November 03, 2021

Ola Electric Technologies Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	750.0	[ICRA]A(Stable); Assigned
Long-term Non-fund-based limits	(450.0)	[ICRA]A (Stable); Assigned
Total	**750.0**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of Ola Electric Technologies Private Limited (OETPL) and its parent, Ola Electric Mobility Private Limited (OEMPL), for arriving at the credit ratings, given their common management and the significant operational and financial linkages between the entities. Hereafter, the entities are together referred to as 'the Company'.

The assigned rating favourably factors in the Company's strong balance sheet, characterised by a robust capital structure and liquidity profile, as well as its superior financial flexibility, by virtue of being backed by well-funded institutional investors. Even as this is the first foray of the Ola Group[1] into the manufacturing business and the manufacturing unit has only recently commenced production, the rating assigned takes comfort from the Company's experienced leadership team, feature rich products, healthy order book position (as on date) and highly integrated operations, which support its operational profile. In addition, the favourable outlook for the Indian electric two-wheeler (e2W) industry, backed by supportive Government policies (like the Faster Adoption and Manufacturing of Hybrid and Electric Vehicle (FAME) scheme and the Production Linked Incentive (PLI) scheme), improving battery technology, falling battery cell cost and greater customer acceptability, is expected to aid the growth prospects of the Company and support healthy ramp up of its operations.

Established in January 2021, OETPL, is the manufacturing arm of the Ola Group's electric mobility business. The initial focus of the Company will be on the e2W segment, with gradual foray into other automotive segments over the medium to long-term. OETPL is setting up the largest integrated e2W manufacturing plant in India, with an annual capacity of 2 million units (with plans to ramp up to 10 million units over the medium to long-term) in Krishnagiri district of Tamil Nadu. The Company has secured equity funds of $515 million over the past three years and is valued at ~$3 billion (as per latest round of funding in September 2021). The backing of large and resourceful investors provides comfort and ICRA expects the Company to raise additional equity funding over the medium term for its expansion plans and increase localisation of components that are currently imported.

Even as the first phase of construction (0.5-million capacity) is currently in the execution stage, the presence of an experienced leadership team, financial closure of the project and comfortable liquidity (to meet any contingent funding requirements) are a credit positive and are expected to ensure timely commercialisation of the project. A healthy order book, wherein the Company garnered orders worth ~Rs. 1,100 crore within a two-day booking window, provides near-term revenue visibility and reflects the positive consumer interest in the initial products launched. A large scale of operations, coupled with high integration, wherein the company intends to only import battery cells and carry out the remaining value addition itself, is expected to support faster margin expansion as volumes ramp up. Furthermore, benefits from setting up a supplier's park in

[1] *Ola Group refers to the several businesses promoted by Mr. Bhavish Aggarwal viz. ride-hailing, financial services, food brands and manufacture and sales of electric vehicles, among others.*

the vicinity of the existing plant and declining battery cell prices will likely support the Company's margin profile over the medium term.

The rating assigned remains constrained by the lack of any track record of on-road performance of the Company's e2Ws. As commercial deliveries are yet to commence, the ability to successfully ramp-up the production and delivery set-up, along with product acceptability, remains a monitorable. With significant capex plans over FY2022 and FY2023, the Company would remain exposed to project stabilisation risks, even as the sizable liquidity on its books should help fund any contingencies. ICRA notes the Company's import dependence for battery cells, wherein any supply chain disruptions could delay ramp-up of the operations. Furthermore, given the intense competition in the domestic 2W industry from incumbent OEMs (and their conventional 2Ws) and start-up e2W OEMs, OETPL would need to consistently invest in new product development and business growth. Even as the capital-intensive nature of operations and expectation of a gradual ramp-up in volumes are likely to lead to the Company incurring cash losses in the initial stages of operations, ICRA takes comfort from the strong liquidity profile and an expectation of continued fund raises from investors for future growth plans.

The Stable outlook on the long-term rating reflects ICRA's expectation that OETPL will occupy a dominant position in the Indian e2W industry over the medium term, aided by its large scale of operations, strong product portfolio and regular investments in new model launches and R&D for future technologies. Further, a healthy capital structure and liquidity would help the company navigate the initial ramp-up and stabilisation phase or any other contingencies.

Key rating drivers and their description

Credit strengths

Robust capital structure and comfortable liquidity; strong financial flexibility emanating from backing of well-funded institutional investors – OETPL, a 100% subsidiary of OEMPL, is promoted by reputed international investors like the SoftBank Group, Tiger Global Management, Matrix Partners, Falcon Edge Capital, Hyundai Motors, and Kia Motors, among others. Mr. Bhavish Aggarwal, the founder of Ola Group, together with other investors, have cumulatively infused ~$515 million of long-term capital into the company over the past three years (~$200 million raised in September 2021), thereby leading to healthy capitalisation and limited reliance on external borrowings. Given its track record, ICRA expects further rounds of funding raise over the medium term, which would continue to support the company's capital structure and liquidity profile.

Favourable EV industry outlook aided by supportive Government policies – While India is the largest conventional 2W market (in terms of volumes sold), its e2W industry is still nascent, with barely 1% penetration in FY2021. However, there has been a strong push by both the Central and state governments for faster adoption of EVs, especially in recent times. The revised FAME-II guidelines in June 2021 have led to an increase in subsidies for all eligible e2Ws by 50% to Rs. 15,000 per kilowatt hour. Coupled with the upfront subsidy offered under several state EV policies, this is expected to increase demand for the higher speed e2Ws and accelerate the electrification transition. Furthermore, the significant investment layout announced under the PLI scheme for the automobile segment and advanced chemistry cell batteries is expected to accelerate investments towards a local EV ecosystem development. Given the improving product features, policy support and enhanced pricing parity with conventional 2Ws, the e2W industry volumes are expected to grow at a robust pace over the medium term, leading to healthy revenue growth potential for OETPL.

Confirmed order book provides healthy revenue visibility – OETPL commenced pre-bookings for its maiden products—Ola S1 and S1 Pro—on July 15, 2021 and has since seen pre-bookings (entailing an outlay of Rs. 500/booking) soar to over five lakh units. More importantly, the company opened a two-day booking window for these products on September 15, 2021 and received confirmed bookings of ~Rs. 1,100 crore of sales during the short window, providing near-term revenue visibility, lending confidence on consumer interest in the product. While timely execution remains a key monitorable, ICRA expects a healthy ramp-up in volumes to support the Company's revenue growth over the medium term.

Project financial closure achieved; favourable sanction terms to support cash flows during ramp-up stage – OETPL has secured project debt of Rs. 750 crore for the first phase (0.5 million) of its 2-million plant capacity. Besides a competitive pricing, a long moratorium period (repayments expected to commence from September 2023) is expected to help OETPL conserve cash during the ramp-up stage. Moreover, OETPL is maintaining a separate account with the lender (funded through promoter equity) funded with the interest during moratorium (IDM). This would ensure timely servicing of debt in the near-term. In addition, the Company is expected to create debt servicing retention account (DSRA) equivalent to three quarters' interest and principal obligation with the lender (requirement to decrease to one quarter once the Company turns profitable at net level), before commercial operations begin.

High backward integration and large scale likely to support margin profile over medium term – Aided by the strong backing from various institutional investors, the Company plans to set up the largest single location 2W manufacturing plant globally. With a 2-million capacity plant expected to become operational by FY2023, OETPL will have the largest e2W capacity in India. Barring battery cells, the Company will manufacture all components in-house, giving it greater control over cost and quality. Furthermore, a proposed supplier park in the plant's vicinity, over the near to medium term, would reduce logistic costs and improve inventory management. Cumulatively, a large scale and highly integrated operations, would support faster margin expansion for OETPL, as volumes ramp up over the medium term.

Credit challenges

Limited track record of e2Ws operations; promoters' first foray into manufacturing, albeit experienced management team provides comfort – OETPL is Ola Group's first venture in the manufacturing business. Although the Company launched its first e2W products in August 2021, the same are yet to hit the road. While a healthy order book, and favourable product reviews are a positive, uncertainty about the product's on-road performance persists. ICRA would, thus, continue to track the OEM's ability to ramp-up production and delivery (wherein the Company has adopted a home delivery option rather than the conventional dealership model). Any underperformance, especially with respect to product availability and reliability, has the potential to impact the Company's operations and, hence, would be a key monitorable. Nevertheless, ICRA takes comfort from its experienced leadership team with its extensive track record in manufacturing and other OEM operations. Further, acquisition of Amsterdam-based Ertergo BV in 2020, which developed the state-of-the-art "AppScooter" concept and platform, augmented OETPL's engine design and engineering capabilities.

Project exposed to stabilisation risks - OETPL commenced production at its maiden plant in October 2021 and has planned an aggressive ramp-up in capacity, from 0.5 million units in FY2022 to 2.0 million units by FY2023 (extent of ramp up would remain contingent upon the orders received for its product launches). OETPL, thus, remains exposed to the inherent risks associated with project stabilization. A capex of ~Rs 2,400-2,500 crore is estimated to fund this capacity creation and expansion over FY2022 and FY2023. While a healthy proportion of this capex will be funded via equity, future growth plans may require additional capital and would remain a monitorable.

Dependence on imports for supply of critical components – Given the Company's import dependence for battery cells (in line with the Indian EV industry), the supply of e2Ws by OETPL would remain vulnerable to geo-political developments between India and the cell exporting nations. Any change in regulations related to imports of components or supply chain disruptions could likely impact OETPL's operations. However, the fact that volumes are expected to ramp-up gradually and that the Company will be maintaining an inventory of around 45-50 days of cell requirement are expected to prevent any major disruptions to operations.

Lack of adequate charging infrastructure may constrain EV penetration in the near-term – India is in the nascent stage of EV adoption and faces several challenges, including lack of adequate charging infrastructure. While improvement in battery technology has led to longer range per charge for contemporary e2Ws like Ola's S1 and S1 Pro, a visible, user-friendly, and affordable charging network would be required to alleviate the consumer's range anxiety and propel faster EV penetration.

Intense competition in the domestic 2W segment necessitating consistent investments for business growth - The Indian 2W industry is highly competitive with regular launches of new products and refreshes by OEMs to gain/maintain market share. Given the structural shift in customer preferences towards EVs over the medium to long-term, the competitive intensity in this segment is also expected to increase, as both incumbent OEMs and e2W start-ups race to gain market share. Consequently, consistent investment in EV technology, new product development and regular model launches will remain crucial for OETPL to maintain its leading position in the Indian 2W market.

Liquidity position: Strong

The company's liquidity profile is **Strong**, supported by cash and equivalents of ~Rs. 2,575 crore as on October 25, 2021, including major inflows from the $200 million equity raised from institutional investors in September 2021. In addition, the company had an undrawn project debt of ~Rs. 485 crore to help fund its ongoing capex programme. Against the surplus available, while the company has no repayment obligations till FY2024, it has sizable capex commitments over the near term. Additionally, initial stages of project ramp-up may require significant funding for working capital and operating losses. The available cash balances, equity fund inflows and undrawn project debt are expected to be more than adequate to meet these requirements. ICRA expects the company will continue to raise further funds over the medium term, which will be used primarily for capacity expansion, new product development and geographic diversification, etc.

Rating sensitivities

Positive factors – Healthy ramp up in its operations coupled with stabilisation of cost structure, while maintaining a comfortable capitalisation could be favourably considered for a rating upgrade.

Negative factors – Negative pressures on OETPL's rating could arise due to delayed project ramp-up, weak product acceptability and/or increase in competition, leading to lower than anticipated sales volumes and profitability. An elongated working capital cycle, or any large debt-funded growth plans (inorganic or organic; barring the ongoing capex programme) that could lead to deterioration in credit metrics or sizeable cash outflow, would also be a key monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Two-wheeler Manufacturers Rating approach - Consolidation
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of OEMPL. As on March 31, 2021, OEMPL had two subsidiaries, including OETPL, which are all enlisted in Annexure-2.

About the company

Incorporated in January 2021, OETPL designs, manufactures and sells electric two-wheelers. The company is setting up a state-of-the-art plant in Tamil Nadu, with an annual production capacity of 2 million e2Ws (to be developed in phases by FY2023). OETPL is a 100% subsidiary of Ola Electric Mobility Pvt. Ltd. (OEMPL), a start-up company in the electric vehicle manufacturing and mobility space. The start-up has raised $515 million equity over the past three years from reputed investors like SoftBank, Tiger Global Capital, Matrix Partners, Falcon Edge Capital, etc, and is valued at ~$3 billion (as per latest round of funding in September 2021). It is part of the Ola Group promoted by Mr. Bhavish Aggarwal, which is present in multiple businesses, viz., ride hailing, financial services, food brands, etc.

Key financial indicators (audited)

	OETPL (Standalone)	OEMPL (Consolidated)
	FY2021	FY2021
Operating Income (Rs. crore)	0.0	0.9
PAT (Rs. crore)	-9.4	-190.1
OPBDIT/OI (%)	--*	--*
PAT/OI (%)	--*	--*
Total Outside Liabilities/Tangible Net Worth (times)	80.0	0.1
Total Debt/OPBDIT (times)	-0.9	-0.2
Interest Coverage (times)	--	-318.8

*Source: Company Provisional Results; ICRA Research; * Not meaningful as no operations.*
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

Sl. No.	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on Sep 30, 2021	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 3, 2021	-	-	-
1	Term Loan	Long term	750.0	80.9	[ICRA]A (Stable)	-	-	-
2	Bank Guarantee/ Letter of Credit*	Long term	(450.0)	116.0	[ICRA]A (Stable)	-	-	-

**Sublimit of Term Loan*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Bank Guarantee/ Letter of Credit	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, is available on ICRA's website: www.icra.in

Annexure 1: Instrument details

ISIN No/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Bank of Baroda	Term Loan	May 4, 2021	-	Mar 31, 2031	750.0	[ICRA]A(Stable)
	Bank Guarantee/ Letter of Credit*	May 4, 2021	-	-	(450.0)	[ICRA]A(Stable)

*Source: Company * Sublimit of Term Loan facility*

Annexure 2: List of entities considered for consolidated analysis

Company Name	OETPL Ownership	Consolidation Approach
Ola Electric Mobility Private Limited	- Parent of Rated Entity	Full consolidation
Ola Electric Technologies Private Limited	100.0% Rated Entity	Full Consolidation
Ola Electric B.V Netherlands	100.0% Fellow Subsidiary	Full Consolidation
Etergo B.V. Netherlands (Subsidiary of Ola Electric B.V Netherlands)	-	Full Consolidation

Source: Company

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