Olectra Greentech Limited

September 28, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Unallocated limits	12.50	[ICRA]BBB+(Stable)/[ICRA]A2 assigned
Total	**12.50**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) and short-term rating of [ICRA]A2 (pronounced ICRA A two) to the Rs. 12.50 crore unallocated limits of Olectra Greentech Limited (OGL or the company). The outlook on the long-term rating is 'Stable'.

Rationale

The assigned ratings take into consideration the technical collaboration of OGL with BYD[1] for manufacturing of Electric-Buses (E-Buses); successful delivery of initial batches of buses to various STUs (State Transport Undertakings) in India in FY2018 and expected scaling up of operations of the E-Buses division backed by the orders for supply of 160 buses to Telangana State Road Transport Corporation (TSRTC), Bangalore Metropolitan Transport Corporation (BMTC) and Brihanmumbai Electric Supply and Transport (BEST) under Faster Adoption and Manufacturing of Electric Vehicles India (FAME[2]) scheme. The assigned ratings also positively factor in the sizable equity infusion of Rs 504.43 crore expected in October 2018 following the execution of share subscription agreement (SSA) between MEIL Holdings Limited (MEILHL) and OGL. The infused funds shall be utilised going forward towards setting up of a new electric bus manufacturing facility, additional working capital requirements of the e-buses segment and equity requirements for SPVs which will own and operate electric buses under the Gross Cost Contract (GCC) model. OGL has recently setup a SPV, EVEY Trans Private Limited (ETPL), to own and operate buses under the GCC model for Hyderabad, Bangalore and Mumbai cities. The ratings also consider the established track record of operations in the silicon insulators segment with OGL being an approved vendor for PGCIL.

The assigned ratings are, however, constrained by nascent stage of the electric vehicles industry in India with significant dependence on government transportation utilities and subsidy schemes from government; limited track record of OGL in the E-buses division with the manufacturing operations yet to be fully streamlined and increased working capital requirements given the scale up in the bus division operations. Further, the working capital cycle for bus division is yet to be stabilised and would remain one of the key monitorables over the next twelve to eighteen months. In addition, the ability of the company to demonstrate successful operation of e-buses supplied under GCC model along with satisfactory return metrics from bus operations will be a key rating monitorable.

1 BYD Co Ltd is a Chinese manufacturer of automobiles, buses, forklifts, lithium rechargeable batteries, trucks etc. with its corporate headquarters in Shenzhen, China. Currently, BYD has nearly 40,000 electric buses in service around the world.

2 Under the FAME India scheme, Department of Heavy Industry (DHI) had selected 11 cities for funding the purchase of electric buses. Subsidy will be dependent on percentage of localization. Total subsidy outlay is Rs 437 crore for phase 1 of FAME India scheme.

Outlook: Stable

The stable outlook reflects that OGL will continue to benefit from the tie-up with BYD for its E-buses segment and established track record of OGL in the insulators manufacturing industry. The outlook may be revised to 'Positive' if the company is able to stabilize its revenue growth & profitability in the E-Buses division, while managing the working capital requirements efficiently. The outlook may be revised to 'Negative' if the company is unable to streamline its operations in the nascent E-buses division, or in case of any major debt funded capital expenditure, or stretch in the working capital cycle, weakening liquidity position of the company.

Key rating drivers

Credit strengths

Tie-up with BYD for E-Bus manufacturing business - OGL has entered into technical collaboration with BYD for procuring E-Bus chassis, components, sub-assemblies and spare parts in 2016. OGL has supplied 32 buses to various STUs in India in FY2018 and has successfully completed more than 300,000 kms of commercial operations. Currently the company has three models of electric buses namely K-6 (7 meters), K-7 (9 meters), and K-9 (12 meters) and has an E-bus assembly facility at Jadcherla which has capacity to manufacture 2 buses per day.

Healthy orderbook position for supply of electric buses – OGL has orders for supply of 160 buses which the company has won under GCC model for Hyderabad, Mumbai and Bangalore cities. The company plans to supply 40 buses to TSRTC, 80 buses to BMTC by December 2018 while the 40 buses to BEST would be supplied in the near term.

Infusion of fresh equity - MEIL Holdings Limited (MEILHL) has signed share subscription agreement with OGL to subscribe to 2.65 crore equity shares and 0.91 crore convertible warrants of OGL amounting to Rs. 624.07 crore. Of this, OGL is expected to receive fund infusion of Rs 504.43 crore in October 2018 and the rest Rs. 119.64 crore will be received upon conversion of warrants. In addition, MEILHL is also purchasing 1.00 crore shares from OGL promoter group and with this, MEILHL is expected to hold 50.01% shareholding in OGL on a fully diluted basis.

Longstanding experience in the insulators manufacturing industry spanning over 15 years – OGL is engaged in the manufacturing of silicon insulators business for the last fifteen years. These insulators are used in power transmission lines. OGL is an approved supplier of silicon insulators to PGCIL with capacity ranging from 11 KV to 800 KV.

Credit challenges

Limited track record of operations in the E-Buses segment: The company has diversified into E-buses division after entering into technical collaboration with BYD in February 2016. Till June 2018, OGL has achieved a modest sales volume of 34 buses. Further, the electric vehicle industry in India is at a nascent stage with significant dependence on government transportation utilities and subsidy schemes from government.

Execution risk in E-bus division: OGL has orders for supply of 160 buses to BEST (40), TSRTC (40) and BMTC (80) under the GCC model. OGL will be paid on contracted rate per Km basis based on the distance travelled by each bus subject to minimum guaranteed kilometers during the contracted period under GCC model while the subsidy under FAME scheme would be paid by STUs. Given this, timely receipt of subsidy from STUs and satisfactory operation of E-buses would be key rating sensitivities.

Moderate operating profit margins: The operating profit margin of the company declined from 19% historically to 8.62% in FY2018 owing to lower realisations in insulators segment and high pre-operative expenses for branding and initial operation of E-buses. Further, margins of the company remain exposed to competitive bidding process and cheaper imports from Chinese insulator suppliers in the insulator segment. Although OGL reported operating losses in E-bus division in 3MFY2019, the ability of the company to scale up operations and improve profitability margins from E-bus division will be a key rating monitorable.

High working capital intensity of the business: The working capital intensity of the business is high at 87% in FY2018 owing to high debtor and inventory days. The debtor days are high at around 196 days in FY2018 primarily comprising PGCIL and Himachal Road Transport Corporation (HRTC). The inventory levels are high as the company procured bus components from BYD towards the supply of buses under GCC model.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

[Corporate Credit Rating Methodology]

About the company:

Olectra Greentech Limited (OGL, earlier known as Goldstone Infratech Limited) was incorporated in the year 2000. The company is into the manufacturing of silicon-based insulators since 2003. OGL is an ISO 9001:2008 certified company and having its own research and development unit for silicon insulators used in power transmission lines. The company has tied up with BYD (a Chinese battery and electric car maker) for manufacturing of electric buses. Electric buses are sold under the joint brand name of *"Olectra BYD"*. OGL has successfully delivered a total of 32 buses to various STUs (State Transport Undertakings) in India in FY2018 and 2 E-buses in 3MFY2019.

In 3MFY2018 the company reported a net loss of Rs. 5.38 crore on an operating income of Rs. 33.28 crore, as compared to a net profit of Rs. 8.90 crore on an operating income of Rs. 161.50 crore in FY2018.

Key financial indicator

	FY2017	FY2018	3MFY2019
Operating Income (Rs. crore)	104.88	161.50	33.28
PAT (Rs. crore)	6.01	8.90	-5.38
OPBDIT/ OI (%)	19.25%	8.62%	-3.89%
RoCE (%)	10.42%	10.09%	-
Total Debt/ TNW (times)	0.75	0.37	-
Total Debt/ OPBDIT (times)	3.44	5.20	-
Interest coverage (times)	3.74	2.27	-

Status of non-cooperation with previous CRA: Not applicable

Not Applicable

Any other information:

Not Applicable

Rating history for last three years:

	Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				September 2018	-	-	-
1	Unallocated	Long Term/ Short Term	12.50	[ICRA]BBB+(Stable)/ [ICRA]A2	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Unallocated	Not Applicable	Not Applicable	Not Applicable	12.50	[ICRA]BBB+(Stable)/A2

Source: Olectra Greentech Limited

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About ICRA Limited:

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