February 29, 2024

PUR Energy Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Cash Credit	80.00	80.00	[ICRA]BB+ (Stable) reaffirmed
Long Term / Short Term-Unallocated	45.00	45.00	[ICRA]BB+ (Stable) /[ICRA]A4+ reaffirmed
Issuer Rating	-	-	[ICRA]BB+ (Stable); reaffirmed
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings on PUR Energy Private Limited (PEPL) remains supported by the long-term favourable demand outlookon electric two-wheelers (e2W) in the country, PEPL's inhouse technology for powertrain and battery management system, which supports its operational profile and its collaboration with IIT – Hyderabad which provides access to institute's research facilities and network of industry personnel. ICRA expects the penetration of e2W to rise sharply in the next few years which shall consequently aid PEPL's ramp-up in operations and financial profile.

The ratings, however, constrained by the lower scale of operations and intense competition from incumbent Original Equipment Manufacturers OEMs (and their conventional 2Ws) along with start-up e2W OEMs. Its high-speed (HS) e2W sales volumes declined sharply by 53% in FY2023 leading to ~42% contraction in revenues, this was due to factors like competition, and disruption in its own production as it had to align its production process with enhanced safety norms for batteries (AIS 156 norms). PEPL's sales volumes remained low in H1 FY2024 as well; however, launch of new products has supported improvement in sales volumes and realisations since October 2023. The company is one of the early movers in EV motorcycle segment with two models (one each in premier/sports segment and commute segment. Lower scale of operations has impacted the company's operating margins, resulted in net losses in FY2023, and build-up of inventory, thus impacting PEPL's liquidity position. The company is in the process of raising long-term funds to support its expansion, i.e., to fund working capital, strengthen vendorand dealership network and marketing activities. Timely tie-up of the long-term funding remains critical for growth prospectsand improving the company's liquidity.

ICRA also notes that PEPL has not opted for FAME subsidy for any of its models; hence, the price of PEPL's e2Ws is higher than its peers' with comparable specifications. PEPL also remains exposed to geopolitical developments around the globe, which may impact the procurement/ prices of critical components like battery cells and impact growth prospects. The rating also remains constrained by modest market share in the high-speed scooter segment and company's operations being susceptible to any lithium battery thermal runaway incidents etc. which was observed in the industry.

The Stable outlook on the company's rating factor in ICRA's expectation that the healthy growth potential of the e2W industry will support the company's earnings growth, going forward.

Key rating drivers and their description

Credit strengths

Favourable outlook for EV vehicles provides revenue visibility over the medium term- While India is the largest conventional 2W market (in terms of volumes sold), its e2W industry is still nascent. The e2W industry prospects have been supported by various factors like improving battery technology, attractive total cost of ownership compared to conventional vehicles coupled with improving customer acceptability. Further, with policy support from central and state governments for accelerating the investments in EV ecosystem along with 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 players in the industry.

Inhouse technology with respect to powertrain and battery management system – The company has inhouse technology for powertrain, motor and harness etc. Although, like its peers, the battery cell is imported, the Battery Management System (BMS) hardware and the algorithm for the power train and BMS are in-house there by resulting in cost savings.

Credit challenges

Material decline in market share, revenues and earnings in the past few quarters - The company's HS e2W sales volumes declined sharply by over 50% in FY2023 which led to contraction in market share and over 40% decline in revenues. Sales volumes and revenues remained subdued revenues in H1 FY2024 as well. Disruption to production due to implementation of AIS 156 norms and high competition from lower priced vehicles with better specifications impacted the company's sales volumes and revenues. However, launch of upgraded versions and streamlining of production with the enhanced norms has resulted in improved monthly volumes since October 2023. Lower scale of operations resulted in net losses for the company and slower sales led to sizeable inventory, impacting the company's liquidity position. The company is in the process of raising long-term funds to support its expansion. Timely tie-up of the long-term funding remains critical for growth prospects and improving the company's liquidity.

Exposed to regulatory risks, intense competition in the domestic two-wheeler segment and reputational risk - 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. PEPL has not opted for the FAME subsidy for any of its models; hence, cost of PEPL's e2Ws is higher than its peers' with comparable specifications. Consistent investments in EV technology, new product development and regular model launches will remain crucial for PEPL to gain market share in the Indian 2W market.

Exposed to geo-political developments impacting supply of critical components like battery cells – PEPL is dependent on imports for procuring battery cells; hence, its operations are vulnerable to geopolitical developments between India and cell exporting nations. Any change in regulations related to imports of components or supply chain disruptions could impact PEPL's growth prospects. ICRA notes that the company has multiple vendors for most of the components which mitigates the risk to some extent.

Limited track record of e2Ws operations and low market share in the high speed 2W segment- PEPL launched its first e2W products in February 2020 and, subsequently, ramped up its volumes in FY2022. Hence the company's models have a limited operational track record compared to its peers. Any underperformance, especially with respect to product availability and reliability, and lithium battery thermal runaway incidents, has the potential to impact the company's operations, reputation and, hence, would be a key monitorable. ICRA would, thus, continue to track the OEM's ability to ramp-up its volumes and operational track record of its models on road.

Liquidity position: Stretched

The company's liquidity is stretched with negligible buffer in working capital limits, low free cash balances and high repayment obligations of ~Rs. 5-7 crore in the next 12 months. The company is in the process of raising fundsfrom investors; hence, timely completion of fund raising remains critical for improving its liquidity position. The company has capex plans; however, the same is subject to the tie-up of long-term funding.

Rating sensitivities

Positive factors: ICRA could upgrading the ratings of the company if it is able to demonstrate steady scale-up in sales, while improving its operating margins and liquidity position.

Negative factors: Pressure on the company's rating could arise if materially lower revenues or earnings because of weak product acceptability and/or increase in competition or further stretch in working capital cycle impacts its liquidity position or debt metrics. Any delay in tying-up long-term funds or inadequate tie-up of long-term funds leading to continued stretched liquidity could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Two-Wheeler
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of PEPL

About the company

PEPL is an IIT Hyderabad incubated company, founded by Dr Nishanth Dongari and headed by its CEO, Mr. Rohit Vadera. Dr. Dongari is working as a professor at IIT Hyderabad, who also works with the Defence Research and Development Organisation (DRDO). Mr. Vadera is an alumnus of IIT Bombay and ISB Hyderabad with 10 years of experience in the energy sector. PEPLhas two high-speed scooters, ePluto 7g and eTrance Neo, and two high-speed e-motorbikes, eTryst X and ecoDryft. The company has an in-house battery manufacturing unit and proprietary technology. The manufacturing facility is in Sangareddy district, Telangana, co-located with IIT-Hyderabad, with a production capacity of 4,000 units/month.

Key financial indicators (audited)

PEPL	FY2022	FY2023
Operating income	226.0	139.1
PAT	3.2	-9.4
OPBDIT/OI	3.6%	1.4%
PAT/OI	1.4%	-6.7%
Total outside liabilities/Tangible net worth (times)	1.7	3.0
Total debt/OPBDIT (times)	3.7	45.7
Interest coverage (times)	29.3	0.3

Source: Company, ICRA Research; Amount in Rs. crore

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

	Instrument	Current rating (FY2024)				Chronology of rating history			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31,2023 (Rs. crore)	Date & rating in FY2024	FY2023		FY2022	FY2021
					Feb 29, 2024	Nov 4, 2022	Oct 17, 2022	-	-
1	**Issuer Rating**	Long term	-	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	ICRA]BB+ (Stable)		
2	**Fund based working capital Facilities**	Long term	80.00	--	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-		
3	**Unallocated**	Long term/ short term	45.00	-	[ICRA]BB+ (Stable) / [ICRA]A4+	[ICRA]BB+ (Stable) / [ICRA]A4+	-		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable
Cash Credit	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 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	Issuer Rating	Issuer Rating	NA	NA	-	[ICRA]BB+ (Stable)
NA	Cash Credit	Cash Credit	NA	NA	80.00	[ICRA]BB+ (Stable)
NA	Unallocated	Unallocated	NA	NA	45.00	[ICRA]BB+ (Stable) / [ICRA]A4+

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

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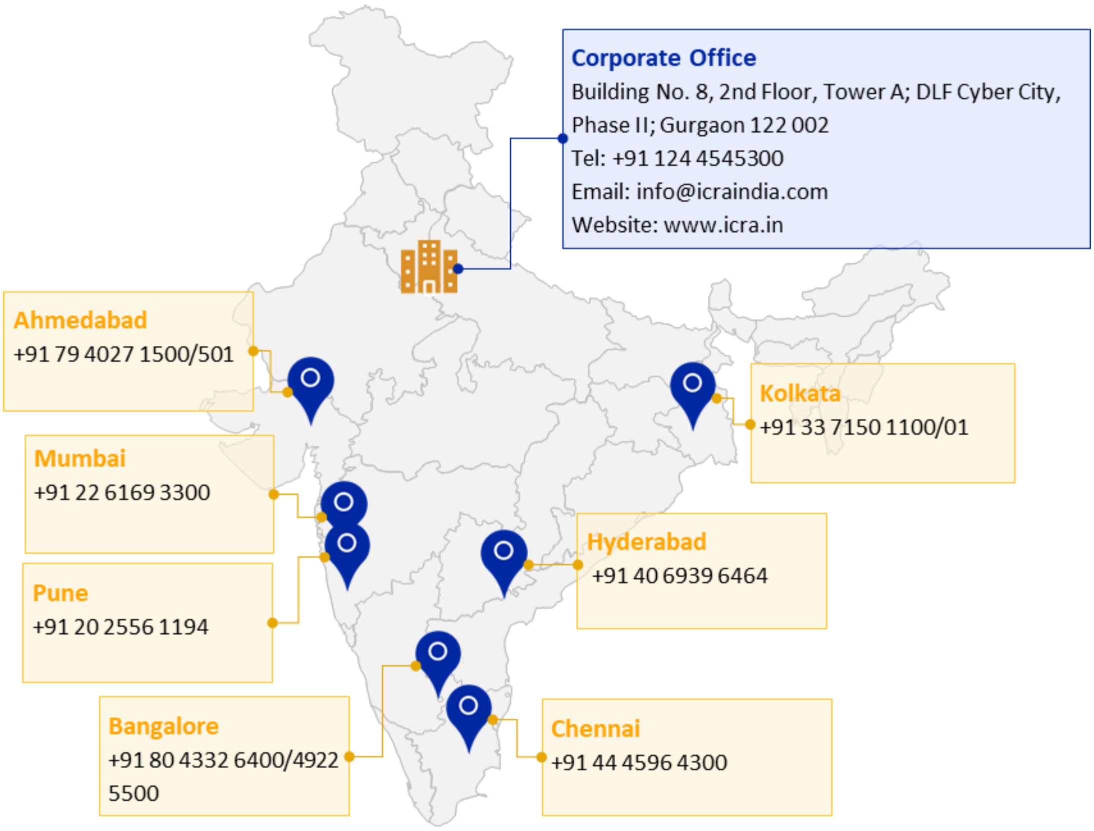

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