

August 27, 2020

## Olectra Greentech Limited: Ratings reaffirmed; outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Cash Credit	40.00	40.00	[ICRA]BBB+ Reaffirmed and Outlook revised to Stable from Positive
Short Term – Fund Based	2.00	2.00	[ICRA]A2; reaffirmed
Long Term/Short Term – Non-fund Based	173.16	173.16	[ICRA]BBB+/[ICRA]A2; Reaffirmed and Outlook revised to Stable from Positive
Short Term – Non-fund Based	6.30	6.30	[ICRA]A2; reaffirmed
Long Term/Short Term – Unallocated	79.04	79.04	[ICRA]BBB+/[ICRA]A2; Reaffirmed and Outlook revised to Stable from Positive
<b>Total</b>	<b>300.50</b>	<b>300.50</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in outlook follows the delay in ramping up of bus division operations owing to the Covid-19 pandemic, despite Olectra Greentech Limited (OGL) having a healthy order book of supplying 792 e-buses as on June 30, 2020. Further, the company is yet to receive the payments for the buses supplied on a gross cost contract (GCC) mode to Pune Mahanagar Parivahan Mahamandal Limited (PMPML) and Telangana State Road Transport Corporation (TSRTC). Although the buses supplied to TSRTC and PMPML are not operational from March 22, 2020 owing to the restrictions imposed following the pandemic, OGL had billed based on the assured kilometres, as per the signed contracts. The company is yet to receive these payments and the timeline for realisations remains to be seen considering the adverse impact of Covid-19 pandemic on counterparties. Moreover, the loan for these two orders is sanctioned and the disbursement is expected to be completed by Q2 FY2020, which should support its liquidity position in the near term. It has sizeable subsidy receivable pending for the buses supplied under FAME I<sup>1</sup>, Smart City scheme and future supply of buses under FAME II from the Department of Heavy Industries (DHI). Timely receipt of the same and stabilisation of the working capital cycle for the bus division would be a key rating monitorable in the near term. ICRA notes that OGL's bus division operations are dependent on technology support from BYD 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 ratings reaffirmation, however, positively factors in the healthy e-buses order book position and comfortable consolidated financial risk profile with gearing of 0.03 times and TOL/TNW of 0.33 times as on March 31, 2020. Although the gearing is expected to increase in FY2021 to more than 0.25 times with disbursement of the debt availed for TSRTC and PMPML's bus orders, the capital structure will remain comfortable, given the healthy net worth position. Although OGL's operating profitability margin has improved to 2.30% in FY2020 from -4.75% in FY2019, it continues to remain low

<sup>1</sup>The government has introduced scheme titled 'Faster Adoption and Manufacturing of Electric Vehicles in India Phase I and II (FAME India Phase I and Phase II)' for promotion of Electric Mobility in the country.

owing to higher fixed cost under the e-bus division. The operating profitability margins are likely to improve with increase in e-buses sales volume. The rating further notes 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, technical collaboration with BYD for e-buses division operations and its established operational track record in the polymer insulators segment.

The Stable outlook reflects ICRA's expectation that OGL will achieve sustained revenue growth and improvement in operating margins on the back of its healthy order book position. The capital structure is likely to remain comfortable considering the healthy net worth position.

## Key rating drivers and their description

### Credit strengths

**Technological support from BYD China for e-bus division operations** – The company has a technical 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 K-6 (7 metres), K-7 (9 metres), and K-9 (12 metres), and C-9 (12 meters coach model) and has an e-bus assembly facility at Jadcherla, Telangana with a capacity to manufacture 1,000 buses per year on a single shift.

**Established track record in polymer insulators industry** – The company has more than 15 years of experience in manufacturing composite polymers insulators. OGL is an ISO 9001:2008-certified company with a research and development unit for polymer insulators. In addition, it has orders for supply of Rs. 90.36-crore insulators as on June 30, 2020 providing revenue visibility for the insulators division.

**Healthy order book position** – The company has an order book for supplying 792 e-buses as on June 30, 2020, out of which 675 e-buses orders are received under FAME II scheme in FY2020. These buses are to be supplied over a period of 12-15 months.

**Comfortable financial risk profile** – OGL's financial risk profile is comfortable with gearing of 0.03 times and TOL/TNW of 0.33 times as on March 31, 2020, given its healthy net worth of Rs. 731.99 crore as on March 31, 2020. Although the gearing is expected to increase in FY2021 to more than 0.25 times with disbursement of debt availed for TSRTC and PMPML's bus orders, it will remain comfortable considering its net worth position. The company had raised fresh equity of Rs. 660.62 crore during the past three years to support the operations of its e-bus division.

### Credit challenges

**Delays in ramping of bus division operations** – OGL's standalone operating income has increased to Rs. 395.53 crore in FY2020 from Rs. 161.50 crore in FY2018 owing to increased revenue contribution from E-buses which increased to Rs. 278.25 crore in FY2020 from Rs. 52.42 crore in FY2018. The sales volume of E-buses increased to 155 E-buses in FY2020 from 32 E-buses in FY2018. Further, the company expects to supply more than 300 buses in FY2021 and the ability of the company to achieve the growth would remain a key rating monitorable given that the manufacturing operations were impacted due to Covid-19 pandemic in H1FY2021.

**Risk of delays in receiving payments and subsidy from DHI to constrain liquidity position** – The company is yet to receive the payments for the buses supplied on GCC model to PMPML and TSRTC resulting in high debtor days. However,

the loan for these two orders is sanctioned and the disbursement is expected to be completed by Q2 FY2020, which should reduce the debtor days and support the liquidity position in the near term. Although the buses supplied to TSRTC and PMPML are not operational from March 22, 2020 owing to the restrictions imposed following the pandemic, the company had billed based on the assured kilometres as per the signed contracts. OGL is yet to receive these payments and the timeline for realisations remains to be seen, considering the adverse impact of Covid-19 pandemic on counterparties. The company has sizeable subsidy receivable pending for the buses supplied under FAME I, Smart City scheme and future supply of buses under FAME II from DHI.

**Exposure to fluctuation in raw material prices and increasing competition in e-buses industry** – The profitability of OGL’s insulators division is exposed to fluctuation in raw material prices as seen in the past, given the fixed-price nature of the orders. The bus division operations are dependent on continued technology support from BYD and it faces stiff competition from players such as Tata Motors Limited, Ashok Leyland Limited, Foton PMI, JBM Solaris, etc.

### Liquidity position: Adequate

OGL’s liquidity position is **adequate** with average fund-based limit utilisation of 58% in the past 12 months ending in June 2020. The net cash flows are expected to be Rs. 35-40 crore against capex of Rs. 233.27 crore and debt repayment of less than Rs. 10.00 crore in FY2021. The disbursement of term loans for TSRTC and PMPML’s orders and enhancement of working capital limits are likely to support its liquidity position in the near term.

### Rating sensitivities

**Positive triggers** – The ratings could be upgraded if there is an increase in the company’s scale of operations under its e-buses division, with improved profitability margins on a sustained basis and establishment of the working capital cycle for its e-bus operations.

**Negative triggers** – The ratings could be downgraded if there is significant decline in revenues and margins under the e-bus division, on a sustained basis, or further elongation of working capital cycle for e-buses. Any delay in drawdown of the loan from REC Ltd for TSRTC and PMPML orders or enhancement of the working capital limit would constrain the liquidity position and thereby result in negative pressure on OGL’s rating.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	NA
Consolidation/Standalone	Consolidated

### About the company

Olectra Greentech Limited (OGL, earlier known as Goldstone Infratech Limited) was incorporated in 2000. The company is into 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 car 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 ~270 e-buses to various state transport undertakings (STUs) in India and a few private parties till June 30, 2020.

## Key financial indicators

	Standalone			Consolidated		
	FY2019	FY2020	Q1 FY2021*	FY2019	FY2020	Q1 FY2021*
Operating Income (Rs. crore)	290.30	395.53	22.14	170.11	200.52	22.14
PAT (Rs. crore)	-13.58	10.70	-3.62	-15.81	13.53	-5.08
OPBDIT/OI (%)	-4.75%	2.30%	-24.26%	-8.92%	2.51%	-29.02%
PAT/OI (%)	-4.68%	2.71%	-16.36%	-9.30%	6.75%	-22.94%
Total Outside Liabilities/Tangible Net Worth (times)	0.21	0.22		0.21	0.33	
Total Debt/OPBDIT (times)	-1.76	2.45		-1.60	4.41	
Interest Coverage (times)	-0.92	0.66	-2.92	-1.01	0.36	-3.49

\*provisional

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019		FY2018
					27-Aug-2020	21-Nov-2019	25-Oct-2019	14-Jan-2019	28-Sep-2018	NA
1	Cash Credit	Long Term	40.00	-	[ICRA]BBB+(Stable)	[ICRA]BBB+(Positive)	[ICRA]BBB+(Positive)	[ICRA]BBB+(Stable)	NA	NA
2	Fund Based	Short Term	2.00	-	[ICRA]A2	[ICRA]A2	NA	NA	NA	NA
3	Non-fund Based	Long Term/Short Term	173.16	-	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB+(Positive)/ [ICRA]A2	[ICRA]BBB+(Positive)/ [ICRA]A2	[ICRA]BBB+(Stable)/ [ICRA]A2	NA	NA
4	Non-fund Based	Short Term	6.30	-	[ICRA]A2	[ICRA]A2	NA	NA	NA	NA
5	Unallocated	Long Term/Short Term	79.04	-	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB+(Positive)/ [ICRA]A2	[ICRA]BBB+(Positive)/ [ICRA]A2	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]BBB+(Stable)/ [ICRA]A2	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 [click here](#)

### 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	-	9.00%	-	40.00	[ICRA]BBB+(Stable)
NA	Standby Letter of Credit	-	-	-	2.00	[ICRA]A2
NA	Letter of Credit	-	-	-	120.00	[ICRA]BBB+(Stable)/ [ICRA]A2
NA	Bank Guarantee	-	-	-	53.16	[ICRA]BBB+(Stable)/ [ICRA]A2
NA	Forwards/Derivatives	-	-	-	6.30	[ICRA]A2
NA	Unallocated	-	-	-	79.04	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: Olectra Greentech Limited

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

Company Name	Ownership	Consolidation Approach
Olectra Greentech Limited	-	Full Consolidation
TF Solar Power Private Limited	100.00%	Full Consolidation
SSISPL-BYD-OGL Consortium	99.98%	Full Consolidation

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