Press Release

Jitendra New EV Tech Private Limited

February 8, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	50.00 (including proposed amount of Rs.25.00 crore)	IVR BB/ Stable (IVR Double B with Stable Outlook)	Assigned	Simple
Total	**50.00 (Rupees Fifty crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Jitendra New EV Tech Private Limited (JNEV) derive strength from the extensive experience of its promoters in the automobile industry, substantial growth prospects for the electric two wheeler (e2W) industry, significant increase in scale of operations in FY22 and H1FY23 and comfortable capital structure and debt protection metrics. The ratings are, however, constrained by the company's small scale of operations, thin profitability margins, ongoing capex, dependence on imports for supply of critical components like battery cells and constraints posed to e2W in comparison to conventional petrol 2W market in India.

Key Rating Sensitivities:

Upward Factors

- Sustained increase in scale of operation of more than 30% with improvement in cash accruals.
- Improvement in profitability with EBITDA margin above 6% on a sustained basis.
- Improvement in capital structure with reduction in overall gearing below 1x.

Downward Factors

- Decrease in operating income and/or profitability impacting the debt coverage indicators on a sustained basis.

- Withdrawal of subordinated unsecured loan (treated as quasi-equity) amounting to Rs.27.95 crore either partially or fully, and/or moderation in the capital structure.
- Deterioration in the overall gearing ratio above 2x.
- Deterioration in operating cycle impacting the liquidity.
- Any cost or time overrun in the implementation of the ongoing capex, thereby delaying cash flows from it.
- Any un-envisaged incremental debt funded capital expenditure leading to a deterioration in its overall gearing ratio.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of promoters in the automobile industry

Mr. Jitendra Shah is the co-founder of JNEV. He has more than 41 years of experience in automobile industry. He is a third-generation entrepreneur of the Shah group having its headquarters in Nashik. He leads the research and development of the company. Mr. Samkit Shah is the other co-founder of the company having an experience of 8 years in automobile industry. He is a second-generation entrepreneur and qualified CA. He looks after the day to day operations of the company. The other director, Mr. Pratik Shah, has an experience of more than a decade in the automobile industry and has been working in EV space for more than 7 years. He looks after the marketing function of the company. The promoters and directors are assisted by a team of well qualified and experienced professionals. The company is likely to benefit from the extensive experience of its promoters over the medium term.

Substantial growth prospects for the e2W industry

At present, the e2W industry in India is at a nascent stage, comprising less than 1% of the total vehicle sales in India in FY21. However, the industry has high growth potential going forward. The industry has witnessed a significant growth of 460% in FY22. Between April-March 2022, the e2W industry registered sales of 231,378 units, against 41,046 units sold in 2021. To promote e2W purchases in the country, there has been backing by the Central and state governments in the form of the introduction of various incentives and schemes, wherein, under the Faster Adoption and Manufacturing of Hybrid & Electric Vehicles scheme (FAME-II) guidelines (June 2021), e2W manufacturers will receive incentives of ₹15,000 per kWh and the cap on incentives for e2W will be 40% of the cost of the vehicle. Furthermore, under the Production-Linked Incentive (PLI) scheme, a large amount of investment has been announced for establishing a competitive advance chemistry cell (ACC) battery set-up in the country and attracting investments from the established players for the same in the near future. Given the surge in fuel prices, lower running costs, attractive product features with continuous improvement, the reduced-price differential with conventional 2Ws, and the increased acceptance of the product by end customers, there have been positive and substantial growth prospects for the e2W industry over the medium term, which in turn, will enhance the earning growth prospects of the players operating in the industry.

Significant increase in scale of operations in FY22 and H1FY23

The company's revenue remained range bound between Rs.5-13 crore in FY20-21 due to lower volume of sales. However, it improved substantially by around 391% in FY22, from Rs.13.09 crore in FY21 to Rs.64.36 crore in FY22, due to an increase in volume of sales as well as better realisations. In H1FY23, company's revenue increased by 274.46%, from Rs.15.55 crore in H1FY22 to Rs.58.23 crore in H1FY23, due to increase in volume of sales as well as better realisations.

Comfortable capital structure and debt protection metrics

Financial risk profile of the company is healthy marked by comfortable capital structure and debt protection metrics. Its capital structure has deteriorated slightly with overall gearing and TOL/ TNW (based on networth adjusted for quasi equity) from 0.00x and 0.28x respectively as on March 31, 2021 to 0.31x and 1.02x respectively as on March 31, 2022, but continues to be comfortable. The promoters have been regularly infusing funds by way of unsecured loans which are subordinated to the bank debt, which keeps the networth (including quasi equity) at comfortable levels. The debt protection metrics also remained healthy with interest coverage ratio and Total debt/ GCA ratio of 3.92x and 8.57x. Interest coverage ratio was at 5.43x in H1FY23 as against 2.60x in H1FY22.

Key Rating Weaknesses

Small scale of operations

Despite growing total operating income, JNEV's scale of operations remains small marked by total operating income of around Rs.5-64 crore in last three years ended FY22. Consequently, adjusted tangible net worth remained low at Rs.30.48 crore as on March 31, 2022. The small scale of operations restricts the financial flexibility of the company as well as restricts the bargaining power with its customers.

Thin profitability margins

The company's margins remained thin over the last three years ending in FY22. The company's profitability has been improving year-on-year for the last few years. The company was reporting EBITDA loss till FY21, with losses reducing year on year from Rs.0.53 crore in FY20 to Rs.0.33 crore in FY21. The company reported profit of Rs.1.55 crore at the EBITDA level in FY22 (EBITDA margin of 2.41%). The improvement in operating profitability is majorly due to increase in volume of sales as well as better realization during the period FY20-22. The PAT margin of the company also improved from 0.66% in FY20 to 1.49% in FY22

Ongoing capex

The company is undertaking a capex of Rs.28.00 crore to increase the installed capacity from 24000 units to 75000 units. The capex will be funded by way of term loan of Rs.10.00 crore, and balance Rs.18.00 crore of promoters/group contribution. As per management the COD of the project is August 2023.The company has incurred Rs.10.40 crore till December 2023 for purchasing land. The same was funded by way of equity infusion and unsecured loans from promoters and relatives. The company plans to incur the remaining capex in FY24. Successful and timely completion of the project with no cost or time overrun remains a key rating sensitivity.

Dependence on imports for supply of critical components like battery cells

Given the company's dependence on imported battery cells (in line with the Indian EV industry), the supply of e2Ws by it will remain vulnerable to geo-political developments in India and the cell-exporting nations. Any change in regulations related to the imports of components or supply chain disruptions can likely impact the company's operations. However, the fact that volumes have ramped up gradually for JNEV and that the company has been maintaining enough inventory of cell requirement to prevent any major disruptions to operations in the past provides comfort.

Constraints posed to e2W in comparison to conventional petrol 2W market in India

Being a nascent technology in India and having less than 1% market penetration in the 2W market (in terms of quantity) as compared to conventional petrol 2Ws, which account for 80% of India's 2W market in FY21, there are many constraints that the e2W market faces, such as import of battery cells from overseas, which is one of the most critical parts required for the manufacturing of batteries; the riding range; inadequate charging infrastructure with respect to public charging systems; limited battery life and high replacement costs; policy barriers with respect to the Goods and Services Tax (GST), wherein, if batteries are sold separately it is charged 18% GST and, most importantly, the recent fire incidents of e2Ws, which have shaken customers' confidence of switching to e2Ws over its conventional petrol 2W counterparts. Thus, in order to overcome these barriers over time, with the support of government policies, the e2Ws manufacturers are required to make consistent investments for upgradation and modifications in EV technology, expansion of its current capacity, a local EV ecosystem development for batteries manufacturing, launching of more products with stylish designs and unique features, and making the public aware of e2W advantages through aggressive advertising and publicity to reduce stiff competition from conventional petrol 2Ws and capture more market share in the domestic 2W market in the coming future

Analytical Approach: Standalone

Applicable Criteria:

[Policy on Default Recognition]

[Criteria of assigning Rating outlook]

[Rating Methodology for Manufacturing Companies]

[Financial Ratios & Interpretation (Non-Financial Sector)]

Liquidity: Adequate

The company's liquidity position remained adequate marked by current ratio of 1.97x as on March 31, 2022. The GCA has also improved from Rs.0.15 crore in FY21 to Rs.1.11 crore in FY22. There are no repayments due in FY23. The company's cash accruals are sufficient to meet its repayments in FY24-25. The average utilization of its working capital facilities was 63.20% in the 12 months ended November 2022, giving it sufficient headroom. The company has ongoing capex of Rs.28.00 crore which is expected to be completed by August 2023. The capex will be funded by debt of Rs.10.00 crore and balance Rs.18.00 crore by way of promoters contribution.

About the company

JNEV was incorporated in the year 2016. The company is currently engaged in manufacturing of 2 wheelers electric vehicles (2W EVs) at its manufacturing plant located at Nashik, Maharashtra. The company has 2 units to manufacture EVs with a combined annual capacity of 24,000 units. The company ranks amongst the top ten EV two wheeler manufacturers in the country.

The firm is being managed by Mr. Jitendra Shah, Mr. Samkit Shah and Mr. Pratik Shah collectively.

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	13.09	64.26
EBITDA	-0.33	1.55
PAT	0.07	0.96
Total Debt	-	9.53
Adjusted Tangible Networth (including quasi equity)	19.39	30.48
Ratios		
EBITDA Margin (%)	-2.55	2.41
PAT Margin (%)	0.54	1.49
Adjusted Overall Gearing Ratio (including quasi equity) (x)	-	0.31

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	25.00	IVR BB/ Stable	-	-	-

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2.	Proposed Cash Credit	Long Term	15.00	IVR BB/ Stable	-	-	-
3.	Proposed Term Loan	Long Term	10.00	IVR BB/ Stable	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	25.00	IVR BB/ Stable
Proposed Cash Credit	-	-	-	15.00	IVR BB/ Stable
Proposed Term Loan	-	-	-	10.00	IVR BB/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Jitendra-NewEVTech-feb23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.