December 23, 2022

Ola Electric Technologies Private Limited: Long-term rating of [ICRA]A reaffirmed; short-term rating of [ICRA]A1 assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	750.0	750.0	[ICRA]A (Stable); Reaffirmed
Long-Term Non-Fund based Limits	(450.0)	(340.0)	[ICRA]A (Stable); Reaffirmed
Long term/ Short-term Fund Based Limits/ Non-Fund based Limits	0.0	1,061.0	[ICRA]A (Stable)/[ICRA]A1; Assigned
Long-term/ Short-term Unallocated Limits	0.0	76.0	[ICRA]A (Stable)/[ICRA]A1; Assigned
Total	**750.0**	**1,887.0**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view on 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 as well as significant operational and financial linkages between the entities. Hereafter, both the entities are together referred to as the company.

The ratings continue to favourably factor in the company's strong balance sheet, characterised by a healthy capital structure and adequate liquidity profile, aided by funds raised from institutional investors. Even as the company commenced deliveries of electric two-wheelers (e2W) only from December 2021, it has assumed a leadership position in this burgeoning e2w industry in the current fiscal till date, aided by a ramp up in sales over the past few months. A favourable outlook for the Indian e2W industry, backed by supportive Government policies (like the Faster Adoption and Manufacturing of Hybrid and Electric Vehicle, or FAME, scheme and the Production Linked Incentive, or PLI, scheme), improving battery technology and greater customer acceptability, is expected to aid the growth prospects of the company, and support a further ramp up in its operations.

Established in January 2021, OETPL is a manufacturing entity engaged in the electric mobility business. The initial focus of the company is on the e2W segment, with a gradual foray into other automotive segments also planned over the medium to long-term. OETPL has set up an integrated e2W manufacturing plant in India, with currently an annual production capacity of ~0.5-million-units (and plans to ramp up to 10-million-units over the medium to long term) in Krishnagiri district of Tamil Nadu. Aided by a healthy order book upon model launch, the company was able to achieve a relatively healthy ramp up of sales in the first 2-3 months (till March 2022). The company's volumes, however, moderated from April-August 2022 on account of semiconductor chip shortages leading to suboptimal utilisation of capacity; the same coupled with heightened electronic procurement/logistics costs led to significant losses (~Rs. 416 crore at OETPL (standalone) level in H1 FY2023). Aided by easing of semiconductor supplies and healthy demand for its feature-rich products, the company has, however, seen a healthy improvement in sales volumes over the past few months. In October 2022, the company launched a third variant of its existing scooter platform (Ola S1 Air), which is priced nearly at par with the ICE variants. With deliveries of the same slated to commence from March 2023, the company is well positioned to maintain its leadership status in the segment.

An expected ramp up in scale of operations coupled with various value engineering initiatives being currently undertaken by the company are expected to help reduce its operational losses and progress towards cash break-even over a medium term. The company manufactures the bulk of the components required in-house, giving it greater control over cost and quality; plans to set up a battery cell manufacturing facility are also underway and the company has already signed an agreement with the Government under the Advanced Chemistry Cell Production Linked Incentive (ACC PLI) scheme to avail fiscal benefits. The improving backward integration is expected to support the company's margin profile over the medium term.

ICRA notes that the company plans to set up a battery cell manufacturing facility, with commercial production targeted to commence from December 2023. Initially the company plans to set up a 1-GwH manufacturing facility and gradually ramp it up to comply with the ACC PLI targets. The company's ability to achieve a timely commercialisation of the facility, secure adequate supplies of key minerals, achieve desired localisation levels and the funding mix adopted for various phases of the capacity expansion would remain key monitorables. The company has been able to secure equity funds of ~$652 million over the past three years. The backing of large and resourceful investors provides comfort. ICRA expects the company to raise additional equity funding over the medium term to fund expansion plans, in a scenario where the ramp up in cash accruals is delayed.

The rating assigned remains constrained by the lack of a long established track record of on-road performance ofe2Ws in the Indian market. 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. The company remains exposed to sizeable delays in receiving subsidy claims under the FAME II scheme; any inordinate delays in receipt of the same would increase its working capital requirements. Even as the capital-intensive nature of operations and expectation of a gradual ramp-up in volumes may lead to the company incurring further cash losses over the near term, ICRA takes comfort from the liquidity profile.

The Stable outlook on the long-term rating reflects ICRA's expectation that OETPL would continue to occupy a leading position in the Indian e2W industry over the medium term, aided by its large scale of operations, healthy 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 ramp-up linked stabilisation phase, or any other contingencies.

Key rating drivers and their description

Credit strengths

Comfortable capital structure and liquidity profile – OEMPL, the parent entity of OETPL, is promoted by reputed international investors like the SoftBank Group, Tiger Global Management, Matrix Partners, and Falcon Edge Capital, among others. Mr. Bhavish Aggarwal, the founder of Ola Group, together with other investors, have cumulatively infused ~$652 million of long-term capital into the company over the past few years, thereby leading to healthy capitalisation and moderate reliance on external borrowings. Given its track record, the company could look at further rounds of fund raising over the medium term, which may 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 ~14-16% penetration expected in the scooter segment in FY2023. A strong push by both the Central and state governments for faster adoption of EVs, has led to improved demand for the higher speed e2Ws and accelerated 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.

Improving market position in the e2W segment – Ola initially launched its first two e-scooter models/variants, S1 and S1 pro, in August 2021, and deliveries commenced from December 2021. Aided by a healthy order book upon model launch, the company achieved a relatively healthy ramp up of sales in the first 2-3 months (till March 2022). Even as the company's volumes moderated from April-August 2022 on account of semiconductor chip shortages, the company has seen a healthy improvement in sales volumes over the past few months; in the past three months (September-November 2022), the company has assumed the leadership position in this burgeoning e2w industry. To further bolster the demand for the company's products in the market, in October 2022, it launched a third variant of its existing scooter platform (Ola S1 Air), which is priced nearly at par with the ICE variants. With deliveries of the same slated to commence from March 2023, the company is well positioned to maintain its market leadership status in the segment.

Favourable sanction terms support cash flows during ramp-up stage – A relatively long moratorium period (repayments to commence from December 2023) is expected to help OETPL conserve cash during the ramp-up stage. Moreover, OETPL is maintaining a separate account with the lender, funded by the interest during moratorium (IDM). This would ensure timely servicing of debt in the near-term. In addition, the company has created a debt servicing retention account (DSRA) equivalent to three quarters' interest (to be topped up with principals due over the next nine months) with the lender (requirement to decrease to one quarter once the company turns profitable at net level), which provides comfort regarding servicing of debt obligations.

Improving backward integration likely to support margin profile over medium term – Aided by the strong backing from various institutional investors, the company has set up the largest e2w manufacturing plant in the country (capacity of ~5 lakh vehicles already commercialised, and can be ramped up to ~8 lakh vehicles without significant capex) and has plans to ramp up the capacity to become the largest, single-location 2W manufacturing plant globally over the medium term. The company manufactures the bulk of the components required in-house, giving it greater control over cost and quality. Its plans to set up a battery cell manufacturing facility are also underway, and the company has already signed an agreement with the Government under the PLI scheme to avail fiscal benefits. A proposed supplier park in the plant's vicinity, over the 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 e2W operations; promoters' first foray into manufacturing, albeit experienced management team provides comfort – OETPL is Ola Group's first venture in the manufacturing business. The company only started its deliveries for e2ws from January 2022. The company has proceeded to launch two other variants of its product, thereby enhancing the options available to the consumer. Even as there has been a healthy pick up in the company's sales over the past few months, ICRA would 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), going forward. 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 the company's experienced leadership team with its extensive track record in manufacturing and other OEM operations.

Significant operational losses – OETPL commenced production at its maiden plant towards the end of FY2022 and has recorded substantial operating losses in the current fiscal till date (~Rs. 416 crore at OETPL level) due to multiple factors—lower operating leverage, heightened cell/electronics costs (premium paid to secure certain supplies), elevated logistics costs as well as certain one-off costs that the company had to incur due to the supply shortage. The management has guided that the company has taken substantial value engineering initiatives to bring down the bill of material cost, which is likely to start yielding results over the near term, and aid in substantial reduction in the cost of production. Coupled with improved operating leverage, this would aid in helping the company lower its operating losses and progress towards reporting operational profits. The ability of the company to achieve break-even remains to be seen and would remain critical in helping the company maintain a healthy credit profile.

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 cell exporting nations over the near to medium term. Any change in regulations related to imports of components or supply chain disruptions could likely impact OETPL's operations. The company's operations in the first half of the current fiscal were adversely impacted by semiconductor chip shortages and heighted logistics and electronic parts procurement costs. ICRA notes that the company has plans to set up a battery cell manufacturing facility, with commercial production for the facility targeted to begin by December 2023. The company's ability to achieve a timely commercialisation of the facility would reduce the company's dependence on imports and aid its growth prospects.

Intense competition in the domestic 2W segment necessitating consistent investments – 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 establish a leading position in the Indian 2W market.

Sizeable dependence on FAME subsidy– With FAME II subsidy constituting ~25-30% of the overall price of the company's products, its timely receipt remains key, till a reduction in cost of production lowers dependence on the same. Ola had subsidy receivables from the Government of ~Rs. 360 crore as of September 30, 2022, leading to enhanced working capital requirements; ICRA notes that the company has received subsidy disbursement of ~Rs. 259 crore over the past two months, leading to a reduction in subsidy receivables. In the e2W industry, the Government has held back the subsidy receivables for select players, amid allegations of violations of localisation norms mandated to be eligible for the subsidy; in this regard, the receipt of subsidy for Ola over the recent past provides comfort regarding the company meeting the mandated localisation norms. Nonetheless, timely receipt of the subsidy receivables remains monitorable over the near term.

Liquidity position: Adequate

The company's liquidity profile is adequate, supported by unencumbered cash and bank balances of ~Rs. 1,397 crore as on November 30, 2022 (at a consolidated level). While OETPL has sizable capex commitments (especially towards battery cell manufacturing) over the near to medium term, along with some working capital and loss funding requirements likely over the near term, the available equity funds are expected to be more than adequate to meet the same. The repayments for the term loan availed for setting up the manufacturing facility fall due from December 2023. ICRA expects the company to 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 the ability to achieve cash break even on a sustained basis, while maintaining a comfortable capitalisation, could be favourably considered for a rating upgrade.

Negative factors – Negative pressures on OETPL's rating could arise from weak product acceptability and/or increase in competition, leading to lower than anticipated sales volumes and profitability. An elongated working capital cycle, or adverse impact of any large debt-funded growth plans (in the context of plans to set up battery cell manufacturing capabilities), which lead to a deterioration in liquidity profile and credit metrics, 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 November 30, 2022, OEMPL had nine subsidiaries (including step-down subsidiaries), including OETPL, which are all enlisted in Annexure-2.

About the company

Incorporated in January 2021, OETPL was set-up to design, manufacture and sell e2Ws. The company has set up a state-of-the-art plant in Tamil Nadu, India, with a targeted annual production capacity of 2 million e2Ws (to be developed in phases over the medium term). OETPL is a 100% subsidiary of OEMPL, a start-up company in the EV manufacturing and e-mobility space. The start-up has raised ~$652 million equity over the past three years from reputed investors like SoftBank, Tiger Global Capital, Matrix Partners, and Falcon Edge Capital, etc, and is valued at ~$5 billion (as per the latest round of funding in February–April 2022). It is part of the Ola Group promoted by Mr. Bhavish Aggarwal, which is present in multiple businesses, viz., ride hailing, financial services, etc.

Key financial indicators (audited)

	OEMPL (Consolidated)		OETPL (Standalone)	
	FY2021	FY2022	FY2022	H1 FY2023*
Operating income	0.9	373.4	355.2	996.5
PAT	(199.2)	(784.2)	(630.4)	(542.6)
OPBDIT/OI	-	-205.7%	-161.9%	-41.7%
PAT/OI	-	-210.0%	-177.5%	-54.4%
Total outside liabilities/Tangible net worth (times)	0.1	0.5	4.2	5.3
Total debt/OPBDIT (times)	(0.2)	(1.0)	(1.5)	(1.9)
Interest coverage (times)	(350.8)	(43.6)	(23.9)	(7.5)

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

*Source: Company, ICRA Research; * Provisional numbers; All calculations are as per ICRA Research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Nov 30, 2022 (Rs. crore)	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 23, 2022	Nov 3, 2021	-	-
1	**Term Loans**	Long term	750.0	521.0	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	-
2	**Non-Fund based Limits**	Long term	(340.0)	168.0	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	-
3	**Fund Based Limits/ Non-Fund based Limits**	Long term and short term	1,061.0	-	**[ICRA]A (Stable)/[ICRA]A1**	-	-	-
4	**Unallocated Limits**	Long term and short term	76.0	-	**[ICRA]A (Stable)/[ICRA]A1**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term Term Loans	Simple
Long-Term Non-Fund based Limits	Very Simple
Long term/ Short-term Fund Based Limits/ Non-Fund based Limits	Simple
Long-term/ Short-term Unallocated Limits	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 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	Term Loan-I	2021	-	2031	400.0	[ICRA]A (Stable)
NA	Term Loan-II	2021	-	2031	350.0	[ICRA]A (Stable)
NA	Non-Fund based Limits	NA	NA	NA	(340.0)	[ICRA]A (Stable)
NA	Fund Based Limits/ Non-Fund based Limits	NA	NA	NA	1,061.0	[ICRA]A (Stable)/[ICRA]A1
NA	Unallocated Limits	NA	NA	NA	76.0	[ICRA]A (Stable)/[ICRA]A1

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	LTHL Ownership	Consolidation Approach
Ola Electric Technologies Private Limited	100% (Rated Entity)	Full consolidation
Ola Electric Charging Private Limited	100%	Full consolidation
Ola Electric Mobility B.V.	100%	Full consolidation
Ola Electric Mobility Inc.	100%	Full consolidation
Etergo B.V.*	100%	Full consolidation
Etergo Operations B.V.**	100%	Full consolidation
Ola Electric UK Private Limited***	100%	Full consolidation
Ola Cell Technologies Private Limited	100%	Full consolidation
Ola Electric Technologies B.V.***		

*Source: company; *Wholly owned subsidiary of Ola Electric Mobility B.V., ** Wholly owned subsidiary of Etergo B.V.*

****Subsidiary of Ola Electric Mobility B.V.*

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