November 30, 2023

Ola Cell Technologies Private Limited: [ICRA]BBB(Stable)/[ICRA]A3+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	1,910.00	[ICRA]BBB(Stable); Assigned
Short-term – Interchangeable – Others	(22.00)	[ICRA]A3+; Assigned
Short-term – Interchangeable – Letter of Credit	(1,100.00)	[ICRA]A3+; Assigned
Total	**1,910.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned factors in the strong operational and financial support enjoyed by Ola Cell Technologies Private Limited (OCTPL) from its parent entity, Ola Electric Mobility Private Limited (OEMPL), which holds 100% stake in OCTPL. OEMPL, has cumulatively raised ~$792 million of funds from various investors over the past few years, thereby leading to adequate liquidity, healthy capitalisation and moderate reliance on external borrowings for the group. OCTPL is setting up a 5-GWh lithium-ion cell manufacturing facility in Krishnagiri, Tamil Nadu, which would act as a captive battery cell manufacturer for the Ola Electric Group (Ola Electric Technologies Private Limited (OETPL)) is the current market leader in the electric two-wheeler segment with a market share of ~35% (in 7M FY2024) for the foreseeable future. In the first phase 1(a), the company is planning to kick start the operations with 1.4GWh from March 2024, and expand to 5GWh by November 2024 as a part of phase 1(b); and in the second phase, the company plans to expand the scale to 20GWh by CY2027. The company has capex plans of Rs. 2,730.0 crore for FY2024-FY2025, which is expected to be funded through a mix of debt and equity. The financial closure for the project has already been achieved. OEMPL has already infused more than Rs. 400.0 crore of equity into OCTPL as of October 2023 and is expected to infuse further equity for funding, as and when required. The parent entity, OEMPL, has also provided a corporate guarantee for the project debt.

The ratings also factor in favourably the early mover advantage for the company in setting up lithium-ion cell manufacturing plant, with a gradual increase in penetration of electric vehicles (EVs) over the medium to long-term, which is expected to support the company's offtake prospects. While India is one of the larger automobile markets globally, its EV industry is still nascent. However, there has been a strong push by both the Central and state governments for faster adoption of EVs, especially in recent years. The ratings also take into account the project's eligibility under Advanced Chemistry Cell – Production Linked Incentive (ACC-PLI) scheme to receive subsidy benefits, which are expected to support project return metrices once operations ramp up. ICRA, however, notes that the ability of the company to achieve the desired production and domestic value addition levels to become eligible for the subsidy benefits remain to be seen.

The rating remains constrained by OCTPL's material exposure to risks of timely execution, demand/off-take, supply chain and technology obsolescence. The battery cell manufacturing segment is highly technologically complex and has significant dependence on imports for sourcing raw materials, which exposes the project to geopolitical and region-specific risks. In this regard, the company's in-house capabilities and its collaboration with Top Material Korea (TMK), South Korea, for the technology/supply chain, and expected, captive offtake from Ola Electric Group mitigates the risks to an extent. It is also expected to witness competition from imports and other players who have invested in lithium-ion cell manufacturing in India.

The Stable outlook on the long-term rating reflects ICRA's expectation that OCTPL will continue to enjoy access to operational and financial support from its parent entity, OEMPL, which would help the entity navigate the initial ramp-up and stabilisation phase or any other contingencies.

Key rating drivers and their description

Credit strengths

Strong parentage; access to operational and financial support – OCTPL is a 100% subsidiary of OEMPL, with the project activities being monitored by OEMPL. OCTPL is expected to act as a captive battery cell manufacturer for the Ola Electric Group for the foreseeable future, which provides some comfort regarding the offtake for the entity once operations commence. OCTPL also enjoys strong financial flexibility and lender/investor comfort from being a subsidiary of OEMPL. OEMPL has invested ~Rs. 432.4 crore (of the total planned equity portion of Rs. 820.0 crore for Phase I of the project) in the project till October 2023. OEMPL has also extended a corporate guarantee for OCTPL's sanctioned bank lines and is expected to extend timely and adequate financial and operational support, as and when required.

Early mover advantage in lithium-ion cell manufacturing; favourable demand outlook for EVs – Given the medium to long-term demand prospects for EVs, domestic auto OEMs and ancillaries are investing in developing a local vendor ecosystem, and OCTPL is one of the early movers in lithium-ion cell manufacturing in India. The company is setting up a 5 GWh lithium-ion cell manufacturing facility at Krishnagiri, Tamil Nadu, in two phases (by FY2025) with plans to further enhance the capacity to 20 Giga-Watt Hour (Gwh) by the end of CY2027. Construction for the first phase of 5 Gwh is in progress, and the company has plans to commence operations with a capacity of 1.4 Gwh from March 2024. The company would act as captive cell manufacture for the Ola Group in the foreseeable future. While India is one of the larger automobile markets globally, the EV industry is still nascent. However, there has been a strong push by both the Central and state governments for faster adoption of EVs, especially in recent years. The favourable EV demand prospects are likely to support a ramp up in the company's scale of operations over a medium term.

Eligibility under ACC-PLI scheme to support project return metrices – OCTPL was awarded benefits for 20 Gwh battery unit under the ACC-PLI scheme, wherein the company is eligible for subsidy on the basis of percentage of value-addition every year, for a period of five years starting from FY2025. Even as the ability of the company to achieve the desired production and domestic value addition levels remain to be seen, the availability of healthy subsidy benefits is expected to support the project return metrics to an extent over a medium term.

Credit challenges

Sizeable capex plans over medium term – The company is setting up a 5 GWh lithium-ion manufacturing facility in two phases,- with 1.4 Gwh in Phase I and 3.6 Gwh in Phase II, at Krishnagiri, Tamil Nadu (by FY2025), and extend it to 20 Gwh by the end of CY2027. The project cost would entail a capex of Rs. 2,730.0 crore during FY2024-FY2025. Part of the capex is to be funded through equity (Rs. 820.0 crore) from OEMPL and rest through term debt (Rs. 1,910.0 crore); the financial closure for the project has already been achieved. The company has incurred over Rs. 400.0 crore as of October 2023 towards project cost and the same was funded entirely through equity from OEMPL. The parent entity is expected to infuse further equity going forward as well for funding the project if there is any shortage of funds.

Project exposed to risks of execution, demand/off-take, supply chain and technology obsolescence – The project being in the initial stages of construction, exposes it to time and cost overruns. Further, battery cell manufacturing is highly technologically complex and has significant dependence on imports for sourcing raw materials, which exposes the project to geopolitical and region-specific risks. Also, there are risks on the off-take front, given that EV penetration is still in nascent stages; while ICRA notes that the cell manufacturing plant is planned to be used for captive use for its Group company, OETPL. An adequate ramp up in the operations of OETPL to support healthy offtake remains a monitorable. ICRA notes that the company is investing in lithium-ion cell technology; even as the management has indicated that they have plans to develop future technologies going forward, emergence of any alternative battery technologies remains a monitorable. The company's inhouse capabilities and its collaboration with TMK, South Korea for the technology/supply chain mitigate the risks to an extent.

Exposed to competitive risks – The company may face competition from imports and other players who have invested in lithium-ion cell manufacturing in India. In this regard, the relatively high capital intensity involved, OCTPL's early mover advantage, its strong parentage and captive consumption of batteries by the Group company are expected to mitigate the risk to an extent.

Liquidity position: Adequate

OCTPL's liquidity is expected to remain adequate, supported by periodic infusion of funds from its parent, OEMPL, and undrawn term loan of Rs. 1,910.0 crore as on date. The company had unencumbered cash and liquid investments of Rs. 15.8 crore as of March 31, 2023. While it has significant capex plans of Rs. 2,730.0 crore for FY2024-FY2025, which is expected to be funded through a mix of equity from OEMPL and debt, its repayment obligations are expected to commence only from Q1 FY2027. OEMPL is expected to extend timely and adequate financial support to OCTPL, as and when required.

Rating sensitivities

Positive factors – Timely commercialisation and ramp up in operations of the battery cell manufacturing plant, with the desired domestic value addition levels, would remain critical for improvement in ratings. An improvement in the credit profile of the parent could also lead to improvement in the ratings.

Negative factors – The ratings could be downgraded, if there is any weakening in the parent's credit profile or linkages with the parent. Additionally, negative pressure on ratings could arise if there is any significant time or cost overrun, delay in ramp up upon commencement of operations, leading to weakening of debt metrics or liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Auto Component Suppliers
Parent/Group support	The rating assigned to OCTPL factors in the very high likelihood of its parent entity, OEMPL, extending financial support to it because of the close business linkages between them. ICRA also expects OEMPL to be willing to extend financial support to OCTPL out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

About the company

Ola Cell Technologies Private Limited is a 100% subsidiary of Ola Electric Mobility Private Limited. The company was incorporated in July 2022. The company is setting up a 5-GWh lithium-ion cell manufacturing facility in Krishnagiri, Tamil Nadu, which would act as a captive battery cell manufacturer for the Ola Group for the foreseeable future. the company is planning to kick start the operations with 1.4GWh from March 2024, and expand to 5GWh by November 2024 as a part of phase 1(b); and in the second phase, the company plans to expand the scale to 20GWh by CY2027.

Key financial indicators: Not Applicable as it is a project stage entity

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Nov 27, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 30, 2023	-	-	-
1	**Fund Based-Term Loan***	Long term	1910.0	--	**[ICRA]BBB (Stable)**	-	-	-
2	**Interchangeable-Others**	Short term	(22.00)	--	**[ICRA]A3+**	-	-	-
3	**Interchangeable-Letter of Credit**	Short term	(1100.0)	--	**[ICRA]A3+**	-	-	-

***Term loan is sanctioned but not yet disbursed**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based-Term Loan	Simple
Short Term-Interchangeable-Others	Very Simple
Short Term-Interchangeable-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 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	Fund Based-Term Loan	FY2024	-	FY2034	1910.00	[ICRA]BBB(Stable)
NA	Interchangeable-Others	-	-	-	(22.00)	[ICRA]A3+
NA	Interchangeable-Letter of Credit	-	-	-	(1100.00)	[ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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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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