October 04, 2023

Bestway Agencies Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	10.00	[ICRA]BBB- (Stable); assigned
Unallocated Limits	15.00	[ICRA]BBB- (Stable); assigned
Total	**25.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to Bestway Agencies Private Limited (BAPL) takes into account its strong parentage, as a stepdown subsidiary of Greaves Cotton Limited (GCL), a leading player in the manufacturing of engines, engine applications, power gensets, etc, in the domestic market. The Greaves group is also engaged in the manufacturing and sales of electric two-wheelers (e2Ws) through Greaves Electric Mobility Pvt. Ltd. (GEMPL; parent company of BAPL) and electric three-wheelers (e3Ws) through BAPL and MLR Auto Pvt Ltd. While BAPL manufactures the L3 category of e3Ws, i.e., vehicles with a maximum speed of up to 25 km/hour, or e-rickshaws, MLR Auto manufactures the L5 category of 3Ws, i.e., vehicles with a maximum speed of more than 25 km/hour. As part of the Greaves Cotton Group, BAPL has benefited from access to unsecured loans to meet any financing requirements, and financial flexibility to raise funds for its growth. ICRA expects the Group to continue to support BAPL going forward as well, till it is able to scale up operations to self-sustainable levels.

With its manufacturing facility at Greater Noida (Uttar Pradesh), the company has 11 distributors and 200 active dealers for its products. ICRA notes that the growth potential of the e3W industry, wherein BAPL operates, remains quite robust, supported by their lower upfront costs and operational savings, coupled with minimal compliance requirements. With increasing penetration into untapped markets, organised players like BAPL are expected to benefit, going forward, especially when the industry undergoes some consolidation.

The ratings, however, are constrained by its nascent stage of operations, with the company currently generating operating losses, resulting in the erosion of its net worth over the years. Comfort is, however, drawn from the track record of the promoter group in providing financial support to BAPL and likely continuation of the same, going forward. Further, the company's operations are susceptible to any adverse geopolitical developments, which could indirectly impact the supply of key components. BAPL is also vulnerable to regulatory interventions, which can impact the demand or viability of its products, going forward. ICRA would continue to monitor developments in the industry, and the company's ability to ramp up its operations such that it is able to generate adequate earnings from its operations and become self-sustaining.

The Stable outlook on the long-term rating indicates ICRA's expectations of continued support from the parent entity till BAPL's operations stabilise. ICRA believes GEMPL will support it in meeting its funding requirements and limit its dependence on external borrowings to an extent, till BAPL's operations turn self-sustaining.

Key rating drivers and their description

Credit strengths

Strong parentage and financial support from the Greaves Cotton Group, along with associated financial flexibility – The company is a wholly-owned subsidiary of GEMPL, whose majority shareholding is held by GCL. GCL has been a leading player in the supply of automotive diesel engines for 3Ws, with a strong share of business with almost all leading 3W Original Equipment Manufacturers (OEMs) in the country. Additionally, GCL operates in the e-mobility business through its subsidiaries, GEMPL and MLR Auto, along with its step-down subsidiary, BAPL. GEMPL sells e2Ws under the brand, 'Ampere', in the domestic market and is among the top five players in the organised segment. The Group has demonstrated support by extending unsecured loans in the past, and the same is likely to continue, ensuring timely availability of funds to meet any funding requirements in BAPL. ICRA also notes the operational and managerial linkages between BAPL and GEMPL, with the presence of a few common directors on the board of both companies. Association with an established group like Greaves Cotton also lends financial flexibility to BAPL, as it raises funds for fuelling its growth.

Favourable e3W segment outlook – The 3W segment has been one of the early adopters of electric vehicles (EVs) in India, reaching penetration levels of 53% in FY2023, over 4% for the 2W and 1% for the passenger vehicle (PV) segments. The growth in e3Ws has been led by the unorganised e-rickshaw segment, which currently accounts for ~90% of the e3Ws sold in the country. Given their lower upfront costs and operational savings, coupled with minimal compliance requirements, this segment has flourished over the past few years. Moreover, this is expected to continue going forward as well, especially as penetration in unexplored markets increases. Accordingly, players such as BAPL are expected to benefit from the healthy growth prospects.

Credit challenges

Nascent stage of operations that are yet to turn profitable; erosion of net worth due to continued losses – Being in its initial years of operations and operating in a sunrise sector, the company has been generating operating losses since the past few years, due to which its net worth has eroded to Rs. (50.3) crore as on March 31, 2023. Further, the operations of the company were impacted in FY2023 due to certain internal reorganisations and managerial changes, which impacted its production. However, given the favourable outlook for the e3Ws segment, which is led by e-rickshaws (wherein BAPL operates) and the company's focus on scaling up and improving margins, it is expected to turn profitable and self-sustaining over the medium term.

Exposed to geopolitical developments and regulatory interventions – Although the company does not directly import much components, ICRA notes that the domestic EV industry in general is import dependent, especially for procuring battery cells/battery packs. Any changes in regulations related to import of components or supply chain disruptions can accordingly impact BAPL's growth prospects. Further, any regulatory interventions that could impact the demand and viability of the vehicles sold by BAPL also has the potential to impact the company's performance.

Presence in a highly fragmented and unorganised industry – The e3W industry is highly fragmented and competitive, with a large number of unorganised players in the market, especially in the e-rickshaw segment where BAPL operates. Such high fragmentation limits the pricing flexibility and bargaining power of the players. The small initial investment and the low complexity of operations have resulted in innumerable entities in the field, each having a marginal market share, leading to significant fragmentation.

Liquidity position: Adequate

While the company is yet to turn self-sustaining, its liquidity profile would continue to be supported by timely infusion of funds by GEMPL and is expected to remain adequate. The company had undrawn working capital lines to the tune of Rs. 2.5 crore as on May 2023 (against drawing power) against which it has capex plans of Rs. 2 -3 crore and debt repayments of Rs. 1.4 crore in FY2024. Comfort continues to be drawn from the healthy liquidity profile of the promoter group, who is expected to support BAPL in case of any exigencies, as has been demonstrated in the past.

Rating sensitivities

Positive factors – ICRA could upgrade BAPL's ratings if there is an improvement in scale of operations along with a track record of profitable operations on a sustained basis, while maintaining a comfortable liquidity position. Further, strengthening of the parent group's credit profile would also be considered as a credit positive.

Negative factors – ICRA could downgrade the ratings if there is a weakening in the liquidity position of the entity, led by higher than anticipated cash losses or any significant debt-funded investments undertaken. Further, weakening of the financial risk profile of the parent group, or any weakening in linkages with the parent group, may also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	The ratings assigned to BAPL factors in the high likelihood of its parent, GEMPL, extending financial support to it because of its strategic importance and close managerial linkages. ICRA also expects GEMPL to be willing to extend financial support to BAPL out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	The ratings are based on the standalone financials of BAPL.

About the company

Incorporated in 2004, BAPL is engaged in manufacturing the L3 category of e3Ws, i.e., vehicles in the 3W category with a maximum speed of up to 25 km/hour. With its manufacturing facility located at Greater Noida, the company currently has 11 distributors and 200 active dealers for its products. Following its acquisition by GEMPL in October 2021, it has become part of the larger Karan Thapar Group of companies, of which the flagship company is GCL. Currently, BAPL is a wholly-owned subsidiary of GEMPL and a step-down subsidiary of GCL.

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	97.8	69.9
PAT	-10.1	-18.2
OPBDIT/OI	-3.7%	-16.8%
PAT/OI	-10.3%	-26.0%
Total outside liabilities/Tangible net worth (times)	-2.0	-1.5
Total debt/OPBDIT (times)	-12.4	-4.3
Interest coverage (times)	-0.8	-2.4

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore * Provisional data*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years		
			Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 04, 2023	-	-	-
1	Fund based-Cash credit	Long term	10.00	3.38	[ICRA]BBB-(Stable)	-	-	-
2	Unallocated Limits	Long term	15.00	-	[ICRA]BBB-(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based- Cash credit	Simple
Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund based-Cash credit**	NA	NA	NA	10.00	[ICRA]BBB- (Stable)
NA	**Unallocated Limits**	NA	NA	NA	15.00	[ICRA]BBB- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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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.

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