August 02, 2022

GreenCell Surat Private Limited: [ICRA]A(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. Crore)	Rating Action
Long-term Fund based - Term Loan	47.58	[ICRA]A (Stable); assigned
Long-term Non-Fund based – Bank Guarantee	67.32	[ICRA]A (Stable); assigned
Long-term Non-Fund based - Bank Guarantee^	(67.32)	[ICRA]A (Stable); assigned
Long-term – Unallocated Limits	1.10	[ICRA]A (Stable); assigned
Total	**116.0**	

**Instrument details are provided in Annexure-I; ^Sanctioned against letter of comfort from project lender*

Rationale

The rating assigned to GreenCell Surat Private Limited (GSPL) takes into consideration its strong parentage, with majority shareholding with GreenCell Mobility Private Limited (GMPL, rated [ICRA]A+(Stable)/[ICRA]A1), and limited execution and operational risks, since the project is in advanced stages of execution with various agreements in place. Even though the agreement with the authority essentially translates into an annuity model of revenues for the Special Purpose Vehicle (SPV), it remains exposed to some counterparty risks on account of the expected dependence on Government authorities for funding revenue shortfalls and subsidy receipts, and the likelihood of time overruns, given the pandemic-induced supply chain disruptions. ICRA also notes that the dependence on the Original Equipment Manufacturer (OEM), viz., PMI Electro Mobility Solutions Private Limited (PEMPSL) is high for successful execution of the project. However, comfort is drawn from the presence of an established key component supplier (KCS), Beiqi Foton Motors, China (Foton), and the multi-partite agreements in place with the OEM and KCS for project execution and performance.

GSPL has been setup as an SPV to procure, operate and maintain 150[1] e-buses on intracity routes in Surat, Gujarat for 10 years under the Gross Cost Contract (GCC) model of the Faster Adoption and Manufacturing of Hybrid & Electric Vehicles in India II (FAME India II) scheme. The bid for operating these buses was won by a consortium led by GMPL in December 2021. ICRA draws comfort from the fact that GMPL is involved in strategic decisions as well as the day-to-day operations of the company, as per the terms of the shareholding agreement with PEMPSL. Overall, the presence of a strong sponsor and a shortfall undertaking from the promoters to the lender is a credit positive and likely to ensure timely availability of funds to meet any funding requirements for the project. ICRA also notes that the financial closure for the project has also been achieved and 100% equity has been infused by the promoters.

Despite PEMPSL's limited track record of e-bus operations in India, comfort is drawn from the fact that it has delivered more than 600 e-buses in India so far and has a technical tie-up with an established player, Foton, for sourcing technology and critical components. Foton is also a party in the sales and after-sales agreement signed by GSPL with the OEM, which helps mitigate risks. However, geopolitical developments remain a sensitivity for the project viability, as any adverse developments related to imports from China can impact the availability of components required for seamless operations.

As per the sales and after-sales agreement between GSPL and PEMPSL, the prices of the buses are fixed, which significantly reduces the risk of cost overruns for the project, as buses constitute about 80% of the project cost. ICRA also notes that a significant proportion of the bus cost (~55%) would be funded through capital subsidy from the Department of Heavy Industries (DHI), improving the project viability. However, given that the project is in the execution phase, it remains subject to timely

[1] *9-metre-long, fully built, air-conditioned*

receipt of subsidy and statutory approvals (including timely handover of the bus depots) and other inherent project execution risks. Commercialisation of the project within the scheduled timelines, coupled with stabilisation of operations post commercialisation, hence, remains a key monitorable.

The company's business model is characterised by high revenue visibility and minimal traffic risk, given the nature of the contract, wherein the company will be paid a fixed rate for a minimum assured distance, subject to the assured bus availability. Additionally, the company has major fixed operational costs such as annual maintenance and operator costs through fixed-price contracts with the OEM and operator; and has also entered back-to-back arrangements for passing on any incremental costs or penalties in case of bus non-availability or delays in bus delivery. Accordingly, operational risks are mitigated to a large extent.

The project remains susceptible to counterparty risks, given the nature of intracity operations, wherein the ticket collections are usually much lower than the revenue payable to the operator. However, the risks are mitigated to some extent by the escrow mechanism, wherein the authority would be obligated to deposit the revenues from ticket collections while also maintaining two months of revenue payable as a payment reserve. In addition, the strong financial profile of Surat Municipal Corporation (SMC) and its track record offers comfort regarding the authority's ability to timely honour its obligations. In terms of the subsidy receipt and timing, comfort is drawn from the fact that subsidy receipts have largely been timely, as seen in other projects being executed by GMPL in Uttar Pradesh.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company is likely to procure and deploy the buses in a timely manner with minimal delays, given the financial flexibility enjoyed by the entity and the project milestones achieved till date. Nevertheless, ICRA would continue to monitor the project progress and the track record of operations, once commercialised, and take rating actions appropriately.

Key rating drivers and their description

Credit strengths

Strong parentage as majority shareholding lies with GMPL, where sovereign funds are anchor investors– GMPL (which holds 74% equity stake in GSPL) is the flagship platform of Green Growth Equity Fund (or GGEF), a SEBI registered Category II Alternate Investment Fund (AIF). GGEF's anchor investors are the Government of India anchored National Investment and Infrastructure Fund (NIIF) (India's first sovereign wealth fund) and the Government of the United Kingdom's Department for International Development (DFID). Currently, the commitment from various investors in GGEF stands at $740 million.

The other key SPV partner, PEMPSL, is the OEM for the project, responsible for procuring, operating, and maintaining the buses during the life of the contract. The OEM has so far supplied more than 600 e-buses in India and has a technical tie-up with Foton for manufacturing e-buses in India. Additionally, the promoters of PEMPSL have an experience of more than 30 years as a major bus coach manufacturer in India. The presence of a strong sponsor and a shortfall undertaking from GMPL to the lender are likely to ensure timely availability of funds to meet any funding requirements and aid a timely commercialisation of the project. Financial closure for the project has already been achieved with 100% equity brought upfront and debt tied up.

High revenue visibility as CA provides fixed fee on per km basis for an assured distance subject to the bus availability, even as receipts from ticket collections for intracity operations are likely to remain inadequate – As per the terms of the Bus Operator Agreement, the Authority would pay the SPV a fixed rate for a minimum assured distance of 70,000 km/bus annually, subject to bus availability. Accordingly, the SPV does not bear the traffic risk on the routes, and only needs to ensure availability of buses as per the authority's deployment plan. Given this arrangement, it essentially translates into an annuity model of revenues over the concession period, with high revenue visibility. The availability of spare buses (two) is likely to aid the company in ensuring the required fleet availability and aid in a stable revenue profile. However, the clause relating to unutilised kilometres being paid at 50% of the applicable fixed rate brings in some element of variability. Also, intracity bus operations, in general, are subsidised and can recover only 30-50% of the revenue payable (to SPV) from their ticket collections. As such, the dependence on timely Ggovernment grants/support to authorities for funding the gap remains critical. However, comfort is drawn from scheme of the State Government of Gujarat providing 50% of the gap between fare collection and revenue payable to GSPL, with the remaining 50% being funded by SMC.

Back-to-back arrangements with OEM for bus procurement, maintenance and operations mitigate risks related to project execution and cost overruns – The SPVs have entered into a sales and after-sales agreement with PMEPSL (OEM) (which in turn has a back-to-back agreement with the Chinese KCS, Foton), according to which the OEM and KCS would be supplying buses as per the technical specifications, maintaining the buses (through an annual maintenance contract) and also operating them throughout the tenure of the contract. The prototype for the buses to be supplied has already been approved. The presence of a fixed price sales and after-sales service contract mitigates any time and cost overrun risks. Furthermore, any penalties arising due to non-compliance with the terms of the Bus Operator Agreement would be recovered from the OEM completely, which further mitigates risks and reduces cash flow variability.

Government focus and support for promoting e-mobility through capital subsidy augurs well for project viability – The Government of India is focussing considerably on promoting electric vehicles (EVs) as a cleaner and sustainable form of transportation, with keen attention to commercial segments. To support faster adoption of EVs in India, the Government has introduced various schemes such as FAME and Smart Cities, offering upfront subsidies (to reduce capital costs). In addition, several state governments have offered exemptions or reductions on road tax, registration tax, and subsidised electricity tariffs, etc (under respective state EV policies). The tender to operate e-buses in Surat is part of the FAME II scheme, wherein the OEM would be eligible for a subsidy per bus (~55% of bus cost). The subsidy will be released in three tranches within six months of commencement of operations and would significantly reduce the capital cost associated with the project, thereby improving project viability.

Credit challenges

Counterparty risks owing to likely receivable build-up; mitigated to an extent by planned escrow mechanism and strong credit profile of counterparty – Intracity bus operations, in general, are subsidised and the Authority can recover only 30-50% of the revenue payable (to the operator/SPV) from the ticket collections, and as such, the dependence on timely state government grants/support to authorities for funding the gap remains critical. While this elevates counterparty risks for such projects, the presence of an escrow mechanism in GSPL, wherein the authority would be depositing two months of revenue payable as an advance, reduces risks of receivables to an extent. In addition, for GSPL, the healthy financial profile of SMC (the counterparty) and its track record of timely payments, also provides comfort.

Limited track record of operations of OEM in e-bus segment – The OEM, PEMPSL, has so far supplied over 600 e-buses over the past 3-4 years in India. Given the limited track record of e-bus operations in India, the OEM's ability to supply and maintain these buses as per the specifications of the Bus Operator Agreement remains critical. Any under-performance in operation vis-à-vis agreed specifications, especially that impacting the availability and reliability of buses, has the potential to impact the project viability and, hence, would be a key monitorable. Nevertheless, ICRA takes comfort from the presence of a strong technical partner, Foton, which has supplied about 15,000 e-buses globally (*Source: company website*) and has an established track record of operations. Moreover, back-to-back arrangements with the OEM to pass on any penalties that could arise due to non-availability of buses mitigates the risks to some extent.

Project exposed to risk of time overruns given dependence on statutory approvals and continuing impact of the pandemic – Given the involvement of Government agencies, there could be possible delays in receipt of statutory approvals for the project execution. Depot license, electric feeder line, consent to establish/operate, etc, would be some of the statutory documentation taking time to approve and implement. Although the sales agreement executed with the OEM covers for recovery of any penalties due to delay in bus deliveries from the OEM, protecting the SPV to an extent, any major delays in project execution would remain a monitorable. Additionally, the timing of subsidy receipt remains a key unknown, especially considering the involvement of multiple agencies. Any inordinate delays in receipt of the subsidy (46% of project cost) could increase the dependence on external borrowings and leveraging of the project. Nonetheless, comfort is drawn from the fact that orders for the entire 150 bus kits have already been placed with Foton and 75 bus kits have already been shipped from China.

Exposed to geopolitical developments impacting supply of components – The supply and after-sales service of buses would remain dependent upon the amicable relationship between India and China. Any disruption or restriction on EV-related imports is likely to impact the project operations/viability. While chances of any such adverse development remains low, given that globally China controls the lithium reserve supply, it would continue to remain a monitorable. Nevertheless, even in case of such adverse developments, the company expects the OEM to be able to supply components from manufacturing facilities in other locations.

Liquidity position: Adequate

As the project is under its execution phase, the liquidity position will be supported by subsidy receivable from DHI, and support from the promoter entity. The first tranche of the FAME-II subsidy—viz., 20% of the total—is expected to be released to the company shortly, as bank guarantee for the same has already been submitted. Additionally, 100% of the equity has been infused by both the promoters upfront. The liquidity of GMPL (74% stakeholder) is expected to remain strong (free balance of ~Rs. 100 crore as on June 30, 2022), with availability of adequate funds for any further funding requirement of the SPVs, or any new projects undertaken. The presence of strong anchor investors in GMPL's parent entity GGEF is expected to aid timely receipt of any additional funding requirements.

Rating sensitivities

Positive factors – The rating could be upgraded once the project is able to demonstrate an adequate track record of operations and credit metrics.

Negative factors – Negative pressure on the rating could arise if the project progress is delayed considerably, resulting in significant time and cost overruns. In addition, any delays in receipt of subsidy or higher-than-expected build up in receivables on commercialisation of the project, increasing reliance on external borrowings and, thereby, weakening credit metrics would remain a rating sensitivity. Any material changes in the sponsor profile or committed support from the sponsor could also trigger a downward revision in rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Passenger Road Transport Entities Rating approach - Implicit Support from Parent or Group
Parent/Group Support	The rating assigned factors in the very high likelihood of its parent entity, GMPL (rated [ICRA]A+ (Stable)/[ICRA]A1), extending financial support to it because of the close business linkages between them. ICRA also expects GMPL to be willing to extend financial support to GSPL out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

Greencell Surat Private Limited is an SPV that was set up to procure, operate and maintain 150, 9-metre-long, fully built, AC e-buses for intracity public transportation in Surat, Gujarat. The SPV was set up by a consortium headed by Greencell Mobility Private Limited (74% stake) and PMI Electro Mobility Solutions Private Limited (PMEPSL), which was the successful bidder for this project. The SPV would be operating the buses for a period of 10 years on the GCC basis under the FAME II scheme, where it is eligible for per bus subsidy from the GoI.

Key financial indicators (audited): Not applicable[2]

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					August 2, 2022	-	-	-
1	**Term Loans**	Long-term	47.58	30.0	**[ICRA]A (Stable)**	-	-	-
2	**Bank Guarantee**	Long-term	67.32	12.6	**[ICRA]A (Stable)**	-	-	-
3	**Bank Guarantee**	Long-term	(67.32)*	(12.6)	**[ICRA]A (Stable)**	-	-	-
4	**Unallocated Limits**	Long-term	1.10	-	**[ICRA]A (Stable)**	-	-	-

**Sanctioned against LOC from the project lender*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Bank Guarantee	Very Simple
Unallocated Limits	Not Applicable

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 analyzing 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, is available on ICRA's website: www.icra.in

[2] *As the company is yet to commence operations, the audited financials for FY2022 are not meaningful.*

Annexure-I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loans	Apr 29, 2022	-	Nov 30, 2030	47.58	[ICRA]A(Stable)
NA	Bank Guarantee	Apr 29, 2022	-	-	67.32	[ICRA]A(Stable)
NA	Bank Guarantee*	May 18, 2022	-	-	(67.32)	[ICRA]A(Stable)
NA	Unallocated Limits	-	-	-	1.10	[ICRA]A(Stable)

Source: Company ** Sanctioned against LOC from project lender*

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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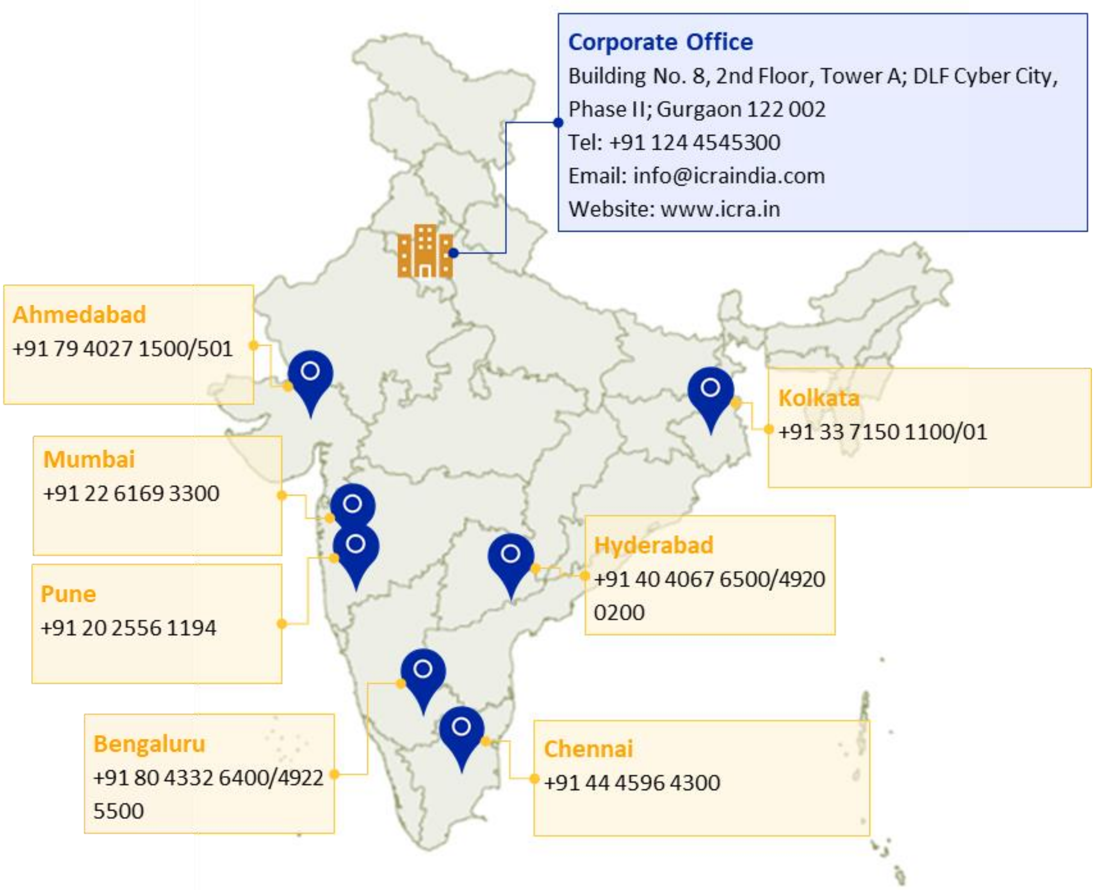

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