery of orders and improvement in earnings and debt metrics.

High working capital intensity – OGL's operations remain working capital intensive, as reflected in high NWC/OI of 38% as on March 31, 2024, primarily owing to high debtor days due to stretched receivables cycle. The company generally receives 60% of the payments on or before the supply of buses and the remaining in 120-180 days from delivery. For the e-bus division, which constitutes the major portion of the overall inventory, the company generally maintains inventory of 60-90 days. The working capital requirements for the e-bus division are expected to increase, given the sizeable ramp-up in the scale of operations expected in the near term. However, financial closure achieved by the operating companies (SPVs) of OGL's top two orders is expected to improve its receivables cycle and working capital intensity, going forward.

Risk of delays in the execution in e-bus division – The company's order book execution is exposed to timeliness at which various stakeholders like SRTUs, SPVs of Evey achieve the condition precedents and tie-up of funding for the operation of buses. OGL has delivered 507 e-buses in FY2024 against 563 e-buses in FY2023 owing to delays in receiving certifications required to comply with the enhanced safety norms and supply challenges. Any significant delay in supply of e-buses could result in penalties and delayed cash flows for the company.

Exposure to fluctuation in raw material prices and increasing competition in e-buses industry – The profitability of OGL is exposed to fluctuation in raw material prices as seen in the past, given the fixed-price nature of the orders in the insulator division. The risk is mitigated to some extent in the e-bus division on the back of partial pass-through arrangement with Evey and maintenance of adequate inventory. The bus division's operations depend on continued technology support from the Chinese major, BYD, which exposes the company to adverse geo-political tensions. It also faces stiff competition from players such as Tata Motors Limited, Ashok Leyland Limited, PMI Foton, JBM Solaris among others.

Environmental and Social risks

Environmental considerations: As the company manufactures electric buses, it is placed favourably, given the evolving climate regulations and thrust towards electric vehicles in the automobile industry. The company reduces the fossil fuel consumption and thereby pollution in the country because of its all-electric product line. This provides a significant advantage relative to its automotive competitors, which are devoting significant capital for developing alternative fuel vehicles. ICRA expects the company to be compliant with the pollution norms, tree plantations, and water conversation programs, going forward, and does not foresee any material impact on its credit profile emerging from environmental factors.

Social considerations: Automotive manufacturers like OGL have a healthy dependence on human capital. Retaining human capital and maintaining healthy relationships with employees as well as the supplier ecosystem remain essential for disruption free operations. Another social risk that automotive manufacturers face pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to a financial implication but could also harm the reputation and create a more long-lasting adverse impact on demand. OGL is also exposed to any major shift in consumer preferences/demographics, which are key drivers for demand, and accordingly may need to make material investments to realign its product portfolio.

Liquidity position: Adequate

OGL's liquidity position is adequate with cash and bank balances of Rs. 6.9 crore as on March 31, 2024 (Consolidated), and expected retained cash flow of Rs. 50.0-60.0 crore in FY2025. It does not have any major repayment obligation in FY2025. However, it has sizeable capex plans of ~Rs. 650.0 crore in FY2025, which are expected to be funded through Rs. 500.0-crore term loans and Rs. 150.0-crore internal accruals / unsecured loans. While the term loan has been sanctioned for the capex, timely closure of documentation and drawdown of the loan remain critical for timely completion of capex. Further, enhancement of the working capital limits is likely to support OGL's liquidity position in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade OGL's ratings if there is a significant growth in its order book and revenues, primarily in the e-bus division, backed by timely execution of orders, while maintaining healthy margins and efficiently managing working capital on a sustained basis. Improvement in the parent's (MEIL) credit profile and / or strengthening of OGL's financial and strategical linkages with the parent entity would also be a credit positive.

Negative factors – Pressure on the rating could arise if its scale of operations declines owing to delay in execution of order book in the e-bus division, impacting its earnings. Any material stretch in the working capital cycle because of delays in collections stemming from delay in receipt of subsidy by SPVs would also impact the ratings. Any material deterioration in credit metrics on a sustained basis on account of high debt-funded capex would affect the ratings adversely.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Commercial Vehicles
Parent/Group support	ICRA has factored in the implicit parent support as it expects OGL's parent, MEIL, to extend financial support to OGL, should there be a need. There also exists a track record of MEIL having extended timely financial support to OGL in the past, whenever a need has arisen.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Olectra Greentech Limited. As on March 31, 2024, the company had two subsidiaries that are enlisted in Annexure-2.

About the company

OGL (earlier known as Goldstone Infratech Limited) was incorporated in 2000. The company has been involved in manufacturing polymer insulators since 2003. OGL is an ISO 9001:2008 certified company with a research and development unit for polymer insulators used in power transmission lines. The company has tied up with BYD (a Chinese battery and electric vehicle maker) for manufacturing of electric buses. Electric buses are sold under the joint brand name of Olectra BYD. It has successfully delivered around 1700 e-buses to various state transport undertakings in India and a few private parties till March 31, 2024.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	1,090.8	1,154.1
PAT	64.3	70.7
OPBDIT/OI	12.2%	14.4%
PAT/OI	5.9%	6.1%
Total outside liabilities/Tangible net worth (times)	0.9	0.7
Total debt/OPBDIT (times)	1.0	0.7
Interest coverage (times)	4.2	3.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of May 08, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	
					May 14, 2024	Apr 10, 2023	Sept 12, 2022	May 26, 2022	Dec 13, 2021	Nov 30, 2021
1	Cash Credit	Long term	122.00	-	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)
2	Term Loans*	Long term	500.00	-	[ICRA]A- (Negative)	-	-	-	-	-
3	Non-fund Based	Long term/ Short term	125.00	-	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2
4	Derivative Limit	Short term	15.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
5	Non-fund Based	Short term	755.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-
6	Fund based	Short term	-	-	-	-	-	-	-	[ICRA]A2
7	Unallocated	Long term/ Short term	-	-	-	-	-	-	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2

*Term loan is not yet disbursed

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Letter of Credit	Very Simple
Derivative Limit	Very Simple
Non-fund Based- Long Term/Short Term	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	-	-	-	122.00	[ICRA]A- (Negative)
NA	Term Loans	FY2024	-	FY2032	500.00	[ICRA]A- (Negative)
NA	Long-Term/Short-Term-Non-Fund based	-	-	-	125.00	[ICRA]A- (Negative)/ [ICRA]A2+
NA	Forwards/Derivatives	-	-	-	15.00	[ICRA]A2+
NA	Letter of Credit	-	-	-	755.00	[ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SSISPL-OGL-BYD Consortium	100%	Full Consolidation
Evey Trans (GTC) Private Limited	51%	Full Consolidation
Evey Trans (UJJ) Private Limited	34%	Equity Method
Evey Trans (SIL) Private Limited	26%	Equity Method
Evey Trans (SMC) Private Limited	26%	Equity Method
Evey Trans (JAB) Private Limited	26%	Equity Method
Evey Trans (MHS) Private Limited	34%	Equity Method
Evey Trans (BLR) Private Limited	26%	Equity Method

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 12 44545300
shamsherd@icraindia.com

Srikumar K
+91 44 45964318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 69396416
nithya.debbadi@icraindia.com

Etikala Ravi Teja
+91 40 69396418
etikala.teja@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches