Hop Electric Mobility Private Limited

January 05, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	9.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	51.00	CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)	Assigned
Total Bank Facilities	**60.00 (₹ Sixty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Hope Electric Mobility Private Limited (HEMPL) are constrained on account of its modest albeit growing scale of operations with low profitability, small networth base, project risk associated with the planned capex and presence in highly competitive electric two-wheelers (e2W) industry. The ratings also factor in the supply chain challenges related to dependence on imports of critical components for electric two wheelers.

These ratings, however, favourably draws comfort from resourceful and experienced promoters with fund infusion to support the operations, establishment of wide dealers' network (exclusive dealership) in its short track record, new product launches and favourable government policies and high growth potential of Electric Vehicle (EV) industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Growth in scale of operations as marked by total operating income of above Rs.150.00 crore on sustained basis.
- Sustainability of the profitability margins as marked by PBILDT above 6.00% on a sustained basis.
- Maintenance of overall gearing below 2x on sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in overall gearing beyond 3x owing to additional debt-funded Capital expenditure
- Elongation in gross working capital cycle (inventory+ receivables) beyond 100 days

Detailed description of the key rating drivers

Key rating weaknesses

Modest albeit growing scale of operations with low profitability: The company has commenced operations from July, 2021 onwards and has registered Total operating Income (TOI) of Rs.32.07 crore in FY22, coming mainly from its two low speed scooter variants i.e HOP LEO and HOP LYF. Further, during H1FY23, company has registered sales of Rs.36.04 crore. However, same stood at modest level. Scale of the company is expected to grow with addition of newly launched high-speed electric bike 'Hop OXO' (pre- orders worth Rs.50 crore have already been received) and demand from its low speed variant as company continue to increase its penetration in newer states. As on October 31, 2022, company has total installed capacity of assembly up to 1.2 Lakh units of electric vehicles per annum at its manufacturing unit (assembly unit) named Hop Megaplex in Jaipur.

Further, in terms of profitability major players in electric two-wheelers (e2W) industry in India are had reported low margins or loss. Also, the profitability margins depend upon the type of electric two-wheeler (e2W) scooters segment (high-speed and low-speed). The models belonging to high-speed segment generally fetches better margins as compared to low-speed. During FY22, revenue of the company was mainly derived from its low speed electric vehicles segment and as a result PBILDT margin and PAT margin of the company stood low at 1.99% and 1.38% respectively. Going forward, with increased contribution of high-speed electric vehicles in company's overall revenue composition, the operating margins of the company are expected to improve further in the moderate range of 6%-7%. However, the ability of the company to report an increase in its operational performance, and thereby operating profitability over the medium term, will remain key monitorable.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Dependence on imports for supply of critical components: During FY22, company has procured ~32% of its key component requirement like batteries through imports. Domestic purchases are limited to other components like steel frames, tyres, harnesses, plastics, lights. Hence, given the company's moderate import dependence for battery cells (in line with the Indian EV industry), the supply of e2Ws by HEMPL would remain vulnerable to geo-political developments between India and the cell exporting nations. Any change in regulations related to imports of components or supply chain disruptions could likely impact HEMPL's operations.

Project risk associated with its capex plans: The company is undertaking capex of Rs.10 crore in current fiscal for setting up its own assembly line under its subsidiary company i.e. Hop Electric Manufacturing Private Limited with installed capacity of 90,000 units/year, against which term loan of Rs.7 crore is proposed to be availed, remaining is proposed to be funded out of internal accruals. There is project implementation and stabilization risk associated with the project.

Presence in highly competitive electric two-wheelers (e2W) industry: The Indian electric two-wheeler market is highly competitive, with the presence of many established players, including Okinawa Autotech, Ola Electric Mobility Private Limited, Hero Electric Vehicles Private Limited, Ampere Vehicles Private Limited, Ather Energy Private Limited, etc. Due to building confidence and change in preferences of customers towards e2Ws will tempt the new entrants to enter into this market over the next two-to-three years which will further intensify the competition among the players. Furthermore, in order to cope up with the competition, grow its market share and maintain its position in the e2W market, the players regularly launch new models/variants. Thus, it will be crucial for the company to timely develop new products, launch new models with unique features at affordable cost and make continuous investment in the in-house research and development (R&D) and new technology, enhancement of its existing capacities along with expansion of its distribution network keeping in view the demand from the prospective customers for sustaining the leadership position in the Indian electrical two-wheeler market.

Key rating strengths

Resourceful and experienced promoters with infusion of funds as per requirement: The company is spearheaded by Mr. Ketan Mehta, Mr. Rajendra Agarwal, Mr. Ashish Jain, Mr. Rahil Gupta & Mr. Nikhil Gupta who are well experienced in the field of renewable energy. Mr. Ketan Mehta was also accredited with the title of 'Forbes 30 under 30 -Asia- In Energy Sector'. Promoters of HEMPL are also promoters of Rays Power Infra Private Limited (RPIPL; rated CARE A-; Stable/ A2+), which is an established player in 'Turnkey Solar EPC Services' having commissioned solar park and projects rounding to 1000 MW. Promoters are resourceful as reflected by infusion of funds though RPIL as well as via external financial investors. During May, 2022, as part of its ongoing 10 million $ pre-series fund raising programme, HEMPL has raised funds of Rs.20 crore, out of which RPIL has invested Rs.10 crore in equity shares of HEMPL, along with Rs.10 crore raised from M/s. Genus Power Infrastructure Limited (GPIL) in form of compulsorily convertible preference shares. Also, management has articulated that promoters would infuse need based support in the company.

Establishment of wide dealers' network in its short track record: During its short track record, company has established wide dealers' network, consisting of more than 150 exclusive dealership spread across 14 states of India, which is expected to expand further to increase penetration in the market.

New product launches in electric two-wheeler (e2W) segment: The company has a product portfolio of electric two-wheeler (e2W) scooters/bikes which includes eight different models catering to the high-speed and low-speed category, out of which two (Hop OXO , Hop OXO X motorcycle, launched in September, 2022) belong to the high-speed category (top speed of 90km/hour, full charge range of 150Kms/per charge) and other six products (Hop LYF basic, LYF, LYF Extended; Hop LEO basic, LEO, LEO Extended, launched in June, 2021) belong to the low-speed category (top speed of 50km/hour, full charge range of 125Kms/per charge) and will continue to expand the portfolio with new model launches going forward. Company has shipped more than 9000 low speed electric scooters till September 2022. High-speed variants are eligible for subsidy under FAME-II guidelines and are likely to lead the ramp up in e-2W penetration.

Good growth prospects for the e2W industry and government support though various schemes: 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 and 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 viz. Faster Adoption and Manufacturing of Hybrid & Electric Vehicles scheme (FAME-II) and Production-Linked Incentive (PLI) scheme to promoter investment in this segment. However, there are many constraints e2Ws market faces such as import of battery cells, riding range, inadequate charging infrastructure with respect to public charging systems, limited battery life and high replacement costs, policy barriers with respect to GST wherein if batteries are sold separately it gets charged 18% GST and recent fire incidents of e2Ws

Liquidity: Stretched

Liquidity of the company stands stretched marked by low available working capital limits vis-à-vis the requirement to support the growth in scale of operations. Company has existing working capital limits of Rs.2.00 crore only, and current working capital requirement is met by creditors. However, company has applied for enhancement in fund based/non-fund-based limits of Rs.51.00 crore and also sanction of term loan of Rs.7.00 crore against capex of Rs.10 crore is under progress. Thus, the timely sanction of the working capital limits shall be key credit monitorable. However, promoters of the company are resourceful and are capable of raising the funds through external sources as and when required, this provides some comfort for the credit profile of the company.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company

Jaipur (Rajasthan) based Hop Electric Mobility Private Limited (HEMPL; CIN: U74999RJ2020PTC068051) was established in 2020 as a wholly owned subsidiary of Shining Technologies Ventures Private Limited (STVPL) owned and managed by Mr. Ketan Mehta, Mr. Rajendra Agarwal, Mr. Ashish Jain, Mr. Rahil Gupta & Mr. Nikhil Gupta. Mr. Ketan Mehta is also the promoters of Rays Power Infra Private Limited (RPIPL; rated CARE A-; Stable/ A2+). HEMPL was started under RPIL and later on moved into a separate company. During June, 2021, HEMPL has launched its two low-speed scooter variants namely 'HOP LEO' and 'HOP LYF' (top speed of 50km/hour, full charge range of 125Kms/per charge) and has shipped more than 9000 electric scooters so far. On September 5, 2022, HEMPL has launched its flagship product – High Speed Hop OXO electric motorcycle (top speed of 90km/hour, full charge range of 150Kms/per charge). During May, 2022 as part of its ongoing 10 million $ pre-series fund raising programme, HEMPL has raised funds of Rs.20 crore, out of which RPIL has invested Rs.10 crore in equity shares of HEMPL, thus it holds 5% equity ownership in HEMPL as on July 14, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	0.32	32.07	36.04
PBILDT	-0.16	0.64	4.80
PAT	-0.16	0.44	4.60
Overall gearing (times)	NM	1.08	0.12
Interest coverage (times)	NM	4.69	NA

A: Audited, Prov.: Provisional; NM: Non-Material; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	2.00	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	December, 2027	7.00	CARE BB+; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	51.00	CARE BB+; Stable / CARE A4+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	51.00	CARE BB+; Stable / CARE A4+				
2	Fund-based - LT-Cash Credit	LT	2.00	CARE BB+; Stable				
3	Fund-based - LT-Term Loan	LT	7.00	CARE BB+; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Akhil Goyal
Phone: 8511190015
E-mail: akhil.goyal@careedge.in

Relationship contact
Name: Deepak Purshottambhai Prajapati
Phone: +91-79-4026 5656
E-mail: deepak.prajapati@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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