Olectra Greentech Limited

January 14, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash credit	-	35.00	[ICRA]BBB+(Stable) assigned
Non-Fund based	-	162.95	[ICRA]BBB+(Stable)/[ICRA]A2 assigned
Unallocated limits	12.50	14.55	[ICRA]BBB+(Stable)/[ICRA]A2 assigned/outstanding
Total	**12.50**	**212.50**	

*Instrument details are provided in Annexure-1

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 83 E-buses to various STUs (State Transport Undertakings) in India till December 2018 and expected scaling up of operations of the E-Buses division backed by the orders for supply of 150 buses to Bangalore Metropolitan Transport Corporation (BMTC), Brihanmumbai Electric Supply and Transport (BEST), and Pune Mahanagar Parivahan Mahamandal Limited (PMPML) 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 in October 2018 which will shall be utilised 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 E-buses under the Gross Cost Contract (GCC) model. OGL has recently setup a SPV, EVEY Trans Private Limited (ETPL), to own and operate E-buses under the GCC model for Hyderabad, Bangalore, Mumbai and Pune 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 monitorable 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.

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

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.

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 83 buses to various STUs in India in FY2018 and has successfully completed more than 600,000 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 with capacity to manufacture 2 buses per day.

Healthy orderbook position for supply of electric buses and insulator division: OGL has orders for supply of 150 buses which the company has won under GCC model for Mumbai, Hyderabad, Bangalore and Pune cities which are expected to be delivered in the next 6 months. The company has sold 51 E-buses in 9mFY2019 with supply of 35 buses to TSRTC on GCC model, and 16 buses on outright sale model. In the insulator division, the order book is comfortable at Rs 121.39 crore (1.09 times the revenue form insulator segment in 2018) as on November 30, 2018.

Infusion of fresh equity: MEIL Holdings Limited (MEILHL) has subscribed to 2.65 crore equity shares and 0.91 crore convertible warrants of OGL and infused Rs 504.43 crore in October 2018. The company will receive additional Rs. 119.64 crore upon conversion of warrants by FY2020. 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 December 2018, OGL supplied 83 buses to various STUs. 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 150 buses to BEST (40), BMTC (80), PMPML (25) and TSRTC (5) 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. The buses will be operated by its 100% subsidiary, Evey Trans Private Limited (ETPL). 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 8.62% in FY2018 to operating loss of 1.88% in 6mFY2019 owing to lower realisations in insulators segment and high pre-operative expenses for branding and initial operation of E-buses including trial runs. The operating margins are however expected to improve in the medium term with increase in supply of E-buses and the extent of improvement in profitability margins from E-bus division will be a key rating monitorable. Further, margins of the company remain exposed to competitive bidding process and cheaper imports from Chinese insulator suppliers in the insulator segment.

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.

Liquidity Position:

The liquidity position is strong post equity infusion of Rs 504.43 crore in October 2018. The funds will be primarily utilised towards capex for setting up a new facility for E-bus manufacturing, working capital funding for bus business and funding equity requirement of SPVs. The company uses cash credit limits of Rs. 35.00 crore for its insulator business and the average fund based utilisation for the last 12 months ended December 2018 is moderate at 73%.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	ICRA has followed the limited consolidation approach under which ICRA has factored in the rated entity's support to fund the equity component of the investment in the SPV, any cost overruns and, and debt servicing support in ETPL.

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 51 E-buses in 9MFY2019.

In H1FY2019 the company reported a net loss of Rs. 13.20 crore on an operating income of Rs. 104.03 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	H1FY2019
Operating Income (Rs. crore)	104.88	161.50	104.03
PAT (Rs. crore)	6.01	8.90	-13.20
OPBDIT/ OI (%)	19.25%	8.62%	-1.88%
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
				Jan 2019	Sep 2018	-	-	-
1	Cash credit	Long Term	35.00	**[ICRA]BBB+(Stable)**	-	-	-	-
2	Non Fund based	Long Term/ Short Term	162.95	**[ICRA]BBB+(Stable)/ [ICRA]A2**	-	-	-	-
3	Unallocated	Long Term/ Short Term	14.55	**[ICRA]BBB+(Stable)/ [ICRA]A2**	**[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
-	Cash credit	21/12/2017	-	-	35.00	[ICRA]BBB+(Stable)
-	Letter of credit 1	21/12/2017	-	-	17.00	[ICRA]BBB+(Stable)/[ICRA]A2
-	Letter of credit 2	31/07/2018	-	-	100.00	[ICRA]BBB+(Stable)/[ICRA]A2
-	Bank Guarantee	21/12/2017	-	-	45.95	[ICRA]BBB+(Stable)/[ICRA]A2
-	Unallocated	NA	NA	NA	14.55	[ICRA]BBB+(Stable)/[ICRA]A2

Source: OGL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
EVEY Trans Private Limited (ETPL)	100.00%	Limited Consolidation
TF Solar Power Pvt. Ltd	100.00%	Limited Consolidation

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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.

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