October 22, 2024

# Upgrid Electrilease Private Limited : [ICRA]BBB-(Stable); assigned

## Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|
| **Long-term Fund-based – Term loan** | 500.0 | [ICRA]BBB- (Stable); assigned |
| **Total** | **500.0** | |

**Instrument details are provided in Annexure-I*

## Rationale

ICRA has taken a consolidated view of Upgrid Electrilease Private Limited (UEPL) and its parent, Upgrid Solutions Private Limited (USPL), for arriving at the credit ratings, given their common management and significant operational and financial linkages between the entities. Hereafter, the entities are together referred to as the company.

The assigned rating favourably factors in the company's healthy market position in the emerging battery swapping industry (aided by early mover advantage) and successful track record of raising growth capital at regular intervals from well-funded institutional investors, which has helped the company maintain a comfortable liquidity profile. Despite operating in the emerging battery swapping market, the rating is supported by the experienced leadership team, strong unit economics and healthy demand growth prospects on the back of a sizeable total addressable market of electric rickshaws (e-rickshaws), electric three wheelers (e3Ws) and electric two wheelers (e2Ws). Additionally, the positive outlook for the Indian electric vehicles market, supported by Government policies, advancing battery technology, decreasing battery costs, and increasing customer acceptance, are expected to develop the electric vehicle ecosystem and support the company's growth prospects.

USPL runs a battery swapping network that operates on the Battery as a Service (BaaS) model. The company caters to customers in the e3W (mainly e-rickshaw) and e2W segments for both passenger and goods transportation. USPL supplies fully charged batteries to its customers, addressing the issue of long downtime by enabling drivers to swap their depleted batteries for fully charged ones within minutes, as opposed to the hours it takes to recharge a battery using traditional methods. This system helps e-rickshaw drivers and other commercial EV owners increase their daily driving range, thereby enhancing their earnings. Additionally, the company assists in reducing the upfront cost of purchasing an electric vehicle (EV) as drivers can obtain EVs without fully paying for the battery and instead acquire the company's battery by giving a relatively lower sign-up fees. The swapping network of the company is run using a franchise model. In this model, the company gives franchise partners Internet-of-Things (IoT) technology-enabled batteries, chargers, and network access after an initial investment. In return, the company offers them a portion of the revenue generated from the swapping service.

Starting in November 2019, the company has raised ~$105+ million (in the form of equity/compulsorily convertible preference shares) till date across multiple rounds of fund raise. In its latest round, it raised $65 million (including $20 million of secondary fund raise) from various institutional investors. Its cap table currently includes marquee venture capital and private equity funds such as Tiger Global, Blume Ventures, Leapfrog Investments, British International Investment, Orios Venture Partners, MUFG Bank etc. The company's ability to raise further investments in a timely manner, thereby helping it maintain a comfortable liquidity profile will remain a monitorable.

The company operates ~1,100 centres across Rajasthan, Haryana, Delhi, Uttar Pradesh, Bihar, Maharashtra, Karnataka, and Telangana, with a major part of its network concentrated in Delhi-NCR. As of June 2024, the company had ~1,30,000 batteries in its network along with ~63,000 active customers. USPL currently has the largest battery swapping network and the highest number of operational batteries among its peers. As the company expands its network into new areas and onboards more drivers, its monthly revenues are expected to increase. Additionally, as the company's network grows in new areas, operational indicators such as daily swaps per battery, revenue per swap, revenue per battery, and revenue per driver are likely to improve, driven by operational efficiencies.

The assigned ratings are constrained by the asset-heavy nature of the business, as the company can only increase the number of drivers on its network by adding more batteries. As such, sustained revenue growth will necessitate continual battery and debt acquisition. Besides, the company currently operates at a cash burn and thereby remains reliant on timely equity funding to support its operational cash burn/debt servicing obligations due to the start-up nature of its operations. The company is also exposed to the regulatory risk as its primary customers are highly unorganised e-rickshaw drivers. Any material safety incidents at its battery swapping stations could lead to regulatory action, as there are limited standardisation details or policies in effect. Any regulatory action, which has the potential to constrain demand or limit network expansion will thus be monitored.

The Stable outlook on the long-term rating reflects ICRA’s expectation that USPL will maintain its dominant position in the battery swapping market over the medium term, aided by its current scale of swapping network, early mover advantage and future network growth, aided by its strong investor profile. Further, timely fund raising will help the company maintain healthy capital structure and liquidity and would help the company navigate the initial ramp-up and stabilisation phase or any other contingencies.

## Key rating drivers and their description

### Credit strengths

**Successful track record of raising growth capital at regular intervals from reputed institutional investors –** Since its inception, USPL has raised ~$105+ million in funding till date from investors such as Tiger Capital, Leapfrog, Acacia Inclusion Limited, MUFG Bank, Blume Ventures, Ecosystem Integrity Fund, and British International Investments. The company’s ability to raise funds from reputed investors on a regular interval reflects the trust imposed by the company’s investors in the company’s well executed business model besides future growth prospects in the battery swapping space.

**Favourable demand outlook, aided by supportive driver and partner economics –** USPL runs a battery swapping network that operates on BaaS model. The company caters to customers in the e3W (mainly e-rickshaw) and e2W segments for both passenger and goods transportation. USPL supplies fully charged batteries to its customers, addressing the issue of long downtime by enabling drivers to swap their depleted batteries for fully charged ones within minutes, as opposed to the hours it takes to recharge a battery using traditional methods. This system helps e-rickshaw drivers and other commercial EV owners increase their daily driving range, thereby enhancing their earnings and is likely to support adoption of the company’s network. Additionally, the company assists in reducing the upfront cost of purchasing an EV, as drivers can obtain EVs without fully paying for the battery and instead acquire the company's battery by giving a relatively marginal signup fee, which further enhances the demand potential for the company’s service.

The swapping network of the company is run using a franchise model. In this model, the company gives franchise partners IoT technology-enabled batteries, chargers, and network access after an initial investment. Additionally, the company offers them a portion of the revenue generated from the swapping service, which leads to short payback periods and healthy return of investments for the partners, thereby aiding the company in enhancing its network.

**Healthy market position owing to early mover advantage; healthy ramp-up expected –** The company operates ~1,100 centres across Rajasthan, Haryana, Delhi, Uttar Pradesh, Bihar, Maharashtra, Karnataka, and Telangana, with the major portion of its network concentrated in Delhi-NCR. The company has ~1,30,000 batteries in its network along with ~63,000 active customers on its network as of June 2024. USPL has the largest battery swapping network at present and the highest number of operational batteries among its peers. As the company expands its network into new areas and onboards more drivers, its monthly revenues are expected to increase. Additionally, as the company's network grows in new areas, operational indicators such as daily swaps per battery, revenue per swap, revenue per battery, and revenue per driver are likely to increase, driven by operational efficiencies leading to improvement in margins.

Even as the competition in the battery swapping segment is expected to increase going forward, the company's early mover advantage in the segment is likely to help it maintain a healthy market position, supporting its fund-raising capabilities.

## Credit challenges

**Highly capital intensive business model; reliance on debt to support scale of operations –** USPL operates an asset-heavy nature of business, as the company can only increase the number of drivers on its network by adding more batteries. Thus, a sustained revenue growth will necessitate continual battery and debt acquisition. The bulk of the company's batteries have been largely funded by term loans till date. Since inception, the company has raised ~Rs. 689.5 crore in debt funding from a diverse set of lenders including banks, NBFCs, venture debt and Development Financial Institutions. An improvement in its scale of operations is likely to enhance its ability to raise further debt and continue its expansion plans.

**Dependence on further equity raising to support operational cash burn and debt servicing requirements –** The company's margins have been negative owing to the start-up nature of operations. Even though the company has been establishing its network in new territories in FY2024, its margins have been largely on an improving trend (barring intermittent aberrations). A breakeven (firstly EBDITA level and subsequently cash flow level) on a monthly basis is expected over the near-to-medium term, as the network reaches maturity and utilisation per battery witnesses improvement. Further, as the company's operating income grows, the benefit of operating leverage will also aid in covering administrative and management expenses and aid in achieving the breakeven. However, till the time breakeven on a cash basis is achieved, the company is expected to remain dependent on timely fund raising to fund its operating cash burn and debt repayments.

**Regulatory risk due to nascent stage of market; stringent safety requirements –** USPL operates in the battery swapping market, which is exposed to the regulatory risk as the company's primary customers are highly unorganised e-rickshaw drivers. Any material safety incidents at its battery swapping stations could lead to regulatory action as there are limited standardisation details or policies in effect. Although the company has witnessed some safety issues at its stations in the past, the company has established strong safety standard operating procedures and training set-up since inception to reduce the same, and such efforts have helped reduce incidences as the company's network has grown. The company's batteries have a metal casing to prevent fires. Further the company has a dedicated team, managing safety of its batteries and preventing any incidents, which may lead to loss of life or investment. Any regulatory action, which has the potential to constrain demand or limit network expansion, will be monitored.

## Liquidity position: Adequate

The company's liquidity profile remains adequate, supported by cash and equivalents of ~Rs. 400 crore as on September 30, 2024, aided by fund inflow from the $45 million equity raised from institutional investors in May 2024. In addition, the company has an undrawn term debt of ~Rs. 100 crore to help fund the capex for battery acquisition. The available cash balances, equity fund inflows and undrawn project debt are expected to be adequate to meet capex requirements of Rs. 350-400 crore in FY2025 and debt repayment obligation of Rs. 280-300 crore. ICRA expects that the company will continue to raise further funds over the medium term, which will be used primarily for supporting operational cash burn and expanding swapping network in existing and new territories.

## Rating sensitivities

**Positive factors –** Healthy ramp-up in its operations, coupled with sustained breakeven in cash flows, while maintaining a comfortable capitalisation, could be favourably considered for a rating upgrade.

**Negative factors –**Pressure on UEPL's rating could arise due to delayed ramp-up or an increase in competition, leading to lower-than-anticipated revenues and profitability. Any material deterioration in its liquidity profile, or higher-than-anticipated leverage would also be a key monitorable.

## Analytical approach

| Analytical Approach | Comments |
| --- | --- |
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | To arrive at the ratings, ICRA has taken a consolidated view of Upgrid Electrilease Private Limited (UEPL) and its parent, Upgrid Solutions Private Limited (USPL). As of March 31, 2024, USPL only had one subsidiary – UEPL (details can be found in Annexure II). |

## About the company

Upgrid Solutions Private Limited (known as Battery Smart) owns and operates India's largest battery swapping network for electric vehicles (e-rickshaws and electric 2 wheelers). It provides IoT enabled Li-ion batteries-as-a-service, which can be swapped for a fully charged battery in a short time interval at a partner operated Battery Smart swapping station.

USPL, incorporated in November 2019, is the operating company that houses the team, technology, brand, IP, and customers, and operates the battery swapping network. USPL acquires batteries on operating leases, and deploys the batteries in the network, generates revenues, and uses the revenues to service the lease payments. Upgrid Electrilease Pvt Ltd (UEPL, incorporated Dec 2021) is a wholly owned subsidiary of USPL. UEPL raises long-term debt on its balance sheet, uses the capital to purchases batteries from OEMs, leases these batteries to USPL, collects lease payments, and uses the lease payments received to service the debt. Majority of batteries of USPL are owned by UEPL. Given the high degree of financial, managerial and operational linkages between the entities, a consolidated view has been taken for both USPL and UEPL.

### Key financial indicators (audited)

| USPL (Consolidated) | FY2023 | FY2024 |
| --- | --- | --- |
| **Operating income** | 55.9 | 164.6 |
| **PAT** | (61.4) | (140.7) |
| **OPBDIT/OI** | -62.6% | -20.0% |
| **PAT/OI** | -109.8% | -85.5% |
| **Total outside liabilities/Tangible net worth (times)** | 0.6 | 1.7 |
| **Total debt/OPBDIT (times)** | (4.9) | (12.9) |
| **Interest coverage (times)** | (2.8) | (0.7) |

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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 (FY2025) | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | | October 22, 2024 | - | - | - |
| 1 | **Long-term fund-based – Term Loan** | Long term | 500.00 | **[ICRA]BBB- (Stable)** | - | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term fund-based – Term Loan | 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 | Proposed Term Loan | NA | NA | NA | 500.0 | [ICRA]BBB- (Stable) |

*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 | USPL Ownership | Consolidation Approach |
|---|---|---|
| **Upgrid Electrilease Private Limited** | 100% | Full Consolidation |

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## About ICRA Limited:

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