

November 21, 2019

Olectra Greentech Limited: [ICRA]BBB+ (Positive)/A2 assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based/Cash Credit	35.00	40.00	[ICRA]BBB+ (Positive); outstanding and assigned
Short Term-Fund Based	-	2.00	[ICRA]A2; assigned
Long Term/Short Term – Non Fund based	162.95	173.16	[ICRA]BBB+ (Positive)/A2; outstanding and assigned
Short Term – Non Fund Based	-	6.30	[ICRA]A2; assigned
Long Term/Short Term - Unallocated	14.55	79.04	[ICRA]BBB+ (Positive)/A2; outstanding and assigned
Total	212.50	300.50	

*Instrument details are provided in Annexure-1

Rationale

The assigned/outstanding rating factors in the expected increase in scale of operation of OGL's E-buses division in the near term backed by a healthy orderbook for supply of E-buses to Nashik Municipal Corporation (NMC), Brihanmumbai Electric Supply and Transport (BEST), and Pune Mahanagar Parivahan Mahamandal Limited (PMPML). Further, the outlook takes into consideration the expected improvement in operating margins going forward on the back of benefits arising from increased scale of E-buses operations. These apart, OGL plans to divest its ownership in 100% subsidiary "EVEY Trans Private Limited" (EVEY, asset owner and operator of E-buses) to MEIL Holdings Ltd (MHL) enabling OGL to focus on manufacturing of E-buses and reduce OGL's investments for E-buses purchase under GCC (Gross Cost Contract) model wherein the operator has to buy the E-buses and is paid on per km basis by STUs. This is expected to result in a significant reduction in OGL's working capital requirements and aid in improved cash flow from operations.

The ratings continue to take into consideration OGL's comfortable capital structure following the fresh equity infusion of Rs 660.62 crore which has happened over the past two years to support the E-bus division operations. The capitalization indicators remain healthy with gearing at 0.03 times and total outside liability/tangible net worth of 0.21 times as on March 31, 2019. The ratings also consider technical collaboration of OGL with BYD¹ for manufacturing of Electric-Buses (E-Buses); government initiatives like reduction of GST rate on E-buses, introduction of Fame II scheme to promote electric mobility in India; and established track record of operations in the silicon insulators segment with OGL being an approved vendor for PGCIL.

The ratings are however constrained by nascent stage of the electric vehicles industry in India; operating losses in FY2019 given the decline in profitability from insulators and losses in E-bus division; and high working capital intensity at 78% in FY2019 owing to high debtor and inventory days. Around 51% of the debtors as on March 31, 2019 was pending from EVEY because of the pending sanction of debt at EVEY level for bus procurement. Further, the working capital cycle for

1 BYD Co Ltd is a Chinese manufacturer of automobiles, buses, forklifts, lithium rechargeable batteries, trucks etc. with its corporate headquarters in Shenzhen, China. Currently, BYD has nearly 40,000 electric buses in service around the world.

bus division is yet to be stabilised and would remain one of the key monitorable over the next twelve to eighteen months. In addition, successful operation of E-buses supplied under GCC model along with satisfactory return metrics from bus operations will be a key rating monitorable. The ratings also consider the constrained liquidity position with inter-corporate deposits extended in FY2019. ICRA also takes note of the exposure of insulators division profitability to fluctuation in raw material prices as seen in FY2019 given the fixed price nature of the insulator orders.

Key rating drivers and their description

Credit strengths

Tie-up with BYD for E-Bus manufacturing business: OGL has entered into technical collaboration with BYD for procuring E-Bus battery, chassis, components, sub-assemblies and spare parts in 2016. OGL has supplied 188 E-buses till August 2019. Currently the company has three models of electric buses namely K-6 (7 meters), K-7 (9 meters), and K-9 (12 meters) and has an E-bus assembly facility at Jadcherla with capacity to manufacture 1000 buses per year on single shift.

Healthy orderbook position: The company has orders for supply of 247 E-buses to NMC, BEST, and PMPML as on September 30, 2019. Further, various government initiatives like reduction of GST rate on E-buses, introduction of Fame II scheme wherein incentives are given for battery and charging infrastructure, concessional power tariff, waiver of road tax, permit fee etc., for electric vehicles to support electric vehicles industry. Also, the company has orders for supply of Rs. 84.69 crore insulators as on August 31, 2019 providing near term revenue visibility. OGL is an approved supplier of silicon insulators to PGCIL with capacity ranging from 11 KV to 800 KV.

Infusion of equity to support E-buses division operations: The net worth is strong at Rs. 705.22 crore as on March 31, 2019 on the back of fresh equity infusion of Rs 660.62 crore in the past two years (till June 2019). Further, Rs. 119.64 crore would be infused by MHL upon warrants conversion before April 2020. The funds are primarily utilised towards meeting working capital requirements of the E-buses segment and setting up of a new electric bus manufacturing facility. The company would be incurring capex of Rs. 175-200 crore in the next one year for setting up a new manufacturing facility in Chandanvelly, Hyderabad to increase the bus manufacturing capacity to 3000 buses/year. The company's capital structure is comfortable with gearing at 0.03 times and TOL/TNW at 0.21 times as on March 31, 2019 owing to strong net worth levels.

Credit challenges

Nascent stage of growth in E-buses division: OGL had supplied 83 buses in FY2019 and E-bus division reported operating losses in FY2019 owing to high fixed costs. Although the company reported operating profits for E-buses with PBIT margins at 5.91 in H1FY2020 (as against -12.71% in FY2019) on the back of increased bus supply to 103 in H1FY2020, the sustainability of the operating margins at these levels would be a key rating monitorable.

The PBIT margins in insulator business had reduced to 0.96% in FY2019 from historical 10-14% levels owing to increased raw material cost while the orders are fixed price in nature. However, PBIT margins from insulators improved to 6.85% in H1FY2020 and is expected to improve to ~10% levels going forward.

High working capital intensity: OGL's working capital intensity is high at 78% in FY2019 owing to high debtors and inventory days. Debtors days are high owing to payments pending from EVEY for the supply of buses to TSRTC and PMPML. Around 51% of the debtors as on March 31, 2019 is pending from EVEY and is pending for sanction of debt at EVEY level for bus procurement. Inventory days is high at 148 days in FY2019 given the increased procurement of raw materials with the receipt of order of 125 E-buses to PMPML in March 2019.

Nascent market and increasing competition in E-buses industry: The E-buses market is nascent, and the business model is evolving in nature at present. Currently, the viability of E-bus operation is dependent on subsidies from government. Also, the company faces increasing competition from players like Tata Motors Limited, Ashok Leyland Limited, PMI Foton, JBM Solaris, etc.

Liquidity position: Adequate

OGL's liquidity position is adequate with average fund based limit utilisation at 56% in the past 12 months ending September 2019. The liquidity position is expected to be further supported by expected infusion of Rs. 119.64 crore before April 2020 with conversion of 0.91 crore warrants issued to MEIL Holdings Ltd.

Rating sensitivities

Positive triggers: The ratings could be upgraded if OGL is able to demonstrate a significant increase in scale of operations of E-buses along with improved profitability margins on sustained basis; and if the company is able to establish the working capital cycle for E-bus operations. Specific credit metrics that could lead to an upgrade of OGL's rating include interest coverage ratio of greater than 3.50 times on sustained basis.

Negative triggers: The ratings could be downgraded if there is significant decline in revenues and margins of E-bus division on a sustained basis or further elongation of working capital cycle for E-buses. Any delay in the transfer of EVEY ownership to MEIL would constrain the liquidity position of OGL. Credit metrics that would lead to downgrade will include Total Debt/OPBDITA more than 3.50 times and interest coverage ratio of less than 2.00 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Olectra Greentech Limited (OGL, earlier known as Goldstone Infratech Limited) was incorporated in the year 2000. The company is into the manufacturing of silicon-based insulators since 2003. OGL is an ISO 9001:2008 certified company and having its own research and development unit for silicon insulators used in power transmission lines. The company has tied up with BYD (a Chinese battery and electric car maker) for manufacturing of electric buses. Electric buses are sold under the joint brand name of "Olectra BYD". OGL has successfully delivered a total of ~188 E-buses to various STUs (State Transport Undertakings) in India and few private parties till August 31, 2019.

Key financial indicators

	FY2018	FY2019	H1FY2020*
Operating Income (Rs. crore)	161.50	290.30	223.43
PAT (Rs. crore)	8.90	-13.58	11.49
OPBDIT/OI (%)	8.62%	-4.75%	4.41%
RoCE (%)	10.09%	-1.01%	-
Total Outside Liabilities/Tangible Net Worth (times)	0.57	0.21	-
Total Debt/OPBDIT (times)	5.20	-1.76	3.47
Interest Coverage (times)	2.27	-0.92	1.33

*provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instru ment	Type	Current Rating (FY2020)				Rating History for the Past 3 Years				
			Amo unt Rate d	Amoun t Outsta nding	Rating		FY2019		FY2 018	FY2 017	
					21- Nov- 2019	25-Oct-2019	14-Jan-2019	28-Sep-2018			
1	Fund Based/ Cash Credit	Long Term	40.0 0	-	[ICRA]B BB+ (Positiv e)	[ICRA]BBB+(Positive)	[ICRA]BBB+(Stabl e)	NA	NA	NA	NA
2	Fund Based	Short Term	2.00	-	[ICRA]A 2	NA	NA	NA	NA	NA	NA
3	Non Fund based	Long Term/ Short Term	173. 16	-	[ICRA]B BB+ (Positiv e)/A2	[ICRA]BBB+(Positive)/ [ICRA]A2	[ICRA]BBB+(Stabl e)/[ICRA]A2	NA	NA	NA	NA
4	Non Fund Based	Short Term	6.30	-	[ICRA]A 2	NA	NA	NA	NA	NA	NA
5	Unallo cated	Long Term/ Short Term	79.0 4	-	[ICRA]B BB+ (Positiv e)/A2	[ICRA]BBB+(Positive)/ [ICRA]A2	[ICRA]BBB+(Stabl e)/[ICRA]A2	[ICRA]BBB+(Stabl e)/[ICRA]A2	NA	NA	NA

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	40.00	[ICRA]BBB+(Positive)
NA	Standby Letter of Credit	-	-	-	2.00	[ICRA]A2
NA	Letter of Credit	-	-	-	120.00	[ICRA]BBB+(Positive)/[ICRA]A2
NA	Bank Guarantee	-	-	-	53.16	[ICRA]BBB+(Positive)/[ICRA]A2
NA	Forwards/Derivatives	-	-	-	6.30	[ICRA]A2
NA	Unallocated	-	-	-	79.04	[ICRA]BBB+(Positive)/[ICRA]A2

Source: Olectra Greentech Limited

Analyst Contacts

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Srinivasan R
+91 44 4596 4315
r.srinivasan@icraindia.com

Vinay Kumar G
+91 40 4067 6533
vinay.g@icraindia.com

Tejal Shree
+91 40 40676523
tejal.shree@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents