April 10, 2023

Olectra Greentech Limited: Ratings Reaffirmed, rated amount enhanced

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Cash Credit	65.00	75.00	[ICRA]A-(stable); Reaffirmed/assigned
Long Term/Short Term – Non-fund Based	265.00	145.00	[ICRA]A-(Stable)/[ICRA]A2+; Reaffirmed
Short Term – Non-fund Based, Derivative Limits	5.00	10.00	[ICRA]A2+; Reaffirmed/Assigned
Short Term- Non-Fund Based, Letter of Credit	270.00	480.00	[ICRA]A2+; Reaffirmed/Assigned
Total	**605.00**	**710.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factors in Olectra Greentech Limited's (OGL) technical collaboration with BYD, which is a renowned and established player in the EV space and OGL's established track record in the polymer insulators segment. The ratings also factor the company's first mover advantage in the e-bus market, favourable demand prospects for electric vehicles (EV's) which would support healthy order inflow and ramp-up in operations. After impact of Covid-19 on volumes in the last two fiscal years, E-bus (bus/buses) sales witnessed a strong recovery; it delivered 422 buses in the aforesaid period, as against 132 buses in 9M FY2022 period. OGL is estimated to record a strong revenue growth of 80%-85% in FY2023 given the strong growth in E-bus division and improved demand in the insulator segment. The execution is expected to be robust in Q4 FY2023 on the similar lines as seen in the 9M FY2023 period. The company also has a healthy order book, of 3220 buses as on December'2022 in the e-bus division, which is expected to result in strong growth in revenues over the next two years. The support 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. However, timely completion of its proposed capacity expansion in the e-bus division remains critical for timely execution of orders. OGL's earnings to improve significantly with increase in scale of operations; despite moderation due to competition, OGL's operating margins are expected to remain healthy at 9-12% in the near term

The ratings also consider the financial support OGL enjoys from its parent, Megha Engineering and Infrastructures Limited (MEIL). OGL had equity infusion Rs. 660.6 crore over the past five years from its parent group. The company has received an intercorporate loan from the parent in FY2022 for funding the consideration paid to acquire the land parcel allotted for the proposed plant (the same has been paid back in FY2023). Moreover, OGL plans to incur ~Rs. 800 Crore capex over the next 12-15 months, funding of which would be through equity/instruments convertible into equity by way of private placements including Qualified Institutional Placement (QIP) route. The fund raise has been delayed due to tepid market conditions; however, the company plans to complete the fund-raising process over the next few months. ICRA notes that timely fund raise is a key monitorable as delays in the same would impact its expansion plans and its ability to execute order book in a timely manner.

The ratings are constrained by its high working capital intensity, as reflected in high NWC/OI of 36% as on September 30, 2022, which despite improving from over 42% as on March 31, 2022, continues to remain high owing to high debtor days. The working capital intensity is expected to remain high in the near term. In the e-bus division, OGL sells buses to SPV, Evey Trans Private Limited (Evey), which bids to operate buses for various State Road Transport Undertakings (SRTUs). The ability of Evey to make timely payments depends on timely receipt of payments from SRTUs for the operation of buses and timely release of subsidies from Department of Heavy Industries (DHI). The working capital requirements for e-bus division are expected to increase given the sizeable ramp-up expected in the medium term; however, expected advances from Evey towards supply of buses would support the funding of working capital requirements. Moreover, OGL plans to reduce its working capital cycle; the same would be critical to strengthen the company's liquidity. Further, ICRA notes that OGL's bus division operations are dependent on technology support from China based BYD which exposes itself to geopolitical risks 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.

The Stable outlook on the long-term rating considers ICRA's belief that OGL will witness a strong growth in revenues and earnings, driven by higher execution in the e-bus division, and that the company will continue to maintain healthy debt metrics despite the sizeable capex plans in the near term.

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 V-2 (7 metres), iX (9 metres), and X2 (12 metres), CX2 (12 meters coach model). Furthermore, the company currently has also undertaken trials successfully and completed homologation of electric tippers and electric trucks.

Extensive experience of Olectra in the polymer insulators industry – The company has more than 15 years of experience in the manufacturing of the composite polymers insulators. OGL is an ISO 9001:2008-certified company with a research and development unit for polymer insulators. The company supplies to reputed players like Power Grid Corporation of India Limited, Kalpataru Power Transmission Limited, MacLean Power Systems and Larsen & Toubro. The revenue from the insulator's division grew by 16.1% year on year to Rs. 76.6 crore in the 9M FY2023 from Rs. 65.9 crore in the 9M FY2022 period. The EBIT margins for the division improved to 16.7% in 9M FY2023 as against 7.1% during 9M FY2022 on account of increasing scale of operations and export sales which are generally margin accretive.

Healthy order book position – The company has a healthy orderbook for supplying 3220 E-buses as on December'2022, out of which 1,125 E-buses orders are received under FAME II scheme. These buses are to be supplied over a period of 12-15 months. The order book also includes 2100 buses worth ~Rs. 3675 crore from Brihanmumbai Electric Supply and Transport Undertaking (BEST) which is currently under litigation. The company has continued to supply buses to BEST and is permitted to supply further post the Hon'ble Supreme Court order, granting an interim stay against the Hon'ble Bombay High Court order of setting aside the Letter of Award (LoA) to OGL. ICRA expects minimum impact on the credit profile of the company in the near term, even if there is any adverse ruling as the company would still hold a healthy order book position. Apart from this the company is actively participating in various tenders under FAME-II, intercity/intracity buses and smart city schemes. Moreover, the execution of the order book is expected to ramp up on the similar lines as seen in 9M FY2023.

Support from parent group; healthy financial risk profile – The company's financial risk profile is healthy with gearing of 0.1 times and TOL/TNW of 0.7 times as on September 30, 2022, given its healthy net worth base of Rs. 798.3 crore as on September 30, 2022. The debt metrics are expected to remain strong despite the significant capex plans envisaged in the current financial year, considering that the capex is expected to be funded through equity. ICRA also takes comfort from the strategic and financial linkages of OGL with its parent group.

Credit challenges

High working capital intensity – OGL's operations remain working capital intensive, as reflected in high NWC/OI of 36% as on September 30, 2022, primarily owing to high debtor days due to delays in receiving payments from Evey for the buses supplied. The working capital intensity is expected to remain high in the medium term and is negotiating favorable terms with its SPVs. The company generally receives 60% of the payments on or before the supply of buses and the remaining in about 120-180 days from delivery. The NWC/OI had remained elevated in the last two financial years owing to the impact of pandemic. However, ICRA notes that the receivables reduced significantly in FY2022 with receipt of most of the payments from Evey as the many of the Special Purpose Vehicles (SPVs-housed under Evey) which operates the buses for the SRTUs had secured their funding tie ups. For e-bus division, which constitutes the major portion of the overall inventory, the company generally maintains inventory of 60-90 days. The working capital requirements for e-bus division are expected to increase given the sizeable ramp-up in scale of operations expected 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 –The order book execution was significantly hampered in FY2021 and during H1 FY2022 as manufacturing operations were impacted due to Covid-19 pandemic. However, the same ramped up significantly in FY2022 and in the 9M FY2023. The company supplied 422 buses in the 9M FY2023 period, as against 259 buses in the FY2022. The company's orderbook execution is exposed to timeliness at which various stake holders like SRTUs, SPVs of Evey achieve the condition precedents and tie up of funding for the operation of buses. The company's ability to achieve the growth, ramp up the capacity 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-buses industry – The profitability of OGL is exposed to fluctuation in raw material prices as seen in the past, given the fixed-price nature of the orders in insulator division. The risk is mitigated to some extent on the back of partial pass-through arrangement with Evey and maintenance of adequate inventory. The bus division operations are dependent on continued technology support from Chinese major BYD which exposes the company to adverse geo-political tensions 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 cash and bank balances of Rs. 7.97 crore as on December 31, 2022 and undrawn lines as of February stood at ~Rs. 13 crore against sanctioned limits as against ~Rs.0.1 crore of scheduled debt repayments for FY2024. Further, enhancement of the working capital limits is likely to support OGL's liquidity position in the near term. As on December 31, 2022, the company had Rs. 167.98 crore of LCs outstanding which would mature over the next five months; the same is expected to be paid using the receivable collections. Also, ICRA notes that while the company has significant capex plans in the near term, the same is to be funded from through equity infusions.

Rating sensitivities

Positive factors: ICRA could upgrade OGL's rating if there is a significant growth in orderbook and revenues, primarily in the ebus division, backed by timely execution of orders, while maintaining healthy margins and efficiently managing working capital on a sustained basis. Improvement in parent's (MEIL) credit profile and / or strengthening of OGL's financial and strategical linkages with parent entity would also be a credit positive.

Negative factors: Pressure on the rating could arise if scale of operations declines owing to delay in execution order book in the e-bus division, impacting its earnings. Any material stretch in the working capital cycle because of delays in collections stemming from delay in receipt of subsidy by SPVs would also impact the ratings. Also, any material deterioration in credit metrics on account of high debt-funded capex would affect the ratings adversely.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach Implicit Support from Parent or Group
Parent/Group Support	ICRA has factored in the implicit parent support for the current rating exercise as it expects OGL's parent, MEIL, to extend financial support to OGL, should there be a need and extend equity support for the proposed capacity expansion plans. There also exists a track record of MEIL having extended timely financial support to OGL in the past, whenever a need has arisen.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Olectra Greentech Limited. As on December 31, 2022, the company had two subsidiaries that are enlisted in Annexure-2.

About the company

OGL (earlier known as Goldstone Infratech Limited) was incorporated in 2000. The company has been engaged in 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 vehicle 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 ~1047 e-buses to various state transport undertakings (STUs) in India and a few private parties till December 31, 2022.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	281.4	593.3
PAT (Rs. crore)	8.0	34.3
OPBDIT/OI (%)	7.2%	14.3%
PAT/OI (%)^	2.9%	5.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.5
Total Debt/OPBDIT (times)#	0.4	0.8
Interest Coverage (times)	2.7	9.1

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; #includes unsecured loans; ^excludes profits/loss from associates; All the figures mentioned in the above table are as per ICRA's computation.

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 on March 31, 2022 (Rs. crore)	Date & Rating on April 10, 2023	Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021
						12-Sep-22	26-May-22	13-Dec-21	30-Nov-21	27-Aug-20
1	Cash Credit	Long Term	75.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Fund Based	Short Term	0.00	-	-	-	-	-	[ICRA]A2	[ICRA]A2
3	Non-fund Based	Long/Short Term	145.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2
4	Non-fund Based- Derivative Limits	Short Term	10.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
5	Unallocated	Long/Short Term	0.00	-	-	-	-	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2
6	Non-fund based- Letter of Credit	Short term	480.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-	

Source: *Company; Rs.crore*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit	Very Simple
Derivative Limit	Very Simple
Non-fund Based- Long Term/Short Term	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: 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	-	-	-	75.00	[ICRA]A- (Stable)
NA	Long-Term/Short-Term- Non-Fund based	-	-	-	145.00	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Forwards/Derivatives	-	-	-	10.00	[ICRA]A2+
NA	Letter of Credit	-	-	-	480.00	[ICRA]A2+

Source: *Company*

Please click here to view lender wise facilities rated by ICRA

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

Company Name	Ownership	Consolidation Approach
SSISPL-OGL-BYD Consortium	100%	Full Consolidation
Evey Trans (GTC) Private Limited	51%	Full Consolidation
Evey Trans (UJJ) Private Limited	34%	Equity Method
Evey Trans (SIL) Private Limited	26%	Equity Method
Evey Trans (SMC) Private Limited	26%	Equity Method
Evey Trans (JAB) Private Limited	26%	Equity Method
Evey Trans (MHS) Private Limited	34%	Equity Method
Evey Trans (BLR) Private Limited	26%	Equity Method

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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.

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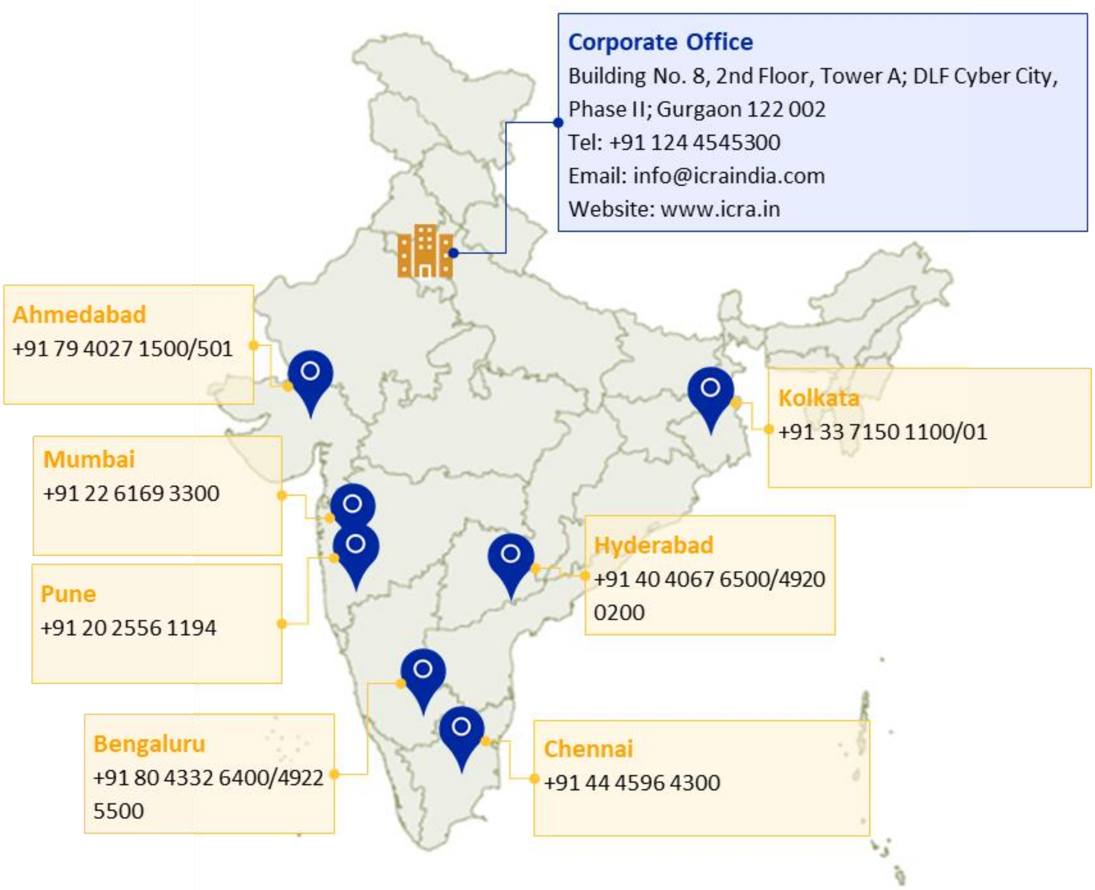

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