November 30, 2021

Olectra Greentech Limited: Ratings reaffirmed, outlook revised to Positive

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Cash Credit	40.00	40.00	[ICRA]BBB+; reaffirmed and outlook revised to Positive from Stable
Short Term – Fund Based	2.00	2.00	[ICRA]A2; reaffirmed
Long Term/Short Term – Non-fund Based	173.16	173.16	[ICRA]BBB+/[ICRA]A2; reaffirmed and outlook revised to Positive from Stable
Short Term – Non-fund Based	6.30	6.30	[ICRA]A2; reaffirmed
Long Term/Short Term – Unallocated	79.04	79.04	[ICRA]BBB+/[ICRA]A2; reaffirmed and outlook revised to Positive from Stable
Total	**300.50**	**300.50**	

**Instrument details are provided in Annexure-1*

Rationale

The outlook revision factors in the expected strong performance of Olectra Greentech Limited's (OGL) e-bus division in H2 FY2022 which is likely to support growth in its revenues and margins. The company's order book of the e-bus division improved significantly to 1,575 buses as on November 16, 2021 as against 792 as on June 30, 2020. While the order execution was impacted by the Covid-19 pandemic over the past 18 months, the company plans to deliver ~100-110 buses in Q3 FY2022 and ~200 – 300 buses in Q4 FY2022 (as against 88 buses sold in FY2021 and 29 buses in H1 FY2022) which would lead to significant growth in revenues and healthy profits. It's ability to achieve the growth and the timely delivery of the buses would remain a key rating monitorable. The ratings factor in the favourable demand prospects for electric vehicles (EV'-s), which would aid healthy order inflow and ramp-up in operations. The assistance from Government initiatives such as reduction of GST rate on e-buses, introduction of FAME I and FAME II scheme to promote electric mobility in India, etc also support the growth prospects. The ratings consider strong financial flexibility enjoyed by OGL, being a step-down subsidiary of Megha Engineering & Infrastructures Limited (MEIL). The company's capital structure remains strong given the significant equity infusion from the parent group and overall equity infusion of Rs. 660.6 crore during the past three years. ICRA notes that while the company has significant capex plans over the next 12-18 months, its debt metrics are expected to remain robust, considering the funding support from the parent group. The ratings consider OGL's technical collaboration with BYD, which is a renowned and established player in the EV space and the company's established track record in the polymer insulators segment.

The ratings are, however, constrained by its high working capital intensity, as reflected in high NWC/OI of 77% as on March 31, 2021, primarily owing to high debtor days due to delays in receiving payments from Evey Trans Private Limited (Evey) for the buses supplied. However, ICRA notes that the receivables reduced significantly in November 2021 with receipt of most of the payments from Evey. The working capital requirements for the e-bus division are anticipated to increase, given the sizeable ramp-up expected in the near term. However, the likely advances from Evey towards supply of buses would support the funding of working capital requirements. Further, ICRA notes that OGL's bus division operations are dependent on technology support from BYD and faces stiff competition from players such as Tata motors Limited (TML), Ashok Leyland Ltd, Foton PMI, and JBM Solaris, etc. 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 Co Ltd 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. BYD has the largest fleet of 100% electric buses in the world. At present, OGL has four models of electric buses namely K-6 (7 metres), K-7 (9 metres), and K-9 (12 metres), C-9 (12 metres coach model).

Extensive experience of promoters in polymer insulators industry – The promoters have more than 15 years of experience in manufacturing composite polymers insulators. OGL is an ISO 9001:2008-certified company with a research and development unit for polymer insulators. In addition, it reported orders for supply of Rs. 69-crore insulators as on October 31, 2021 providing revenue visibility for the insulators division.

Healthy order book position – The company has a healthy orderbook for supplying 1,575 e-buses as on November 16, 2021, out of which 1,125 e-bus orders are received under FAME II scheme. These buses are to be supplied over a period of 12-15 months. Further, the company is bidding for more orders. Moreover, strong growth is expected in Q3 and Q4 FY2022. Considering the high demand and healthy order book position, the company also plans to incur capex to enhance the electric bus manufacturing capacity. Further, it has plans to venture into manufacturing of electric trucks, passenger vehicles and three-wheeler segments.

Healthy financial risk profile – The company's financial risk profile is healthy with gearing of 0.01 times and TOL/TNW of 0.25 times as on March 31, 2021, given its healthy net worth of Rs. 740.7 crore as on March 31, 2021. OGL's capital structure remains strong given the significant equity infusion from the parent group and overall equity infusion of Rs. 660.6 crore during the past three years**.** ICRA notes that while it has significant capex plans over the next 12-18 months, the debt metrics are expected to remain strong considering the funding support from the parent group.

Credit challenges

High working capital intensity – OGL's operations remain working capital intensive, as reflected in high NWC/OI of 77% as on March 31, 2021, primarily owing to high debtor days due to delays in receiving payments from Evey for the buses supplied. However, ICRA notes that the receivables reduced significantly in November 2021 with receipt of most of the payments from Evey. For the e-bus division, the company maintains inventory of 60-90 days. The e-bus division accounted for 73% of the inventory as on March 31, 2021. The working capital requirements for the e-bus division are likely to increase, considering the sizeable ramp-up anticipated in the near term. However, expected advances from Evey towards supply of buses would support the funding of working capital requirements.

Risk of delays in the execution in e-bus division – OGL's operating income (OI) declined by 30% to Rs. 277.2 crore in FY2021 from Rs. 395.5 crore owing to the declined revenues from e-bus division. The e-buses supplied in FY2021 was 88 against 155 buses in FY2020 as manufacturing operations were impacted by the Covid-19 pandemic. However, in H1 FY2022, the company's OI increased by 57% to Rs. 113.7 crore. Further, it is expected to supply ~300-400 buses in H2 FY2022 and the company's ability to achieve the growth and the timely delivery of the buses would remain a key rating monitorable.

Exposure to fluctuation in raw material prices and increasing competition in e-bus industry – The profitability of OGL's insulators division is exposed to fluctuation in raw material prices as seen in the past, given the fixed-price nature of the orders. The bus division operations are dependent on continued technology support from BYD and it faces stiff competition from players such as TML, Ashok Leyland Limited, PMI Foton, JBM Solaris, etc.

Liquidity position: Adequate

OGL's liquidity position is **adequate** with an unutilised working capital limits of ~Rs. 20.0-25.0 crore and the retained cash flows are expected to be Rs. 35-40 crore against debt repayment of less than Rs. 1-2 crore in FY2022. Further, enhancement of the working capital limits is likely to support OGL's liquidity position in the near term. Also, ICRA notes that while the company has significant capex plans in the near term, the same is anticipated to be funded by the parent group.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company witnesses strong growth in scale of operations under its e-bus division, while maintaining healthy profitability margins on a sustained basis and efficiently managing its working capital requirements.

Negative factors – The ratings could be downgraded if slower ramp-up in e-bus supply leads to materially low revenues or margins, on a sustained basis. Any sizeable debt-funded capex adversely impacting the company's credit metrics or stretch in the working capital cycle or delay in enhancement of working capital limits impacting its liquidity position could result in negative pressure on OGL's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Olectra Greentech Limited. As on March 31, 2021, the company had three subsidiaries that are enlisted in Annexure-2.

About the company

OGL (earlier known as Goldstone Infratech Limited) was incorporated in 2000. The company is into 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 car maker) for manufacturing of electric buses. Electric buses are sold under the joint brand name of Olectra BYD. It has successfully delivered a total of ~386 e-buses to various state transport undertakings (STUs) in India and a few private parties till September 30, 2021.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	200.5	281.4
PAT (Rs. crore)	13.5	8.0
OPBDIT/OI (%)	2.5%	7.2%
PAT/OI (%)	6.7%	2.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3
Total Debt/OPBDIT (times)	5.9	0.4
Interest Coverage (times)	0.4	2.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on August 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019		
					November 30, 2021	August 27, 2020	November 21, 2019	October 25, 2019	January 14, 2019	September 28, 2018	
1	Cash Credit	Long Term	40.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+(Positive)	[ICRA]BBB+ (Stable)	NA	
2	Fund Based	Short Term	2.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	NA	NA	NA	
3	Non-fund Based	Long/Short Term	173.16	-	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive) /[ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	NA	
4	Non-fund Based	Short Term	6.30	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	NA	NA	NA	
5	Unallocated	Long/Short Term	79.04	-	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Standby Letter of Credit	Very Simple
Letter of Credit	Very Simple
Bank Guarantee	Very Simple
Forwards/Derivatives	Very Simple
Unallocated	Not Applicable

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: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	40.00	[ICRA]BBB+ (Positive)
NA	Standby Letter of Credit	-	-	-	2.00	[ICRA]A2
NA	Letter of Credit	-	-	-	120.00	[ICRA]BBB+ (Positive)/ [ICRA]A2
NA	Bank Guarantee	-	-	-	53.16	[ICRA]BBB+ (Positive)/ [ICRA]A2
NA	Forwards/Derivatives	-	-	-	6.30	[ICRA]A2
NA	Unallocated	-	-	-	79.04	[ICRA]BBB+ (Positive)/ [ICRA]A2

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
SSISPL-OGL-BYD Consortium	99.98%	Full Consolidation
Evey Trans (GTC) Private Limited	51%	Full Consolidation
TF Solar Private Limited	100.0%	Full 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.

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.

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