Urja Global Limited

December 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer Rating	0.00	CARE BB-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The issuer rating assigned to Urja Global Limited (UGL) factors in the group's small scale of operations, low profitability margins and weak debt coverage indicators. Further, the rating is constrained by working capital-intensive operations, competitive and fragmented industry, project execution and stabilization risk, and exposure to geopolitical, regulatory and foreign exchange (forex) risks. However, these rating weaknesses are partly offset by experienced management, diversified product portfolio and established dealer network and comfortable capital structure as marked by the low overall gearing, driven by healthy tangible net worth (TNW) base and low debt levels.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations as marked by total operating income (TOI) above Rs.100 crores, along with sustenance of profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 4%.
- Timely collections from trade receivables leading to an improvement in debt coverage indicators.

Negative factors

- Decline in the TOI by more than 20% and/or PBILDT margin falling below 3% on a sustained basis.
- Any significant debt-funded capital expenditure (capex) undertaken or deterioration in TNW, leading to deterioration in the capital structure as marked by overall gearing of above 2.00x on a sustained basis.
- Deterioration in liquidity due to withdrawal of unsecured loans by promoters or materialization of any contingent liability pertaining to the statutory dues.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has taken a 'consolidated' approach for analytical purpose since UGL and its subsidiaries (collectively referred to as "Urja group"), are engaged in similar line of business, having business and financial linkages due to common promoters and management. The list of entities consolidated is given in Annexure-6.

Outlook: Stable

The stable outlook reflects CARE Rating's expectation that the group shall sustain its operational and financial performance over the medium term backed by the experience of promoters in the industry.

Detailed description of the key rating drivers

Key weaknesses

Small scale of operations

The total operating income (TOI) of the group grew by ~12% year-on-year to Rs.44.47 crore in FY24 (refers to the period from April 01, 2023, to March 31, 2024; PY: Rs.39.58 crore), largely driven by the sales of electric scooters (e-scooters) and lead acid batteries. Nevertheless, the scale stood small, and it limits the group's financial flexibility in times of stress and deprives it of scale benefit. Due to limited value addition from solar panels trading and installation, the group started e-scooters and batteries assembly and manufacturing segment in the recent years. From April 2024, the group has started solar EPC project segment to also cater to private players and provide end-to-end services for design, supply and installation of solar panels and other solar products, which shall be procured from the suppliers. Further, the group reported topline of Rs.29.88 crore in H1FY25 (refers to the period from April 01, 2024, to September 30, 2024).

Low profitability margins and weak debt coverage indicators

The profitability margins of the group stood low, though improved in FY24 as marked by PBILDT and PAT margin of 5.31% (PY: 3.77%) and 4.58% (PY: 3.85%) respectively, on account of better contribution from the e-scooters and batteries assembly and manufacturing segment. However, in H1FY25, PBILDT margin declined to 2.48% primarily on account of increase in employees' cost due to hiring of dedicated team for solar EPC project segment and hiring of sales personnel for marketing of e-scooters.
Further, due to low profitability margins resulting in lower gross cash accruals (GCA), the debt coverage indicators of the group stood weak as marked by the interest coverage and total debt to GCA (TD/GCA) of 3.32x (PY: 1.64x) and 15.80x (PY: 12.99x) respectively as on March 31, 2024.

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

Competitive and fragmented nature of industry
The Indian electric two-wheeler (e2W) market is highly competitive, marked by presence of many established players, including Hero Electric Vehicles Private Limited, Ola Electric Mobility Private Limited, among others. On account of the building confidence and change in the consumer preferences towards e2Ws, new entrants shall enter in the market over next 2-3 years which will further intensify the competition. Further, solar industry is fragmented and competitive in nature. The group faces competition from large industry players such as Vikram Solar, among others and other EPC (Engineering, Procurement and Construction) arms of several solar panel manufacturers. It also faces competition from several smaller players providing O&M (Operations and Maintenance) services to solar power projects. With the increasing growth opportunities for solar energy sector due to the government support/incentives, more players are entering the industry, increasing competition. Battery manufacturing industry is also competitive owing to low entry barriers and low capital requirement to set up the operations. The intensive competition limits the pricing flexibility and bargaining power of the players. Therefore, it is crucial for Urja group to timely develop new products, launch new models with unique features at affordable cost along with expansion of distribution network keeping in view the demand from the prospective customers.

Exposure to geopolitical, regulatory and forex fluctuation risks
In general, the Indian EV industry is dependent on imports, especially for procuring battery cells, hence, group's operations are vulnerable to geopolitical developments between India and cell exporting nations. Therefore, any changes in regulations related to import of components or supply chain disruptions can impact the growth prospects of Urja group. Further, any regulatory interventions that could impact the demand and viability of the vehicles sold by the group also has the potential to impact the Urja group's performance. Further, there are other constraints that e2W market faces are inadequate charging infrastructure in relation to public charging systems, limited battery life and high replacement costs, among others. Thus, in order to overcome these barriers, the government implement various favourable policies for the e2Ws manufacturers for upgradation/modifications in the EV technology.

Working capital-intensive operations
The group's operating cycle stood elongated at 468 days in FY24 (PY: 301 days). Due to the limited value addition from solar panels' trading and installation, Urja group is more focussed on e-scooters and batteries assembly and manufacturing business segments from FY22 onwards. However, the group was unable to make collections from certain debtors, pertaining to the solar panel trading segment, on account of Covid-19 induced cessation or delay of several projects. As such, the group did not make payment to certain suppliers. Out of the total debtors and creditors outstanding as on September 30, 2024, the debtors and creditors to the tune of ~Rs.67 crore and ~Rs.45 core respectively are outstanding from more than two years. As such, average collection and creditors' period stood elongated at 746 days and 542 days respectively in FY24. Further, Urja group started assembly and manufacturing of e-scooters from FY22 onwards, however, the sluggish demand resulted in the build-up of e-scooters inventory. As such, the average inventory holding period stood elongated at 265 days in FY24.

Project execution and stabilization risk
In the current fiscal year, Urja group is planning to incur a capex of ~Rs.50 crores, to start new plant at Sampla (Haryana), for the assembly and manufacturing of lithium batteries and high speed e-scooters. The new plant requires investment in land and building of ~Rs.30 crore and plant and machinery of ~Rs.20 crore. Currently, lithium batteries are imported largely from China. Therefore, the group aims to reduce its import dependence on China. Capex shall be funded entirely though external debt. As informed by group's management, the financial closure shall be achieved by December 2024 end and capex shall be completed by end of March 2025. Therefore, project execution within the envisaged time and cost remains crucial from credit perspective. Moreover, the post project implementation risk in form of stabilization and saleability risk associated with the products offered in the light of competitive nature of industry is yet to been seen.

Key strengths

Experienced management
Incorporated in 1992, Urja Group has track record of around a decade in the solar, batteries and EV two-wheeler industries. Mr. Gajanand Gupta, Chairman of UGL, is a Chartered Accountant having vast experience in corporate finance, business advisory, business planning and decision making. The group is managed by Mr Mohan Jagdish Agarwal, Managing director of UGL, having extensive experience of ~25 years in production and marketing. Mr. Agarwal in turn is ably supported by Mr. Yogesh Kumar Goyal (Wholetime director of UGL), who is a post graduate having considerable experience in marketing and sales development. The day-to-day business operations of the group are managed by well qualified team having requisite experience in the related field. Further, as informed by the management, the promoters are committed to infuse additional funds, if needed, to support the liquidity position of the group, as historically, which reflects the resourcefulness of the promoters.

Diversified product portfolio and established dealer network
The Urja group has diversified product portfolio which comprise of e-scooters, batteries (Lead Acid and Li-ion) and solar panels. The group has built its own exclusive dealer/distributor network, majorly in North India. Currently, it has ~65 dealer/distributors network for the sale of e-scooters. The group also sell its products (e-scooters, batteries, solar panels and other solar products) through "Urja Kendra" – a dedicated retail outlet facilitating the sale of aforementioned products. Currently, the group has set up ~18 Urja Kendra(s). The group plans to expand this model across India through its established channel partner network, enhancing its presence and reach in the retail segment. Further, the group sell products directly to consumers (B2C) through its Urja Kendra website.

Comfortable capital structure
Urja group's capital structure is comfortable as marked by low overall gearing which stood at 0.31x as on September 30, 2024, driven by healthy TNW base as against low debt levels. However, going forward, the capital structure is expected to moderate, largely on account of debt-funded capex planned.

Liquidity: Stretched
The liquidity position of the group is stretched as marked by tightly matched accruals as against repayment obligations and high utilization of the working capital borrowings. The group's repayment obligations for FY25 stood close to Rs.2 crores as against expected GCA of ~Rs.3 crores. Average utilization of working capital limits stood high at ~90% in trailing twelve months ended October 31, 2024. Further, the group has low free cash and bank balance of Rs.0.91 crore as on September 30, 2024. However, CARE Ratings expects that promoters, as historically, shall infuse funds, if required, to support liquidity of the group.

Applicable criteria

Definition of Default
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Wholesale Trading
Auto Components & Equipments
Issuer Rating
Consolidation

About the company and industry
Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

Incorporated in 1992, UGL is listed on both stock exchanges (NSE and BSE). Urja group is engaged in manufacturing, assembly, and marketing of e-scooters and lead acid batteries. The group is also engaged in trading and installation of solar panels. From current fiscal year, the group has also started to undertake the solar EPC projects, wherein it aims to undertake solar projects from private organizations by way of designing, supplying and installation of solar panels, batteries, inverters etc.

Brief Financials (₹ crore) Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA) *
Total operating income	39.58	44.47	29.88
PBILDT	1.49	2.36	0.74
PAT	1.53	2.03	0.69
Overall gearing (times)	0.17	0.26	0.31
Interest coverage (times)	1.64	3.32	2.18

A: Audited; UA: Unaudited, *refers to the period from April 01, 2024, to September 30, 2024
Note: 'the above results are latest financial results available'.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE BB-; Stable

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Issuer Rating-Issuer Ratings	LT	0.00	CARE BB-; Stable				

LT: Long term

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

Annexure-4: Complexity level of instruments rated: Not applicable

Annexure-5: Lender details: Not applicable

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Urja Batteries Limited	Full	Subsidiary
2	Urja Digital World Limited	Full	Subsidiary
3	Sahu Minerals and Properties Limited	Full	Subsidiary

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

Contact us

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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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