

May 28, 2024

## VT Emobility Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	69.86	69.86	[ICRA]A-(Stable); reaffirmed
Long-term – Non-fund based	32.40	32.40	[ICRA]A-(Stable); reaffirmed
<b>Total</b>	<b>102.26</b>	<b>102.26</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation for bank facilities of VT Emobility Private Limited (VTE or the special purpose vehicle [SPV]) considers the continuation of the SPV's steady operational performance, with all 90 buses for the project operational since August 2021. The operational metrics of the SPV (bus availability/electricity consumption) have remained in line with the expectations and payments from the authority, Ahmedabad Janmarg Limited (AJL), have been received in a timely manner, which provide comfort for VTE's future cash flows. The SPV has already received the entire capital subsidy of Rs. 40.5 crore from the FAME II scheme of the Government of India (GoI), eliminating all execution related risks for the project.

The rating notes the healthy financial support available to VTE, with JBM Auto Limited (JBMA) being a majority shareholder in both the SPV and the original equipment manufacturer (OEM) for the project. Despite limited track record of e-bus operations in the country, and the fact that JBMA is a relatively new entrant in the domestic e-bus manufacturing space (entered in FY2017), comfort is drawn from the established experience of the JBM Group in the domestic automotive market. The financial closure of the project was achieved in a timely manner with 100% equity brought upfront, and debt and subsidy disbursed to the SPV within the timeline. Besides, ICRA believes the shortfall undertaking from JBMA to the lender and the healthy financial flexibility for being a part of the JBM Group are likely to ensure timely availability of funds to meet future funding requirements.

As per the Concessionaire Agreement (CA) between VTE and AJL, the SPV will operate 90<sup>1</sup> electric buses (e-buses) on intra-city routes for AJL for 10 years from its full commencement of operations (FCOD), for which it would be paid a fixed rate (Rs. 54.9 per km<sup>2</sup>) for a minimum assured distance of 70,000 km annually for each bus. Accordingly, the SPV does not bear the traffic risks on the routes operated, and the revenue visibility is high, subject to it adhering to the contractually agreed bus availability of 94%. The project is under the FAME-II scheme of the GoI, as per which it has received a capital subsidy of Rs. 45 lakh per bus from the Department of Heavy Industries (DHI) in three tranches. This reduced the capital costs and dependence on external borrowings, as about 30% of the total project cost was funded by subsidy, which supported the credit metrics of the entity.

The counterparty risks in the project are mitigated to a large extent by the escrow arrangement, wherein the escrow account is to be funded with two months of estimated revenue payable upfront and should be maintained throughout. The viability gap funding (VGF) of Rs. 25/km paid by the Gujarat Government also offers comfort. However, the timeliness of such receipts will remain critical as the cash flows from intra-city operations would be in deficit for meeting the requirements. Nevertheless, comfort is drawn from the healthy credit profile of AJL, which is the subsidiary of a profitable entity, Ahmedabad Municipal

<sup>1</sup> 9-metre-long, fully built, air-conditioned

<sup>2</sup> As per the terms of the CA, the fee shall be revised every six months, based on variation in electricity tariff for charging the buses, CPI(IW) and WPI as per the formula set forth in the CA.

Corporation. The SPV has been receiving payments from the authority in a timely manner, with low receivables outstanding of ~Rs. 1.2 crore as of March 31, 2024.

The rating assigned remains constrained by the limited track record of e-bus operations in India. Moreover, the ability of the project to maintain the required operating metrics in a sustained manner remains crucial from a credit perspective. Any underperformance in operations vis-à-vis the agreed specifications, especially which impacts availability and reliability of buses and in turn the project viability, would be a key monitorable. Moreover, geo-political risks would remain under focus as any adverse development related to imports from China can impact the availability of components required for its operations. Meanwhile, comfort is drawn from the fact that major cost elements including maintenance, battery replacement, and penalties in case of bus non-availability, would be passed on to the OEM through back-to-back arrangements, minimising the operational risks.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company's operations are likely to continue as per expectations, without any major disruption. JBMA, one of the parent entities, is expected to support the project through funding, if required.

## Key rating drivers and their description

### Credit strengths

**Parentage of JBMA and majority ownership of JBM Group provide healthy financial support** – The JBM Group is one of the established players in the domestic automotive market. It has presence across multiple product segments, OEMs and automotive segments, both as a component manufacturer and more recently, as an OEM as well. The execution and operational risks for the project remain largely mitigated as JBMA is the OEM for the project, and also the majority shareholder in the SPV (99%). Besides, the shortfall undertaking from JBMA to the lender and the healthy financial flexibility for being a part of the JBM Group are likely to ensure timely availability of funds to meet any requirement. The financial closure of the project was achieved in a timely manner with 100% equity brought upfront and debt tied up. The entire subsidy (Rs. 40.5 crore) has also been received by the SPV, in line with the timely commercialisation of the project.

**High revenue visibility as concession agreement provides fixed fee per km; minimal traffic risk for an assured distance, subject to bus availability** – In line with the gross cost computation (GCC) model and as per the terms of the Bus Operator Agreement, the authority (AJL) is required to 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, 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. However, the clause related to unutilised km (due to lower requirement by the authority), to be paid at 50% of the applicable rate, brings in some elements of variability.

**Minimal execution risk as the project is active; back-to-back arrangements for maintenance and operations mitigate operational risks to a large extent** – The execution related risks for the project are minimal, with its entire fleet of 90 e-buses delivered, charging infrastructure installed and depot handed over. For the maintenance of the buses, VTE has entered into an agreement with the OEM (JBMA), as per which the annual maintenance charges (AMC) charges payable to the OEM are defined. Any penalty arising due to non-compliance with terms of the CA is expected to be recovered from either the OEM or the operator, which helps mitigate risks and reduce cash flow variability.

**Government focus and support for promoting e-mobility through capital subsidy augur well for project viability** – The Government of India is focussing significantly on promoting electric vehicles (EVs) as a cleaner and sustainable form of transportation, particularly on the commercial segment. 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 Ahmedabad is a part of the FAME-II scheme, wherein the OEM has received subsidy of Rs. 45 lakh per bus (which was released in three tranches, of which the last one was received in April 2022), reducing the capital cost risks associated with the project and improving the project viability.

## Credit challenges

**Counterparty risks owing to inadequate ticket collections from intra-city operations; risk of receivable build-up mitigated to an extent by the planned escrow mechanism** – Intra-city bus operations, in general, are subsidised and can recover only 30-40% of the revenue payable from ticket collections. As a result, the dependence on timely Government grants/support from authorities for funding the gap remain critical. While this elevates counterparty risks for such projects, the presence of an escrow mechanism, wherein the authority would be obligated to deposit two months of revenue payable as a payment reserve, reduces VTE's risks of elongated receivable cycle. Additionally, comfort is drawn from the relatively better credit profile of the counterparty, AJL, which is a 100% subsidiary of Ahmedabad Municipal Corporation, a profitable entity. Besides, the VGF offered by the Gujarat Government from its budget on e-bus projects offers comfort.

**Exposed to geo-political developments impacting supply of components** – While the supply of the buses has been completed, the after sales service (especially battery replacement) would remain dependent on continuation of political relations between India and China, with any ban/disruption of EV-related imports likely to impact the project operations/viability. While chances of any such adverse development remain low, given the global dependence on China for EV components, this would continue to remain a monitorable for the timely maintenance of deployed buses. Nevertheless, even in case of such adverse development, the company expects the OEM to be able to source components from manufacturing facilities in other locations.

**Limited track record of e-bus operations** – The EV segment, including e-buses is currently at a nascent stage in India, with limited track record of operations so far. While it has garnered increased interest in the recent past, with multiple tenders floated and emergence of various players (both domestic and foreign), the performance of these buses in the Indian conditions is yet to be established over a longer period. In ICRA's view, any underperformance in operations vis-à-vis the agreed specifications, especially which impacts the availability, reliability and maintenance of buses and in turn the project viability, would be a key monitorable. Besides, the battery performance and bus efficiency would also remain critical for the project to generate optimal returns. Nevertheless, JBMA's improving presence as a key player in the e-bus segment offers comfort, with an order book of more than 6,000 buses as on date to be supplied over the next few years. Moreover, back-to-back arrangement with the OEM to pass on any penalty that could arise from non-availability of buses mitigates risks to some extent.

## Liquidity position: Adequate

As the operations have now stabilised, the liquidity position of VTE remains supported by steady cash flows from operations, which are expected to remain adequate to fund the debt repayments (~Rs. 7.8 crore in FY2025) and interest payments. The liquidity of the promoter entity, JBMA, is expected to remain comfortable, supported by undrawn lines of credit from financial institutions. Moreover, backing of the JBM Group renders the SPV with ample financial flexibility to raise funds from financial institutions.

## Rating sensitivities

**Positive factors** – The rating could be upgraded if the project achieves satisfactory operational track record and gets receivables from the authority on time, improving its liquidity and credit metrics. An improvement in the credit profile of the parent entity could also lead to a rating upgrade.

**Negative factors** – Pressure on the rating could arise in case of a higher-than-expected build-up in receivables, increasing reliance on external borrowings, in turn weakening the credit metrics. Any deterioration in the credit profile of the parent entity or linkages with the same could also trigger a downward revision in rating.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Passenger Road Transport</a>
Parent/Group support	The rating assigned factors in the very likelihood of its parent entity, JBM Auto Limited, extending financial support to it because of the close business linkages between them. ICRA also expects JBMA to be willing to extend financial support to VTE out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

## About the company

VT Emobility Private Limited is an SPV set up to procure, operate and maintain 90, nine-metre-long, fully built AC e-buses for intra-city public transport operations in Ahmedabad, Gujarat. The SPV was set up by a joint venture headed by JBM Auto Limited, along with Vivek Travels Private Limited, after JBMA had emerged as the successful bidder for the project. As per the terms of the concession agreement executed with the authority (Ahmedabad Janmarg Limited), VTE will operate the buses for 10 years on a GCC basis under the GoI's FAME-II scheme, from which it has already received subsidy of Rs.45 lakh per bus. The said number of e-buses have already been supplied, which started operations from August 2021.

### Key financial indicators (audited)

VTE, Standalone	FY2022	FY2023	FY2024*
Operating income	23.4	35.3	35.9
PAT	1.0	2.0	1.3
OPBDIT/OI	53.4%	51.2%	45.8%
PAT/OI	4.3%	5.6%	3.5%
Total outside liabilities/Tangible net worth (times)	13.5	6.6	5.7
Total debt/OPBDIT (times)	6.1	3.7	3.7
Interest coverage (times)	2.6	2.3	2.5

Source: Company, ICRA Research; \*Detailed scheduled financials not available; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				May 28, 2024	-	Feb 28, 2023	Dec 7, 2021
1 Term loans	Long term	69.86	46.6	[ICRA]A-(Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2 Non Fund-Based Facilities	Long term	32.40	NA	[ICRA]A-(Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
3 Unallocated Limits	Long term	--	--	-	-	-	[ICRA]BBB+ (Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Non fund based limits	Simple

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	Term Loans	FY2022	NA	FY2029	69.86	[ICRA]A-(Stable)
NA	Non Fund-Based Facilities	FY2022	NA	NA	32.40	[ICRA]A-(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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