

August 27, 2024

TML CV Mobility Solutions Limited: Long-term rating upgraded to [ICRA]AA+ (Stable), short-term rating reaffirmed

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Previous Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	747.00	747.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)
Short-term – Non-fund Based – BG	859.00	859.00	[ICRA]A1+; reaffirmed
Long-term – Fund-based - Working Capital Limits – CC	25.00	25.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)
Long-term/Short-term – Unallocated Limits	119.00	119.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Total	1,750.00	1,750.00	

*Instrument details are provided in Annexure-I

Rationale

The upgrade of the long-term rating of TML CV Mobility Solutions Limited (TMLCV) factors in the improvement in the credit profile of its parent, Tata Motors Limited (TML, rated [ICRA]AA+ (Stable)/ [ICRA]A1+). TML Group is the market leader in the domestic commercial vehicle (CV) segment and one of the top three players in the domestic passenger vehicle (PV) segment. The rating upgrade has been driven by significant deleveraging for TML, supported by an increase in its operating profit margin (OPM) and overall free cash flow generation, aided by improvement in the performance of Jaguar and Land Rover Automotive PLC (JLR) and strong performance across the domestic business segments. Further, TML's credit profile is expected to continue to strengthen with JLR likely continue its deleveraging, supported by the sustenance of its operational performance. TML is also expected to sustain its strong performance in the domestic CV and PV industries, while the electric vehicle (EV) segment (under Tata Passenger Electric Mobility Limited) is also expected to attain breakeven OPBDITA over the medium term. TMLCV also benefits from the exceptional financial flexibility it gets for being a subsidiary of TML, which includes the extension of the inter-corporate deposit (ICD) line from TML.

The company is established by TML for operating electric buses (e-buses) for Delhi Transport Corporation (DTC, or the authority) on a gross cost contract (GCC) basis, under the faster adoption and manufacturing of hybrid and electric vehicles (FAME-II) scheme of the Central Government. The company's business model is characterised by high revenue visibility and low traffic risk, due to the nature of the contract, wherein it will be paid a fixed tariff for operating a total of 1,600 e-buses.

Initially, in October 2021, the company signed a concession agreement (CA) with DTC for the deployment of 100, 12-metre AC e-buses, which were deployed by August 2022. As per the CA, TMLCV would procure, supply, maintain and operate these buses on intra-city routes for DTC for 10 years from its scheduled commercial date of operations (SCOD), for which it would be paid a fixed rate (Rs. 68.58 per km in the first year of operations) for a minimum contractually assured distance for each bus. Subsequently, in December 2022, the company signed another CA with DTC for deployment of 1,500, 12-metre AC e-buses, as per which it would procure, supply, maintain and operate these buses on intra-city routes for DTC for 12 years from its SCOD, for which it would be paid a fixed rate (Rs. 47.49 per km in the first year of operations) for a minimum contractually assured distance for each bus. Accordingly, as per both contacts, the company does not bear the traffic risks on the routes operated, and revenue visibility is high, subject to it adhering to the contractually agreed bus availability of 95% which TMLCV has largely been able to maintain for the deployed buses.

The project for 100 buses is eligible to receive a capital subsidy of Rs. 55 lakh per bus from the Department of Heavy Industries (DHI) in three tranches, under the Fame II scheme. The project for 1,500 buses, floated by Convergence Energy Services Limited (CESL) under the FAME II scheme, entails a subsidy of Rs. 45.25 lakh per bus, with subsidy for 921 buses to be received from the DHI, while that for the remaining 579 buses would be funded by the State Government of Delhi. Given the significant subsidy component (~35% of total project cost), the dependence on external borrowings is limited to that extent, which in turn supports the credit metrics of the entity.

ICRA also notes that the financial closure of the project has been completed in a timely manner, with proportionate equity for the delivered buses already infused and the company having sanctions in place for the entire debt component. Additionally, the subsidy is being received in phases, albeit with some delays in a few cases. However, ICRA believes the extension of the ICD line from TML, and TMLCV's healthy financial flexibility for being a part of the Tata Group, are likely to ensure timely availability of funds to meet future funding requirements in case of any exigency.

The ratings also factor in the execution and operational risks, given that the company began supplying e-buses to DTC for the 1,500 bus CA from May 2023, wherein 1,030 buses have been deployed till June 2024. The deployment is expected to be completed within FY2025, albeit with some delay against the originally expected timelines. However, this is not expected to have any material impact on the overall operations as each bus would complete 12 years under deployment, as per the agreement. The original equipment manufacturer (OEM) for all three the projects is TML, the ultimate parent company.

The ratings factor in the counterparty risks for the project, considering that intra-city operations are generally subsidised, and collections through the traffic receipts are unlikely to cover the payments to be made to the service provider from the authority. However, these risks are mitigated to a large extent by the escrow arrangement, wherein the escrow account is to be funded by the authority with two months of estimated payables and maintained throughout the project duration.

ICRA also notes that e-bus operations in the country are currently in the nascent stage, and the sustained performance of the buses and batteries in the domestic market conditions remains to be seen. Despite the limited track record of e-bus operations in the country, comfort is drawn from the Tata Group's combined deployment of more than 1,300 e-buses in Delhi and Bangalore under the CESL tender. Its e-bus fleet has cumulatively crossed more than 160 million km with more than 95% uptime till June 30, 2024. Additionally, the established experience of TML in the domestic automotive market provides comfort.

The stabilisation of operations post deployment of the e-buses remains important for both the projects. Moreover, achievement of the required operating metrics for both the CAs in a sustained manner remains crucial from the credit perspective. Any underperformance in operations vis-à-vis agreed specifications, especially which impacts the availability and reliability of buses, has the potential to impact the project viability, and hence, would be a key monitorable. Moreover, geo-political risks remain a sensitivity as any adverse development related to the import of EV components can impact the availability of components required for its operations.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company is likely to deploy and operate the buses in a timely manner with minimal delays and as per expected operating metrics.

Key rating drivers and their description

Credit strengths

Strong parentage and financial support from the Tata Group, along with associated financial flexibility – TMLCV is a wholly owned subsidiary of TML. TML Group is the market leader in the domestic CV market, and among the top three players in the domestic PV segment. As TML is also the OEM for both the CAs, the execution and operational risks for the project remain mitigated to a large extent. Further, the Group's demonstrated support in the form of approved unsecured ICDs and additional equity commitments (over and above that required for funding bus costs proportionately) along with the promoter's undertaking by TML for TMLCV's bank facilities, are likely to ensure timely availability of funds to meet any funding requirements. ICRA also notes the very high operational, managerial and financial linkages among TML and TMLCV, with the

operations of the subsidiaries managed by a seasoned team of veterans from TML, and an overlapping treasury team to manage the finances.

High revenue visibility, with minimal traffic risk – In line with the GCC model and as defined in the CA, the authorities would pay the service providers a fixed rate for a minimum contractually assured distance, subject to bus availability. Accordingly, the company does not bear the traffic risk and only needs to ensure the 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 kilometre due to lower requirement by the authority (to be paid at 75% of the applicable rate) brings in some element of variability.

Availability of capital subsidy strengthens capitalisation and coverage metrics – The Government of India is focussing significantly on promoting EVs as a cleaner and sustainable form of transportation, with more importance on the 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 projects are eligible for subsidy of ~35% of the total project cost, which has helped reduce dependence on external debt funding and thereby improves the capitalisation and coverage metrics of the company.

Credit challenges

Risks of counterparty and receivable build-up pertaining to both subsidy and revenues – Intra-city bus operations, in general, are subsidised and are not able to recover the entire revenue payable from their ticket collections. Thus, the dependence on timely Government grants/support to authorities for funding the gap remains critical. While this elevates the counterparty risks for such projects, an escrow mechanism, wherein the authorities would be obligated to deposit two months of revenue payable as a payment reserve, reduces TMLCV's risks of an elongated receivable cycle. However, proper implementation of the escrow mechanism continues to remain a key monitorable. In this regard, ICRA also notes that the relevant industry players continue to interact with the authorities for a better payment security mechanism and an asset light business model. Additionally, comfort is drawn from the track record of the Delhi Government in supporting DTC through sizeable budgetary allocations.

Project remains exposed to execution risks and geopolitical developments impacting supply of components – TMLCV remains exposed to execution risks till the commencement of full commercial operations for the second CA of 1,500 buses which has seen minor delays in deployment. Moreover, any non-compliance with the terms of the CA, delay in bus deliveries or handover of bus depots, could further delay the project execution, and remains a monitorable. Nevertheless, in case of any interim cash flow mismatch due to cost overruns or delay in receipt of subsidy, financial support is likely to be provided by the promoter group in the form of ICDs, extended credit period or additional equity infusion, as required. Further, the after-sales service (especially battery replacement) would depend on imports and any disruption in the supply of such EV components due to geopolitical developments is likely to impact the project operations/viability. Nevertheless, the Group's plan to venture into battery manufacturing through Agratas Energy Storage Solutions Limited lowers the risk of the EV supply chain.

Limited overall track record of e-bus operations – The EV segment, including e-buses, is currently at a nascent stage in India, with a limited track record of operations so far. While it has recently garnered increased interest, with multiple tenders floated and the emergence of multiple players (both domestic and foreign), the performance of these buses in Indian conditions is yet to be established over a long period. In ICRA's view, any underperformance in operations vis-à-vis the agreed specifications, especially that impacts the availability, reliability and maintenance of buses, has the potential to affect the project viability and, hence, would be a key monitorable. Besides, battery performance and bus efficiency would remain critical for the project to generate optimal returns. Nevertheless, comfort can be drawn from TML's growing presence as a key player in the e-bus segment and its track record of successful operations on the routes deployed, along with the extensive experience of the Group in the domestic automotive market. The Group has successfully deployed more than 1,300 buses in Bangalore and Delhi under the Convergence Energy Services Limited (CESL) tender, and its fleet has covered a cumulative distance of more than 160 million km with more than 95% uptime till Q1 FY2025.

Liquidity position: Adequate

TMLCV's liquidity position is adequate, augmented by financial support extended by the promoter entity and cash flows generated from the operational buses. The liquidity position of the company is likely to remain comfortable with adequate term loans tied up for funding the procurement of the balance buses, expectations of timely equity infusion by TML, and an extended ICD line from TML.

Rating sensitivities

Positive factors – The long-term rating could be upgraded in case of a further improvement in the credit profile of TML, the parent entity.

Negative factors – Pressure on the ratings could arise in case of any material change in TML's credit profile or its support to the company. In addition, considerable delay in delivery/commissioning of the buses or a material increase in external borrowings, impacting the project viability, and any significant delay in receipt of subsidy or receivables, would also remain negative factors.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	The ratings are based on implicit support from Tata Motors Ltd (TML). ICRA expects TML to extend timely financial support to TMLCV, should there be a need, given the strong operational, financial and managerial linkages between them.
Consolidation/Standalone	Standalone

About the company

Incorporated on June 7, 2021, TML CV Mobility Solutions Limited, is a subsidiary of Tata Motors Limited, established to procure, operate and maintain e-buses for the Delhi Transport Corporation. As of now, the contracts secured from DTC comprise the following:

- i. Concession Agreement for 100, 12-metre e-buses dated October 2021, of which all buses were supplied and commissioned over FY2023 (under the FAME II scheme).
- ii. Concession Agreement for 1,500, 12-metre e-buses dated December 2022. These buses are part of the first tender floated by CESL, wherein TML was the L1 bidder.

The contract for 100 buses extends for a total period of 10 years, while the contract for 1,500 buses extends for a period of 12 years. Both contracts will be operated on GCC basis under the FAME II Scheme and are eligible for capital subsidy from the Department of Heavy Industries, Government of India. The OEM for both the contracts is TML.

As of March 31, 2024, TML owned 99.99% of equity stakes in the company.

Key financial indicators (audited)

TMLCV – Consolidated	FY2023	FY2024
Operating income	166.0	1,420.5
PAT	2.7	17.7
OPBDIT/OI	-0.6%	4.0%
PAT/OI	1.6%	1.2%
Total outside liabilities/Tangible net worth (times)	3.7	3.2
Total debt/OPBDIT (times)	-68.9	16.5
Interest coverage (times)	-0.3	1.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; All ratios as per ICRA's calculations

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)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
			Aug 27, 2024	Mar 13, 2024	Aug 14, 2023	-	-
1 Term Loan	Long term	747.00	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-
2 Non-Fund Based – BG	Short term	859.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
3 Working Capital Limits - CC	Short term	25.00	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-
4 Unallocated Limits	Long term and short term	119.00	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based – Term Loan	Simple
Short Term – Non-Fund Based – BG	Very Simple
Long Term – Fund Based - Working Capital Limits – CC	Simple
Long Term/Short Term -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 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	Long Term - Fund Based – Term Loan	FY2023	8.65%	FY2033	747.00	[ICRA]AA+ (Stable)
NA	Short Term – Non-Fund Based – BG	-	-	-	859.00	[ICRA]A1+
NA	Long Term – Fund Based - Working Capital Limits - CC	-	-	-	25.00	[ICRA]AA+ (Stable)
NA	Long Term/Short Term -Unallocated Limits	-	-	-	119.00	[ICRA]AA+ (Stable)/ [ICRA]A1+

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

Gaurav Kushwaha
+91 40 4547 4829
gaurav.kushwaha@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



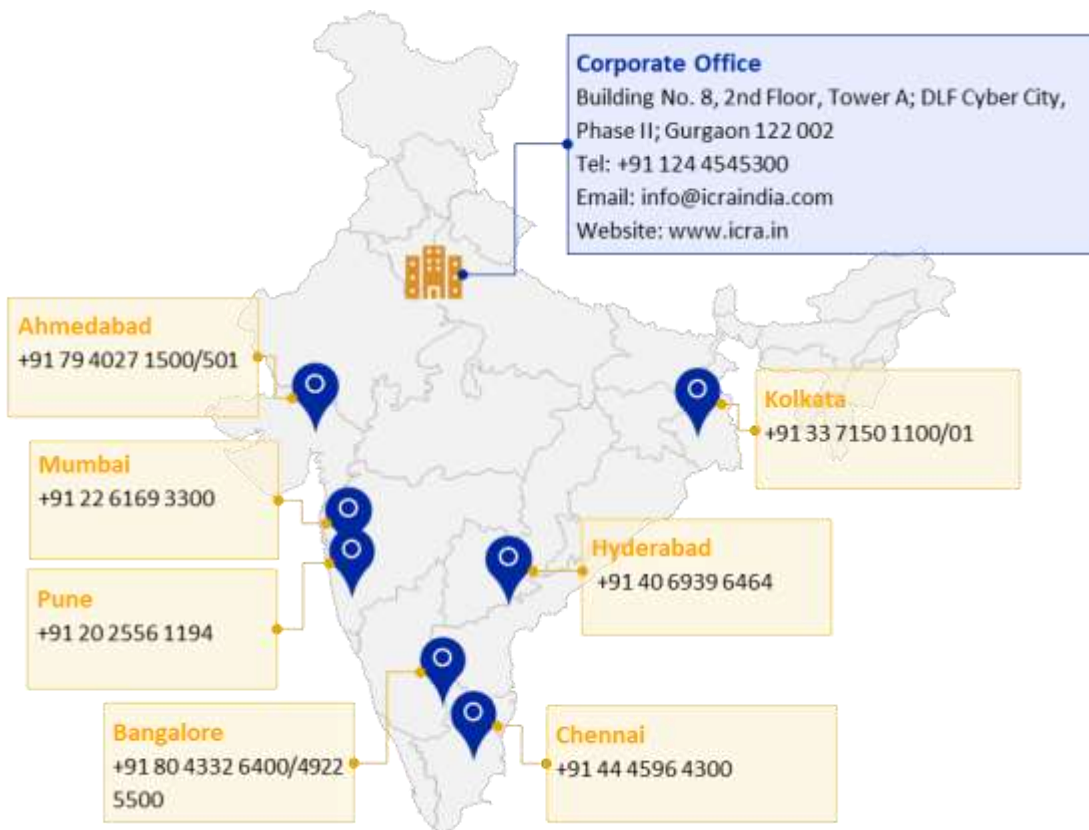
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.